Half-Yearly Financial Report

June 30, 2019
Portigon AG

Portigon
Aktiengesellschaft

Portigon AG Key Figures

Portigon AG: Key Figures Year-on-Year Comparison

	1.1.–30.6.2019	1.1.–30.6.2018	Change absolute	%
Performance figures in € millions				
Net interest income	3.5	–34.1	37.6	>100.0
Net commission income	0.7	1.7	–1.0	–58.8
Other operating expenses and income	–31.8	–28.4	–3.4	–12.0
Personnel expenses	–12.7	–14.2	1.5	10.6
Other administrative expenses	–19.1	–21.1	2.0	9.5
Provisions for credit risks	0.4	3.3	–2.9	–87.9
Result of securities and participations	0.0	0.0	–	–
Extraordinary result	0.0	–0.2	0.2	>100.0
Profit/loss before income tax	–59.1	–92.9	33.8	36.4
Taxes on income and revenues	–26.0	–99.6	73.6	73.9
Profit/loss after taxes	–85.1	–192.5	107.4	55.8

	June 30, 2019	Dec. 31, 2018	Change absolute	%
Balance sheet figures in € billions				
Total assets	4.7	4.9	–0.2	–4.1
Business volume	4.7	5.0	–0.3	–6.0
Credit volume	1.5	1.8	–0.3	–16.7
Equity capital	1.3	1.4	–0.1	–7.1
Bank regulatory capital ratios (CRR/CRD IV)				
Common Equity Tier 1 capital in € billions	0.1	0.2	–0.1	–50.0
Tier 1 capital in € billions	0.2	0.3	–0.1	–33.3
Own funds in € billions	0.8	0.9	–0.1	–11.1
Risk-weighted assets in € billions	0.1	0.3	–0.2	–66.7
Common Equity Tier 1 capital ratio in %	80.8	65.1	15.7	24.1
Tier 1 capital ratio in %	112.4	84.7	27.7	32.7
Total capital ratio in %	525.5	285.7	239.8	83.9
Employees				
Number of employees	110	120	–10	–8.3
Full-time equivalent	104	114	–10	–8.8

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

Contents

Interim Management Report as of June 30, 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 € 4.7 billion at June 30, 2019 (previous year: € 4.9 billion). Of that amount, € 0.5 billion (previous year: € 0.6 billion) is attributable to trust assets and € 0.2 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 is predominantly due to the incremental transfer in rem to EAA of holdings only synthetically transferable in 2012 as well as to final maturities.

In view of the investigations by the Public Prosecutor's Office in connection with dividend arbitrage transactions of the former WestLB, the provisions that had been recognised as a precautionary measure in the 2016 annual financial statements and increased in 2018 for taxes on dividend payments, including solidarity surcharge thereon, that may have been credited in previous years without justification were increased by a further € 16.5 million at June 30, 2019 as a precaution.

Altogether, Portigon AG recorded a loss before taxes of € 59.1 million (previous year: € 92.9 million) and a net loss for the year of € 85.1 million (previous year: € 192.5 million).

Taking into account the net loss for the year, the Tier 1 capital ratio is 112.4% (previous year: 84.7%), whilst the total capital ratio is 525.5% (previous year: 285.7%). Risk-weighted assets stand at € 0.1 billion (previous year: € 0.3 billion).

Structural Changes

The downsizing of Portigon AG is still progressing according to plan. This can be seen, for example, in the further reduction of total assets from € 4.9 billion at December 31, 2018 to € 4.7 billion at June 30, 2019.

Following the closure of the branch in Madrid in the previous year, Portigon AG now only has branches in London and New York. These locations are also being systematically downsized. The efforts of Portigon AG to clean up the balance sheets of these branches by eliminating the remaining local transactions are already so far advanced that closure has been initiated at these locations as well.

The formal investigation launched by the Düsseldorf Public Prosecutor's Office in June 2016 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 ongoing contact with the investigating authorities and is cooperating fully in clarifying the matter. In this connection, Portigon AG had already taken the precaution of recognising provisions in the 2016 annual financial statements as well as in the half-yearly financial statements as at June 30, 2018 for taxes on dividend payments, including solidarity surcharge thereon, that may have been credited in previous years without justification. Based on further new information from the ongoing investigation, the provisions were increased by € 16.5 million at June 30, 2019 as a precautionary measure.

