Annual Report 2019

Portigon
Aktiengesellschaft

Portigon Key Figures

Key Figures Year-on-Year Comparison

	1. 1. – 31. 12. 2019	1. 1. – 31. 12. 2018	Change absolute	%
Performance figures in € millions				
Net interest income	–168.2	–25.6	–142.6	>–100.0
Net commission income	0.9	3.1	–2.2	–71.0
Other operating expenses and income	–59.3	–36.2	–23.1	–63.8
Personnel expenses	–27.6	–30.5	2.9	9.5
Other administrative expenses	–39.6	–39.5	–0.1	–0.3
Provisions for credit risks	–	3.1	–3.1	–100.0
Result of securities and participations	–0.2	–0.5	0.3	60.0
Extraordinary result	5.5	5.4	0.1	1.9
Profit/loss before income tax	–288.4	–120.7	–167.7	>–100.0
Taxes on income and revenues	–294.0	–94.5	–199.5	>–100.0
Profit/loss after taxes	–582.4	–215.2	–367.2	>–100.0

	Dec. 31, 2019	Dec. 31, 2018	Change absolute	%
Balance sheet figures in € billions				
Total assets	4.3	4.9	–0.6	–12.2
Business volume	4.3	5.0	–0.7	–14.0
Credit volume	1.5	1.8	–0.3	–16.7
Equity capital	0.8	1.4	–0.6	–42.9
Bank regulatory ratios according to CRR/CRD IV				
Common Equity Tier 1 capital in € billions	0.1	0.2	–0.1	–50.0
Tier 1 capital in € billions	0.1	0.3	–0.2	–66.7
Own funds in € billions	0.7	0.9	–0.2	–22.2
Risk-weighted assets in € billions	0.2	0.3	–0.1	–33.3
Common Equity Tier 1 capital ratio in %	60.2	65.1	–4.9	–7.5
Tier 1 capital ratio in %	73.6	84.7	–11.1	–13.1
Total capital ratio in %	353.8	285.7	68.1	23.8
Employees				
Number of employees	94	120	–26	–21.7
Full-time equivalent	88	114	–26	–22.8

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

Contents

Management Report as at December 31, 2019

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 2019 fiscal year.

Total assets of Portigon AG came to € 4.3 billion at December 31, 2019 (previous year: € 4.9 billion). Of that amount, € 0.3 billion (previous year: € 0.6 billion) is attributable to trust assets and € 0.1 billion (previous year: € 0.3 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 of 12.2 % is predominantly due to the incremental transfer in rem to EAA of portfolios only synthetically transferable in 2012 as well as to premature terminations and final maturities of transactions.

The net figure for net interest, net commission income and the other operating result came to € –226.6 million for Portigon AG (previous year: € –58.7 million). The decrease is mainly attributable to the increase in a tax provision for interest on arrears incurred on taxes on dividend payments, including solidarity surcharge thereon, which may have been credited without justification in connection with dividend arbitrage transactions of the former WestLB.

The progressive transformation led to a further headcount reduction in the 2019 fiscal year as well as a related decrease of non-personnel costs. As a result, Portigon AG's administrative expenses were reduced by € 2.8 million, from € 70.0 million to € 67.2 million.

Portigon AG is showing an extraordinary result of € 5.5 million (previous year: € 5.4 million).

Overall, Portigon AG is reporting a result before taxes of € –288.4 million (previous year: € –120.7 million) and a net loss for the year of € 582.4 million (previous year: € 215.2 million). The net loss for the year is partly offset by loss participation on the part of the holders of the silent contributions to capital (€ 496.5 million) and the holders of profit participation rights (€ 4.3 million) pursuant to the respective terms of issue. The remaining amount (€ –81.7 million), together with the loss carried forward from the previous year, is being reported as a retained loss (€ 379.3 million).

The net loss for the year is in keeping with Portigon AG's forecast of a loss of € 500 to 600 million published in the ad hoc anouncement of December 2, 2019.

Portigon AG's Tier 1 capital ratio is 73.6 % (previous year: 84.7 %), whilst its total capital ratio is 353.8 % (previous year: 285.7 %). Risk-weighted assets stand at € 0.2 billion, down from € 0.3 billion in the previous year.

The return on investment in accordance with § 26a (1) of the German Banking Act (KWG) is –13.63 % (previous year: –4.36 %).

Structural Changes

As in the previous years, the year under review was dominated almost entirely by the further downsizing of Portigon AG in accordance with the approval decision taken by the European Commission on December 20, 2011. The success of the restructuring is reflected in particular in the development of total assets. These fell by 12.2 % in 2019 to € 4.3 billion (previous year: € 4.9 billion), mainly due to the incremental transfer in rem to EAA of the holdings of the former WestLB that in the previous years were initially only transferred synthetically, as well as to final maturities and various termination agreements with transaction partners.

Please refer to the next section for more information on Portigon AG's branches, subsidiaries and offices and their further downsizing.

Barbara Glaß was appointed as a full member of the Managing Board with effect from April 1, 2020.

The formal investigation launched by the Düsseldorf Public Prosecutor's Office in June 2016 and transferred to the Cologne Public Prosecutor's Office in May 2020 into a small number of former Managing Board members of WestLB in connection with dividend arbitrage transactions has still not been concluded. Portigon AG remains in contact with the investigating authorities and cooperates closely with a view to clarifying the matter. Following the revocation by the tax authorities in December 2019 of tax credits on dividend payments, including the solidarity surcharge thereon, for the years 2006 and 2007, the remaining arrears totalling € 302.5 million are presented under tax liabilities, utilising the provisions previously formed for this matter.

Portigon AG's Branches, Subsidiaries and Offices

Based on the European Commission's decision of December 20, 2011, the branches of Portigon AG have been downsized since this date. In addition to its head office in Düsseldorf, Portigon AG was still represented at two branches in London and New York as at December 31, 2019.

After closing eight international branches in the years 2014 to 2018, in addition to the downsizing activities at the head office in the reporting year Portigon AG continued in particular its ongoing projects to close what used to be the two largest foreign branches.

Employees

The number of employees decreased from 120 (114 full-time equivalent) to 94 (88 full-time equivalent). This reduced the headcount to below 100 for the first time at the end of 2019. The downsizing was implemented on the basis of the enterprise-level collective agreement as well as a reconciliation of interests and redundancy scheme, with comparative regulations outside Germany. The number of employees will continue to be reduced in the coming years.

Statement of Income

Portigon AG's performance in 2019 was shaped by further additions to provisions in connection with taxes on dividend payments, including solidarity surcharge thereon, that may have been credited in previous years without justification.

Overall, Portigon AG is reporting a result before taxes of € –288.4 million (previous year: € –120.7 million) and a net loss of € 582.4 million (previous year: € 215.2 million) for the 2019 fiscal year. Because of this, the silent contributions to capital and the profit participation capital cannot be serviced and participate in the loss pursuant to the terms on which they were issued.

Statement of Income from January 1 to December 31, 2019

	1. 1. – 31. 12. 2019 € millions	1. 1. – 31. 12. 2018 € millions	Change € millions	%
Net interest income	–168.2	–25.6	–142.6	>–100.0
Net commission income	0.9	3.1	–2.2	–71.0
Other operating expenses and income	–59.3	–36.2	–23.1	–63.8
Personnel expenses	–27.6	–30.5	2.9	9.5
Other administrative expenses	–39.6	–39.5	–0.1	–0.3
Provisions for credit risks	–	3.1	–3.1	–100.0
Result of securities and participations	–0.2	–0.5	0.3	60.0
Extraordinary result	5.5	5.4	0.1	1.9
Profit/loss before income tax	–288.4	–120.7	–167.7	>–100.0
Taxes on income and revenues	–294.0	–94.5	–199.5	>–100.0
Profit/loss after taxes	–582.4	–215.2	–367.2	>–100.0
Loss carried forward from the previous year	–297.6	–267.4	–30.2	–11.3
Withdrawals from profit participation capital	4.3	1.6	2.7	>100.0
Withdrawals from silent contributions to capital	496.5	183.5	313.0	>100.0
Retained loss	–379.3	–297.6	–81.7	–27.5

Net Interest Income

The net interest income of Portigon AG amounted to € –168.2 million (previous year: € –25.6 million). The decrease is mainly attributable to the increase in a tax provision for interest on arrears incurred on taxes on dividend payments, including solidarity surcharge thereon, which may have been credited without justification in connection with dividend arbitrage transactions of the former WestLB. As in the previous year, the absence of coupon payments on the profit participation capital reduced the interest expense by € 2.3 million.

Net interest income also includes negative interest from lending and money market transactions of € –4.2 million (previous year: € –4.9 million).

Net Commission Income

Portigon AG's net commission income amounted to € 0.9 million (previous year: € 3.1 million) and mostly stems from the trust business.

Other Operating Expenses and Income

The balance of other operating expenses and income fell by € –23.1 million to € –59.3 million for Portigon AG (previous year: € –36.2 million).

This includes a decrease of € 12.0 million in other operating income, which declined from € 48.5 million to € 36.5 million, mostly on account of the drop in contractually agreed reimbursements of expenses for administrative services provided in connection with portfolios synthetically transferred to EAA. In addition, other operating expenses including other taxes rose by € 11.1 million, from € 84.7 million in the previous year to € 95.8 million.

General Administrative Expenses

General administrative expenses fell by € 2.8 million to € 67.2 million (previous year: € 70.0 million).

Personnel expenses decreased by € 2.9 million to € 27.6 million (previous year: € 30.5 million). As a consequence of the reduction in headcount resulting from the transformation of Portigon AG, the average number of employees over the year declined from 136 to 105.

Other administrative expenses of Portigon AG came to € 39.6 million (previous year: € 39.5 million).

Provisions for Credit Risks

Following the positive result in the previous year of € 3.1 million, a break-even result of € 0.0 million was achieved in the provisions for credit risks in the current fiscal year. As a result of the transfer of positions to EAA, Portigon AG is no longer exposed to any credit risks from its former operations in the lending business.

Result of Financial Investments

Financial investments yielded a net result of € –0.2 million (previous year: € –0.5 million) resulting in particular from a write-down.

Extraordinary Result

Portigon AG's extraordinary result amounted to € 5.5 million (previous year: € 5.4 million) and is mainly attributable to the reversal of provisions for restructuring.

Taxes on Income and Revenues

The income tax expense of € 294.0 million incurred in the 2019 fiscal year (previous year: € 94.5 million) is attributable to income taxes from Germany for previous years of € 291.5 million and results mainly from the recovery of taxes on dividend payments, including solidarity surcharge thereon, which may have been credited in previous years without justification in connection with dividend arbitrage transactions. Current income taxes from Germany amounted to € 2.3 million, and the foreign branches generated current tax expense of € 0.2 million.

Net Loss for the Year

Portigon AG is reporting a net loss of € 582.4 million for the 2019 fiscal year (previous year: € 215.2 million). There were no coupon payments on the profit participation rights for 2019 as well as no replenishment of the expected repayment amounts for profit participation rights and silent contributions to capital. Accordingly, the silent contributions to capital were not serviced.

Balance Sheet and Business Volume

As in the previous year, Portigon AG's balance sheet as at December 31, 2019 was shaped by further structural changes and downsizing (see the chapter entitled "Structural Changes"). Although a substantial volume of assets and liabilities had been 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. As per contract, the credit and market risks associated with these assets and liabilities have been transferred to EAA.

At December 31, 2019, Portigon AG had total assets and total equity and liabilities of € 4.3 billion, of which € 0.3 billion was reported in the items trust assets and trust liabilities. This includes, in particular, derivative financial instruments carried at amortised cost that were transferred to EAA under the risk transfer agreement and are offset by compensation claims and liabilities. There is also the corresponding cash collateral.

In addition, Portigon AG still has claims on banks in the amount of € 0.1 billion (previous year: € 0.1 billion), claims on customers in the amount of € 1.4 billion (previous year: € 1.8 billion), securities in the amount of € 1.4 billion (previous year: € 0.9 billion) and cash/liquid debt issues in the amount of € 1.1 billion (previous year: € 1.4 billion). EAA has guaranteed € 0.1 billion (previous year: € 0.3 billion) of these assets, most notably € 0.1 billion in claims on customers (previous year: € 0.2 billion) and other interest-bearing securities of € 0.0 billion (previous year: € 0.1 billion). The unguaranteed positions represent the investment of capital and liquidity back-ups.

The business volume, which includes contingent liabilities in addition to balance sheet items, totalled € 4.3 billion at Portigon AG (previous year: € 5.0 billion).

Assets

	Dec. 31, 2019 € billions	Dec. 31, 2018 € billions
Cash/liquid debt issues	1.1	1.4
Claims on banks	0.1	0.1
Claims on customers	1.4	1.8
Securities not held for trading	1.4	0.9
Equity investments in affiliated and non-affiliated companies	0.0	0.0
Trust assets	0.3	0.6
Tangible/intangible assets	0.0	0.0
Other assets	0.1	0.2
Total assets	4.3	4.9

Liabilities

	Dec. 31, 2019 € billions	Dec. 31, 2018 € billions
Liabilities to banks	0.0	0.0
Liabilities to customers	0.6	0.7
Trust liabilities	0.3	0.6
Other liabilities	1.9	1.4
Subordinated liabilities/Profit participation capital	0.7	0.7
Equity capital	0.8	1.4
Total liabilities	4.3	4.9
Contingent liabilities	0.0	0.0
Business volume	4.3	5.0

Credit Volume

The credit volume on the balance sheet was € 1.5 billion at December 31, 2019 (previous year: € 1.8 billion).

In particular, the amounts for claims on customers were reduced by € 0.4 billion in the past fiscal year to € 1.4 billion (previous year: € 1.8 billion). Of the claims on customers, the sum of € 0.1 billion (previous year: € 0.2 billion) is guaranteed by EAA.

	Dec. 31, 2019 € billions	Dec. 31, 2018 € billions
Claims on banks	0.1	0.1
Claims on customers	1.4	1.8
Contingent liabilities	0.0	0.0
Credit volume carried in the balance sheet	1.5	1.8

Securities Holdings

Portigon's securities portfolio totalled € 1.4 billion at December 31, 2019 (previous year: € 0.9 billion). Most of the items in this portfolio are bonds and other interest-bearing securities from German public-sector issuers. The increase is mainly due to the investment with matching maturities of amounts collected upon the premature termination of interest rate swaps. Notes of € 0.0 billion (previous year: € 0.1 billion) are guaranteed by EAA.

