



Erste Abwicklungsanstalt

Fiscal year 2015 ends in the black – wind-up making rapid progress

Press briefing with Matthias Wargers, Spokesman of the Managing Board,
Düsseldorf, 21 March 2016

EAA remains on track and is achieving its objectives

- ▲ In 2015 the EAA earned net profit of around EUR 13m, ending the fourth consecutive fiscal year with a positive result.
- ▲ The EAA continued to rapidly reduce the portfolio. The notional volume of loans and securities decreased in 2015 by around 31%, while derivatives in the trading portfolio were down 27%.
- ▲ The EAA successfully finalised the sale of Westdeutsche Immobilienbank AG (WestImmo), with the transaction making a significant contribution to the wind-up success in 2015.
- ▲ As of the end of 2015 the share of the portfolio with an investment-grade rating stood at around 67% (previous year: 56%). The wind-up continued in a balanced manner and not at the expense of the portfolio's quality.
- ▲ In 2015 the EAA continued to optimise its organisational structures, primarily in order to secure expertise for the future wind-up process. Achieving that objective is also the primary consideration behind the EAA's acquisition of Portigon Financial Services GmbH (PFS), which was prepared in 2015 and will now be finalised soon.

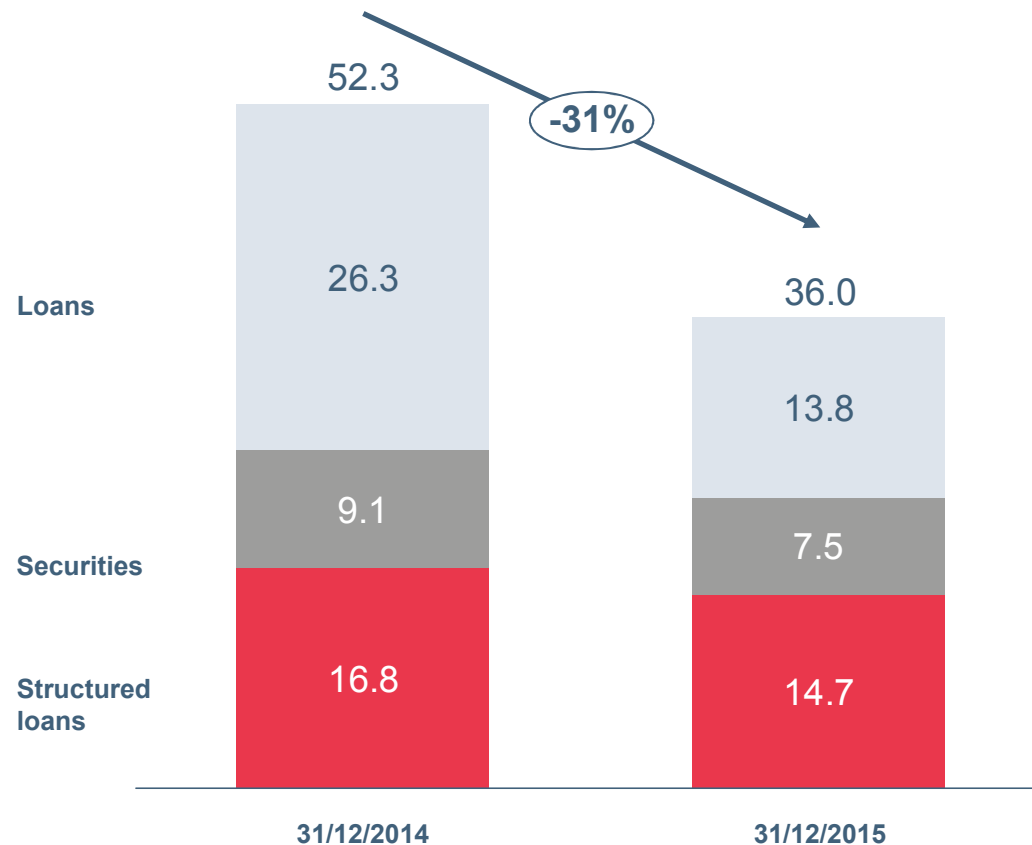
Wind-up activities

Development of the balance sheet and the
income statement

