Annual Report 2021

Portigon
Aktiengesellschaft

Portigon Key Figures

Key Figures Year-on-Year Comparison

	1. 1. – 31. 12. 2021	1. 1. – 31. 12. 2020	Change absolute	%
Performance figures in € millions				
Net interest income	13.2	–101.6	114.8	>100.0
Net commission income	0.1	0.1	–	–
Other operating expenses and income	–52.5	–51.1	–1.4	–2.7
Personnel expenses	–13.3	–24.9	11.6	46.6
Other administrative expenses	–30.8	–40.4	9.6	23.8
Provisions for credit risks	–	2.1	–2.1	–100.0
Result of securities and participations	–0.2	–0.4	0.2	50.0
Extraordinary result	11.0	18.0	–7.0	–38.9
Profit/loss before income tax	–72.6	–198.3	125.7	63.4
Taxes on income and revenues	21.8	–402.6	424.4	>100.0
Profit/loss after taxes	–50.8	–600.9	550.1	91.5

	Dec. 31, 2021	Dec. 31, 2020	Change absolute	%
Balance sheet figures in € millions				
Total assets	2,175.3	2,847.9	–672.6	–23.6
Business volume	2,178.7	2,853.5	–674.8	–23.6
Credit volume	1,126.7	1,162.4	–35.7	–3.1
Equity capital	345.5	236.3	109.2	46.2
Bank regulatory ratios according to CRR/CRD IV				
Common Equity Tier 1 capital in € millions	168.8	33.6	135.2	>100
Tier 1 capital in € millions	171.0	38.7	132.3	>100
Own funds in € millions	634.0	521.0	113.0	21.7
Risk-weighted assets in € millions	32.7	132.0	–99.3	–75.2
Common Equity Tier 1 capital ratio in %	516.1	25.5	490.6	>100
Tier 1 capital ratio in %	522.7	29.3	493.4	>100
Total capital ratio in %	1,938.3	394.8	1,543.5	>100
Employees				
Number of employees	60	73	–13	–17.8
Full-time equivalent	56	68	–12	–17.8

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, 2021

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 2021 fiscal year.

Total assets of Portigon AG came to € 2,175.3 million at December 31, 2021 (previous year: € 2,847.9 million). Of that amount, € 50.7 million (previous year: € 151.3 million) is attributable to trust assets and € 4.7 million (previous year: € 4.2 million) 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 23.6% is predominantly due to payment of the amounts stipulated in the amended tax assessments received at the end of 2020 in connection with the dividend arbitrage transactions of the former WestLB and the gradual transfer in rem to EAA of portfolios only synthetically transferable in 2012 as well as to premature terminations and final maturities of transactions. A capital increase implemented on March 25, 2021 had an opposite effect; please refer to Note 19 for more information.

The net figure for net interest income, net commission income and the other operating result came to € –39.2 million for Portigon AG (previous year: € –152.6 million). The improvement is mainly attributable to the comparison with the previous year's 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 further headcount reduction and the lower addition to pension provisions arising in part from this reduced personnel expenses by as much as € 11.6 million to € 13.3 million in the fiscal year. Overall, administrative expenses were reduced by € 21.2 million, from € 65.3 million to € 44.1 million.

Portigon AG is showing an extraordinary result of € 11.0 million (previous year: € 18.0 million).

Overall, Portigon AG is reporting a result before taxes of € –72.6 million (previous year: € –198.3 million) and a net loss for the year of € 50.8 million (previous year: € 600.9 million). The net loss for the year is partly offset by loss participation on the silent contributions to capital (€ 26.0 million) pursuant to the respective terms of issue. The remaining amount (€ 24.8 million), together with the loss carried forward from the previous year, is being reported as a retained loss (€ 489.8 million).

Portigon AG's Tier 1 capital ratio is 522.7% (previous year: 29.3%). The total capital ratio rose to 1,938.3% (previous year: 394.8%), mainly due to the capital increase and the sharp decrease in risk-weighted assets. Risk-weighted assets stand at € 32.7 million, down from € 132.0 million in the previous year.

The return on investment in accordance with § 26a (1) of the German Banking Act (KWG) is –2.34% (previous year: –21.10%).

Structural Changes

The year under review was again dominated 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 can be seen in particular in the development of total assets. These fell by 23.6% in 2021 to € 2,175.3 million (previous year: € 2,847.9 million), mainly due to the payment of the amounts stipulated in the tax assessments in connection with the dividend arbitrage transactions of the former WestLB, the gradual transfer in rem to EAA of the net assets of the former WestLB that were initially only synthetically transferable in the previous years, 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.

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.

As a consequence of various amended assessments received from the Düsseldorf Tax Office in December 2020 in connection with dividend arbitrage transactions of the former WestLB, Portigon AG reported a net loss of € 600.9 million for the 2020 fiscal year. This loss represented more than 50% of the share capital existing at the end of 2019. In light of this situation, the shareholders' meeting of Portigon AG resolved a capital increase against cash contributions of approximately € 160 million on March 25, 2021. The new shares were subscribed solely by the State of North Rhine-Westphalia. The State of North Rhine-Westphalia and Portigon AG also agreed a structured credit facility of approximately € 190 million with a term ending on December 31, 2025. This gave Portigon AG the opportunity for further capital increases up until the end of 2025 subject to the fulfillment of certain conditions and taking this credit facility into account.

The net proceeds from the capital increase will be used to increase Portigon AG's regulatory capital. The liquidity from the capital increase and the structured credit facility will ensure the company's further downsizing in implementation of the European Commission's decision of December 20, 2011.

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, 2021.

After the London banking licence had been returned in the previous year, an application to return the New York banking licence was filed with the US banking regulators in the 2021 fiscal year.

Employees

The number of employees decreased from 73 (68 full-time equivalent) to 60 (56 full-time equivalent). 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 is reporting a result before taxes of € –72.6 million (previous year: € –198.3 million) and a net loss of € 50.8 million (previous year: € 600.9 million) for the 2021 fiscal year. Because of this, the silent contributions to 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, 2021

	1. 1. – 31. 12. 2021 € millions	1. 1. – 31. 12. 2020 € millions	Change € millions	%
Net interest income	13.2	–101.6	114.8	>100.0
Net commission income	0.1	0.1	–	–
Other operating expenses and income	–52.5	–51.1	–1.4	–2.7
Personnel expenses	–13.3	–24.9	11.6	46.6
Other administrative expenses	–30.8	–40.4	9.6	23.8
Provisions for credit risks	–	2.1	–2.1	–100.0
Result of securities and participations	–0.2	–0.4	0.2	50.0
Extraordinary result	11.0	18.0	–7.0	–38.9
Profit/loss before income tax	–72.6	–198.3	125.7	63.4
Taxes on income and revenues	21.8	–402.6	424.4	>100.0
Profit/loss after taxes	–50.8	–600.9	550.1	91.5
Loss carried forward from the previous year	–465.0	–379.3	–85.7	–22.6
Withdrawals from silent contributions to capital	26.0	515.2	–489.2	–95.0
Retained loss	–489.8	–465.0	–24.8	–5.3

Net Interest Income

The net interest income of Portigon AG amounting to € 13.2 million (previous year: € –101.6 million) is mainly attributable to the promissory note loan from the State of North Rhine-Westphalia recognised under claims on customers and held for hedging pension obligations.

Net interest income also includes negative interest from lending and money market transactions of € –2.6 million (previous year: € –3.5 million).

Net Commission Income

Portigon AG’s net commission income amounts to € 0.1 million (previous year: € 0.1 million) and mostly stems from the trust business.

Other Operating Expenses and Income

At € –52.5 million, the balance of other operating expenses and income for Portigon AG is almost unchanged on the prior-year figure of € –51.1 million.

The balance is principally due to the interest cost on provisions for pensions in the amount of € 63.1 million. In particular, income from the reversal of other provisions had an opposite effect in the fiscal year.

General Administrative Expenses

General administrative expenses fell by € 21.2 million to € 44.1 million (previous year: € 65.3 million).

Personnel expenses decreased by € 11.6 million to € 13.3 million (previous year: € 24.9 million). As a result of the transformation of Portigon AG, the average number of employees over the year declined from 83 to 64.

Other administrative expenses of Portigon AG came to € 30.8 million (previous year: € 40.4 million).

Provisions for Credit Risks

No expenses for provisions for credit risks were incurred in the year under review (previous year: € 2.1 million).

Result of Financial Investments

Financial investments yielded a net result of € –0.2 million (previous year: € –0.4 million) resulting in particular from a write-down.

