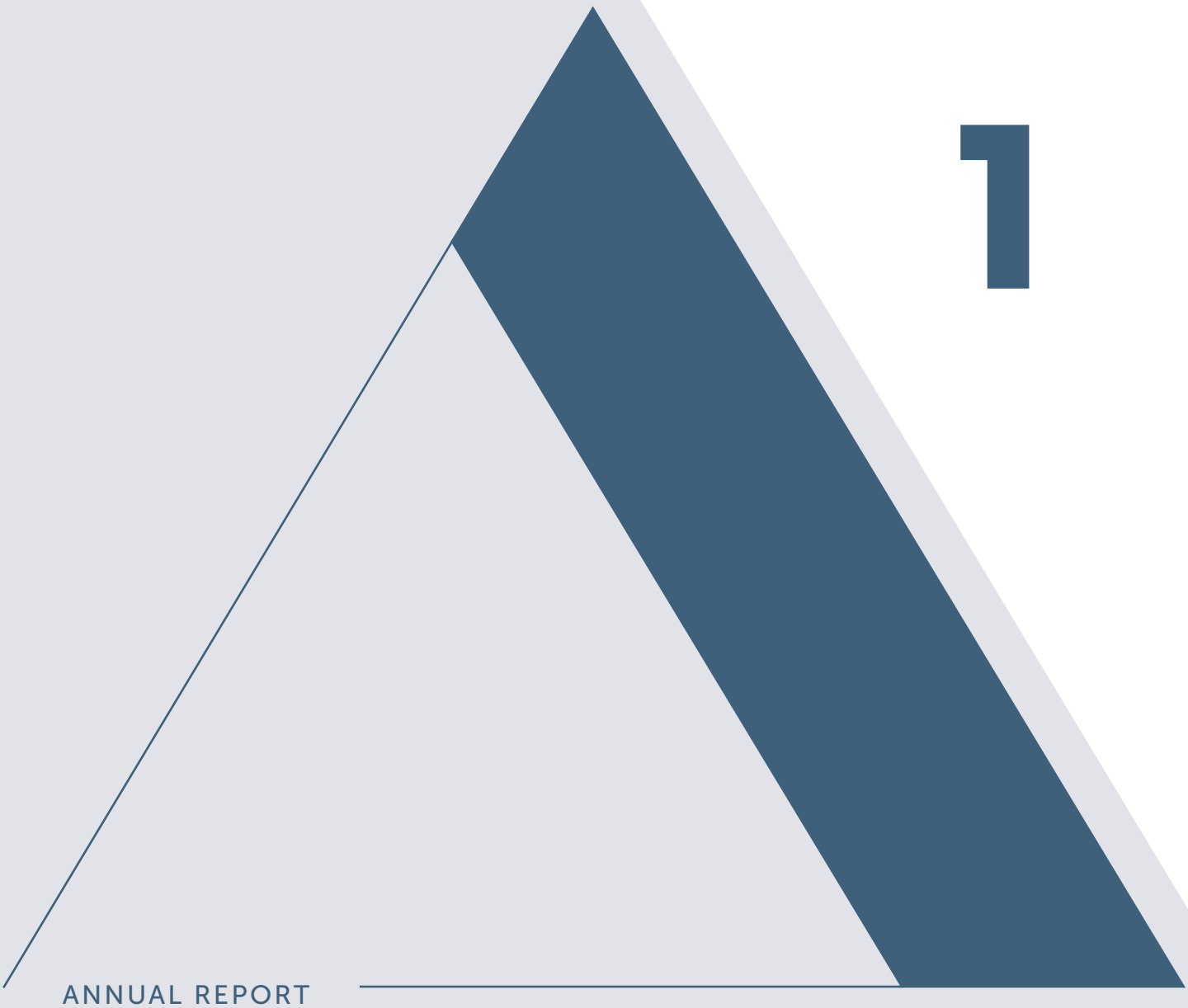
Erste Abwicklungsanstalt



ANNUAL REPORT

# 2015

# EAA key figures

| Income statement in EUR million | 1/1 - 31/12/2015 | 1/1 - 31/12/2014 |
|---|---|---|
| Net interest income | 174.0 | 210.2 |
| Net fee and commission income | 44.6 | 54.3 |
| Net trading result | -20.5 | -24.5 |
| Other operating result | -0.3 | -4.0 |
| General administrative expenses | -300.2 | -349.0 |
| Results from financial assets and shareholdings | 129.5 | 172.6 |
| **Results prior to risk provisioning** | **27.1** | **59.6** |
| Loan loss 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** |

| Balance sheet in EUR billion | 31/12/2015 | 31/12/2014 |
|---|---|---|
| Total assets | 68.7 | 79.5 |
| Business volume | 81.7 | 91.9 |
| Loan transactions | 37.8 | 39.9 |
| Trading portfolio | 27.1 | 33.8 |
| Equity | 0.6 | 0.6 |

| Winding-up | 31/12/2015 | 31/12/2014 |
|---|---|---|
| **Banking book** | | |
| Notional value (before FX effect) in EUR billion | 36.0 | 52.3 |
| Winding-up activities in EUR billion | -16.3 | -18.4 |
| Winding-up activities in % | -31.2 | -26.0 |
| **Trading portfolio** | | |
| Notional value (before FX effect) in EUR billion | 341.7 | 466.1 |
| Winding-up activities in EUR billion | -124.4 | -178.4 |
| Winding-up activities in % | -26.7 | -27.7 |

| Employees | 31/12/2015 | 31/12/2014 |
|---|---|---|
| Number of employees | 144 | 134 |

| Rating | Short-term rating | Long-term rating |
|---|---|---|
| Moody's Investors Service | P-1 | Aa1 |
| Standard & Poor's | A-1+ | AA- |
| Fitch Ratings | F1+ | AAA |

# Contents

EAA key figures ..... 2
Report of the supervisory board ..... 4
Foreword of the managing board ..... 5
Portfolio wind-up ..... 6
The self-conception of the EAA ..... 11
Interview with the spokesman of the managing board ..... 12
Practice report ..... 14
Roadmap ..... 20

Financial report ..... 22
List of abbreviations ..... 129
Imprint ..... 131

# REPORT OF THE SUPERVISORY BOARD

In exercising the rights and obligations incumbent upon it under the statutory provisions and its charter in the fiscal year from 1 January 2015 to 31 December 2015, the Supervisory Board of Erste Abwicklungsanstalt convened eight times (including three conference calls). Its permanent committees, comprising the audit committee and the risk committee, convened twice and four times respectively.

The subjects discussed by the Supervisory Board in fiscal year 2015 included the wind-up plan for 2016, securing the EAA's operating stability and in particular the integration of Portigon Financial Services GmbH's corporate structure into Erste Abwicklungsanstalt, and the further developments with regard to claims brought by municipalities in relation to derivatives transactions concluded. The Supervisory Board has given careful consideration to the commissioning of the auditing services of the annual financial statements. The Supervisory Board also advised the Managing Board and monitored its management of the company, and was involved in decisions that are of fundamental importance for Erste Abwicklungsanstalt. The Supervisory Board was kept regularly informed about the situation at Erste Abwicklungsanstalt – also outside of meetings – through the wind-up reports submitted to it and other reports brought to its attention.

The Supervisory Board appointed PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft (PwC) as the auditors of Erste Abwicklungsanstalt. PwC audited the annual financial statements and the management report of Erste Abwicklungsanstalt for the fiscal year ending on 31 December 2015 and issued an unqualified audit opinion. The Supervisory Board and its audit committee discussed the auditor's report on the findings of its audit in detail and raised no objections following the final results of the audit.

The Supervisory Board approved the annual financial statements and the management report prepared by the Managing Board at its meeting on 13 April 2016 and proposes to the Stakeholders' Meeting to ratify the annual financial statements for fiscal year 2015.

Düsseldorf, 13 April 2016

Dr. Rüdiger Messal
Chairman of the Supervisory Board

## Dear readers,

For the fourth time in succession, the EAA achieved a positive result in the past fiscal year. We are particularly pleased, as the net profit of just over EUR 13 million is attributable to the EAA's active portfolio management. After all, the EAA – as is anticipated in the wind-up planning – can no longer cover its expenses with current interest income and net fee and commission income, as a consequence of the advanced reduction of the assets taken over. Rather, the profit reported for the previous fiscal year is due to a raft of targeted measures: the successful disposal of equity investments, restructuring in the banking book and consistent cost management.

In 2015, the EAA also further accelerated the reduction of the loans, securities, equity investments and derivative financial products it had assumed. At the end of December 2015, the banking book's portfolio, which was transferred to the EAA, was reduced by more than three quarters; the privatisation of Westdeutsche Immobilienbank AG was a major milestone in this respect. The trading portfolio has been reduced by more than two thirds since it was transferred. This means we have already fulfilled a large part of our mission. In light of the successes achieved, we will therefore review which structural measures and disposals could be suitable for relieving our liable stakeholders of risks ahead of schedule.

Nonetheless, we acknowledge that the residual portfolio will place major demand on us. The remaining positions are complex and their further reduction often involves resolving difficult legal issues. We want to reduce the EAA's administrative expenses by half in the space of a few years and thus take account of the decreasing portfolio. However, our duties are not diminishing in step with the portfolio. The EAA will for example have to meet strict legal and regulatory standards in the future too. Basic costs will remain, the management of which will call for further effort.

We also have to shape the change in our own organisation and strike the necessary balance. The EAA will adjust its corporate structures and significantly reduce the number of experts that are dealing with the portfolio of the former WestLB. At the same time, it cannot forfeit the expertise that is critical to its success and necessary for the further wind-up process. The adaption of the corporate structure of our largest service provider, Portigon Financial Services GmbH, was an important step in securing key portfolio services for the future too. The transfer that was prepared last year and completed this spring also allows us to generate synergies in the wind-up process.

The EAA remains on track. On the following pages you will find additional information and insights into our successes in the previous fiscal year, the challenges that lie ahead and the targets we have set ourselves in the medium term. We wish you interesting reading.

**Matthias Wargers**
Spokesman of the
Managing Board

**Markus Bolder**
Member of the
Managing Board

**Horst Küpker**
Member of the
Managing Board

# Portfolio wind-up – a contribution to stability

**The EAA was formed in 2009 as a recovery tool in the financial crisis. Its mandate is to wind up a multi-billion Euro portfolio it had taken over from the former WestLB. The EAA is therefore contributing to the stabilisation of the financial markets and making it feasible to smoothly remove an internationally linked wholesale bank from the market.**

## Significant progress

The EAA fully achieved its targets in fiscal year 2015. It was able to preserve value even in volatile market phases, and significantly reduce risks. The portfolio wind-up advanced very quickly, with the volume in the banking book falling by around 31 per cent in 2015 to EUR 36 billion. Since its foundation, the EAA has therefore reduced the volume of loans and securities by almost EUR 120 billion. This equates to around 77 per cent of all the loans and securities it acquired in several steps, in 2009, 2010 and 2012. The notional volume of the trading portfolio decreased by just over 27 per cent in 2015 to around EUR 342 billion. Since the transfer in summer 2012, derivatives exposures were reduced by EUR 722 billion. This equates to around 68 per cent of the portfolio that was transferred almost four years ago.

The wind-up result actually achieved is well ahead of the original planning for reducing the risk exposures. One of the milestones of the successful portfolio wind-up was the sale of WestImmo, which was concluded in 2015. The EAA thus not only privatised its largest operating equity investment, after extensive restructuring. This transaction alone also reduced the loan and securities exposures by almost EUR 8 billion.

**> 3/4**

**WOUND UP**

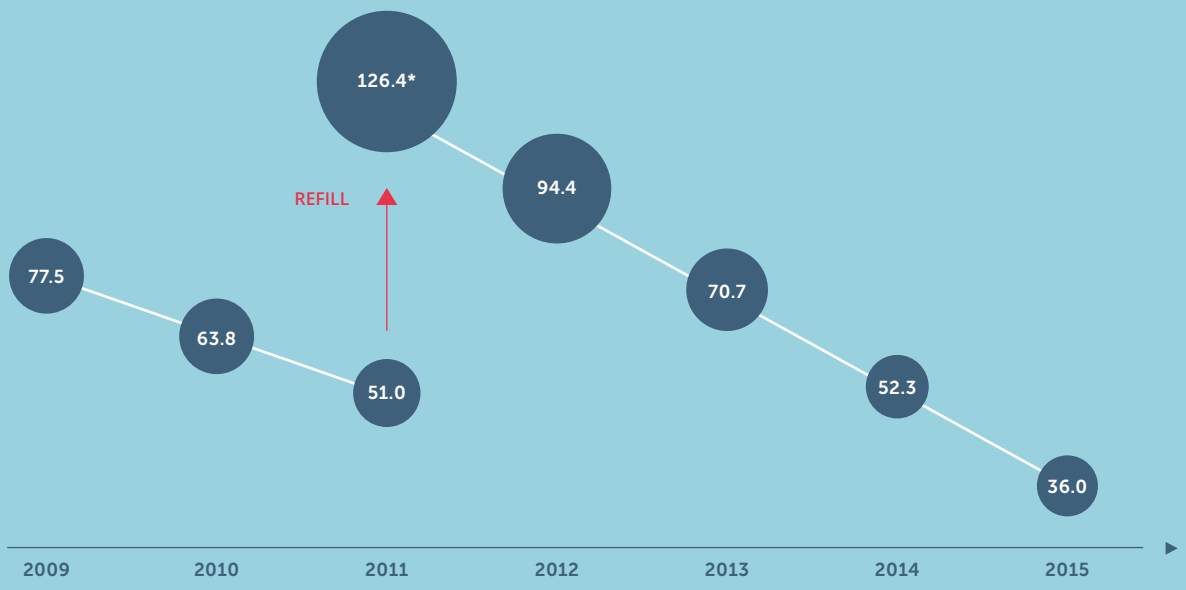
The EAA took over the banking book exposures from the former WestLB AG in several tranches. Its overall value based on constant exchange rates (31 December 2011) totalled around EUR 155 billion. Of this amount, nearly EUR 120 billion or about 77 per cent was reduced as of 31 December 2015.

**> 2/3**

**WOUND UP**

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

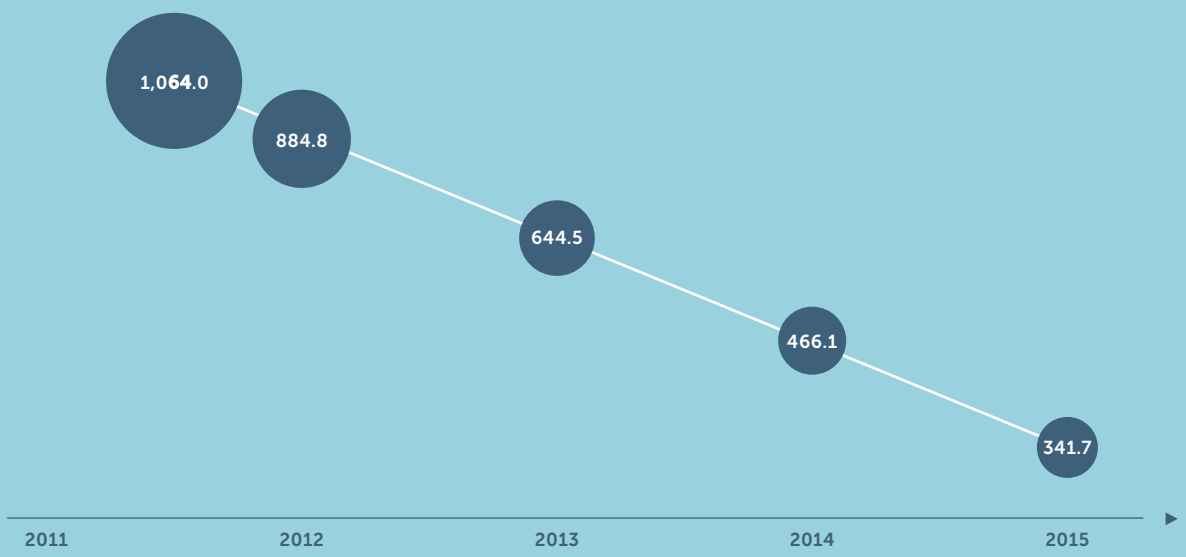
# THE EAA BANKING BOOK Notional volume in EUR billion




2009 to 2011: based on exchange rates as of 31 December 2009; 2012 to 2015: based on exchange rates as of 31 December 2011

* Acquisition as at 1 January 2012

# THE EAA TRADING PORTFOLIO Notional volume in EUR billion



## Portfolio wind-up with foresight

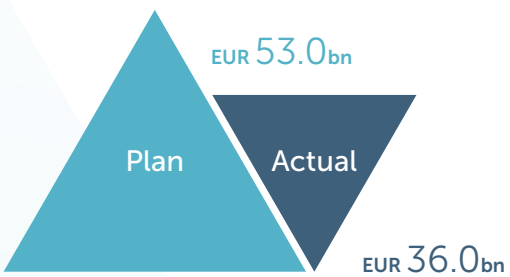
The EAA has a clear mandate, which is to wind up the assets taken over from the former WestLB in a risk-minimising and at the same time value-preserving manner. Within this context, the focus is not on short-term wind-up success or on achieving the maximum result in any given fiscal year. Sustained success is key.

The EAA wants to wind up the transferred portfolio as quickly as possible – but not at any price. The EAA does not sell every time a buyer is available. It will hold a portfolio if an exposure can realise higher values on a long-term horizon, provided its analyses exhibit no excessive increase in risks in possible stress scenarios.

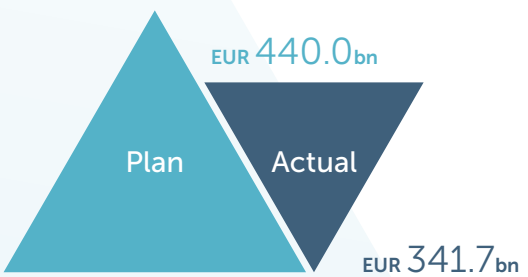
### Ahead of schedule

Since it took over the second large portfolio in 2012, the EAA has wound up its banking book and its trading portfolio considerably quicker than planned as part of the refill. This is demonstrated by the plan/actual comparisons as at 31 December 2015.

#### Banking book




#### Trading portfolio




## Targeted reduction of risks

One of the EAA's management principles is to wind up the portfolio in a risk-orientated manner. It has had the same success to date in reducing risky exposures as with assets of good quality. An indicator for this is the development of the investment grade share of the loan and securities portfolio. The share of positions with very good, good and medium ratings was consistently above 50 per cent in recent years. This figure increased to 67 per cent at the end of fiscal year 2015.

On the basis of its successful asset management strategy, the EAA also reduced the volume of impaired sub-portfolios, as it had done in previous years. The volume of particularly complex and risky project financings in the Infrastructure cluster, for example, fell by around an additional EUR 500 million in fiscal year 2015. The wind-up totals a good 70 per cent compared with the high of 2012. The Public Finance cluster was also reduced by around half relative to its peak. This cluster contains mainly government bonds, including large volumes of bonds from southern European countries that were particularly affected by the financial crisis and therefore feature relatively poor ratings. The sub-portfolio volume fell by EUR 1.6 billion in 2015 alone.

The development of the derivatives portfolio is also subject to a clear strategy. The EAA concentrated its activities in winding up the trading portfolio on a swift reduction of complex products such as loan and equity derivatives. These not only harbour greater risks than simple interest rate derivatives but are more cost-intensive to manage. A fast wind-up pace pays off two-fold, so to speak. The same applies to the strategy of reducing the number of contractual partners in the trading portfolio. The EAA has meanwhile lowered the number of counterparties in the trading portfolio by around 350 parties or around 40 per cent. This reduces the potential uncertainties associated with a lowering of the contractual partners' financial standing.

## Good instruments, clear targets

The EAA has developed a complex range of instruments to manage its portfolio in an optimal manner. At the core of this is the wind-up plan that covers the period up to 2027. It describes the wind-up strategy for each individual exposure, the schedule for winding up the portfolio and the implications for the EAA's equity capital and financial situation for all measures. It also includes a projected balance sheet and projected income statement in accordance with German commercial law. Liquidity planning is also carried out.

Using these special tools, the EAA is working towards reaching its objective – as long-term as necessary and as flexible as possible – of finalising its work with no equity shortfall. If it succeeds in achieving this, the equity capital that was transferred to the EAA with the portfolio of former WestLB would offset the losses incurred in winding up the risk exposure. Neither the state of North Rhine-Westphalia nor the local Regional Associations and Savings Bank Associations, or the government via the Financial Market Stabilization Fund, would then incur losses from the winding up of the EAA portfolio.

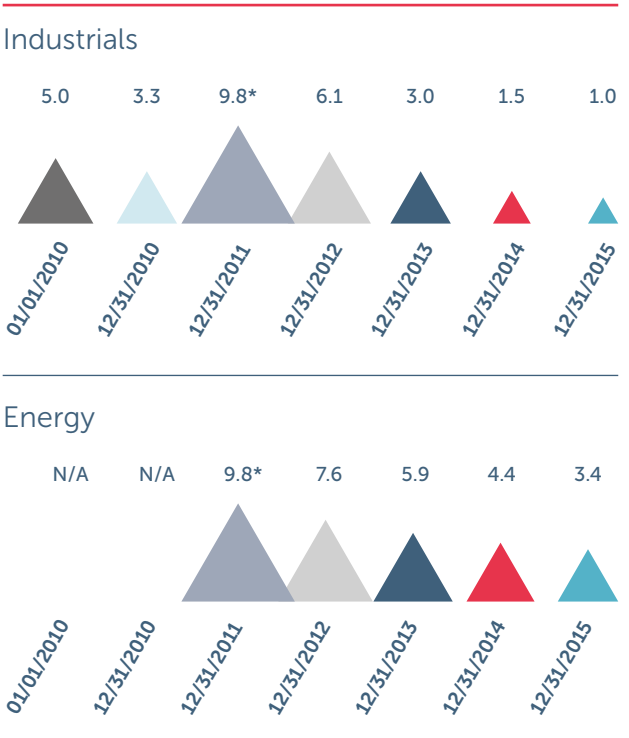
## Solid refinancing

Minimising losses, maximising value: Achieving the wind-up objectives is not determined solely by the assets side of the balance sheet. It is also important for the EAA to refinance its portfolio on

### Quick wind-up – balanced structure

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

The Industrials cluster groups common loan exposures with companies. Around 80 per cent has already been wound up from the high. The Energy cluster largely consists of complex project financings. Approximately 65 per cent of this difficult sub-portfolio has been wound up.




* The highs as at 31 December 2011 are a result of the 2012 refill which applied retroactively to that date.

the capital market in a cost-effective manner. The EAA has created a broad international investor base. It issues its bonds at considerably better terms than proposed at the time of taking over the second portfolio in the wind-up plan.

The EAA's refinancing is also based on the principle of minimising risk. The EAA regularly issues, for example, US dollar bonds in order to refinance exposures denominated in US dollars without having to incur exchange rate risks. These exposures account for almost 50 per cent of its entire portfolio. In 2015, it placed two large-volume bonds sized at USD 1 billion each and could therefore come in significantly below the calculated refinancing costs. Besides banks and funds, the bonds were allocated in particular to "official institutions" – in other words, central banks and supranationals. The share of this important investor group increased to almost 50 per cent with the second bond. More than 60 per cent of all investors were from non-European countries, with America alone accounting for 29 per cent. The broad distribution is the result of fostering continuous contact with investors worldwide.

## Broadly-based centre of excellence

The EAA's portfolio is complex and requires expertise in the most diverse product categories, economic sectors and regions. Even after winding up a large part of the acquired portfolio, the remaining exposures are spread across a large number of countries. In order to assess risks and secure value, the EAA's employees are required to deal with complicated legal issues and to be very familiar with specialist fields of capital market or contractual law, for example.

Securing the necessary expertise for the EAA, adjusting its organisation repeatedly to changed conditions and managing the portfolio with a sense of proportion according to the principles of sound financial management represent permanent challenges for the EAA's management. Change management is an ongoing task for the EAA.

## Transparent business model

The EAA interacts with institutional investors and international portfolio managers on the capital and financial markets. It has the expertise and entrepreneurial focus to be successful in this environment. Unlike other market participants, however, the EAA fulfils a public mission. Internal and external controls ensure that it acts in a transparent, reliable and sustainable manner. On the one hand, the EAA is subject to standard controls for financial service providers: the Managing Board, the Supervisory Board and the Stakeholders' Meeting receive regular information about all business activities. Semi-annual reports and annual financial statements are audited by external auditors, while Deutsche Bundesbank and Bundesanstalt für Finanzdienstleistungsaufsicht check for compliance with regulatory provisions. On the other hand, the Bundesanstalt für Finanzmarktstabilisierung (Financial Market Stabilization Authority, FMSA), as a legal supervisor, continuously controls the entire wind-up planning and its implementation. The German Federal Audit Office and the Regional Audit Office of North Rhine-Westphalia act as additional auditing bodies.

# THE SELF-CONCEPTION OF THE EAA

The EAA is the first winding-up agency of its kind in Germany. It has a clearly-formulated public mission, namely to wind up the transferred portfolio in a value-preserving manner. The EAA specialises in the professional winding up of complex, international portfolios. As a public law entity, it fulfils a social function that we, the Managing Board and the EAA staff, take very seriously.

# „Keeping the right people on board is a core management task."

The EAA is already an established player on the financial markets, and the wind-up of the portfolio is progressing quickly. Matthias Wargers, Spokesman of the Managing Board, explains the challenges the EAA will have to overcome in the years ahead.

Matthias Wargers,
Spokesman of the Managing Board

**Mr Wargers, most of the portfolio that was transferred to the EAA is already wound up. What still needs to be done?**

It is true that we have made excellent progress in the last six years. However, the loans and securities in the EAA's banking book and the derivatives in the trading portfolio require our full concentration. The portfolio also remains complex given its broad regional spread and large range of very different exposures. It is not just about exploring options for selling at good terms. We have to deal, for example, with many legal issues arising from the global portfolio and the different international legal provisions. In short: the wind-up has progressed very well to date, but we are not finished yet.

**What is the short-term outlook? Where will the EAA be at the end of the year?**

Our loan and securities portfolio should be reduced to less than EUR 30 billion by the end of 2016 at the latest. Following the sale of the equity investments in Basinghall and WestImmo, we are currently preparing the sale of further equity investments and are also reviewing the sale of larger sub-portfolios. The pace of reducing the trading portfolio will also remain fast. The notional volume should be down to significantly below EUR 300 billion at the end of the year.

**What impact does the recent turbulence on the financial markets have? Increasingly risk-averse investors could also undermine your planning.**

That is correct in principle. However, it is not the first time that markets have experienced extremes since the EAA was established. We are storm-tested in this respect. We regularly hedge the portfolio against most market risks, especially with regard to interest rate and currency trends. One could say that everything is securely moored and we see no need to change our plans. In the current low interest rate environment, institutional investors are continuing to look for return opportunities with calculable risks. That will help us with our portfolio wind-up.

**Have you not sold the more attractive exposures long ago, so that the EAA is left holding only the problem cases?**

That is a very pertinent question. However, the exact reverse is true. We manage the portfolio in such a way that we attain a balanced wind-up. Favourable exposures in particular are held as long as possible. We need to generate returns on a dwindling portfolio in order to fund ourselves. We have done very well in this respect so far. The share of loan and securities exposures with very good, good and medium ratings recently increased, and reached around 67 per cent at the end of fiscal year 2015.

**You see the EAA as a good bank rather than a bad bank. Why is this?**

The term bad bank is misleading. As I said earlier, our exposures are not all bad. We are also not a bank. This was deliberately devised by the legislator by applying the regulations for winding-up agencies. Our structure resembles more that of an asset manager. As such, we aim to make the most of the exposures that have been transferred to us. This means minimising risk and maximising value. We spare no effort in avoiding a financial burden for our public stakeholders – the state of North Rhine-Westphalia, the Savings Bank and Giro Associations and the Regional Associations. In this respect, our mandate is not to use public funds to wind down the portfolio.

**How long did it take for the EAA to gain trust and acceptance on the financial market?**

We were thrown in at the deep end when we were founded. We had to manage a multi-billion Euro portfolio with only a handful of employees. Decisions and profound analyses were required from the very outset. In addition, nobody was familiar with the model of a winding-up agency and nobody knew the EAA. We had to first of all build up trust among the market players, which then translated into creditworthiness for us. This took us quite some time. The fact that we can refinance our operations at present at very good terms is the result of our confidence-building efforts over the last six years – especially on the part of our colleagues in Treasury who have done a great job.

**What you have here is an institution with a limited life-cycle. How difficult is it to keep good people on board?**

That is undoubtedly one of our greatest challenges. Our employees know our duties are limited in terms of time. The more successful we are, the quicker we will have to wind ourselves up. This flies in the face of the logic that normally applies in the economy. One of our core management tasks is therefore to continue to motivate the right people for our objectives and to keep them on board. This has succeeded thus far. This was and is the key factor for our success.

**The wind-up has progressed quicker than planned so far. Could the wind-up be completed before the year 2027, which is the aim of the planning horizon?**

We have reduced the volume and the risk of the transferred portfolio very quickly. Actually, completing the wind-up also depends on exogenous factors from which we are not immune. We have many loans and securities from the energy sector, as the former WestLB was very active in this segment. These exposures were fundamentally not bad but present us with new major challenges at this moment in time, for example the performance of oil prices. This is compounded by changes in the political framework in many parts of the world. We have to deal with this. As a general rule, we want to sell quickly but not at any price. We are therefore unable to give a firm commitment that the wind-up will be completed before 2027. However, we are optimistic that the pace of the reduction will continue, without jeopardising our objectives and principles. If this is the case, the EAA could conclude its work ahead of schedule. A rough orientation is 2020 plus X.

# Increase values – with foresight and experience

**The EAA's portfolio is complex. Extensive product or sector know-how and many years of experience in the management of global portfolios are necessary for winding up the very different and frequently complex exposures. Using its expertise, the EAA has created the instruments it requires to complete its mission. A report of experience of the EAA experts.**

## Portfolio wind-up based on clear principles

The EAA's wind-up plan determines the focal points for the wind-up work of a given fiscal year. The assets are assigned to three basic strategies:

- The „Sell" portfolio groups together all positions for which a price is likely to be achieved that equates to or exceeds the value in the wind-up plan.
- The „Restructuring" portfolio comprises exposures whose results can be improved through targeted measures.
- The „Hold" portfolio contains all positions that promise better results if they are held to maturity rather than being sold off quickly.

The wind-up plan forms the basis of all decisions. All values, indicators and measures are subject to continuous review. Current market parameters and risk assessments can change, and if they do, the EAA has to react and adjust the planning as necessary. If a loan from the „Sell" portfolio fails to attract the anticipated offer in the bidding process on the secondary market, the EAA postpones the sale. If the repayment of a bond in the „Hold" portfolio appears to be threatened by unexpected problems incurred by a borrower, the EAA must at least consider an early sale – despite potential negative effects on the wind-up plan.

The EAA revises the entire planning after one year at the latest. Risks and costs for the portfolio are reassessed, focal points are drawn up for a new fiscal year and strategies are updated for the different sub-portfolios for loans, securities, equity investments and derivatives.