Outlook

Banking book portfolio is sharply lower, mostly due to the sale of WestImmo

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

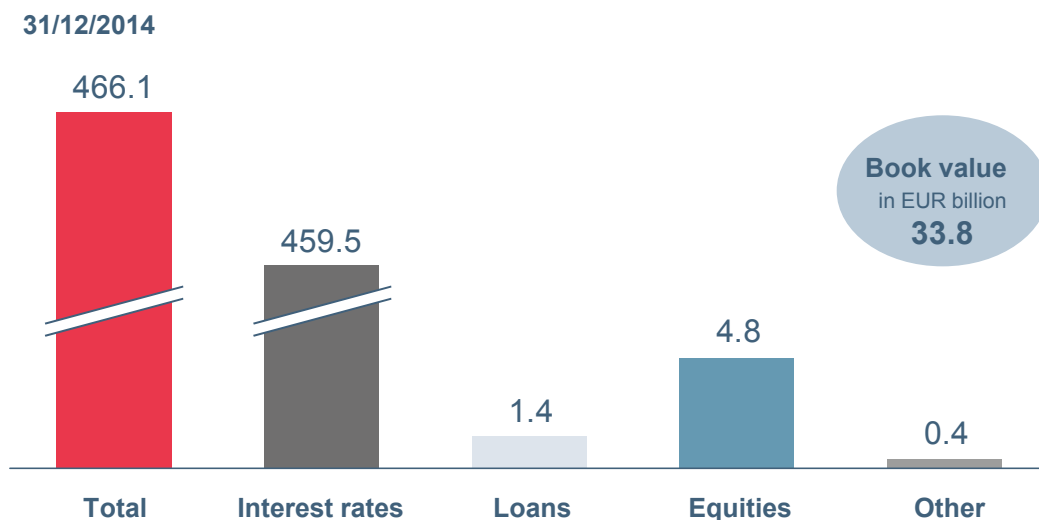
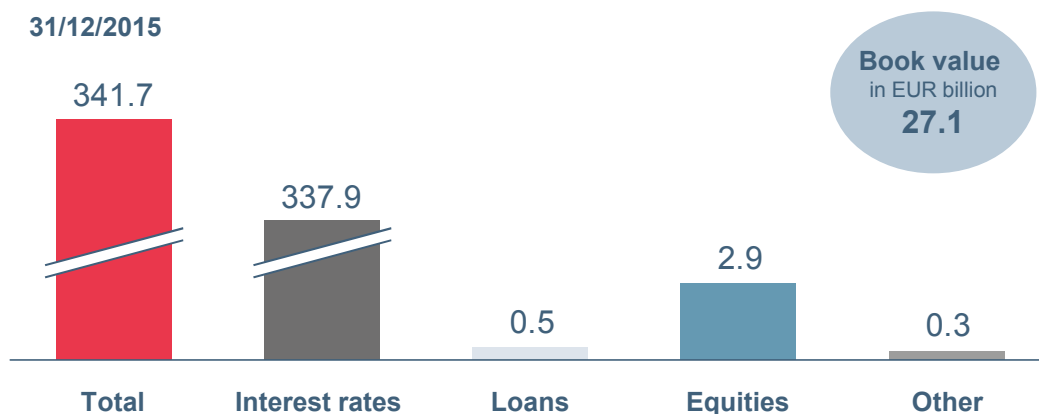


Please note: rounding differences can occur.

- ▲ In 2015 **loan and securities exposures** were reduced by **EUR 16.3bn**, with the total volume of the positions now declining to **around EUR 36bn** at year-end, compared with more than EUR 52 billion as of 31 December 2014.
- ▲ The **loan portfolio** was **almost halved compared with previous year**, not least because of the sale of WestImmo.
- ▲ **Project financing** accounts for a major portion of the remaining loan portfolio, at **about EUR 5bn**.
- ▲ Around **70% of the securities portfolio** (EUR 5.2bn) is attributable to **municipal and federal** exposures. Exposures in the securities portfolio, especially to the euro periphery states of **Portugal, Spain and Italy**, were **reduced further**.
- ▲ The “**structured loans**” segment is **dominated** by the **Phoenix portfolio**, with a share of **roughly 70%**. As of 31 December 2015 it amounted to EUR 10.3bn, down nearly 60% since the transfer.
- ▲ The share of **investment-grade** assets amounted to around **67%** at the end of 2015 (31 December 2014: 56%). The EAA continued to implement its wind-up strategy in a balanced manner across all rating categories.

