Interim Report

June 30, 2016
Portigon AG

Portigon
Aktiengesellschaft

Portigon AG Key Figures

Portigon AG: Key Figures Year-on-Year Comparison

	1. 1. – 30. 6. 2016	1. 1. – 30. 6. 2015*	Change absolute	%
Performance figures in € millions				
Net interest income	50.5	43.4	7.1	16.4
Net commission income	– 11.9	– 4.2	– 7.7	> – 100.0
Other operating expenses/income	0.1	21.8	– 21.7	– 99.5
Personnel expenses	– 27.0	– 46.4	19.4	41.8
Other administrative expenses	– 43.6	– 81.4	37.8	46.4
Provisions for credit risks	0.4	15.2	– 14.8	– 97.4
Result of securities and participations	0.5	13.4	– 12.9	– 96.3
Extraordinary result	– 0.4	– 222.9	222.5	99.8
Profit/loss before income tax	– 31.4	– 261.1	229.7	88.0
Taxes on income and revenues	0.3	– 79.9	80.2	> 100.0
Profit/loss after taxes	– 31.1	– 341.0	309.9	90.9

* as per the single-entity accounts and in place of the Group figures in the interim report at June 30, 2015 (see note 2)

	June 30, 2016	Dec. 31, 2015	Change absolute	%
Balance sheet figures in € billions				
Total assets	12.9	14.1	– 1.2	– 8.5
Business volume	13.0	14.4	– 1.4	– 9.7
Credit volume	4.6	4.7	– 0.1	– 2.1
Equity capital	1.9	1.9	–	–
Bank regulatory capital ratios (CRR/CRD IV)				
Common Equity Tier 1 capital in € billions	1.7	1.7	–	–
Tier 1 capital in € billions	1.8	1.8	–	–
Own funds in € billions	2.7	2.8	– 0.1	– 3.6
Risk-weighted assets in € billions	0.5	0.6	– 0.1	– 16.7
Common Equity Tier 1 capital ratio in %	305.5	272.4	33.1	12.2
Tier 1 capital ratio in %	325.4	295.2	30.2	10.2
Total capital ratio in %	491.6	449.7	41.9	9.3
Employees				
Number of employees	328	451	– 123	– 27.3
Full-time equivalent	318	436	– 118	– 27.1

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

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Statement of Financial Condition at June 30, 2016

Performance at a Glance

The company's transformation, i.e. the downsizing of Portigon AG in accordance with the conditions set by the European Commission, continued in the 2016 fiscal year.

Total assets of Portigon AG came to € 12.9 billion at June 30, 2016 (previous year: € 14.1 billion). Of that amount, € 5.1 billion (previous year: € 5.8 billion) is attributable to trust assets and € 3.4 billion (previous year: € 4.3 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 loss before taxes of € 31.4 million (previous year: € 261.1 million) and a net loss for the year of € 31.1 million (previous year: € 341.0 million) for Portigon AG.

Taking into account the net loss for the year, the Tier 1 capital ratio is 325.4% (previous year: 295.2%), whilst the total capital ratio is 491.6% (previous year: 449.7%). Risk-weighted assets stand at € 0.5 billion (previous year: € 0.6 billion).

Structural Changes

Portigon AG (PAG) sold all interests in its service subsidiary Portigon Financial Services GmbH (PFS, today known as Erste Financial Services GmbH) and transferred them to Erste Abwicklungsanstalt (EAA) with retroactive economic effect to December 31, 2015/ January 1, 2016. The agreement was signed on February 17, 2016. Closing took place on April 4, 2016. The transfer of PFS to EAA, which includes contractual arrangements regarding PFS's pension liabilities, is part of a redistribution of tasks between PAG, PFS and EAA. In this connection, PAG and EAA worked out the details of the agreement in principle for bilateral collaboration in portfolios that on account of transfer obstacles are still held on PAG's balance sheet even though the risks lie with EAA.

Fitch Ratings discontinued its rating activities for Portigon AG on January 7, 2016. Moody's announced on January 26, 2016 that it had updated its rating methodology in line with Germany's new insolvency legislation. This also took account of the fact that from the end of 2015 Landesbank liabilities incurred after July 18, 2001 will no longer be covered by the guarantor liability. Pointing out that liabilities of these institutions preceding this date continue to be covered by the guarantor liability, Moody's discontinued its rating due to a lack of necessity in this regard. Portigon AG was among the institutions affected by this decision.

With effect from April 29, 2016, Portigon AG closed its Singapore branch, the second foreign location to be closed in 2016. It was preceded by the closure of the Sydney branch on March 30, 2016. The branch in Hong Kong is scheduled to be closed by the end of 2016.

Effective April 1, 2016, Dr. Peter Stemper took over as Chairman of the Managing Board. He succeeds Hubert Beckmann, who stepped down as planned at March 31, 2016. Frank Seyfert became an ordinary member of the Managing Board with effect from April 1, 2016.