## Instruments for minimising risk

The EAA has fine-tuned the instruments used by banks to manage risks, and has tailored them to suit its mandate and its portfolio. Its risk management systems allow it to react in the shortest time possible to changes in market parameters or credit events. A comprehensive system is used to closely monitor and manage the exposures in question. Depending on how great the risk potential is, the experts in the EAA's Credit Risk Management department may define different measures for counteracting the risk. If necessary, they mitigate the potential loss through restructuring measures that may be complex and possibly protracted.

In addition to fundamental market and industry knowledge, as well as restructuring expertise, negotiating skills are also required to achieve the best result from assets at risk of default. Two cases from the past fiscal year.

EXAMPLE 1

### Restructuring and sale in Tokyo

**The exposure:** In 2008, a subsidiary of WestLB funded a commercial building located in a sought-after location in Tokyo. The building in the Ginza shopping district offered more than 2,000 square metres of shopping and office space. The borrower was a real estate fund from Singapore.

**The initial situation:** As the fund management company could only rent out 50 percent of the space, the loan was at risk of default. The subsidiary of the former Landesbank had already recognised a value-adjustment on the exposure before it was transferred to the EAA. The fund approached the EAA in mid-2013, requesting to lower the interest and principal payments, or to even suspend them. The EAA refused and accepted that the borrower would subsequently default on its payments, after which the Japanese subsidiary of the EAA assumed ownership rights of the property.

**The strategy:** EAA Japan KK opted for a new management for the building and for a strict marketing concept, and succeeded in renting all of the space and significantly enhancing the market value of the asset. The sale was then prepared. A new investor acquired the complex at the end of 2015.

**The outcome:** The proceeds almost covered the entire loan amount. The adjustments created by the former WestLB subsidiary were not utilised. The Japanese subsidiary of the EAA therefore generated a positive contribution of more than EUR 8 million in 2015.

EXAMPLE 2

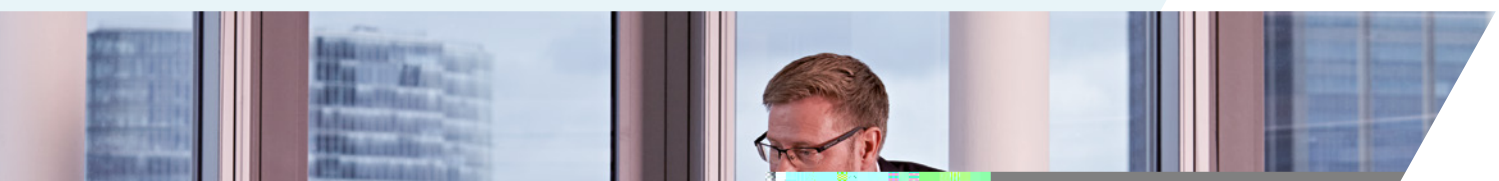
## Exit from a high-risk airport property

**The exposure:** Together with another big bank, the former WestLB funded an airport centre in Eastern Europe. A hotel was built with additional shops and offices. The property management company was supposed to service the loans from the rental income.

**The initial situation:** Demand failed to materialise and the shops and offices stood vacant. A well-known chain offered the hotel rooms for EUR 60, but occupancy remained weak. The loan was transferred to the EAA in 2012, which subsequently re-evaluated it. The assessment resulted in the receivables being written down. With the help of its parent company, however, the borrower met its obligations until autumn 2014. The situation then escalated. An investor acquired the parent company and refused to inject funds into the airport centre. The borrower was unable to present any solution until maturity at the end of 2014. The restructuring was also hampered as the centre was built on a leasehold property belonging to the airport holding company, which rejected alternative concepts. Insolvency threatened – and thus default of the loan.

**The strategy:** The term was extended by three months to avoid insolvency. The EAA itself entered into negotiations on the property. The primary objective was to sound out if a project development company that was already in contact with the borrower might be an interested buyer. The project developer acquired the EAA's receivables at a relatively moderate discount. The syndicate bank involved agreed to provide follow-up funding.

**The outcome:** Thanks to intensive negotiations, part of the written-down value could be recouped and a positive effect of over EUR 1 million was achieved in the wind-up planning. At the same time, the EAA was able to withdraw completely from a high-risk exposure.



Experts in the EAA's Credit Risk Management department manage a global portfolio of corporate loans ranging from energy and infrastructure projects to real estate loans, shipping and aircraft finance.

# Roadmap 2020: the route to the goal

The EAA wants to accomplish its mission as quickly as possible in order to sustainably relieve its liable stakeholders of risks. At the same time, it aims to manage its equity capital in such a way that it finalises its work with no equity shortfall. This requires tailored strategies, a flexible organisation, cost discipline and often also solutions to legal issues.

## Reducing the portfolio and risks

On a medium-term horizon, the EAA wants to reduce the volume of the banking book to roughly EUR 15 billion. 90 per cent of all loans and securities transferred to the banking book – totalling around EUR 155 billion – could thus be wound up already by 2020. The notional volume of the trading portfolio should then only amount to around EUR 160 billion. Roughly 85 per cent of the trading portfolio with a notional volume of originally more than EUR 1 trillion would then be wound up.

The Managing Board of the EAA therefore believes the winding up of the former WestLB could be finished ahead of schedule (the planning previously extended to a period ranging up to 2027). To that end, the EAA will investigate which structural measures and sales options might be suitable to accelerate the discharge of the liable stakeholders from the risks.

## Closing foreign offices

The EAA will concentrate on reducing the complexity of the portfolio, which is due among other things to the broad regional diversification of the assets: The transferred positions were originally spread across almost 100 countries. Although the EAA has reduced the number to less than 70 to date, a further reduction will continue to pose a challenge.

The foreign offices of the EAA subsidiaries and service providers are still indispensable for the purpose of managing the global portfolio. Nonetheless, the EAA aims to quickly close remote and costly offices. It also plans to sell the Japanese subsidiary in 2016 or accelerate the wind-up in 2017. The marketing of the EAA Covered Bond Bank in Ireland started in the spring of 2016. Along the lines of the successful sale of WestImmo, these processes were prepared by a series of restructuring measures that were carried out in 2015 and in previous years.

## Overcoming legal obstacles

Tax and regulatory considerations delay the reduction of loans, securities, special purpose vehicles or equity investments in some countries. The EAA also assumed the economic risks for larger assets held by what was the former WestLB and is now Portigon AG, while ownership could not be legally transferred to the EAA.

All of the measures concerning these positions require extensive consultations with authorities, customers and business partners. On a medium-term horizon, the EAA is aiming for a solution through targeted sales or the gradual elimination of legal impediments.

## Maximising values, cutting costs

The shrinking of the volume of assets and risks will go hand in hand with a reduction of the capacities at the EAA and its service providers. The EAA will reduce its administrative expenses by half in the medium term and scale back parts of its own organisation without jeopardising its effectiveness.

The most economical solution has priority – regardless of whether that means selling, holding or restructuring. The more progress is made in the wind-up, the more substantial the costs will become. An example: Following difficult negotiations, the EAA was able to close out long-term hedging transactions in the trading portfolio's equity cluster in 2015. It will therefore be able to forego an expensive IT solution from 2016 onwards. If it increasingly succeeds in reducing regulatory costs, IT expenses or expenditure for the risk shield by winding up selected assets, this will open up more scope in the wind-up process.

## Securing effectiveness, structuring the change

Since its establishment the EAA has repeatedly adjusted its organisational structure to manage changes in the corporate environment. The gradual takeover of a multi-billion Euro portfolio presented it with enormous challenges in developing an adequate organisation and recruiting the required experts. As the portfolio continues to be wound up, capacity and costs will have to be reduced without losing the expertise necessary to successfully complete the wind-up.

Against this background, the EAA acquired its main service provider, Portigon Financial Services GmbH (PFS) in early 2016, having carried out a detailed due diligence in 2015. PFS will continue to focus on the activities as an IT service provider and on winding up transactions for the EAA portfolio. Thus, the EAA is securing key services for the portfolio. Compared with alternative strategies, the takeover was the economically most favourable solution to continue to guarantee the operational stability of the EAA.

The EAA had already established a subsidiary for portfolio management in 2014. EAA Portfolio Advisers GmbH (EPA) provides tailored solutions to enable the EAA to successfully fulfil its mission. With its two service subsidiaries, the EAA is well prepared for carrying out its future tasks. However, the corporate structure will not be permanent. The EAA understands the gradual transformation of its service subsidiaries as part of its mandate. This also entails that the EAA will sound out options for selling EPA in a next step.

## Wind-up success supports sovereign rating

The EAA will not utilise the guarantees and loss compensation commitments it was given. This provides relief to the State of North Rhine-Westphalia, the local Regional Associations and Savings Banks and Giro Associations, and the federal Financial Market Stabilization Fund. The quick wind-up is already benefiting the local authorities as it progresses towards its objectives. As the volume of assets declines, so do the EAA's liabilities to customers, banks and investors, which should fall from around EUR 41.9 billion at present to less than EUR 25 billion by the end of 2017. Given that the liabilities are included in the national debt statistics, the wind-up successes are reflected there too. The debt level of the state and the Federal Republic of Germany is falling, and this enhances their creditworthiness.

# FINANCIAL REPORT

# Contents

Management Report ..... 25
Principles of the EAA ..... 25
Economic report ..... 30
Subsequent events ..... 51
Summary of the business situation ..... 51
Risk, opportunities and forecast report ..... 52
Accounting-based internal control and risk management system ..... 82
Balance sheet ..... 84
Income statement ..... 88
Cash flow statement ..... 90
Statement of changes in equity ..... 91
Notes ..... 92
General disclosures ..... 92
Notes on the balance sheet and the income statement ..... 99
Other disclosures ..... 112
Responsibility statement ..... 127
Review report ..... 128
List of abbreviations ..... 129

# Management Report

For the fiscal year 2015

## Principles of the EAA

### Operating activities of the EAA

The EAA is winding up the risk exposures and non-strategic business units transferred from the former WestLB AG (now Portigon AG) and its domestic and foreign subsidiaries. When doing so, it proceeds in a value-preserving and risk-minimising manner so as to stabilise the financial market.

It manages its business according to commercial and economic principles, in consideration of its winding-up objectives and the principle of minimising its losses. It is not a credit or financial services institution within the meaning of the German Banking Act (Kreditwesengesetz – KWG), an investment services firm as defined by the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) or an insurance company pursuant to the German Insurance Supervision Act (Versicherungsaufsichtsgesetz – VAG). It does not conduct any transactions that require approval pursuant to Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 or Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004, the amendment to Directives 85/611/EEC and 93/6/EEC of the Council and Directive 2000/12/EC of the European Parliament and of the Council and for the repeal of Directive 93/22/EEC of the Council, as amended.

The EAA is subject to regulation by the German Federal Agency for Financial Market Stabilisation (Bundesanstalt für Finanzmarktstabilisierung – FMSA). It is supervised by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) with regard to those provisions of banking law that are applicable to the EAA.

The EAA's work is principally carried out on the basis of section 8a of the German Financial Market Stabilisation Fund Act (Finanzmarktstabilisierungsfondsgesetz – FMStFG), its charter, the rules of procedure for the Supervisory Board and the Managing Board plus their committees, as well as its risk strategy and wind-up plan.

The wind-up plan describes the intended wind-up activities of the EAA by classifying its asset positions into sub-portfolios (clusters) and standard strategies, and contains a schedule for the winding-up of assets. The possible methods for winding up the portfolio include selling the assets prior to their maturity, holding them to maturity or restructuring the relevant items. The EAA reviews the wind-up plan at least once a quarter and makes adjustments, when necessary, mainly in order to take account of changes in circumstances, for example current market developments. Changes or adjustments to the wind-up plan must be approved by the FMSA. The EAA regularly submits wind-up reports to inform the FMSA, its Supervisory Board

and the liable stakeholders about the progress of the winding-up and the implementation of the wind-up plan. When doing so, it also documents the wind-up result.

The following stakeholders participate in the EAA's share capital: the German State of North Rhine-Westphalia (NRW), with a stake of around 48.2%; Rheinische Sparkassen- und Giroverband and Sparkassenverband Westfalen-Lippe, each with around 25.0%; and Landschaftsverband Rheinland and Landschaftsverband Westfalen-Lippe, each with around 0.9%.

The governing bodies of the EAA are the Managing Board (Vorstand), the Supervisory Board (Verwaltungsrat) and the Stakeholders' Meeting (Trägerversammlung).

The Managing Board of the EAA consists of three members. They are appointed by the Supervisory Board with the FMSA's approval for a maximum term of five years. Members of the Managing Board may be reappointed. The Managing Board manages the operations of the EAA and represents the EAA in and out of court.

The Supervisory Board consists of 12 members. Eleven members are appointed by the Stakeholders' Meeting, and one member is delegated by the FMSA, acting on behalf of the FMS. The members elect a Chairman and a Deputy Chairman on the recommendation of the State of NRW. The Supervisory Board advises and consults with the EAA's Managing Board, monitors its activities and carries out additional duties set forth in the EAA's charter.

The Stakeholders' Meeting is composed of the institutions which hold a stake in the EAA's share capital. The Stakeholders' Meeting is responsible for adopting the annual financial statements of the EAA, among other things.

Since its founding, the EAA has outsourced key business processes to Portigon and to PFS, Portigon's service subsidiary. As of 1 July 2014, a portion of these outsourced services, especially portfolio management activities, has been transferred to EPA, a wholly-owned subsidiary of the EAA. EPA's employees were primarily recruited from the former employees of the Portfolio Exit Group, which was established in the former WestLB when the EAA was founded, as well as from EAA employees. The EAA provides two of the three managing directors of EPA. The service fee to be paid to PFS was reduced to the extent that services have been transferred from it to EPA. These services between the EAA and EPA, in contrast to PFS services, are not subject to value-added tax.

### Methods of transfer

Several methods were used to transfer the risk exposures and non-strategic business units of the former WestLB to the EAA in the years 2009 and 2010 (first fill) as well as in 2012 (refill). The method that was chosen in each case was based on the respective domestic legal, supervisory and tax provisions.

In some cases, a spin-off process was used to transfer assets and liabilities in rem to the EAA, whereas in other cases, different transfer methods (sub-participation, guarantees) were used to create a synthetic transfer of the inherent risks and rewards contained in these portfolios.

When spin-offs, sub-participation, crossing and risk assumption agreements are used to transfer the legal or beneficial ownership of derivatives, the reporting of the portfolios in

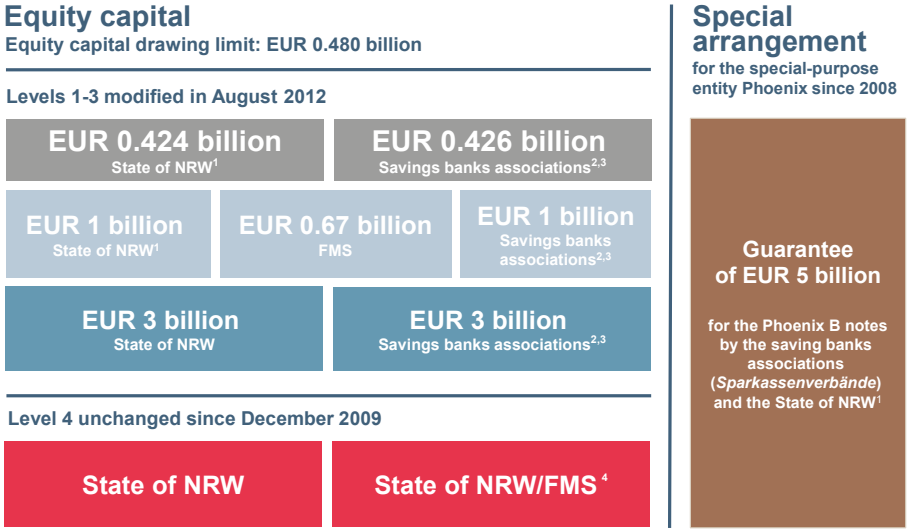
the balance sheet is based on the portfolio classification as stipulated under commercial law. When guarantees are used, the legal and economic ownership remains with Portigon. Under the guarantee agreement, the EAA assumes the economic risks of the portfolio. In this case, Portigon pays a guarantee fee to the EAA for the assumption of the risks. The risks assumed by the EAA are taken into account by recognising contingent liabilities or provisions.

### Equity base and liability

The EAA's share capital amounts to EUR 500,000. The first fill created equity totalling around EUR 3.1 billion.

The refill provided the EAA with rights to draw on additional equity that will add EUR 480 million to the capital reserves. If necessary, the liable stakeholders of the EAA and the FMS will provide these funds in specified instalments in the event that the EAA's balance sheet equity should fall below EUR 50 million.

In addition to the EAA's equity base, a factor that is particularly important for the EAA's credit rating is the duty to offset the EAA's losses that the EAA's liable stakeholders and the FMS have assumed. They are individually liable to the EAA to offset all losses in accordance with section 7 of the EAA's charter. To that end, they must provide the EAA with such funds at such times as are necessary in order to ensure that it has sufficient cash and cash equivalents at all times to meet its liabilities as they become due, even after its equity capital has been used up. The EAA is obligated to assert this loss-offset claim against the liable stakeholders and the FMS in the appropriate volume and before any pending insolvency takes effect, in order to ensure it remains solvent at all times.




[1] For purposes of simplification, the relatively low stake of the Landschaftsverbande (regional associations of LVR and LWL) is included in the figure shown for the State of NRW.
[2] Rheinischer Sparkassen- und Giroverband and Sparkassenverband Westfalen-Lippe, at 50% each.
[3] Default liability assumed by the State of NRW.
[4] The State of NRW and the FMSA (acting on behalf of the FMS) will reach an agreement on the apportionment of the associated financial burden on the basis of the FMStFG.

### Funding

The EAA was initially funded in the first fill through the nearly complete transfer of all issues and deposits of the former WestLB with guarantor liability. The EAA raised its own funds in the period thereafter. In the future, the EAA will continue to obtain funding primarily by issuing bearer bonds, by short-term borrowing and through repurchase transactions. The EAA's ratings correspond to those of the State of NRW. The risk weighting can be set according to the weighting for the State of NRW. The good ratings received from Moody's, Standard & Poor's and Fitch Ratings, as well as the duty to offset losses on the part of the liable stakeholders and the FMS, form the foundation for the EAA's successful presence on the capital market.

### Accounting

The EAA prepares its annual financial statements in accordance with the German Commercial Code (Handelsgesetzbuch – HGB) It is exempt from the requirement to prepare consolidated financial statements pursuant to section 8a (1) sentence 10 FMStFG in conjunction with section 3a (4) FMStFG. However, the significant long-term equity investments, particularly EAA CBB and EAA KK, are included in the wind-up result and risk planning, risk monitoring and risk reporting.

### Organisation

The EAA's organisational structure is oriented toward ensuring the performance of its key management and control functions. The EAA has outsourced all other business activities to third-party service providers, particularly PFS and EPA. To that end, the EAA has concluded separate service agreements (cooperation agreements) with both of these parties. Special service level agreements (service specifications) for the respective outsourced processes and functions were defined as components of the cooperation agreements. However, decision-making authority in all cases remains with the EAA. The cooperation agreement with PFS cannot be terminated until 31 December 2016 at the earliest and the service agreement with EPA for the first time as at 30 June 2016. The EAA requires the consent of the FMSA in order to terminate the cooperation agreement with PFS.

Due to the importance of the outsourced activities, the EAA has established a central function within the Controlling & Planning department and has implemented an integrated service provider management system. Under this system, the service relationships between the EAA and PFS, as well as the other external service providers, are systematically managed and monitored from a legal, substantive, process and financial perspective (please also refer to the "Service provider management" section).

The EAA is currently reviewing the operational stability of this arrangement and the future business orientation of PFS in order to determine which of the activities currently outsourced to PFS can be integrated into the EAA and EPA. In order to ensure EAA's operating stability as the reduction of the portfolio continues there are also plans to establish a legal relationship between PFS and the EAA as soon as all of the necessary authorisations have been granted.

## Control system

The EAA draws up a wind-up plan regularly (at least once a year) and assesses whether the plan needs to be adjusted at the end of each quarter. The wind-up plan details the intended unwinding measures, including a schedule for winding up the EAA portfolio as well as the resulting implications for the EAA's equity capital and financial situation.

One of the EAA's key control metrics is the decline in the notional volume of the portfolio. Aside from volume reduction, other control metrics are also relevant. According to section 5 (3) of the EAA's charter, the primary requirements are to minimise losses and ensure that the EAA is solvent at all times. As a result, the income statement, the development of equity and ensuring solvency at all times are also major performance indicators for the EAA. Each of the EAA's decisions is made in consideration of the aforementioned control metrics, and their contribution to the success of the wind-up strategy is assessed.

Administrative expenses are highly important, too. The costs of the planned reduction of portfolio volume are controlled within the scope of budget planning and ongoing cost controlling. Cost controlling plays a key role within the EAA because, due to legal provisions, it is not possible for winding-up agencies to offset operating costs through profitable new business.

Alongside planning, controlling is supported by ongoing monitoring. The reporting process, which takes place at least weekly, provides the members of the Managing Board and the department heads with a summary of all portfolio measures taken, as well as all relevant data regarding the EAA's control metrics. Alongside reporting, actual-to-plan analyses are performed to identify deviations from the wind-up plan, to explain them in detail and derive corresponding recommendations for action.

## The EAA's location

The EAA has its registered office in Düsseldorf. The EAA does not maintain any other locations. The EAA holds stakes in domestic and foreign subsidiaries which have their own employees.

# Economic report

## Economic environment

### Start of the year characterised by volatile markets

The expectations for 2015 were largely met. The ECB started buying EUR government bonds as announced, while the FED decided to raise interest rates for the first time shortly before the end of the year. This divergence in terms of monetary policy also shows that the real economies of the eurozone and the US are at different stages of the economic cycle. Although the recovery of the US economy lost some of its momentum towards the end of the year, it is still growing significantly more dynamically than the eurozone. The financial markets have had to come to terms with this divergence. Fear of premature interest rate rises in the US in particular resulted in a difficult start to the year.

The financial markets have experienced a difficult start to the year thus far. Strong selling pressure is weighing on the more risky segments of the market. It seems there has been a fundamental shift in the risk assessments of market participants during the first six weeks of 2016, despite the fact that the underlying premises and conditions have remained essentially unchanged compared to those prevalent in the second half of 2015. The rate at which the global economy is growing is still lagging behind expectations as compared to growth rates seen before the outbreak of the global financial crisis. The IMF still describes the trend for growth as being unusually volatile and slow. It expects the growth of global GDP to exceed 3.4% in 2016, following what is expected to have been a 3.1% increase in economic output in 2015. This is at least a slight acceleration in a direct comparison with 2015.

The IMF's assessment of the global economy appears to be largely unchanged. However, the financial markets take a fundamentally different view of the performance of the economy in this, the seventh year following the onset of the global financial crisis. This market perspective reflects a new way of assessing and weighting risk factors. Factors and developments whose potential impact may have been underestimated in 2015 are now resulting in a noticeably reduced appetite for risk in 2016.

△ The signs that the years of double-digit growth rates for China's economy are a thing of the past were already becoming increasingly apparent in the course of 2015. The slowdown of China's economy is reducing the country's demand for raw materials and capital goods. This has consequences for exporters of raw materials like Brazil in particular, as the weakness of their own economies is exacerbated by the lack of demand from China. This is affecting many of the emerging markets.

△ It is not just in the emerging markets that the recovery is losing steam, but also in the US and the eurozone. While the economic weakness of the emerging markets is translating into falling prices for raw materials, the slower growth in the eurozone and the US is becoming apparent in the current reporting season. Companies' profits are falling, and falling short of the already conservative forecasts of market participants. This is lowering the risk appetite for American and European equities.

△ The focus is once again on the banks and their adaptation to the post-crisis world. Market participants are taking a sceptical view of banks' future performances, since many still do not have a sustainable business model in place. At the very least, they have not yet offered a satisfactory explanation as to how they intend to make money in the future. The lack of a business model also has more far-reaching consequences for the economy because it is not clear how money will be lent to the real economy in the future.

△ The continued blurring of the lines between banks and national governments is another problem troubling market participants, particularly in the eurozone. The flooding of the banking sector and the financial markets with liquidity by the ECB has prompted European banks to build up their exposures to eurozone government bonds. Low refinancing costs and relatively high (peripheral) yields represent a good, profitable business for many banks. This maintains the banks' significant dependence on the creditworthiness of governments, especially since the political will to save has reduced considerably in certain peripheral eurozone states.

Since the start of the year, Europe's stock markets have at times been down by between 10.8% (France's CAC-40) and more than 20% (Italy's FTSE MIB). Credit default swaps (CDS) for European companies have become much more expensive during the same period. The spread for the iTraxx Europe index (five years) has risen by more than 40 bp to 116 bp so far this year. As always happens when risky investment categories lose a lot of value, investors are seeking out safe havens. The yield on German government bonds (ten years) has fallen by more than 40 bp to 0.25%. Similar declines were also seen for the yields on other government bonds that are considered safe, such as French bonds.

### Growth of US economy still slowing

After growing by more than 1% in the second quarter and 0.5% in the third, the US economy only grew by 0.05% in the fourth quarter. But it is not just this decline in the country's economic output that concerns the markets and commentators. How it came about is also important. Investment in particular was lacking in the fourth quarter. The trend observed in the third quarter for companies to increase their inventories also continued. Both of these trends are hampering future economic growth. An unintended build-up of inventories initially has a positive impact on growth in the quarter in which it is carried out. However, this positive effect merely involves bringing growth forward from other quarters since an unintended build-up of inventories must be offset at some point by holding back on future orders. If the goods in question can be stored indefinitely, the best-case scenario is a temporary redistribution of growth. But if the goods can expire or are rendered obsolete by innovation or product cycles, the future negative effect may be greater. Unwanted inventories are a drag on economic growth.

In addition to reducing growth in a particular quarter, a lack of capital expenditure also impacts the potential for future growth. The machinery used ages and is not replaced with new machines. Investment in increasing capacity is also not carried out. In the basic materials industries and in the energy sector in particular, falling prices for raw materials have prompted companies to evaluate their investment decisions and exercise a noticeable level of restraint. The US economy still grew by 2.4% in 2015 despite the slowdown in the second half of the year. This figure is probably roughly equivalent to the US economy's potential for growth.

### Forecast for the US: some headwind from the build-up of inventories and lack of investment

It would be overly simplistic to lay the blame for the economic slowdown in the second half of 2015 on the Federal Reserve System. The prospect of rising the FED funds rate and a resulting trend for rising yields and financing costs no doubt scared off some investors. The raised level of volatility at present is likely to also play its part in causing companies to think for longer than usual about capital expenditure and potentially put off their investment plans. At the same time, the raised volume of inventories in comparison to long-term averages needs to be reduced again. As a result, 2016 is expected to get off to a rather modest start.

Nevertheless, the economic indicators point to the continued recovery of the US economy. The Fed believes it is highly likely that this trend will continue. The Fed's assessment of regional economic indicators in its "Beige Book" indicated that the US economy is growing moderately in most districts, although the Purchasing Managers Index for the Manufacturing Industry in January 2016 was 48.2 points, below the expansion threshold of 50.0 points.

The year 2016 is an important one for the Fed. In the session of the Federal Open Market Committee on 16 December 2015 it raised the range for the FED funds target rate for the first time since 29 June 2006, from 0.25% to 0.5%. While 2015 was dominated by the question of "when" interest rates would be raised again, the current focus is on the "how" for further increases. The Fed quickly made it clear in this regard that the interest rate adjustment cycle is highly dependent on the economic data. It seems the Federal Open Market Committee wants to avoid repeating the mistake made by the Bank of Japan at the end of the 1990s, when it stifled the recovery of the country's economy by raising interest rates prematurely. The Fed is therefore monitoring the indicators for the real economy such as the US labour market report and the Beige Book in order to assess how well the US economy and therefore companies and budgets are dealing with rising interest rates. In its decision it will also take account of the fact that many US companies are bemoaning the rising strength of the US dollar in the current reporting season on account of the country's interest rate policy.

The Federal Open Market Committee has not named any specific numeric targets for an improvement in the labour market. While this may seem surprising in light of the very low unemployment rate in the US (5% in the fourth quarter of 2015), it also shows that Fed policy makers are still not satisfied with the quality of the employment situation in the US. First, many potential workers drop out of the official statistics after reaching the maximum duration of unemployment assistance – they become classified as "not seeking work". Second, there are now more part-time and fixed-term contracts than before the crisis.

The session of the Federal Open Market Committee at the end of January 2016 did not result in any further interest rate hikes. The markets were also not expecting interest rates to be raised again that shortly after the initial hike in December. The meeting was not followed by a press conference, so it would not have been possible to explain the reasons for a further increase. The period of slightly more than a month that had passed since the decision in December 2015 was also too short to assess the impact of the first increase.

However, weaker economic data such as the January labour market report (only 151,000 new jobs created) and the Purchasing Managers Index already mentioned have caused many members of the Federal Open Market Committee to rethink the likelihood of further interest rate hikes in the first half of 2016. Fed chief Janet Yellen also used her testimony before the House Financial Services Committee of the United States Congress in February to this end.

The current inflation environment in the US provides the Fed with the necessary leeway to delay further interest rate hikes if such a postponement is deemed necessary. In December 2015 the country's inflation rate stood at 0.5%, and a minor increase to 1.2% is expected by the end of 2016. These figures are within the Fed's comfort zone. In other words, a sharp increase in 2016 will not force the Fed to respond with higher benchmark interest rates in order to battle inflation. Nevertheless, the raising of interest rates in the US is another sign that the country's economy is returning to normal. Even in this case, monetary policy would still remain historically very accommodative. Interest rates are expected to exceed 1.1% by the end of 2016. The US economy is expected to grow by 2.2% in 2016 and by 2.3% in 2017.

### Core eurozone countries: growing at different speeds

Germany's GDP grew by 1.7% in 2015, slightly faster than average for the eurozone (+1.5%). The growth rate achieved in 2015 is encouraging compared to the potential growth rate of around 1.25% projected by the Bundesbank, and also explains why the situation on Germany's labour market is continuing to improve. The unemployment rate fell from 6.6% in December 2014 to 6.3% in December 2015.

The ECB's programme of buying eurozone government bonds has reduced the yield on German government bonds to a very low level. For the German Federal Finance Minister, the very low yields and the increased demand for government bonds as a result of the ECB's actions have further reduced the financing costs of the German federal government and other German regional authorities. Despite increased spending to manage the European refugee crisis, this trend and the robust growth of the German economy have resulted in the second budget surplus since 2014, amounting to +0.6% of Germany's economic output.

Recent years have not been without their problems for France's economy. France's GDP posted limited growth of between 0% and 0.7% between 2012 and 2014, only very narrowly avoiding a recession in 2014 in particular (+0.2%). A major cause of this development was that many of France's important trading partners – Italy for example – have themselves been experiencing a weak economic trend. In addition, France's international competitiveness has decreased significantly due to government intervention in the labour market (for example, the introduction of the 35-hour working week).

Yet until now, the government of socialist President Hollande has made only tentative attempts at addressing these problems because resistance within the Socialist party against reforms remains strong. France's economy picked up slightly from this very low level in 2015. Economic growth is likely to have amounted to around 1.1% in 2015 – driven by investment and the effects of the falling price of oil.

As of today it is difficult to predict how the current refugee crisis will impact Germany, France and the EU. One problem, however, is that the refugee crisis has exposed the difference of opinions among the member states of the EU, who have been unable to agree on a common strategy to address the crisis.

