



**The EAA generates a net profit once again – and makes significant progress in winding up the investment portfolio**

Press briefing with Matthias Wargers, Spokesman of the Managing Board,  
Düsseldorf, 16 March 2017

## EAA remains on track

- ▲ EAA has made good progress in its wind-up activities: The notional volume of loans and securities decreased by almost 18% in 2016, while derivatives in the trading portfolio were down by around 24%.
- ▲ The EAA earned net profit of around EUR 10 million, marking the fifth consecutive fiscal year to end with a positive result.
- ▲ Successful restructuring within the securities portfolio, the sale of participations and measures for an early closure of the EAA Japan K.K., had a positive impact on the result.
- ▲ The EAA also made considerable progress in the legal dispute surrounding the portfolio of the former WestLB. The settlement agreed with a major US bank, in particular, contributed an eight-figure sum to the annual result.
- ▲ General administrative expenses fell year-on-year by 29%. At around EUR 213 million expenses were almost halved over a three-year period.
- ▲ The EAA further optimised its structures. The signing of a purchase agreement to privatise its portfolio-management subsidiary EPA brings new prospects. The former Portigon Financial Services (PFS) – now Erste Financial Services (EFS) – was focussed on EAA requirements. Parallel to this, a process has been launched to test the outsourcing of EFS services to private service providers.

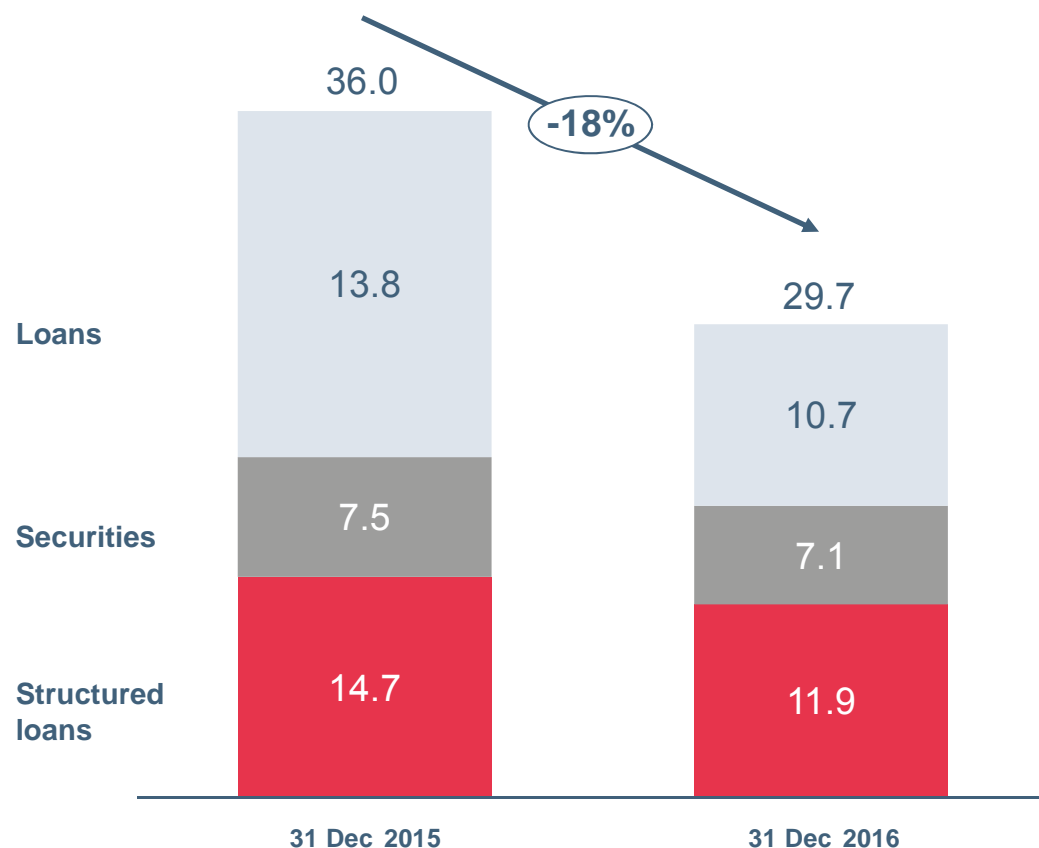
## Wind-up activities

Development of balance sheet and income statement

Outlook

# Significant progress made in winding up the banking book portfolio

Notional volume in EUR billion (exchange rates as at 31 December 2011)