Extraordinary Result

Portigon AG's extraordinary result amounted to € 11.0 million (previous year: € 18.0 million) and is mainly attributable to the reversal of provisions for restructuring.

Taxes on Income and Revenues

The income of € 21.8 million reported in the 2021 fiscal year (previous year: € –402.6 million) is attributable to income taxes from Germany for previous years of € 20.9 million and largely results from completed tax audits. There were no current income taxes from Germany, and the foreign branches generated current tax income of € 0.9 million.

Net Loss for the Year

Portigon AG is reporting a net loss of € 50.8 million for the 2021 fiscal year (previous year: € 600.9 million). 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, 2021 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, 2021, Portigon AG had total assets and total equity and liabilities of € 2,175.3 million, of which € 50.7 million was reported in the items trust assets and trust liabilities. These are investments in closed-end real estate funds that are held in trust.

In addition, Portigon AG still has claims on banks in the amount of € 36.8 million (previous year: € 42.8 million), claims on customers in the amount of € 1,086.5 million (previous year: € 1,114.0 million), securities in the amount of € 572.1 million (previous year: € 748.8 million) and cash/liquid debt issues in the amount of € 385.5 million (previous year: € 761.6 million). EAA has guaranteed € 4.7 million (previous year: € 4.2 million) of these assets.

The business volume, which includes contingent liabilities in addition to balance sheet items, totalled € 2,178.7 million at Portigon AG (previous year: € 2,853.5 million).

Assets

	Dec. 31, 2021 € millions	Dec. 31, 2020 € millions
Cash/liquid debt issues	385.5	761.6
Claims on banks	36.8	42.8
Claims on customers	1,086.5	1,114.0
Securities not held for trading	572.1	748.8
Equity investments in affiliated and non-affiliated companies	1.0	1.2
Trust assets	50.7	151.3
Tangible/intangible assets	0.0	0.1
Other assets	42.7	28.2
Total assets	2,175.3	2,847.9

Liabilities

	Dec. 31, 2021 € millions	Dec. 31, 2020 € millions
Liabilities to banks	–	0.1
Liabilities to customers	39.5	37.1
Trust liabilities	50.7	151.3
Other liabilities	1,219.9	1,903.1
Subordinated liabilities/Profit participation capital	519.7	520.0
Equity capital	345.5	236.3
Total liabilities	2,175.3	2,847.9
Contingent liabilities	3.4	5.6
Business volume	2,178.7	2,853.5

Credit Volume

The credit volume on the balance sheet was € 1,126.7 million at December 31, 2021 (previous year: € 1,162.4 million).

The amounts for claims on customers included therein were reduced by € 27.5 million in the fiscal year now ended to € 1,086.5 million (previous year: € 1,114.0 million).

	Dec. 31, 2021 € millions	Dec. 31, 2020 € millions
Claims on banks	36.8	42.8
Claims on customers	1,086.5	1,114.0
Contingent liabilities	3.4	5.6
Credit volume carried in the balance sheet	1,126.7	1,162.4

Securities Holdings

Portigon AG's securities portfolio totalled € 572.1 million at December 31, 2021 (previous year: € 748.8 million). Most of the items in this portfolio are bonds and other interest-bearing securities from public-sector issuers that are not guaranteed by EAA.

Liabilities to Banks and Customers

At December 31, 2021, liabilities to banks and customers at Portigon AG totalled € 39.5 million (previous year: € 37.2 million) 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/CRR II) 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/V, CRD IV/V).

The regulatory capital ratios shown below are based on the CRR/CRD regulations applicable on the relevant reporting date. Portigon's own funds recognised for regulatory purposes consist of the sum of Tier 1 capital and Tier 2 capital and were as follows at December 31, 2021:

Own Funds

	Dec. 31, 2021 € millions CRR/CRD after result for the year	Dec. 31, 2020 € millions CRR/CRD after result for the year
Common Equity Tier 1 capital (CET 1): instruments and reserves	168.8	33.6
Capital instruments and the related share premium accounts	658.6	498.6
thereof subscribed capital (shares)	658.6	498.6
thereof capital reserves/reserves from retained earnings (incl. profit/loss)	–489.8	–465.0
Regulatory adjustments to CET 1	–0.0	–0.0
Common Equity Tier 1 capital (CET 1)	168.8	33.6
Additional Tier 1 capital (AT 1): instruments	2.2	5.0
thereof instruments as defined by Article 484 (4) CRR that do not constitute state aid (silent contribution to capital – issued 2005)	2.2	5.0
Regulatory adjustments to AT 1	–	–
Additional Tier 1 capital (AT 1)	2.2	5.0
Tier 1 capital (T 1 = CET 1 + AT 1)	171.0	38.7
Tier 2 capital (T 2)	463.0	482.3
Own funds	634.0	521.0

At the reporting date, Tier 1 capital amounted to € 171.0 million, up € 132.3 million on the figure at December 31, 2020.

The increase is predominantly due to the € 160 million capital increase, to the offsetting effects of the distribution of the HGB loss for 2021 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 2021 under the currently applicable transitional arrangements (10%).

Common Equity Tier 1 capital rose from € 33.6 million to € 168.8 million due primarily to the capital increase and to the proportionate loss for 2021.

At December 31, 2021, the eligible capital of Portigon AG amounted to € 634.0 million, an increase of € 113.0 million year-on-year. In addition to the effects in the Tier 1 capital, this change 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 II. 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.

The subordinated liabilities are included in Tier 2 capital in the amount of € 461.1 million and met in accordance with the terms on which they were issued.

The following ratios were determined at December 31, 2021 on the basis of the eligible capital and taking into account the bottom line for the year:

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

	Dec. 31, 2021 € millions CRR/CRD after result for the year	Dec. 31, 2020 € millions CRR/CRD after result for the year
Risk-weighted assets		
Counterparty credit risks	17.5	16.8
Credit valuation adjustment (CVA)	2.2	0.6
Operational risks	13.0	44.5
Total risk exposure amount for position, foreign-exchange and commodities risks	–	70.0
Total risk-weighted assets	32.7	132.0
Capital ratios %		
Common Equity Tier 1 capital ratio	516.1	25.5
Tier 1 capital ratio	522.7	29.3
Total capital ratio	1,938.3	394.8

Portigon AG had risk-weighted assets of € 32.7 million at the reporting date, a decrease of € 99.2 million compared with December 31, 2020.

The counterparty credit exposures rose by € 0.7 million to € 17.5 million compared with the end of 2020. Here, the significant downsizing of the business compared with the previous year and the dissolution of the CCP default fund were slightly overcompensated by the effects of CRR II on the total exposure.

As at December 31, 2021, foreign exchange risk was below the threshold set by Article 351 CRR of 2% of own funds and therefore did not require equity backing. The decrease in the total risk exposure amount for foreign exchange risk was around € 70 million as against the previous year and is mainly attributable to the asset- and liability-side change in the volume of business that is denominated in USD.

Compared with the end of 2020, the CVA (credit valuation adjustment) charge for Portigon AG rose by € 1.5 million to € 2.2 million. Adjustments in methodology in CRR II were the main factor behind this change.

The € 31.5 million decrease in the operational risk exposure to € 13.0 million is attributable to negative gross income for the second consecutive year. As in the previous year, this results from the negative net interest income.

The Tier 1 capital ratio rose from 29.3% to 522.7%. 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 ratio came to 516.1% (previous year: 25.5%).

Against this backdrop, the total capital ratio rose from 394.8% to 1,938.3%.

Concluding Statement from the Subordinate Status Report

As at December 31, 2021, the State of North Rhine-Westphalia (NRW) held 76.90% of the shares of Portigon AG directly and 23.10% 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 2021, 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).

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, grounded in 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.

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 quarterly "Risk Situation Report", 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 report meets MaRisk requirements for risk reports.

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 covers the replacement of the current IT application landscape and the establishment of a new IT infrastructure. This essentially comprises the following aspects: reduction in the remaining holdings, return of banking licences, closing of branches, outsourcing of major activities, tax risks and business risk.

As significant portions of the strategic risk exposure are not quantified at present, this exposure is currently weighed against the unallocated risk cover amount 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 progressed further in 2021, for the most part according to plan. The number of transactions still reported on the balance sheet and partially requiring a licence has been significantly reduced. The credit licence was returned in November 2021, leading to the cessation of CRR status. Portigon is seeking to return other sub-licences.