Liabilities to Banks and Customers

At December 31, 2019, liabilities to banks and customers at Portigon AG totalled € 0.6 billion (previous year: € 0.7 billion) and consisted primarily of time deposits.

Risk-Weighted Assets and Capital Ratios

Portigon AG calculates its capital adequacy figures according to the Regulation on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation, CRR) 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).

Portigon's own funds recognised for regulatory purposes under the CRR/CRD IV consist of the sum of Tier 1 capital and Tier 2 capital and were as follows at December 31, 2019:

Own Funds

	Dec. 31, 2019 € millions CRR/CRD IV after result for the year	Dec. 31, 2018 € millions CRR/CRD IV after result for the year
Common Equity Tier 1 capital (CET 1): instruments and reserves	119.3	201.0
Capital instruments and the related share premium accounts	498.6	498.6
thereof subscribed capital (shares)	498.6	498.6
thereof capital reserves/reserves from retained earnings (incl. profit/loss)	–379.3	–297.6
Regulatory adjustments to CET 1	–0.0	–0.0
Common Equity Tier 1 capital (CET 1)	119.3	201.0
Additional Tier 1 capital (AT 1): instruments	26.6	60.3
thereof instruments as defined by Article 484 (4) CRR that do not constitute state aid (silent contribution to capital – issued 2005)	26.6	60.3
Regulatory adjustments to AT 1	–	–
Additional Tier 1 capital (AT 1)	26.6	60.3
Tier 1 capital (T 1 = CET 1 + AT 1)	146.0	261.3
Tier 2 capital (T 2)	555.2	620.3
Own funds	701.2	881.7

At the reporting date, Tier 1 capital amounted to € 146.0 million, down € 115.3 million as against December 31, 2018.

The decrease is predominantly due to the distribution of the HGB loss for 2019 among the capital components absorbing the loss and to the reduction in the Additional Tier 1 capital instruments, only a portion of which is included in Additional Tier 1 capital in 2019 under the transitional arrangements in the CRR/CRD IV rules (30 %).

The Common Equity Tier 1 capital declined from € 201.0 million to € 119.3 million, due to the loss incurred in 2019.

At December 31, 2019, the eligible capital of Portigon AG amounted to € 701.2 million, a decrease of € 180.5 million year-on-year. In addition to the effects in the Tier 1 capital, this decrease is due to the ineligibility of some subordinated issues for continued inclusion in the regulatory capital.

The subordinated liabilities of Portigon AG included in the regulatory capital meet the requirements for qualification as Tier 2 instruments in Article 63 CRR. There can be no premature repayment obligation on the subordinated liabilities. In the event of bankruptcy or liquidation, subordinated liabilities will not be repaid until all non-subordinated claims have been satisfied.

While the profit participation rights expire on December 31, 2019 and are therefore no longer included in the regulatory capital, the subordinated liabilities are included in Tier 2 capital in the amount of € 536.6 million. Interest is paid on the subordinated liabilities in accordance with the terms on which they were issued.

The following ratios were determined at December 31, 2019 on the basis of the eligible capital pursuant to CRR guidelines and taking into account the bottom line for the year:

Risk-Weighted Assets and Equity Ratios Pursuant to CRR/CRD IV

	Dec. 31, 2019 € millions CRR/CRD IV after result for the year	Dec. 31, 2018 € millions CRR/CRD IV after result for the year
Risk-weighted assets		
Counterparty credit risks	16.0	111.4
Credit valuation adjustment (CVA)	1.6	9.8
Operational risks	88.3	187.4
Total risk exposure amount for position, foreign-exchange and commodities risks	92.3	–
Total risk-weighted assets	198.2	308.6
Equity ratios %		
Common Equity Tier 1 capital ratio	60.2	65.1
Tier 1 capital ratio	73.6	84.7
Total capital ratio	353.8	285.7

Under the CRR/CRD IV framework, risk-weighted assets totalled € 198.2 million for Portigon AG, which represents a decrease of € 110.4 million from the amount reported at December 31, 2018.

The counterparty credit exposures fell by € 95.4 million to € 16.0 million compared with the end of 2018. The reasons for this were the continued downsizing of the portfolio and further decreases in the derivatives business.

The foreign currency exposures requiring equity backing amounted to € 92.3 million at the reporting date. As these were below the threshold of 2 % of own funds stipulated in Article 351 of the CRR in the previous year, they did not require equity backing at December 31, 2018 and are therefore not relevant for the quota. The increase in foreign currency exposures at December 31, 2019 is mainly attributable to the asset- and liability-side change in the volume of business that is denominated in US dollars.

Compared with the end of 2018, the CVA (credit valuation adjustment) charge for Portigon AG fell by € 8.1 million to € 1.6 million. The decrease largely stems from the drop in business and the related decline in the positive fair values.

The € 99.1 million decrease in the operational risk exposure to € 88.3 million is attributable to the absence of the high gross income in 2015 from the calculation basis for the operational risk exposure (three-year average), as well as to a sharp drop in net interest income.

The Tier 1 capital ratio fell from 84.7 % to 73.6 %. This is still 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 ratio came to 60.2 % (previous year: 65.1 %).

Against this backdrop, the total capital ratio rose from 285.7 % to 353.8 %.

Concluding Statement from the Subordinate Status Report

The State of North Rhine-Westphalia (NRW) holds 69.49 % of the shares of Portigon AG directly and 30.51 % indirectly via NRW.BANK, which is wholly owned by NRW.

Therefore, Portigon AG's Managing Board makes the following statement pursuant to § 312 (3) of the German Stock Corporation Act (AktG):

"Based on circumstances known to us at the time the company entered into the transactions and undertook or refrained from undertaking the acts discussed in the report on relations with affiliated enterprises, our company received adequate consideration for each such transaction and did not suffer any disadvantage by reason of undertaking or refraining from undertaking such acts."

Risk Report

Based on the results of the risk inventory process conducted at the end of 2019, Portigon AG classifies strategic risk, operational risk (including legal risk) and pension risk as its remaining material risks.

Market price risk, liquidity risk, counterparty credit risk and HGB discount rate risk are considered immaterial risks for purposes of the Minimum Requirements for Risk Management (MaRisk).

The risk strategy that was applicable for the reporting period (November 21, 2019) is described below.

Risk Management System

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 and that all relevant risks are presented transparently and steered with foresight. The core processes of risk management are determining, monitoring, analysing, steering and reporting on risks on an autonomous basis. 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).

Portigon AG's risk strategy, which is linked to the business strategy, forms the basis for monitoring and steering risk. It contains the principles and core elements of risk management, defines the types of risk that are material and immaterial for purposes of MaRisk and provides reasons for this classification. The Managing Board determines the business strategy and Portigon AG's risk strategy on an annual basis and discusses these with the Supervisory Board.

The pooling of all risk issues in the Risk Controlling business unit takes account of the continued downsizing of Portigon AG and ensures that a comprehensive perspective on the subject of risk is taken.

In the interests of a sustainable system of risk steering and monitoring, all risks are identified and the results processed in a transparent manner. Through the "Risk Situation Report" prepared every three months, the Managing Board and Supervisory Board regularly receive timely, unbiased, targeted information about all developments which are significant from the perspective of capital and risks. This quarterly report meets MaRisk requirements for risk reports. Portigon AG publishes additional qualitative and quantitative information in a separate, annual Disclosure Report pursuant to the CRR.

On the basis of expert opinions and taking historical trends into account, the stress scenarios are calculated for operational risk and pension risk by adding a premium (factor of 1.25) to the basis risk and deriving the base scenario by calculating 80 % of the stress value.

Strategic Risk

Strategic risk, which has been classified as a material risk, is defined as the unexpected failure to meet revenue and cost targets and the risk that planning assumptions might not materialise or might prove to be inaccurate. This risk also includes risks arising from strategically important past decisions. It essentially comprises the following aspects: dismantling of the EAA holdings, dismantling of key issues for Portigon AG, return of banking licences, closure of branches, outsourcing of major activities, tax risks and business risk.

As large portions of the strategic risk exposure are currently not quantified, this exposure is currently weighed against the unallocated sources of risk-bearing capacity in both the going-concern approach and the liquidation approach. Experts are assessing whether this is considered sufficient on the whole or whether a more precise approximation of the risk exposure is needed.

The downsizing was advanced again in 2019, mostly according to plan. The number of transactions still reported on the balance sheet – some of them requiring a licence – has been reduced, allowing the plans to return individual limited licences to be advanced further.

With regard to the dividend arbitrage transactions of the former WestLB, it is possible that new circumstances, especially new court rulings or new findings from the investigations by the Cologne Public Prosecutor's Office or from the tax investigation, will necessitate a different assessment, even of the already known facts of the case. In the future, this may lead both to the recognition of additional provisions (e.g. for the year 2005, which is also a focus of attention) and to a reversal of provisions that had been recognised in the past. The Bank holds the opinion that the possible recovery of € 151.5 million for taxes on dividend payments, including solidarity surcharge thereon, that can be deduced from a preliminary draft report submitted by the tax authorities, plus interest, is time-barred. Moreover, the Bank does not acknowledge the amount of these taxes. In the final analysis, Portigon firmly believes that the other conditions for a recovery, particularly the subjective conditions, are not met. The Bank therefore considers that there is currently not sufficient justification for the recognition of further provisions for this purpose.

Due to the Bank's objection, the recovery assessments received in December 2019 are not yet legally binding. As the scope of any interest assessment in connection with the dividend arbitrage transactions is unknown, the tax provision for interest was increased accordingly. Adequate provision for the current state of knowledge has been made in the annual financial statements.

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. However, strategic risks may in turn lead to operational risks.

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

Material operational risks at Portigon AG are:

- risks arising from the transformation process/the restructuring of Portigon AG (e.g. personnel risks),
- further development of the legal risks arising from current and any future lawsuits,
- risks arising from major outsourcing arrangements (e.g. management of the outsourcing company by Portigon AG, reduced capacity or default of the current outsourcing company).

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 the ongoing investigations by the Public Prosecutor's Office into dividend arbitrage transactions.

Risks may arise from disputes with hybrid capital investors regarding the extent of loss participation.

The Operational Risk & Compliance unit in the Risk Controlling business unit is in charge of defining the OpRisk management framework as well as related instruments and guidelines. It ensures that operational risk steering activities are consistent, records these and provides its expert opinion on them. Management of the operational risks in the business units is supported by the Operational Risk & Compliance unit. This ensures that the analysis, measurement, steering and monitoring of operational risks meet uniform standards of quality.

Operational Risk & Compliance cooperates closely with the specialist units, for example Auditing, Legal and IT/Vendor Management, on issues such as contingency planning, insurance, IT security and non-IT security.

For the remainder of the downsizing process we will continue to analyse and assess operational risks using instruments like the loss event database and risk self-assessment for bank processes and major outsourcing arrangements, so that we can introduce measures to minimise losses in a timely fashion.

Portigon AG uses the standardised approach pursuant to Article 317 of the Capital Requirements Regulation (CRR) to determine the regulatory capital charge for its operational risks.

Alignment of the economic OpRisk capital with the regulatory capital commitment is the approach used for Portigon AG. The risks calculated for regulatory purposes (risk-weighted assets) continue to be used for internal steering (economic capital commitment). For Portigon AG, the economic capital charge and the capital in stress testing for operational risk stood at € 7.1 million and € 8.8 million, respectively, as per December 31, 2019 (previous year: € 15.0 million and € 18.7 million, respectively). Where possible and prudent, insurance policies are taken out to cover the losses that could arise from operational risks. Portigon AG has central insurance cover.

The identification of legal risks, which are considered a subset of operational risks, in Germany is the responsibility of the Legal unit in the Corporate Steering business unit. This is carried out in close cooperation with the individual specialist units. Foreign legal risks are the responsibility of the foreign branches. Legal risks that materialise or are imminent are reduced or prevented to the greatest extent possible by implementing defined measures. In addition, suitable preventive countermeasures are introduced.

Adequate provisions have been made for legal risks arising from ongoing litigation.

Pension Risk

Pension risk arises in particular from the potential need to increase pension provisions, i.e. from 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 lies in the fact that the mortality rates modelled might not reflect reality in the future and the beneficiaries from Portigon AG might have a higher life expectancy and thus have longer de facto pension entitlements from Portigon AG than projected.

The risk presented by the trend in salary increases for non-exempt employees and civil servants lies in the fact that, 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 and the actual increases might exceed the trend in the salary increases for civil servants or non-exempt employees assumed in the modelling of the payment obligations.

As a result of the scenario calculations performed by Mercer, the economic capital charge for the pension risk was increased to € 68.0 million (previously € 64.0 million) in the base scenario and to € 85.0 million (previously € 80.0 million) in the stress scenario in accordance with the resolution of the Managing Board on March 21, 2019.

Market Price Risk

Portigon AG’s market price risks primarily arise from the investment of equity and excess liquidity, which follows strict investment guidelines.

Regulatory market risks continue to arise from future payments under pension obligations. Because the assumptions underlying the modeled payment obligations change over time, the bond structure selected to hedge these cash flows is no longer congruent with them. The resulting interest rate risk is hedged by means of market risk measurement, monitoring and management.

Portigon AG classifies the remaining market price risk as immaterial within the meaning of MaRisk.

Liquidity Risk

Portigon AG treats liquidity risk as an immaterial risk pursuant to MaRisk.

The Treasury unit in the Corporate Steering business unit is responsible for managing Portigon AG’s liquidity. Over and above that, Risk Controlling independently monitors liquidity risks and prepares the regulatory reports on the liquidity position.

Our liquidity management differentiates between operating, tactical and strategic liquidity. The risk strategy defines the reporting instruments and steering goals for these individual time bands. The Managing Board sets the risk tolerance for the individual steering goals on this basis.

Operational liquidity management is intended to ensure Portigon AG's solvency in the short term and at all times. This is achieved through stringent monitoring of all of the Bank's remaining external nostro accounts.

Tactical liquidity management helps ensure the availability of sufficient liquidity for up to one year. In order to steer our tactical liquidity, we determine, on a daily basis, the contractual maturity profile of all assets and liabilities having an impact on liquidity and supplement it with information concerning the potential inflows and outflows from the liquidity reserve as well as effects from contingent liabilities and other drains on liquidity.