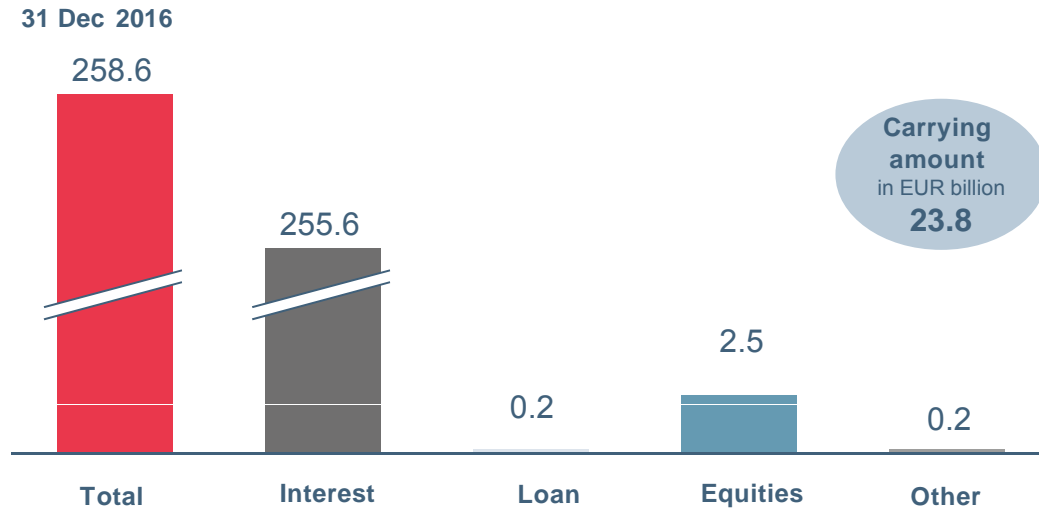


Please note: rounding differences may occur.

- ▲ The wind-up continued in a balanced manner across all rating categories. The share of **investment-grade** assets amounted to **around 69%** as at 31 December 2016 (31 December 2015: 67%; 2014: 56%).
- ▲ The **loan portfolio** fell by **approx. 22%** in comparison with the previous year. With a share of around one third, project financing continues to dominate the remaining loan portfolio.
- ▲ More than **EUR 5 billion** of the **securities portfolio** is attributable to **municipal and federal exposures**. Bonds from foreign municipalities are just one example of the areas in which **further reductions** were made over the past fiscal year.
- ▲ The **Structured Loans** segment is dominated by the **Phoenix portfolio**, with a share of **roughly 67%**, amounting to EUR 8 billion as at 31 December 2016.

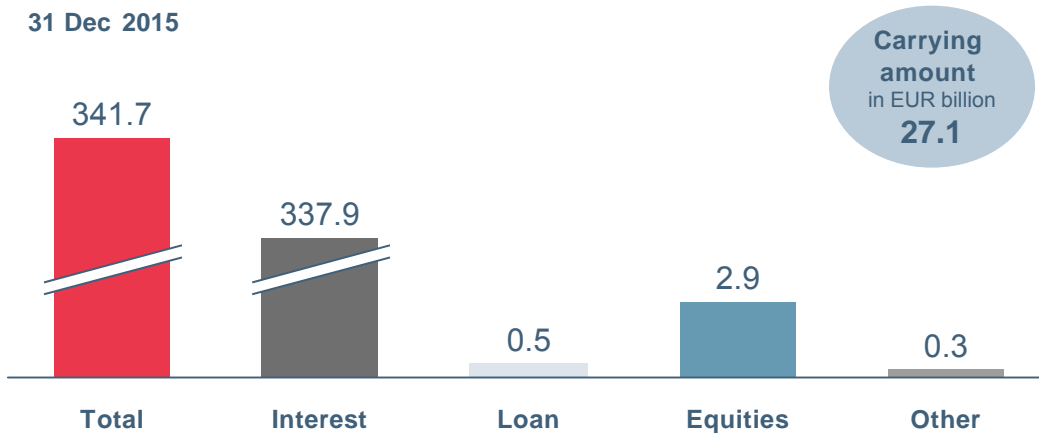
# Trading portfolio rapidly reduced – targeted wind-up of individual product groups reduces costs and risks

Notional volume in EUR billion



▲ The **notional volume of derivatives** held in the trading portfolio has been **reduced by around EUR 83 billion** since the start of 2016. This equates to a **decline of about 24%**.