In June 2016, the Düsseldorf Public Prosecutor's Office announced that it had begun a formal investigation into former Managing Board members of WestLB in connection with dividend arbitrage transactions. Portigon AG is in contact with the investigating authorities and has pledged its full cooperation in the clarification of the facts.

Statement of Income

Portigon's performance in the 2016 fiscal year continued to be shaped by the company's transformation, i.e. the downsizing of Portigon AG in accordance with the conditions set by the European Commission.

Portigon AG: Statement of Income from January 1 to June 30, 2016

	1. 1. – 30. 6. 2016 € millions	1. 1. – 30. 6. 2015 € millions	Change € millions	%
Net interest income	50.5	43.4	7.1	16.4
Net commission income	– 11.9	– 4.2	– 7.7	> – 100.0
Other operating expenses/income	0.1	21.8	– 21.7	– 99.5
Personnel expenses	– 27.0	– 46.4	19.4	41.8
Other administrative expenses	– 43.6	– 81.4	37.8	46.4
Provisions for credit risks	0.4	15.2	– 14.8	– 97.4
Result of securities and participations	0.5	13.4	– 12.9	– 96.3
Extraordinary result	– 0.4	– 222.9	222.5	99.8
Profit/loss before income tax	– 31.4	– 261.1	229.7	88.0
Taxes on income and revenues	0.3	– 79.9	80.2	> 100.0
Profit/loss after taxes	– 31.1	– 341.0	309.9	90.9

Net Interest Income

The net interest income of € 50.5 million (previous year: € 43.4 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 increase in net interest income is mainly due to the investment of funds in the reporting period to cover post-employment benefit obligations. The changes in interest rate levels and the continuous reduction in the portfolio had an offsetting effect.

Net Commission Income

Income from portfolio services amounted to € 2.6 million in the first half of 2016 (previous year: € 23.0 million). One of the major offsetting items in the reporting period was the € 16.3 million (previous year: € 25.2 million) in guarantee fees for synthetically transferred portfolios. Altogether, net commission income came to € – 11.9 million (previous year: € – 4.2 million).

Other Operating Expenses/Income

The net figure for other operating expenses and income came to € 0.1 million at the reporting date (previous year: € 21.8 million). This decrease is due in particular to two effects. The introduction of the ten-year average interest rate replacing the seven-year average interest rate for the discounting of provisions for post-employment benefit obligations reduced the interest cost on provisions by € 57.8 million. Furthermore, the provision for liabilities for the expected outflow of resources accompanying the sale of PFS had been partly reversed in the prior-year period in the amount of € 53.0 million. In addition, positive exchange rate effects from hedging transactions had arisen in the previous year in connection with the insurance-orientated out-financing of pension obligations to employees of the London branch.

General Administrative Expenses

As expected, general administrative expenses decreased again in the first half of 2016, falling to € – 70.6 million from € – 127.8 million in the prior-year period. This is mainly attributable to the ongoing headcount reduction, which lowered the number of employees from 451 at the end of 2015 to 328 at June 30, 2016.

Provisions for Credit Risks

Provisions for credit risks amount to € 0.4 million (previous year: € 15.2 million). The decrease is largely due to the reversal of a global value adjustment at the Tokyo branch in the previous year.

Result of Securities and Participations

The result of securities and participations came to € 0.5 million (previous year: € 13.4 million). The much higher result in the previous year was attributable to the gain of € 60.2 million on the sale of the interests in the subsidiary GOD Grundstücks-verwaltungs GmbH, which was partly reduced by a write-down on the carrying amount of the PFS stake in the amount of € 53.0 million.

Extraordinary Result

The marked improvement in the extraordinary result to € – 0.4 million (previous year: € – 222.9 million) is chiefly attributable to the non-recurring restructuring expenses incurred in the previous year, 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 outfinancing.

Taxes on Income and Revenues

Tax income amounted to € 0.3 million at June 30, 2016 (previous year: € – 79.9 million), comprising taxes in Germany for previous years of € – 1.7 million and current foreign taxes of € 2.0 million. No current German taxes arising from the loss participation of the silent partners were incurred in the reporting period (previous year: € – 77.9 million).

Balance Sheet and Business Volume

As in the previous year, the balance sheet at June 30, 2016 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, 2016, Portigon AG had total assets and total equity and liabilities of € 12.9 billion (previous year: € 14.1 billion), of which € 5.1 billion was reported in the items trust assets and trust liabilities (previous year: € 5.8 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, Portigon AG has claims on banks in the amount of € 0.4 billion (previous year: € 0.4 billion), claims on customers in the amount of € 4.2 billion (previous year: € 4.0 billion), securities not held for trading in the amount of € 0.6 billion (previous year: € 0.3 billion) and cash in the amount of € 2.3 billion (previous year: € 3.0 billion). EAA has guaranteed € 3.4 billion (previous year: € 4.3 billion) of these assets, most notably € 2.7 billion in claims on customers (previous year: € 3.6 billion). The unguaranteed positions represent the investment of capital and liquidity back-ups.