Trading portfolio continues to fall rapidly – targeted wind-up of individual segments reduces risks significantly

Notional volume in EUR billion

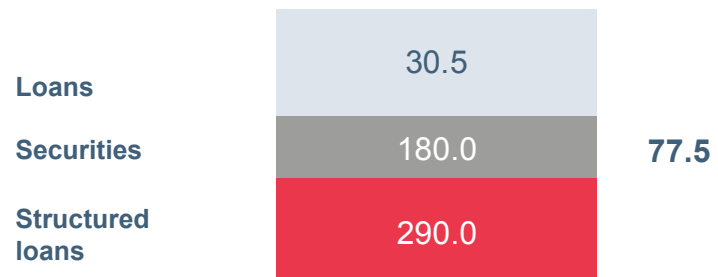


Please note: rounding differences can occur.

- ▲ The **notional volume of derivatives** held in the trading portfolio was **reduced by around EUR 124.4bn** since the start of 2015. This equates to a **decline of about 27%**.
- ▲ The **risks of the trading portfolio have decreased**, not just because of a decline in the overall volume. They are even lower because **some segments**, such as loan and equity derivatives, **have largely been eliminated** or sharply reduced.
- ▲ Derivatives are **accounted for at their market value**. This **declined year-on-year by around EUR 7bn** due to the realised decrease in the notional volume.

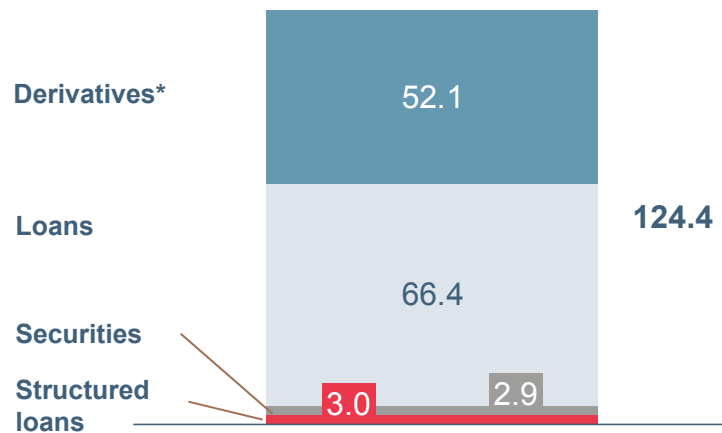
Overview: the combined total portfolio and the assets transferred since 2009/2010

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



- ▲ Under the first fill and the refill the EAA acquired more than EUR 200bn in assets. This total consists of
 - ▲ Banking book positions with a notional volume of EUR 155bn (calculated on the basis of constant exchange rates as of 31 December 2011)
 - ▲ The book value of derivatives totalling around EUR 52bn at the transfer date.

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

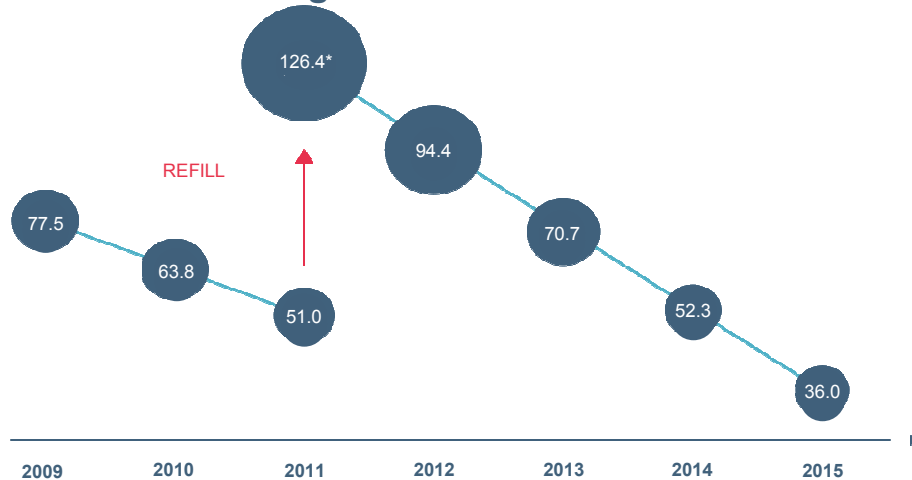


- ▲ The comparable value of the **combined total portfolio** as of 31 December 2015 stood at **about EUR 63bn**.