▲ The **management of the trading portfolio is also relieved** due to **individual product groups**, e.g. commodity derivatives, being **eliminated completely**. The portfolio of equity derivatives was further reduced and the risks of the residual portfolio eliminated.

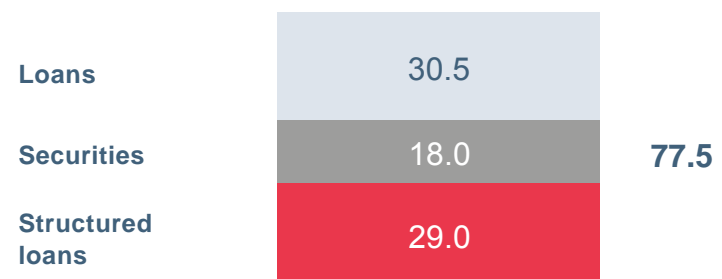


▲ Derivatives are **accounted for on the balance sheet at their market value**, which **fell by around EUR 3.4 billion** year-on-year. The development of the market value is primarily influenced by the changes in the yield curve – the decline in notional volume is only reflected here to a limited extent.

Please note: rounding differences may occur.

## Overview: the combined total portfolio and the assets transferred since 2009/2010

**First fill**, notional volume in EUR billion  
(exchange rates as of 31 Dec 2009)

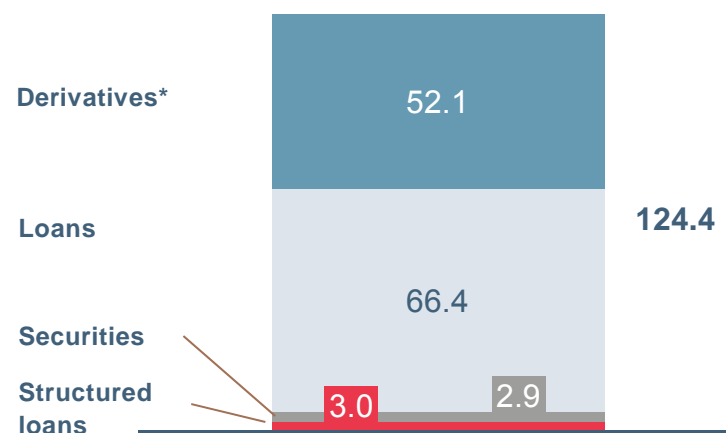


▲ Under the first fill and the refill the EAA **acquired more than EUR 200 billion in assets in total. This total consists of**

▲ banking book items with a notional volume of EUR 155 billion (based on constant exchange rates as of 31 December 2011)

▲ as well as the book value of derivatives totalling around EUR 52 billion at the transfer date.