The business volume, which includes contingent liabilities and irrevocable credit commitments in addition to balance sheet items, totalled € 13.0 billion (previous year: € 14.4 billion).

Assets

	June 30, 2016 € billions	Dec. 31, 2015 € billions
Cash/liquid debt issues	2.3	3.0
Claims on banks	0.4	0.4
Claims on customers	4.2	4.0
Securities not held for trading	0.6	0.3
Equity investments in affiliated and non-affiliated companies	–	0.1
Trust assets	5.1	5.8
Tangible/intangible assets	–	–
Other assets	0.3	0.5
Total assets	12.9	14.1

Liabilities

	June 30, 2016 € billions	Dec. 31, 2015 € billions
Liabilities to banks	0.2	0.2
Liabilities to customers	3.0	3.1
Certificated liabilities	–	–
Trust liabilities	5.1	5.8
Other liabilities	1.5	1.9
Subordinated liabilities/Profit participation capital	1.2	1.2
Equity capital	1.9	1.9
Total liabilities	12.9	14.1
Contingent liabilities	–	0.1
Other commitments/Credit commitments	0.1	0.2
Business volume	13.0	14.4

Capital Ratios

The Tier 1 capital ratio at June 30, 2016 was 325.4% (previous year: 295.2%). 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 305.5%, compared to 272.4% in the previous year. The total capital ratio increased from 449.7% to 491.6%.

Portigon AG 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 Portigon AG's risk management system is to ensure that the risk profile is aligned with the institution's risk-bearing capacity, that all risks are presented transparently and that all relevant risks are steered with foresight. The core processes of risk management are determining, monitoring, analysing, steering and reporting on risks on an autonomous basis.

Portigon AG's risk strategy, which is linked to the business strategy, forms the basis for monitoring and steering risk. It sets the principles of risk management, defines the types of risk that are material for purposes of the Minimum Requirements for Risk Management (MaRisk), and provides the basis on which to classify the risk types as either material or immaterial to Portigon AG's operations. The risk strategy also describes the core elements of the risk management processes. A key element of the risk management processes is safeguarding Portigon AG's risk-bearing capacity through the use of an internal capital adequacy assessment process (ICAAP).

Following the transfer of PFS to EAA, Portigon AG's risk strategy was comprehensively revised, as planned. Also taking into account the long-term solution arrived at in December 2015 for the management of pension obligations to former and active employees in Germany, the risk audit led to major changes in Portigon AG's risk strategy and risk-bearing capacity concept as described below:

- The risk steering framework is no longer implemented from a Group perspective.

- The increased significance of the risks arising from pension obligations is taken into account for the risk-bearing capacity in the going-concern approach by a) classifying these risks as material within the meaning of MaRisk, b) introducing a new risk exposure called "pension risk" for risks arising from longevity and the trend in salary increases for non-exempt employees and civil servants and c) introducing a deduction item entitled "HGB discount rate" for determining the sources of risk-bearing capacity for the risk that discount rates will fall faster than anticipated.

- The Portigon Risk Committee (PRC) was dissolved with effect from March 31, 2016 and its risk steering functions and decision-making powers were transferred back to the Managing Board at the same time.

On account of the unchanged negative interest rate policy of the European Central Bank (ECB), it was decided in May 2016 to invest excess liquidity in medium- to long-term interest-bearing securities to conserve Portigon AG's net interest income in connection with the amendment of the investment guidelines and the extension of the business strategy. The securities must have a rating (long-term issuer rating) of at least AA- (S&P) or Aa3 (Moody's) as well as an RWA weighting of zero and originate from an issuer domiciled in Germany. The review of the risk strategy necessitated by the adjustment of the business strategy showed that Portigon AG now also considers market price risk as a material risk within the meaning of MaRisk and monitors this as a risk exposure for determining the risk-bearing capacity in the going-concern approach.

At the reporting date, Portigon AG therefore classified operational risk, pension risk, HGB discount rate risk, business risk and market rate risk as material risks pursuant to MaRisk. All other types of risk are not considered material.

In the analysis of the risk-bearing capacity, the going-concern approach remains the primary steering framework. The HGB discount rate risk is taken into account as a deduction item for determining the sources of risk-bearing capacity. The other material risks are weighed against the risk appetite directly. On account of the newly introduced risks and the classification of market price risk as a material risk, the risk appetite was increased to a total of € 400.0 million in the first half of 2016 (previous year: € 150.0 million). This still leaves significant sources of risk-bearing capacity to cover adverse business developments and risks that are not considered material.