* Book value

Overview: rapid wind-up of all transferred assets

The EAA's banking book

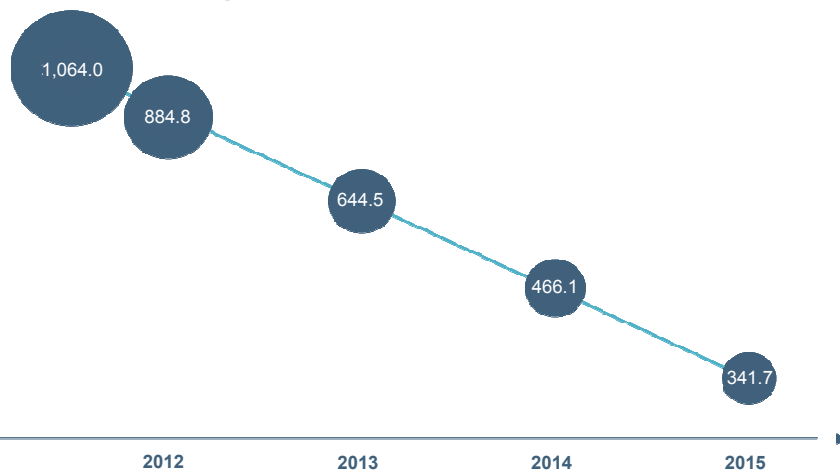


Notional volume in EUR billion, 2009 to 2011: at exchange rates as of 31 December 2009, 2012 to 2015: at exchange rates as of 31 December 2011, * Acquisition as at 1 January 2012

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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 155bn. Of this amount, nearly EUR 120bn or almost 77% has been reduced as of 31 December 2015.

The EAA's trading portfolio



Notional volume in EUR billion
Press briefing, 21 March 2016

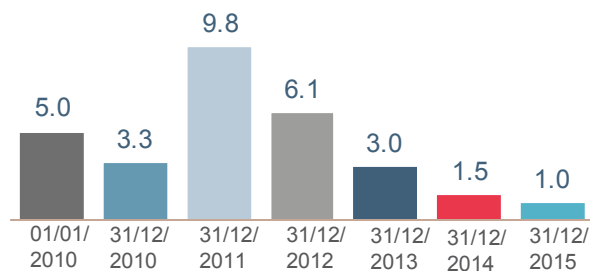
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WOUND UP

In mid-2012 a trading portfolio, comprising mainly derivative financial products (interest and currency transactions in particular) was additionally transferred to the EAA. The notional value totalled more than EUR 1trn, of which about EUR 722bn or around 68% has already been wound up as of 31 December 2015.

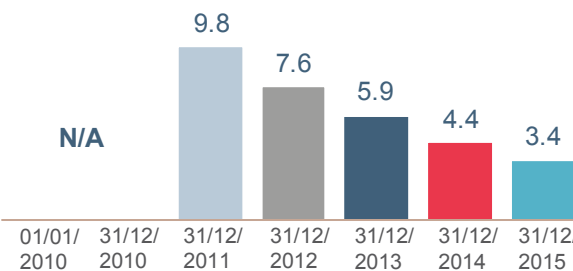
Banking book 2010 to 2015: reduction distributed across numerous segments – including the difficult ones

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

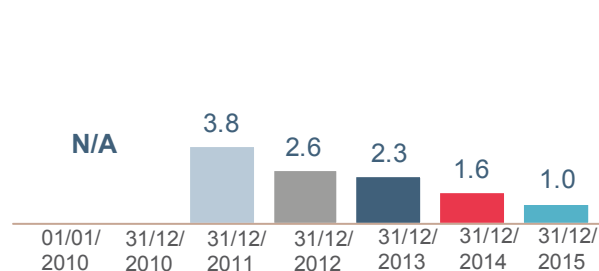
Industrials



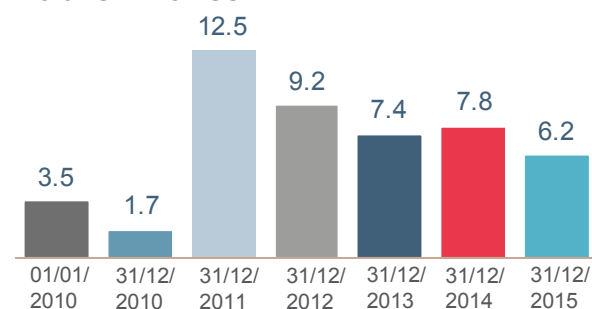
Energy (refill)