All of the model assumptions used in the stress test and their parameter calibration are subject to annual validation.

The purpose of strategic liquidity management is to ensure that Portigon AG is capable of satisfying its long-term liquidity requirements. Portigon AG's refinancing capacity will be guaranteed by its equity and by the liabilities remaining on its balance sheet post-transformation.

In the case of OTC derivatives transactions, Portigon AG enters into agreements on the provision of collateral. Compared to other liquidity risks, the liquidity risk posed by the collateral agreements executed is straightforward. The liquidity risk stemming from the derivatives transferred to EAA is covered by a collateral agreement with EAA.

Counterparty Credit Risk

Portigon AG classifies counterparty credit risk as an immaterial risk pursuant to MaRisk.

In accordance with the decision taken by the European Commission on December 20, 2011, Portigon AG may hold a limited volume of risk-weighted assets (RWA) only for a limited period of time. The investment of excess liquidity follows strict investment guidelines, and there is no significant credit risk (RWA weighting of zero, rating (long-term issuer rating) of at least AA– (Standard & Poor's) or Aa3 (Moody's), investments denominated in EUR and USD). 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.

The review, evaluation, monitoring, steering and decision-making in respect of counterparty credit risks are based on documented, uniform standards and processes. Internal credit risk steering is based on the Credit Risk Standard Approach (CRSA); Portigon AG uses a simplified risk classification procedure that complies with MaRisk.

HGB Discount Rate Risk

Portigon AG recognises provisions in its balance sheet for direct pension commitments, discounting the future obligations at the balance sheet date using the HGB discount rate. 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.

The HGB discount rate risk is classified as an immaterial risk type because current interest rates and the specified interest rate (based on a ten-year history) increasingly converge over time.

Capital Utilisation

Usage of Regulatory Capital

Portigon AG calculates its ratios according to the CRR/CRD IV framework. CRD IV and 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. Pursuant to Article 92 (1) CRR, the minimum Common Equity Tier 1 ratio is 4.5 % and the minimum Tier 1 ratio is 6 %; the capital requirement for the total capital ratio remains at 8 %.

Portigon AG exceeded the minimum requirements at all times in 2019. 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 projected for the following years.

	Dec. 31, 2019 € millions after result for the year	Dec. 31, 2018 € millions after result for the year
Risk-weighted assets	198.2	308.6
Counterparty credit risks	16.0	111.4
Credit valuation adjustment (CVA)	1.6	9.8
Operational risks	88.3	187.4
Total risk exposure amount for position, foreign-exchange and commodities risks	92.3	–
Own funds	701.2	881.7
Total capital ratio in %	353.8	285.7
Tier 1 capital	146.0	261.3
Tier 1 capital ratio in %	73.6	84.7
Common Equity Tier 1 capital	119.3	201.0
Common Equity Tier 1 capital ratio in %	60.2	65.1

For more detailed information please refer to the section entitled “Risk-Weighted Assets and Capital Ratios”.

Usage of Economic Capital (Risk-Bearing Capacity)

Portigon AG’s risk-bearing capacity concept continues to distinguish between two steering frameworks. Here, Portigon AG makes use of the BaFin’s provision allowing conventional going-concern approaches to be applied until further notice even after publication of the final version of the guidelines for risk-bearing capacity in 2018. As a result, the going-concern approach remains the primary steering framework. In addition, the liquidation approach is used to measure the risk-bearing capacity annually. The risk-bearing capacity is examined in both approaches over a period of twelve months from the respective reporting date.

In the going-concern approach, regulatory own funds are taken as the starting point for determining the risk-taking potential in preparation for the changeover. The liquidation approach also includes Tier 2 capital in risk-taking potential. Depending on which approach is used – the going-concern or liquidation approach – various amounts are deducted from the risk-taking potential to arrive at the available sources of risk-bearing capacity. Strategic risk, which is classified in the risk strategy as material for purposes of MaRisk, is currently not quantified in the risk-bearing capacity in the going-concern approach and in the liquidation approach, but is covered by the significant unallocated sources of risk-bearing capacity.

The risks classified in the reporting period as material for Portigon AG – operational risk and pension risk – were weighed against the risk appetite directly and monitored as part of regular reporting. Strategic risk is covered by the significant unallocated sources of risk-bearing capacity. This also serves to cover adverse business developments and risks that are not considered material. The risks defined as immaterial were monitored using separate operating limits or suitable processes such as the investment strategy.

In the liquidation approach, the sources of risk-bearing capacity were measured in the reporting period against the operational risk, market price risk and the immaterial counterparty credit risk. Operational risks and market price risks were determined the same way as the stress scenario in the going-concern approach, whilst counterparty credit risks are derived from the regulatory capital. The total risk exposure was calculated as the sum of the individual risks. In addition to determining the sources of risk-bearing capacity over a twelve-month period, a longer-dated analysis identifying the sources of risk-bearing capacity through year-end 2022 was also performed.

In the going-concern approach, stress tests on the risk-bearing capacity were run on the operational risk and pension risk. The risk appetite was sufficient to cover potential negative developments in 2019.

Reverse stress testing is limited to the scenario of an EAA default. Were EAA to default, the credit risks and market price risks guaranteed by EAA as well as legal risks could revert back to Portigon AG. The risk of a default by EAA is deemed to be very low, since the only conceivable way it could default would be if either the State of North Rhine-Westphalia or the Federal Republic of Germany defaulted. Moreover, because the State of North Rhine-Westphalia is Portigon AG's main investor, a default by it would pose a direct risk to Portigon AG's ability to continue as a going concern. It does not make economic sense to hedge against the EAA default risk.

Concluding Remarks on the Risk Situation

Up to and including November 21, 2019, Portigon AG classified strategic risk, operational risk and pension risk as material risks for purposes of MaRisk. All other types of risk were considered immaterial.

In the analysis of the risk-bearing capacity, the going-concern approach was still the primary steering framework for Portigon AG. The material risks were weighed against the risk appetite directly and even under the assumptions made in the stress scenario did not put Portigon AG's risk-bearing capacity in jeopardy (twelve-month risk horizon).

The risk inventory process conducted in 2019 did not give rise to major changes for the risk strategy (November 21, 2019) compared with the risk strategy from December 2018.

Portigon AG exceeded the capital backing required by the CRR at all times in 2019.

Opportunities Report

The opportunities of Portigon AG essentially relate to its ability, in conjunction with managing the remaining assets, to press ahead with the process of dismantling the former WestLB more quickly and more efficiently than currently projected for the next years. This applies both to personnel matters and organisational issues. There is potential for additional savings with respect to headcount reductions, the downsizing of the remaining IT platform and the related process adjustments. The degree to which cost savings above planned levels can be achieved or additional costs are incurred depends on the further course of the transformation and cannot be predicted at this time.

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

Events Occurring after the Close of the Fiscal Year

No significant events occurred after the end of the fiscal year that would be required to be disclosed in the notes pursuant to § 285 No. 33 of the German Commercial Code (HGB).

Outlook

The further structural changes within Portigon AG will continue to have an effect on the company's cash flows, financial condition and results of operations in the coming years. There will be a further reduction in Portigon AG's total assets attributable to final maturities and various termination agreements.

In summary, it should be noted that both the transformation process and the aforementioned operational risks, but also risks arising from tax issues, remain 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 for the 2020 fiscal year Portigon AG will show a loss of around € 100 million. The occurrence of additional restructuring expenses and possible expenses arising from tax issues depends on the further course of the transformation and the ongoing investigations by the Cologne Public Prosecutor's Office.

Portigon AG Balance Sheet as at December 31, 2019

Assets

	€	€	31. 12. 2019 €	31. 12. 2018 € thousands
1. Cash				
a) balances with central banks		1,085,387,139.53		1,436,823
thereof:			1,085,387,139.53	1,436,823
with Deutsche Bundesbank				
€ 911,693,542.08 (2018: € 1,125,656 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		20,732,269.38		10,436
			20,732,269.38	10,436
3. Claims on banks				
a) payable on demand		25,839,332.45		25,304
b) other		25,167,628.10		30,421
			51,006,960.55	55,726
4. Claims on customers			1,395,027,839.06	1,751,864
thereof:				
loans to public authorities and entities				
under public law				
€ 1,393,541,610.32 (2018: € 1,749,341 thousand)				
5. Bonds and other interest-bearing				
securities				
a) bonds and notes				
aa) of public institutions	962,132,317.34			869,502
thereof:				
eligible as collateral for				
Deutsche Bundesbank advances				
€ 739,098,981.69 (2018: € 769,558 thousand)				
ab) of other issuers	403,471,716.89			0
		1,365,604,034.23		869,502
			1,365,604,034.23	869,502
		To be carried forward:	3,917,758,242.75	4,124,350

Assets

	€	€	31. 12. 2019 €	31. 12. 2018 € thousands
		Carried forward:	3,917,758,242.75	4,124,350
6. Equity investments in affiliated companies			1,495,348.23	1,695
thereof:				
financial services				
€ 720,000.00 (2018: € 920 thousand)				
7. Trust assets			280,093,466.07	632,499
8. Tangible assets			149,093.29	336
9. Other assets			23,683,218.72	61,290
10. Deferred items			50,108,939.26	120,580
Total assets			4,273,288,308.32	4,940,751

Portigon AG Balance Sheet as at December 31, 2019

Liabilities

	€	€	31. 12. 2019 €	31. 12. 2018 € thousands
1. Liabilities to banks				
a) payable on demand		3,650,101.68		12,416
b) with agreed maturity or period of notice		1,973,252.90		1,961
			5,623,354.58	14,377
2. Liabilities to customers				
a) other liabilities				
aa) payable on demand	8,826,736.08			5,945
ab) with agreed maturity or				
period of notice	575,176,146.98			729,040
		584,002,883.06		734,985
			584,002,883.06	734,985
3. Trust liabilities			280,093,466.07	632,499
4. Other liabilities			336,797,899.83	29,135
5. Deferred items			72,028,004.37	84,130
6. Provisions				
a) for pensions and similar obligations				
after offsetting against plan assets		714,789,207.77		688,131
b) tax reserve		300,070,050.53		224,561
c) other		445,425,004.40		409,478
			1,460,284,262.70	1,322,171
7. Subordinated liabilities			697,277,902.19	697,665
8. Profit participation capital			0.00	10,473
thereof:				
due in less than two years				
€ 0.00 (2018: € 10,473 thousand)				
		To be carried forward:	3,436,107,772.80	3,525,436

Liabilities

	€	€	31. 12. 2019 €	31. 12. 2018 € thousands
		Carried forward:	3,436,107,772.80	3,525,436
9. 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		717,799,857.87		1,214,264
c) retained loss		–379,268,329.80		–297,598
			837,180,535.52	1,415,315
Total liabilities			4,273,288,308.32	4,940,751
1. Contingent liabilities				
a) liabilities from guarantees and indemnity agreements		7,885,119.78		11,240
			7,885,119.78	11,240

Portigon AG Statement of Income

for the Period January 1 to December 31, 2019

	€	€	1. 1.–31. 12. 2019 €	1. 1.–31. 12. 2018 € thousands
1. Interest from				
a) lending and money market transactions	175,774,376.01			82,311
b) interest-bearing securities and				
book-entry securities	7,391,203.77			9,106
		183,165,579.78		91,417
2. Negative interest from				
a) lending and money market transactions		4,222,289.78		4,925
3. Interest paid		347,480,808.18		113,205
			−168,537,518.18	−26,714
4. Current income from				
a) equity investments in affiliated companies		310,631.66		1,151
			310,631.66	1,151
5. Commission income		2,352,920.82		4,336
6. Commission paid		1,444,340.84		1,274
			908,579.98	3,061
7. Other operating income			36,518,752.72	48,520
8. General administrative expenses				
a) personnel expenses				
aa) wages and salaries	11,729,482.70			15,420
ab) compulsory social security				
contributions and expenses for				
pensions and other employee benefits	15,853,854.84			15,047
thereof:		27,583,337.54		30,467
for pensions				
€ 11,867,671.11 (2018: € 10,591 thousand)				
b) other administrative expenses		39,485,363.06		39,450
			67,068,700.60	69,917
9. Depreciation and value adjustments				
on tangible and intangible assets			84,019.45	68
10. Other operating expenses			94,949,719.19	84,843
		To be carried forward:	−292,901,993.06	−128,810

for the Period January 1 to December 31, 2019

	€	€	1. 1.–31. 12. 2019 €	1. 1.–31. 12. 2018 € thousands
		Carried forward:	–292,901,993.06	–128,810
11. Write-downs and value adjustments on loans and certain securities as well as allocations to loan loss provisions			0.00	3,130
12. Write-downs and value adjustments on equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets			169,178.79	524
13. Profit or loss on ordinary activities			–293,071,171.85	–126,203
14. Extraordinary income		10,359,457.26		12,828
15. Extraordinary expenses		4,845,470.62		7,425
16. Extraordinary result			5,513,986.64	5,403
17. Taxes on income and revenues		294,022,973.78		94,537
18. Other taxes not shown under item 10		832,745.66		–123
			294,855,719.44	94,414
19. Net loss for the year			–582,412,904.65	–215,215
20. Loss carried forward from the previous year			297,597,783.48	267,444
21. Withdrawals from profit participation capital			4,278,197.77	1,581
22. Withdrawals from silent contributions to capital			496,464,160.56	183,481
23. Retained loss			–379,268,329.80	–297,598

Notes to the Financial Statements at December 31, 2019

General Information

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 Annual Financial Statements

Portigon AG is required to prepare annual financial statements and a management report in accordance with § 242 in conjunction with § 264 of the German Commercial Code (HGB).

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

The annual financial statements are submitted to the operator of the Bundesanzeiger (Federal Gazette; www.bundesanzeiger.de) and published in accordance with § 325 and § 328 of the German Commercial Code (HGB).

3. Accounting Policies

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

Claims are reported at their outstanding principal balances less any unamortised discounts. Liabilities are carried at their settlement amounts, with any related discounts reported as assets under deferred items. Premiums on claims and liabilities are reported under deferred items as an asset or liability, respectively. Deferred items relating to premiums and discounts from underwriting and lending are measured using the effective interest method. The accrued interest on a claim or liability at year-end is included with the claim or liability to which it applies, except in the case of subordinated liabilities. Treasury bills and non-interest-bearing treasury bonds are discounted and shown with the effective discount rate. Zero-coupon bonds issued are carried as liabilities at their issue price plus share in the difference between the issue price and redemption value at the balance sheet date assuming a constant effective interest rate.