### Spain is one of the fastest growing economies in the eurozone

Spain's economic output is likely to have grown much faster than the eurozone average in 2015. Estimates on the market put the growth of Spain's economic output at 3.2%. The eurozone as a whole is thought to have only achieved growth of around 1.5% during the same period. Spain's strong performance can be attributed to the noticeable improvement in its ability to compete internationally. Spain's unit labour costs, for example, have fallen by more than 6% since peaking in 2009.

This improved competitiveness is reflected in a noticeable increase in Spanish exports and current account balances, which have been positive since 2013. Labour market reforms are paying off for Spain, too. The country's unemployment rate stood at 21% in the fourth quarter of 2015. Although these rates are quite high when measured against the average unemployment rate between 1999 and 2015 (15.4%), the current rate is nevertheless 5.2% below the historic peak of 26.2% in the first quarter of 2013. The fact that the reduction in unemployment is making relatively slow progress has to do with structural change in the Spanish economy. Prior to the crisis, the real estate and construction sectors were the most important drivers of growth. A new use must be found for the redundant labour force in these sectors, which is frequently a difficult task in light of the different qualification needs.

### Portugal's economy experiencing strong growth despite political risks

Despite the political uncertainties following the elections on 4 October 2015, Portugal has stood up relatively well. Although the country's economic output stagnated in the third quarter, its GDP rose again by 0.2% (quarter-on-quarter) in the fourth quarter. This is noticeably slower than the growth rates seen in the first and second quarters (both +0.5% quarter-on-quarter). It is however a respectable performance considering the difficult process of forming a government following the elections and the associated political uncertainty.

The bonds issued by the Republic of Portugal were taken up relatively unproblematically by the market in 2015 despite the elections. Market participants did not demand a low risk premium until after the elections in October. The lack of liquidity on the market, concerns regarding the new government's course of consolidation and weaker global economic growth raised the return on ten-year Portuguese bonds to over 4% at times at the start of 2016. The markets viewed this valuation as an opportunity to buy, as a result of which the yield has fallen by more than 100 bp since 16 February 2016. The relief provided by the ECB's monetary policy has kept the impact of the political risks on yields in check. Portugal's economic output rose by 1.5% in 2015 (2013: -1.1%, 2014: 0.9%), and the unemployment rate has fallen from 17.5% in the first quarter of 2013 to 12.2% in December 2015.

### Iberian Peninsula: new governments in Madrid and Lisbon pose risks

The results of the elections in Portugal and Spain were essentially similar. The ruling conservative governments received the most votes in both countries. However, these victories were not substantial enough to form a new government in either country due to the lack of a coalition partner or a partner with which to form a minority government (for example in the form of the respective social democratic parties).

Instead, the social democratic parties in both countries want to form new, left-wing governments with the support of other left-wing, populist parties willing to tolerate a minority government. These political alliances could prove problematic for the further political and economic development of the two countries because the social democrats have promised to roll back (some of) the reforms introduced by their conservative predecessors. However, these are the reforms that enabled Portugal and Spain to achieve much faster and more robust growth than Italy or France, for example, in 2015 by making the countries more competitive in an international comparison. This could pose a risk to growth in 2016 since rolling back the reforms is likely to jeopardise the exporting success of both countries, especially because a large share of the goods exported by both countries are price-sensitive.

The financial markets also fired a warning shot for Spain in February, similarly to the situation in Portugal. Since 31 December 2015, the premium for hedging against a default by Spain has risen from 94 bp to over 120 bp. The increase in risk has turned out to be primarily limited to the markets for credit default swaps. Spain's financing costs, however, are relatively stable. The ten-year yield varies from 1.5% to 1.8%. At 1.56%, it is more toward the lower end of the range at the end of February.

### Outlook for 2016: eurozone economy continuing to recover

Even if the financial markets are currently taking a more sceptical view of the prospects for the economy again (as described above), the economic recovery is likely to continue in 2016. There are too many positive factors influencing growth in many areas for another crisis to occur. However, risks have risen in comparison to 2015 as a result of the election results in Portugal and Spain as well as the discussion surrounding the possibility of the UK leaving the EU.

The decrease in the price of oil is providing an additional economic stimulus for the oil-importing countries of the eurozone. Low oil prices redistribute purchasing power away from oil producers to consumers. This phase of low oil prices is likely to persist, as the OPEC countries, Russia and Iran (following the removal of sanctions) are competing for market share. The global supply of oil has risen substantially. The price of oil is likely to remain at its current, low level of between USD 30 and USD 40 per barrel for the next few months. For the oil price to increase, extraction would have to be scaled back in order to restore the balance between supply and demand. Negotiations in this respect proved fruitless because the oil-producing countries do not want other countries that do not participate in the reduction of supply to benefit.

Many European governments scaled back their austerity measures in 2016. This means a short-term boost for the eurozone's economic growth in 2016. Consumers are the most important drivers of economic growth in France, Spain, Italy and Portugal. Improving prospects on the labour market and relief in the form of increases in the minimum wage, tax cuts and pension changes are expected to improve consumer sentiment in 2016.

The EAA expects the economic recovery in the countries of the euro periphery to continue. This will be more pronounced in Spain and Portugal than in Italy despite the political uncertainty associated with the new, less stable governments. Spain and Portugal are likely to join Germany and Ireland as the fastest growing economies in the eurozone. However, this is associated with a significant forecasting risk. For Spain's economy to grow 2.7% in 2016, it is important that the new government in Madrid does not make any major changes to the reforms implemented by the conservative government that came before it. It remains to be seen whether this hope will be fulfilled. German GDP will grow by a good 1.8% in 2016. In 2017 the German economy is forecast to grow by 1.7%, again above its potential. The French economy will probably add to its momentum somewhat and post growth of 1.4% in 2016 and 1.5% in 2017.

## Summary of important macroeconomic forecasts

| Key economic indicators | Growth | | Inflation | | Unemployment | | Budget balance (% GDP) | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 |
| | in % | in % | in % | in % | in % | in % | in % | in % |
| USA | 2.2 | 2.3 | 1.2 | 2.2 | 4.8 | 4.6 | -2.7 | -2.8 |
| Eurozone | 1.6 | 1.7 | 0.6 | 1.5 | 10.3 | 9.8 | -1.9 | -1.6 |
| Core & semi core | | | | | | | | |
| Germany | 1.8 | 1.7 | 0.7 | 1.7 | 6.4 | 6.5 | 0.1 | 0.2 |
| France | 1.4 | 1.5 | 0.5 | 1.3 | 10.3 | 9.9 | -3.4 | -3.2 |
| Periphery | | | | | | | | |
| Greece | -0.7 | 1.8 | 0.5 | 1.0 | 26.6 | 25.7 | -3.3 | -2.5 |
| Ireland | 4.0 | 3.6 | 0.8 | 1.6 | 8.5 | 7.7 | -2.0 | -1.4 |
| Portugal | 1.5 | 1.6 | 1.0 | 1.4 | 11.5 | 10.8 | -3.0 | -2.7 |
| Spain | 2.7 | 2.4 | 0.3 | 1.4 | 20.2 | 18.6 | -3.5 | -2.7 |
| Italy | 1.2 | 1.3 | 0.5 | 1.3 | 11.3 | 10.7 | -2.4 | -2.0 |
| Emerging Markets | | | | | | | | |
| Asia | 5.9 | 5.9 | 2.2 | 2.6 | 4.0 | 4.1 | -2.6 | -2.6 |
| Latin America | -0.5 | 2.2 | 16.7 | 10.2 | 8.6 | 9.2 | -5.6 | -4.8 |
| Eastern Europe & Africa | 1.9 | 2.8 | 6.1 | 5.6 | 9.7 | 9.4 | -2.9 | -2.5 |
| BRIC countries | | | | | | | | |
| Brazil | -2.8 | 1.2 | 7.4 | 5.5 | 9.6 | 10.3 | -7.5 | -6.0 |
| Russia | -0.9 | 1.3 | 8.5 | 6.5 | 6.0 | 6.0 | -3.2 | -2.4 |
| India | 7.4 | 7.8 | 5.0 | 5.3 | n.s. | n.s. | -3.9 | -3.6 |
| China | 6.5 | 6.3 | 1.7 | 2.0 | 4.1 | 4.2 | -2.9 | -3.0 |

Source: Bloomberg, EAA.

The Italian government of Prime Minister Mateo Renzi is still in the early stages of its attempts at reform. The political system will have to be reformed first, including taking power away from the upper house of the Italian parliament, which has obstructed the work of the lower house in the past using vetoes and countermotions. This reform has already been accepted by both chambers and will be the subject of a referendum in the second quarter. Italy managed to break out of its long-term recession in 2015. The low price of oil, falling taxes and rising pensions will provide further impetus to growth in 2016. The EAA expects Italy's economy to grow 1.2% this year. However, the risks to growth predominate.

The key factor for this growth outlook is monetary support from the ECB. Low interest rates and yields make it possible to finance much higher levels of debt (private and public). The ECB's bond-buying programme further reduces the interest burden on the euro periphery and thus eases the pressure on indebted countries even more. As the ECB is hinting it will extend its purchase programme beyond September 2016, the countries of the eurozone should continue to benefit from low financing costs, too. The costs of this policy are borne by investors.

### Financial market outlook for 2016

This policy divergence is the root cause of the considerable difference that exists, and will continue to persist in the current level of yields between the eurozone and the US. While the Fed is attempting to bring about a normalisation of monetary policy, the ECB wants to continue flooding the money and financial markets with fresh central-bank liquidity through its asset purchases. The ECB's bond purchases are focused on bonds with long residual maturities. As a result, the ECB is limiting the upside potential for euro yields at the long end of the yield curve. At the short end, the level of euro yields is limited by the additional easing hinted at by the ECB.

The EAA therefore anticipates that for 2016 the US will see moderately higher yields at the long end of the yield curve, while yields in the eurozone will either linger at a low level (Germany and other core countries) or fall slightly (Spain, Italy and Portugal). The yield on ten-year German Bunds is likely to be at slightly more than 0.8% at the end of 2016, whereas the US equivalent is forecast to hit 2.5%.

### Overview of key financial markets

| Fixed income markets 2016 | Policy rate in % | 2Y yield in % | 10Y yield in % |
|---|---|---|---|
| USA | 1.10 | 1.40 | 2.50 |
| Eurozone | 0.05 | -0.30 | 0.80 |
| Core & semi core | | | |
| Germany | 0.05 | -0.30 | 0.80 |
| France | 0.05 | -0.30 | 1.00 |
| Periphery | | | |
| Spain | 0.05 | 0.20 | 1.80 |
| Italy | 0.05 | 0.20 | 1.70 |

Source: Bloomberg, EAA.

## Business development

### Overview of economic development

In 2015 the EAA's economic performance was largely determined by its wind-up mission.

The notional banking book volume fell 31.2% to EUR 36.0 billion. The notional volume of the trading portfolio declined during the same period by roughly 26.7% to EUR 341.7 billion.

The EAA's net profit of EUR 13.1 million was primarily impacted by positive net interest income of EUR 174.0 million, net fee and commission income of EUR 44.6 million and a financial investment result of EUR 129.5 million. General administrative expenses amounted to EUR 300.2 million and mainly consisted of expenses for the provision of services by PFS (EUR 194.2 million).

The EAA's total assets fell 13.6%, from EUR 79.5 billion in 2014 to their current level of EUR 68.7 billion. The business volume, which also includes off-balance-sheet components, fell 11.0% to EUR 81.7 billion (previous year: EUR 91.9 billion).

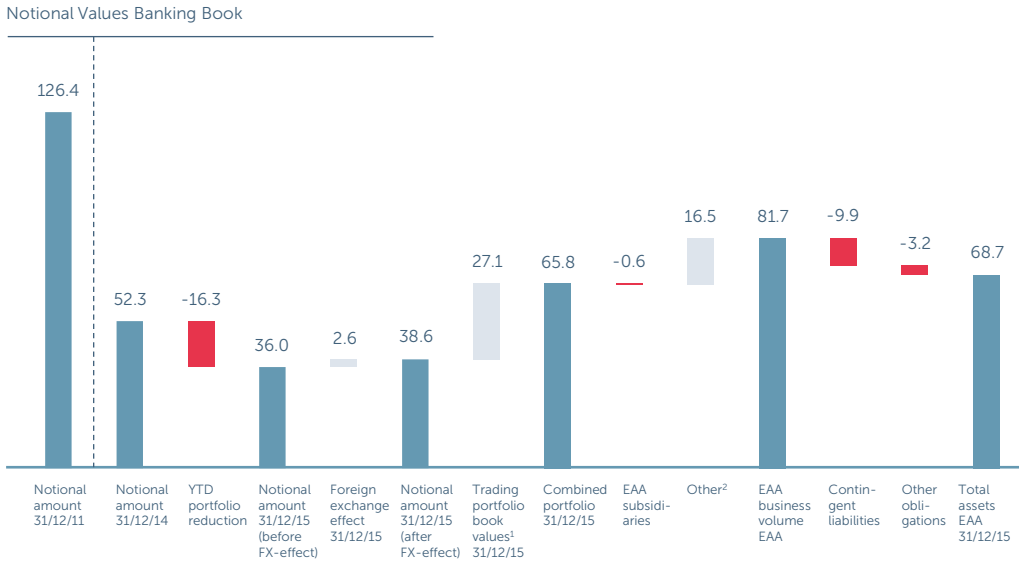
### Wind-up report

The figures and developments discussed in this section are regularly reported to the FMSA, as well as to the EAA's governing bodies. They relate to the entire risk portfolio transferred to the EAA, regardless of whether these figures are recorded on or off balance sheet in the EAA's separate financial statements or whether they are held via subsidiaries (look-through approach).

The following overview shows the development of the portfolio's notional amounts since 1 January 2015 and the reconciliation to the EAA's balance sheet as at 31 December 2015:

## Reconciliation of the transferred notional volume to the balance sheet

in EUR billion




[1] Equates to the book values for trading portfolio assets.
[2] Contains money market transactions, cash collateral and other assets not relevant for the wind-up portfolio.

Under the EAA's management strategy, the success of the wind-up plan is assessed based on both the reduction of the notional volume before exchange rate effects (i.e. at constant exchange rates as at 31 December 2011 for the banking book and as at 30 June 2012 for the trading portfolio) as well as in terms of the effects on the wind-up plan. The latter takes into consideration the impact of sale proceeds, book values, expected losses, interest income and funding costs for the respective risk exposures.

### Wind-up strategies

The banking book's risk exposures recorded in the wind-up plan have been allocated in accordance with three stipulated normative strategies.

## Breakdown of the risk exposures of the banking book by standard strategy[1]

| | 31/12/2015 EUR billion | 31/12/2014 EUR billion |
|---|---|---|
| Sellable | 3.3 | 9.3 |
| Hold | 16.1 | 22.7 |
| Restructure | 16.6 | 20.3 |
| **Total** | **36.0** | **52.3** |

[1] Excluding exchange rate effects (based on exchange rates on 31 December 2011).

The "Sellable" category includes securities and loans for which a sale is considered possible. Assets are categorised as "Sellable" based on the assumption that it is possible to sell the asset in the short or medium-term at a value that the EAA could also realise using a long-term hold strategy. This requires that the market environment has improved and that no discounts attributable to the creditworthiness of the issuer or borrower are demanded.

Assets categorised as "Restructure" are subject to close observation due to their lower credit quality. The rest of the portfolio falls under the "Hold" category. The decline in the "Hold" category was caused by repaid loans in 2015 on the one hand, while, on the other hand, part of the "Hold" portfolio was reclassified as belonging to either the "Sellable" or the "Restructure" category.

The allocation of risk exposures to one of these categories is regularly reviewed and documented when the wind-up plan is revised.

The wind-up plan for the trading portfolio makes no distinction based on the above strategies. The active management of the positions is modelled here. The portfolios are reduced via their normal maturities and active management.

### Wind-up success in the banking book

From 1 January until 31 December 2015, the notional volume of the banking book was reduced from EUR 52.3 billion to EUR 36.0 billion (at exchange rates as at 31 December 2011, including the notional amounts of the guaranteed risk exposures held by the EAA's subsidiaries). That equates to a decline in notional volume of EUR 16.3 billion (31.2%). The volume at exchange rates as of 31 December 2015 is EUR 38.6 billion. Since 1 January 2012 the total banking book portfolio has decreased by EUR 90.4 billion or 71.6%.

| | | | Notional volume (at exchange rates as of 31/12/2011) | | Notional volume (at exchange rates as of 31/12/2015) | |
|---|---|---|---|---|---|---|
| Clusters | Notional 31/12/2015 EUR million | Notional 31/12/2014 EUR million | Delta to 31/12/2014 EUR million | Delta to 31/12/2014 in % | Notional 31/12/2015 EUR million | FX effect[1] EUR million |
| Structured Securities | 12,092.8 | 16,824.0 | -4,731.2 | -28.1 | 13,246.8 | 1,154.0 |
| Liquidity Portfolio | 7,665.5 | 0.0 | 7,665.5 | n.a. | 8,236.9 | 571.4 |
| NPL | 4,126.6 | 4,129.5 | -2.9 | -0.1 | 4,546.4 | 419.8 |
| Energy | 3,389.9 | 4,398.8 | -1,008.9 | -22.9 | 3,652.5 | 262.6 |
| Public Finance | 2,449.7 | 7,799.2 | -5,349.5 | -68.6 | 2,465.0 | 15.3 |
| Structured Tax | 1,321.9 | 1,420.7 | -98.8 | -7.0 | 1,330.7 | 8.8 |
| Other clusters | 4,910.8 | 17,695.4 | -12,784.6 | -72.2 | 5,125.8 | 215.0 |
| **Total** | **35,957.2** | **52,267.6** | **-16,310.4** | **-31.2** | **38,604.1** | **2,646.9** |

[1] Change in notional volume due to exchange rate effects.

At the start of the first quarter of 2015, assets the EAA can liquidate on short notice totalling EUR 8.1 billion – including the exposures of EAA CBB – were spun off into the new Liquidity Portfolio cluster. The reclassifications were made from the Structured Securities (EUR 2.7 billion), Public Finance (EUR 4.0 billion) and Financial Institutions (EUR 1.4 billion) clusters. The notional volume of the Liquidity Portfolio cluster stood at EUR 7.7 billion as at 31 December 2015.

In February 2015 EAA CBB transferred assets in the amount of EUR 4.5 billion to the EAA. The positions were already included in the wind-up plan on account of the look-through principle and therefore anticipated in connection with the wind-up success in the banking book, as a result of which this did not have any impact on the wind-up volume. The transaction did however reduce the contraction in the volume of the EAA's total assets.

The sale of WestImmo resulted in a significant reduction in the portfolio during the current fiscal year, with the banking book portfolio decreasing by EUR 7.7 billion. Prior to the sale, around EUR 0.4 billion was transferred from WestImmo to the EAA into the NPL and Real Estate clusters.

In addition, during 2015 the banking book registered a considerable reduction in the Structured Securities, Public Finance and Energy clusters. The notional reduction in the Structured Securities cluster is primarily due to partial repayments of the Phoenix A1 (USD) and A2 (EUR) notes as well as the complete repayment of the Phoenix X note (EUR).

The notional reduction in the Other clusters is distributed over the rest of the portfolio, with the main changes taking place due to the sale of WestImmo (WestImmo Commercial cluster) and in the Industry and Infrastructure - Project Finance clusters.

There was a EUR +22.0 million positive effect on the wind-up plan in 2015 associated with sales and early repayments from the banking book portfolio, in part due to the sale of WestImmo.

### Wind-up success in the trading portfolio

The notional volume of the trading portfolio represents the business volume underlying the derivatives and is not determined by the exposure at risk.

The notional volume of the trading portfolio amounted to EUR 341.7 billion as at 31 December 2015. The notional volume of the trading portfolio decreased by a total of EUR 124.4 billion during the period from 1 January to 31 December 2015 (at exchange rates as at 30 June 2012). Since its transfer, the trading portfolio has been reduced by EUR 722.3 billion or 67.9%.

| Clusters[2] | Notional 31/12/2015 EUR million | Notional 31/12/2014 EUR million | Notional volume (at exchange rates as of 30/6/2012) Delta to 31/12/2014 EUR million | Delta to 31/12/2014 in % | Notional volume (at exchange rates as of 31/12/2015) Notional 31/12/2015 EUR million | FX effect[1] EUR million |
|---|---|---|---|---|---|---|
| Rates | 337,916.7 | 459,544.9 | -121,628.2 | -26.5 | 345,222.1 | 7,305.4 |
| Equity | 2,946.2 | 4,804.6 | -1,858.4 | -38.7 | 2,512.4 | -433.8 |
| Credit | 511.9 | 1,384.3 | -872.4 | -63.0 | 540.6 | 28.7 |
| Other clusters | 325.5 | 375.3 | -49.8 | -13.3 | 360.9 | 35.4 |
| **Total** | **341,700.3** | **466,109.1** | **-124,408.8** | **-26.7** | **348,636.0** | **6,935.7** |

[1] Change in notional volume due to exchange rate effects.
[2] The clusters are presented in the structure of the 2016 wind-up plan.

The decline is predominantly the result of maturities as well as liquidation and the active management of transactions. The principal driving force was the Rates cluster with a total notional decrease of EUR 121.6 billion. This decline resulted primarily from maturities of around EUR 117.6 billion, active reduction measures totalling EUR 22.2 billion and offsetting hedging transactions in the amount of EUR 18.2 billion.

The Equity cluster was reduced in 2014 by EUR 1.9 billion or 38.7% compared with the prior-year figure (at exchange rates as at 30 June 2012). This decline can mainly be attributed to maturities.

The Credit cluster was reduced by EUR 0.9 billion or 63.0% in 2015 compared with the prior-year figure (at exchange rates as at 30 June 2012). The decline in the portfolio is mostly the result of maturities.

The notional volume of the remaining clusters did not change significantly.

## EAA's overall situation

### Earnings situation

The results of the EAA's operations were impacted by positive net interest income of EUR 174.0 million, net fee and commission income of EUR 44.6 million, net expense of the trading portfolio totalling EUR 20.5 million and a financial investment result of EUR 129.5 million. Other administrative expenses amount to EUR 275.6 million and mainly consist of expenses for services rendered by PFS and EPA.

After taking account of a net result of EUR -11.8 million from allocations to and releases from loan loss provisions, earnings before taxes were EUR 15.3 million.

The income statement below is presented in the format used internally by the EAA.

## Income statement

| | 1/1 - 31/12/2015 EUR million | 1/1 - 31/12/2014 EUR million | Delta EUR million | Delta in % |
|---|---|---|---|---|
| Net interest income | 174.0 | 210.2 | -36.2 | -17.2 |
| Net fee and commission income | 44.6 | 54.3 | -9.7 | -17.9 |
| Net trading result | -20.5 | -24.5 | 4.0 | 16.3 |
| Total other operating income/expenses | -0.3 | -4.0 | 3.7 | 92.5 |
| Personnel expenses | -24.6 | -29.3 | 4.7 | 16.0 |
| Other administrative expenses | -275.6 | -319.7 | 44.1 | 13.8 |
| of which: expenses for service level agreements with PFS | -194.2 | -246.9 | 52.7 | 21.3 |
| Net income from investment securities and long-term equity investments | 129.5 | 172.6 | -43.1 | -25.0 |
| **Results prior to risk provisioning** | **27.1** | **59.6** | **-32.5** | **-54.5** |
| Loan loss provisions | -11.8 | 4.3 | -16.1 | >-100 |
| **Results before taxes** | **15.3** | **63.9** | **-48.6** | **-76.1** |
| Taxes | -2.2 | -1.4 | -0.8 | -57.1 |
| **Net profit of the year** | **13.1** | **62.5** | **-49.4** | **-79.0** |
| Net retained losses brought forward | -2,397.7 | -2,460.2 | 62.5 | 2.5 |
| Net retained losses | -2,384.6 | -2,397.7 | 13.1 | 0.5 |

### Net interest income

The decline in net interest income to EUR 174.0 million (previous year: EUR 210.2 million) reflects the rapid progress made on winding up the portfolio.

In addition to interest result (EUR 117.2 million [previous year: EUR 126.7 million]), net interest income also includes the current income from equities, other non-fixed income securities, long-term equity investments and shares in affiliates (EUR 38.2 million [previous year: EUR 4.0 million]) as well as income from profit pooling, profit transfer and partial profit transfer agreements (EUR 18.6 million [previous year: EUR 79.5 million]).

The interest income consists of lending and money market transactions totalling EUR 380.2 million (previous year: EUR 545.1 million) and of fixed-income securities and debt register claims in the amount of EUR 217.5 million (previous year: EUR 216.4 million).

The interest income is offset by interest expenses of EUR 480.5 million (previous year: EUR 634.9 million).

### Net fee and commission income

The year-on-year decrease in net fee and commission income of EUR 9.7 million to EUR 44.6 million is primarily due to the wind-up activity. The portfolio still contains loans and syndicated lending transactions that were transferred from the former WestLB to the EAA and from which the EAA generates net fee and commission income.

### Net trading result

The net trading result amounts to EUR -20.5 million, and is composed of the interest, foreign exchange and valuation result in the amount of EUR -15.3 million and of changes in the model reserves totalling EUR -5.2 million.

### Total other operating income/expenses

The balance of other operating income and expenses amounts to EUR -0.3 million (previous year: EUR -4.0 million).

### General administrative expenses

The general administrative expenses in fiscal year 2015 totalled EUR 300.2 million (previous year: EUR 349.0 million). The EAA's personnel expenses accounted for EUR 24.6 million of this amount (previous year: EUR 29.3 million).

Other administrative expenses amounted to EUR 275.6 million (previous year: EUR 319.7 million) and are primarily due to the expenses associated with the cooperation agreement with PFS (EUR 194.2 million [previous year: EUR 246.9 million]) and the service agreement with EPA (EUR 30.9 million [previous year: EUR 13.1 million]) to support the EAA with portfolio management and all associated activities. Additional costs of EUR 9.6 million (previous year: EUR 11.9 million) were incurred in connection with asset-sustaining measures. These include, in particular, expenses relating to the restructuring of exposures at risk of default.

### Loan loss provisions

There was a net addition of EUR 11.8 million to loan loss provisions in the 2015 fiscal year. The EAA has appropriately taken into account all recognisable risks.

### Net income from investment securities and long-term equity investments

Investment securities and long-term equity investments produced net income totalling EUR 129.5 million. This includes net income in the amount of EUR 36.5 million from long-term equity investments of the financial investment portfolio.

The net income from securities of the financial investment portfolio in the amount of EUR 93.0 million primarily stemmed from capital gains on fixed-income securities. Of this amount, EUR 78.5 million was generated in connection with the transfer of a portfolio of structured securities with a fundamental value of EUR 259.5 million to Dritte EAA Anstalt & Co. KG, which was established specifically for that purpose. This transaction was implemented with a view to improving the opportunities for winding up the portfolio ahead of time in the future.

Net income from equity investments primarily stems from the sale of WestImmo (EUR +48.7 million) as well as the absorption of losses incurred by subsidiaries amounting to EUR 10.9 million.

### Taxes

Taxes comprise taxes on income and earnings in the amount of EUR 0.7 million (previous year: EUR 1.1 million) which mainly relate to foreign taxes, and other taxes totalling EUR 1.5 million (previous year: EUR 0.3 million).

### Net profit for the year

The net profit for the year amounts to EUR 13.1 million and reduces net retained losses carried forward to EUR 2,384.6 million.

## Financial position and issuing activity

### Key tasks in the refinancing process

The EAA is an issuer of securities and operates on the capital market as an independent legal entity with its own rating for the purposes of refinancing and wind-up activities. The EAA commissions financial institutions to distribute its issues to suitable investors.

The EAA's management and governing bodies reach strategic decisions regarding the issuing schedule, the issuing prospectus, markets and pricing, while the commissioned financial institutions act as consultants.

Prior to conducting an issuance, the EAA calculates its liquidity needs in preparation for the strategic and operational decision-making process. When doing so, it factors in the maturity structure of liabilities as well as the inflow of liquidity from the repayment of assets.

The EAA draws up a long-term issuing strategy, which is regularly reviewed – supported by consultations with banks and feedback from investors – and then modified if necessary. The documentation for the issuing prospectuses is prepared jointly with the commissioned financial institutions and external legal advisors.

### Current funding volume

The EAA funds itself by means of its own new issues on the capital market as well as an existing portfolio of guaranteed issues by the former WestLB amounting to EUR 337.4 million, which was transferred as part of the spin-off.

As at the reporting date, the EAA's outstanding portfolio of issued bearer bonds, promissory note loans and commercial paper totals EUR 37.4 billion. It includes the global Commercial Paper Programme with a notional amount equivalent to EUR 15.3 billion.

During the reporting period new issues for medium and long-term funding were placed in the market with a total notional volume equivalent to around EUR 5.2 billion, consisting of USD 2.5 billion (EUR 2.3 billion), GBP 0.5 billion (EUR 0.7 billion) and EUR 2.2 billion.

A notional amount equivalent to EUR 15.3 billion was issued under the global Commercial Paper Programme during the reporting period, consisting of USD 10.8 billion (EUR 9.9 billion), GBP 4.0 billion (EUR 5.3 billion) and EUR 0.1 billion.

As at the reporting date, the portfolio contains own securities with a notional volume of around EUR 0.1 billion that were redeemed for liquidity management purposes.

In the liquidity stress test the EAA had net liquidity above the established threshold value at all times during the reporting period.

### Asset position

The EAA's total assets as at 31 December 2015 amount to EUR 68.7 billion (previous year: EUR 79.5 billion). The business volume, which also includes off-balance-sheet components, amounts to EUR 81.7 billion (previous year: EUR 91.9 billion).

## Assets

| | 31/12/2015 EUR million | 31/12/2014 EUR million | Delta EUR million | Delta in % |
|---|---|---|---|---|
| Loans and advances to banks | 9,664.2 | 14,591.4 | -4,927.2 | -33.8 |
| Loans and advances to customers | 15,066.2 | 12,961.4 | 2,104.8 | 16.2 |
| Securities (no trading portfolio) | 15,797.5 | 16,166.5 | -369.0 | -2.3 |
| Trading portfolio | 27,148.2 | 33,768.3 | -6,620.1 | -19.6 |
| Long-term equity investments and shares in affiliates | 873.6 | 1,801.9 | -928.3 | -51.5 |
| Other assets | 118.5 | 185.1 | -66.6 | -36.0 |
| **Total assets** | **68,668.2** | **79,474.6** | **-10,806.4** | **-13.6** |

## Liabilities and equity

| | 31/12/2015 EUR million | 31/12/2014 EUR million | Delta EUR million | Delta in % |
|---|---|---|---|---|
| Deposits from banks | 3,622.8 | 5,013.1 | -1,390.3 | -27.7 |
| Deposits from customers | 4,092.8 | 5,545.1 | -1,452.3 | -26.2 |
| Debt securities in issue | 34,233.5 | 34,747.9 | -514.4 | -1.5 |
| Trading portfolio | 25,383.7 | 32,874.1 | -7,490.4 | -22.8 |
| Provisions | 393.8 | 410.3 | -16.5 | -4.0 |
| Other liabilities | 310.0 | 265.7 | 44.3 | 16.7 |
| Equity | 631.6 | 618.4 | 13.2 | 2.1 |
| **Total liabilities and equity** | **68,668.2** | **79,474.6** | **-10,806.4** | **-13.6** |
| Contingent liabilities | 9,870.8 | 8,410.6 | 1,460.2 | 17.4 |
| Other obligations/loan commitments | 3,188.3 | 3,970.0 | -781.7 | -19.7 |
| **Business volume** | **81,727.3** | **91,855.2** | **-10,127.9** | **-11.0** |

In February 2015, EAA CBB transferred to the EAA assets in the amount of EUR 4.5 billion. This transaction, which had no impact on earnings or the result of the wind-up plan, resulted in no additional economic risk for the EAA because of the existing global guarantee that the EAA has issued on behalf of EAA CBB.