Statement of Income

Portigon's performance in the 2019 fiscal year continued to be shaped by the company's transformation, i.e. the downsizing of Portigon AG in accordance with the conditions set by the European Commission.

Portigon AG: Income Statement from January 1 to June 30, 2019

	1.1.– 30.6.2019 € millions	1.1.–30.6.2018 € millions	Change € millions	%
Net interest income	3.5	–34.1	37.6	>100.0
Net commission income	0.7	1.7	–1.0	–58.8
Other operating expenses and income	–31.8	–28.4	–3.4	–12.0
Personnel expenses	–12.7	–14.2	1.5	10.6
Other administrative expenses	–19.1	–21.1	2.0	9.5
Provisions for credit risks	0.4	3.3	–2.9	–87.9
Result of securities and participations	0.0	0.0	–	–
Extraordinary result	0.0	–0.2	0.2	>100.0
Profit/loss before income tax	–59.1	–92.9	33.8	36.4
Taxes on income and revenues	–26.0	–99.6	73.6	73.9
Profit/loss after taxes	–85.1	–192.5	107.4	55.8

Net Interest Income

Net interest income amounted to € 3.5 million (previous year: € –34.1 million). The negative figure for the previous year had been mainly attributable to the increase in a tax provision for additional interest on arrears incurred on tax for dividends that may have been credited without justification in connection with dividend arbitrage transactions of the former WestLB.

Other Operating Expenses/Income

The net figure for other operating expenses and income came to € –31.8 million at the reporting date (previous year: € –28.4 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.

General Administrative Expenses

As expected, general administrative expenses decreased again in the first half of 2019, falling to € 31.8 million from € 35.3 million in the previous year. The headcount reduction in particular was systematically continued, with the number of employees decreasing from 139 at June 30, 2018 to 110.

Taxes on Income and Revenues

The income tax expense of € 26.0 million at June 30, 2019 (previous year: € 99.6 million) is attributable to income taxes from Germany of € 25.8 million and current income taxes relating to the New York branch of € 0.2 million. The taxes from Germany mainly result from the increase in the provision recognised as a precautionary measure 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.

Balance Sheet and Business Volume

As in the previous year, Portigon AG's balance sheet at June 30, 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. However, the credit and market risks associated with these assets and liabilities have been transferred to EAA.

At June 30, 2019, Portigon AG had total assets and total equity and liabilities of € 4.7 billion (previous year: € 4.9 billion), of which € 0.5 billion was reported in the items trust assets and trust liabilities (previous year: € 0.6 billion). 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 has claims on banks in the amount of € 0.1 billion (previous year: € 0.1 billion), claims on customers in the amount of € 1.5 billion (previous year: € 1.8 billion), securities in the amount of € 1.2 billion (previous year: € 0.9 billion) and cash in the amount of € 1.3 billion (previous year: € 1.4 billion). EAA has guaranteed € 0.2 billion (previous year: € 0.3 billion) of these assets, most notably € 0.1 billion in claims on customers (previous year: € 0.2 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 € 4.7 billion (previous year: € 5.0 billion).

Assets

	June 30, 2019 € billions	Dec. 31, 2018 € billions
Cash/Liquid debt issues	1.3	1.4
Claims on banks	0.1	0.1
Claims on customers	1.5	1.8
Securities not held for trading	1.2	0.9
Equity investments in affiliated and non-affiliated companies	0.0	0.0
Trust assets	0.5	0.6
Tangible/Intangible assets	0.0	0.0
Other assets	0.1	0.2
Total assets	4.7	4.9

Liabilities

	June 30, 2019 € billions	Dec. 31, 2018 € billions
Liabilities to banks	0.1	0.0
Liabilities to customers	0.7	0.7
Trust liabilities	0.5	0.6
Other liabilities	1.4	1.4
Subordinated liabilities/Profit participation capital	0.7	0.7
Equity capital	1.3	1.4
Total liabilities	4.7	4.9
Contingent liabilities	0.0	0.0
Business volume	4.7	5.0

Capital Ratios

The Tier 1 capital ratio at June 30, 2019 was 112.4% (previous year: 84.7%). 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 capital ratio came to 80.8%, compared with 65.1% in the previous year. The total capital ratio increased from 285.7% to 525.5%.