Discernible risks with claims are adequately covered by individual value adjustments and provisions. Latent risks from claims are covered by contingency reserves formed pursuant to § 340f of the German Commercial Code (HGB).

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

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

The accounting treatment of structured financial instruments follows the accounting practice statement issued by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW) concerning when and when not to treat the components of structured financial instruments separately for accounting purposes (IDW RS HFA 22).

Portigon AG has qualified as a non-trading-book institution within the meaning of § 13 of the German Banking Act (KWG) since September 1, 2012. Portigon has had no trading portfolio to report since that date.

During the transformation in 2012, there was a synthetic transfer of derivatives by means of a risk transfer agreement to EAA. The execution of the 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 under the derivatives had not been extinguished, i.e. the obligations had not been satisfied, cancelled or reached expiration. Until there is a settlement of or legal release from the obligations or the obligations are transferred in rem to EAA, these derivatives and corresponding offsetting items will continue to be reported on Portigon AG's balance sheet. As a result, the derivatives and corresponding compensation claims and liabilities 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). Further subsequent measurement at fair value beyond December 31, 2014 was decided against, however. Since then, derivatives and corresponding compensation claims and liabilities have been measured at amortised cost, the basis of which is the fair value most recently determined at December 31, 2014. This is due to the fact that in the trust assets or trust liabilities changes in the market value presented in the same amount in each case are no longer significant for Portigon AG's business model. With the progressive restructuring of Portigon AG, for which the crucial decisions and arrangements were made in the first half of 2015, the business model is focused on the downsizing of the portfolio, particularly the assets and liabilities not transferred in rem and the associated cost reductions. As a consequence of the decision not to measure the derivatives held in trust at fair value and to present them instead as simply noted items, the changes in the portfolio arising from maturities and novations can be taken directly from the balance sheet, which increases the informative value of the financial statements in a year-on-year comparison. Otherwise, this difference in the measurement method does not have any effect on the company's cash flows, financial condition and results of operations.

The items held in trust for EAA have no effect on the statement of income since the income from these derivatives is to be passed on directly to EAA and the expenses from them are to be reimbursed by EAA. Earnings contributions from these derivatives and compensation items are presented in their net amounts.

The measurement of financial instruments sometimes requires that management make assumptions and estimates which are based on subjective assessments and inevitably entail forecasting uncertainties. Even when our estimates are based on available information, past experience and other criteria, actual future events may still vary, which can have a not insignificant impact on our cash flows, financial condition and results of operations. We believe the employed parameters are appropriate and justifiable.

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

Portigon AG steers the general interest rate risk in its banking book centrally, as part of asset/liability management. When Portigon AG measures the interest rate positions in its banking book (interest book) at the lower of cost or market, it determines on a present value basis whether there is a sufficient volume of counterclaims to offset the value of its obligations. To the extent that measurement of the aggregate interest rate position of the banking book, taking into account prorated administrative and risk costs, reveals an excess liability, the principle of prudence in German financial accounting requires the creation of a provision pursuant to § 340a in conjunction with § 249 (1) Sentence 1 No. 2 of the German Commercial Code (HGB) (provision for anticipated losses). When forming this provision, the accounting practice statement issued by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW) concerning the measurement of interest rate positions in the banking book (interest book) at cost or market is used for guidance (IDW RS BFA 3, new version). The formation of a provision was not necessary in this regard.

Shares in subsidiaries are presented under equity investments in affiliated companies, whereas other shares that serve to create a long-term relationship with another company are reported under equity investments in non-affiliated companies. If this intended purpose does not come about, they will be presented under other assets.

Equity investments in non-affiliated companies, to the extent that any are held, and investments in affiliated companies are carried at cost. Where a decline in value is expected to be permanent, they are written down to the lower fair value. Existing collateral, particularly guarantees, is taken into account in the measurement of the write-downs. Pursuant to § 340c (2) of the German Commercial Code (HGB), expenses arising from write-downs of equity investments in affiliated and non-affiliated companies and securities treated as fixed assets are offset by the income from write-ups as well as by the expenses and income from transactions with such assets.

Tangible assets and intangible assets acquired against payment are depreciated or amortised over their expected useful lives. Low-value assets are measured using the simplification rules under German tax regulations.

The other assets are recognised at the lower of cost or market.

Provisions are recognised at the settlement amount that is required by prudent business judgement. When measuring provisions, companies are required to recognise increases in costs and prices. In the case of pension provisions, this especially means wage and salary increases as well as a pension index. On October 4, 2018, Heubeck AG issued an amended version of the new mortality tables published on July 20, 2018 (Heubeck 2018 G mortality tables), which were acknowledged for income tax purposes with the letter published by the Federal Ministry of Finance on October 22, 2018. For the first time, the new mortality tables were applied to the measurement of provisions for pensions at the end of the previous year in accordance with the German Commercial Code. The discounting of provisions with a residual term of over one year is to be done using the average market interest rate of the previous seven fiscal years, taking into consideration the residual maturity of the provisions or their underlying liabilities. In contrast, the ten-year average interest rate is relevant for the discounting of provisions for post-employment benefit obligations. Yield curves are published at the end of each month on the Deutsche Bundesbank website.

As not all of Portigon AG's provisions stem from the banking business, income/expenses arising from changes in the relevant discount rate over the previous year – to the extent that they cannot be ascribed to the extraordinary result – are reported in the other operating result.

Assets that meet the requirements for offsetting plan assets in accordance with § 246 (2) Sentence 2 of the German Commercial Code (HGB) are measured at their fair value in accordance with § 253 (1) Sentence 4 of the German Commercial Code (HGB) and offset against the related post-employment benefit obligations.

In the past, any gains or losses arising on the transfer of liabilities in return for consideration in connection with the downsizing of Portigon AG were presented in the other operating result. From this reporting period onwards, any gains or losses arising in similar circumstances will now be presented under interest income or interest paid. The reason for this deviation from the principle of consistency of presentation is that the difference between the carrying amount of the liability transferred and the consideration arising from the transfer is frequently attributable to interest rates. Moreover, because the accrued interest at the time of the premature unwinding of any interest rate swaps possibly concluded in connection with the liabilities shall be presented in net interest income, allocating the gains or losses arising from the transfer of the liabilities concerned to net interest income provides greater clarity and transparency of presentation. Apart from that, this deviation from the previous form of presentation does not have any effect on the Bank's cash flows, financial condition and results of operations. Thus, the change in method constitutes a justified exception to the principle of consistency of presentation in accordance with § 265 (1) HGB.

The negative interest paid for cash holdings is reported separately in the statement of income in an item added after interest income.

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

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

Foreign currency translation for assets and liabilities is handled in accordance with the provisions of § 256a and § 340h of the German Commercial Code (HGB). For risk management purposes, Portigon AG places foreign currency positions in specially designated books where they can be centrally managed and thus classified as specifically covered. The corresponding expenses and income from translating these specifically covered transactions into the reporting currency are reported on a net basis in other operating expenses/income.

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

Differences between the carrying amounts of assets, liabilities or assets or liabilities under deferred items and their tax base that are expected to reverse in future fiscal years are recognised as deferred taxes. Any resulting aggregate tax liability must be carried as deferred tax liabilities, whereas any resulting tax benefit may be recognised as deferred tax assets. In addition to the temporary differences, tax loss carryforwards are taken into consideration when calculating deferred tax assets. Portigon exercises the option of carrying deferred tax assets in accordance with § 274 (1) Sentence 2 of the German Commercial Code (HGB). However, it does not make use of the option to present the resulting deferred tax assets and liabilities gross in accordance with § 274 (1) Sentence 3 of the German Commercial Code (HGB).

The deferred taxes are measured at the individual tax rates of the company applicable at the balance sheet date or which have already been approved by the legislator and are expected to apply until the deferred tax assets and deferred tax liabilities are utilised. When determining taxes in Germany, a corporate income tax rate of 15 % plus 5.5 % solidarity surcharge thereon and a trade tax rate were applied, taking the applicable assessment rates into account.

Notes to the Balance Sheet

4. Claims on Banks

	Dec. 31, 2019 € millions	Dec. 31, 2018 € millions
Payable on demand	25.8	25.3
With residual maturities of		
– up to 3 months	2.2	2.7
– more than 5 years	23.0	27.7
Book value	51.0	55.7

Of the claims on banks reported on the balance sheet, the sum of € 2.9 million (previous year: € 1.0 million) is guaranteed by EAA.

5. Claims on Customers

	Dec. 31, 2019 € millions	Dec. 31, 2018 € millions
With residual maturities of		
– up to 3 months	61.9	43.0
– between 3 months and 1 year	0.4	34.4
– between 1 and 5 years	139.3	127.2
– more than 5 years	1,193.4	1,547.3
Book value	1,395.0	1,751.9
thereof:		
– affiliated companies	–	1.3
– from the leasing business	–	16.4

Of the claims on customers reported on the balance sheet, the sum of € 87.3 million (previous year: € 197.6 million) is guaranteed by EAA.

The decrease in claims on customers is largely attributable to a premature partial dissolution of a cross-border lease transaction in connection with the downsizing and to loans transferred to EAA.

6. Bonds and Other Interest-Bearing Securities

	Dec. 31, 2019 € millions	Dec. 31, 2018 € millions
Book value	1,365.6	869.5
thereof:		
amounts becoming due before December 31 of the following fiscal year	19.1	0.5
Breakdown by product		
– bonds and notes of public-sector issuers	962.1	869.5
– bonds and notes of other issuers	403.5	–
Breakdown by marketability		
– marketable securities	1,365.6	869.5
thereof:		
– listed on a stock exchange	1,142.6	769.6
– not listed on a stock exchange	223.0	99.9

Of the bonds and other interest-bearing securities reported on the balance sheet, the sum of € 12.1 million (previous year: € 99.9 million) is guaranteed by EAA.

The increase is mainly due to the investment with matching maturities of amounts collected upon the premature termination of interest rate swaps.

As was the case in the previous year, all bonds and other interest-bearing securities have been assigned to the investment portfolio, which makes them part of fixed assets. At the balance sheet date, financial assets of € 219.9 million (previous year: € 472.2 million) were carried at the modified lower of cost or market. Their fair value totalled € 217.5 million (previous year: € 460.4 million).

Unrealised losses were recognised in the amount of € 2.3 million. Since a default risk of the public-sector issuer is not likely and Portigon AG intends to hold the bonds to maturity, Portigon AG refrains from recognising impairment losses.

Securities from affiliated companies or other companies in which equity instruments are held are not held in the investment portfolio.

7. Equity Investments in Affiliated Companies

	Dec. 31, 2019 € millions	Dec. 31, 2018 € millions
Book value	1.5	1.7
thereof:		
– financial services institutions	0.7	0.9

The change in the portfolio of € 0.2 million is attributable to the write-down of the carrying amount of the investment in Portigon Finance Curaçao N.V.

The book values of Portigon AG's equity investments in affiliated companies correspond to their fair values.

8. Trust Assets

	Dec. 31, 2019 € millions	Dec. 31, 2018 € millions
Other assets	280.1	632.5
Book value	280.1	632.5

The other assets reported as trust assets largely comprise derivatives transferred to EAA under the risk transfer agreement as well as the corresponding compensation 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 3.

9. Fixed Assets

€ millions	Bonds and other interest-bearing securities	Equity investments in non-affiliated companies	Equity investments in affiliated companies	Intangible assets	Office equipment
Acquisition/production costs Dec. 31, 2018	869.5	–	1.7	5.8	83.1
Additions				–	0.1
Retirements				5.8	81.7
Reclassifications				–	–
Effects from currency conversion				–	0.0
Acquisition/production costs Dec. 31, 2019				–	1.5
Cumulated write-downs Dec. 31, 2018	Net change pursuant to § 34 (3) Sentence 2 RechKredV; € 495.9 million			5.8	82.8
Depreciation in the fiscal year				–	0.1
Appreciation				–	–
Retirements				5.8	81.5
Reclassifications				–	–
Effects from currency conversion				–	–
Cumulated write-downs Dec. 31, 2019				–	1.4
Book value Dec. 31, 2019	1,365.6	–	1.5	–	0.1
Book value Dec. 31, 2018	869.5	–	1.7	–	0.3

There were no write-downs of any securities treated as fixed assets in 2019, since no impairment was expected to be other than temporary.

The decrease in office equipment to € 0.1 million (previous year: € 0.3 million) is principally due to the sale of works of art.

10. Other Assets

	Dec. 31, 2019 € millions	Dec. 31, 2018 € millions
Book value	23.7	61.3
thereof:		
– claims from tax refunds	17.4	19.7

11. Deferred Items

	Dec. 31, 2019 € millions	Dec. 31, 2018 € millions
Deferred items from reclassification of trading positions	42.5	113.3
Discounts from liabilities	0.9	1.0
Other	6.7	6.3
Book value	50.1	120.6

The deferred items resulting from the reclassification of trading positions at Portigon AG in 2012 are predominantly the market values, subject to amortisation, of swaps previously assigned to the trading portfolio as well as the premiums and discounts, subject to amortisation, from money market transactions that were assigned to the trading portfolio prior to the reclassification.

12. Assets Sold under Repurchase Agreements

There were no assets sold under repurchase agreements reported under any item in the balance sheet at the reporting date.

13. Liabilities to Banks

	Dec. 31, 2019 € millions	Dec. 31, 2018 € millions
Payable on demand	3.7	12.4
With residual maturities of		
– up to 3 months	2.0	2.0
Book value	5.6	14.4

14. Liabilities to Customers

	Dec. 31, 2019 € millions	Dec. 31, 2018 € millions
Payable on demand	8.8	5.9
With residual maturities of		
– up to 3 months	1.8	12.5
– between 3 months and 1 year	0.3	42.7
– between 1 and 5 years	35.5	7.7
– more than 5 years	537.6	666.2
Book value	584.0	735.0
thereof:		
– liabilities to affiliated companies	2.4	23.5

The decrease is mainly due to the premature termination of interest rate swaps.

15. Trust Liabilities

	Dec. 31, 2019 € millions	Dec. 31, 2018 € millions
Liabilities to customers	97.8	151.6
Other liabilities	182.3	480.9
Book value	280.1	632.5

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

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 3.