In addition, assets totalling EUR 0.4 billion and liabilities amounting to EUR 0.3 billion were transferred from WestImmo to the EAA prior to the sale of WestImmo.

### Lending business

The lending business comprises receivables, payment obligations arising from irrevocable loan commitments, sureties and other guarantees. Contingent liabilities also include Portigon risk exposures, which were transferred using the "guarantee" alternative. Receivables also include registered and other non-marketable debt instruments, as well as time deposits and mortgage-backed loans from the retail banking business.

**Lending business**

| | 31/12/2015 EUR million | 31/12/2014 EUR million | Delta EUR million | Delta in % |
|---|---|---|---|---|
| Loans and advances to banks | 9,664.2 | 14,591.4 | -4,927.2 | -33.8 |
| Loans and advances to customers | 15,066.2 | 12,961.4 | 2,104.8 | 16.2 |
| Contingent liabilities | 9,870.8 | 8,410.6 | 1,460.2 | 17.4 |
| Other obligations/loan commitments | 3,188.3 | 3,970.0 | -781.7 | -19.7 |
| **Lending business** | **37,789.5** | **39,933.4** | **-2,143.9** | **-5.4** |

Loans and advances to banks declined by EUR 4.9 billion as at 31 December 2015 compared with year-end 2014 due to a reduction in short-term money transactions.

Loans and advances to customers are up EUR 2.1 billion on the end of the previous year, primarily because of additions related to the portfolio transfer from EAA CBB.

Contingent liabilities amounting to EUR 9.9 billion (previous year: EUR 8.4 billion) primarily result from guarantees for Portigon's risk exposures and the liabilities inherited from WestImmo. The EAA had issued letters of comfort for WestImmo's liabilities incurred prior to 31 May 2015 (the day on which the sale of WestImmo was completed). These letters of comfort have been rendered invalid for the future with the reduction of the shareholding to 0%. The EAA is still liable for the liabilities inherited from WestImmo that were incurred prior to the completion of the sale on the basis of one of these letters of comfort. The volume of these liabilities inherited from WestImmo stood at EUR 5.0 billion as at 31 December 2015. This volume is constantly falling as a result of scheduled and unscheduled repayments. The EAA has also agreed on precautions with the Aareal Group that significantly reduce the likelihood of claims being asserted against the EAA. Firstly, it was decided that the Aareal Group would provide a liquidity facility to WestImmo, and secondly, a profit and loss transfer agreement was concluded between the Aareal Group and WestImmo.

### Securities

The portfolio of bonds and other fixed-income securities, as well as of shares and other non-fixed income securities, amounts to EUR 15.8 billion (previous year: EUR 16.2 billion) on the reporting date, of which EUR 15.5 billion (previous year: EUR 16.1 billion) is classified under investment securities. An additional EUR 0.3 billion (previous year: EUR 0.1 billion) is allocated to the liquidity reserve.

The total net decline of EUR 0.4 billion in securities is the result of two offsetting factors: on the one hand, the effects from the portfolio transfer of EAA CBB and the repurchase of own issues, and on the other hand, the effects from repayments and maturities in the securities business.

The EAA had no securities lending transactions, either on the reporting date or in the previous year.

### Trading portfolio

The trading portfolio is recognised in the balance sheet at its fair value less a risk discount. As at 31 December 2015, the EAA reported trading assets and liabilities with book values of EUR 27.1 billion and EUR 25.4 billion respectively. These relate almost entirely to derivative transactions.

The EUR 6.6 billion and EUR 7.5 billion reductions in trading assets and liabilities are mainly due to progress on the winding up of the trading portfolio.

### Long-term equity investments and shares in affiliates

The EEA has taken over a number of shares in various subsidiaries of the former WestLB. As at the reporting date, the carrying amount of long-term equity investments amounted to EUR 95.3 million (previous year: EUR 109.4 million) and shares in affiliates totalled EUR 0.8 billion (previous year: EUR 1.7 billion).

The volume of shares in affiliates rose by EUR 0.2 billion as a result of the transfer of a portfolio of structured securities to Dritte EAA Anstalt & Co. KG (which was established specifically for that purpose) and fell by EUR 0.3 billion as a result of the sale of WestImmo and EUR 0.8 billion as a result of the repayment of a portion of EAA CBB's equity capital.

This includes capital shares that the EAA obtained in debt-to-equity swaps to restructure loans.

### Deposits from banks and customers

As at 31 December 2015, deposits from banks total EUR 3.6 billion (previous year: EUR 5.0 billion). Of that amount, EUR 3.0 billion (previous year: EUR 3.1 billion) is attributable to overnight deposits and short-term time deposits, and an additional EUR 0.4 billion (previous year: EUR 1.7 billion) to registered securities. Overall, deposits from banks totalling EUR 0.1 billion (previous year: EUR 1.4 billion) are backed by the guarantor liability.

The deposits from customers in the amount of EUR 4.1 billion (previous year: EUR 5.5 billion) mainly consist of issued registered bonds equalling EUR 2.9 billion (previous year: EUR 4.5 billion). Overall, deposits from customers totalling EUR 0.2 billion (previous year: EUR 1.1 billion) are backed by the guarantor liability.

Together with the debt securities in issue, a total volume of EUR 0.3 billion (previous year: EUR 10.8 billion) is backed by the guarantor liability.

### Issuing business

The portfolio of debt securities in issue totals EUR 34.2 billion (previous year: EUR 34.7 billion) on the reporting date. This includes securities with a notional volume of EUR 0.1 billion (previous year: EUR 5.7 billion) that were originally issued by the former WestLB and are backed by the guarantor liability.

Please see the "Financial position and issuing activity" section for more information on issuing activities.

### Provisions

Provisions fell by EUR 16.5 million to EUR 393.8 million compared with the previous year. Much of this decrease stemmed from loan loss provisions in the traditional lending business. A provision of EUR 17.1 million was established for legal risks. The provisioning for uncertainty regarding legal disputes relating to transactions in the trading portfolio was recognised as a valuation discount in the trading assets.

### Equity

The EAA's subscribed capital remains unchanged at EUR 500,000 as at 31 December 2015. In addition, the first transfer of risk exposures and non-strategic business units of the former WestLB created a capital reserve in the amount of around EUR 3.1 billion. Due to the refill in fiscal year 2012 the capital reserve was reduced by EUR 123.8 million (of which EUR 13.1 million in 2013 was due to a contractual value adjustment clause) to its current level of EUR 3.0 billion. This reduction is essentially caused by the measures agreed in the content of the key point agreement dated 29 June 2011 and the binding transcript dated 18 June 2012.

As at the reporting date, the equity capital under HGB stands at EUR 631.6 million (previous year: EUR 618.4 million). Besides the net retained losses, this amount includes other retained earnings of EUR 2.4 million resulting from the reversal of provisions whose values decreased due to revisions in the method to measure liabilities under the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG).

For further information about these changes, please refer to the section "Wind-up report".

## Financial and non-financial performance indicators

### Financial performance indicators

As the EAA's aim is to wind up transferred portfolios in a manner that preserves value and minimises risk, the financial performance indicators used for the EAA's internal management are not comparable with the performance indicators normally used by banks.

Return on equity, for instance, is not the focal point of the EAA's business strategy. The EAA is instead managed according to metrics that are oriented toward the effects on earnings or wind-up success. These metrics are reported in the wind-up reports on a regular basis both in absolute and relative terms for both the banking book and the trading portfolio. The starting point for the analysis of the overall portfolio's wind-up success is 31 December 2011 for the banking book and 30 June 2012 for the trading portfolio (please also refer to the "Wind-up report" section in this regard).

Moreover, there are further performance indicators in the "performance indicator cockpit" of the monthly wind-up reports. These performance indicators include income statement ratios in relation to total assets, maturities for the banking book portfolio, the risk provisioning ratio on the portfolio as a whole and on sub-portfolios, and the cost/income ratio. Both historical values and current values are used to analyse these performance indicators.

## Non-financial performance indicators

### Employees

Qualified and motivated employees with a willingness to perform and assume responsibility, and who meet the strict requirements in terms of professional and interpersonal skills, are a major factor in the success of the EAA.

Thanks to their identification with the EAA and their commitment, employees make a pivotal contribution to the fulfilment of the public mandate of the EAA. When doing so, their talent, skills and potential are supported and encouraged through a high level of individual responsibility as well as targeted training measures.

The human resources work creates an environment in which EAA employees are able to develop and enhance their qualifications as best as possible based on their current phase of life.

The EAA maintains a performance-oriented culture characterised by mutual respect.

As at 31 December 2015, the EAA employed 144 members of staff (excluding three Managing Board members). The number has increased compared with the previous year (31 December 2014: 134) due to additional regulatory requirements.

### Reputation and acceptance

As a public institution, the EAA needs the acceptance and trust of governments and the general public in order to successfully fulfil its mandate. Since it began its operating activities, the EAA has attracted a great deal of interest in the work it does from a wide variety of different media. The EAA also attaches special importance to its public image since it impacts its funding options on the capital market. With this in mind, potential reputational risks are extremely important for the EAA.

The EAA mitigates these risks through systematic public relations activities that are designed to deliver the greatest possible transparency. Aside from regular publications such as annual and interim reports or the latest information on the EAA's website, this also includes regular contact with representatives of the world's financial and consumer press.

Furthermore, the EAA's employees foster understanding for the special features of the EAA's wind-up activities by maintaining contact with facilitator groups, for example by taking part in conferences, giving speeches, holding talks with political and financial representatives and meeting a great number of investors.

The EAA also boosts awareness of the EAA and its local anchoring in the Düsseldorf region by encouraging its employees to get involved in their communities.

## Subsequent events

The services rendered by PFS are very important for the operational stability of the EAA and thus for the continued success of the wind-up of the portfolio of the former WestLB. Bearing this background in mind, a privatisation of PFS would entail uncertainties for the EAA, among other things.

The liable stakeholders of the EAA, including the State of NRW – and therefore also the direct and indirect sole shareholder of Portigon – have come to the conclusion that linking the corporate structure of PFS to the EAA could be a meaningful measure, particularly in light of the EAA's overriding goal of winding up the acquired portfolios in a loss-minimising manner.

The focus of the EAA's due diligence was on the capital base of PFS. This due diligence also involved analysing and evaluating the opportunities and risks associated with a potential link of PFS's corporate structure to the EAA with regard to the EAA's wind-up plan and, in particular, the EAA's capital base.

Based on the findings of this due diligence, the decision was made to link PFS's corporate structure to the EAA. The contract required for this purpose was concluded in February 2016. Ownership will be transferred as soon as all of the necessary authorisations have been granted.

The EAA is currently reviewing the operational stability of this arrangement and the future business orientation of PFS in order to determine which of the activities currently outsourced to PFS can be integrated into the EAA and EPA. The findings of this review are expected in the second quarter of 2016.

No further events need to be reported.

## Summary of the business situation

The EAA has generated a net income for the year mainly because its financial investment result was positive, and its administrative expenses were lower.

The asset position of the EAA is in good order. Its equity as at 31 December 2015 amounts to EUR 631.6 million. Adequate liquidity was available at all times.

# Risk, opportunities and forecast report

## Risk report

The common objective of the liable stakeholders, the FMS and the EAA is to minimise the strategic wind-up risk. The EAA made further progress during the reporting period towards realising the wind-up plan. Its wind-up activities focused primarily on continuing to reduce the portfolio transferred from the former WestLB and on mitigating risks.

The figures and developments discussed in this section are regularly reported to the FMSA as part of its supervision of the EAA. They relate to the entire risk portfolio transferred to the EAA, regardless of whether these figures are recorded on or off-balance-sheet in the EAA's separate financial statements or whether they are held via subsidiaries (look-through approach).

### Risk management organisation

The EAA is supervised by the BaFin with regard to those provisions of banking law that are applicable to the EAA. The German Minimum Requirements of Risk Management (Mindestanforderungen an das Risikomanagement – MaRisk) are applied by the EAA, with a few exceptions.

The EAA is different from a commercial bank, and this has a significant impact on its risk strategy. As the EAA does not acquire new business, but rather only increases lines of credit in exceptional instances in connection with restructuring measures and manages liquidity, the EAA does not have the same functions that are normally included in a bank's risk strategy for managing new business. Complexity is also reduced by the fact that no capital adequacy requirements need to be applied. The requirement to fulfil the wind-up mission based exclusively on the existing equity and not having to call upon any other equity instruments or the liable stakeholders' duty to offset losses is a significant challenge for the quality and capability of the risk management team.

The EAA's risk management strategy is therefore aimed at minimising its strategic wind-up risk, that is to say, the risk of falling below the economic targets in the wind-up plan and suffering higher-than-planned losses from winding up the portfolio. The risk management team's responsibility is to map, analyse, manage and monitor the EAA's risks using a comprehensive risk reporting system.

The Managing Board defines the principles of risk management and steering, and discusses these with the Supervisory Board's Risk Management Committee. On recommendation by the Risk Committee, the Supervisory Board will decide on the principles relating to risk assumption contained in the risk strategy.

The EAA's general risk management strategy forms the basis for its risk management framework. It contains the basic principles for risk management, defines the key risk categories and identifies the core elements of the risk management process. The general risk management strategy is supplemented by specific strategies for managing individual risks including the related wind-up strategies. The key individual strategies relate to the risk categories of credit risks, market price risks, liquidity risks, longevity risks, operational risks and other risks. Risk management strategies are reviewed at least once a year.

The Managing Board has established a framework of various interdisciplinary committees throughout the institution to aid it in fulfilling its responsibility to manage risks. As Managing Board committees, these committees are permanent institutions of the EAA. They serve as central decision-making, management and information-gathering bodies which assist in dealing with strategic issues related to portfolio management and the wind-up plan.

The committees make decisions regarding risk management strategies and methods:

△ Risk Committee (RiskCo) – covers portfolio management and in particular the management of credit risks

△ Asset Liability Committee (ALCO) – covers the optimisation of asset/liability management, monitoring and managing operational liquidity, funding, interest rate and foreign exchange risks, the trading portfolio as well as operational and other risks

The Risk Controlling department is responsible for the independent monitoring and communication of the EAA's risks. Its tasks include:

△ Supporting management in connection with all risk policy issues, especially in the development and implementation of the risk strategy as well as in the organisation of a system for mitigating risks,

△ Conducting a risk inventory and preparing the overall risk profile, and

△ Assisting management with the establishment and development of risk management and risk controlling processes.

The Risk Controlling department is responsible for monitoring market price, liquidity and operational risks. The Credit Risk Management department comprises the back-office function in the lending business as defined by the MaRisk. In particular, this department comprises the lending authority. It is also responsible for credit risk steering and credit risk controlling, and is supported by the Controlling & Planning department. The Risk Controlling and Credit Risk Management departments monitor and analyse risk exposures as well as the utilisation of the limits. They also take measures to reduce risks as necessary.

The EAA's risk management system is regularly reviewed by the EAA's Internal Audit department.

### Risk reporting

Risks can be controlled and monitored in a sustainable manner only if they are transparent, and the underlying analysis results are prepared and communicated in a manner that is conducive to decision-making processes. Accordingly, risk reporting is among the key tasks of the Risk Controlling department, which fulfils this responsibility together with the Controlling & Planning department. The FMSA, the responsible committees, the Managing Board, the Supervisory Board and its committees are informed on a regular basis of any and all developments that might have a bearing on the institution's risk or earnings situation. Risk reporting is a component of the monthly wind-up report.

The Managing Board keeps the Supervisory Board and its committees regularly informed of the EAA's current wind-up status and the general risk situation based on wind-up reports and a separate risk report, which is adapted to suit the needs of the governing bodies.

### Sustainability in risk management

The EAA is aware of the environmental and social risks that can arise in connection with the financing of projects. Prior to their original approval by the former WestLB, these financing arrangements were reviewed by a department that specialises in the assessment of sustainability risks. Their risk potential was identified and categorised based on the Equator Principles and other environmental and social standards. If sustainability aspects were particularly relevant in the financing of individual projects and the risks were reduced through contractual conditions in the loan agreements, the EAA incorporates compliance with these agreements into its regular (at least annual) reviews. This takes place in close coordination with PFS and EPA.

### Credit risks

Under credit risk, the EAA distinguishes between default risks, migration risks, counterparty risks, issuer risks and participation risks:

△ Default risk comprises potential losses incurred if a borrower is unable or unwilling to comply, in part or in full, with their contractual obligations, specifically to repay their loan.

△ Migration risk comprises potential losses calculated mathematically if the amount of the expected loss on interest and principle payments increases as a result of a deterioration in a borrower's creditworthiness.

△ Counterparty risk comprises potential losses if counterparties to derivatives transactions fail to perform or their creditworthiness deteriorates. Counterparty risk also includes settlement risk. Counterparty risk is determined for both the banking book and the trading portfolio.

△ Issuer risk comprises potential losses if issuers of securities held in the portfolio fail to perform or if their creditworthiness deteriorates.

△ Participation risk includes potential losses due to omission of dividends, impairments, losses on disposals and a reduction in hidden reserves from the EAA's long-term equity investments.

#### Analysis and assessment of credit risks

The EAA's Credit Risk Management department continuously analyses and monitors the loan portfolio and its default and migration risks. In order to assess the potential consequences of systemic crises, stress tests are performed regularly to monitor how a portfolio-wide rating downgrade of up to two rating categories would impact the expected loss. The amount of loan loss provisions and changes to that amount are estimated at the general portfolio level. A total of three stress scenarios for default risks and inverse stress scenarios for the peripheral eurozone exposure are applied when preparing the wind-up plan. Moreover, the portfolio is monitored for concentration risks in individual sub-portfolios, asset classes and regions.

The EAA assesses credit risk in terms of both the overall portfolio and individual exposures. Credit quality and default probabilities are regularly assessed on the basis of balance sheet analyses and ratings. A clearly defined process facilitates the analysis of problematic exposures and the determination of alternative options, which are presented to the relevant competent individuals or bodies of the EAA for approval. Additional cluster and portfolio analyses are performed separately for significant individual exposures.

A central focus of portfolio analysis also includes problem loans. These are intensively monitored and actively managed. The "EAA Global Watch List" (EAA GW) provides a mechanism for monitoring problem loans and exposures under intensive supervision. Additional details are provided in the section "Problem loans and risk provision". The appropriateness of risk provisioning is determined by analysing the recoverable value of the receivable, the expected cash flow and existing collateral.

### Management of credit risks

The most important tools used to manage credit risk are the restructuring or sale of loans – taking into account the wind-up plan. Additionally, the EAA can enter into credit default swaps and other credit derivatives to hedge individual exposures. Each exposure is reviewed to determine whether a sale – the preferred method – is an advantageous alternative.

Default risks are generally limited to the amount of the credit lines that Portigon had provided as at the date the portfolio was transferred. Increases are permitted only in connection with restructuring measures. When borrowers repay portions of their loans, the committed credit lines and the limits are reduced by a corresponding amount.

Migration risks and rating distributions within the portfolio are monitored regularly and reported to the EAA's relevant supervisory bodies. Rating downgrades for individual exposures are assessed as part of the credit process and the exposures concerned are reviewed to check for alternative courses of action; these options may include restructuring or sale. The approach towards the borrower is then approved by the relevant individuals according to the authority rules with the appropriate level of authority.

The EAA analyses counterparty risks by monitoring and assessing the exposures using internal calculations. The method used to determine the exposure for over-the-counter derivatives (OTC derivatives) takes collateral and netting into account. Master agreements with netting and collateral agreements are used to mitigate counterparty risks.

Issuer risks from the trading portfolio are limited to the amount of the transferred exposures towards individual issuers as part of the refill. Issuer risks are monitored and managed in the same manner as default risks.

### Credit risks – banking book

The EAA and its subsidiaries regularly analyse their credit risk in detail so as to identify, analyse, evaluate and manage all default risks within the portfolio. A variety of parameters – such as risk type, rating categories, maturities and regions – are used to identify risk concentrations.

The notional volume of the banking book (which primarily consists of loans and securities) declined by EUR 16.3 billion during the reporting year 2015 to EUR 36.0 billion (at constant exchange rates as of 31 December 2011). The sale of WestImmo in the first half of 2015 and the transfer of EAA CBB assets to the EAA mean that the portfolio presented in the risk report is now nearly completely included in the EAA's balance sheet or is guaranteed by the EAA. Please refer to the section "Wind-up report" for more detailed information on the wind-up result.

### Breakdown of notional volume by internal rating category[1]

| | 31/12/2015 EUR billion | 31/12/2014 EUR billion |
|---|---|---|
| A0-A2 | 3.1 | 2.3 |
| A3-A5 | 10.8 | 9.0 |
| B1-B3 | 1.3 | 6.1 |
| B4-B5 | 4.0 | 4.9 |
| C1-C2 | 5.0 | 6.8 |
| C3-C5 | 4.2 | 5.6 |
| D1-D3 | 1.1 | 4.2 |
| D4-E | 3.9 | 8.5 |
| S.R.[2] | 2.3 | 4.6 |
| N.R.[3] | 0.3 | 0.3 |
| **Total** | **36.0** | **52.3** |

[1] Excluding exchange rate effects (based on exchange rates on 31 December 2011). The basis of the ratings was converted to "Rating based on transfer stop risk" as of the first quarter of 2015. The values as at 31 December 2014 were adjusted accordingly.
[2] Special rating pursuant to the not-rated concept.
[3] Not rated.
Please note: where possible, the internal rating categories are based on the guarantor's rating.

The quality of the banking book portfolio is reflected by an investment grade rating share (rating categories A0-C2) of around 67% (31 December 2014: 56%). About 39% (31 December 2014: 22%) of the notional volume has a very good rating (A0-A5) and around 29% (31 December 2014: 35%) is assigned to the mid-rating categories B1-C2. The S.R. rating category includes the opening clauses of the rating process and has a share of around 6% of the total portfolio.

The EAA continues to aim for a portfolio reduction across all rating categories. The increase of EUR 0.8 billion in the A0-A2 category is primarily the result of a shift of positions in the Structured Securities portfolio from the A3-A5 category. The EUR 4.8 billion decline in the B1-B3 category is in part attributable to the partial repayment of the Phoenix A1 note (USD) in the amount of EUR 1.3 billion. The sale of WestImmo had a positive effect, too.

The volumes in categories D1-D3 and D4-E have declined by EUR 7.7 billion since the start of the year. This reduction is predominantly the result of an improvement in the ratings of the Phoenix Notes, which are now included in the rating category A3-A5. The disproportionately low increase in the volumes in this rating category is due, in part, to the sale of WestImmo.

The table below shows a reconciliation of the EAA's internal ratings to external ratings:

| INTERNAL | EXTERNAL | | | |
|---|---|---|---|---|
| **EAA** | **Moody's** | **S&P** | **Fitch** | |
| A0 | Aaa | AAA | AAA | |
| A1 | Aaa | AAA | AAA | |
| A2 | Aa1 | AA+ | AA+ | |
| A3 | Aa2 | AA | AA | |
| A4 | Aa3 | AA- | AA- | |
| A5 | A1 | A+ | A+ | |
| B1 | A1 | A+ | A+ | Investment grade |
| B2 | A2 | A | A | |
| B3 | A3 | A- | A- | |
| B4 | Baa1 | BBB+ | BBB+ | |
| B5 | Baa2 | BBB | BBB | |
| C1 | Baa2 | BBB | BBB | |
| C2 | Baa3 | BBB- | BBB- | |
| C3 | Ba1 | BB+ | BB+ | |
| C4 | Ba2 | BB | BB | |
| C5 | Ba3 | BB- | BB- | |
| D1 | B1 | B+ | B+ | |
| D2 | B2 | B | B | Non-investment grade |
| D3 | B2 | B | B | |
| D4 | B3 | B- | B- | |
| D5 | Caa1 to C | CCC+ to C | CCC+ to C | |
| E | C | C | C | |

### Breakdown of notional volume by clusters[1,2]

| | 31/12/2015 in % | 31/12/2014 in % |
|---|---|---|
| Structured Securities | 33.6 | 32.2 |
| Liquidity Portfolio | 21.3 | n.s. |
| NPL | 11.5 | 7.9 |
| Energy | 9.4 | 8.4 |
| Public Finance | 6.8 | 14.9 |
| Structured Tax | 3.7 | 2.7 |
| Other | 13.7 | 33.9 |
| **Total** | **100.0** | **100.0** |

[1] 31 December 2015 = EUR 36.0 billion; 31 December 2014 = EUR 52.3 billion.
[2] Excluding exchange rate effects (based on exchange rates on 31 December 2011).

The EAA's banking book portfolio consists of 19 clusters. At the start of the first quarter of 2015, assets that the EAA can liquidate on short notice, including EAA CBB's exposures from the Structured Securities, Public Finance and Financial Institutions clusters, were transferred into the new Liquidity Portfolio cluster. The notional volume of the Liquidity Portfolio cluster stood at EUR 7.7 billion as at 31 December 2015.

The largest cluster, Structured Securities, with a total share of 33.6%, consists of three sub-portfolios: Phoenix (84.8% – please refer to section "Phoenix" for further details), Asset Backed Securities (3.3%) and EUSS (11.9%).

### Breakdown of notional volume by maturities[1,2]

| | 31/12/2015 EUR billion | 31/12/2014 EUR billion |
|---|---|---|
| <= 6 M | 1.0 | 2.5 |
| > 6 M <= 1 Y | 4.7 | 3.8 |
| > 1 Y <= 5 Y | 11.8 | 21.3 |
| > 5 Y <= 10 Y | 6.3 | 7.5 |
| > 10 Y <= 20 Y | 7.2 | 10.9 |
| > 20 Y | 5.0 | 6.3 |
| **Total** | **36.0** | **52.3** |

[1] For Phoenix: expected repayment profile.
[2] Excluding exchange rate effects (based on exchange rates on 31 December 2011).

The largest part of the portfolio, with a share of approximately 33%, consists of medium-term exposures with contractual maturities of one to five years. These are primarily exposures held in the Structured Securities (mainly Phoenix, please also refer to the "Phoenix notes capital structure" table in the "Phoenix" section), NPL and Liquidity Portfolio clusters.

The decline in the maturity ranges of one to five years and of five to ten years is partly due to the sale of WestImmo.

The other changes within the maturity ranges reflect the portfolio management measures undertaken in 2015.

### Breakdown of notional volume by region[1]

| | 31/12/2015 EUR billion | 31/12/2014 EUR billion |
|---|---|---|
| Americas[2] | 16.9 | 19.6 |
| EMEA | 13.7 | 20.0 |
| Germany | 4.4 | 11.0 |
| APAC | 1.0 | 1.7 |
| **Total** | **36.0** | **52.3** |

[1] Excluding exchange rate effects (based on exchange rates on 31 December 2011). Regional breakdown by borrowers, or for securitisations based on the main risk country of the asset pool.
[2] Contains EUR 3.6 billion for the Phoenix B note guaranteed by the state of NRW.

The regional breakdown of the notional volume has changed only insignificantly compared to 31 December 2014. Approximately 47% of the notional volume (31 December 2014: 38%) can be attributed to the Americas region. Sales and maturities led to a decline of EUR 2.7 billion, with most of the decrease occurring in the Structured Securities cluster (primarily Phoenix) and through the sale of WestImmo.

About 38% of the notional volume (31 December 2014: 38%) is attributable to the EMEA region – Europe (excluding Germany), Middle East and Africa. The decline in this region's notional volume in the amount of EUR 6.3 billion is mainly due to the sale of WestImmo as well as active measures and maturities in the Public Finance cluster.

The notional volume for German borrowers and guarantors (share of portfolio: about 12%; 31 December 2014: 21%) was also reduced by EUR 6.6 billion as a result of the sale of WestImmo.

The APAC region represents around 3% (31 December 2014: 3%). The EUR 0.7 billion decline in notional volume is primarily due to sales and early repayments at EAA KK.

The EAA's banking book portfolio is backed by the following collateral, of which EUR 0.4 billion (31 December 2014: EUR 6.6 billion) is attributable to EAA subsidiaries. The significant decline in comparison to the previous year is due to the sale of WestImmo.

## Breakdown of types of collateral of the banking book

| | 31/12/2015 EUR billion | 31/12/2014 EUR billion |
|---|---|---|
| Guarantees | 6.4 | 7.0 |
| Financial collateral | 1.4 | 1.5 |
| Real estate | 0.5 | 6.5 |
| Aircraft/Ships | 0.5 | 0.6 |
| Other collateral[1] | 7.5 | 8.3 |
| **Total** | **16.3** | **23.9** |

[1] Including market values for Phoenix tranches A1-A4/X.

### Problem loans and risk provision

Problem loan exposures are subject to special risk monitoring pursuant to MaRisk. Loan exposures with notable risk profiles are subject to intensive monitoring. Loan exposures with increased risk profiles or which have already experienced actual defaults as well as non-performing loans are transferred to the Problem Loans Processing function.

Problem loan exposures are recorded centrally in the EAA GW. It serves as a core basis for risk control and risk management of credit risks. The EAA GW is defined as an early warning system in accordance with MaRisk. It serves to record, monitor and report on individual loan exposures that have a notable or heightened risk profile, expected or actual defaults, or for which a specific risk provision has been recognised.

Exposures are included in the EAA GW in different categories based on defined risk indicators. The information and data recorded in the EAA GW are managed, monitored and regularly reported to facilitate tight control. The EAA GW also forms the basis for regular reporting to the supervisory bodies of the EAA and the FMSA on the current risk situation of these loans and the corresponding risk provisioning.

## Result of risk provisions

| | Provisions for loan losses EUR million | Charge-offs EUR million | Net change in loan loss provision EUR million | Other exp./inc. due to risk EUR million | Total allow. losses EUR million |
|---|---|---|---|---|---|
| **Acute counterparty default risk** | **308.8** | **271.6** | **-37.2** | **26.8** | **-10.4** |
| Credit risk | 308.8 | 271.6 | -37.2 | 12.1 | -25.1 |
| Other risk | - | - | - | 14.7 | 14.7 |
| **Contingent counterparty default risk** | **1.4** | **-** | **-1.4** | **-** | **-1.4** |
| **Total** | **310.2** | **271.6** | **-38.6** | **26.8** | **-11.8** |

The recoverability of the receivables is reviewed on a regular basis by performing an impairment test (a test to determine whether a receivable is non-performing or at risk of non-performance). The assessment of a possible need for a risk provision takes into account collateral values, a company valuation, a discounted cash flow analysis or observable market prices.

The general valuation allowance is based on the expected loss over a one-year period. The computation is performed using individual company-specific loss rates and conversion factors as well as ratings, after taking into account the transfer stop risk of the funding. This means that a separate model for country risk is not necessary. The general allowance for the derivatives of the banking book is not calculated using the expected loss for a one-year period, but rather through the computation of the credit valuation adjustment (CVA) of this sub-portfolio.