Strategic risks also include risks in connection with the dividend arbitrage transactions of the former WestLB. Portigon AG's claim that it has a right to reimbursement from the EAA in relation to the expenses incurred in connection with these transactions was deemed justified by the Frankfurt Regional Court in September 2021. EAA has lodged an appeal against this ruling.

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 no 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/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 as well as risks that may arise from disputes with hybrid capital investors regarding the extent of loss participation.

The Operational Risk & Data Protection 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 & Data Protection unit. This ensures that the analysis, measurement, steering and monitoring of operational risks meet uniform standards of quality.

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

For the remainder of the downsizing process, the analysis and assessment of operational risks using instruments like the loss event database and risk self-assessment for bank processes and major outsourcing arrangements will be continued in order to 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 own funds 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 € 1 million and € 1.25 million, respectively, as per December 31, 2021 (previous year: € 3.6 million and € 4.5 million, respectively).

The identification of legal risks, which are considered a subset of operational risks, 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. 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 € 134 million (previously € 112 million) in the base scenario and to € 165 million (previously € 140 million) in the stress scenario in accordance with the resolution of the Managing Board on December 14, 2021.

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

Due to its close cooperation with the State of North Rhine-Westphalia, 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.

The 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 is 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 without any 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).

There are no counterparty credit exposures from the traditional lending business. Minor counterparty credit exposures remain from the guarantee business which were synthetically transferred to EAA and hedged through a guarantee from 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.

Capital Utilisation

Usage of Regulatory Capital

Portigon AG calculates its ratios according to the applicable CRR/CRD framework. CRD and CRR are the EU directives and EU regulations 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%.

Taking into account the additional capital buffer requirements under the German Banking Act (KWG) and the additional capital requirement (surcharge for interest rate risks in the banking book), the minimum requirements are 7.0% for the Common Equity Tier 1 ratio and 13.1% for the total capital ratio.

Portigon AG exceeded the minimum requirements at all times in 2021.

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, 2021 € millions after result for the year	Dec. 31, 2020 € millions after result for the year
Risk-weighted assets	32.7	132.0
Counterparty credit risks	17.5	16.8
Credit valuation adjustment (CVA)	2.2	0.6
Operational risks	13.0	44.5
Total risk exposure amount for position, foreign-exchange and commodities risks	–	70.0
Own funds	634.0	521.0
Total capital ratio in %	1,938.3	394.8
Tier 1 capital	171.0	38.7
Tier 1 capital ratio in %	522.7	29.3
Common Equity Tier 1 capital	168.8	33.6
Common Equity Tier 1 capital ratio in %	516.1	25.5

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 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 both the going-concern approach and the liquidation approach, regulatory capital is taken as the starting point for determining the 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 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 unallocated risk cover. 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 material operational risk and pension risk and the immaterial market price risk and counterparty credit risk. Operational risks and pension risk were determined the same way as the stress scenario in the going-concern approach. The regulatory interest rate shock was used for market price risk, while counterparty credit risks were derived from the regulatory capital. The total risk exposure was calculated as the sum of the individual risks. Strategic risk is also covered by the unallocated risk cover in the liquidation approach. In addition to determining the risk cover over a twelve-month period, a longer-dated analysis identifying the sources of risk cover through year-end 2023 was also performed.

In the going-concern approach, stress tests on the risk-bearing capacity were run on the operational risk and pension risk. 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. The risk appetite was sufficient to cover potential negative developments in 2021.

Inverse 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

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. Of the risks classified as material, pension risk and operational risk were weighted 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), whereas strategic risk is not quantified and is weighted directly against the unallocated sources of risk-bearing capacity.

Portigon AG exceeded the capital backing required by the CRR at all times in 2021.

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 after the Reporting Period

No significant events occurred after the close 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 further transformation process and the aforementioned 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 proceeding on the assumption that for the 2022 fiscal year Portigon AG will show a loss of € 80 to 100 million. The occurrence of additional restructuring expenses and possible expenses arising from risks materialising depends on the further course of the transformation and, among other things, on the development of pension obligations.

Portigon AG Balance Sheet as at December 31, 2021

Assets

	€	€	31. 12. 2021 €	31. 12. 2020 € thousands
1. Cash				
a) balances with central banks		385,488,684.00		747,704
thereof:			385,488,684.00	747,704
with Deutsche Bundesbank				
€ 385,488,684.00 (2020: € 746,414 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		0.00		13,854
			0.00	13,854
3. Claims on banks				
a) payable on demand		20,783,673.59		24,000
b) other		16,053,968.18		18,813
			36,837,641.77	42,813
4. Claims on customers			1,086,473,294.90	1,113,980
thereof:				
loans to public authorities and entities				
under public law				
€ 1,085,338,153.93 (2020: € 1,112,320 thousand)				
5. Bonds and other interest-bearing securities				
a) bonds and notes				
aa) of public institutions	565,546,624.79			748,825
thereof:				
eligible as collateral for				
Deutsche Bundesbank advances				
€ 520,223,418.44 (2020: € 708,643 thousand)				
ab) of other issuers	6,595,384.93			0
		572,142,009.72		748,825
			572,142,009.72	748,825
6. Equity investments in affiliated companies			955,348.23	1,150
thereof:				
financial services				
€ 180,000.00 (2020: € 375 thousand)				
7. Trust assets			50,668,012.00	151,315
8. Tangible assets			30,709.39	66
9. Other assets			24,118,763.58	4,880
10. Deferred items			18,597,201.47	23,307
Total assets			2,175,311,665.06	2,847,895

Liabilities

	€	€	31. 12. 2021 €	31. 12. 2020 € thousands
1. Liabilities to banks				
a) payable on demand		0.00		64
b) with agreed maturity or period of notice		0.00		0
			0.00	64
2. Liabilities to customers				
a) other liabilities				
aa) payable on demand	24,015.56			2,369
ab) with agreed maturity or period of notice	39,493,793.47			34,692
		39,517,809.03		37,061
			39,517,809.03	37,061
3. Trust liabilities			50,668,012.00	151,315
4. Other liabilities			59,536,654.74	626,549
5. Deferred items			18,910,603.91	23,878
6. Provisions				
a) for pensions and similar obligations after offsetting against plan assets		766,247,682.03		737,294
b) tax reserve		130,811,282.80		221,399
c) other		244,433,087.98		294,020
			1,141,492,052.81	1,252,712
7. Subordinated liabilities			519,695,598.48	520,015
8. Equity capital				
a) subscribed capital divided into				
Class A registered shares	658,649,024.01			498,649
Class B registered shares	0.00			0
		658,649,024.01		498,649
b) silent contributions to capital		176,628,672.97		202,605
c) retained loss		–489,786,762.89		–464,953
			345,490,934.09	236,301
Total liabilities			2,175,311,665.06	2,847,895
1. Contingent liabilities				
a) liabilities from guarantees and indemnity agreements		3,359,846.00		5,615
			3,359,846.00	5,615

Portigon AG Statement of Income

for the Period January 1 to December 31, 2021

	€	€	1. 1.–31. 12. 2021 €	1. 1.–31. 12. 2020 € thousands
1. Interest from				
a) lending and money market transactions	31,926,845.12			172,292
b) interest-bearing securities and				
book-entry securities	2,973,918.25			6,289
		34,900,763.37		178,580
2. Negative interest from				
a) lending and money market transactions		2,552,177.47		3,503
3. Interest paid		19,168,460.75		276,933
			13,180,125.15	–101,856
4. Current income from				
a) equity investments in affiliated companies		0.00		217
			0.00	217
5. Commission income		840,258.20		773
6. Commission paid		775,560.11		717
			64,698.09	56
7. Other operating income			34,877,351.74	22,994
8. General administrative expenses				
a) personnel expenses				
aa) wages and salaries	6,732,819.26			9,168
ab) compulsory social security				
contributions and expenses for				
pensions and other employee benefits	6,573,411.08			15,730
thereof:		13,306,230.34		24,898
for pensions				
€ 3,295,870.03 (2020: € 12,382 thousand)				
b) other administrative expenses		30,778,554.50		40,300
			44,084,784.84	65,197
9. Depreciation and value adjustments				
on tangible and intangible assets			24,373.95	78
10. Other operating expenses			88,650,671.01	72,386
		To be carried forward:	–84,637,654.82	–216,250

for the Period January 1 to December 31, 2021

	€	€	1. 1.–31. 12. 2021 €	1. 1.–31. 12. 2020 € thousands
		Carried forward:	–84,637,654.82	–216,250
11. Income from revaluation of loans and certain securities as well as from the reversal of loan-loss provisions			0.00	2,053
12. Write-downs and value adjustments on equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets			196,202.84	387
13. Profit or loss on ordinary activities			–84,833,857.66	–214,584
14. Extraordinary income		11,171,787.70		18,091
15. Extraordinary expenses		176,712.08		56
16. Extraordinary result			10,995,075.62	18,035
17. Taxes on income and revenues		–21,761,398.25		402,629
18. Other taxes not shown under item 10		–1,267,393.52		1,701
			23,028,791.77	404,330
19. Net loss for the year			–50,809,990.27	–600,880
20. Loss carried forward from the previous year			464,952,855.54	379,268
21. Withdrawals from silent contributions to capital			25,976,082.92	515,195
22. Retained loss			–489,786,762.89	–464,953

Notes to the Financial Statements at December 31, 2021

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 (HGB), the Accounting Ordinance for Banks and Financial Services Institutions (RechKredV) and the relevant provisions of the German Stock Corporation Act (AktG). 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 in the form of premiums and discounts from issues 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. Issued zero bonds are carried as liabilities at their issue price plus accrued interest 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 provision reserves formed in accordance with § 340f of the German Commercial Code (HGB).