Following the transfer of responsibilities from the former Loan & Portfolio Management business unit to the Credit Services business unit in the first quarter of 2016, the Risk Services business unit was merged with the Credit Services business unit in May 2016 to form the Risk Controlling business unit. The pooling of all risk issues in the Risk Controlling business unit takes account of the continued downsizing of Portigon AG and also ensures that a comprehensive perspective on the subject of risk is taken.

Operational Risk

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

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

Among other things, operational risks may arise from business activities of the former WestLB. These include risks arising from tax issues, for example in connection with publications by the tax authorities, a series of recent court decisions and the ongoing investigations by the Public Prosecutor’s Office into dividend arbitrage transactions.

The steering of personnel risks and the related operational risks is still very important to Portigon AG. A substantial increase in risks was not observed in the first half of 2016.

For the remainder of the downsizing 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. In view of the continued downsizing and the smaller number of staff, the function of the decentralised Operational Risk Manager was discontinued at June 30, 2016; management of operational risks in the business units is supported across the Bank by the central Operational Risk Controlling unit in the Risk Controlling business unit.

For Portigon AG, the economic capital charge for operational risks at June 30, 2016 was € 30.3 million in the base scenario (June 30, 2015: € 30.9 million) and € 37.9 million in the stress scenario (June 30, 2015: € 38.7 million).

Legal Risk

Up to June 30, 2016, after several lawsuits had been terminated with a settlement, Portigon AG was a defendant in 36 lawsuits brought by 25 municipalities/municipal associations against EAA in connection with derivatives business. This gives rise to an exposure to litigation expenses for Portigon AG.

At June 30, 2016, Portigon AG had been named in 35 lawsuits brought before various US courts for alleged breaches of duty in quoting USD-LIBOR interest rates. The 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, UK Financial Conduct Authority – FCA, European Commission and BaFin) into the operations of Portigon AG and other banks in connection with LIBOR and EURIBOR (BaFin only) quotes. With the exception of BaFin’s investigations, which were formally ended in a letter dated October 2014 without measures being taken against Portigon AG, staff or governing bodies, none of the other investigations has been formally completed to date. Portigon AG remains convinced that neither it nor its employees can be accused of illegally manipulating the interest rate quotes. Hence, it does not expect any penalties or fines.

With the exception of the exposure to certain litigation 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. At June 30, 2016, Portigon AG had set aside a reasonable sum of money to cover the litigation expenses of the suits with a determinable risk.

Pension Risk

Pension risk arises in particular from the potential need to increase pension provisions as well as the risk that pension obligations over the years will be higher than the figures determined by modelling mortality rates and the trend in salary increases for non-exempt employees and civil servants based on expert opinions.

Portigon AG considers pension risk a material risk within the meaning of MaRisk. Longevity risk and the risk presented by the trend in salary increases for non-exempt employees and civil servants are considered major risk factors that are taken into account in the risk-bearing capacity through a common risk exposure.

Longevity risk: The values of the obligations are calculated using the biometric calculation base recognised for accounting purposes in accordance with Professor Heubeck’s 2005 G mortality tables. These tables are not industry-specific and are based on an analysis of all people living in Germany. The risk lies in the fact that the mortality rates modelled do not reflect reality, the beneficiaries from Portigon AG therefore have a higher life expectation and thus have longer de facto pension entitlements from Portigon AG than projected.

Salary increases for non-exempt employees and civil servants: Salary increases for non-exempt employees and civil servants increase pension entitlements for active employees as well as current retirement benefits because in the commitments under the benevolent fund and the overall provision for old age the pension increase is tied to the salary increases for non-exempt employees and civil servants. The risk lies in the fact that the actual increases will exceed the trend in the salary increases for civil servants or non-exempt employees assumed in the modelling of the payment obligations.

The economic capital charge for the pension risk is calculated annually and at the reporting date amounted to € 64.0 million in the base scenario and to € 80.0 million in the stress scenario.

HGB Discount Rate Risk

Portigon AG recognizes provisions in its balance sheet for direct pension commitments, discounting the future obligations at the balance sheet date using the HGB discount rate (average market interest rate in accordance with § 253 (2) Sentence 2 of the German Commercial Code (HGB)).

The HGB discount rate risk involves increasing the reported pension provisions as a consequence of a sharper drop in the HGB discount rate than estimated in the capital planning.

Portigon AG considers the risk of a sharper-than-forecast drop in the HGB discount rate to be material within the meaning of MaRisk and takes this into account as a deduction item for determining the sources of risk-bearing capacity. The deduction item is determined annually and amounted to € 10.0 million at the reporting date.

Business Risk

Business risk refers to the unexpected failure to meet revenue and cost targets. This includes tax risks, defined as impending additional burdens arising in particular from future audits by the tax authorities.

Portigon AG continues to treat business risk as a material risk pursuant to MaRisk and to monitor it in conjunction with its risk-bearing capacity.