### Special banking book issues

#### Phoenix

The tranches of the Phoenix Light SF Ltd. securitisation constitute a major portion of the EAA's structured loan portfolio.

By far the largest part of the securitised Phoenix portfolio (approximately 90%) is denominated in US dollars and represents US risks, primarily in the real estate market.

**Phoenix notes capital structure**

| Tranche | Amount as of 31/12/2015 in million | | S&P Rating | Legal maturity | Expected maturity in years |
|---|---|---|---|---|---|
| Class X | - | EUR | - | 9/2/2015 | n.s. |
| Class A1 | 98.8 | USD | AAA | 9/2/2091 | 0.11 |
| Class A2 | 3,102.0 | USD | AAA | 9/2/2091 | 0.61 |
| | - | EUR | - | 9/2/2091 | n.s. |
| Class A3 | 2,386.6 | USD | A | 9/2/2091 | 2.11 |
| | 692.1 | EUR | A | 9/2/2091 | 2.61 |
| Class A4 | 1,909.0 | USD | B+ | 9/2/2091 | 9.12 |
| | 180.9 | EUR | B+ | 9/2/2091 | 8.61 |
| Class B | 3,566.6 | EUR | N.R. | 9/2/2091 | 2.25 |

Repayments in the reporting period amounting to EUR 1.4 billion resulted in a decrease of the notional volume reported in euros to EUR 10.2 billion as at 31 December 2015 (calculated at constant exchange rates as of 31 December 2011).

Based on the continuous repayments of the Phoenix notes, S&P raised the rating of all Phoenix notes during the reporting period.

The expected maturities shown above relate to the anticipated amortisation profile of the respective Phoenix note. At the present time, the EAA assumes the Phoenix structure will be dissolved prematurely in 2018 and that the underlying portfolio will be transferred to the EAA. The expected maturity specified for the Class B relates to the expected premature liquidation of the Phoenix structure in 2018.

### Rating breakdown by internal rating category for Phoenix notes[1]

| | 31/12/2015 EUR billion | 31/12/2014 EUR billion |
|---|---|---|
| A0-A2 | - | - |
| A3-A5 | 8.5 | 3.6 |
| B1-B3 | - | 1.4 |
| B4-B5 | - | - |
| C1-C2 | 1.7 | - |
| C3-C5 | - | - |
| D1-D3 | - | 2.5 |
| D4-E | - | 4.2 |
| S.R./N.R. | - | - |
| **Total** | **10.2** | **11.7** |

[1] Excluding exchange rate effects (based on exchange rates on 31 December 2011).
Please note: The presentation by internal rating category considers the rating (A3) of the guarantor, the state of NRW, for the Phoenix B note.

All of the Phoenix notes have an investment grade rating (rating categories A0-C2), taking into account the rating of the State of NRW (the guarantor for the Phoenix B note). So far, EUR 1.4 billion of the total EUR 5 billion guarantee from the State of NRW for the Phoenix B note has been utilised.

One security from the Phoenix portfolio was sold in the reporting year. In addition to the ongoing sale of parts of the portfolio by taking advantage of market opportunities, the EAA continues to work with the parties involved in Phoenix to optimise the portfolio. These measures include both legal measures in relation to individual portfolio securities and the restructuring of non-performing securities.

#### Public Finance

The exposure to the public sector (including the Public Finance exposures from the NPL portfolio and the Liquidity portfolio) as at 31 December 2015 comprises a notional amount of EUR 6.3 billion (excluding exchange rate effects, based on exchange rates on 31 December 2011). EUR 3.7 billion of this amount is attributable to Cyprus, Ireland, Italy, Portugal, Slovenia and Spain. Further information can be found in the section “Exposures to selected EU member states”.

Securities account for 89% of the total public sector exposure (including regional and municipal issuers). Some of these are held directly by the EAA and some by EAA CBB. The remaining 11% largely consists of lending transactions involving federal, municipal or other public-law institutions.

By far the largest part of the overall exposure, at 79%, is attributable to borrowers or issuers from the eurozone, with the remaining volume coming from European countries outside the eurozone, Africa and the Middle East (13%), North and South America (6%), and Asia and Australia (2%).

### Credit risks – trading portfolio

Trading portfolio credit risks are divided into counterparty risks (pre-settlement risk and settlement risk) from derivatives and issuer risk from securities.

Trading portfolio issuer risks from securities are calculated using the mark-to-market approach, while those in the banking book are determined based on book values. The EAA refined its method for calculating replacement (pre-settlement) risks in connection with derivative transactions in the third quarter. Instead of using a portfolio simulation approach based on a Monte Carlo method, a distinction is now made between collateralised and non-collateralised counterparties. The market value plus a replacement risk is used for non-collateralised counterparties. For collateralised counterparties, the market value, collateral and a value-at-risk based premium are calculated as the replacement risk. Settlement risks are determined using the payment due per value date. Credit risks from trading transactions are booked daily against the corresponding credit limits. Risk-mitigating measures (such as close-out netting [offsetting] and collateral in the OTC derivatives business) are used whenever possible. Active hedging of risk exposures takes place only with counterparties where corresponding master agreements are in place.

OTC derivative counterparty default risks are assessed independently from the front office using CVA. When doing so, externally traded credit spreads, where available, are used to determine the probability of default. The expected loss can be calculated as CVA based on expected future exposures and a statistically determined recovery rate. CVA amounted to EUR 54.9 million as at 31 December 2015 (31 December 2014: EUR 72.1 million). This can above all be attributed to the winding up of the portfolio and changed market data.

## Counterparty and issuer risks

### Direct counterparty risks

As the EAA concludes OTC derivatives both from the trading portfolio as well as the banking book, and counterparty risks are measured and controlled per counterparty, the explanations and figures below relate to the trading portfolio and the banking book. In accordance with an established management process, risks are managed by the Treasury/Capital Markets department, a front-office function, and the Credit Risk Management and Risk Controlling departments, which are back-office functions.

The following schedule shows direct counterparty risks. These are counterparty risks from those transactions which the EAA accounts for directly in its balance sheet and not those that have been transferred to it synthetically.

| | 31/12/2015 Exposure EUR million | 31/12/2015 Limit EUR million | 31/12/2014 Exposure EUR million | 31/12/2014 Limit EUR million |
|---|---|---|---|---|
| Counterparty risk - OTC derivatives (pre-settlement) | 1,097.3 | 3,835.0 | 845.1 | 3,570.0 |
| Credit risk - money market positions[1] | 2,058.2 | 7,547.5 | 691.9 | 8,342.5 |
| Counterparty risk - repos | 17.6 | 1,919.0 | 10.3 | 2,730.0 |

[1] All money market transactions with counterparties outside the EAA Group have a maximum maturity of three months with the exception of transactions with the Central Bank of Ireland and with Portigon; some of these transactions have maturities of more than three months.

Counterparty risks from OTC derivatives are driven by transactions for liquidity steering (foreign exchange swaps) and interest rate hedging instruments (interest rate swaps). The credit risk for money market positions at the end of the year has risen in comparison to the previous year due to the advance financing of pending transfers of loans that are still on Portigon's balance sheet to EAA. As the EAA has sufficient liquidity on the reporting date, the utilisation of the limits for repo transactions (EUR 17.6 million) is only approximately 0.9%.

When evaluated by risk country, the country concentrations for OTC derivatives, money market positions and repos are as follows:

### OTC derivatives

| Risk country | 31/12/2015 Exposure EUR million | 31/12/2015 Limit EUR million |
|---|---|---|
| Great Britain | 530.2 | 1,700.0 |
| Germany | 274.4 | 835.0 |
| France | 115.0 | 540.0 |
| Other countries | 177.7 | 760.0 |
| **Total** | **1,097.3** | **3,835.0** |

## Money market positions

| Risk country | 31/12/2015 Exposure EUR million | 31/12/2015 Limit EUR million |
|---|---|---|
| Germany | 1,010.8 | 4,520.0 |
| France | 511.4 | 630.0 |
| Spain | 209.0 | 210.0 |
| Other countries | 327.0 | 2,187.5 |
| **Total** | **2,058.2** | **7,547.5** |

## Repos

| Risk country | 31/12/2015 Exposure EUR million | 31/12/2015 Limit EUR million |
|---|---|---|
| France | 11.6 | 145.0 |
| Germany | 3.0 | 1,269.0 |
| Italy | 3.0 | 20.0 |
| Other countries | - | 485.0 |
| **Total** | **17.6** | **1,919.0** |

### Issuer risks

In accordance with an established management process, issuer risks are managed by the Treasury/Capital Markets department, a front-office function, and the Credit Risk Management and Risk Controlling departments, which are back-office functions.

The following table shows the issuer risks of the banking book, broken down by sub-portfolios:

| | < 1 Y EUR million | 1-4 Y EUR million | 4-8 Y EUR million | 8-15 Y EUR million | > 15 Y EUR million | Total exposure EUR million |
|---|---|---|---|---|---|---|
| Public Finance | 348.2 | 901.0 | 1,361.0 | 1,524.8 | 1,643.1 | 5,778.1 |
| Financial Institutions | 362.5 | 528.0 | 411.7 | 29.3 | - | 1,331.5 |
| Other securities | 114.7 | 89.5 | 125.3 | 1,088.8 | 2,392.7 | 3,811.0 |
| **Total 31/12/2015** | **825.4** | **1,518.5** | **1,898.0** | **2,642.9** | **4,035.8** | **10,920.6** |
| Total 31/12/2014 | 1,806.8 | 1,966.8 | 1,914.2 | 3,023.5 | 3,870.7 | 12,582.0 |

The Public Finance sub-portfolio accounts for the largest share with about EUR 5.8 billion. The remaining issuer exposures are made up of Financial Institutions securities as well as Other securities, mainly student loans.

Issuer risks of the trading portfolio are low and total only EUR 22.0 million. EUR 20.4 million of this amount is attributable to securities and credit derivatives, with equities and equity derivatives accounting for the remaining EUR 1.6 million.

### Participation risks

Participation risks result from the provision of subordinated capital and equity. The EAA's Strategic Project Management and Participation department is responsible for managing participations. The EAA's Controlling & Planning department supports the participation controlling process.

Of the total portfolio of the EAA Group, a notional volume of EUR 3.4 billion (9.4%) is held by subsidiaries, mainly consisting of EAA CBB with EUR 1.7 billion (49.9%), Erste EAA-Beteiligungs GmbH with EUR 1.1 billion (33.0%), EAA KK with EUR 0.3 billion (9.8%) and Dritte EAA Anstalt & Co. KG with EUR 0.2 billion (7.3%).

The notional volume held by EAA CBB decreased during the 2015 reporting year by EUR 5.6 billion to EUR 1.7 billion. The main reason for this decrease was the transfer of loans and securities totalling EUR 4.5 billion to the EAA. The impact of this transfer was offset by the netting of liabilities between the two entities and the repayment of a portion of EAA CBB's equity capital in February 2015. The notional volume held by EAA KK stood at EUR 0.3 billion as at 31 December 2015. EAA CBB and EAA KK are included in the risk management and business management of the EAA. These participations are subject to monitoring by the EAA and the EAA's approved internal limit system. Representatives of the EAA exercise non-managerial control functions as members of the governing bodies and committees of EAA CBB.

Erste EAA-Beteiligungs GmbH founded American LLPs in 2014 in connection with enforcement measures. These newly founded entities hold portfolios of American life insurance policies. This company is fully funded by the EAA (EUR 1.2 billion).

Dritte EAA Anstalt & Co. KG was founded in December 2015 in connection with the transfer of a portfolio of structured securities. The EAA holds these securities in trust for Dritte EAA Anstalt & Co. KG.

In some situations the EAA will enter into new participations via restructuring (debt-to-equity swap) if such an approach is deemed beneficial to preserve the value of the asset. The total volume of new participations is low compared with the existing participations.

On 22 February 2015 an agreement was signed to sell WestImmo to the Aareal Group. The transfer of the shares (closing) took place at the end of May 2015. The sale of WestImmo reduced the EAA's portfolio of loans and securities, and had a positive impact on the EAA's earnings and its long-term wind-up planning. When the closing took place, all of WestImmo's funding liabilities to the EAA as well as all of the financial guarantees that the EAA has issued on behalf of the WestImmo portfolio were redeemed. However, this does not affect transactions carried out prior to 31 May 2015 (the date on which the sale of WestImmo was completed).

### Exposures to selected EU member states

The banking book exposure of the EAA and its subsidiaries to Cyprus, Greece, Ireland, Italy, Portugal, Slovenia and Spain totals EUR 6.5 billion as at 31 December 2015. This exposure has been reduced by EUR 2.3 billion since the beginning of 2015. The decrease is mainly attributable to Spain (EUR -1.0 billion, of which EUR -0.4 billion is from the sale of the WestImmo portfolio), Italy and Portugal (EUR -0.6 billion each).

The total banking book exposure of the EAA and its subsidiaries to Cyprus, Greece, Ireland, Italy, Portugal, Slovenia and Spain is shown in the table below:

| | | 31/12/2015 | 31/12/2014 |
|---|---|---|---|
| **Country[1]** | **Debtor group** | **Notional in EUR million[2,3]** | **Notional in EUR million[2,3]** |
| Greece | Corporates | 92.3 | 122.2 |
| | Financial Institutions | 0.0 | - |
| **Σ Greece** | | **92.3** | **122.2** |
| Ireland | Corporates | 10.2 | 76.7 |
| | Financial Institutions | 0.2 | 0.1 |
| | Public Finance | 115.0 | 115.0 |
| **Σ Ireland** | | **125.4** | **191.8** |
| Italy | Corporates | 807.2 | 1,106.3 |
| | Financial Institutions | 103.9 | 174.7 |
| | Public Finance | 1,829.4 | 2,069.8 |
| **Σ Italy** | | **2,740.5** | **3,350.7** |
| Portugal | Corporates | 18.0 | 50.9 |
| | Financial Institutions | 11.2 | - |
| | Public Finance | 904.6 | 1,444.0 |
| **Σ Portugal** | | **933.9** | **1,494.8** |
| Slovenia | Public Finance | 40.0 | 40.0 |
| **Σ Slovenia** | | **40.0** | **40.0** |
| Spain | Corporates | 1,004.3 | 1,674.9 |
| | Financial Institutions | 635.9 | 636.1 |
| | Public Finance | 855.5 | 1,202.4 |
| **Σ Spain** | | **2,495.7** | **3,513.4** |
| Cyprus | Corporates | 64.2 | 69.6 |
| | Public Finance | - | 0.2 |
| **Σ Cyprus** | | **64.2** | **69.8** |
| **Total[4]** | | **6,491.9** | **8,782.7** |
| of which | Corporates | 1,996.2 | 3,100.5 |
| of which | Financial Institutions | 751.3 | 810.9 |
| of which | Public Finance | 3,744.4 | 4,871.3 |

[1] Economic view may differ from the borrower's legal country of residence (for Corporates and Financial Institutions).
[2] Based on current exchange rates.
[3] Presentation of the notional volume, including hedges (net).
[4] Of which EAA CBB EUR 930.1 million.

The EAA's total trading portfolio and ALM exposure to banks, companies and governments in Cyprus, Greece, Ireland, Italy, Portugal and Spain is shown in the table below:

| Product[1] | Value[2] | Country[3] | 31/12/2015 EUR million [4,5] | 31/12/2014 EUR million [4,5] |
|---|---|---|---|---|
| Single name CDS | Notional | Italy | - | - |
| | | Portugal | - | - |
| | | Spain | - | - |
| **Σ Single name CDS** | | | **-** | **-** |
| Decomposed CDS | EaD | Italy | 0.0 | 0.0 |
| | | Portugal | 0.0 | 0.0 |
| | | Spain | 0.0 | 0.0 |
| **Σ Decomposed CDS** | | | **0.0** | **0.0** |
| Equities | MtM | Greece | 0.0 | 0.0 |
| | | Italy | 0.4 | 1.7 |
| **Σ Equities** | | | **0.4** | **1.7** |
| Equity derivatives | EaD | Greece | - | -0.0 |
| | | Italy | - | -0.3 |
| **Σ Equity derivatives** | | | **-** | **-0.4** |
| Other derivatives and ALM | MtM | Ireland | 0.5 | 5.5 |
| | | Italy | 127.5 | 553.2 |
| | | Portugal | 0.4 | 0.2 |
| | | Spain | 448.2 | 375.0 |
| | | Cyprus | 21.3 | 24.1 |
| **Σ Other derivatives and ALM** | | | **597.8** | **958.0** |

[1] CDS = credit default swaps; ALM = asset liability management (ALM cluster as part of the banking book is identified here as in the internal view and not as a banking book exposure); Derivatives = replacement risks from OTC derivatives and from CDS; Decomposed CDS = CDS positions that do not relate to an individual underlying but to a portfolio of underlying individual transactions such as a basket of reference debtors.
[2] EaD = exposure at default; MtM = mark to market.
[3] Economic view may differ from the borrower's legal country of residence (for Corporates and Financial Institutions).
[4] Based on current exchange rates.
[5] Presentation of the notional volume, including hedges (net).

## Market price risks

The EAA pursues a strategy of lowering market price risks to the greatest extent possible. Market price risk is controlled via a system of limits. Market price risks in the trading portfolio and the banking book are limited separately. Market price risk exposures are controlled on a daily basis by the Treasury/Capital Markets department and are monitored and analysed by the Risk Controlling department.

In terms of market price risk, the EAA distinguishes between interest rate risks, foreign exchange risks, equity risks, and credit spread risks:

△ Interest rate risk describes the risk to the portfolio's net interest income or present value from changes in market interest rates.

△ Foreign exchange risk describes the risk of losses from changes in exchange rates.

△ Equity risk describes the risk of losses from changes in prices on the stock market.

△ Credit spread risk describes the fluctuation in the value of securities resulting from a change in the credit risk premiums (for example, foreign government bonds in the Public Finance portfolio).

### Market price risks – banking book

As a result of the portfolio structure, there are interest rate and foreign exchange risks (particularly in relation to the US dollar) that are largely hedged. In accordance with the risk profile, the EAA's hedging activities are mainly focused on the hedging of interest rate and foreign exchange risks.

These risks are hedged by refinancing with analogous currencies and matching maturities, or by concluding derivatives transactions.

### Interest rate risk (EAA Group)

| | 31/12/2015 EUR thousand | 31/12/2014 EUR thousand |
|---|---|---|
| < 1 Y | -60.1 | 141.3 |
| 1-4 Y | 1.7 | -98.0 |
| 4-8 Y | -39.0 | -46.6 |
| 8-15 Y | -21.1 | 119.3 |
| > 15 Y | -12.9 | 20.2 |
| **Total** | **-131.4** | **136.2** |

Interest rate risk in the banking book is measured as the change in the present value when the yield rises by one basis point (interest rate sensitivity PV01).

The interest rate sensitivity PV01 is EUR -131.4 thousand, and has reversed compared with the end of 2014 (EUR 136.2 thousand) due to management measures. The utilisation is within the limits.

## Foreign exchange risk (EAA Group)

| | 31/12/2015 EUR thousand | 31/12/2014 EUR thousand |
|---|---|---|
| AUD | 3,682.6 | 1,574.0 |
| CHF | 8,959.9 | -4,569.7 |
| GBP | 10,541.9 | 8,151.3 |
| JPY | 4,130.2 | 7,305.9 |
| PLN | -2,148.8 | 63.9 |
| SGD | 2,877.3 | 1,724.6 |
| USD | 15,226.6 | 31,815.6 |
| Other | 4,597.3 | 5,202.6 |
| **Total** | **47,867.0** | **51,268.2** |

The EAA's currency position is determined based on the principle of special cover in accordance with section 340h HGB. The exposures in the various currencies are within the limits. The exposures are within the limits, and they change based on market fluctuations and as part of the EAA's normal operations.

The equity risk is of minor significance to the EAA's banking book.

The wind-up strategy aims to realise the intrinsic value of the exposure. The EAA does not take into account short-term capital market fluctuations and associated credit-spread changes when managing its exposures. The exposures are monitored and, if required, decisions are made to exit specific exposures. Therefore, no limits for credit spread risks are in place.

### Market price risks – trading portfolio

In the trading portfolio, equity price risks and, to a small extent, credit spread and commodity risks also exist alongside interest rate and foreign exchange risks. The trading portfolio predominantly includes derivative exposures as well as non-linear options risks. In line with market practice, risks in the trading portfolio are hedged at the portfolio level. This entails residual risks which change due to market movements and developments in the portfolio and are hedged dynamically (dynamic hedging strategy).

When monitoring and limiting risks, the EAA applies both a VaR model and risk sensitivities. Risk management also makes use of a number of stress scenarios. On a daily basis, the VaR model calculates interest rate risks, equity risks and foreign exchange risks (including commodity risks) for the trading portfolio, including the respective volatility risks. A confidence level of 99% and a one-day holding period are assumed when calculating the VaR.

During the second quarter of 2015 the EAA converted its VaR model from a Monte-Carlo-based simulation to a linear variance-covariance approach. The associated streamlining of the processes and the IT infrastructure promotes operational stability and reflects the reduction in the EAA's trading portfolio.

Historical and parametric stress tests have been calculated on a daily basis since June 2015. These also simulate the effects of market price risks not covered by the VaR, independent of statistically observed probabilities of occurrence.

The relevant market price risk exposures are continuously subjected to backtesting. This involves comparing on a daily basis the actual market value changes (hypothetical income statement) to the possible market value changes forecast by the VaR model. In the year to date until the revision of the model on 29 May 2015, thresholds were breached four times in backtesting at the highest level of the trading portfolio structure. From a statistical perspective, two to three instances of exceeded limits must be taken into account per year for a VaR with a holding period of one trading day and a confidence level of 99%. The higher number of backtesting outliers in the first half of the year is due to a combination of volatile market phases and the sharply lower level of interest rates.

There have been no backtesting breaches since the conversion to the new VaR model.

### Value at Risk by clusters

| | 31/12/2015 EUR thousand | 31/12/2014 EUR thousand |
|---|---|---|
| EAA Trading | 1,324.6 | 1,486.2 |
| Interest Rate Exotics | 989.2 | 985.6 |
| Interest Rate Flow | 431.5 | 275.0 |
| Muni GIC Portfolio | 404.6 | 500.4 |
| Interest Rate Options | 244.3 | 201.3 |
| Foreign Exchange Options and Hybrids | 102.6 | 75.1 |
| Equity Structured Products | 97.0 | 43.2 |
| Credit Derivatives | 8.6 | 9.0 |
| Fund Derivatives & Credit Repacks | 1.3 | 0.8 |
| Commodities | 0.1 | 0.6 |

The VaR for the trading portfolio declined because of market movements and the model conversion mentioned above to EUR 1,324.6 thousand (31 December 2014: EUR 1,486.2 thousand).

### Liquidity risks

The EAA distinguishes between tactical and strategic liquidity risks.

△ Tactical liquidity risk is the risk of not being able to generate sufficient liquidity over the short term (time horizon of up to one year) to meet contractual payment obligations.

△ Strategic liquidity risk is the risk of not being able to implement funding measures set out in the funding plan on the market, in whole or in part.

The EAA's affiliates are included in the liquidity planning and management process so as to ensure optimal access to liquidity. Due to the duty of the liable stakeholders and the FMS to offset losses incurred, as well as because of their creditworthiness, the EAA is perceived positively in the capital markets. As a result, there is less risk concerning the EAA's specific funding options than there is with regard to systemic market illiquidity.

In order to assess its liquidity, the EAA analyses in detail its funding position, liquidity reserve and funding needs. On the liabilities side, liquidity is assessed by type, volume and time horizon of the funding instruments. The EAA creates a monthly capital commitment statement by comparing the expected cash flows used for liabilities with those arising from assets, taking into account the use of derivatives. This sheds light on its need for net funding. To this end, the EAA considers both tactical and long-term strategic liquidity. The tactical liquidity risk is regularly assessed using stress tests.

In order to manage and monitor its liquidity risks, the EAA has implemented a system to closely monitor the implementation of the funding plan. It also maintains a liquidity reserve. Securities with short terms and the best possible credit ratings may be purchased (subject to strict limits) in order to maintain the necessary volume of the liquidity reserve. A significant portion of the EAA's assets are invested in foreign currencies (particularly the US dollar) for longer terms. Foreign currency assets are refinanced using a mixture of foreign currency liabilities, which are issued via the Commercial Paper and Debt Issuance Programme, and using liabilities in euros in combination with long and medium-term cross-currency swaps and short-term FX swaps.

All stress scenarios demonstrated a viable liquidity situation as at 31 December 2015. The liquidity reserve consists of collateralised liquidity (the portfolio's securities holdings which are highly likely to be eligible for bilateral repo transactions) and short-term investments. Liquidity reserves were always higher than the liquidity requirement during the reporting period. At the time of the stress test on the last day of December 2015, the liquidity reserve amounted to EUR 6.0 billion.

Owing to the good ratings of its liable stakeholders and FMS, the EAA does not consider it necessary to limit the strategic liquidity risk.

### Operational risks

The EAA differentiates between operational risks within the EAA (including its subsidiaries) and risks from the outsourcing of activities to the Portigon Group and other service providers.

Operational risks in the EAA comprise all risks arising from inappropriate reactions or from the failure of internal processes, systems, and individuals, as well as risks resulting from external events. Due to organisational changes in the fiscal years 2013 and 2014, such as the integration of EAA KK and the foundation of EPA, the control of operational risks was also extended to the subsidiaries.

Outsourcing risks with regard to Portigon Group, EPA or other service providers encompass possible losses from the awarding of services. These include, in particular, the risk that contractually agreed services are not provided or do not meet the stipulated quality.

Operational risks arise from two sources, first, when EAA employees and service providers perform their tasks and second, from the surrounding environment. Therefore, the management of operational risks is the direct responsibility of the individual departments under the leadership of the respective department heads. The EAA's head of Risk Controlling coordinates this effort.

The EAA has established a service provider management system to monitor the interface between the service providers and the EAA – as the recipient of services – in terms of the content, form and quality of the services. Using a continuous and timely process, the EAA accordingly ensures that its requirements, which are defined in service level agreements, are fulfilled by the service providers in the agreed form. In this process, the EAA records the outsourcing risks and assesses them by applying a traffic light system.

**Operational risks within the EAA**

The EAA's management has established a sustainable risk management culture within the organisation in order to avoid operational risks. The EAA's Risk Controlling department is responsible for developing and introducing methods for identifying, measuring, analysing, monitoring and reporting on operational and other risks.

Its activity focuses on the regular analysis and identification of weaknesses, and on ways to optimise all business procedures and processes. The EAA's operational risks arise both in the EAA itself (including its subsidiaries) and at its outsourcing service providers. Operational risks are measured and managed in both organisations in a consistent manner. They are also aggregated into an overview of overall risk.

The operational risks of other service providers are managed using consistent methods. The EAA concentrates on identifying material individual risks, continually monitoring them, and if necessary, managing or mitigating such risks. To that end, it has established an internal system – depending on the type and scope of the operational risks – to record and measure the operational risks for the EAA as a whole. The recording of operational risk incidents and the annual risk inventory are key elements to measure operational risks. Based on the findings obtained, appropriate measures are decided upon and implemented.

This involves the following. First, losses and near losses are recorded and evaluated, and potential or actual losses are quantified. In addition to documenting operational losses and near losses, an extensive ex-post analysis of operational risk incidents offers information on the weaknesses and facilities the initiation of risk-reducing measures on the basis of this information.

Second, an annual risk inventory is performed to identify risks and assess their significance for the EAA. Appropriate risk-mitigating measures are decided upon and implemented based on the findings obtained. Risk Controlling gathers the information on the operational risk incidents and performs the risk inventory for the EAA. The processes within Portigon Group that are relevant to the EAA are also subjected to an annual risk inventory by PFS's Operational Risk Management, which then reports the results to the EAA. If an operational risk incident occurs in these processes, it will also be reported to the EAA, including the associated risk-reducing measures and their status.

The EAA's most recent risk inventory revealed no valuation object with high risks. Of the valuation objects, 12% are characterised by medium risks and 88% by low risks. The overall risk situation therefore remains largely unchanged. The conclusion of the EPA integration and the completion of the migration of WestImmo's carve-out portfolio have led to a general stabilisation.

EAA has outsourced key business processes to PFS and EPA. Portigon continues to undergo a process of transformation to implement restructuring ordered by the European Commission. As part of this, PFS for example was spun off from Portigon during the last fiscal year. As a consequence of this spin-off, Portigon's service obligations were transferred to PFS. In this respect, PFS reserves the right to procure some services from Portigon for provision to the EAA. If in the future Portigon is no longer able to render certain services for the EAA (for example, if it returns its banking license), the EAA will need to look for new service providers for the corresponding services. Any possible operational risks associated with the separation of PFS from Portigon are covered by the EAA's existing range of tools.

This year's risk inventory at the Portigon Group regarding the processes attributable to the EAA showed a high risk for 4.8% of the evaluated risks (previous year: 3.0%), especially in the case of measurements related to personnel. The EAA has been monitoring this development and has prepared measures to take, if necessary, in order to minimise the operational risk. The foundation of EPA and the transfer of essential portfolio management services from PFS to EPA were an example of such a measure to stabilise the EAA.

**Service provider management**

The outsourcing of key business processes requires that the EAA controls and monitors the operating infrastructure of its service providers in order to ensure proper business operations. The monitoring requirements for the EAA are far-reaching and result from both the EAA's original task and its accountability to the liable stakeholders and the FMSA as well as from supervisory and statutory requirements in terms of transparency, correctness and the adequacy of control systems. For instance, the EAA must manage the risk exposures entrusted to it from a liquidity, risk and financial position perspective.

Moreover, the EAA is subject to the legal and supervisory regulations pursuant to section 25a KWG and section AT 9 note 7 MaRisk (management and monitoring of outsourcing measures) as well as section AT 4.3.1 note 2 and section AT 9 note 1 (organisational regulations) MaRisk, from which the necessity of managing and monitoring the outsourced activities is derived.

As a result, an adequate monitoring system is a key success factor for the EAA. The EAA has selected a needs-based approach for the structuring of its service provider management in order to create a structure that fulfils the monitoring requirements, meets the supervisory and reporting obligations for its business model and minimises the operational risks associated with outsourcing. The selected approach is also innovative because it brings together the unusually broad coverage of highly different services and assessment criteria using a simple analysis matrix. The EAA's concept combines a holistic, integrated, multidimensional and pragmatic business process and an end-product-oriented management approach with a flexible technical solution.

Service provider management monitors the interfaces between the service providers and the EAA – as the service receiver – in terms of the content, form and quality of the services. Using a continuous and timely monitoring process, the EAA accordingly ensures that the EAA's requirements, which are defined in service level agreements, are understood and accepted by the service provider and also regularly fulfilled in the agreed form. In this process, the EAA records the outsourcing risks and assesses them by applying a traffic light system. The monitoring and assessment process is supported by an online assessment system. Any necessary service and process adjustments are additionally taken into account in a process of continuous improvements.

There were no elevated risks during 2015, and the quality of the services rendered during the period was fundamentally stable in accordance with the service agreement.

The EAA is currently reviewing the operational stability of this arrangement and the future business orientation of PFS in order to determine which of the activities currently outsourced to PFS can be integrated into the EAA and EPA.