Securities treated as fixed assets (long-term investments) are measured at cost. Any difference between 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. In case such securities are carried at a value higher than their current market value because of application of the modified lower of cost or market principle, the differences 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. Securities held in the liquidity reserve are measured strictly at the lower of cost or market value on the reporting date.

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 was a settlement of or legal release from the obligations or the obligations were transferred in rem to EAA, these derivatives and corresponding offsetting items had been required to be reported on Portigon AG's balance sheet. As a result, the derivatives and corresponding compensation claims and liabilities vis-à-vis EAA were reported as trust assets and trust liabilities pursuant to § 6 (1) of the Accounting Ordinance 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 was the fair value most recently determined at December 31, 2014. Over the course of the reporting year, the last of these OTC derivatives held in trust became due or were subsequently transferred in rem (by novation) to EAA.

The items held in trust for EAA had no effect on the statement of income since the income from these derivatives was to be passed on directly to EAA and the expenses from them were to be reimbursed by EAA. Income contributions from these derivatives and compensation items were 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 individual valuation 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. In accordance with a so-called loss-free valuation of interest-based banking book transactions, Portigon AG 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 recognition of a provision pursuant to § 340a in conjunction with § 249 (1) Sentence 1 No. 2 of the German Commercial Code (HGB) (provision for contingent losses from pending transactions). When forming this provision, the accounting practice statement issued by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW) concerning the loss-free valuation of interest-based banking book transactions 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 are 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. 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. On April 30, 2021, the IDW's technical committee on corporate reporting (Fachausschuss Unternehmensberichterstattung, FAB) adopted Accounting Practice Statement IDW RH FAB 1.021 entitled "Handelsrechtliche Bewertung von Rückstellungen für Altersversorgungsverpflichtungen aus rückgedeckten Direktzusagen" (Measurement under commercial law of provisions for post-employment benefit obligations arising from reinsured direct pension commitments), which was issued in July 2021. The statment defines a matching measurement of the pension provisions and the claims arising from the pension liability insurance policies taken out to finance them. For commitments that are only partly reinsured, which is the case for Portigon AG, matching measurement is limited to the amount of the reinsured portion of the pension provisions. The general vaulation rules apply to the remaining parts. Under the valuation option provided for in IDW RH FAB 1.021, Portigon AG decided to measure the claim arising from the pension liability insurance policies at the necessary settlement amount of the corresponding pension provisions (method known as the so-called primacy of liabilities side). The first-time application of this accounting practice statement in the reporting year gave rise to a € 16.1 million depreciation of the claims arising from the pension liability insurance policies through profit and loss due to the change in the valuation method. Please refer to Note 17 for more information.

As none of Portigon AG's provisions stem from the banking business, income or expenses arising from changes in the relevant discount rate over the previous year are reported in the other operating result, to the extent that they cannot be ascribed to the extraordinary 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), which in accordance with IDW RH FAB 1.021 matches the proportionate settlement amount of the corresponding post-employment benefit obligations, and are offset against this.

Any gains or losses arising on the transfer of liabilities in return for consideration in connection with the downsizing of Portigon AG are presented under interest income or interest paid, because the difference between the carrying amount of the liability transferred and the consideration arising from the transfer is frequently attributable to interest rates.

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 is 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 are centrally managed and thus classified as specifically covered. The corresponding expenses and income from translating these specifically covered transactions are reported on a net basis in other operating expenses or income.

Assets and liabilities denominated in foreign currencies, as well as unsettled spot deals, are translated using the average spot exchange rate effective on the reporting date. Unsettled forward contracts are carried at the market value on that date. Hedged income and expenses are translated at the respective hedging 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 deferred items and their tax base that are expected to reverse in future fiscal years induce 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 time of realisation of deferred tax assets and deferred tax liabilities. 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, 2021 € millions	Dec. 31, 2020 € millions
Payable on demand	20.8	24.0
With residual maturities of		
– between 1 and 5 years	16.1	18.8
Book value	36.8	42.8

Of the claims on banks reported on the balance sheet, the sum of € 4.7 million (previous year: € 4.2 million) is guaranteed by EAA.

5. Claims on Customers

	Dec. 31, 2021 € millions	Dec. 31, 2020 € millions
With residual maturities of		
– up to 3 months	23.0	31.2
– more than 5 years	1,063.5	1,082.8
Book value	1,086.5	1,114.0

6. Bonds and Other Interest-Bearing Securities

	Dec. 31, 2021 € millions	Dec. 31, 2020 € millions
Book value	572.1	748.8
thereof:		
amounts becoming due before December 31 of the following fiscal year	2.1	159.3
Breakdown by product		
– bonds and notes of public-sector issuers	565.5	748.8
– bonds and notes of other issuers	6.6	–
Breakdown by marketability		
– marketable securities	572.1	748.8
thereof:		
– listed on a stock exchange	526.8	708.6
– not listed on a stock exchange	45.3	40.2

The decrease mainly stems from the maturity of two securities in the course of the year.

The bonds and other interest-bearing securities have been mainly assigned to the investment portfolio, which makes them part of fixed assets. At the balance sheet date, financial investments in the amount of € 1.9 million (previous year: € 0.0 million) were carried at the modified lower of cost or market.

Securities from affiliated companies amounted to € 6.6 million (previous year: € 0.0 million).

7. Equity Investments in Affiliated Companies

	Dec. 31, 2021 € millions	Dec. 31, 2020 € millions
Book value	1.0	1.2
thereof:		
– financial services institutions	0.2	0.4

The change in the portfolio of € 0.2 million is attributable to the further 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, 2021 € millions	Dec. 31, 2020 € millions
Other assets	50.7	151.3
Book value	50.7	151.3

The other assets reported as trust assets in the reporting period are exclusively investments in closed-end real estate funds that are held in trust.

The decrease in trust assets is due among other things to maturities and the subsequent transfer in rem (by novation) of the last derivatives formerly transferred to EAA by means of a risk transfer agreement. For information on the measurement of this item, please refer to Note 3.

9. Fixed Assets

<table>
<tr><th>€ millions</th><th>Bonds and other interest-bearing securities</th><th>Equity investments in non-affiliated companies</th><th>Equity investments in affiliated companies</th><th>Intangible assets</th><th>Office equipment</th></tr>
<tr><td>Acquisition/production costs Dec. 31, 2020</td><td>748.8</td><td>–</td><td>1.2</td><td>–</td><td>0.6</td></tr>
<tr><td>Additions</td><td colspan="3" rowspan="12">Net change pursuant to § 34 (3) Sentence 2 RechKredV; € –176.9 million</td><td>–</td><td>–</td></tr>
<tr><td>Retirements</td><td>–</td><td>0.5</td></tr>
<tr><td>Reclassifications</td><td>–</td><td>–</td></tr>
<tr><td>Effects from currency conversion</td><td>–</td><td>–0.0</td></tr>
<tr><td>Acquisition/production costs Dec. 31, 2021</td><td>–</td><td>0.1</td></tr>
<tr><td>Cumulated write-downs Dec. 31, 2020</td><td>–</td><td>0.5</td></tr>
<tr><td>Depreciation in the fiscal year</td><td>–</td><td>0.0</td></tr>
<tr><td>Appreciation</td><td>–</td><td>–</td></tr>
<tr><td>Retirements</td><td>–</td><td>0.4</td></tr>
<tr><td>Reclassifications</td><td>–</td><td>–</td></tr>
<tr><td>Effects from currency conversion</td><td>–</td><td>–0.0</td></tr>
<tr><td>Cumulated write-downs Dec. 31, 2021</td><td>–</td><td>0.1</td></tr>
<tr><td>Book value Dec. 31, 2021</td><td>572.1</td><td>–</td><td>1.0</td><td>–</td><td>–</td></tr>
<tr><td>Book value Dec. 31, 2020</td><td>748.8</td><td>–</td><td>1.2</td><td>–</td><td>0.1</td></tr>
</table>

There were no write-downs of any securities treated as fixed assets in 2021, since no permanent impairment was expected.