16. Other Liabilities

	Dec. 31, 2019 € millions	Dec. 31, 2018 € millions
Book value	336.8	29.1
thereof:		
– tax liabilities	305.9	2.2
– offsetting item from the valuation of currency transactions	11.5	13.7
– accrued interest for borrower's note loans and subordinated liabilities	10.8	10.8
– liabilities from mature profit paticipation rights	6.2	–

The increase is mainly attributable to tax liabilities recognised for taxes on dividend payments, including solidarity surcharge thereon, which may have been credited in previous years without justification in connection with dividend arbitrage transactions of the former WestLB.

17. Deferred Items

The deferred items in the amount of € 72.0 million (previous year: € 84.1 million) resulting from the reclassification of trading positions at Portigon AG in 2012 largely correspond to the market values, subject to amortisation, of swaps previously assigned to the trading portfolio as well as the premiums and discounts, subject to amortisation, from money market transactions that were assigned to the trading portfolio prior to the reclassification.

18. Provisions

Independent actuaries measure the present value of the post-employment benefit obligations of Portigon AG using the projected unit credit method, taking future salary and pension increases into account. On October 4, 2018, Heubeck AG issued an amended version of the new mortality tables published on July 20, 2018 (Heubeck 2018 G mortality tables), which were acknowledged for income tax purposes with the letter published by the Federal Ministry of Finance on October 22, 2018. The new mortality tables had been applied to the measurement of the provisions for pensions in accordance with the German Commercial Code for the first time at the end of the previous year. The parameters and assumptions used in calculating the present value of the liabilities under the pension plans set up in Germany were as follows:

	Dec. 31, 2019
Discount rate	2.71 %
Wage and salary index	2.50 %
Pension index	2.00 %
Fluctuation	5.00 %
Mortality tables	Heubeck 20018 G mortality tables

Pension liability insurance policies have been concluded to hedge post-employment benefit obligations and other pension liabilities reported under other provisions to individual beneficiaries of Portigon AG. Insofar as the entitlements under these pension liability insurance policies are exempt from attachment by all other creditors and serve exclusively to settle liabilities from post-employment benefit obligations and similar long-term liabilities, these plan assets are offset against the liabilities in accordance with § 246 (2) Sentence 2 of the German Commercial Code (HGB). In accordance with § 253 (1) Sentence 4 of the German Commercial Code (HGB), the plan assets are measured at fair value through profit or loss using the actuarial principles applied by the insurance company. The liabilities in question were carried in the amount of the excess of liabilities over assets remaining after offsetting as follows:

	Plan Assets		Associated Liabilities	
€ millions	Acquisition cost	Fair value	Before offsetting	After offsetting
Post-employment benefit obligations	46.4	47.6	762.4	714.8
Other pension liabilities	0.4	0.4	151.8	151.4
Total	46.8	47.9	914.2	866.3

At the balance sheet date, the fair value of the plan assets of € 47.9 million exceeds their cost of € 46.8 million. Limited to the individual liabilities whose associated plan assets show a positive difference between the fair value and the cost, a difference of € 2.3 million (previous year: € 1.3 million) arises that is subject to a restriction on distribution in the full amount in accordance with § 268 (8) of the German Commercial Code (HGB).

Provisions for post-employment benefit obligations are measured using the average market interest rate for the past ten fiscal years (2.71 %) in accordance with § 253 (2) Sentence 1 of the German Commercial Code (HGB). Measurement applying the seven-year average interest rate (1.97 %) leads to the following difference at the balance sheet date 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)):

	Dec. 31, 2019 € millions
Measurement of obligations using the ten-year average interest rate	762.4
Measurement of obligations using the seven-year average interest rate	843.4
Difference in accordance with § 253 (6) HGB	81.0

The entire difference is subject to a restriction on distribution in accordance with § 253 (6) Sentence 3 of the German Commercial Code (HGB). Please refer to Note 22.

In accordance with § 246 (2) Sentence 2 of the German Commercial Code (HGB), the income of € 1.0 million from the measurement of the plan assets was offset against the interest cost on provisions.

In view of the investigations by the Public Prosecutor's Office in connection with dividend arbitrage transactions of the former WestLB, tax provisions include provisions recognised as a precautionary measure for taxes on dividend payments, including solidarity surcharge and interest thereon, which may have been credited in previous years without justification. Following the revocation by the tax authorities in December 2019 of credits of taxes on dividend payments, including the solidarity surcharge thereon, for the years 2006 and 2007, the remaining arrears to be paid totalling € 302.5 million are presented under tax liabilities, utilising the provisions previously formed for this matter.

It is possible that new circumstances, especially new court rulings or new findings from the investigation by the Cologne Public Prosecutor's Office or from the tax investigation, will necessitate a different assessment, even of the already known facts of the case. In the future, this may lead both to the recognition of additional provisions (e.g. for the year 2005, which is also a focus of attention of the Public Prosecutor's Office) and to a reversal of provisions that had been recognised in the past. The Bank holds the opinion that the possible recovery of € 151.5 million for taxes on dividend payments, including solidarity surcharge thereon, that can be deduced from a preliminary draft report submitted by the tax authorities, plus interest, is time-barred. Moreover, the Bank does not acknowledge the amount of these taxes. In the final analysis, Portigon firmly believes that the other conditions for a recovery, particularly the subjective conditions, are not met. The Bank therefore considers that there is currently not sufficient justification for the recognition of further provisions for this purpose.

Due to the Bank's objection, the recovery assessments received in December 2019 are not yet legally binding. As the scope of any interest assessment in connection with the dividend arbitrage transactions is unknown, the tax provision for interest was increased accordingly. Adequate provision for the current state of knowledge has been made in the annual financial statements.

Portigon AG's other provisions consist of provisions for restructuring of € 107.0 million (previous year: € 129.1 million), provisions in the personnel area of € 152.3 million (previous year: € 174.4 million) and miscellaneous provisions of € 186.1 million (previous year: € 106.0 million).

The item miscellaneous provisions contains, among other amounts, € 44.2 million (previous year: € 39.7 million) for the obligation to indemnify arising from an assumption of the obligation to perform vis-à-vis Erste Financial Services GmbH (EFS). By way of an agreement dated February 17, 2016, Portigon AG transferred all interests in its service subsidiary EFS to EAA. By way of an assumption of an obligation to perform in an agreement dated April 4, 2016 and with effect from the transfer date (December 31, 2015), Portigon AG assumed for EFS'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 EFS in existence at the transfer date. By way of an agreement dated December 11, 2017, the obligation to indemnify vis-à-vis the employment contracts of EFS employees transferred to a third party as of December 1, 2017 in accordance with § 613a of the German Civil Code (BGB) was reversed in some cases. All liabilities incurred by Portigon AG to cover the post-employment benefit obligations of the employees affected by the transfer of the EFS business expire from this date.

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 received was recognised at the acquisition date. In subsequent measurement, the obligation will be added to the carrying amount by applying the interest rate underlying this consideration. At the balance sheet date, the measurement in accordance with actuarial principles using the projected unit credit method and discounted using the seven-year average interest rate exceeded the amortised cost plus accrued interest. The liability was carried at this higher amount.

Furthermore, the item miscellaneous provisions contains, among other amounts, € 3.4 million (previous year: € 4.2 million) for reimbursement commitments relating to the pension obligations transferred to NRW.BANK in 2013 (service cost) and € 1.4 million (previous year: € 2.9 million) for potential litigation risks.

The € 76.5 million (previous year: € 76.6 million) in interest cost on provisions unrelated to banking operations of Portigon AG is reported in other operating expenses.

19. Subordinated Liabilities

	Dec. 31, 2019 € millions	Dec. 31, 2018 € millions
Book value	697.3	697.7
thereof:		
– to affiliated companies	505.7	506.4

Of the total subordinated liabilities, € 160.0 million (previous year: € 160.0 million) at Portigon AG have a residual maturity of less than two years. The original maturities range from 13 to 35 years.

Portigon AG incurred interest expense of € 18.6 million in connection with its subordinated liabilities (previous year: € 24.3 million). The subordinated liabilities carried by Portigon AG itself comply with the requirements of Article 63 of the CRR; the right to terminate the liabilities without notice has not been reserved.

The following raised funds exceed 10 % of the total subordinated liabilities at December 31, 2019:

Currency	Amount	Interest rate	Maturity
JPY	10,000,000,000	0.52 %	March 23, 2029

The terms of issue prohibit a premature repayment obligation for these subordinated liabilities. A premature termination option has not been granted to either Portigon AG or the creditors.

20. Profit Participation Capital

Changes in Portigon AG’s profit participation capital were as follows in the fiscal year:

	Dec. 31, 2019 € millions	Dec. 31, 2018 € millions
Beginning balance 1.1.	10.5	12.1
Additions	–	–
Disposals	–6.2	–
Loss allocation	–4.3	–1.6
Ending balance 31.12.	–	10.5

The profit participation capital remaining at the beginning of the fiscal year is comprised of one registered profit participation certificate with an original nominal value of € 6.0 million and one collective bearer profit participation certificate with an original nominal value of € 25.0 million. The registered profit participation certificate grants an entitlement to an annual distribution of 7.90 % relating to the fiscal year in question; for the collective profit participation certificate this is 7.46 % of the par value. However, a claim to a distribution is excluded in accordance with the terms of the profit participation certificate concerned if, and only if, the distribution gives rise to a retained loss. The terms of the profit participation certificates stipulate that if Portigon AG reports a loss on the balance sheet, the repayment claims of the certificate holders will be reduced to the same extent which the equity capital, including profit participation capital, reported on the balance sheet is depleted in order to offset the loss. For the previous year, the holders of profit participation certificates were allocated a portion of the loss totalling € 1.6 million. The holders of profit participation capital are being allocated a portion of the loss for 2019 equal to € 4.3 million. Both profit participation certificates had terms ending on the balance sheet date.

The profit participation certificates for Portigon AG in the previous year constituted Tier 2 capital of € 2.1 million within the meaning of Article 63 of the CRR and are no longer included in the regulatory capital at the balance sheet date.

21. Equity Capital

The subscribed capital of Portigon AG was € 498.6 million at December 31, 2019 (previous year: € 498.6 million). It was divided into 22,695,306 (previous year: 22,695,306) no-par value registered Class A shares. The theoretical par value of each share is € 21.97 (previous year: € 21.97). All shares carry the same voting rights. For information concerning our current shareholder structure, please see Note 41.

Portigon AG is reporting a net loss for the 2019 fiscal year of € 582.4 million.

Portigon AG issued silent contributions to capital in 2005, with one tranche totalling USD 300.0 million and the other € 240.0 million (for a combined total of € 469.4 million). The agreements concerning these silent contributions to capital provide that the silent partners shall share in an annual balance sheet loss in the proportion which the book value of the silent contribution bears to the aggregate book value of all loss-sharing components of the Bank's liable core capital. The silent partners are being allocated a portion of the relevant loss for 2019 equal to € 62.1 million (previous year: € 23.0 million).

Pursuant to the agreement of December 12, 2009, concerning a silent participation on the part of the Financial Market Stabilisation Fund (FMS), FMS paid its entire silent contribution to capital in the amount of € 3,000.0 million in three instalments over the course of the 2009 and 2010 fiscal years. The parties executed agreements that were dated August 22, 24 and 25, 2012 and had an effective transfer date of September 1, 2012 under which they agreed to a partial sale of FMS's silent contribution to capital to the State of North Rhine-Westphalia (NRW) with a prorated original value of € 1,000.0 million and an actual prorated value of € 893.2 million due to loss participations in prior years. The original agreement on establishing the silent partnership was not amended and still provides for the silent partner's participation in any annual balance sheet loss, in proportion to the share the nominal value of the contribution bears to the total carrying value of all liable capital elements participating in the loss (§ 10 (2a), (4) and (5) of the old version of the German Banking Act [KWG]). The total amount the silent partners can absorb from losses is limited to the amount of their silent contributions to the capital. The silent partners are being allocated a portion of the relevant loss for 2019 equal to € 434.4 million (previous year: € 160.5 million). Portigon AG's Managing Board was authorised by the extraordinary shareholders' meeting held on April 23, 2010 to grant FMS the option of converting all or part of the silent contribution to capital into shares of Portigon AG. To this end, a new class of shares was created (originally Class C, now Class B), with a preferred dividend of 10 %, a preferred stake in any proceeds from the sale of divisions and subsidiaries, and senior ranking in the event of liquidation. FMS's stake may not exceed 49.9 % of the share capital. The agreement on the granting of the conversion right was signed in April 2010. As a result of the partial sale of the silent contribution to capital to NRW, the agreement on the conversion right, including the restated agreement between FMS and Portigon AG concerning the granting of a conversion right, was amended by an agreement of August 26, 2012. The amended agreements are consistent with previous agreements. This includes, in particular, the provisions on the possibility of exercising the conversion right, on determining the number of new shares to issue and their relationship to the shares issued prior to the conversion, on the maximum stake in the share capital of 49.9 % and the new Class B, formerly Class C, preferred shares. FMS is the only party that can exercise the conversion right. Thus far, it has not been exercised.

On the basis of a loss carryforward from the previous year of € 297.6 million, a loss of € 379.3 million remains after loss allocation, including the loss participation of the profit participation certificate holders and silent partners.

	Balance Dec. 31, 2018 € millions	Withdrawals/ loss allocation € millions	Other appropriation € millions	**Balance Dec. 31, 2019 € millions**
Subscribed capital	498.6	–	–	498.6
Capital reserves	–	–	–	–
Revenue reserves	–	–	–	–
Silent contributions to capital				
– issued in 2005	150.8	–62.1	–	88.7
– issued in 2009/2010	1,063.5	–434.4	–	629.1
Retained loss	–297.6	–81.7	–	–379.3
Equity capital pursuant to the German Commercial Code (HGB)	1,415.3	–578.2	–	837.2

Portigon AG did not acquire any own shares during the entire fiscal year, nor did it hold any own shares at year-end.