**Refill**, notional volume in EUR billion  
(exchange rates as of 31 Dec 2011)

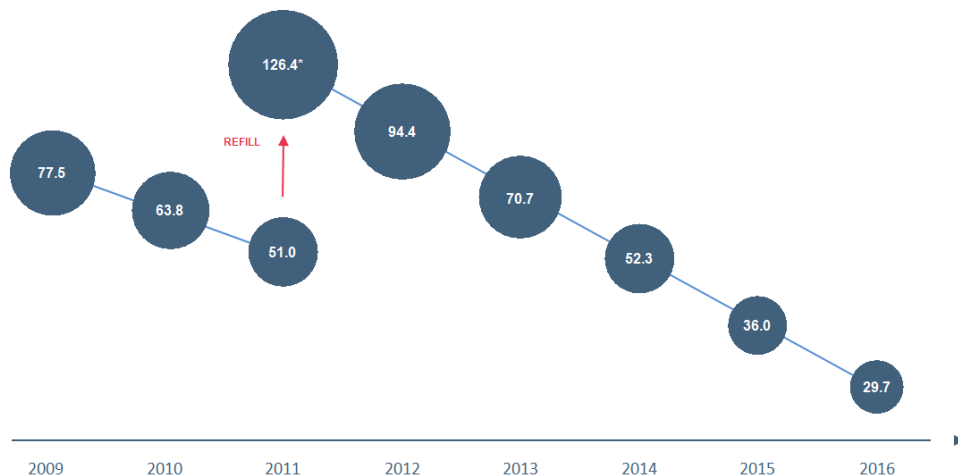


▲ The comparable value of the **combined total portfolio** as of 31 December 2016 stood at **about EUR 53 billion.**

\* Carrying amount

# Overview: significant wind-up of all transferred assets

## The EAA banking book

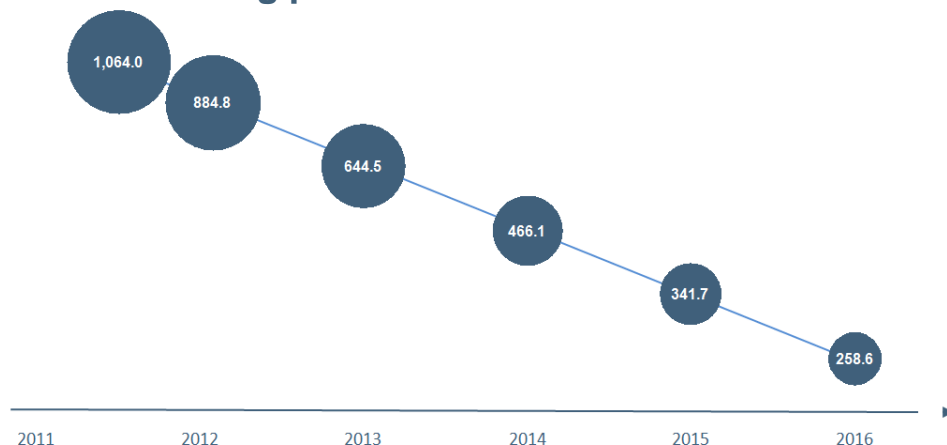


Notional volume in EUR billion, 2009 to 2011: in exchange rates as of 31 December 2009, 2012 to 2016: in exchange rates as of 31 December 2011; \* Acquisition as at 1 January 2012

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WOUND UP

The EAA acquired the banking book exposure from the former WestLB AG in several tranches. Its overall value based on constant exchange rates (31 December 2011) totalled around EUR 155 billion. Of this amount, around EUR 125 billion or around 81% had been wound up as of 31 December 2016.

## The EAA trading portfolio



Notional volume in EUR billion: Exchange rates as of 30 June 2012

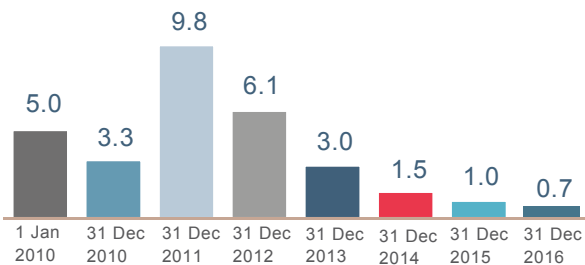
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WOUND UP

In mid-2012, a trading portfolio, comprising mainly derivative financial products, in particular interest and currency transactions, was additionally transferred to the EAA. The notional value totalled more than EUR 1 trillion, of which in excess of EUR 800 billion or around 76% had already been wound up as of 31 December 2016.

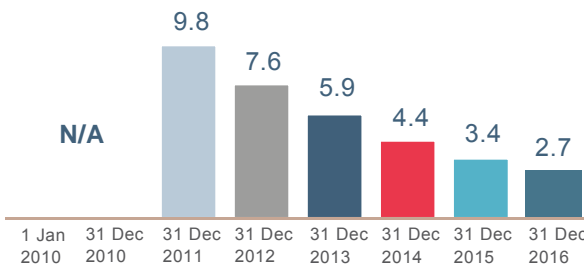
# Decrease in the banking book distributed across numerous – including complex – segments

Notional volume, in EUR billion (exchange rates as of 31 December 2011)