10. Other Assets

	Dec. 31, 2021 € millions	Dec. 31, 2020 € millions
Book value	24.1	4.9
thereof:		
– claims from tax refunds	20.2	0.4

11. Deferred Items

	Dec. 31, 2021 € millions	Dec. 31, 2020 € millions
Deferred items from reclassification of trading positions	15.7	21.5
Discounts from liabilities	0.7	0.8
Other	2.3	1.0
Book value	18.6	23.3

The deferred items resulting from the reclassification of trading positions at Portigon AG in 2012 are predominantly the amortising market values of swaps previously assigned to the trading portfolio as well as the amortising premiums and discounts 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 Customers

	Dec. 31, 2021 € millions	Dec. 31, 2020 € millions
Payable on demand	0.0	2.4
With residual maturities of		
– up to 3 months	3.4	0.7
– between 1 and 5 years	36.1	34.0
Book value	39.5	37.1
thereof:		
– liabilities to affiliated companies	0.0	2.0

14. Trust Liabilities

	Dec. 31, 2021 € millions	Dec. 31, 2020 € millions
Liabilities to customers	50.7	94.5
Other liabilities	–	56.8
Book value	50.7	151.3

Trust liabilities in the reporting year comprise only the compensation liabilities to trust assets.

The decrease in trust liabilities is due among other things to maturities and the subsequent transfer in rem (by novation) of the last derivatives formerly transferred to EAA by means of a risk transfer agreement. For information on the measurement of this item, please refer to Note 3.

15. Other Liabilities

	Dec. 31, 2021 € millions	Dec. 31, 2020 € millions
Book value	59.5	626.5
thereof:		
– tax liabilities	48.8	598.6
– accrued interest for borrower’s note loans and subordinated liabilities	9.7	9.3
– offsetting item from the valuation of currency transactions	0.9	10.8

The decrease in other liabilities of € 567.0 million to € 59.5 million results mainly from payment of the amounts stipulated in the amended tax assessments received at the end of 2020 for corporate income tax, solidarity surcharge and tax interest in accordance with § 233a of the German Tax Code (AO) for the years 2005 up to and including 2008 in connection with the dividend arbitrage transactions of the former WestLB. The amended tax and interest assessments were contested and are not final. In light of the respective decision by the Federal Constitutional Court, interest on corporate income tax has been suspended from 2019 until a constitutional ruling is made.

The offsetting item from the valuation of currency translations recognised in connection with the special coverage pursuant to Section 340h of the German Commercial Code (HGB) needed to be adjusted by € 8.2 million in the reporting year.

16. Deferred Items

The deferred items in the amount of € 18.9 million (previous year: € 23.9 million) resulting in particular from the reclassification of trading positions at Portigon AG in 2012 largely correspond to the amortising market values of swaps previously assigned to the trading portfolio as well as the amortising premiums and discounts from money market transactions that were assigned to the trading portfolio prior to the reclassification.

17. 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. 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, 2021
Discount rate	1.87%
Wage and salary index	2.50%
Pension index	2.00%
Fluctuation	5.00%
Mortality tables	Heubeck-Richttafeln 2018 G

Pension liability insurance policies have been concluded to hedge in part th post-employment benefit obligations and other pension obligations reported under other provisions to individual beneficiaries of Portigon AG. Insofar as the entitlements under these pension liability insurance policies are exempt from access 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 the Accounting Practice Statement IDW RH FAB 1.021 adopted on April 30, 2021, which requires a matching measurement of reinsured pension provisions and claims arising from the pension liability insurance policies taken out to finance them, Portigon AG measured the claims arising from the pension liability insurance policies at the necessary settlement amount of the corresponding pension provisions for the first time in the reporting year. This measurement in accordance with the so-called primacy of liabilities side led to a depreciation of the plan assets to the fair value in an amount of € 16.1 million. Please refer to Note 3 for more information. 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	48.3	32.2	798.5	766.2
Other pension liabilities	0.4	0.4	106.9	106.5
Total	48.7	32.6	905.4	872.8

At the balance sheet date, the fair value of the plan assets of € 32.6 million calculated by applying IDW RH FAB 1.021 is lower than their cost of € 48.6 million. As a result, there were no non-distributable amounts pursuant to Section 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 (1.87%) in accordance with § 253 (2) Sentence 1 of the German Commercial Code (HGB). Measurement applying the seven-year average interest rate (1.35%) 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, 2021 € millions	Dec. 31, 2020 € millions
Measurement of obligations using the ten-year average interest rate	798.5	785.3
Measurement of obligations using the seven-year average interest rate	860.3	866.0
Difference in accordance with § 253 (6) HGB	61.9	80.8

The entire difference is non-distributable in accordance with § 253 (6) Sentence 3 of the German Commercial Code (HGB). Please refer to Note 20.

In accordance with § 246 (2) Sentence 2 of the German Commercial Code (HGB), the expense of € 16.1 million arising from the depreciation of the plan assets was offset against the interest cost on provisions.

Tax provisions of € 130.8 million (previous year: € 221.4 million) include provisions for outstanding income tax assessments in Germany of € 122.2 million and for tax audit risks in Germany and abroad of € 8.6 million.

Portigon AG's other provisions consist of provisions for restructuring of € 54.5 million (previous year: € 71.4 million), personnel-related provisions of € 107.0 million (previous year: € 131.9 million) and miscellaneous provisions of € 82.9 million (previous year: € 90.8 million).

The item miscellaneous provisions contains, among other things, € 51.5 million (previous year: € 48.2 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 shall be measured using the general principles for provisions. The one-time 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, € 1.8 million (previous year: € 1.8 million) for reimbursement commitments relating to the pension obligations transferred to NRW.BANK in 2013 (service cost) and € 1.7 million (previous year: € 2.0 million) for potential litigation risks.

The € 67.1 million (previous year: € 67.5 million) in interest cost on provisions unrelated to banking operations of Portigon AG is reported in other operating expenses.

18. Subordinated Liabilities

	Dec. 31, 2021 € millions	Dec. 31, 2020 € millions
Book value	519.7	520.0
thereof:		
– to affiliated companies	341.9	348.6

Of the total subordinated liabilities, € 65.7 million (previous year: € 36.0 million) at Portigon AG have a residual maturity of less than two years. The original maturities range from 15 to 35 years.

Portigon AG incurred interest expense of € 13.7 million in connection with its subordinated liabilities (previous year: € 17.0 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, 2021:

Currency	Amount	Interest rate	Maturity
JPY	10,000,000,000	0.52%	March 23, 2029
EUR	60,000,000	0.00%	January 24, 2041

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.

19. Equity Capital

Following the resolution passed by the extraordinary general meeting on March 25, 2021 to increase the share capital by € 160.0 million against cash contributions by issuing 7,282,175 Class A registered shares at an issue price of around € 21.97 per share, the share capital of Portigon AG amounted to € 658.6 million as at December 31, 2021 (previous year: € 498.6 million). It was divided into 29,977,481 (previous year: 22,695,306) no-par value registered Class A shares at the reporting date. The notional portion of each no-par value share is around € 21.97 (previous year: € 21.97). All shares carry the same voting rights. The State of North Rhine-Westphalia was the sole subscriber of the no-par value registered shares and paid the cash contribution on March 25, 2021. The capital increase was entered in the commercial register on March 29, 2021. For information concerning our current shareholder structure, please see Note 39.

Portigon AG is reporting a net loss for the 2021 fiscal year of € 50.8 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 2021 equal to € 3.2 million (previous year: € 63.7 million).