At June 30, 2016, the volume of business risk came to € 6.7 million in the base scenario (June 30, 2015: € 5.9 million) and to € 8.4 million in the stress scenario (June 30, 2015: € 9.8 million).

Market Price Risk

Market price risk describes the portfolio’s sensitivity to changes in market parameters (yield curves, exchange rates, etc.) and is now classified as a material risk for Portigon AG within the meaning of MaRisk.

The reclassification of market price risk is attributable to the plan to invest excess liquidity in medium- to long-term interest-bearing securities without the use of hedging transactions to conserve Portigon AG’s net interest income. Because of the magnitude of the interest rate sensitivity resulting from this and the effects on the regulatory interest rate shock scenario of 200 basis points, Portigon AG’s market price risk is considered material.

The monitoring and limits on material price risks continue to be subject to interest rate sensitivities per currency, maturity range and base curve as well as foreign exchange positions and stress tests for capping non-linear risks. The limits on material price risks were extended in June 2016 to include credit spread sensitivity.

As of the end of June 2016, 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 € 17.4 million in value (previous year: € 16.5 million). This corresponded to 0.6% 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.

Risks Not Considered Material

Counterparty credit risk, equity risk, reputational risk and liquidity risk are present only to a limited extent, which is why Portigon AG still does not consider them material risks within the meaning of MaRisk. Irrespective of this classification, appropriate processes for identification, quantification and reporting have been established for all risks as required.

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 Portigon AG, the ratio averaged 5.92 in the period from January to June 2016, which was an improvement on the average of 3.51 in the period from January to December 2015. Portigon AG's liquidity was safeguarded at all times in the period under review.

Concluding Remarks on the Risk Situation

In the analysis of the risk-bearing capacity, the HGB discount rate risk is taken into account as a deduction item for determining the sources of risk-bearing capacity. The other material risks – operational risk, pension risk, business risk and market price risk – are weighed against the risk appetite directly and even under the assumptions made in the stress scenario do not put Portigon AG's risk-bearing capacity in jeopardy (twelve-month risk horizon).

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 2015 Annual Report.

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.

The structural changes within Portigon AG will continue to have an effect on the company's cash flows, financial condition and results of operations in subsequent years. There will continue to be a sharp reduction in Portigon AG's total assets, especially as additional assets are retrospectively transferred in rem to EAA and derivatives held in trust for EAA are novated.

In summary, it should be noted that the transformation process remains replete with uncertainty. This may have an adverse effect on the company's cash flows, financial condition and results of operations. Medium-term expectations for Portigon AG indicate that income will remain insufficient to cover the administrative expenses which continue to be incurred at this time. We are proceeding on the assumption that Portigon AG will show a loss in the low hundreds of millions for the 2016 fiscal year. The occurrence of additional restructuring expenses depends on the further course of the transformation.

Portigon AG Half-Year Balance Sheet at June 30, 2016

Assets

	€	€	30. 6. 2016 €	31. 12. 2015 € thousands
1. Cash				
a) cash on hand		7,959.11		7
b) balances with central banks		2,281,631,713.57		2,949,326
including:			2,281,639,672.68	2,949,333
with Deutsche Bundesbank				
€ 1,443,106,319.07 (2015: € 2,057,186 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		27,019,913.83		27,555
			27,019,913.83	27,555
3. Claims on banks				
a) payable on demand		79,908,259.52		71,552
b) other		284,676,521.30		337,645
			364,584,780.82	409,197
4. Claims on customers			4,163,630,899.74	4,043,961
including:				
loans to public authorities and entities				
under public law				
€ 4,065,203,189.41 (2015: € 4,025,112 thousand)				
5. Bonds and other interest-bearing				
securities				
a) bonds and notes				
aa) of public institutions	598,872,750.40			269,556
including:				
eligible as collateral for				
Deutsche Bundesbank advances				
€ 293,118,505.18 (2015: € 8,146 thousand)				
ab) of other issuers	11,872,689.47			11,643
		610,745,439.87		281,199
			610,745,439.87	281,199
		To be carried forward:	7,447,620,706.94	7,711,245

Assets

	€	€	30. 6. 2016 €	31. 12. 2015 € thousands
		Carried forward:	7,447,620,706.94	7,711,245
6. Equity investments in non-affiliated companies			26,443,639.17	29,812
7. Equity investments in affiliated companies			3,338,124.78	28,338
8. Trust assets			5,119,837,385.71	5,800,113
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		24,652.36		34
			24,652.36	34
10. Tangible assets			18,063,049.91	18,354
11. Other assets			77,248,058.95	204,633
12. Deferred items			176,065,962.59	291,907
Total assets			12,868,641,580.41	14,084,436