22. Non-Distributable Amounts

	Dec. 31, 2019 € millions	Dec. 31, 2018 € millions
Difference arising from the discounting of provisions for post-employment benefit obligations at the ten-year and seven-year average interest rates[1]	81.0	91.9
Capitalised difference between fair value and cost of plan assets within the meaning of § 246 (2) Sentence 2 of the German Commercial Code (HGB)[2]	2.3	1.3
= Non-distributable amounts	83.3	93.2

[1] see § 253 (6) of the German Commercial Code (HGB)
[2] see § 268 (8) of the German Commercial Code (HGB)

23. Liability for Pre-Existing Commitments – Grandfathering

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

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

- All liabilities incurred by Portigon AG on or before July 18, 2001 are fully covered by guarantor liability until the time they mature.

- Guarantor liability will remain in effect in its original form for all liabilities incurred by Portigon AG from July 19, 2001 to July 18, 2005, so long as the liabilities mature by December 31, 2015; if they mature after the deadline, guarantor liability will not apply.

The guarantors of the former Westdeutsche Landesbank Girozentrale will completely satisfy the obligations arising from their guarantor liability with respect to Portigon AG as soon as they have properly determined and set forth in writing at the time a liability matures that the creditor of such liability cannot be satisfied from Portigon AG's assets. That explicitly includes the possibility of servicing debts precisely at the same time they fall due. The giving of a notice as normally required under aid law is not necessary.

Portigon AG had € 0.8 billion in liabilities which were still grandfathered at December 31, 2019 (previous year: € 0.8 billion). A € 0.1 billion (previous year: € 0.2 billion) portion of that relates to portfolios of assets and liabilities which are economically hedged by EAA through guarantee agreements.

24. Foreign Currency Assets/ Foreign Currency Liabilities

	Dec. 31, 2019 € billions	Dec. 31, 2018 € billions
Foreign currency assets	1.2	1.2
Foreign currency liabilities	1.0	1.0

Notes to the Statement of Income

25. Geographic Breakdown of Income Components

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

1. 1.–31. 12. 2019 € millions	Interest Income	Current Income	Commission Income	Other Operating Income
Germany	97.5	0.3	2.4	22.5
United Kingdom	5.3	–	–	7.2
North America	80.4	–	0.0	6.8
Amount reported on the Statement of Income	183.2	0.3	2.4	36.5

The geographic breakdown of income at Portigon AG is determined on the basis of the domicile of the branch.

26. Administrative and Custodial Services

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

27. Interest Income

The increase in interest income of € 91.8 million to € 183.2 million (previous year: € 91.4 million) was mainly attributable to the premature termination of interest rate swaps.

28. Interest Paid

The increase in interest paid of € 234.3 million to € 347.5 million (previous year: € 113.2 million) is mainly due to the increase in a tax provision for interest on arrears incurred on taxes on dividend payments, including solidarity surcharge thereon, which may have been credited without justification in connection with dividend arbitrage transactions of the former WestLB as well as to the recognition of provisions for impending losses arising in connection with the intended transfer of liabilities in return for consideration. For more information on the latter, please refer to the corresponding details in Note 3.

29. Other Operating Result

Other operating income	Dec. 31, 2019 € millions	Dec. 31, 2018 € millions
Amount reported on the Statement of Income	36.5	48.5
thereof:		
Reimbursement and netting by third parties	21.3	35.2
Income from reversal of other provisions	9.9	2.1
Derecognition of bonds issued following the expiry of contractual timeliness	–	8.5

Other operating expenses	Dec. 31, 2019 € millions	Dec. 31, 2018 € millions
Amount reported on the Statement of Income	94.9	84.8
thereof:		
Expenses from the discounting of provisions	76.5	76.6

The net figure for other operating expenses and income came to € –58.4 million at the reporting date (previous year: € –36.3 million) and is principally due to the unwinding of the discount on provisions for pensions as well as to contractually agreed reimbursements of expenses for administrative services provided in connection with portfolios synthetically transferred to EAA.

30. Income and Expenses Relating to Different Accounting Periods

A total of € –496.1 million (previous year: € –141.4 million) in expenses relating to different accounting periods was incurred in the 2019 fiscal year, resulting in particular from the recovery of taxes in connection with dividend arbitrage transactions.

Income relating to different accounting periods was reported in the amount of € 0.7 million (previous year: € 18.3 million).

31. Extraordinary Result

Portigon AG reported an extraordinary result of € 5.5 million (previous year: € 5.4 million).

The result is largely attributable to the reversal of provisions in connection with the company's restructuring.

32. Taxes on Income and Revenues

	1. 1.–31. 12. 2019 € millions	1. 1.–31. 12. 2018 € millions
Amount reported on the Statement of Income	–294.0	–94.5
thereof:		
domestic operations	–293.8	–112.0
foreign operations	–0.2	17.5

The income tax expense of € 294.0 million incurred in the 2019 fiscal year (previous year: € 94.5 million) is attributable to income taxes from Germany for previous years of € 291.5 million and results mainly from the recovery of taxes on dividend payments, including solidarity surcharge thereon, which may have been credited in previous years without justification in connection with dividend arbitrage transactions. Current income taxes from Germany amounted to € 2.3 million, and the foreign branches generated current tax expense of € 0.2 million.

Other Information

33. Contingent Liabilities

Contingent Liabilities and Other Commitments

	Dec. 31, 2019 € millions	Dec. 31, 2018 € millions
Liabilities from guarantees and indemnity agreements	7.9	11.2

34. Off-Balance-Sheet Items

Provision of Collateral for Own Liabilities

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

	Dec. 31, 2019 € millions	Dec. 31, 2018 € millions
Pledged pension liability insurance policies for hedging of pension and similar obligations	47.9	46.9
Own securities pledged to other banks or customers	11.8	49.0
Own securities assigned or pledged to central banks	–	8.0
Total assets pledged	59.7	103.9

Outsourcing

In addition to the maintenance, operation and development of the IT infrastructure and applications, Portigon AG has outsourced a number of banking activities. These are principally services relating to loan administration, operations including security settlement, regulatory reporting and risk services. Portigon AG outsources activities and processes only after performing a detailed profitability and risk study. In addition to stability in operations, our aim in outsourcing is to be more efficient and to cut costs on a sustainable basis. All outsourcing satisfies the requirements of § 25b of the German Banking Act (KWG) and MaRisk. We regularly review our outsourcing procedures for potential risks and adjust the procedures as needed.

35. Other Financial Obligations

Deposit Insurance and Other Insurance Mechanisms

Portigon AG is a member of the German Savings Banks Association (DSGV) and makes contributions to the security reserve (guarantee fund) of the Landesbanken and Girozentralen. This protection scheme is connected to the insurance scheme of the Sparkassen-Finanzgruppe, which is officially recognised as a deposit guarantee scheme in accordance with § 43 of the German Act on Deposit Insurance (EinSiG).

The insurance scheme of the Sparkassen-Finanzgruppe consists of eleven funds belonging to the regional savings banks and giro associations, the security reserve (guarantee fund) of the Landesbanken and Girozentralen and the security fund of the Landesbausparkassen, which together form a system of joint liability. There are rules and regulations governing the relationships between regional and national funds which provide for offsetting in cases where coverage is claimed (so-called overflow agreements). Based on the current legal environment, on the assumption that there will be no further cases in which coverage is claimed and on the contribution system of the security reserve (guarantee fund), Portigon AG, having completed the transfer of the imputable sums to the affiliated fund, had no additional funding obligation at the end of the 2019 fiscal year, will not have one for the foreseeable future and will not have to make additional contributions until further notice.

Other Contingent Liabilities

The deficit resulting from indirect pension obligations not carried on the balance sheet within the meaning of Article 28 (2) of the Introductory Act to the German Commercial Code (EGHGB) was € 169.7 million (previous year: € 147.7 million).

Portigon AG has rental and leasing obligations and other obligations totalling € 62.9 million (previous year: € 124.8 million). The agreements have residual maturities of a maximum of six years.

36. Forward Transactions/Derivatives

With reference to Note 3, the derivatives transferred to EAA by means of a risk transfer agreement during the transformation in 2012 and the corresponding compensation claims and liabilities 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). Further subsequent measurement at fair value beyond December 31, 2014 was decided against. Since then, derivatives and corresponding compensation claims and liabilities have been measured at amortised cost, the basis of which is the fair value most recently determined at December 31, 2014. As there are no open positions entailing a settlement risk or currency, interest rate and/or other market price risks, no disclosures pursuant to § 36 of the Ordinance Regarding Accounting for Banks and Financial Services Institutions (RechKredV) are made. Given the economic situation at EAA, a credit risk with regard to these derivatives held in trust is insignificant due to its low probability of occurrence.

With the change in Portigon AG's business model in 2012, the range of approved products decreased significantly. The product categories presented below exclusively relate to derivative transactions whose risks were not transferred to EAA under a risk transfer agreement.

These involve the following product categories:

- Products based on interest rates
- Products based on exchange rates

At the balance sheet date, the total volume in nominal terms of derivative transactions that were not transferred to EAA under a risk transfer agreement was € 1.3 billion (previous year: € 3.0 billion).

OTC Products, thereof:	Nominal Values		Positive Market Values		Negative Market Values	
	Dec. 31, 2019 € millions	Dec. 31, 2018 € millions	**Dec. 31, 2019 € millions**	Dec. 31, 2018 € millions	**Dec. 31, 2019 € millions**	Dec. 31, 2018 € millions
Products based on interest rates	1,066	2,391	288	649	33	142
Products based on exchange rates	254	563	30	31	–	4
Total derivatives	1,320	2,954	318	680	33	146

The market values shown in the table are calculated subject to an overnight indexed swap (OIS) adjustment of € 0.1 million, which is calculated as the difference arising from the discounting of the net present values (NPVs) with LIBOR and EONIA curves.

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

Nominal Amounts	Products Based on Interest Rates		Products Based on Share Prices and Other Prices	
	Dec. 31, 2019 € millions	Dec. 31, 2018 € millions	**Dec. 31, 2019 € millions**	Dec. 31, 2018 € millions
Residual maturity				
– up to 3 months	250	381	177	488
– 3 months to 1 year	182	268	–	–
– 1 to 5 years	310	1,223	–	–
– more than 5 years	324	519	77	75
Total	1,066	2,391	254	563

37. Remuneration of the Governing Bodies

	2019 € millions	2018 € millions
Total remuneration of the Managing Board	0.6	0.7
fixed	0.6	0.7
performance-based	–	–
departure-related	–	–
from holding supervisory board seats at Group subsidiaries	–	–
Total remuneration of former Managing Board members and their survivors	5.9	5.7
Total remuneration of Supervisory Board members	0.1	0.1
fixed	0.1	0.1
performance-based	–	–
performance-based with long-term incentive effects	–	–
Pension provisions for Managing Board members who actively served during the fiscal year[1]	3.4	2.9
Pension provisions for former Managing Board members and their survivors	109.5	106.1

[1] before offsetting against the related plan assets

The members of the Supervisory Board were credited total remuneration of € 73,000 in the 2019 fiscal year (previous year: € 72,000), which was paid out in the following fiscal year. In addition, members received a total of € 6,000 (previous year: € 13,000) in reimbursement of their out-of-pocket expenses.

Remuneration of the Members of the Managing Board

	Period	Fixed remune-ration[1] €	Performance-based remuneration €	Remuneration with long-term incentive effects €	Remuneration from seats at Group subsidiaries €	Total remuneration €	Obligation/ present value of pension commitments as of Dec. 31, 2019[2] €	Additions to/ subtractions from pension commitments in 2019 €
Seyfert, Frank	1. 1. – 31. 12. 2019	333,650	–	–	–	333,650	2,224,150	232,143
Stemper, Dr. Peter	1. 1. – 31. 12. 2019	233,735	–	–	–	233,735	1,146,743	207,298
Total Managing Board	1. 1. – 31. 12. 2019	567,385	–	–	–	567,385	3,370,893	439,441

[1] including non-cash compensation, taxes and the employer portion of social security contributions
[2] accounted for only in accordance with HGB, figures determined based on pension entitlements arising from members' length of service in the company

Remuneration of the Members of the Supervisory Board

	Period	Fixed remuneration €	Performance-based remuneration €	Total remuneration €
Brockhaus, Ernst-Albrecht	1. 1. – 31. 12. 2019	15,000	–	15,000
Forst, Eckhard	1. 1. – 31. 12. 2019	20,000	–	20,000
Hock, Gudrun	1. 1. – 31. 12. 2019	10,000	–	10,000
Huth, Jutta M.	1. 1. – 31. 12. 2019	10,000	–	10,000
Möbius, Christian	1. 1. – 31. 12. 2019	10,000	–	10,000
Subtotal		65,000	–	65,000
Lump-sum reimbursement of out-of-pocket expenses				5,700
Value-added tax on amounts paid				8,227
Total				78,927

38. Loans to Members of the Governing Bodies

No advances or loans were granted to members of the Managing Board or Supervisory Board of Portigon AG.

39. Audit Fees

	2019 € millions	2018 € millions
Auditing the annual financial statements	0.5	0.5
Miscellenaneous reports and opinions	0.1	0.0
Total	0.6	0.5

In addition to the expenses for statutory audits, the audit fees include the expenditure for the audit of the compliance of specific contractual agreements with the stipulations of Germany's Financial Market Stabilisation Authority (FMSA) and for the reporting in connection with the risk monitoring of the security reserve (guarantee fund) of the Landesbanken and Girozentralen.

40. Number of Employees

The average number of employees in 2019 was as follows:

	Male	Female	Total 2019	Total 2018
Domestic companies/branches	41	42	83	104
Foreign companies/branches	13	9	22	32
Total	54	51	105	136

41. Shareholdings in Portigon AG

Shareholders	Investment Quota	
	Dec. 31, 2019 %	Dec. 31, 2018 %
State of North Rhine-Westphalia	69.49	69.49
NRW.BANK	30.51	30.51
Total	100.00	100.00

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

42. Seats Held by Members of the Managing Board

In 2019, no members of the Managing Board of Portigon AG were chairmen or members of a large corporation’s supervisory body within the meaning of § 340a of the German Commercial Code (HGB).

43. Seats Held by Employees

Seats held by employees of Portigon AG

In 2019, no employees were chairpersons or members of a large corporation’s supervisory body within the meaning of § 340a (4) No. 1, in conjunction with § 267 (3), of the German Commercial Code (HGB).