## Other risks

### Reputational risks

Reputational risks encompass the risk that public reporting on the EAA or the transactions in which it engages will result in damage to its reputation.

Given the strong public interest in the EAA, reputational risks are especially relevant. The EAA also attaches special importance to its public image, since it impacts its funding options on the capital market.

The EAA has established behavioural rules for its employees in its "Code of Conduct". The EAA monitors all public reporting intensely to further minimise reputational risks. This also includes public reporting about its subsidiaries in the wind-up portfolio. Coordinated and active communication and public relations activities support the EAA's reputation.

### Legal risks

The legal risks comprise risks arising from contractual agreements or statutory conditions which harbour the risk of negative effects within and outside the EAA.

The EAA is subject to legal supervision by the FMSA, which in turn is subject to legal and technical supervision by the German Ministry of Finance. Supervision by the FMSA ensures in particular that the EAA complies with the requirements of statutory provisions and its charter.

Significant legal risks arise for the EAA from the transferred derivatives transactions with municipalities based on the "Ille ruling" of the German Supreme Court (BGH) of March 2011. The BGH ruled that banks may be required to inform their clients about the initially negative market value of the derivative before the contract is concluded. In the event that said information is not provided, the bank is then liable for providing inappropriate investment advice, according to the BGH. The liability extends to the annulment of the derivative and the reversal of all payments. The scope of this case law is controversial. The BGH's "Ennepetal ruling" of April 2015 led to a further differentiation in case law. The EAA has already reached out-of-court settlements with many municipalities. Nevertheless, the risk cannot be ruled out that future judicial rulings may be unfavourable for the EAA.

Since April 2010 the authorities in the US, the Great Britain and at the EU level (particularly BaFin) have been investigating possible misconduct in the trading departments of several banks. The initial results of the investigations have not produced any evidence of wrongdoing at the former WestLB; BaFin's investigations against Portigon were terminated without taking any measures against Portigon. A number of investment banks active in the US were also sued in the US in various class action lawsuits due to alleged manipulative actions. One aspect of the civil suits (antitrust claims) was rejected in the first instance. Any investigations and civil suits that are still open will continue for a number of years. The EAA currently has no reason to doubt Portigon's claims that there are no indications of any misconduct.

When necessary, the EAA has established sufficient financial reserves and initiated other measures to cover judicial and extra-judicial disputes.

### Tax risks

Tax risks may arise from changes in tax legislation, case law or errors in the application of the law as well as the special tax regulations for winding-up agencies.

The EAA uses clearly defined governance structures and processes to analyse and manage tax risks. Tax risks are cleared through active communication with tax authorities and other government institutions. Where necessary, external specialists are engaged to consult on legal and tax issues.

### Longevity risks

The EAA funds premium payments for American life insurance policies under so-called life settlement engagements. The payouts from these policies flow to the EAA when the insured individual dies. Longevity risks exist when the insured individual lives longer than originally calculated. In this case, the insurance premiums must be paid longer than forecast, and the death benefits are paid to the EAA at a later date.

One insurer is currently planning to increase the premiums for its life insurance policies, in breach of the original contractual agreement. The EAA is taking court action against the increase in premiums. As of 31 December 2015, 80% of the anticipated increases in premiums were already taken into account in the valuation of the portfolio. Provisions amounting to USD 1.5 million were also recognised for litigation costs as of 31 December 2015.

Longevity risk is limited to the acquired portfolio. Due to the large number of policies overall, coupled with a correspondingly high volume of financing and long terms to maturity, longevity risk is a major risk for the EAA.

The EAA has engaged external actuarial advisors and service providers who provide the EAA with monthly analyses on the life settlement exposure. Based on these analyses the EAA constantly monitors the relevant cash flows and thus the longevity risk so that potential deviations from the original forecast can be identified.

### Summary of the risk situation

The EAA was established in order to assume the risk exposures and non-strategic business units of the former WestLB and its domestic and foreign subsidiaries, and to wind these up based on a long-term wind-up plan in a value-preserving and risk-minimising manner. Value fluctuations in the interim are of less significance.

To that end in particular, wind-up agencies in accordance with section 8a of the FMStFG are exempt from capital requirements, the obligation to prepare consolidated financial statements and other statutory provisions that apply to commercial banks. The EAA is thus primarily geared towards assuming credit risks.

The EAA strives in its risk management activities to reduce the risk resulting from the wind-up of the portfolio. To that end, the wind-up result and any deviations from the wind-up plan are continually monitored and compared against the plan (please refer to the section “Wind-up report” for more detailed information).

Liquidity risk is reduced to the same extent to which the EAA raises funding on the capital markets that is largely congruous in terms of maturities and currencies. Due to its good rating, the EAA enjoys a stable funding situation.

Market price risks are largely limited.

The EAA has introduced a tight service provider management system and an internal control system in order to manage operational risks.

The Phoenix and EUSS credit products continue to constitute the largest individual risks. This means the US economy and the development of the US real estate market play a prominent role in the EAA's risk situation. The EAA has provided sufficiently for all known risks. Its equity is available as aggregate risk cover for risks that are not yet currently foreseeable.

Risks resulting from the sovereign debt crisis, particularly for exposures in peripheral eurozone countries, are being monitored closely and in a timely manner.

The particular risk associated with the life settlements exposure is that the financing provided cannot be repaid according to plan if the people insured live longer than forecast. The longevity risks in the portfolio are regularly analysed by actuarial advisors and closely monitored by the EAA.

The requirements for risk-bearing capacity pursuant to section AT 4.1 MaRisk are not relevant for the EAA. Instead, the EAA performs a quarterly analysis of the development of its equity to the end of the planning period using the wind-up plan as well as up-to-date variables and market parameters. This involves, in particular, the effects of changed framework conditions on equity in 2027. As at 31 December 2015 a new wind-up plan was prepared as scheduled. This wind-up plan shows positive equity capital as at the end of the planning period. This means that as of the end of planning horizon for the wind-up plan, the only possibility that a loss would occur which would require utilisation of the EAA's liability mechanism would be if adverse scenarios were to materialise which, from today's perspective, are unlikely to occur.

In summary, the EAA perceives the risks it has assumed to be adequately covered, given its capital resources as well as the existing guarantee, equity instruments and loss-offset obligations of the liable stakeholders and the FMS.

The EAA will continue to place a special focus on sustainable and consistent risk management.

## Opportunities report

The solvency of eurozone countries is at the core of the European sovereign debt crisis. Because banks in the eurozone invested heavily in euro government bonds prior to the outbreak of the debt crisis, the deterioration in the credit quality of these sovereign states very rapidly affected the creditworthiness of the banking sector in general. Only the most affluent countries in the core of the eurozone could afford to provide support for their banks. The high and growing indebtedness of peripheral economies made it impossible in many countries to recapitalise and stabilise stricken or faltering banks.

Consequently, the credit quality of the banks deteriorated too, because it became less likely that governments would bail out the banks in the event of a crisis. A country risk premium (risk surcharge over German government bonds), like the one seen in the markets for government bonds, became increasingly prevalent in the pricing of bank bonds, corporate bonds, covered bonds and loans. This led to further adverse effects and created a need for additional write-downs at banks, triggering an expansion in spreads.

The ECB underscored its determination even further with its government bond-buying programme in March 2015. In 2014 it had already begun to purchase securitisations and covered bonds. But in order to achieve its target for total assets of around EUR 3 trillion, the ECB has been additionally purchasing euro government bonds since March 2015 and is spending around EUR 60 billion every month for euro government bonds, covered bonds and securitisations. As of 23 October 2015 the ECB has purchased euro government bonds with a volume of EUR 570 billion, hereby easing the supply of liquidity to the capital markets even more.

This purchase programme will join the other mechanisms already in place, such as the ECB's OMT programme and TLTROs. These ECB measures are seen as a major reason why the resurgence of the Greek crisis in 2015 did not expand into a more widespread conflagration. Evidence of contagion, such as higher yields and risk premiums, has appeared to only a very limited extent among other peripheral issuers from Portugal, Spain or Italy.

Growth rates within the eurozone continue to equalise as well. Italy is likely to report further economic growth again in 2016. Former crisis-hit countries such as Spain or Portugal are once again among the fastest-growing economies in the eurozone in 2016. This also means that the turmoil experienced over the last five years in the markets for euro government bonds is waning. Countries in the core of the eurozone (especially Germany) have enjoyed robust growth rates for several quarters.

This boosts the valuations of euro government bonds of the periphery as well as other risky financial products. This process is not limited to just listed products; it also affects other segments of the euro credit markets such as promissory notes, traditional loans and project financing. The EAA's portfolios benefit from this normalisation process because the further "pricing out" of an additional country risk premium means that prices will recover considerably. Going forward, this process will probably continue to bolster financial markets in 2016, too. The ECB's OMT programme and its purchases have created new confidence in the euro periphery. At the same time, the euro crisis was a key catalyst for the region. Structural problems in Spain and Portugal, such as rigid labour and product markets, a retirement age that is too low and an incorrect export mix, have been resolved, thereby increasing competitiveness. The effect on bonds of periphery issuers from the trend toward slowly rising yields at the long end of the yield curve will probably be largely offset by falling spreads.

The EAA anticipates that these developments will have a fundamentally beneficial effect on the portfolio (please also refer to the section "Forecast report" for more information).

## Forecast report

The EAA expects active measures and contractual maturities to reduce the notional volume of the banking book by around 22% to about EUR 28 billion in 2016.

To date, the original plan for the wind-up of the total portfolio has been met or exceeded. The sale of WestImmo in the second quarter of 2015 means that another major portion of the EAA's portfolio has been wound up earlier than planned. As a consequence, the current wind-up plan's original target of EUR 43 billion for the end of the year has already been surpassed by a substantial margin.

The EAA's objective is to wind up around 81% of the banking book's portfolio as at 31 December 2011 (including the exposures held by subsidiaries and the refill) by the end of 2017. As in previous years, the EAA's wind-up activities will focus on advance portfolio-reducing measures and active participation management.

For 2016 the plan calls for a reduction in the notional volume of the trading portfolios by around 19% to about EUR 277 billion compared with the previous year. The EAA will continue to analyse to what extent it is possible to accelerate the reduction of the assumed trading portfolios in an effective and cost-efficient manner.

As for the transferred exposures in the trading portfolios, the EAA continues to target a more than 78% reduction in the notional volume by the end of 2017 since the transfer in 2012. The book values are set to decrease to the same extent during this period – depending on market valuations.

Net interest income and net fee and commission income will probably decrease in the fiscal year 2016 as the volume of the portfolio declines. The plan is to generate close to EUR 159 million (including dividend income) from this portfolio. A forecast for the trading result and for the result of risk provisions is difficult due to the imponderables with respect to developments on the global financial markets and other markets. However, the EAA is sticking with its strategy of winding up in a manner that preserves value. Losses cannot be ruled out in the next few fiscal years on account of the now substantial reduction of the portfolio and the associated decline in income from ongoing operations, and are taken into account in the EAA's wind-up plans. This also applies to fiscal year 2016.

In the previous year the EAA anticipated that its net interest income and net fee and commission income for the 2015 fiscal year would decrease due to the reduction in the portfolio. This forecast proved to be correct. While net interest income decreased by EUR 36.2 million compared with the previous year, net fee and commission income fell by EUR 9.7 million. Last year the EAA decided not to make a forecast about the development of the net trading and risk provision result due to the imponderables associated with the developments on the global financial and other markets.

Further forecasts regarding earnings in the next few fiscal years on the basis of the indicators described are subject to uncertainty and only reliable to a limited extent. Based on its wind-up planning, the EAA does not foresee the need to utilise the equity instruments or the assumed loss-offset obligations.

For 2016 the EAA has once again defined a sale portfolio as its objective. In light of this, a number of exposures in the credit and securities portfolio have been identified that offer potential for sales, terminations or early redemptions. This course of action serves the overriding goal of minimising losses while taking into account expected risk developments. Independent of the sales portfolio for 2016, the EAA pursues an opportunistic approach by conducting regular analyses of market conditions and exit opportunities in order to assess premature and profitable wind-up opportunities for all positions of the portfolio.

The new interventions by the ECB in 2016 (programme to purchase government bonds, covered bonds and securitisations) and the robust state of the economy in Spain and Portugal appear to have improved the situation. France and Italy are also showing a pick-up in activity again, following several quarters of stagnation. Nevertheless, the current economic recovery is very slow compared with previous economic upturns because an attempt to overcome a debt crisis through austerity measures takes a very long time. These efforts are even more difficult when additional aspects of the economy besides the public sector, such as private households and the corporate sector, must likewise make cut-backs in order to reduce excessive debt. The new governments in Portugal and Spain also mean that the successful reform policies of recent years may not be continued. These reforms are the central factor behind the recovery of Portugal and Spain's economies.

Nevertheless, the EAA's ambitious objectives are bolstered by current economic trends. The ECB's programme to purchase euro government bonds should have a particularly positive impact on the EAA's portfolios. During the critical escalation once again of the situation in Greece, the ECB's purchases and its OMT programme successfully prevented the spread of the problems to other peripheral countries, such as Italy or Portugal. The effect of the ECB's purchases will probably not be limited to just government bonds and will additionally radiate out to other segments. This seems likely because in today's environment of low interest rates and yields, investors are looking for investment alternatives.

## Accounting-based internal control and risk management system

The objective of an accounting-based internal control and risk management system (ICS/RMS) is to ensure compliance with financial reporting standards and regulations and to guarantee the integrity of the financial reporting.

As part of their function as service providers, the EAA and Portigon Group have implemented an ICS and an RMS that are appropriate for their financial reporting processes and business activities. Adjustments are being made to the ICS and RMS as part of the restructuring of the Portigon Group. The EAA's accounting-related ICS/RMS consists primarily of guidelines and processes which offer reasonable assurance that business transactions are fully, promptly and accurately measured and recorded on an accrual basis in accordance with statutory and other provisions so that

- △ Public financial reporting provides a true and fair view of the institution's financial standing (integrity and reliability of financial reporting);
- △ Decision-makers and governing bodies are regularly and promptly informed of financial reporting data relevant to the management of the institution (internal reporting);
- △ Appropriate control procedures are in place so that unauthorised purchases, use or sales of assets having a material impact on the financial reporting can be prevented or identified early on;
- △ An appropriate control and documentation environment is created (such as the segregation of functions, compliance with established approval or authority levels, dual control principle when recording business transactions, orderly documentation);
- △ The archiving and storage of documents and accounting-relevant data is regulated concerning information that provides accurate, sufficiently detailed and appropriate data on business transactions and the use of assets.

The EAA monitors the entire accounting-based ICS/RMS on an ongoing basis. Existing professional and technical controls are examined regularly by the Internal Audit department of the EAA (with the support of its external service provider) and the auditor of the EAA as well as, in cases pertaining to outsourcing to the Portigon Group, by the Internal Audit department of the Portigon Group and its auditor.

The EAA's Internal Audit department also monitors audit activities at the Portigon Group for effectiveness and appropriateness and can also perform audits there.

Moreover, the financial reporting processes are included in EAA's general risk management process with regard to operational risks. This is intended to prevent errors or misstatements to the greatest extent possible, or to uncover them early on. All processes are documented in the EAA's written rules of procedure, which are available to all employees.

The accounting policies are documented in electronic manuals. Annual, quarterly and monthly financial statements are prepared in accordance with a coordinated schedule. The EAA receives assistance with this from PFS's Finance/Data department.

New statutory and supervisory requirements are implemented and communicated promptly, depending on their respective scope and significance to the EAA. This is carried out in projects and via written instructions. All relevant departments and management levels are involved in accordance with internal project guidelines.

Employees of the Finance & Tax department have the right to review the minutes of relevant risk and management committees. This helps ensure that strategic and risk-related developments are included promptly in the financial accounting and reporting. Transactions with new products or in new markets, which the EAA may carry out only within the scope of the portfolio wind-up and not to operate new businesses, are handled through the new product process intended for that purpose, in which the Finance & Tax department is also integrated.

# Balance sheet

## Assets

| | Notes | EUR | EUR | 31/12/2015<br>EUR | 31/12/2014<br>EUR |
|---|---|---|---|---|---|
| 1. Cash reserve | | | | | |
| a) Balances with central banks | | | 3,518 | | (50) |
| of which: | | | | | |
| with Deutsche Bundesbank EUR 3,518 (py: EUR 50) | | | | | |
| | | | | 3,518 | 50 |
| 2. Loans and advances to banks | 3, 4, 31 | | | | |
| a) Payable on demand | | | 5,810,475,286 | | (6,715,689,869) |
| b) Other loans and advances | | | 3,853,691,759 | | (7,875,689,956) |
| | | | | 9,664,167,045 | 14,591,379,825 |
| 3. Loans and advances to customers | 3, 5, 6, 16, 31 | | | 15,066,219,181 | 12,961,376,080 |
| of which: | | | | | |
| secured by mortgage charges<br>EUR 353,030,633 (py: EUR 301,149,719) | | | | | |
| Public-sector loans<br>EUR 1,281,840,228 (py: EUR 1,029,743,537) | | | | | |
| 4. Bonds and other fixed-income securities | 3, 7, 14, 17, 31 | | | | |
| a) Bonds issued by | | | | | |
| aa) public issuers | | 2,333,706,212 | | | (2,018,642,403) |
| of which: | | | | | |
| eligible as collateral with Deutsche Bundesbank<br>EUR 1,988,362,403 (py: EUR 1,884,254,808) | | | | | |
| ab) other issuers | | 13,327,383,624 | | | (14,030,821,225) |
| of which: | | | | | |
| eligible as collateral with Deutsche Bundesbank<br>EUR 1,165,299,097 (py: EUR 1,075,968,037) | | | | | |
| | | | 15,661,089,836 | | (16,049,463,628) |
| b) Own bonds; notional value<br>EUR 132,924,675 (py: EUR 91,237,000) | | | 136,088,750 | | (91,746,421) |
| | | | | 15,797,178,586 | 16,141,210,049 |
| 5. Equities and other non-fixed-income securities | 3, 8, 14, 16 | | | 285,976 | 25,345,144 |
| 5a. Trading portfolio | 3, 9 | | | 27,148,168,184 | 33,768,281,602 |

| | Notes | EUR | EUR | 31/12/2015<br>EUR | 31/12/2014<br>EUR |
|---|---|---|---|---|---|
| 6. Long-term equity investments | 3, 10, 14 | | | 95,289,395 | 109,378,843 |
| of which: | | | | | |
| in banks<br>EUR 12,421,102 (py: EUR 12,421,102) | | | | | |
| 7. Shares in affiliates | 3, 11, 14 | | | 778,291,621 | 1,692,481,177 |
| of which: | | | | | |
| in banks<br>EUR 452,806,288 (py: EUR 1,611,828,596) | | | | | |
| in financial service providers<br>EUR 16,736,565 (py: EUR 10,797,344) | | | | | |
| 8. Trust assets | 3, 12 | | | 26,626 | 262,425 |
| of which: | | | | | |
| trust loans<br>EUR 26,626 (py: EUR 262,425) | | | | | |
| 9. Intangible assets | 14 | | | | |
| a) Paid concessions, trademarks and similar rights and values such as licenses in such rights | | | 4,857,699 | | (5,212,861) |
| | | | | 4,857,699 | 5,212,861 |
| 10. Tangible fixed assets | 14 | | | 256,979 | 228,686 |
| 11. Other assets | 3, 13 | | | 67,051,964 | 123,011,147 |
| 12. Prepaid expenses/accrued income | 3, 15 | | | 46,374,981 | 56,456,587 |
| **Total assets** | | | | **68,668,171,755** | **79,474,624,476** |

## Liabilities and equity

| | Notes | EUR | EUR | 31/12/2015 EUR | 31/12/2014 EUR |
|---|---|---|---|---|---|
| 1. Deposits from banks | 3, 15, 18 | | | | |
| a) Payable on demand | | | 2,865,358,433 | | (2,544,876,905) |
| b) With an agreed maturity or withdrawal notice | | | 757,411,932 | | (2,468,239,131) |
| | | | | 3,622,770,365 | 5,013,116,036 |
| 2. Deposits from customers | 3, 15, 19 | | | | |
| other deposits | | | | | |
| a) payable on demand | | | 140,400,864 | | (144,809,684) |
| b) with an agreed maturity or withdrawal notice | | | 3,952,435,756 | | (5,400,251,820) |
| | | | | 4,092,836,620 | 5,545,061,504 |
| 3. Debt securities in issue | 3, 15, 20 | | | | |
| a) Bonds | | | 18,920,288,732 | | (26,334,620,862) |
| b) Other debt securities in issue | | | 15,313,243,645 | | (8,413,263,553) |
| of which: | | | | | |
| money market instruments EUR 15,313,243,645 (py: EUR 8,412,117,951) | | | | | |
| | | | | 34,233,532,377 | 34,747,884,415 |
| 3a. Trading portfolio | 3, 21 | | | 25,383,746,584 | 32,874,091,231 |
| 4. Trust liabilities | 22 | | | 26,626 | 262,425 |
| of which: | | | | | |
| trust loans EUR 26,626 (py: EUR 262,425) | | | | | |
| 5. Other liabilities | 3, 23 | | | 295,030,126 | 242,797,550 |
| 6. Accruals/deferred income | 3, 24 | | | 14,868,334 | 22,691,986 |
| 7. Provisions | 3, 25 | | | | |
| a) Tax provisions | | | 828,715 | | (828,715) |
| b) Other provisions | | | 392,962,969 | | (409,460,393) |
| | | | | 393,791,684 | 410,289,108 |

| | Notes | EUR | EUR | 31/12/2015<br>EUR | 31/12/2014<br>EUR |
|---|---|---|---|---|---|
| 8. Equity | 26 | | | | |
| a) Called capital | | | | | |
| Subscribed capital | | 500,000 | | | (500,000) |
| less uncalled outstanding capital | | 0 | | | (0) |
| | | | 500,000 | | (500,000) |
| b) Capital reserves | | | 3,013,237,214 | | (3,013,237,214) |
| c) Revenue reserves | | | | | |
| Other revenue reserves | | 2,431,408 | | | (2,431,408) |
| | | | 2,431,408 | | (2,431,408) |
| d) Net retained losses | | | -2,384,599,583 | | (-2,397,738,401) |
| | | | | 631,569,039 | 618,430,221 |
| **Total liabilities and equity** | | | | **68,668,171,755** | **79,474,624,476** |
| | | | | | |
| 1. Contingent liabilities | 34 | | | | |
| a) Liabilities on guarantees and warrantees | | | 9,870,795,153 | | (8,410,571,795) |
| | | | | 9,870,795,153 | 8,410,571,795 |
| 2. Other obligations | 34 | | | | |
| a) Irrevocable loan commitments | | | 3,188,268,112 | | (3,969,976,758) |
| | | | | 3,188,268,112 | 3,969,976,758 |

# Income statement

| | Notes | EUR | EUR | 1/1 - 31/12/2015 EUR | 1/1 - 31/12/2014 EUR |
|---|---|---|---|---|---|
| 1. Interest income from | 29 | | | | |
| a) Lending and money market transactions | | 380,183,370 | | | (545,145,134) |
| b) Fixed-income securities and debt register claims | | 217,461,040 | | | (216,444,530) |
| | | | 597,644,410 | | (761,589,664) |
| 2. Interest expense | | | 480,478,482 | | (634,870,901) |
| | | | | 117,165,928 | 126,718,763 |
| 3. Current income from | 29 | | | | |
| a) Equities and other non-fixed-income securities | | | 193,085 | | (146,597) |
| b) Long-term equity investments | | | 38,034,023 | | (2,705,515) |
| c) Shares in affiliates | | | 9,753 | | (1,126,699) |
| | | | | 38,236,861 | 3,978,811 |
| 4. Income from profit pooling, profit transfer or partial profit transfer agreements | 29 | | | 18,608,488 | (79,530,978) |
| 5. Fee and commission income | 29 | | 68,245,528 | | (82,513,876) |
| 6. Fee and commission expense | | | 23,645,874 | | (28,241,058) |
| | | | | 44,599,654 | 54,272,818 |
| 7. Net trading result | 3 | | | -20,497,832 | -24,497,534 |
| of which | | | | | |
| transfer to / reversal of § 340e (4) HGB reserve EUR 0 (py: EUR 9,323,140) | | | | | |
| 8. Other operating income | 29, 30 | | | 13,894,165 | 3,406,333 |
| 9. General and administrative expenses | | | | | |
| a) Personnel expenses | | | | | |
| aa) Wages and salaries | | 22,237,056 | | | (27,191,342) |
| ab) Compulsory social security contributions and expenses for pensions and other employee benefits | | 2,351,895 | | | (2,111,134) |
| of which | | | | | |
| for pensions EUR 721,635 (py: EUR 589,210) | | | | | |
| | | | 24,588,951 | | (29,302,476) |
| b) Other administrative expenses | | | 275,150,390 | | (319,575,535) |
| | | | | 299,739,341 | 348,878,011 |

| | Notes | EUR | EUR | 1/1 - 31/12/2015<br>EUR | 1/1 - 31/12/2014<br>EUR |
|---|---|---|---|---|---|
| 10. Depreciation and write-offs of intangible assets and tangible fixed assets | 14 | | | 478,312 | 140,848 |
| 11. Other operating expenses | 30 | | | 14,104,804 | 7,428,835 |
| 12. Depreciation and write-offs of claims and certain securities as well as additions to provisions in the lending business | 25, 31 | | | 10,398,965 | 0 |
| 13. Income from reversals of write-offs of loans and advances and certain securities and from reversals of loan loss provisions | 25, 31 | | | 0 | 2,588,376 |
| 14. Income from appreciations of long-term equity investments, shares in affiliates and long-term securities | 14, 31 | | | 138,959,409 | 189,548,813 |
| 15. Expenses from loss assumption | 31 | | | 10,911,452 | 15,195,901 |
| 16. Result from ordinary activities | | | | 15,333,799 | 63,903,763 |
| 17. Taxes on income and earnings | 32 | | | 651,851 | 1,058,674 |
| 18. Other taxes not reported under item 11 | 32 | | | 1,543,130 | 316,798 |
| 19. Net profit of the year | | | | 13,138,818 | 62,528,291 |
| 20. Net retained losses brought forward | | | | -2,397,738,401 | -2,460,266,692 |
| 21. Net retained losses | | | | -2,384,599,583 | -2,397,738,401 |

# Cash flow statement

| | | | 1/1 - 31/12/2015 EUR | 1/1 - 31/12/2014 EUR |
|---|---|---|---|---|
| 1. | +/- | Result for the period | 13,138,819 | 62,528,291 |
| | | **Non-cash items included in net loss for the period and reconciliation to cash flows from operating activities** | | |
| 2. | +/- | Allowances for losses on loans and advances and write-offs on certain securities, depreciation, amortisation on tangible fixed assets and long term financial assets as well as the reversal thereof | 27,591,176 | -276,635,417 |
| 3. | +/- | Increase/decrease in provisions | -16,497,424 | 68,917,696 |
| 4. | +/- | Other non-cash income/expense | -750,944,196 | -119,286,982 |
| 5. | +/- | Gain/loss on disposal of long-term financial assets | -189,267,731 | -28,116,626 |
| 6. | = | Subtotal | -915,979,356 | -292,593,038 |
| | | **Change in operating assets and liabilities** | | |
| 7. | +/- | Increase/decrease loans and advances to banks (no trading portfolio) | 4,884,742,491 | 173,681,903 |
| 8. | +/- | Increase/decrease loans and advances to customers (no trading portfolio) | -2,083,548,860 | 2,855,629,917 |
| 9. | +/- | Increase/decrease securities (no financial assets and no trading portfolio) | 487,161,209 | 2,728,404,898 |
| 10. | +/- | Trading assets | 403,272,703 | 258,906,413 |
| 11. | +/- | Increase/decrease other operating assets | 72,662,509 | 446,797,695 |
| 12. | +/- | Increase/decrease of deposits from banks (no trading portfolio) | -1,383,801,772 | -939,680,897 |
| 13. | +/- | Increase/decrease of deposits from customers (no trading portfolio) | -1,425,938,360 | -1,168,850,859 |
| 14. | +/- | Increase/decrease debt securities in issue | -445,860,010 | -3,313,612,221 |
| 15. | +/- | Trading liabilities | -522,559,736 | -1,246,306,537 |
| 16. | +/- | Increase/decrease other operating liabilities | 52,005,101 | 213,001,040 |
| 17. | +/- | Interest expenses/Interest income | -155,402,789 | -130,697,573 |
| 18. | +/- | Tax expenses/-income | 651,851 | 1,058,674 |
| 19. | + | Interest payments and dividend payments received | 605,695,788 | 781,657,756 |
| 20. | - | Interest paid | -578,547,186 | -735,682,647 |
| 21. | +/- | Income tax payments | -16,498,500 | -5,616,482 |
| 22. | = | Cash flows from operating activities (sum of 6 to 21) | -1,021,944,917 | -373,901,958 |
| 23. | + | Proceeds from disposal of long-term financial assets | 1,410,468,774 | 523,248,425 |
| 24. | - | Purchase of long-term financial assets | -435,271,838 | -252,267,256 |
| 25. | - | Purchase of tangible fixed assets | -68,335 | -182,860 |
| 26. | - | Purchase of immaterial assets | -83,107 | -5,162,825 |
| 27. | = | Cash flows from investing activities (sum of 23 to 26) | 975,045,494 | 265,635,484 |
| 28. | +/- | Changes in other capital (net) | 0 | 0 |
| 29. | = | Cash flows from financing activities (sum of 28) | 0 | 0 |
| 30. | | Net change in cash funds (sum of 22, 27, 29) | -46,899,423 | -108,266,474 |
| 31. | + | Cash funds at beginning of period | 54,972,869 | 163,239,343 |
| 32. | = | Cash funds at end of period (sum of 30 to 31) | 8,073,446 | 54,972,869 |

The cash flow statement is prepared in accordance with the new DRS 21. The cash funds include the current accounts maintained at HSBC and Deutsche Bundesbank (demand deposits). Further cash funds as defined by DRS 21 do not exist at the present time.

# Statement of changes in equity

| | Balance as of 1/1/2015 EUR | Appropriation of the result EUR | Balance as of 31/12/2015 EUR |
|---|---|---|---|
| Called capital | 500,000 | 0 | 500,000 |
| Capital reserves | 3,013,237,214 | 0 | 3,013,237,214 |
| Other revenue reserves | 2,431,408 | 0 | 2,431,408 |
| Net retained losses | -2,397,738,401 | 13,138,818 | -2,384,599,583 |
| **Equity under HGB** | **618,430,221** | **13,138,818** | **631,569,039** |

| | Balance as of 1/1/2014 EUR | Appropriation of the result EUR | Balance as of 31/12/2014 EUR |
|---|---|---|---|
| Called capital | 500,000 | 0 | 500,000 |
| Capital reserves | 3,013,237,214 | 0 | 3,013,237,214 |
| Other revenue reserves | 2,431,408 | 0 | 2,431,408 |
| Net retained losses | -2,460,266,692 | 62,528,291 | -2,397,738,401 |
| **Equity under HGB** | **555,901,930** | **62,528,291** | **618,430,221** |

# Notes

For the period from 1 January to 31 December 2015

## General disclosures

### 1. Legal framework of the EAA

The EAA is a structurally and commercially independent public law entity with partial legal capacity operating under the umbrella of the FMSA, and has its registered office in Düsseldorf. The EAA was set up by the FMSA on 11 December 2009, and entered into the commercial register of the District Court of Düsseldorf (HRA 20869) on 23 December 2009.