The increase in the capital ratios is mainly due to the sharp drop in risk-weighted assets as a consequence of the progressive downsizing of the portfolio.

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

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

Risk Report

The goal of Portigon AG's risk management system is to ensure that the risk profile is aligned with the institution's risk-bearing capacity 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).

As a consequence of the risk inventory process taken at the end of 2018 and the change in the Bank's overall risk profile, strategic risk, operational risk and pension risk are now classified as material risks for purposes of the Minimum Requirements for Risk Management (MaRisk). All other types of risk are considered immaterial.

Based on the change in the risk profile, both the risk-bearing capacity concept and the risk reporting were revised in the first half of 2019:

- Portigon AG complies with the regulations governing banking supervision, which stipulate that following the introduction of the new guidelines on risk-bearing capacity traditional going-concern approaches will be valid until further notice, and continues to apply the going-concern approach as its primary steering framework. In addition, the liquidation approach will still be considered annually for the purposes of fulfilling regulatory requirements.

- In both the going-concern approach and the liquidation approach, regulatory own funds are taken as the starting point for determining the risk-taking potential.

- Beyond standard quantification of the tax risk in connection with the tax provisions, the planning process and stress testing, the strategic risk is currently not quantified in the risk-bearing capacity, but is covered by the significant unallocated sources of risk-bearing capacity. Operational risk and pension risk, which continue to be classified as material risks, are still quantified and in the going-concern approach are weighed against the risk appetite.

- This is set at € 150 million (previously € 400 million), leaving significant sources of risk-bearing capacity to cover strategic risk and risks that are not considered material.

- As a result of the validation, the risk potential for pension risk in the stress scenario of the going-concern approach has been raised to € 85 million (previously € 80 million). This increases the carrying amount in the base scenario to € 68 million (previously € 64 million).

- Similar to counterparty credit risk, which is still defined as an immaterial risk, market price risk and HGB discount rate risk, which are no longer classified as material risks, are now considered in the liquidation approach only. After validation, the deduction item for the HGB discount rate risk amounts to € 3 million (previously € 10 million).

Strategic 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. A substantial increase in the risk exposure was not observed in the first half of 2019.

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 ongoing current investigations by the Public Prosecutor's Office into dividend arbitrage transactions. For Portigon AG, the economic capital charge for operational risks at June 30, 2019 was € 7.1 million in the base scenario (previous year: € 15.0 million) and € 8.8 million in the stress scenario (previous year: € 18.7 million).

Even under the assumptions made in the stress scenario, Portigon AG's risk-bearing capacity is not in jeopardy (twelve-month risk horizon).

Opportunities Report

There were no significant changes in the opportunities and risks in the reporting period. Please refer to the explanations in the Opportunities Report in the 2018 Annual Report.

Events Occurring after June 30, 2019

No significant events occurred after June 30, 2019 that would be required to be disclosed in the notes pursuant to § 285 No. 33 of the German Commercial Code (HGB).

Outlook

The structural changes within Portigon AG will continue to have an effect on the company's cash flows, financial condition and results of operations in subsequent years. Going forward, Portigon AG's total assets will continue to be reduced.

In summary, it should be noted that both the further transformation process and the aforementioned operational risks 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 still proceeding on the assumption that for the 2019 fiscal year Portigon AG will show a loss in the low hundreds of millions of euros. The occurrence of additional restructuring expenses and/or possible expenses arising from tax issues depends on the further course of the transformation and on the ongoing investigations by the Düsseldorf Public Prosecutor's Office.