Portigon AG Half-Year Balance Sheet at June 30, 2016

Liabilities

	€	€	30. 6. 2016 €	31. 12. 2015 € thousands
1. Liabilities to banks				
a) payable on demand		40,133,314.75		55,024
b) with agreed maturity or				
period of notice		126,716,220.76		175,074
			166,849,535.51	230,098
2. Liabilities to customers				
a) other liabilities				
aa) payable on demand	933,075,194.16			1,118,395
ab) with agreed maturity or				
period of notice	2,074,954,715.04			2,022,788
		3,008,029,909.20		3,141,183
			3,008,029,909.20	3,141,183
3. Certificated liabilities				
a) bonds and notes issued by the bank		9,366,473.49		10,003
			9,366,473.49	10,003
4. Trust liabilities			5,119,837,385.71	5,800,113
5. Other liabilities			51,780,839.75	111,815
6. Deferred items			130,436,159.81	273,450
7. Provisions				
a) for pensions and similar				
obligations		659,000,750.92		720,608
b) tax reserve		64,467,490.47		64,698
c) other		597,008,200.86		634,627
			1,320,476,442.25	1,419,933
8. Subordinated liabilities			1,182,054,576.97	1,186,926
9. Profit participation capital			14,036,898.56	14,037
		To be carried forward:	11,002,868,221.25	12,187,558

Liabilities

	€	€	30. 6. 2016 €	31. 12. 2015 € thousands
		Carried forward:	11,002,868,221.25	12,187,558
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		1,627,882,202.07		1,627,882
c) retained loss		– 260,757,850.36		– 229,653
			1,865,773,359.16	1,896,878
Total liabilities			12,868,641,580.41	14,084,436
1. Contingent liabilities				
a) liabilities from guarantees and				
indemnity agreements		41,683,086.10		66,560
			41,683,086.10	66,560
2. Other commitments				
a) irrevocable credit commitments		73,757,943.08		185,604
			73,757,943.08	185,604

Portigon AG Statement of Income

for the Period January 1 to June 30, 2016

	€	€	1. 1.–30. 6. 2016 €	1. 1.–30. 6. 2015 € thousands
1. Interest from				
a) lending and money market transactions	166,748,189.82			155,281
b) interest-bearing securities and				
book-entry securities	10,930,794.02			9,182
		177,678,983.84		164,463
2. Negative interest from				
a) lending and money market transactions		1,498,536.93		1,066
3. Interest paid		125,714,538.10		119,956
			50,465,908.81	43,441
4. Current income from				
a) equity investments in non-affiliated companies		0.00		7
b) equity investments in affiliated companies		15,313.98		0
			15,313.98	7
5. Commission income		2,994,193.18		24,607
6. Commission paid		14,877,628.17		28,779
			– 11,883,434.99	– 4,172
7. Other operating income			21,263,508.01	90,477
8. General administrative expenses				
a) personnel expenses				
aa) wages and salaries	20,359,291.72			35,491
ab) compulsory social security				
contributions and expenses				
for pensions and other				
employee benefits	6,637,686.54			10,887
including:		26,996,978.26		46,378
for pensions				
€ 3,432,646.35 (2015: € 6,505 thousand)				
b) other administrative expenses		43,295,138.22		79,940
			70,292,116.48	126,318
9. Depreciation and value adjustments				
on tangible and intangible assets			320,442.44	1,472
10. Other operating expenses			19,242,315.29	67,732
11. Income from revaluation of loans and				
certain securities as well as from the				
reversal of loan loss provisions			423,913.90	15,151
		To be carried forward:	– 29,569,664.50	– 50,618

	€	€	1. 1.–30. 6. 2016 €	1. 1.–30. 6. 2015 € thousands
		Carried forward:	– 29,569,664.50	– 50,618
12. Income from revaluation of equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets			514,654.51	14,094
13. Expenses from the assumption of losses			0.00	709
14. Profit or loss on ordinary activities			– 29,055,009.99	– 37,233
15. Extraordinary income		1,000,790.56		1,355
16. Extraordinary expenses		1,387,382.12		224,209
17. Extraordinary result			– 386,591.56	– 222,854
18. Taxes on income and revenues		– 287,419.75		79,956
19. Other taxes not shown under item 10		1,950,226.21		1,001
			1,662,806.46	80,957
20. Net loss for the year			– 31,104,408.01	– 341,044
21. Loss carried forward from the previous year			229,653,442.35	215,843
22. Retained loss			– 260,757,850.36	– 556,887

Condensed Notes to the Financial Statements at June 30, 2016

1. Mandatory Disclosures in Accordance with § 264 (1a) HGB

Portigon AG, which is domiciled in Düsseldorf, Germany, is entered in the commercial register of the Düsseldorf Local Court under No. HRB 42975.