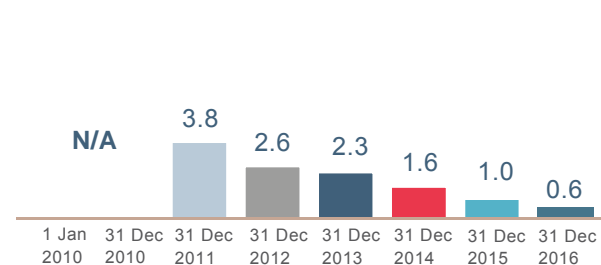
## Industrials



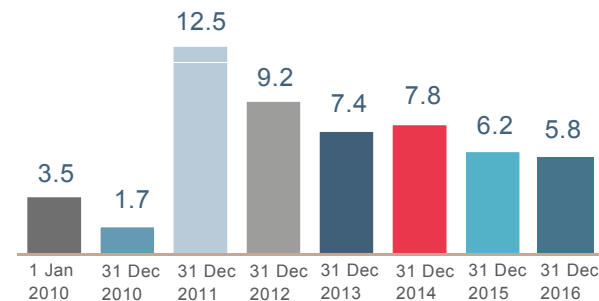
## Energy (refill)



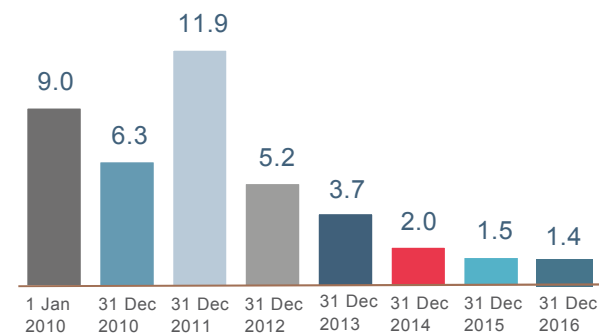
## Infrastructure (refill)



## Public Finance



## Financial Institutions



- ▲ The EAA has acquired a **broadly diversified** portfolio. In order to manage the wind-up process in an optimal manner, loan and security exposures are currently **divided into clusters or segments**.
- ▲ The **Industrials** segment primarily bundles common corporate loan exposures. These **have declined by around 90%** compared with their peak level.
- ▲ The **Energy** and **Infrastructure** segments, which mainly comprise complex project financing arrangements, also continued to decline, with the **wind-up reaching a total of around EUR 10 billion**. Most of these two portfolios was transferred to the EAA only when the refill took place.
- ▲ The **wind-up success since 2012** in the **Public Finance\*** segment, which largely consists of government bonds, amounts to **more than 50%**.
- ▲ The **Financial Institutions\*** segment mostly consists of bank bonds, which have been **reduced by almost 90%** since the takeover of the second portfolio in 2012.

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## Positive result despite significant portfolio wind-up



in EUR million	Jan/2016 - Dec/2016	Jan/2015 - Dec/2015
Net interest income	173.9	174.0
Net commission income	11.5	44.6
Net trading result	33.6	-20.5
General administrative expenses	-212.8	-300.2
Other operating income and expenses	-3.3	-0.3
Result from financial assets and investments	14.7	129.5
<b>Result prior to risk provisioning</b>	<b>17.6</b>	<b>27.1</b>
Loan loss provisions	-7.4	-11.8
<b>Profit before tax</b>	<b>10.2</b>	<b>15.3</b>
Taxes	-0.6	-2.2
<b>Net profit for the year</b>	<b>9.6</b>	<b>13.1</b>

- ▲ **Net interest income and net commission income decreased by a total of around 15%**, due to the portfolio wind-up. The net interest income 2016 contains income, which in former periods led to commission income. Background: The EAA entered various items in its balance sheet, which it previously only guaranteed for legal reasons (Legal Upgrade).
- ▲ The **net trading result** is significantly **influenced by the reversal of reserves**. The operating result is largely balanced.
- ▲ **Administrative expenses continued to decline (by approx. -29%)**. Most are **attributable to portfolio management**, particularly to **services rendered by EFS and EPA**.
- ▲ The **result from financial assets and participations** included in particular income from restructuring within the securities portfolio, proceeds from the sale of participations and the proceeds from the settlement with a US bank. Contrary to this was the impact had by liabilities from the portfolio of US life insurance policies held in an independent holding company.
- ▲ The EAA also increased its risk provisioning in 2016 by some EUR 7 million.