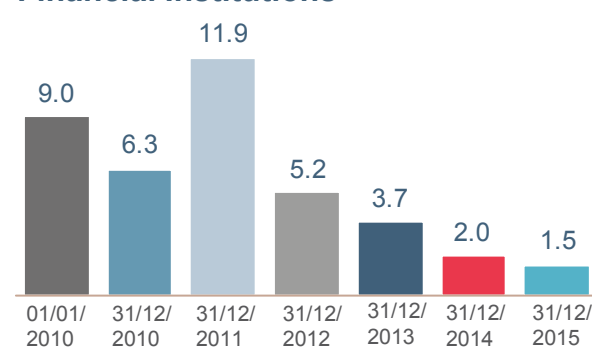
Infrastructure (refill)



Public Finance



Financial Institutions



- ▲ The EAA acquired a broadly **diversified portfolio**. To manage the wind-up process in an optimal manner, loan and securities exposures are currently **divided into 19 clusters (i.e. segments)**.
- ▲ The **Industrials** segment mostly bundles common corporate loan exposures. These **have declined by around 90%** compared with their peak values.
- ▲ The **Energy** and **Infrastructure** segments, which mostly comprise complex project financing arrangements, continued to decline too, with the **wind-up** reaching **around 65% and more than 70%, respectively**. Most of these two portfolios were transferred to the EAA only when the refill took place.
- ▲ The **wind-up success** in the **Public Finance** segment, which largely consists of government bonds, amounts to **about 50%**.
- ▲ The **Financial Institutions** segment mostly consists of bank bonds, which have meanwhile been **reduced by roughly 90%**.

Wind-up activities

Development of the balance sheet and the
income statement

Outlook

Positive result despite accelerated wind-up

EUR million	01/2015 - 12/2015	01/2014 - 12/2014
Net interest income	174.0	210.2
Net fee and commission income	44.6	54.3
Net trading result	-20.5	-24.5
General and administrative expenses	-300.2	-349.0
Other income and expenses	-0.3	-4.0
Net income from investment securities and long-term equity investments	129.5	172.6
Results prior to risk provisioning	27.1	59.6
Provisions	-11.8	4.3
Results before taxes	15.3	63.9
Taxes	-2.2	-1.4
Net profit for the year	13.1	62.5

- ▲ **Net interest income and net fee and commission income decreased** as a result of the portfolio wind-up (**-17% and -18%, respectively**). The decline in interest income could not be offset by favourable funding conditions.
- ▲ The **net trading result** was impacted by the creation of reserves. **Operationally**, the result was **balanced**, as in the previous year.
- ▲ **Administrative expenses continued to decline (-14%)**. Most are **attributable to portfolio management**, and the **services rendered by PFS** in particular (around 65%).
- ▲ **Net income from investment securities and long-term equity investments** contains mostly income from the sale of WestImmo and from restructuring measures.
- ▲ In 2015 the EAA continue to establish **new risk provisions**, including for its Heta exposure and for project financing in the Energy sector. The **net balance** of reversals, for example as a result of successful restructuring measures, and additions was **negative** in 2015.

Reduction in total assets makes progress in 2015

Assets	in EUR billion
Loans and advances to banks	9.7
Loans and advances to customers	15.1
Bonds and other fixed-income securities	15.8
Trading portfolio	27.1
Long-term equity investments and shares in affiliates	0.9
Other assets/prepaid expenses	0.1
Total assets	68.7

Liabilities and equity	in EUR billion
Deposits from banks	3.6
Deposits from customers	4.1
Securitised liabilities	34.2
Trading portfolio	25.4
Other liabilities/deferred income	0.7
Provisions	0.4
Equity	0.6
Total liabilities and equity	68.7
Contingent liabilities	9.9
Other liabilities	3.2
Business volume	81.7