Portigon AG Balance Sheet at June 30, 2019

Assets

			30.6.2019	31.12.2018
	€	€	€	€ thousands
1. Cash				
a) balances with central banks		1,339,834,616.52		1,436,823
thereof:			1,339,834,616.52	1,436,823
with Deutsche Bundesbank				
€ 1,052,277,299.79 (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		8,762,027.77		10,436
			8,762,027.77	10,436
3. Claims on banks				
a) payable on demand		45,158,410.23		25,304
b) other		25,377,205.20		30,421
			70,535,615.43	55,726
4. Claims on customers			1,466,948,732.27	1,751,864
thereof:				
loans to public authorities and entities				
under public law				
€ 1,466,156,525.58 (2018: € 1,749,341 thousand)				
5. Bonds and other interest-bearing				
securities				
a) bonds and notes				
aa) of public institutions	815,270,021.17			869,502
thereof:				
eligible as collateral for				
Deutsche Bundesbank advances				
€ 754,710,291.68 (2018: € 769,558 thousand)				
ab) of other issuers	390,778,219.10			0
thereof:		1,206,048,240.27		869,502
eligible as collateral for				
Deutsche Bundesbank advances				
€ 390,778,219.10 (2018: € 0 thousand)				
			1,206,048,240.27	869,502
		To be carried forward:	4,092,129,232.26	4,124,350

Assets

	€	€	30.6.2019 €	31.12.2018 € thousands
		Carried forward:	4,092,129,232.26	4,124,350
6. Equity investments in affiliated companies			1,695,349.11	1,695
thereof:				
in financial services institutions				
€ 920,000.00 (2018: € 920 thousand)				
7. Trust assets			501,219,174.75	632,499
8. Tangible assets			209,354.16	336
9. Other assets			21,234,594.15	61,290
10. Deferred items			109,682,345.06	120,580
Total assets			4,726,170,049.49	4,940,751

Portigon AG Balance Sheet at June 30, 2019

Liabilities

	€	€	30.6.2019 €	31.12.2018 € thousands
1. Liabilities to banks				
a) payable on demand		4,270,451.59		12,416
b) with agreed maturity or				
period of notice		73,095,510.82		1,961
			77,365,962.41	14,377
2. Liabilities to customers				
a) other liabilities				
aa) payable on demand	12,075,335.96			5,945
ab) with agreed maturity or				
period of notice	655,429,520.39			729,040
		667,504,856.35		734,985
			667,504,856.35	734,985
3. Trust liabilities			501,219,174.75	632,499
4. Other liabilities			27,242,455.28	29,135
5. Deferred items			83,685,200.32	84,130
6. Provisions				
a) for pensions and similar obligations				
after offsetting against plan assets		696,550,291.75		688,131
b) tax reserve		164,943,732.59		224,561
c) other		469,572,407.42		409,478
			1,331,066,431.76	1,322,171
7. Subordinated liabilities			697,395,083.94	697,665
8. Profit participation capital			10,473,335.09	10,473
thereof:				
due in less than two years				
€ 10,473,335.09 (2018: € 10,473 thousand)				
		To be carried forward:	3,395,952,499.90	3,525,436

Liabilities

	€	€	30.6.2019 €	31.12.2018 € thousands
		Carried forward:	3,395,952,499.90	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		1,214,264,018.43		1,214,264
c) retained loss		−382,695,476.29		−297,598
			1,330,217,549.59	1,415,315
Total liabilities			4,726,170,049.49	4,940,751
1. Contingent liabilities				
a) liabilities from guarantees and				
indemnity agreements		9,745,058.03		11,240
			9,745,058.03	11,240