## Significant decline in total assets and business volume



### Assets in EUR billion

Cash reserve	1.7
Loans and advances to banks	7.3
Loans and advances to customers	14.1
Bonds and other fixed-income securities	12.9
Trading portfolio	23.8
Long-term equity investments and shares in affiliates	0.9
Other assets/ Accruals/deferred income	0.1
<b>Total assets</b>	<b>60.7</b>

### Liabilities and equity in EUR billion

Deposits from banks	2.8
Deposits from customers	3.4
Securitised liabilities	30.6
Trading portfolio	22.7
Other liabilities/ Accruals/deferred income	0.2
Provisions	0.3
Equity	0.6
<b>Total liabilities and equity</b>	<b>60.7</b>
Contingent liabilities	6.6
Other commitments	3.1
<b>Business volume</b>	<b>70.3</b>

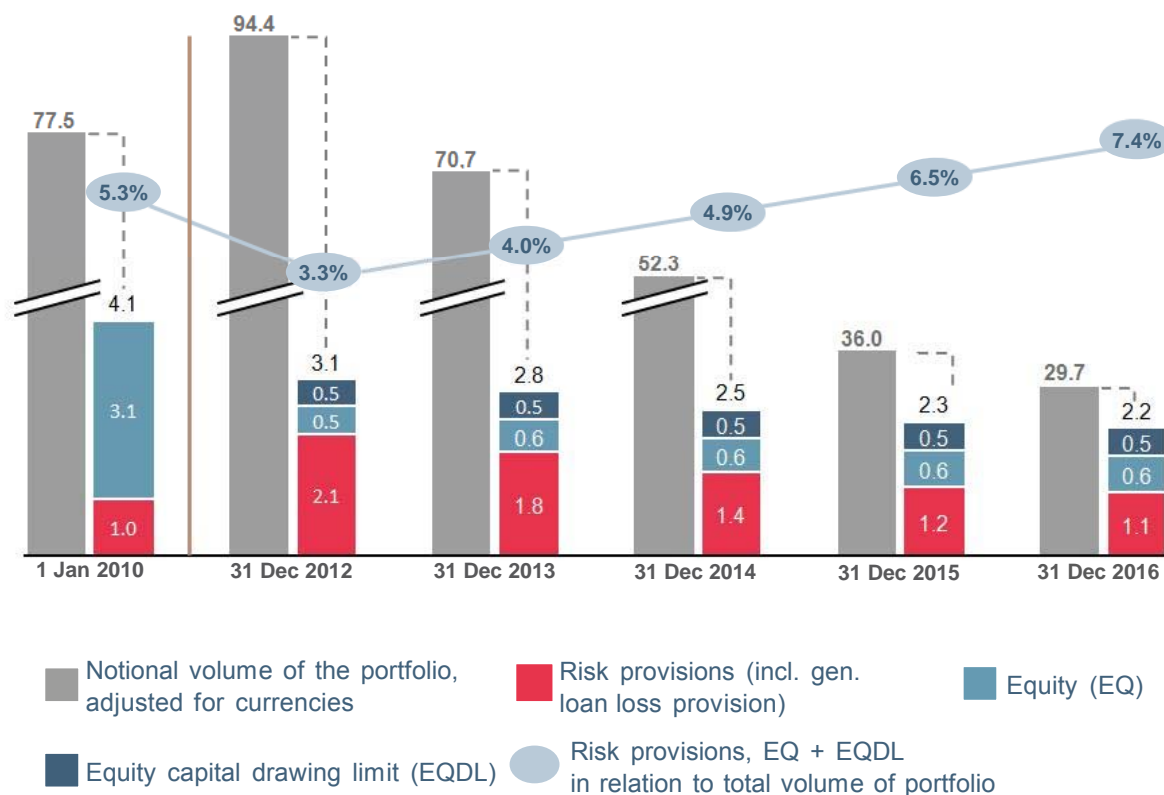
- ▲ **Total assets decreased** from EUR 68.7 billion as of 31 December 2016, to EUR 60.7 billion.
- ▲ **Deposits** from banks and customers, as well as securitised liabilities, **decreased by around EUR 5.2 billion**. This is having a positive effect on the statistically reported government debt.
- ▲ The **market value of trade assets contracted by around EUR 3.4 billion**, to EUR 23.8 billion. This can be attributed to the ongoing portfolio wind-up, as well as to changes in the yield curve.
- ▲ Total assets plus contingent liabilities, such as from guarantees, and other commitments, e.g. irrevocable loan commitments, result in a **business volume of EUR 70.3 billion** (prior year: EUR 81.7 billion).