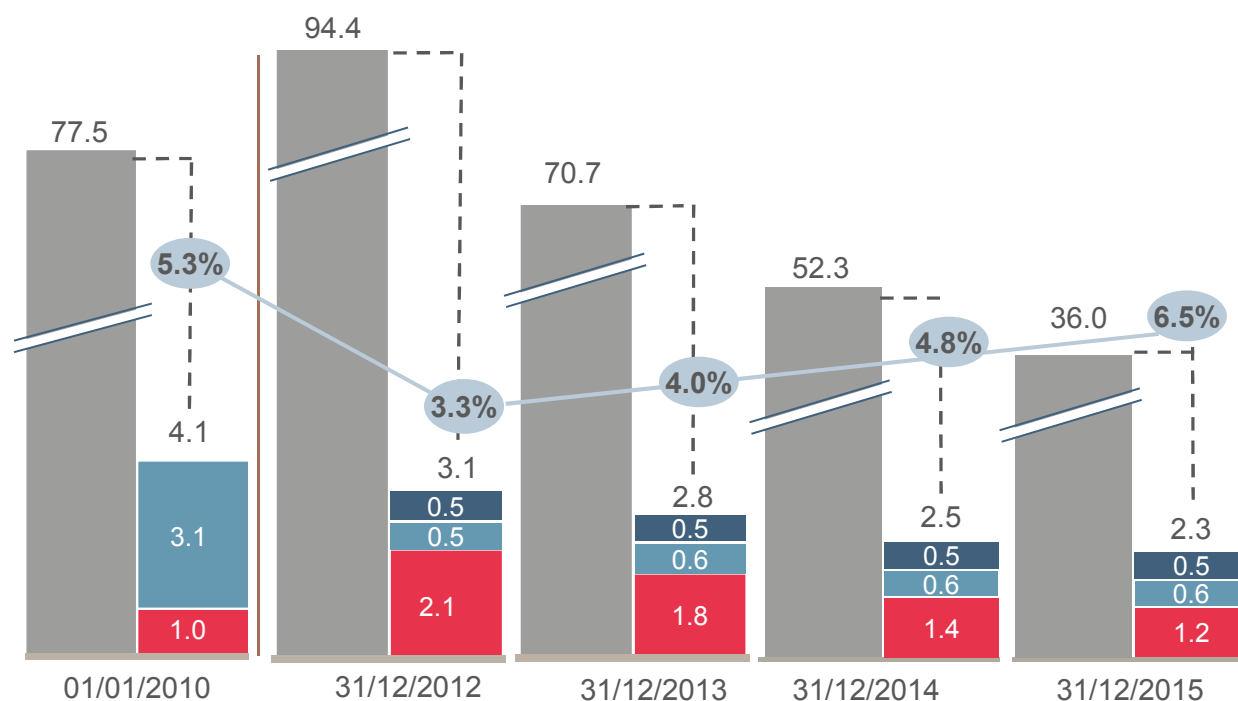
- ▲ **Total assets decreased** from EUR 79.5bn as of 31 December 2014 to their current level of EUR 68.7bn. **Deposits** from banks and customers as well as securitised liabilities **were around EUR 3.4bn lower**. This decrease has a positive effect on statistically reported government debt.
- ▲ The notional decline in the trading portfolio is also reflected in the balance sheet for 2015: the **market value of trading assets contracted by nearly EUR 7bn** to around EUR 27bn. On the other hand, the **actual decrease in the banking book is not fully reflected** because, for example, part of the exposures of EAA Covered Bond Bank has been transferred to the EAA. These were always taken into account in the wind-up portfolio but not in the EAA's balance sheet.
- ▲ The **business volume**, which consists of total assets plus contingent liabilities and other obligations (around EUR 13bn), **totals EUR 81.7bn** (previous year: EUR 91.9bn).

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 to develop positively

First fill portfolio

Total portfolio – banking book



Notional volume of the portfolio, adjusted for currencies
 Risk provisions (incl. port. prov.)
 Equity (EQ)
 Equity capital drawing limit (EQDL)
 Risk provisions, EQ + EQDL in relation to total volume of portfolio

- ▲ The **total** of established **risk provisions** 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 36 billion is also backed by additional **collateral worth about EUR 16bn**.
- ▲ The composition of risk provisions changed as a result of market developments. In 2015 **risk provisioning** was primarily **necessary** in the **Energy segment**.

Wind-up activities

Development of the balance sheet and the
income statement

Outlook

Risks and opportunities of the further wind-up process – the portfolio

The EAA's portfolio remains **broadly diversified** even after the significant wind-up progress. It remains **highly complex** because of its structured products, project financing arrangements and long-term equity investments. In addition, the wind-up has been hampered because **legal questions** must be clarified, both domestically and abroad. In this respect, the EAA continues to face challenges.