Portigon AG Income Statement

for the Period January 1 to June 30, 2019

	€	€	1.1.–30.6.2019 €	1.1.–30.6.2018 € thousands
1. Interest from				
a) lending and money market transactions	125,879,317.66			35,827
b) interest-bearing securities and				
book-entry securities	3,224,029.78			6,140
		129,103,347.44		41,967
2. Negative interest from				
a) lending and money market transactions		2,022,095.74		2,590
3. Interest paid		123,577,579.87		73,454
			3,503,671.83	–34,078
4. Current income from				
a) equity investments in non-affiliated companies		0.00		6
b) equity investments in affiliated companies		21,250.66		0
			21,250.66	6
5. Commission income		1,813,620.49		2,569
6. Commission paid		1,139,441.21		873
			674,179.28	1,696
7. Other operating income			14,009,827.21	13,063
8. General administrative expenses				
a) personnel expenses				
aa) wages and salaries	6,139,680.75			7,956
ab) compulsory social security				
contributions and expenses	6,556,370.89			6,200
for pensions and other		12,696,051.64		14,156
employee benefits				
thereof:				
for pensions				
€ 4,771,874.49 (2018: € 4,321 thousand)				
b) other administrative expenses		19,084,659.69		20,993
			31,780,711.33	35,149
9. Depreciation and value adjustments				
on tangible and intangible assets			38,613.06	96
10. Other operating expenses			45,407,418.30	41,186
11. Income from revaluation of loans and				
certain securities as well as from the				
reversal of loan loss provisions			351,413.37	3,252
		To be carried forward:	–58,666,400.34	–92,490

	€	€	1.1.–30.6.2019 €	1.1.–30.6.2018 € thousands
		Carried forward:	–58,666,400.34	–92,490
12. Income from revaluation of equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets			398.38	50
13. Profit or loss on ordinary activities			–58,666,001.96	–92,440
14. Extraordinary expenses		37,478.93		178
15. Extraordinary result			–37,478.93	–178
16. Taxes on income and revenues		25,971,303.25		99,586
17. Other taxes not shown under item 10		422,908.67		297
			26,394,211.92	99,883
18. Net loss for the year			–85,097,692.81	–192,502
19. Loss carried forward from the previous year			297,597,783.48	267,444
20. Retained loss			–382,695,476.29	–459,946

Selected Explanatory Notes at June 30, 2019

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

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

2. Preparation of the Half-Yearly Financial Statements

As an issuer in the primary market segment of over-the-counter (OTC) trading on the Düsseldorf Stock Exchange, Portigon is required by the general terms and conditions of BÖAG Börsen AG for over-the-counter trading on the Düsseldorf Stock Exchange to prepare a half-yearly financial report whose content at the very minimum complies with the requirements of § 115 (3) and (4) WpHG.

These half-yearly statements are part of the half-yearly financial report for Portigon AG and are prepared in accordance with the provisions of the German Commercial Code (HGB), the Ordinance Regarding Accounting for Banks and Financial Services Institutions (RechKredV) and the relevant provisions of the German Stock Corporation Act (AktG). In the preparation of the selected explanatory notes, German Accounting Standard GAS 16 (Half-Yearly Financial Reporting), which Portigon AG basically does not have to apply, is applied in accordance with the recommendation of this standard.

Pursuant to the general terms and conditions of BÖAG Börsen AG for over-the-counter trading on the Düsseldorf Stock Exchange, an auditor’s opinion is not required to be issued for this half-yearly financial report. The report was accordingly not audited in accordance with § 316 et seq. of the German Commercial Code (HGB) or reviewed by external auditors pursuant to § 115 (5) WpHG.

3. Accounting Policies

These half-yearly financial statements of Portigon AG were prepared using the same accounting policies as the annual financial statements at December 31, 2018, with the following exception.

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 paid arising from the transfer is frequently attributable to interest rates. Moreover, because the accrued interest at the time of the early 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.

Notes to the Balance Sheet

4. Claims on Banks

	June 30, 2019 € millions	Dec. 31, 2018 € millions
Payable on demand	45.2	25.3
With residual maturities of		
– up to 3 months	1.3	2.7
– more than 5 years	24.1	27.7
Book value	70.5	55.7

The increase of € 19.9 million in claims on banks that are payable on demand largely results from the transfer in rem of receivables that were only guaranteed by EAA in the past and required to be disclosed as claims on customers up until their transfer.

5, Claims on Customers

	June 30, 2019 € millions	Dec, 31, 2018 € millions
With residual maturities of		
– up to 3 months	31.8	43.0
– between 3 months and 1 year	26.1	34.4
– between 1 and 5 years	133.4	127.2
– more than 5 years	1,275.7	1,547.3
Book value	1,466.9	1,751.9
thereof:		
– to affiliated companies	3.0	1.3

The decrease in claims on customers essentially results from an early partial unwinding of a cross-border lease transaction in connection with the downsizing and loans transferred to EAA.