44. Governing Bodies of Portigon AG

Portigon AG Managing Board

Dr. Peter Stemper
Chairman of the Managing Board

Frank Seyfert
Member of the Managing Board

Barbara Glaß
Member of the Managing Board
Since April 1, 2020

Portigon AG Supervisory Board

Eckhard Forst
Chairman
Chairman of the Managing Board
NRW.BANK
Düsseldorf

Ernst-Albrecht Brockhaus
Deputy Chairman
Banker
Munich

Gudrun Hock
Consultant
Düsseldorf

Jutta M. Huth
Banker
Portigon AG
Düsseldorf

Christian Möbius
Lawyer
Cologne

45. Shareholdings

List of shareholdings in accordance with § 285 No. 11 and § 340a (4) No. 2 of the German Commercial Code (HGB):

No.	Name	Place	Stake in %	Voting Rights in %[1]	Currency Code	Share Capital € thousands	Result € thousands
1	Portigon Europe (UK) Holdings Limited[3]	London, United Kingdom	100.00		GBP	40.05	18.57
2	Portigon Finance Curaçao N.V.	Willemstad, Curaçao	100.00		EUR	262.52	216.52
3	Portigon Property Services Limited[2 3]	St. Helier, Jersey	100.00		GBP	5.55	5.55
4	Portigon Versorgungskasse GmbH	Düsseldorf	100.00		EUR	25.00	0.00
5	Treuhand- und Finanzierungsgesellschaft für Wohnungs- und Bauwirtschaft mit beschränkter Haftung, Treufinanz	Düsseldorf	65.41	66.37	EUR	1,435.40	–265.95

[1] Insofar as this deviates from the stake in the capital.
[2] Indirectly held.
[3] Data as of Dec. 31, 2018

Düsseldorf, August 3, 2020

Portigon AG
The Managing Board

Dr. Peter Stemper Barbara Glaß Frank Seyfert

46. Country-by-Country Reporting as at December 31, 2019 Pursuant to § 26a of the German Banking Act (KWG)

The requirements for country-by-country reporting in accordance with EU Directive 2013/36/EU (Capital Requirements Directive, CDR IV) were transposed into German law with § 26a of the German Banking Act (KWG).

Portigon AG's country-by-country reporting discloses, specifying by EU Member State and by third country in which it has a branch, the following information for the 2019 fiscal year: the revenues generated, profit or loss before taxes, taxes on income and revenues as well as the number of employees on a full-time equivalent basis. The figure given for revenues is the profit or loss on ordinary activities reported in the HGB annual financial statements including other taxes before administrative expenses as well as risk provisions.

Country	Revenues[1]	Profit or Loss before Taxes[1]	Taxes on Income and Revenues[1]	Number of Full-Time Employees
Germany	–245.3	–295.7	–293.8	72
UK	4.2	–1.7	–	7
USA	14.3	9.0	–0.2	9

[1] all figures in € millions

Name	Nature of Activities	Place of Business/ City	Country
Portigon AG, Düsseldorf branch	Credit institution	Düsseldorf	Germany
Portigon AG, London branch	Credit institution	London	UK
Portigon AG, New York branch	Credit institution	New York	USA

As a consequence of the 2008 financial market crisis, Portigon AG received various public subsidies as part of the EU state aid procedure. At the balance sheet date, subsidies of this nature still existed in the form of silent contributions to capital by FMS and the State of North Rhine-Westphalia in the amount of € 639.8 million. Please refer to Note 21 for more information.

Independent Auditor’s Report

We have issued the following auditor’s report on the annual financial statements and management report:

“Independent Auditor’s Report

To Portigon AG

Report on the Audit of the Annual Financial Statements and of the Management Report

Audit Opinions

We have audited the annual financial statements prepared by Portigon AG, which comprise the balance sheet as at December 31, 2019, the statement of income for the fiscal year from January 1, 2019 to December 31, 2019 and the notes to the annual financial statements, including a summary of the accounting policies. In addition, we have audited management report of Portigon AG for the fiscal year from January 1, 2019 to December 31, 2019.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to institutions and, in compliance with German accepted accounting principles, give a true and fair view of the assets, liabilities, and financial position of the company as at December 31, 2019, and of its financial performance for the fiscal year from January 1 to December 31, 2019, and

- the accompanying management report as a whole provides an appropriate view of the company’s position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § 322 (3) Sentence 1 of the German Commercial Code (Handelsgesetzbuch – HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Annual Financial Statements and of the Management Report” section of our auditor’s report. We are independent of the company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the fiscal year from January 1 to December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

Recognition and Measurement of the Provision in Connection with Taxes on Dividend Payments Arising from Dividend Arbitrage Transactions That May Have Been Charged without Justification

Reasons for the Determination as a Key Audit Matter

In the reporting period, the managing board utilised a portion of the provision for uncertain liabilities that had been formed in preceding years in connection with taxes on dividend payments arising from dividend arbitrage transactions that may have been charged without justification to pay arrears on previously charged taxes on dividend payments, including solidarity surcharge thereon, for the years 2006 and 2007, including interest. Furthermore, based on new findings, an addition was made to the provision for uncertain liabilities in connection with taxes on dividend payments arising from dividend arbitrage transactions that may have been charged without justification (including solidarity surcharge thereon plus interest).

Recognition and measurement of the provision for taxes on dividend payments arising from dividend arbitrage transactions that may have been charged without justification is an important area in which management makes discretionary decisions. The recognition and calculation of this provision is subject to considerable uncertainties because a variety of assumptions must be made, for example in the assessment of the existence of objective and subjective facts for the charging of taxes on dividend payments, including solidarity surcharge thereon, without justification, and regarding factors of influence, particularly with respect to the estimate of facts relating to the statute of limitations, as well as the continuously developing opinion of the courts and the administrative agencies on the charging of taxes on dividend payments arising from dividend arbitrage transactions. Minor changes in the assessments and assumptions may lead to a significant change in the level of the provision considered necessary on its merits and in terms of the amount.

Given the assumptions to be made and the factors of influence associated with uncertainties and discretion referred to above, the recognition and measurement of the provision in connection with taxes on dividend payments arising from dividend arbitrage transactions that may have been charged without justification is regarded as complex, which means there is an increased risk of the provision formed not being adequate. In view of this situation and the materiality for the assets, liabilities, financial position and financial performance, the matter is determined to be a key audit matter.

Audit Approach

We asked the managing board, designated employees and representatives of the law firm commissioned by the bank in connection with the issue about their approaches and the assumptions made and evaluated any records submitted to us, especially the notifications received from the tax authorities in December 2019 regarding the recovery of taxes on dividend payments, including solidarity surcharge thereon, charged for the years 2006 and 2007 and a draft report submitted by the tax authorities on the determination of taxes. In addition, we obtained a letter of acknowledgement from the law firm commissioned concerning this matter. Moreover, we analysed the minutes of the meetings of the managing board, the managing board's reports to the supervisory board, the minutes of the meetings of the supervisory board and other pertinent records based on information available on the stage of the investigation.

Our substantive audit procedures focused on the managing board's estimate of the level of the provision considered necessary on its merits and in terms of the amount, in line with prudent business judgement. Specifically, we reproduced the key assumptions on the basis of which the provisions were formed, such as the scope of the relevant transactions, the existence of objective and subjective facts for the charging of taxes on dividend payments, including solidarity surcharge thereon, without justification, the information collected internally and externally and possible bases of legal claims, as well as the calculation of the amount of the provision.

In relation to the assumption made when estimating the amount of the provision that further possible recoveries for taxes on dividend payments, including solidarity surcharge thereon, plus interest that can be deduced from a draft report submitted by the tax authorities on the determination of taxes are time-barred, we compared and assessed the arguments of the managing board with the statements made by the law firm engaged by the bank, taking into account the opinion of the courts and administrative agencies.

The conclusions drawn by the managing board based on the information available to the bank in relation to the investigation into individual former managing board members of WestLB and the classification of the opinion of the courts and the administrative agencies on the charging of taxes on dividend payments arising from dividend arbitrage transactions were also acknowledged.

We incorporated our tax experts in our audit procedures.

Our audit procedures did not lead to any reservations relating to the recognition and measurement of the provision in connection with taxes on dividend payments arising from dividend arbitrage transactions that may have been charged without justification.

Reference to Related Disclosures

For the disclosures provided by the bank concerning the recognition and measurement of the provision in connection with taxes on dividend payments arising from dividend arbitrage transactions that may have been charged without justification, please refer to Note "18. Provisions" in the notes to the balance sheet and to Note "28. Interest Paid", Note 30. "Income and Expenses Relating to Different Accounting Periods" and Note 32. "Taxes on Income and Revenues" in the notes to the income statement.

Other Information

The supervisory board is responsible for the "Report of the Supervisory Board". Otherwise, the executive directors are responsible for the other information. The other information comprises the overview entitled "Locations", which we obtained prior to the date of our auditor's report. In addition, the other information comprises the sections of the 2019 Annual Report made available to us probably after the date of this auditor's opinion: "Report of the Supervisory Board" and "Corporate Governance at Portigon AG".

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to institutions and that the annual financial statements, in compliance with German accepted accounting principles, give a true and fair view of the assets, liabilities, financial position, and financial performance of the company. In addition, the executive directors are responsible for such internal control as they have determined necessary in accordance with German accepted accounting principles to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless actual or legal conditions require otherwise.

Furthermore, the executive directors are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the company's financial reporting process for the preparation of the annual financial statements and of the statement management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions; the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the overriding of internal controls;

- obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems;

- evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures;

- conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern; if we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to be able to continue as a going concern;

- evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the company in compliance with German accepted accounting principles;

- evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the company's position it provides;

- perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the shareholders' meeting on April 3, 2019. We were engaged by the supervisory board on July 29, 2019. We have been the auditor of Portigon AG without interruption since the 2003 fiscal year.

We declare that the audit opinions contained in this auditor's report are consistent with the additional report to the supervisory board pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Alexander Vogt."

Düsseldorf, August 4, 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Vogt	Eckert
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(German Public Auditor)

Report of the Supervisory Board

The 2019 fiscal year, like the preceding years, was dominated by the downsizing of Portigon AG in accordance with the conditions set by the European Commission in 2011. Total assets fell by 12.2 % to € 4.3 billion, while the average number of employees over the year declined from 114 (full-time equivalent) at the end of 2018 to 88 (full-time equivalent) at December 31, 2019.

Outside Germany, Portigon AG now only conducts business at its branches in London and New York. The projects being implemented to close the last two foreign locations are on schedule.

The investigation launched by the Düsseldorf Public Prosecutor's Office in connection with dividend arbitrage transactions of the former WestLB shaped the Supervisory Board's work again in the 2019 fiscal year.

No changes were made to the composition of the Supervisory Board in the 2019 fiscal year.

In cooperation with the Managing Board, the Supervisory Board discussed in particular the dismantling of the Bank's operations and the ongoing investigation at length during its four meetings and made all required decisions on these matters.

Supervision and Advising of Management

The Supervisory Board held a total of four meetings in the 2019 fiscal year on April 3, June 26, September 25 and December 11. At these meetings it discussed supervisory issues with the Managing Board, advised the Managing Board, supervised its management, adopted the necessary resolutions and actively supported the company within the scope of the tasks required of supervisory boards by law.

The Supervisory Board performed its duties in relation to the supervision and advising of the Managing Board in full keeping with the statutory provisions as well as the Bank's Articles and Bylaws. To fulfil these tasks, the Managing Board provided the Supervisory Board with detailed reports on a continuous basis. All important aspects of planning, the course of business, company management and strategy, particularly the business, risk and IT strategy, as well as material events and transactions, were covered. Decisions and transactions requiring the Supervisory Board's approval were presented to the Supervisory Board and a decision was made. The Chairman and Deputy Chairman of the Supervisory Board and the Chairman of the Managing Board also regularly discussed current issues and Managing Board decisions.

At its meeting on April 3, 2019, the Supervisory Board adopted the 2018 annual financial statements. After the auditors had reported on the results of their audit, the Supervisory Board resolved on the Report of the Supervisory Board for 2018 and the Corporate Governance Report in the 2018 Annual Report of Portigon AG and proposed to the Shareholders' Meeting to ratify the acts of the members of the Managing Board and the Supervisory Board for the 2018 fiscal year. In addition, the Supervisory Board gave its recommendation to the Shareholders' Meeting to appoint Ernst & Young GmbH as the company's external auditors for the 2019 fiscal year.

The Supervisory Board concerned itself with audit-related issues based on the annual and quarterly reporting by Internal Audit in accordance with § 25c of the German Banking Act (KWG), addressed risk-related items on the basis of the quarterly risk situation reports at its meetings and dealt with Managing Board affairs. In agreement between the Supervisory Board, owners and the banking supervisory authority, Dr. Peter Stemper assumed additional responsibilities at NRW.BANK from April 1, 2019 while retaining his position as Chairman of the Managing Board of Portigon AG.

The Bank’s Remuneration Committee also reported to the Supervisory Board at its meeting on April 3, 2019 on compliance with the regulatory requirements for the remuneration system. In addition, the Supervisory Board resolved – as required – on loan applications pursuant to § 13 of the German Banking Act (KWG).

Furthermore, the Supervisory Board deliberated at length on regulatory changes at a training event on December 11 given by an expert in banking supervisory law.

Audit of the Subordinated Status Report

Pursuant to § 313 (1) of the German Stock Corporation Act (AktG), Ernst & Young GmbH, as the statutory auditor, submitted an audit report on the report on relations with affiliated enterprises for the period from January 1 to December 31, 2019. The external auditors confirmed that the factual statements made in the report on relations with affiliated enterprises prepared by the Managing Board of Portigon AG in accordance with § 312 of the German Stock Corporation Act (AktG) are accurate and that the consideration given by the company for the transactions specified in the report was not unreasonably high or that any disadvantages the company suffered were compensated.

The Supervisory Board’s review of the report on relations with affiliated enterprises prepared by the Managing Board of Portigon AG in accordance with § 312 of the German Stock Corporation Act (AktG) did not raise any concerns. The Supervisory Board endorsed the audit performed by the external auditors. Based on this and the final results of its own examination, the Supervisory Board is raising no objections to the concluding statement of the Managing Board on the company’s relations with affiliated enterprises.

Audit and Adoption of the Annual Financial Statements for the 2019 Fiscal Year

Due to the ongoing investigations in connection with dividend arbitrage transactions of the former WestLB, the Managing Board and Supervisory Board agreed to delay the adoption of the annual financial statements for the 2019 fiscal year until the third quarter of 2020.