These include, in particular:

- ▲ The **Phoenix portfolio**, which remains the largest individual risk in the EAA's portfolio.
- ▲ The portfolio of **US life insurance policies** that was transferred in 2012. This exposure must be carefully monitored because of its volume and riskiness.
- ▲ The portfolio of **project financing arrangements in peripheral eurozone countries**, which was likewise acquired in 2012. This portfolio must undergo complex restructuring because retroactive changes to laws promoting renewable energies, for example, must be taken into account.
- ▲ The transferred portfolio of **interest rate swaps** with municipalities in North-Rhine Westphalia. This transfer required the EAA to take on a large number of legal disputes, including seven lawsuits that have meanwhile been referred to the German Supreme Court (BGH). The BGH ruled on a first case in April 2015 and a second case will be heard on 22 March 2016. Nevertheless, the EAA **was able to reach settlements in a larger number of these cases and thus finalise the proceedings** in 2015 and in the first quarter of 2016. The EAA continues to actively investigate all opportunities for achieving out-of-court solutions.

Risks and opportunities of the further wind-up process – the organisation

The EAA adapts continuously to changing conditions and its shrinking portfolio. Its mission requires a **permanent review of its organisational structures** as well as **measures to protect the expertise** it has developed for the further wind-up process.

- ▲ To safeguard its **operational stability** and **optimise its structures**, the EAA initiated preparations in 2015 to acquire Portigon Financial Services GmbH (PFS). This acquisition will now be finalised soon.
- ▲ As a consequence, **all significant services needed to manage the EAA's portfolio are now rendered by EAA subsidiaries**. While PFS will primarily focus on IT/Operations, EPA, which was founded in 2014, will act as the EAA's portfolio manager.
- ▲ The EAA is investigating whether to **reassign** some of PFS's **activities** to the EAA and EPA. The objective of this reassignment is to **focus** all units on their respective **core responsibilities**.
- ▲ The organisational measures will be **implemented** without negatively impacting the **wind-up result**.

Outlook

The EAA's current planning

- ▲ Provides for a decrease in the loan and securities portfolio by the end of 2017 to below EUR 25bn and **by 2020 to about 10%** of the transferred volume, i.e. around EUR 15bn.
- ▲ Provides for a decrease in the notional value of the trading portfolio by the end of 2017 to below EUR 240bn and **by 2020 to slightly more than 15%** of the transferred volume – that is around EUR 160bn.
- ▲ Contains **requirements for gradually decreasing** the **expense** associated with the wind-up process, aiming to **cut it in half over the medium term**.
- ▲ Continues to anticipate that the EAA's **equity will be sufficient to cover any potential losses arising from the wind-up**;
- ▲ Already takes into account that the **income from the sharply reduced portfolio will fall** and will not always be sufficient to cover expenses, **making it possible that losses might occur in some years**.

In light of the success achieved to date at scaling back the portfolio, the EAA's Managing Board now believes it may be possible to finalise the wind-up prior to 2027. To that end the EAA will investigate which organisational measures and sales options might be suitable to accelerate the discharge of the liable stakeholders from the risks.

Summary

- ▲ The EAA will continue in 2016 and 2017 to **focus on the particularly complex components of the portfolio** in order to accelerate risk reduction in the interest of its liable stakeholders.
- ▲ The EAA's Managing Board anticipates that economic trends will continue to support the wind-up process over the next several months. The EAA remains committed to its **goal of achieving a balanced reduction**.
- ▲ The Managing Board aims to **decrease the loan and securities portfolio to below EUR 25bn** by the end of 2017; during the same time the notional volume of the **trading portfolio** is to be reduced to **less than EUR 240bn**.
- ▲ The EAA will **continue to enhance its organisation in 2016**. Its objective is to **ensure operational stability over the long term**, to **bundle the expertise** gained so far and to **tap synergies**.
- ▲ The EAA currently remains committed to its objective of **finalising the wind-up with a slight profit** and thus **financing the wind-up process with its existing capital**. Its planning takes into account that **income from the portfolio, which has largely been wound up, will continue to decline**, making it likely that **losses will occur in some years**.

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

Following its adoption by the EAA's Stakeholders' Meeting, the 2015 annual report will be available from 14 April 2016 on the EAA's website at www.aa1.de.