Please note: the presentation is abridged; rounding differences may occur

# Ratio of risk buffer and equity capital drawing limit to the banking book portfolio continues on positive trend

First fill portfolio

Total portfolio – banking book



▲ The total of risk provisions set up and equity (EQ) as well as the equity capital drawing limit (EQDL) available to the EAA has remained largely stable. In relation to the amount of the remaining banking book portfolio, the value has improved further. This shows that the pace of reduction has not impaired the substance of the portfolio.

▲ The EAA's banking book in the amount of around EUR 29.7 billion is backed by collateral worth about EUR 13 billion.

▲ The composition of risk provisions changed as a result of market developments: In 2016, additional risk provisioning was required especially for loans for infrastructure and power plant projects, as well as for real estate financing.

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## Risks and opportunities of the further wind-up process



- ▲ The EAA's portfolio remains **broadly diversified**, even after significant progress in wind-up activities, and also remains complex, due to structured products, project financing arrangements and participations.
- ▲ In particular the restructuring of **power plant financing arrangements** and the portfolio of **US life insurance policies**, which was likewise transferred in 2012, require careful monitoring due to their volume and riskiness.
- ▲ The EAA is also focusing on other measures in the participation portfolio, which will free up capital and reduce future costs and operational risks.
- ▲ The winding-up of the remaining portfolio is continuing to prove difficult, due to the outstanding **legal issues** both domestically and abroad. The EAA has, however, made considerable progress in the dispute concerning interest swaps with municipalities in North Rhine-Westphalia. Around two-thirds of all litigation proceedings were concluded with settlement agreements, while extra-judicial disputes were likewise settled out of court or ended due to the statute of limitations. The EAA is optimistic that out-of-court solutions will also be reached for the majority of the 15 cases that are still pending.
- ▲ The **Phoenix portfolio**, which has a notional volume of **EUR 8.0 billion** (exchange rate as at 31 December 2011), still poses the greatest individual risk in the EAA portfolio.
- ▲ The EAA continuously adapts its organisational structure to the declining portfolio volume. Due to the advanced stage of the portfolio wind-up, a great deal of importance is being accorded to **measures to ensure the operational stability of the EAA** and safeguard the **expertise** it has acquired.

- ▲ In 2017, the EAA will once again focus **on particularly complex components of the portfolio** and continue to pursue the goal of achieving a balanced wind-up across all rating classes.
- ▲ The current plan foresees a **further reduction of around 40%** in the loans and securities portfolio and the trading portfolio **by 2020**. The **administrative expenses** associated with the winding-up activities are also to be **cut by half once again by 2020**.
- ▲ In 2017, the EAA shall review which alternative wind-up strategies it can use to **further accelerate** the **reduction of risk** in the interests of its shareholders, and at the same time **optimise** the **overall result** of the wind-up. An essential requirement is the progress in winding up the participation portfolio.
- ▲ The EAA shall continue to develop its **organisational structure in 2017**, with the main aims being to guarantee its operational **stability** and **safeguard** the **expertise** it has acquired.
- ▲ The EAA currently remains committed to its objective of **finalising the wind-up with a slight profit**, i.e. **without having to make use of the stakeholders' liability commitment**. Its planning takes into account that **income from the heavily reduced portfolio will continue to decline**, making it likely that **losses** will occur **in individual years**.

▲ **Thank you very much  
for your attention**

Following its adoption by the EAA's Stakeholders' Meeting, the **2016 Annual Report** will be available from 6 April 2017 on the EAA's website at [www.aa1.de](http://www.aa1.de).