In view of this situation, at its meeting on August 19, 2020 the Supervisory Board adopted the annual financial statements for the 2019 fiscal year and gave its recommendation to the Shareholders’ Meeting to ratify the acts of the Managing Board and Supervisory Board for the 2019 fiscal year at its meeting on the same day and to appoint Ernst & Young GmbH as the external auditors for the 2020 fiscal year.

Supervisory Board members received copies, in a timely manner, of the Bank's annual financial statements and management report prepared by the Managing Board, the external auditors' reports on the annual financial statements, as well as the annual summary report prepared by Internal Audit pursuant to the Minimum Requirements for the Internal Audit Function of Banks. The external auditors, Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, attended the audit-related meeting of the Supervisory Board. The external auditors audited the annual financial statements including the management report for the 2019 fiscal year. The annual financial statements and management report of Portigon AG, as well as the bookkeeping on which they are based, received the external auditors' unqualified audit opinion.

The Supervisory Board examined the financial statements and the management report and discussed the reports of the external auditors on the findings of their audit. Based on the final result of this review, no objections were raised.

Düsseldorf, August 19, 2020

The Chairman of the Supervisory Board

Eckhard Forst

Corporate Governance at Portigon AG

The recognition that responsible and transparent corporate governance requires coherent corporate governance standards is firmly rooted in the corporate philosophy of Portigon AG. Until December 31, 2019, Portigon AG therefore based its corporate governance on the German Corporate Governance Code (the "Code"), as amended, even though only listed German companies are required to comply with the Code. Compliance with the Code has thus been anchored accordingly in the rules of procedure for the Managing Board and Supervisory Board.

The Code reflects essential statutory regulations for the management and supervision of German listed companies and contains nationally and internationally recognised standards for good and responsible governance. In addition, we comply with Article 4.5.1 Paragraphs 2 and 3 of the Public Corporate Governance Code of the State of North Rhine-Westphalia.

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

The new version of the Code adopted on December 16, 2019 entered into force with the announcement in the Federal Gazette on March 20, 2020.

In view of the fact that the Bank's downsizing is already well advanced, it no longer makes sense for Portigon AG to continue its voluntary recognition of the structurally redesigned Code. For the 2019 fiscal year, Portigon AG therefore voluntarily applied the Code as amended on February 7, 2017 for the last time, compliance with which in the reporting period is the subject of this report.

As from January 1, 2020, Portigon AG will comply with all of the regulations in the Public Corporate Governance Code of the State of North Rhine-Westphalia and the related obligations. The rules of procedure of the Managing Board and Supervisory Board have consequently been amended with effect from January 1, 2020.

Remuneration Report

Portigon AG has aligned its remuneration system with the "Principles for Sound Compensation Practices". Portigon AG discloses the remuneration of its Managing Board in the notes to the annual financial statements as well as in a remuneration report as part of this Corporate Governance Report which also describes the principles of the remuneration system for Managing Board members. Moreover, the remuneration report includes information about the composition and amount of remuneration paid to the Supervisory Board.

In all other respects, the publication of information relating to the remuneration paid to members of the governing bodies is handled pursuant to the German Financial Market Stabilisation Fund Act (FMStFG) and the agreements entered into with Germany's Financial Market Stabilisation Authority (FMSA, formerly SoFFin).

Remuneration of the Managing Board

The Supervisory Board determines the remuneration for the Managing Board members of Portigon in accordance with the statutory requirements, including the FMStFG and the Regulation Concerning Supervisory Requirements for Remuneration Systems at Institutions (InstitutsVergV), as well as FMSA requirements. This applies, in particular, to salaries and other components of remuneration, including pension commitments. Employment agreements detailing the remuneration are concluded with the members of the Managing Board.

The fixed component, a basic remuneration not directly linked to performance, is paid on a monthly basis as salary. It is typically reviewed when employment agreements are renewed. It also includes non-cash compensation awarded in customary amounts. Essentially, this covers the payment of insurance premiums, to the extent such benefits are part of the member's employment agreement.

As fringe benefits Portigon AG has granted its Managing Board members organisational job-related benefits such as reimbursement of their expenses for annual medical check-ups and business trips.

In order to stabilise the Bank, the former WestLB AG entered into extensive agreements with SoFFin which took effect on November 1, 2009. In this context, the total monetary remuneration for each Managing Board member has been capped at € 500,000 per year since November 1, 2009.

Remuneration of the Supervisory Board

The appropriate remuneration of the Supervisory Board of Portigon AG, which members receive after the close of the fiscal year, was set by a resolution of the Shareholders' Meeting held on August 31, 2012.

The company provides the Supervisory Board members with a lump-sum reimbursement of their out-of-pocket expenses and reimburses any value-added tax that individual Supervisory Board members pay on their remuneration and out-of-pocket expenses, if they invoice the tax separately.

Remuneration of the Governing Bodies in 2019

The remuneration of the governing bodies of Portigon AG in the 2019 fiscal year was as follows:

	1. 1. – 31. 12. 2019 € millions	1. 1. – 31. 12. 2018 € millions
Total remuneration of the Managing Board	0.6	0.7
– fixed	0.6	0.7
– performance-based	–	–
– departure-related	–	–
– from holding supervisory board seats at Group subsidiaries	–	–
Total remuneration of former Managing Board members and their survivors	5.9	5.7
Total remuneration of Supervisory Board members	0.1	0.1
– fixed	0.1	0.1
– performance-based	–	–
– performance-based with long-term incentive effects	–	–
Pension provisions for Managing Board members who actively served during the fiscal year	3.4	2.9
Pension provisions for former Managing Board members and their survivors[1]	109.5	106.1

[1] before offsetting against the related plan assets

In accordance with the Code as amended on February 7, 2017, the individual remuneration of the Managing Board members is published in the table below. The amounts shown were granted for the reporting year and also flowed during this period. In 2019, no payments for preceding years were made.

Benefits received	Frank Seyfert		Dr. Peter Stemper	
	Managing Board Member		Managing Board Chairman	
	2019	2018	2019	2018
Fixed remuneration[1]	325,008.00 €	318,756.00 €	218,757.00 €	350,004.00 €
Fringe benefits	8,642.00 €	11,583.00 €	14,978.43 €	13,386.77 €
Total	333,650.00 €	330,339.00 €	233,735.43 €	363,390.77 €
One-year variable remuneration	0.00 €	0.00 €	0.00 €	0.00 €
Multi-year variable remuneration	0.00 €	0.00 €	0.00 €	0.00 €
Plan description (term)	–	–	–	–
Total	0.00 €	0.00 €	0.00 €	0.00 €
Pension expense[2]	232,143.00 €	270,601.00 €	207,298.00 €	168,587.00 €
Total remuneration	565,793.00 €	600,940.00 €	441,033.43 €	531,977.77 €

[1] rounding difference
[2] figures determined based on pension entitlements arising from members' length of service in the company

Declaration of Compliance 2019

The Managing Board and Supervisory Board of Portigon AG herewith declare for 2019 that Portigon AG complied with the recommendations or voluntarily applied principles of the "Government Commission of the German Corporate Governance Code" as amended on February 7, 2017, as well as Article 4.5.1 Paragraphs 2 and 3 of the Public Corporate Governance Code of the State of North Rhine-Westphalia, with the following exceptions:

- **Article 2.3.2 Sentence 2 of the Code** sets out that the Managing Board shall be responsible for the appointment of a proxy to exercise shareholders' voting rights in accordance with their instructions; the proxy should also be reachable during the Shareholders' Meeting. Given that it has only two shareholders, Portigon AG has decided that it is not necessary to appoint a proxy.

- **Article 3.10 of the Code** sets out that the Corporate Governance Report shall be published in connection with the Corporate Governance Statement (§ 289a of the German Commercial Code [HGB]). The requirement does not apply to Portigon AG, which has therefore decided not to publish a Corporate Governance Statement and to continue to publish our Corporate Governance Report as part of the Annual Report, immediately following the Report of the Supervisory Board.

- **Article 4.1.5 of the Code** sets out that the Managing Board shall lay down targets for increasing the share of women in the two management levels below the Managing Board. Owing to the special situation of Portigon AG, which is being systematically downsized, the Managing Board has not laid down any targets in this respect.

- **Article 4.2.1 Sentence 2 of the Code** recommends making the allocation of duties among individual Managing Board members part of the rules of procedure governing the work of the Managing Board. Portigon AG continues to refrain from specifying fixed responsibilities for its Managing Board members in the rules of procedure in order to ensure maximum flexibility, especially in light of the fact that the Managing Board again only comprised two members in 2019. The duties of the two Managing Board members are regulated in an organisational chart.

- **Article 4.2.5 of the Code** sets out that Managing Board remuneration shall be disclosed in the notes to the financial statements or the management report and that the principal features of the Managing Board remuneration system shall be described in a remuneration report, which is part of the management report. At Portigon AG, the remuneration report does not form part of the management report, but is part of the Corporate Governance Report, which is a separate part of the Annual Report.

- **Article 5.1.2 Paragraph 1 Sentence 3 of the Code** stipulates that when appointing Managing Board members, the Supervisory Board must take diversity into account and shall therefore determine targets for the share of female Managing Board members. In view of the systematic downsizing of the company and given the small number of Managing Board members, the Supervisory Board of Portigon AG has not determined any targets in this respect.

- **Article 5.3.1 of the Code** sets out that depending on the specific circumstances of the company and the number of Supervisory Board members, the Supervisory Board shall form committees with relevant specialist expertise. This recommendation was complied with until the end of 2015. Considering the already well-advanced downsizing of the company and the fact that the Supervisory Board likewise comprised only five members in 2019, the Supervisory Board once again decided against forming any committees in the 2019 fiscal year. The corresponding duties are performed by the full Supervisory Board itself. Similarly, the Supervisory Board has likewise decided against forming an Audit Committee with defined duties as well as a Nomination Committee – as suggested in **Article 5.3.2 and Article 5.3.3 of the Code,** respectively.

- The recommendations formulated in **Article 5.3.2 Paragraph 2 et seq. of the Code** regarding the appointment of the auditor, which comprise in particular putting the audit engagement out to tender, monitoring of the auditor's independence, definition of additional services rendered by the auditor, the issuance of the audit engagement, the determination of the key audit areas and the fee agreement by the Audit Committee, are performed at Portigon AG by the Supervisory Board because – as already outlined in Article 5.3.1 – Portigon AG has not formed an Audit Committee since the end of 2015.

- Portigon AG does not comply with the recommendation of **Article 5.4.1 Paragraph 2 et seq. of the Code,** which stipulates that a profile of skills and expertise shall be prepared for the entire Board and an age limit and a regular limit to Supervisory Board members' terms of office set. When suitable candidates are being selected, care is taken that the skills needed to perform the activity are present. Furthermore, Portigon AG believes that a Supervisory Board member's age and term of office are not appropriate eligibility criteria. In addition, the Supervisory Board shall lay down a target for the share of women in the Supervisory Board. Owing to the special situation of Portigon AG, which is being systematically downsized, the Supervisory Board has not laid down any targets in this respect.

- Further, **Article 5.4.1 Paragraph 5 of the Code** stipulates, among other things, that when making its proposals to the Shareholders' Meeting concerning the election of new members to the Supervisory Board, the Supervisory Board shall satisfy itself that the respective candidates are able to devote the expected amount of time required and that the proposal for a candidate shall be accompanied by a curriculum vitae, providing information on the candidate's relevant knowledge, skills and experience. These recommendations are complied with in the proposals made to the Shareholders' Meeting. However, as the group of owners is small, Portigon AG does not provide an overview of the main activities of all Supervisory Board members that is published on the company's website and is required to be updated annually.

- Portigon AG also takes diversity into account in the selection of members of the Supervisory Board in compliance with the **Public Corporate Governance Code** of the State of North Rhine-Westphalia **(Article 4.5.1 Paragraph 2)**. During the 2019 fiscal year, women made up 40 % of the Supervisory Board of Portigon AG. The quota recommended in Article 4.5.1 Paragraph 3 of the Public Governance Code has thus been reached.

- As the group of owners of Portigon AG is small, the dates for the Shareholders' Meetings in accordance with **Article 6.2 of the Code** are not published on the company's website.

- Following the transfer of the interests in Portigon Financial Services GmbH to Erste Abwicklungsanstalt and due to the insignificance (both individually and collectively) of the subsidiaries included in the basis of consolidation to date, Portigon AG is exempted from the requirement to prepare consolidated financial statements as of the 2016 fiscal year in accordance with § 290 (5) of the German Commercial Code (HGB). For this reason, starting with the 2016 reporting year, only the annual financial statements of Portigon AG will be prepared; here, the company adheres to the statutory publication deadlines for the single-entity financial statements. In this respect, **Article 7.1.2 Sentence 3 of the Code,** which sets out that the consolidated financial statements shall be made publicly accessible within 90 days from the end of the fiscal year and interim reports shall be made publicly accessible within 45 days from the end of the reporting period, is no longer relevant for Portigon AG.

The declaration of compliance is available in German on the web at www.portigon-ag.de/Unternehmensinformationen/Corporate Governance.

Düsseldorf, August 19, 2020

Representing the Supervisory Board	Representing the Managing Board
Eckhard Forst	Dr. Peter Stemper

Locations

Domestic

Portigon AG
Völklinger Straße 4
40219 Düsseldorf
Tel. + 49 211 826-01
Fax + 49 211 826-2010

Foreign

London
Woolgate Exchange
25 Basinghall Street
London EC2V 5HA
Tel. + 44 20 7020-2000
Fax + 44 20 7020-2002

New York
589 8th Avenue
2nd Floor
New York, NY 10018
Tel. + 1 212 852-6000
Fax + 1 212 852-6300

Company Information/Addresses

Portigon AG
Völklinger Straße 4
40219 Düsseldorf
Tel. + 49 211 826-01
www.portigon-ag.de

Communications
Völklinger Straße 4
40219 Düsseldorf
Tel. + 49 211 826-71455
info@portigon-ag.de

The Annual Report is also available in German and can be inspected on our website at portigon-ag.de.

Production
valido marketing services GmbH

Disclaimer
Reservation regarding forward-looking statements

This Annual Report contains forward-looking statements on our business and earnings performance based on our current planning, 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 trends in the capital markets. 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
Völklinger Straße 4
40219 Düsseldorf
Tel. + 49 211 826-01

www.portigon-ag.de