The EAA is winding up the risk exposures and non-strategic business units transferred from the former WestLB and its domestic and foreign subsidiaries. When doing so, it proceeds in a value-preserving manner so as to stabilise the financial market. The risk exposures and non-strategic business units of the former WestLB were transferred to the EAA in the years 2009 and 2010 (first fill) as well as in 2012 (refill).

The EAA manages its business according to commercial and economic principles, in consideration of its winding-up objectives and the principle of minimising risks. It is not classified as a credit institution for the purposes of the KWG, nor does it carry out activities requiring a permit for the purposes of EU Directive 2006/48/EC dated 14 June 2006. It is subject to regulation by the FMSA. The EAA is supervised by the BaFin with regard to those provisions of banking law that are applicable to the EAA.

### 2. Preparation of annual financial statements

In accordance with section 8a (1) sentence 10 in conjunction with section 3a (4) of the FMStFG and the additional guidance of the EAA's charter, the annual financial statements have been prepared under the provisions of the HGB for large public companies and the German Ordinance on Accounting for Banks and Financial Service Providers (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV). The EAA is not required by FMStFG to prepare consolidated financial statements. Information that may be disclosed in either the balance sheet or the notes to the financial statements has been disclosed in the notes to the financial statements.

The annual financial statements are submitted electronically to the operator of the German Federal Gazette (Bundesanzeiger) and published in the German Federal Gazette (www.bundesanzeiger.de).

## 3. Accounting and measurement principles

Assets, liabilities and pending transactions are measured in accordance with section 252 et seq. and section 340 et seq. HGB.

Receivables are stated at nominal value less discounts and any allowances. Liabilities are recognised at their settlement values, and the applicable discounts are recorded as prepaid expenses. Premiums on receivables or liabilities are reported as prepaid expenses or deferred income. The prorated interest amounts calculated as of the reporting date are reported together with the underlying receivable or liability. Premiums/discounts from the issue and loans business are differentiated using the effective interest method.

Sufficient consideration is given to identifiable risks in the lending business by recognising specific bad debt allowances and provisions. General bad debt allowances are recognised for the latent credit risk in the portfolio of receivables and contingent receivables. General bad debt allowances are calculated using a model. The EAA takes the risk associated with lending to borrowers in countries with an acute transfer risk into account by basing its model-based calculation of the general bad debt allowance on ratings reflecting the transfer stop risk. This involved developing a risk factor based on each country's rating, which was then taken into account in the likelihood of default for a particular borrower oder a guarantor.

Securities in the liquidity reserve are measured using the lower of their market price or carrying amount. Securities treated as fixed assets (investment securities) are measured at acquisition cost. The differences between the acquisition costs and the amounts repayable are recognised pro rata temporis with an effect on income. In the case of impairment that is expected to be permanent, the value is written down to the lower of cost or market. If investment securities are reported at values higher than their current market value in accordance with the diluted principle of measurement at the lower of cost or market, these differences are referred to in the notes to the financial statements. This information changes over time in response to changes in the portfolio as well as interest rates and prices.

Structured financial instruments are accounted for in accordance with the "IDW accounting opinion: on the uniform or separate reporting of structured financial instruments (IDW RS HFA 22)". Most of the portfolio of structured securities comprises the Phoenix notes and the European Super Senior positions (EUSS positions). There are also smaller exposures in various other structured asset classes (other ABS).

Structured securities are measured on the basis of price information supplied by EPA, which is modelled using measurement methods agreed on with the EAA and subjected to analysis within the EAA.

Objective information on changes in the securitised portfolio at the level of the underlyings is taken from the relevant contractual documentation and portfolio reports and used to determine the anticipated future cash flows and consequently the relevant net present values for reporting in the balance sheet by means of discounting. The projected cash flows for the underlying transactions are also translated into a cash flow profile in accordance with the provisions governing distribution (waterfall) for the relevant overall transaction (Phoenix notes, EUSS positions) and then into a net present value for the individual tranches of the overall transaction. The appropriateness of the measurements in the underlyings and notes of Phoenix and EUSS are also verified by means of an internal validation process at the EAA.

The fair values of the equities, bonds, derivative products and other items reported in the trading portfolio are calculated as of the reporting date, initially with respect to individual transactions and irrespective of trade. Measurement is based on the exchange or market prices as of 31 December 2015, with averages and/or recognised measurement methods used in the interest of convenience. Proportionate interest, one-off payments and option premiums are taken into account. If exchange or market prices do not exist or cannot be reliably determined (especially in the case of derivative instruments), fair values are determined on the basis of the pricing models typically used in the market or discounted cash flows.

The EAA applies haircuts to some of the values calculated using a measurement model since the models used in these cases do not take all of the factors considered by market participants into account. These include haircuts for creditworthiness, modelling and liquidity risks. Haircuts were also required due to uncertainties in connection with legal disputes.

In a second step, applying the risk-adjusted market measurement method, the EAA compiles the trading transactions measured at fair value into portfolios in accordance with the risk management of the various business units. The summarised measurement results for each portfolio are reduced by the potential loss (VaR) calculated using a mathematical method (variance-covariance method). The VaR discounts (based on the calculation methods applied by the EAA's Risk Controlling) are to be calculated so that the maximum anticipated loss from outstanding trading positions with a holding period of ten days can be compensated with a likelihood of 99%. The observation period on which the calculation is based is 250 days, equally weighted with retroactive effect from the cut-off date.

The EAA applies the following measurement methods and parameters for the relevant product categories:

Interest rate products: liquid, exchange-traded products (such as futures) are measured at their exchange prices. There are standardised specifications for many OTC derivatives (such as swaps, caps, swaptions) as well as measurement models (Black 76) and reliable market quotas (swap rates, cap volatilities). These are used for the purposes of measurement if they are available. Internally developed models based on the Markov functional model are used for exotic OTC derivatives (such as Bermudan swaptions). Securities with exotic coupons are measured based on the corresponding hedging OTC derivatives. The credit spread of the issuer is additionally used to calculate the present value.

Bonds are measured on the basis of market prices. Less liquid securities for which no market prices are directly available are measured using either the observable market prices of comparable instruments or by means of the discounting of cash flows taking credit spreads into account that are based on the observable prices for comparable instruments.

Equities and commodity products: liquid, exchange-traded products (futures, options) are measured at their exchange prices. The prices of conventional equity and commodity derivatives with a single underlying (such as call and sell options, knock-out options, digital options) are determined using finite difference methods for the Black-Scholes differential equation. Exotic derivatives on the other hand, which can have multiple underlyings, are measured using Monte Carlo simulations. Internally developed routines based on models that are established on the market are used in this case. Dividend estimates are also to be included for equity products, and "utility curves" for commodity products. Utility curves plot the monetary advantages and disadvantages associated with trading commodities. If derivatives contain optional components, the volatility of the underlyings is taken into account. If there is more than one underlying, the correlations between the underlyings are incorporated. Exchange rate fluctuations and the correlations between underlyings and exchange rates are relevant if the currencies of the derivative and the underlying(s) differ. For fund derivatives, the distributions correspond to the dividend payments for equities. If the derivatives correspond to participation certificates, an analytical formula is used without simulation for the purpose of measurement. No fund volatilities are required in this case.

Credit products: securities with exotic coupons or credit components (such as credit linked notes) and other products based on credit derivatives (such as perfect asset swaps) are measured on the basis of the corresponding OTC derivatives. The credit spread of the issuer is also used to calculate the present value if necessary.

When measuring derivatives collateralised using cash, future cash flows for the main portfolios are discounted on the basis of EONIA swap curves ("OIS discounting"). As part of the risk-adjusted market measurement method, this discounting was taken into account by means of a markdown amounting to EUR 26.3 million (previous year: EUR 33.8 million) as of 31 December 2015.

| | Product | Valuation method | Valuation parameters |
|---|---|---|---|
| **Interest rate products** | Standard swaps | Present value method | Interest rates |
| | Exotic swaps | Markov functional | Interest rates, interest rate volatility |
| | Forward rate agreements | Present value method | Interest rates |
| | Standard-Caps, -Floors, -Collars | Black 76 | Interest rates, interest rate volatility |
| | Exotic caps, floors | Markov functional | Interest rates, interest rate volatility |
| | European standard-swaptions | Black 76 | Interest rates, interest rate volatility |
| | Exotic swaptions | Markov functional | Interest rates, interest rate volatility |
| **Exchange rate products** | FX swaps | Present value method | Interest rates, exchange rates |
| | Options | Black 76 | Interest rates, exchange rates, exchange rate volatility |
| | Forward interest rate FX swaps | Present value method | Interest rates, exchange rates |
| **Equity, fund and commodity products (including precious metals)** | Futures contracts | Finite differences | Price of the underlying asset, interest rates, dividend payments |
| | Standard options (single underlying asset) | Finite differences | Price of the underlying asset, interest rates, dividend payments (shares, share indices), utility curves (raw materials), volatility (underlying asset, exchange rate) |
| | Exotic options | Monte Carlo simulation | Price of the underlying asset, interest rates, dividend payments (shares, share indices), utility curves (raw materials), volatility (underlying assets, exchange rates), correlations (underlying assets, exchange rates) |
| | Participation certificates | Analytic formula | Price of the underlying asset, interest rates |
| | Capital-guaranteed certificates | Analytic formula, finite differences | Price of the underlying asset, interest rates, fund distributions, fund volatility |
| **Credit products** | Credit default swaps (single reference debtor) | Hazard rate bootstrapping model | Credit spreads |
| | Basket credit default swaps (homogeneous correlations and log leverage ratios) | Hazard rate bootstrapping model, Monte Carlo simulation | Credit spreads, correlation factors (derived from market consensus data) |
| | Basket credit default swaps (inhomogeneous correlations and log leverage ratios) | Hazard rate bootstrapping model, Monte Carlo simulation | Credit spreads, correlation factors (derived from market consensus data) |
| | Collateralised synthetic obligation | Hazard rate bootstrapping model, Gaussian one-factor model | Credit spreads, correlations (derived from market data) |
| | Securitised assets | Bloomberg cash flow model | Credit Spreads, conditional prepayment rate |

In fiscal year 2015, the EAA refined its method of measuring interest rate products with optional components and adjusted the assumptions used in its model in response to the reduced interest rates. Instead of assuming a log-normal distribution of interest rates, a "shifted" log-normal distribution is used. This reflects the changed market standard with near-zero interest rates.

The assumptions and estimates required, in particular in connection with illiquid portfolios, are based on subjective management judgement and therefore entail projection uncertainties. Even if, in the scope of the estimates, the available information, historical experience and other evaluation factors have been relied upon, actual future events may differ from the estimates. This may also have a material impact on the assets, financial and earnings situation. In the EAA's opinion, the parameters used are appropriate and acceptable.

Realised and unrealised valuation gains, ongoing interest expenses and income, dividend income and commission expenses and income from transactions involving financial instruments in the trading portfolio are reported in the net result for the trading portfolio.

Financial instruments in the trading portfolio are reported in the trading portfolio balance sheet items on the assets and liabilities sides of the balance sheet.

Cash collaterals provided and received for derivatives are reported as loans and advances to banks and customers as well as deposits from banks and customers, depending on the external counterparty involved.

No financial instruments were reallocated out of the trading portfolio pursuant to section 340e (3) sentence 3 HGB in fiscal year 2015. No changes were made to the EAA's internal criteria for including financial instruments in the trading portfolio.

Long-term equity investments and shares in affiliates are recognised at acquisition cost. In the case of impairment that is expected to be permanent, the value is written down to the lower of cost or market. Income from payments received in return for the assumption of risk positions in connection with participations pursuant to section 8a (4) No. 4 FMStFG is reported as net commission income.

Pension, (reverse) repo and securities lending transactions are reported in accordance with the applicable principles of section 340b HGB. If the EAA remains the beneficial owner as the pension provider or lender in accordance with a binding on-lending agreement, the security continues to be capitalised. Any purchase price or cash collateral received is recognised as a deposit from banks or customers. As a pension recipient or borrower, the EAA only capitalises the purchase price paid or the cash collateral provided.

Tangible fixed assets and purchased intangible assets are written down in accordance with their anticipated useful lives. The EAA writes low-value assets off in full in the year in which they are acquired.

Increases in costs and prices are taken into account in the measurement of provisions. Provisions with a residual term of more than a year are discounted based on the average market interest rate for the last seven fiscal years, taking into account the remaining terms of the provisions or the underlying obligations. The yield curve is calculated at the end of each month and published on Deutsche Bundesbank's website.

The calculation of the provisions for the Muni GIC portfolio (municipal guaranteed investment contracts) is mainly based on a regression of historical data in order to project future GIC deposits.

If the EAA hedges concrete risks in connection with assets, liabilities, pending transactions or transactions that are very likely to take place with the help of financial instruments and creates a valuation unit for this purpose, the general accounting principles (especially the principle of individual valuation as well as the acquisition cost, realisation and imparity principle) are not to be applied to this hedge arrangement insofar as the hedge is in effect. The ineffective portion and other, unhedged risks are still governed by the general accounting provisions. The EAA's balance sheet does not contain any valuation units for own bonds repurchased any more (previous year: EUR 5.0 million).

The EAA manages the general interest rate risk in the banking book centrally as part of its management of assets and liabilities. This is not a valuation unit for the purposes of section 254 HGB but rather an interest-based financial instrument in which the lending transactions or financial assets in the banking book are evaluated as a whole with respect to their interest component.

The translation of currencies for assets and liabilities is carried out in accordance with the provisions of sections 256a and 340h HGB. Assets and liabilities denominated in foreign currencies, non-processed regular-way transactions in foreign currencies and pending transactions are classified as being specifically covered in every currency pursuant to section 340h HGB, and converted using the ECB reference exchange rates as of 31 December 2015. As a result, all expenses and income from the conversion of currencies are recorded in the net result for the trading portfolio in accordance with section 340h HGB. In the case of pending forward exchange contracts used to hedge interest-bearing items of the balance sheet, the forward exchange rate is divided into a spot rate and a swap rate. The agreed swap amounts are accrued pro rata temporis. The positive net result from the evaluation of individual pending forward exchange transactions is reported under other liabilities.

Deferred taxes are calculated based on the temporary differences concept. In its annual financial statements as of 31 December 2015, the EAA has once again not exercised its option to capitalise deferred taxes.

# Notes on the balance sheet and the income statement

## 4. Loans and advances to banks

| | 31/12/2015 EUR million | 31/12/2014 EUR million |
|---|---|---|
| **Carrying amount** | **9,664.2** | **14,591.4** |
| of which: | | |
| - to affiliates | 972.3 | 6,431.5 |
| | | |
| payable on demand | 5,810.5 | 6,715.7 |
| due | | |
| - within 3 months | 3,601.1 | 6,756.0 |
| - 3 months to 1 year | 176.3 | 440.4 |
| - 1 to 5 years | 43.3 | 642.6 |
| - after 5 years | 33.0 | 36.7 |

Receivables also include registered and other non-marketable debt instruments. Hidden liabilities totalled EUR 0.0 million (previous year: EUR 0.0 million).

## 5. Loans and advances to customers

| | 31/12/2015 EUR million | 31/12/2014 EUR million |
|---|---|---|
| **Carrying amount** | **15,066.2** | **12,961.4** |
| of which: | | |
| - to affiliates | 1,583.7 | 1,390.8 |
| - to long-term equity investments | 15.7 | 71.8 |
| | | |
| due | | |
| - within 3 months | 1,929.1 | 2,162.9 |
| - 3 months to 1 year | 2,274.9 | 2,299.7 |
| - 1 to 5 years | 3,246.1 | 4,385.4 |
| - after 5 years | 7,616.1 | 4,113.4 |

Receivables also include registered and other non-marketable debt instruments. Hidden liabilities increased to EUR 481.0 million (previous year: EUR 82.9 million).

## 6. Loans and advances secured by mortgages

| | 31/12/2015 EUR million | 31/12/2014 EUR million |
|---|---|---|
| **Carrying amount** | **353.0** | **301.1** |
| | | |
| Loans and advances to customers due | | |
| - within 3 months | 12.0 | 10.8 |
| - 3 months to 1 year | 22.9 | 8.3 |
| - 1 to 5 years | 42.7 | 75.5 |
| - after 5 years | 275.4 | 206.5 |

## 7. Bonds and other fixed-income securities

| | 31/12/2015 EUR million | 31/12/2014 EUR million |
|---|---|---|
| **Carrying amount** | **15,797.2** | **16,141.2** |
| of which: | | |
| Amounts due in the following year | 705.6 | 341.6 |
| | | |
| Breakdown | | |
| - Bonds issued by public issuers | 2,333.7 | 2,018.6 |
| - Bonds issued by other issuers | 13,327.4 | 14,030.9 |
| - Own bonds | 136.1 | 91.7 |
| | | |
| Breakdown by marketability | | |
| - Marketable securities | 15,797.2 | 16,141.2 |
| of which | | |
| - listed | 4,164.6 | 3,654.4 |
| - unlisted | 11,632.6 | 12,486.8 |
| | | |
| Breakdown by type | | |
| - Liquidity reserve | 290.9 | 91.7 |
| - Investment securities | 15,506.2 | 16,049.5 |
| | | |
| Breakdown by affiliation | | |
| - Securities from affiliates | - | 324.9 |

The bonds and other fixed-income securities in the amount of EUR 15.5 billion (previous year: EUR 16.0 billion) of the investment securities portfolio are included in long-term financial assets. As at the reporting date, investment securities with a book value of EUR 12.1 billion (previous year: EUR 13.1 billion) were recognised above their fair value of EUR 11.4 billion (previous year: EUR 12.4 billion) because the EAA expects to receive repayments totalling at

least the amount of the book value. This judgement is based on the EAA's long-term wind-up strategy and the expected performance of the investment securities.

This difference is primarily attributable to structured loan products, EUR 0.1 billion of which (previous year: EUR 0.1 billion) relates to bonds that were acquired in connection with asset swaps. The EAA funds the portion of the aforementioned investment portfolio that was not hedged with swaps (EUR 12.0 billion) either with financing that is congruous in terms of maturities and currencies, or it hedges the balance at the portfolio level against changes in value caused by fluctuations in interest rates and currencies.

## 8. Equities and other non-fixed income securities

| | 31/12/2015 EUR million | 31/12/2014 EUR million |
|---|---|---|
| **Carrying amount** | **0.3** | **25.3** |
| | | |
| Breakdown by marketability | | |
| - Marketable securities | 0.3 | 25.3 |
| of which: | | |
| - listed | 0.3 | 5.8 |
| - unlisted | - | 19.5 |
| | | |
| Breakdown by type | | |
| - Liquidity reserve | 0.3 | 5.4 |
| - Investment securities | - | 19.9 |

## 9. Trading portfolio

| | 31/12/2015 EUR million | 31/12/2014 EUR million |
|---|---|---|
| **Carrying amount** | **27,148.2** | **33,768.3** |
| of which: | | |
| - Derivative financial instruments | 27,137.0 | 33,734.6 |
| - Equities and other non-fixed-income securities | 15.3 | 35.8 |
| - Loans and advances | 0.1 | 2.4 |
| - Bonds and other fixed-income securities | - | 0.2 |
| - Risk allowance pursuant to § 340e (3) sentence 1 HGB | -4.2 | -4.7 |

## 10. Long-term equity investments

| | 31/12/2015 EUR million | 31/12/2014 EUR million |
|---|---|---|
| **Carrying amount** | **95.3** | **109.4** |
| of which: | | |
| - in banks | 12.4 | 12.4 |
| | | |
| Breakdown by marketability | | |
| - Marketable securities | 27.2 | 52.1 |
| of which: | | |
| - listed | 11.1 | 29.7 |
| - unlisted | 16.1 | 22.4 |

The decline in long-term equity investments compared with 31 December 2015 is primarily the result of the planned portfolio wind-up.

## 11. Shares in affiliates

| | 31/12/2015 EUR million | 31/12/2014 EUR million |
|---|---|---|
| **Carrying amount** | **778.3** | **1,692.5** |
| of which: | | |
| - in banks | 452.8 | 1,611.8 |
| - in financial service providers | 16.7 | 10.8 |
| | | |
| Breakdown by marketability | | |
| - Marketable securities | 434.3 | 1,184.3 |
| of which: | | |
| - unlisted | 434.3 | 1,184.3 |

The decrease is mostly due to capital repayments by EAA CBB and EAA KK as well as the sale of WestImmo, which more than offset the increase resulting from the addition of Dritte EAA Anstalt & Co. KG (please also refer to the "Participation risks" section of the management report).

The lower fair value of EUR 0.0 million (previous year: EUR 44.4 million) for long-term equity investments and shares in affiliates is EUR 0.0 million lower than the book value (previous year: EUR 5.0 million).

## 12. Trust assets

| | 31/12/2015 EUR million | 31/12/2014 EUR million |
|---|---|---|
| **Carrying amount** | **-** | **0.3** |
| of which: | | |
| - Loans and advances to customers | - | 0.3 |

## 13. Other assets

| | 31/12/2015 EUR million | 31/12/2014 EUR million |
|---|---|---|
| **Carrying amount** | **67.1** | **123.0** |
| of which: | | |
| - Tax refund claims | 32.5 | 15.5 |
| - Receivables from profit and loss pooling agreements | 17.7 | 80.1 |
| - Guarantee fees and commissions | 15.8 | 24.9 |
| - Premiums for options | - | 2.1 |

The guarantee fees included in other assets consist of receivables from Portigon totalling EUR 15.5 million (previous year EUR 13.3 million).

## 14. Fixed assets

| EUR million | 1/1/2015 Cost | Additions | Usage | Reclassifi-cations | Reversals of write-offs | 31/12/2015 Accumulated depreciation, write-offs | Depreciation, write-offs in the financial year | 31/12/2015 Carrying amount | 31/12/2014 Carrying amount |
|---|---|---|---|---|---|---|---|---|---|
| Bonds and other long-term fixed income securities | 16,049.5 | | | | | | - | 15,506.2 | 16,049.5 |
| Equities and other long-term non-fixed-income securities | 19.9 | | | Net change according to § 34 (3) sentence 2 of the RechKredV; -2,130.1 | | | - | - | 19.9 |
| Long-term equity investments | 128.5 | | | | | | 3.3 | 95.3 | 109.4 |
| Shares in affiliates | 2,312.0 | | | | | | 4.0 | 778.3 | 1,692.5 |
| Intangible assets | 5.4 | 0.1 | - | - | - | 0.6 | 0.4 | 4.9 | 5.2 |
| Office and operating equipment | 0.3 | 0.1 | - | - | - | 0.1 | - | 0.3 | 0.2 |

As well as additions and disposals, the net change in securities in fiscal year 2015 also comprises changes in the portfolio due to the prorated reversal of premiums and discounts.

## 15. Prepaid expenses/accrued income

| | 31/12/2015 EUR million | 31/12/2014 EUR million |
|---|---|---|
| **Carrying amount** | **46.4** | **56.5** |
| of which: | | |
| - Non-recurring payments on swaps | 33.5 | 35.6 |
| - Discount on issuing business | 8.3 | 14.0 |
| - Discount on liabilities | 3.4 | 5.8 |
| - Other | 1.2 | 1.1 |

## 16. Subordinated assets

Subordinated assets are included in:

| | 31/12/2015 EUR million | 31/12/2014 EUR million |
|---|---|---|
| **Loans and advances to customers** | **737.2** | **647.9** |
| of which: | | |
| - to affiliates | 306.6 | 254.4 |
| - to long-term equity investments | 1.9 | 1.9 |
| **Equities and other non-fixed-income securities** | **-** | **19.6** |
| **Total** | **737.2** | **667.5** |

The increase in subordinated assets is primarily due to the provision of liquidity for a subsidiary.

## 17. Assets sold under repurchase agreements

The carrying amount of the assets sold under repurchase agreements is EUR 0.0 million (previous year: EUR 0.0 million).

## 18. Deposits from banks

| | 31/12/2015 EUR million | 31/12/2014 EUR million |
|---|---|---|
| **Carrying amount** | **3,622.8** | **5,013.1** |
| of which: | | |
| - Deposits from affiliates | 16.3 | 32.4 |
| | | |
| Payable on demand | 2,865.4 | 2,544.9 |
| due | | |
| - within 3 months | 289.9 | 340.1 |
| - 3 months to 1 year | 8.5 | 1,602.4 |
| - 1 to 5 years | 223.7 | 287.4 |
| - after 5 years | 235.3 | 238.3 |

## 19. Deposits from customers

| | 31/12/2015 EUR million | 31/12/2014 EUR million |
|---|---|---|
| **Carrying amount** | **4,092.8** | **5,545.1** |
| of which: | | |
| - Deposits from affiliates | 0.1 | - |
| | | |
| Other deposits | 4,092.8 | 5,545.1 |
| of which: | | |
| - payable on demand | 140.4 | 144.8 |
| due | | |
| - within 3 months | 1,197.6 | 1,144.1 |
| - 3 months to 1 year | 242.1 | 945.7 |
| - 1 to 5 years | 748.1 | 946.0 |
| - after 5 years | 1,764.6 | 2,364.5 |

## 20. Debt securities in issue

| | 31/12/2015 EUR million | 31/12/2014 EUR million |
|---|---|---|
| **Carrying amount** | **34,233.5** | **34,747.9** |
| | | |
| Bonds | 18,920.3 | 26,334.6 |
| of which: | | |
| Amounts due in the following year | 8,460.7 | 12,803.1 |
| | | |
| Other debt securities in issue | 15,313.2 | 8,413.3 |
| of which due: | | |
| - within 3 months | 13,204.9 | 6,889.7 |
| - 3 months to 1 year | 2,108.3 | 1,523.6 |
| - 1 to 5 years | - | - |
| - after 5 years | - | - |

## 21. Trading portfolio

| | 31/12/2015 EUR million | 31/12/2014 EUR million |
|---|---|---|
| **Carrying amount** | **25,383.7** | **32,874.1** |
| of which: | | |
| - Derivative financial instruments | 25,383.5 | 32,874.1 |
| - Liabilities | 0.2 | - |

## 22. Trust liabilities

| | 31/12/2015 EUR million | 31/12/2014 EUR million |
|---|---|---|
| **Carrying amount** | **-** | **0.3** |
| of which: | | |
| - Deposits from banks | - | 0.3 |

## 23. Other liabilities

| | 31/12/2015 EUR million | 31/12/2014 EUR million |
|---|---|---|
| **Carrying amount** | **295.0** | **242.8** |
| of which: | | |
| - Currency translation adjustments | 268.6 | 171.1 |
| - Deposits from the assumption of losses | 11.8 | 12.6 |
| - Obligations from swap transactions | 0.1 | 0.1 |
| - Premiums from options | - | 2.1 |
| - Other | 14.5 | 56.9 |

Other liabilities mostly include unpaid invoices.

## 24. Accruals/deferred income

| | 31/12/2015 EUR million | 31/12/2014 EUR million |
|---|---|---|
| **Carrying amount** | **14.9** | **22.7** |
| of which: | | |
| - Non-recurring payments on swaps | 8.0 | 16.4 |
| - Premium on issuing business | 5.6 | 5.0 |
| - Premiums for sold interest rate caps and floors | 1.2 | 1.3 |
| - Other | 0.1 | - |

## 25. Provisions

| | Balance as of 31/12/2014 EUR million | Additions EUR million | Unwinding of discount EUR million | Charge-offs EUR million | Reversals EUR million | Other changes EUR million | Final balance 31/12/2015 EUR million |
|---|---|---|---|---|---|---|---|
| **Taxes** | **0.8** | **-** | **-** | **-** | **-** | **-** | **0.8** |
| **Other provisions** | **409.5** | **122.0** | **2.2** | **102.0** | **40.9** | **2.2** | **393.0** |
| - Loans | 274.1 | 62.3 | - | 60.1 | 28.7 | -18.5 | 229.1 |
| - Long-term equity investments | 24.5 | 1.6 | 0.8 | 1.4 | 0.7 | 1.9 | 26.7 |
| - Legal actions | 21.5 | 0.4 | 0.4 | 3.1 | 2.4 | 0.3 | 17.1 |
| - Personnel | 0.4 | 0.4 | - | 0.4 | - | - | 0.4 |
| - Other | 89.0 | 57.3 | 1.0 | 37.0 | 9.1 | 18.5 | 119.7 |
| **Total** | **410.3** | **122.0** | **2.2** | **102.0** | **40.9** | **2.2** | **393.8** |

When loans previously guaranteed by the EAA were transferred to the EAA, the provisions that had been recognised until then for the guaranteed holdings had to be converted into allowances for the assumed exposures. This effect is included in the category "Other change in provisions for loans" in the table shown above.

Other provisions primarily include amounts for risks that cannot be classified under any other type of provision.

## 26. Equity

The EAA's subscribed capital amounts to EUR 500,000 as at 31 December 2015.

The capital reserve totalling EUR 3,013.2 million results from the transfer of risk exposures and non-strategic business units of the former WestLB.

Other reserves amount to EUR 2.4 million and originate from the reversal of provisions for which the book values were reduced as a result of the change in the measurement of obligations under the BilMoG.

The net profit for fiscal year 2015 amounts to EUR 13.1 million and reduces net retained losses carried forward to EUR 2,384.6 million as at 31 December 2015.

## 27. Liability for inherited debts

Insofar as those involved were liable for the liabilities of the former WestLB as guarantors in accordance with article 1 section 11 of the law restructuring the legal framework for public-law banks in North Rhine-Westphalia dated 2 July 2002 in conjunction with article 1 section 4 (6) of the law restructuring Landesbank Nordrhein-Westfalen as a promotional bank for the State of North Rhine-Westphalia and amending other laws dated 16 March 2004, this liability remains in effect to the same extent following the transfer of the liabilities to the EAA.

The following grandfathering regulations apply with respect to guarantor liability for liabilities agreed prior to 19 July 2005:

△ All liabilities and obligations of the Westdeutsche Landesbank clearing house that had already been agreed as of the cut-off date of 18 July 2001 are covered by unrestricted guarantor liability until the end of their terms.

△ Liabilities and obligations entered into by the Westdeutsche Landesbank clearing house or WestLB in the period from 19 July 2001 to 18 July 2005 are still covered by guarantor liability in their original form insofar as their terms do not extend beyond 31 December 2015. Liabilities and obligations with terms that extend beyond this date are not covered by guarantor liability.

The guarantors of the former Westdeutsche Landesbank clearing house will fulfil their obligations towards the EAA in connection with guarantor liability without delay as soon as they have determined, properly and in writing, that creditors cannot take recourse against the EAA's assets, upon the maturity of the liability in question. This expressly includes the possibility of settling liabilities at a time that directly coincides with their maturity. Notification in accordance with the law governing state aid is not required in this case.

A total volume of EUR 2.2 billion (previous year: EUR 10.8 billion) is covered by guarantor liability.

## 28. Assets and liabilities in foreign currencies, and foreign exchange result

Assets denominated in foreign currencies amounted to EUR 20.7 billion as of the reporting date (previous year: EUR 28.0 billion), while the liabilities denominated in foreign currencies amounted to EUR 25.7 billion (previous year: EUR 22.3 billion). The foreign exchange result of EUR -100.4 million (previous year: EUR -49.8 million) is included in the net result for the trading portfolio. This is mainly offset by income in the other trading result from the separation of complex derivative instruments.