Pursuant to the agreement of December 12, 2009 concerning a silent participation, the Financial Market Stabilisation Fund (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 nominal value of € 1,000.0 million and an actual prorated nominal 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 2021 equal to € 22.8 million (previous year: € 451.5 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 was amended by an agreement of August 26, 2012, including the restated agreement between FMS and Portigon AG concerning the granting of a conversion right. 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 be issued 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 € 465.0 million, a loss of € 489.8 million remains after loss allocation, including the loss participation of the profit participation certificate holders and silent partners.

	Balance Dec. 31, 2020 € millions	Capital increase € millions	Withdrawals/ loss allocation € millions	Other appropriation € millions	**Balance Dec. 31, 2021 € millions**
Subscribed capital	498.6	160.0	–	–	658.6
Capital reserves	–	–	–	–	–
Revenue reserves	–	–	–	–	–
Silent contributions to capital					
– issued in 2005	25.0	–	–3.2	–	21.8
– issued in 2009/2010	177.6	–	–22.8	–	154.8
Retained loss	–465.0	–	–24.8	–	–489.8
Equity capital pursuant to the German Commercial Code (HGB)	236.3	160.0	–50.8	–	345.5

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

20. Non-Distributable Amounts

	Dec. 31, 2021 € millions	Dec. 31, 2020 € millions
Difference arising from the discounting of provisions for post-employment benefit obligations at the ten-year and seven-year average interest rates[1]	61.9	80.8
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]	–	2.8
= Non-distributable amount	61.9	83.6

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

21. 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 € 494.8 million (previous year: € 490.8 million) in liabilities which were still grandfathered at December 31, 2021. A € 36.1 million (previous year: € 31.8 million) portion of that relates to portfolios of assets and liabilities which are economically hedged by EAA through guarantee agreements.

22. Foreign Currency Assets/ Foreign Currency Liabilities

	Dec. 31, 2021 € millions	Dec. 31, 2020 € millions
Foreign currency assets	101.4	122.8
Foreign currency liabilities	279.1	283.4

Notes to the Statement of Income

23. 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. 2021 € millions	Interest Income	Current Income	Commission Income	Other Operating Income
Germany	33.7	–	0.8	31.3
United Kingdom	0.0	–	–	0.8
North America	1.2	–	–	2.8
Amount reported on the Statement of Income	34.9	–	0.8	34.9

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

24. Administrative and Custodial Services

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

25. Interest Income

Interest income of € 34.9 million (previous year: € 178.6 million) results from interest rate swaps of € 17.2 million (previous year: € 146.4 million) and an amount of € 15.0 million (previous year: € 16.1 million) that was mainly attributable to the promissory note loan from the State of North Rhine-Westphalia recognised under claims on customers and held for hedging pension obligations.

The decrease in interest income of € 143.7 million is largely due to the non-recurrence of the one-off effects from the previous year.

26. Interest Paid

Interest paid of € 19.2 million (previous year: € 276.9 million) mostly arises from subordinated liabilities in the amount of € 13.7 million (previous year: € 17.0 million).

The significant decrease in interest paid is attributed in particular to the non-recurrence of the one-off effects from the previous year totalling € 229.9 million.

27. Other Operating Result

Other operating income	**Dec. 31, 2021 € millions**	Dec. 31, 2020 € millions
Amount reported on the Statement of Income	34.9	23.0
thereof:		
Reimbursement and netting by third parties	6.0	13.9
Income from reversal of other provisions	14.4	6.6
Result from foreign currency translation	12.9	–

Sonstige betriebliche Aufwendungen	**Dec. 31, 2021 € millions**	Dec. 31, 2020 € millions
Amount reported on the Statement of Income	88.7	72.4
thereof:		
Expenses from the discounting of provisions	67.4	67.5
Effect from pension liability insurance	14.9	–

The net figure for other operating expenses and income came to € –53.8 million at the reporting date (previous year: € –49.4 million) and is principally due to the interest cost on provisions for pensions as well as to the depreciation of the plan assets from pension liability insurance policies. Please refer to Note 17. Income from the reversal of provisions and foreign currency translation had an opposite effect.

28. Income and Expenses Relating to Different Accounting Periods

The first-time application of IDW RH FAB 1.021 gave rise to expenses relating to different accounting periods in the amount of € 16.1 million in the reporting year (previous year: € 397.9 million). Please refer to Note 17 for more information.

The income relating to different accounting periods that was generated in the reporting year in the amount of € 29.3 million (previous year: € 0.0 million) mainly results from income tax refunds of € 20.9 million as well as from an adjustment of € 8.2 million to the offsetting item from the valuation of currency transactions originally recognised in connection with the special coverage pursuant to Section 340h of the German Commercial Code (HGB) and reported in other liabilities.

29. Extraordinary Result

Portigon AG reported an extraordinary result of € 11.0 million (previous year: € 18.0 million).

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

30. Taxes on Income and Revenues

	1. 1.–31. 12. 2021 € millions	1. 1.–31. 12. 2020 € millions
Amount reported on the Statement of Income	21.8	–402.6
thereof:		
domestic operations	20.9	–404.3
foreign operations	0.9	1.6

The tax income of € 21.8 million reported in the 2021 fiscal year (previous year: income tax expense of € 402.6 million) is attributable to income taxes from Germany for previous years of € 20.9 million and results mainly from completed tax audits. There were no current income taxes from Germany. The foreign branches generated current tax income of € 0.9 million.

Other Information

31. Contingent Liabilities

Contingent Liabilities and Other Commitments

	Dec. 31, 2021 € millions	Dec. 31, 2020 € millions
Liabilities from guarantees and indemnity agreements	3.4	5.6

32. 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, 2021 € millions	Dec. 31, 2020 € millions
Pledged pension liability insurance policies for hedging of pension and similar obligations	32.6	48.3
Own securities pledged to other banks or customers	1.9	2.0
Total assets pledged	34.5	50.3

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. In addition to stability in operations, the 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.

33. Other Financial Obligations

Deposit Insurance and Other Insurance Mechanisms

Portigon AG is a member of the security reserve (guarantee fund) of the Landesbanken and Girozentralen run by the German Savings Banks Association (DSGV). 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 2021 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 € 209.3 million (previous year: € 187.3 million).

Portigon AG has rental and leasing obligations and other obligations totalling € 12.1 million (previous year: € 23.6 million). The agreements have residual maturities of a maximum of 13 years.

34. 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 had been reported as trust assets and trust liabilities until the last of these transactions matured or were transferred in rem pursuant to § 6 (1) of the Accounting Ordinance 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 had been measured at amortised cost, the basis of which was the fair value most recently determined at December 31, 2014. As there were no open positions entailing a settlement risk or currency, interest rate and/or other market price risks, there was no disclosure requirement pursuant to § 36 of the Accounting Ordinance for Banks and Financial Services Institutions (RechKredV). Given the economic situation at EAA, a credit risk with regard to these derivatives held in trust was 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 € 495 million (previous year: € 534 million).

OTC Products, thereof:	Nominal Values		Positive Market Values		Negative Market Values	
	Dec. 31, 2021 € millions	Dec. 31, 2020 € millions	**Dec. 31, 2021 € millions**	Dec. 31, 2020 € millions	**Dec. 31, 2021 € millions**	Dec. 31, 2020 € millions
Products based on interest rates	226	220	66	83	–	–
Products based on exchange rates	269	314	22	26	1	4
Total derivatives	495	534	88	109	1	4

We capture book values of derivatives (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, 2021 € millions	Dec. 31, 2020 € millions	**Dec. 31, 2021 € millions**	Dec. 31, 2020 € millions
Residual maturity				
– up to 3 months	36	–	193	243
– 1 to 5 years	9	45	–	–
– more than 5 years	181	176	76	70
Total	226	220	269	314

35. Remuneration of the Governing Bodies

	2021 € millions	2020 € millions
Total remuneration of the Managing Board	0.7	0.7
fixed	0.7	0.7
performance-based	–	–
departure-related	–	–
from holding supervisory board seats at Group subsidiaries	–	–
Total remuneration of former Managing Board members and their survivors	6.2	6.2
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]	3.2	3.8
Pension provisions for former Managing Board members and their survivors[1]	117.4	115.2

[1] before offsetting against the related plan assets

The members of the Supervisory Board received total remuneration of € 85,000 in the year under review (previous year: € 75,000), which was disbursed in the following fiscal year. In addition, out-of-pocket expenses of Supervisory Board members were offset in a lump sum in the amount of € 14,000 (previous year: € 11,000).