2. Preparation of the Half-Year Financial Report

By way of an agreement dated February 17, 2016, Portigon AG transferred all interests in its service subsidiary Portigon Financial Services GmbH (PFS, today known as Erste Financial Services GmbH) to Erste Abwicklungsanstalt (EAA). The transfer of the interests took place on April 4, 2016. The subsidiaries Portigon Europe (UK) Holdings Ltd. (London, United Kingdom) and Portigon Finance Curaçao N.V. (Willemstad, Curaçao), which were also part of the basis of consolidation in the past, are insignificant for the presentation of a true and fair view of the cash flows, financial condition and results of operations and in exercise of the option provided in § 296 (2) of the German Commercial Code (HGB) are therefore no longer included in the consolidated financial statements. As all subsidiaries that are considered immaterial in isolation are also insignificant as a whole, starting from the 2016 fiscal year Portigon AG is exempted in accordance with § 290 (5) of the German Commercial Code (HGB) from the duty to prepare consolidated financial statements and a group management report.

In place of the combined notes to the annual and consolidated financial statements of Portigon AG published in the previous year in accordance with § 298 (2) of the German Commercial Code (HGB), beginning with the reporting period only notes to the annual financial statements of Portigon AG will consequently be prepared.

Pursuant to the general terms and conditions of Börse Düsseldorf AG for over-the-counter trading on the Düsseldorf Stock Exchange, an auditor's opinion is not required to be issued for these notes. The half-year financial report was accordingly not audited in accordance with § 316 et seq. of the German Commercial Code (HGB) or reviewed by external auditors pursuant to § 37w (5) of the German Securities Trading Act (WpHG).

3. Accounting and Valuation Principles

As an issuer in the primary market segment of over-the-counter (OTC) trading on the Düsseldorf Stock Exchange, Portigon AG is required by the general terms and conditions of Börse Düsseldorf AG for over-the-counter trading on the Düsseldorf Stock Exchange to prepare a half-year financial report whose content at the very minimum complies with 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. The half-year financial report is prepared in accordance with the provisions of the German Commercial Code (HGB), the Ordinance Regarding Accounting for Banks and Financial Services Institutions (RechKredV) and the relevant provisions of the German Stock Corporation Act (AktG). 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, to the extent that their application is mandatory. GAS 16 (Interim Financial Reporting), which is not applicable to Portigon AG, is applied mutatis mutandis in accordance with the recommendation of this standard.

These interim financial statements of Portigon AG were prepared using the same accounting and valuation principles as the annual financial statements at December 31, 2015 with the following exception.

When the Act on the Implementation of the Mortgage Credit Directive and the Amendment of Provisions of the German Commercial Code (Gesetz zur Umsetzung der Wohnimmobilienkreditrichtlinie und zur Änderung handelsrechtlicher Vorschriften) entered into force on March 17, 2016, the ten-year average interest rate was introduced in place of the seven-year average interest rate for the discounting of provisions for post-employment benefit obligations. Portigon AG had not made use of the option of early first-time application for the financial statements at December 31, 2015. First-time application of the ten-year average discount rate led to a one-off reduction in expense of € 57.8 million in the reporting period.

Notes to the Balance Sheet

4. Claims on Banks

	June 30, 2016 € millions	Dec. 31, 2015 € millions
Payable on demand	79.9	71.6
With residual maturities of		
– up to 3 months	13.6	5.2
– between 3 months and 1 year	–	1.8
– between 1 and 5 years	70.6	65.6
– more than 5 years	200.5	265.0
Book value	364.6	409.2

5. Claims on Customers

	June 30, 2016 € millions	Dec. 31, 2015 € millions
Book value	4,163.6	4,044.0
including:		
– on affiliated companies	–	2.4
– on other companies in which equity investments are held	–	0.1
– from the leasing business	18.9	20.7
With residual maturities of		
– up to 3 months	253.4	273.2
– between 3 months and 1 year	94.8	143.4
– between 1 and 5 years	287.7	632.9
– more than 5 years	3,527.7	2,994.5

The increase in claims on customers with residual maturities of more than five years is largely attributable to the investment of funds to cover post-employment benefit obligations in the form of a borrower's note loan from the State of North Rhine-Westphalia of approximately € 1.2 billion. By contrast, around € 0.6 billion from the long-term maturity range was transferred to EAA in the reporting period in connection with the downsizing.

6. Bonds and Other Interest-Bearing Securities

	June 30, 2016 € millions	Dec. 31, 2015 € millions
Bonds and notes of public-sector issuers	598.8	269.6
Bonds and notes of other issuers	11.9	11.6
Book value	610.7	281.2

In the reporting period, the volume of bonds and notes increased by € 329.5 million, from € 281.2 million to € 610.7 million. This increase is predominantly due to the associated investment of funds to cover post-employment benefit obligations. Since the assets concerned do not meet the requirements for plan assets in accordance with § 246 (2) Sentence 2 of the German Commercial Code (HGB), they cannot be offset against the related post-employment benefit obligations.