6. Bonds and Other Interest-Bearing Securities

	June 30, 2019 € millions	Dec, 31, 2018 € millions
Bonds and notes of public-sector issuers	815.3	869.5
Bonds and notes of other issuers	390.8	–
Book value	1,206.0	869.5

The increase in loans and bonds of other issuers results from the acquisition of bonds of two Landesbanks.

7. Trust Assets

	June 30, 2019 € millions	Dec. 31, 2018 € millions
Other assets	501.2	632.5
Book value	501.2	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 mainly due to maturities and the retrospective transfer in rem (novation) to EAA of a portion of these derivatives.

8. Other Assets

The decrease in other assets results in a partial amount of € 34.9 million from the cancellation of insurance policies intended for financing the deferred compensation of employees at the New York branch.

9. Liabilities to Banks

	June 30, 2019 € millions	Dec. 31, 2018 € millions
– payable on demand	4.3	12.4
With residual maturities of		
– up to 3 months	73.1	2.0
Book value	77.4	14.4

The increase in liabilities to banks is largely attributable to a repurchase agreement in which Portigon AG as the borrower received a cash deposit of USD 80.2 million for the securities sold with a repurchase obligation.

10. Liabilities to Customers

	June 30, 2019 € millions	Dec. 31, 2018 € millions
– payable on demand	12.1	5.9
With residual maturities of		
– up to 3 months	35.2	12.5
– between 3 months and 1 year	–	42.7
– between 1 and 5 years	11.3	7.7
– more than 5 years	608.9	666.2
Book value	667.5	735.0
thereof:		
– to affiliated companies	24.0	23.5

11. Trust Liabilities

	June 30, 2019 € millions	Dec. 31, 2018 € millions
Liabilities to customers	100.0	151.6
Other liabilities	401.2	480.9
Book value	501.2	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 mainly due to maturities and the retrospective transfer in rem (novation) to EAA of a portion of these derivatives.

12. Provisions

The decrease in tax provisions of € 59.6 million mainly results from a voluntary payment of € 91.7 million made to the tax authorities for possible claims 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. The decrease is mainly offset by a further addition to the provision for this situation in the amount of € 16.5 million.

13. Subordinated Liabilities

	June 30, 2019 € millions	Dec. 31, 2018 € millions
Book value	697.4	697.7
thereof:		
– to affiliated companies	505.2	506.4

Notes to the Income Statement

14. Interest Income

The increase in net interest income of € 87.1 million to € 129.1 million (previous year: € 42.0 million) is mostly attributable to the proceeds of € 85.0 million from the early unwinding of an interest rate swap. Please refer to the note on interest paid below for more information.

15. Interest Paid

The increase in interest paid of € 50.1 million to € 123.6 million (previous year: € 73.5 million) is mainly due to additions made to a provision for impending losses on onerous contracts arising from an early transfer of liabilities from a cross-border lease transaction of € 83.0 million planned at the reporting date. Please refer to Note 3 for information on disclosure under interest paid. The interest paid is offset by interest income of € 85.0 million arising from the early unwinding of an interest rate swap ahead of the intended transfer.

The transfer of interest-bearing portfolios to EAA had an offsetting effect on the aforementioned increase in interest paid.

16. Taxes on Income and Revenues

The income tax expense of € 26.0 million at June 30, 2019 (previous year: € 99.6 million) is attributable to income taxes from Germany of € 25.8 million and current income taxes relating to the New York branch of € 0.2 million. The taxes from Germany mainly result from the increase in the provision recognised as a precautionary measure 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.

Düsseldorf, August 20, 2019

Portigon AG
The Managing Board

Dr. Peter Stemper Frank Seyfert

Publications

The Half-Yearly Financial Report and the Annual Report 2018 are also available in German. In case of doubt the German version shall be binding.

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

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Disclaimer

Reservation regarding forward-looking statements

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

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