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, 2021 €	Additions to/ subtractions from pension commitments in 2021 €
Seyfert, Frank	1. 1.–31. 12. 2021	360,721	–	–	–	360,721	2,702,854	291,553
Glaß, Barbara	1. 1.–31. 12. 2021	339,366	–	–	–	339,366	464,028	71,686
Total Managing Board	1. 1.–31. 12. 2021	700,087	–	–	–	700,087	3,166,882	363,239

[1] including non-cash compensation, taxes and the employer portion of social security contributions

Remuneration of the Supervisory Board members

	Period	Fixed remuneration €	Performance-based remuneration €	Total remuneration €
Brockhaus, Ernst-Albrecht	1. 1.–31. 12. 2021	15,000	–	15,000
Forst, Eckhard	1. 1.–31. 12. 2021	20,000	–	20,000
Hock, Gudrun	1. 1.–31. 12. 2021	10,000	–	10,000
Huth, Jutta M.	1. 1.–31. 12. 2021	10,000	–	10,000
Möbius, Christian	1. 1.–31. 12. 2021	10,000	–	10,000
Stemper, Dr. Peter	1. 1.–31. 12. 2021	10,000	–	10,000
Subtotal		75,000	–	75,000
Lump-sum reimbursement of out-of-pocket expenses				12,600
Value-added tax on amounts paid				11,096
Total				98,696

36. 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.

37. Audit Fees

	2021 € millions	2020 € millions
Auditing the annual financial statements	0.4	0.4
Miscellenaneous reports and opinions	0.0	0.0
Total	0.4	0.4

In addition to the expenses for statutory audits, the audit fees include in particular the expenditure for the audit of the reporting in connection with the risk monitoring of the security reserve (guarantee fund) of the Landesbanken and Girozentralen.

38. Number of Employees

The average number of employees in 2021 was as follows:

	Male	Female	Total 2021	Total 2020
Domestic companies/branches	29	24	53	67
Foreign companies/branches	7	4	11	16
Total	36	28	64	83

39. Shareholdings in Portigon AG

Shareholders	Investment Quota	
	Dec. 31, 2021 %	Dec. 31, 2020 %
State of North Rhine-Westphalia	76.90	69.49
NRW.BANK	23.10	30.51
Total	100.00	100.00

The change in the investment quotas is attributable to the capital increase carried out in the year under review. The new shares were subscribed exclusively by the State of North Rhine-Westphalia. Please refer to Note 20.

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).

40. Seats Held by Members of the Managing Board

In 2021, no members of the Managing Board of Portigon AG were chairpersons or members of a large corporation's supervisory body within the meaning of § 340a of the German Commercial Code (HGB).

41. Seats Held by Employees

Seats held by employees of Portigon AG

In 2021, 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).

42. Governing Bodies of Portigon AG

Portigon AG Managing Board

Frank Seyfert
Chairman

Barbara Glaß

Portigon AG Supervisory Board

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

Ernst-Albrecht Brockhaus
Deputy Chairman
Banker
Gummersbach

Gudrun Hock
Consultant
Düsseldorf

Jutta M. Huth
Banker
Portigon AG
Düsseldorf

Christian Möbius
Lawyer
Cologne

Dr. Peter Stemper
Bank Director
NRW.BANK

43. 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	8.55	–4.52
2	Portigon Finance Curaçao N.V.[3]	Willemstad, Curaçao	100.00		EUR	205.30	159.30
3	Portigon Property Services Limited[2 3]	London, United Kingdom	100.00		GBP	5.91	5.90
4	Portigon Versorgungskasse GmbH[3]	Düsseldorf	100.00		EUR	25.00	0.00
5	Treuhand- und Finanzierungsgesellschaft für Wohnungs- und Bauwirtschaft mit beschränkter Haftung, Treufinanz[3]	Düsseldorf	65.41	66.37	EUR	1,626.33	190.93

[1] insofar as this deviates from the stake in the capital
[2] indirectly held
[3] data as of Dec. 31, 2020

Düsseldorf, March 11, 2022

Portigon AG
The Managing Board

Frank Seyfert Barbara Glaß

44. Country-by-Country Reporting as at December 31, 2021

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 2021 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	–41.2	–70.5	20.9	47
UK	0.4	–1.2	–	5
USA	1.3	–0.9	0.9	4

[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	Other enterprise	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 € 154.8 million. Please refer to Note 19.

Independent Auditor’s Report

To Portigon AG, Düsseldorf

Audit Opinions

We have audited the annual financial statements prepared by Portigon AG, Düsseldorf, which comprise the balance sheet as at December 31, 2021, the statement of income for the fiscal year from January 1, 2021 to December 31, 2021 and the notes to the annual financial statements, including a summary of the accounting policies. In addition, we have audited the management report of Portigon AG for the fiscal year from January 1, 2021 to December 31, 2021.

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, 2021, and of its financial performance for the fiscal year from January 1, 2021 to December 31, 2021, 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 (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 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 German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. 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.

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 “Report of the Supervisory Board”, “Portigon Key Figures”, “Corporate Governance at Portigon AG” and the overview entitled “Locations”, which we obtained prior to the date of our auditor’s report.

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, the 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 the 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 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.

Düsseldorf, March 14, 2022

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Vogt	Eckert
Wirtschaftsprüfer (German public auditor)	Wirtschaftsprüferin (German public auditor)

Report of the Supervisory Board

The 2021 fiscal year, as in 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 23.6% year-on-year to € 2,175.3 million at December 31, 2021. The average number of employees declined by 17.8%, from 68 (full-time equivalent) at the end of 2020 to 56 (full-time equivalent) at December 31, 2021.

Outside Germany, Portigon AG is still represented at its locations in London and New York. The regulatory closure of the London branch took place in July 2020. An application to return the New York banking licence was filed with the US banking regulators on November 30, 2021.

The Supervisory Board was regularly updated on the individual downsizing measures at its meetings.

Furthermore, the investigation launched by the Düsseldorf Public Prosecutor's Office in 2016 and transferred to the Cologne Public Prosecutor's Office in 2020 in connection with dividend arbitrage transactions of the former WestLB significantly shaped the Supervisory Board's work again in the 2021 fiscal year. In addition to regular telephone and written exchanges outside of meetings, comprehensive information was discussed at Supervisory Board meetings and in-depth consultations were held with the participation of external legal advisors. Further tax/interest assessments that the Bank received in December 2020 in connection with the dividend arbitrage transactions necessitated an increase in the share capital, which was resolved by the shareholders' meeting on March 25, 2021 following a corresponding proposal by the Supervisory Board.

In the 2021 financial year, the Supervisory Board comprised six members: Eckhard Forst (Chairman), Ernst-Albrecht Brockhaus (Deputy Chairman), Gudrun Hock, Jutta M. Huth, Christian Möbius and Dr. Peter Stemper. At its meeting on April 21, 2021, the shareholders' meeting resolved to re-appoint Eckhard Forst, whom the Supervisory Board re-elected as its Chairman.

Supervision and Advising of Management

In the 2021 fiscal year, the Supervisory Board held a total of seven meetings in the form of telephone or video conferences for the purposes of advising the Managing Board, supervising its management of the company, adopting the necessary resolutions and actively supporting the company within the scope of the tasks required of supervisory boards by law. These meetings were held on January 20, March 25, April 21, June 30, October 6, November 10 and December 15. In addition, the Supervisory Board adopted a resolution on the topic of D&O insurance on September 23 by means of a written circular.

The Supervisory Board consistently 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. The Managing Board provided the Supervisory Board with detailed reports on a continuous basis so that the latter could fulfil these tasks. 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 approved. 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.

Furthermore, the Supervisory Board regularly discussed issues with relevance for risk and auditing based on the quarterly reports on the risk situation and the annual and quarterly information provided by Internal Audit pursuant to § 25c of the German Banking Act (KWG). It also regularly discussed matters relating to the Managing Board and received continuous updates on the company's planned transformation and downsizing process.

At its extraordinary meeting on January 20, 2021, the Supervisory Board discussed new findings and developments on the matter of dividend arbitrage transactions in the context of the further tax/interest assessments served in December 2020. Moreover, at another extraordinary meeting on March 25, 2021, the Supervisory Board gave its recommendation to the shareholders' meeting that a resolution be adopted to implement a necessary ordinary capital increase in accordance with § 182 of the German Stock Corporation Act (Aktiengesetz, AktG) and, at the same meeting, was informed by the Managing Board of the resulting need to update the planning.