7. Trust Assets

	June 30, 2016 € millions	Dec. 31, 2015 € millions
Other assets	5,119.8	5,800.1
Book value	5,119.8	5,800.1

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

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

8. Liabilities to Customers

	June 30, 2016 € millions	Dec. 31, 2015 € millions
Book value	3,008.0	3,141.2
thereof:		
– payable on demand	933.1	1,118.4
With residual maturity of		
– up to 3 months	101.8	96.1
– between 3 months and 1 year	41.2	41.7
– between 1 and 5 years	90.3	101.8
– more than 5 years	1,841.6	1,783.2
including:		
– liabilities to affiliated companies	24.3	225.6
– liabilities to companies in which equity investments are held	–	0.1

9. Trust Liabilities

	June 30, 2016 € millions	Dec. 31, 2015 € millions
Liabilities to customers	289.1	289.2
Other liabilities	4,830.7	5,510.9
Book value	5,119.8	5,800.1

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

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

10. Other Liabilities

	June 30, 2016 € millions	Dec. 31, 2015 € millions
Book value	51.8	111.8
including:		
– pro-rata interest for borrower's note loans and subordinated liabilities	22.4	25.5
– fees on bank guarantees	2.8	5.6
– liabilities from profit participation certificates which matured	–	2.3
– offsetting item from the valuation of currency transactions	–	54.1

The offsetting item from the valuation of currency transactions reported in the previous year is reported under Other assets in the 2016 fiscal year.

11. Provisions

In the reporting period, the provisions for post-employment benefit obligations were measured for the first time using the average market interest rate for the past ten fiscal years in accordance with § 253 (2) Sentence 1 of the German Commercial Code (HGB). Measurement applying the seven-year average interest rate used up until then led to the following difference at June 30, 2016 in accordance with § 253 (6) of the German Commercial Code (HGB) (based on the obligations before offsetting against plan assets within the meaning of § 246 (2) Sentence 2 of the German Commercial Code (HGB)):

	June 30, 2016 € millions
Measurement of obligations using the ten-year average interest rate	703.8
Measurement of obligations using the seven-year average interest rate	761.6
Difference in accordance with § 253 (6) HGB	57.8

The entire difference is subject to a restriction on distribution in accordance with § 253 (6) Sentence 3 of the German Commercial Code (HGB).

By way of an agreement dated February 17, 2016, Portigon AG transferred all interests in its service subsidiary Portigon Financial Services GmbH (PFS, today known as Erste Financial Services GmbH) to EAA. By way of an assumption of an obligation to perform in an agreement with the same date and effect from the transfer date (December 31, 2015), Portigon AG assumed for PFS's benefit the pension liabilities from entitlements under pension plans vested up until the expiry of the termination date (but not beyond December 31, 2020) arising from pension commitments by EPS in existence at the transfer date. Upon the transfer of the interests on April 4, 2016, the claim arising from the sale was realised and the obligation to indemnify arising from the assumption of the obligation to perform was required to be reported as a liability in accordance with the contractual arrangements.

Portigon AG's obligation to indemnify that was assumed against payment and arose from the assumption of the obligation to perform does not constitute a pension obligation or a similar obligation. Consequently, this must be measured using the general principles for provisions. The fee of € 56.1 million received was recognized at the acquisition date. In subsequent measurement, the obligation will be added to the carrying amount by calculating the interest rate underlying this consideration.

Notes to the Statement of Income

12. Other Operating Result

Other operating income	**1. 1.–30. 6. 2016 € millions**	1. 1.–30. 6. 2015 € millions
Amount reported on the Statement of Income	21.3	90.5
including:		
Income from the discounting of pension provisions	10.0	–
Income from the reversal of other provisions	8.9	54.3
Rental and property income	1.1	3.1

Other operating expenses	**1. 1.–30. 6. 2016 € millions**	1. 1.–30. 6. 2015 € millions
Amount reported on the Statement of Income	19.2	67.7
including:		
Interest cost on provisions	11.6	60.4
Losses on the sale of fixed assets	–	2.1

The introduction of the ten-year average interest rate replacing the seven-year average interest rate for the discounting of provisions for post-employment benefit obligations reduced the interest cost on provisions by € 57.8 million. In addition, the provision for liabilities for the expected outflow of resources accompanying the sale of PFS had been partly reversed in the prior-year period in the amount of € 53.0 million.

Other Information

13. Events Occurring after June 30, 2016

On July 4, 2016, during discussions at the "Art collections of public-sector companies in North Rhine-Westphalia" round table, a contract was signed for the sale of most of Portigon AG's art collection to the Kunstsammlung NRW Foundation.

Düsseldorf, September 13, 2016

Portigon AG
The Managing Board

Dr. Peter Stemper Frank Seyfert

Publications

The Interim Report and the Annual Report 2015 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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