At its meeting on April 21, the Supervisory Board adopted the 2020 annual financial statements in addition to the usual key topics following the corresponding report by the auditor, Ernst & Young GmbH. It also resolved on the "Report of the Supervisory Board for 2020" and the "Corporate Governance Report in the 2020 Annual Report" of Portigon AG. Furthermore, the Supervisory Board gave its recommendation to the shareholders' meeting to ratify the acts of the Managing Board and Supervisory Board for the 2020 fiscal year and to resolve on the re-appointment of Eckhard Forst as a member of the Supervisory Board. After an EU-wide bidding process had been conducted and evaluated by an independent external law firm, the Supervisory Board gave its recommendation to the shareholders' meeting to appoint Ernst & Young GmbH as the external auditors for the 2021 fiscal year.

On June 30, in addition to ongoing issues, questions relating to the D&O insurance policy and the continuation of the criminal law insurance policy were discussed, in addition to the result of the Supervisory Board's efficiency review. At its meeting on October 6, the Supervisory Board discussed audit matters, among other things. A further extraordinary Supervisory Board meeting was also held on November 10 to discuss the topic of dividend arbitrage transactions, mostly the pursuit of recourse. At the meeting on December 15, in addition to the usual reporting items, the Supervisory Board was briefed by the Managing Board, among other things, on the updated planning for the years 2022 to 2026 and took cognisance of this.

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, 2021. 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 Portigon AG received appropriate consideration for the transactions specified in the report and did not suffer any disadvantages.

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 2021 Fiscal Year

At its meeting on March 30, 2022, the Supervisory Board adopted the annual financial statements for the 2021 fiscal year and gave its recommendation to the shareholders' meeting to ratify the acts of the Managing Board and Supervisory Board for the 2021 fiscal year at its meeting on the same day, to re-appoint three Supervisory Board members and to appoint Ernst & Young GmbH as the external auditors for the 2022 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 2021 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, March 30, 2022

Eckhard Forst

The Chairman of the Supervisory Board

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.

Portigon AG observes the rules of the Public Corporate Governance Code (the "Code") of the State of North Rhine-Westphalia and the related obligations.

The Code is seen as a yardstick for good and responsible governance and control. The aim is to ensure transparent corporate governance and monitoring and to clearly define the role of the state as a shareholder or stakeholder.

Pursuant to the Code, Portigon AG provides annual reports on the company's corporate governance in its Corporate Governance Report. The report is part of the Annual Report and is also published on Portigon AG's website at www.portigon-ag.de. As in the previous years, a remuneration report likewise forms part of the Corporate Governance Report.

Remuneration Report

Portigon AG has aligned its remuneration system with the "Principles for Sound Compensation Practices". Portigon AG discloses the remuneration of the Managing Board both in the notes to the annual financial statements and in this remuneration report in accordance with the Code, with reference to the North Rhine-Westphalia State Budget Regulation (Landeshaushaltsordnung Nordrhein-Westfalen, LHO NRW) and the North Rhine-Westphalia Remuneration Disclosure Act (Vergütungsoffenlegungsgesetz Nordrhein-Westfalen, VergütungsOG NRW), which, as part of the Corporate Governance Report, also explains the main features 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 AG 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 2021

The remuneration of the governing bodies of Portigon AG in the 2021 fiscal year was as follows:

	1. 1. – 31. 12. 2021 € millions	1. 1. – 31. 12. 2020 € millions
Total remuneration of the Managing Board	0.7	0.7
– fixed	0.7	0.7
– performance-based	–	–
– departure-related	–	–
– from holding supervisory board seats at Group subsidiaries	–	–
Total remuneration of former Managing Board members and their survivors	6.2	6.2
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	3.2	3.8
Pension provisions for former Managing Board members and their survivors[1]	117.4	115.2

[1] before offsetting against the related plan assets

For further details please refer to Note 35 of the Annual Report.

Declaration of Compliance 2021

The Managing Board and Supervisory Board of Portigon AG herewith declare for 2021 that Portigon AG complied with the recommendations of the Public Corporate Governance Code of the State of North Rhine-Westphalia, with the following exceptions:

- **Article 3.1.2 of the Code** states that rules of procedure to be approved by the Supervisory Board shall govern the allocation of duties and cooperation among individual Managing Board members. To ensure maximum flexibility – especially because the Managing Board has comprised only two members since August 20, 2020 – Portigon AG refrains from establishing the allocation of duties of the members of the Managing Board in the rules of procedure for the Managing Board. The duties of the two Managing Board members are regulated in an organisational chart.

- **Article 3.3.4 of the Code** sets out that particularly when appointing the company's executives the Managing Board shall consider the principle of diversity and endeavour to achieve the appropriate consideration of members of both genders for such positions. Given Portigon AG's special situation, defined by the company's systematic downsizing and the plan to ultimately establish a company without personnel, targeted appointment of company executives, as envisaged in the Code, is impossible to implement in practice. In years past, many executive positions were permanently eliminated.

- **Article 3.4.2 (4)** of the Public Corporate Governance Code stipulates that when contracts are entered into with Managing Board members, it shall be ensured that payments, including fringe benefits, made to a Managing Board member on early termination of their Managing Board contract without good cause do not exceed twice the annual remuneration (severance cap) and do not constitute remuneration for more than the remaining term of the employment contract. Portigon AG's older Managing Board contracts did not provide for a severance cap of this nature, but new contracts include this stipulation.

- **Article 3.4.3 (2) of the Code** sets out that if the Supervisory Board establishes the remuneration system for the Managing Board or the principal features of the contract, the Chair of the Supervisory Board shall inform the shareholders' meeting about the structure of the remuneration system for the Managing Board and about the principal features of the contract as well as any amendments. The shareholders' meeting of Portigon AG is not informed in this regard, because there is close dialogue with the owners in advance of resolutions on changes to the remuneration system.

- Since 2016, the company has no longer followed the recommendation in **Article 4.4.2 (1) of the Code** setting out that, depending on the number of Supervisory Board members and the specific economic circumstances of the company, the Supervisory Board shall particularly establish an Audit Committee. Considering the already well-advanced downsizing of Portigon AG and the fact that the Supervisory Board comprises only six members, the Supervisory Board once again decided against forming any committees in the 2021 fiscal year. The duties of an Audit Committee are performed by the full Supervisory Board itself.

- **Article 4.8.2 (3) of the Code** proposes that the corporation take out a D&O (directors' and officers' liability insurance) policy only with the consent of the shareholders' meeting. At Portigon AG, the Supervisory Board regularly approves the taking out of a D&O insurance policy following a prior exchange of information at owner level.

- **Article 6.2.6 of the Code** sets out that the company shall appoint a new auditor when the auditor has audited five consecutive sets of the company's annual financial statements, provided that there are no grounds for an earlier change. The entire audit firm, not just the auditor of the financial statements, must be changed. At the time of the bidding process for the statutory audit, Portigon AG was a CRR credit institution within the meaning of § 1 (3d) Sentence 1 of the German Banking Act (KWG) and, as a public interest entity (PIE), must therefore comply in particular with the regulations of the EU Regulation No. 537/2014 (EU-AprVO,cf. Art. 2 (1) (b)) and the German Audit Reform Act (AReG). Based on the transitional provision of Art. 41 (2) of the EU Audit Regulation, the existing auditor was not excluded from the selection procedure for the audit engagement. As the current auditor submits the most cost-effective quotation in the bidding process, there has been no change in auditor to date.

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

Report on the Gender Balance in the Governing Bodies and among the Company's Executives

With regard to Article 5.2 of the Code, the Corporate Governance Report shall also address the gender balance in the governing bodies and among the company's executives. When appointing the company's executives in the past, the Managing Board also gave particular consideration to the principle of diversity and thus to an appropriate gender balance. However, in the course of the downsizing of Portigon AG in recent years, many executive positions were permanently eliminated. The company's restructuring will also be systematically continued in the coming years, accompanied by a further reduction in the number of executives.

In light of this situation, the Managing Board of Portigon AG had two members as at December 31, 2021: Barbara Glaß and Frank Seyfert. This means the composition of the Managing Board is 50% female and 50% male. At December 31, 2021, the Supervisory Board had a total of six members, two female and four male. Owing to the advanced downsizing, there is now effectively only one management level below the Managing Board. The Bank's German operations had only five business unit managers left at the reporting date December 31, 2021, all of whom are male. The executive functions remaining below the level of business unit manager, most of which are relatively minor, are performed by two women and six men.

Düsseldorf, March 30, 2022

Representing the Supervisory Board	Representing the Managing Board
Eckhard Forst	Frank Seyfert

Locations

Domestic

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Fax + 49 211 890 995 84

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

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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.

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