## 29. Geographical breakdown of income components

The key income components of the EAA's income statement were generated in the following geographical markets:

| | Interest income<br>1/1 - 31/12/2015<br>EUR million | Current income<br>1/1 - 31/12/2015<br>EUR million | Fees and commission income<br>1/1 - 31/12/2015<br>EUR million | Other operating income<br>1/1 - 31/12/2015<br>EUR million |
|---|---|---|---|---|
| Germany | 472.9 | 55.9 | 64.4 | 13.8 |
| Great Britain | 70.6 | 0.9 | 2.4 | - |
| Rest of Europe | 3.8 | - | 0.2 | - |
| Far East and Australia | 7.9 | - | - | - |
| North America | 42.4 | - | 1.2 | 0.1 |
| **IS amount** | **597.6** | **56.8** | **68.2** | **13.9** |

The geographic attribution of income is based on the operating branch office structure of Portigon in which the transactions were concluded prior to the transfer to the EAA.

Current income also includes the income from profit pooling, profit and loss transfer and partial profit and loss transfer agreements, if they accrue.

## 30. Other operating and prior-period expenses and income

Net other operating expenses and income in fiscal year 2015 amount to EUR -0.3 million (previous year: EUR -4.0 million) and consist of EUR 14.2 million (previous year: EUR 7.4 million) in expenses and EUR 13.9 million (previous year: EUR 3.4 million) in income.

There were no material prior-period expenses and income in either fiscal year 2015 or in the previous year.

## 31. Risk provision

### Write-downs and allowance in accordance with section 340f (3) and section 340c (2) HGB

| | 1/1 - 31/12/2015 EUR million | 1/1 - 31/12/2014 EUR million |
|---|---|---|
| **Risk provision and financial investment result including loss assumption (regarding RechKredV)** | **117.7** | **176.9** |
| **Loans and securities income/expense** | **-10.4** | **2.6** |
| of which: - Lending operations | -15.9 | 2.5 |
| - Securities | 5.5 | 0.1 |
| **Equity investments and securities income/expenses** | **139.0** | **189.5** |
| of which: - Long-term equity investments | 47.4 | 178.6 |
| - Securities | 91.6 | 10.9 |
| **Expenses from loss assumption** | **-10.9** | **-15.2** |
| | | |
| **Risk provision and financial investment result including loss assumption (regarding risk report)** | **117.7** | **176.9** |
| **Result of risk provisions - loans and advances/securities due to credit risk** | **-11.8** | **4.3** |
| of which: - Lending operations | -13.8 | -13.1 |
| - Structured securities | 2.0 | 17.4 |
| **Net income from investment securities, long-term equity investments and loss assumption** | **129.5** | **172.6** |

The EAA always makes use of the options available under section 340f (3) and section 340c (2) HGB. Under section 340f (3) HGB, income and expenses resulting from the valuation in the lending business may be reported on a net basis with risk provisions for securities and income from the reversal of risk provisions on securities of the liquidity reserve. The net expense amounts to EUR 10.4 million (previous year: net income of EUR 2.6 million). According to section 340c (2) HGB, the expenses for long-term equity investments, shares in affiliates and long-term investment securities may be offset against the corresponding income. Overall, the EAA shows a net income of EUR 139.0 million (previous year: net income EUR 189.5 million) as the risk result for long-term equity investments and securities.

Expenses amounting to EUR 10.9 million (previous year: EUR 15.2 million) were also incurred during the current fiscal year as a result of the assumption of losses from subsidiaries.

## 32. Taxes

Taxes on income and earnings amounting to EUR 0.7 million (previous year: EUR 1.1 million) primarily relate to foreign taxes.

In the current fiscal year, the EAA incurred other taxes in the amount of EUR 1.5 million, which primarily consist of foreign stamp duties.

## 33. Auditors' fees

The full fee paid to the auditors in accordance with section 285 No. 17 HGB amounted to EUR 2.0 million (previous year: EUR 1.8 million).

The auditors received EUR 1.6 million for auditing services (previous year: EUR 1.7 million), EUR 0.4 million for other assurance services (previous year: EUR 0.1 million) and EUR 0.0 thousand for other services (previous year: EUR 5.5 thousand).

# Other disclosures

## 34. Contingencies

### Contingent liabilities

Contingent liabilities amounting to EUR 9.9 billion (previous year: EUR 8.4 billion) primarily result from guarantees for Portigon's risk exposures and the old liabilities from WestImmo. The volume of these old liabilities from WestImmo stood at EUR 5.0 billion as at 31 December 2015. The contingent liabilities include obligations from credit default swaps amounting to EUR 194.5 million (previous year: EUR 767.3 million). The EAA has no detailed knowledge of whether, when or to what extent these contingencies will be utilised. A provision will be made as soon as there are sufficient concrete indications of probable losses being realised from a utilisation.

### Other obligations

The reported volume of EUR 3.2 billion (previous year: EUR 4.0 billion) is due to the lending business. The EAA constantly reviews whether losses from other liabilities are impending and if a provision needs to be made for impending losses from pending transactions.

## 35. Global guarantee and letter of comfort

The EAA has issued a global guarantee in favour of EAA CBB. This global guarantee remains valid for as long as the EAA holds a share in this institution.

The EAA has issued a letter of comfort in favour of EAA KK.

## 36. Transactions not reported in the balance sheet

The following collateral was provided for the EAA's liabilities during the fiscal year:

| Collateral type | Balance sheet position of the collateralised liabilities | 31/12/2015 EUR million | 31/12/2014 EUR million |
|---|---|---|---|
| Cash collateral provided for securities lending | Trading portfolio *) | 5,901.7 | 7,141.4 |
| Claims assigned | Deposits from banks | 40.4 | 66.5 |
| Securities pledged | Trading portfolio | 28.7 | 35.2 |

*) The EAA provided cash collateral for transactions concluded in connection with an International Swaps and Derivatives Association (ISDA) master agreement or a comparable master agreement with a corresponding agreement on collateral. The measurement of cash collateral takes into account the entirety of all transactions with a particular counterparty that are covered by a master agreement. Cash collateral is therefore provided for transactions whose reporting in the balance sheet depends on their allocation to the trading or non-trading portfolio as well as their market value. The allocation of cash collateral provided on the basis of a master agreement to liabilities by amount is not informative. This applies mutatis mutandis to cash collateral covered by the OTC derivatives risk assumption agreement.

## 37. Other financial obligations

### Letter of comfort

The EAA had issued letters of comfort for WestImmo's liabilities incurred prior to 31 May 2015 (the day on which the sale of WestImmo was completed). These letters of comfort have been rendered invalid for the future with the reduction of the shareholding to 0%. The EAA is still liable for the old liabilities of WestImmo that were incurred prior to the completion of the sale on the basis of one of these letters of comfort. The volume of these old liabilities, which were reported as contingent liabilities for the first time, came to EUR 5.0 billion as of 31 December 2015. This volume is constantly decreasing as a result of scheduled and unscheduled repayments. The EAA has also agreed on precautions with the Aareal Group that significantly reduce the likelihood of claims being asserted against the EAA. Firstly, it was decided that the Aareal Group would provide a liquidity facility to WestImmo, and secondly, a profit and loss transfer agreement was concluded between the Aareal Group and WestImmo.

### Guarantor liability

Portigon's statutory guarantor liability for liabilities of Rheinland-Pfalz Bank, Mainz, HSH Nordbank AG, Hamburg/Kiel, DekaBank Deutsche Girozentrale, Frankfurt am Main and WestImmo was transferred to the EAA in 2012 as part of a spin-off. Since these institutions' new liabilities since 19 July 2005 are no longer covered by guarantor liability, the volume of liabilities covered is constantly falling as a result of the repayment of amounts as they fall due.

### Other contingencies

There are other financial obligations totalling EUR 256.4 million (previous year: 351.0 million), of which EUR 112.3 million is attributable to affiliates (previous year: EUR 0 million) stemming from service agreements, outstanding capital contributions and lines from private equity investments that have not yet been called.

## 38. Forward contracts/derivative financial instruments

As part of its business activities, the EAA enters into the following types of forward contracts and derivative financial instruments:

△ **Interest rate-related products**
Interest rate swaps, interest rate futures, forward rate agreements, interest rate caps, interest rate floors, interest rate collars, swaptions and interest rate options

△ **Currency-related products**
Cross-currency interest rate swaps, forward cross-currency interest rate swaps, forward exchange contracts and currency option contracts

△ **Equity- and other price-related products**
Share options, index options, share and index warrants in issue

△ **Credit derivatives**
Credit default swaps, total return swaps and credit-linked notes

The total volume of forward transactions and derivatives transactions as at the reporting date amounts to EUR 436.3 billion based on notional values (previous year: EUR 526.2 billion). Most of the balance continues to be in interest rate-related products, whose share rose to 84.8% (previous year: 83.5%) of the total volume.

If they are exchange-traded, derivative financial instruments are measured at the market price on the reporting date. For non-exchange-traded derivatives, market values were determined on the basis of actuarial measurement models as well as valuation parameters available on the market (including interest rates, interest rate volatilities and exchange rates).

## Derivative financial instruments – volume as of the balance sheet date

| | Notional amount | | Positive market values | | Negative market values | |
|---|---|---|---|---|---|---|
| | 31/12/2015 EUR million | 31/12/2014 EUR million | 31/12/2015 EUR million | 31/12/2014 EUR million | 31/12/2015 EUR million | 31/12/2014 EUR million |
| **Interest rate-related products** | **370,046.1** | **439,535.8** | **25,353.5** | **32,689.5** | **25,540.9** | **32,418.7** |
| OTC products | 363,924.6 | 436,659.9 | 25,353.5 | 32,689.5 | 25,540.9 | 32,418.7 |
| Exchange-traded products | 6,121.5 | 2,875.9 | - | - | - | - |
| **Currency-related products** | **62,869.9** | **78,688.9** | **2,074.2** | **2,199.9** | **1,140.8** | **1,725.4** |
| OTC products | 62,869.9 | 78,688.9 | 2,074.2 | 2,199.9 | 1,140.8 | 1,725.4 |
| **Equity- and other price-related products** | **2,666.2** | **5,673.5** | **127.4** | **258.6** | **146.7** | **308.5** |
| OTC products | 2,443.7 | 2,764.0 | 118.5 | 153.7 | 138.9 | 190.2 |
| Exchange-traded products | 222.5 | 2,909.5 | 8.9 | 104.9 | 7.8 | 118.3 |
| **Credit derivatives** | **767.2** | **2,342.6** | **5.9** | **13.0** | **7.9** | **15.5** |
| OTC products | 767.2 | 2,342.6 | 5.9 | 13.0 | 7.9 | 15.5 |
| **Total** | **436,349.4** | **526,240.8** | **27,561.0** | **35,161.0** | **26,836.3** | **34,468.1** |
| OTC products | 430,005.4 | 520,455.4 | 27,552.1 | 35,056.1 | 26,828.5 | 34,349.8 |
| Exchange-traded products | 6,344.0 | 5,785.4 | 8.9 | 104.9 | 7.8 | 118.3 |

The average annual notional volume of forward contracts and derivatives transactions amounted to EUR 472.9 billion in the current fiscal year 2015 (previous year: EUR 578.4 billion).

## Derivative financial instruments – average volumes

| | Notional amount | | Positive market values | | Negative market values | |
|---|---|---|---|---|---|---|
| | 31/12/2015 EUR million | 31/12/2014 EUR million | 31/12/2015 EUR million | 31/12/2014 EUR million | 31/12/2015 EUR million | 31/12/2014 EUR million |
| **Interest rate-related products** | **394,235.7** | **475,949.7** | **18,766.0** | **29,157.0** | **29,121.4** | **28,735.2** |
| OTC products | 390,185.9 | 472,110.4 | 18,766.0 | 29,157.0 | 29,121.4 | 28,735.2 |
| Exchange-traded products | 4,049.8 | 3,839.3 | - | - | - | - |
| **Currency-related products** | **72,111.3** | **91,336.8** | **1,561.4** | **2,208.1** | **1,572.3** | **1,905.0** |
| OTC products | 72,111.3 | 91,336.8 | 1,561.4 | 2,208.1 | 1,572.3 | 1,905.0 |
| **Equity- and other price-related products** | **5,040.6** | **8,925.9** | **161.1** | **414.9** | **253.1** | **632.8** |
| OTC products | 2,682.1 | 3,364.5 | 89.4 | 189.6 | 169.1 | 237.2 |
| Exchange-traded products | 2,358.5 | 5,561.4 | 71.7 | 225.3 | 84.0 | 395.6 |
| **Credit derivatives** | **1,531.1** | **2,176.6** | **6.5** | **16.8** | **10.9** | **19.4** |
| OTC products | 1,531.1 | 2,176.6 | 6.5 | 16.8 | 10.9 | 19.4 |
| **Total** | **472,918.7** | **578,389.0** | **20,495.0** | **31,796.8** | **30,957.7** | **31,292.4** |
| OTC products | 466,510.4 | 568,988.3 | 20,423.3 | 31,571.5 | 30,873.7 | 30,896.8 |
| Exchange-traded products | 6,408.3 | 9,400.7 | 71.7 | 225.3 | 84.0 | 395.6 |

Without exception, forward and derivatives transactions are concluded for hedging purposes.

The received and paid option premiums for derivative financial instruments not included in the trading portfolio are reported in other assets and other liabilities.

## Derivative financial instruments – maturities

| | Interest rate-related products | | Currency-related products | | Equity- and other price-related products | | Credit derivatives | |
|---|---|---|---|---|---|---|---|---|
| | 31/12/2015 EUR million | 31/12/2014 EUR million | 31/12/2015 EUR million | 31/12/2014 EUR million | 31/12/2015 EUR million | 31/12/2014 EUR million | 31/12/2015 EUR million | 31/12/2014 EUR million |
| Due | | | | | | | | |
| - within 3 months | 43,818.7 | 41,490.5 | 17,855.9 | 12,707.5 | 118.3 | 34.6 | 363.7 | 295.4 |
| - 3 months to 1 year | 51,092.7 | 61,213.5 | 12,374.1 | 17,424.8 | 507.5 | 2,953.3 | 34.8 | 1,235.2 |
| - 1 to 5 years | 136,751.1 | 174,202.2 | 19,876.0 | 33,737.1 | 575.5 | 813.6 | 345.0 | 705.9 |
| - after 5 years | 138,383.6 | 162,629.6 | 12,763.9 | 14,819.5 | 1,464.9 | 1,872.0 | 23.7 | 106.1 |
| **Total** | **370,046.1** | **439,535.8** | **62,869.9** | **78,688.9** | **2,666.2** | **5,673.5** | **767.2** | **2,342.6** |

## 39. Remuneration paid to executive bodies

The remuneration of members of the Managing Board amounted to EUR 1,485 thousand in fiscal year 2015 (previous year: EUR 1,485 thousand).

### Remuneration paid to Managing Board members

| | 31/12/2015 EUR | 31/12/2014 EUR |
|---|---|---|
| Matthias Wargers | 500,000 | 500,000 |
| Markus Bolder | 500,000 | 500,000 |
| Horst Küpker | 450,000 | 450,000 |
| | **1,450,000** | **1,450,000** |
| Remuneration in kind | 34,960 | 35,077 |
| **Total** | **1,484,960** | **1,485,077** |

The total remuneration of all members of the Supervisory Board and its committees, amounting to EUR 155 thousand net (previous year: EUR 155 thousand) and EUR 177 thousand gross (previous year: EUR 177 thousand), represents compensation for work performed and is divided into a basic salary and an attendance fee for each Supervisory Board or a committee meeting attended, if they are members of a committee.

### Remuneration of Supervisory Board members

| | 31/12/2015 EUR | 31/12/2014 EUR |
|---|---|---|
| **Members appointed by the Stakeholders' Meeting** | | |
| Dr Rüdiger Messal | 23,000 | 22,100 |
| Joachim Stapf | 10,200 | 11,100 |
| Dr Karlheinz Bentele | 6,800 | 6,800 |
| Michael Breuer | 12,700 | 13,300 |
| Henning Giesecke | 23,600 | 23,000 |
| Wilfried Groos | 15,500 | 16,100 |
| Dr Wolfgang Kirsch (until 30 June 2014) | - | 2,779 |
| Matthias Löb (since 1 July 2014) | 5,900 | 3,121 |
| Hans Martz (until 31 December 2015) | 14,300 | 14,300 |
| Michael Stölting | 13,000 | 13,300 |
| Jürgen Wannhoff | 12,700 | 12,100 |
| Dr h.c. Uwe Zimpelmann | 17,100 | 17,100 |
| **Member delegated by the FMSA** | | |
| Günter Borgel | - | - |
| **Total (net)** | **154,800** | **155,100** |

The basic salary paid to a simple member of the Supervisory Board or a committee, and the attendance fees paid to members of the Supervisory Board or a committee for each meeting, is identical. The basic salary paid to the chairperson and deputy chairperson of the Supervisory Board and each committee is higher. With regard to the determination of the payment of compensation for work undertaken, the Stakeholders' Meeting decided that travel costs incurred by members of the Supervisory Board and its committees are to be reimbursed individually by the EAA in the customary amount upon application.

In cases where membership of the Supervisory Board and potentially the relevant committee does not start or ends at the start or end of the year, the basic salaries are paid pro rata for each full or partial month of membership in accordance with a resolution of the Stakeholders' Meeting.

The member delegated by the FMSA does not receive any compensation.

This does not take into account any payment obligations on the part of the office holders or payments already made. The payment of value added tax by the EAA depends on the individual tax situation in each case.

No compensation is paid to the representatives of stakeholders in the Stakeholders' Meeting.

## 40. Loans to executive bodies

No advances or loans were provided to members of the EAA's Managing Board or Supervisory Board either in fiscal year 2015 or in the previous year.

## 41. Number of employees

The average number of employees (headcount) during the reporting period was as follows:

| | Female | Male | Total 1/1 - 31/12/2015 | Total 1/1 - 31/12/2014 |
|---|---|---|---|---|
| Number of employees | 54 | 83 | 137 | 132 |

This corresponds to 129.21 full-time employees. In the previous year an average of 124.78 full-time employees was engaged in the EAA.

## 42. Stakeholders of the EAA

| | 31/12/2015 in % | 31/12/2014 in % |
|---|---|---|
| State of NRW | 48.202 | 48.202 |
| Rheinischer Sparkassen- und Giroverband | 25.032 | 25.032 |
| Sparkassenverband Westfalen-Lippe | 25.032 | 25.032 |
| Landschaftsverband Rheinland | 0.867 | 0.867 |
| Landschaftsverband Westfalen-Lippe | 0.867 | 0.867 |
| **Total** | **100.000** | **100.000** |

## 43. Memberships of other bodies held by Managing Board members

In fiscal year 2015 the following members of the Managing Board of the EAA were members of a Supervisory Board or other supervisory bodies of large public companies pursuant to section 340a (4) No. 1 in conjunction with section 267 (3) HGB. Details of the memberships of other bodies marked with * are provided on a voluntary basis as the companies are not classed as large public companies pursuant to section 340a (4) No. 1 in conjunction with section 267 (3) HGB.

**Matthias Wargers**
EAA Portfolio Advisers GmbH *
Westdeutsche ImmobilienBank AG (until 31 May 2015)

**Markus Bolder**
EAA Portfolio Advisers GmbH *
Westdeutsche ImmobilienBank AG (until 31 May 2015)

**Horst Küpker**
Börse Düsseldorf AG *

## 44. Memberships of other bodies held by employees

In fiscal year 2015 the following employees of the EAA were members of a Supervisory Board or other supervisory bodies of public companies pursuant to section 340a (4) No. 1 in conjunction with section 267 (3) HGB. Details of the memberships of other bodies marked with * are provided on a voluntary basis as the companies are not classed as large public companies pursuant to section 340a (4) No. 1 in conjunction with section 267 (3) HGB.

**Dr Ulf Bachmann**
Westdeutsche ImmobilienBank AG (until 31 May 2015)

**Gabriele Müller**
EAA Covered Bond Bank Plc
EAA Portfolio Advisers GmbH *

**Hartmut Rahner**
EAA Covered Bond Bank Plc

**Alexander Tcherepnine**
Banco Finantia S.A. (until 31 January 2015)

## 45. Executive bodies of the EAA

### Members of the Managing Board of the EAA

**Matthias Wargers (Spokesman)**
**Markus Bolder**
**Horst Küpker**

### Members of the Supervisory Board of the EAA

**Dr Rüdiger Messal**
Chairman | State Secretary in the Ministry of Finance of NRW

**Joachim Stapf**
Vice Chairman | Undersecretary (Leitender Ministerialrat) in the Ministry of Finance of NRW

**Dr Karlheinz Bentele**
Former President of the Rheinischer Sparkassen- und Giroverband,
former member of the Executive Committee (Leitungsausschuss) of the FMSA

**Günter Borgel**
Member of the Executive Committee (Leitungsausschuss) of the FMSA

**Michael Breuer**
President of the Rheinischer Sparkassen- und Giroverband

**Henning Giesecke**
Managing Director of GSW Capital Management GmbH,
former Chief Risk Officer of HypoVereinsbank AG and UniCredit Group

**Wilfried Groos**
Chairman of the Managing Board of the Sparkasse Siegen

**Matthias Löb**
Director of the Landschaftsverband Westfalen-Lippe

**Hans Martz (until 31 December 2015)**
Chairman of the Managing Board of Sparkasse Essen

**Michael Stölting**
Member of the Managing Board of NRW.BANK

**Jürgen Wannhoff**
Vice President and Member of the Managing Board of the Sparkassenverband Westfalen-Lippe

**Dr h.c. Uwe Zimpelmann**
Former Chairman of the Landwirtschaftliche Rentenbank

### Stakeholders' Meeting of the EAA

The Stakeholders' Meeting is made up of representatives of the stakeholders (see Note 42).

## 46. Information on shareholdings

**Supplementary disclosures pursuant to section 285 Nos. 11, 11a and § 340a (4) No. 2 HGB**
Shareholdings denominated in a foreign currency have been converted into EUR using the balance sheet rate
Disclosure of capital share and voting rights in %, amounts in EUR thousand
Disclosure of voting rights only if the percentage share differs from the share of capital

### Other shareholdings

| No. | Name | Location | Capital share | Voting rights | CCY | Equity | Result |
|---|---|---|---|---|---|---|---|
| 1 | Achte EAA-Beteiligungs GmbH i.G. | Düsseldorf | 100.00 | | | n. s. | n. s. |
| 2 | Börse Düsseldorf AG [8] | Düsseldorf | 21.95 | | EUR | 127,304 | 94,356 |
| 3 | Castello di Casole Agricoltura S.r.l. società agricola [1] [8] | Casole d'Elsa, Italy | 100.00 | | EUR | 68 | -18 |
| 4 | Castello di Casole S.r.l. [8] | Casole d'Elsa, Italy | 100.00 | | EUR | -8,979 | -13,860 |
| 5 | Castello Resort Villas S.r.l. [8] | Casole d'Elsa, Italy | 100.00 | | EUR | 651 | 7 |
| 6 | CBAL S.A. [2] [7] | Braine l'Alleud, Belgium | 100.00 | | EUR | 975 | 6,086 |
| 7 | COREplus Private Equity Partners GmbH & Co. KG [1] [8] | Düsseldorf | 36.52 | 0.00 | EUR | 28,760 | 5,240 |
| 8 | COREplus Private Equity Partners II - Diversified Fund, L. P. [8] | Wilmington, USA | 24.75 | 0.00 | USD | 48,974 | 9,697 |
| 9 | Dritte EAA Anstalt & Co. KG [2] | Düsseldorf | 100.00 | | | n. s. | n. s. |
| 10 | Dussinvest2 Beteiligungsgesellschaft mbH [4] [8] | Düsseldorf | 100.00 | | EUR | 246 | 0 |
| 11 | Dusskapital Zwanzig Beteiligungsgesellschaft mbH [8] | Düsseldorf | 100.00 | | EUR | 39 | 11 |
| 12 | EAA Covered Bond Bank Plc [8] [11] | Dublin 1, Ireland | 100.00 | | EUR | 831,309 | -60,756 |
| 13 | EAA DLP I LLP [1] [8] | Wilmington, USA | 100.00 | | USD | 139,661 | 4,278 |
| 14 | EAA DLP II LLP [1] [8] | Wilmington, USA | 100.00 | | USD | 148,722 | 8,835 |
| 15 | EAA DLP III LLP [1] [8] | Wilmington, USA | 100.00 | | USD | 186,750 | 15,731 |
| 16 | EAA do Brasil Participacoes, Representacoes e Negocios Ltda. [8] | Sao Paulo, Brasilia | 100.00 | | BRL | 2,447 | 142 |
| 17 | EAA Europa Holding GmbH [4] [8] | Düsseldorf | 100.00 | | EUR | 12,570 | 0 |
| 18 | EAA Japan K.K. [3] [8] | Tokyo, Japan | 100.00 | | JPY | 183,555 | -47,157 |
| 19 | EAA LAT ABC LLP [1] [8] | Wilmington, USA | 100.00 | | USD | 181,224 | -6,673 |
| 20 | EAA LAT II LLP [1] [8] | Wilmington, USA | 100.00 | | USD | 223,549 | -12,248 |
| 21 | EAA LS Holdings LLC [1] [8] | Wilmington, USA | 100.00 | | USD | 107 | n. s. |
| 22 | EAA PF LLP [1] | Wilmington, USA | 100.00 | | | n. s. | n. s. |
| 23 | EAA Portfolio Advisers GmbH [8] | Düsseldorf | 100.00 | | EUR | 459 | 435 |
| 24 | EAA Portfolio Advisers LLC [1] [8] | New York, USA | 100.00 | | USD | 66 | 66 |
| 25 | EAA Spyglass Holdings LLC [1] [8] | Wilmington, USA | 100.00 | | USD | 25,711 | 2,404 |
| 26 | EAA Triskele LLP [1] [8] | Wilmington, USA | 100.00 | | USD | 208,909 | -7,643 |
| 27 | EAA US Holdings Corporation [8] | Wilmington, USA | 100.00 | | USD | 42,118 | -932 |
| 28 | EMG Projekt Gewerbepark Ludwigsfelde/Löwenbruch GmbH [8] | Berlin | 47.50 | | EUR | 316 | -199 |
| 29 | Erste EAA-Beteiligungs GmbH [4] [8] | Düsseldorf | 100.00 | | EUR | 16 | 0 |
| 30 | Frankonia Eurobau Max-Viertel GmbH [6] | Nettetal | 25.00 | | EUR | -38,759 | -2,911 |
| 31 | GID Gesellschaft für Innenstadtentwicklung in Duisburg mbH [8] | Hamburg | 45.00 | | EUR | -3 | -1 |

## Other shareholdings

| No. | Name | Location | Capital share | Voting rights | CCY | Equity | Result |
|---|---|---|---|---|---|---|---|
| 32 | GKA Gesellschaft für kommunale Anlagen mbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 96 | -58 |
| 33 | Heber Avenue Partners, LLC [8)] | Dover, USA | 100.00 | | USD | 0 | n. s. |
| 34 | KA Deutschland Beteiligungs GmbH & Co KG [1) 8)] | Düsseldorf | 100.00 | | EUR | 3,974 | 1,008 |
| 35 | Kassiterit Beteiligungs GmbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 3 | -7 |
| 36 | KB Zwei Länder Beteiligungs- und Verwaltungs GmbH & Co. KG [1) 8)] | Düsseldorf | 100.00 | | EUR | 674 | -9 |
| 37 | KB Zwei Länder Beteiligungsgesellschaft mbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 423 | -17 |
| 38 | Leasing Belgium N.V. [1) 8)] | Antwerp, Belgium | 100.00 | | EUR | 488 | -93 |
| 39 | Life.Value Properties GmbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 342 | 704 |
| 40 | MCC Bradley LLC [1) 8)] | East Hartford, USA | 100.00 | | USD | 708 | -410 |
| 41 | MCC Diamond Point LLC [1) 8)] | Wilmington, USA | 100.00 | | USD | 824 | -434 |
| 42 | MCC Divot Place LLC [1) 8)] | Wilmington, USA | 100.00 | | USD | 762 | -56 |
| 43 | MCC Lake Unity LLC [1) 8)] | Wilmington, USA | 100.00 | | USD | 2,048 | -533 |
| 44 | MCC Paris LLC [1) 8)] | Wilmington, USA | 100.00 | | USD | 2,157 | -692 |
| 45 | MCC SB Condo LLC [1) 8)] | Wilmington, USA | 100.00 | | USD | 2,619 | -190 |
| 46 | MCC Tern Landing LLC [1) 8)] | Wilmington, USA | 100.00 | | USD | -22 | -76 |
| 47 | MCC WK Commercial LLC [1) 8)] | Wilmington, USA | 100.00 | | USD | 634 | -32 |
| 48 | MCC WK Residential LLC [1) 8)] | Wilmington, USA | 100.00 | | USD | 370 | -107 |
| 49 | Methuselah Life Markets Limited [8)] | London, Great Britain | 100.00 | | GBP | 1,256 | 13 |
| 50 | MFC CMark LLC [1) 8)] | New York, USA | 100.00 | | USD | 177 | -59 |
| 51 | MFC Eagle Realty LLC [1)] | New York, USA | 100.00 | | | n. s. | n. s. |
| 52 | MFC Holdco, LLC [1) 8)] | New York, USA | 100.00 | | USD | 16,466 | -4,707 |
| 53 | MFC New Paradigm LLC [1)] | New York, USA | 100.00 | | | n. s. | n. s. |
| 54 | MFC Pinecrest LLC [1)] | New York, USA | 100.00 | | | n. s. | n. s. |
| 55 | MFC Real Estate LLC [1) 8)] | New York, USA | 100.00 | | USD | 6,191 | -2,228 |
| 56 | Mod CapTrust Holding LLC [1) 8)] | Dover, USA | 100.00 | | USD | -21 | 1,088 |
| 57 | Monolith Grundstücksverwaltungsgesellschaft mbH [1) 8)] | Mainz | 100.00 | | EUR | 98 | 6 |
| 58 | Nephelin Grundstücksverwaltungsgesellschaft mbH [1) 8)] | Mainz | 100.00 | | EUR | -51 | -3 |
| 59 | ParaFin LLC [1) 8)] | New York, USA | 100.00 | | USD | -19 | -19 |
| 60 | Pathos Bay LLC [8)] | Dover, USA | 100.00 | | USD | 1,376 | -4,605 |
| 61 | PE Projekt-Entwicklungsgesellschaft mbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 27 | 1 |
| 62 | PE Projekt-Entwicklungsgesellschaft mbH & Co. Büro- und Businesscenter Leipzig Park KG [2) 8)] | Düsseldorf | 94.90 | 83.33 | EUR | 524 | -82 |
| 63 | PM Portfolio Management GmbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 63 | 0 |
| 64 | Projekt Carrée am Bahnhof GmbH & Co. Bürozentrum KG in Insolvenz [1) 5)] | Bad Homburg | 51.00 | | EUR | -3,572 | -117 |
| 65 | Projekt Carrée am Bahnhof Verwaltungs GmbH in Insolvenz [1) 5)] | Bad Homburg | 51.00 | | EUR | -13 | 0 |
| 66 | Projektentwicklungsgesellschaft Gartenstadt Wildau Röthegrund II mbH [8)] | Düsseldorf | 94.00 | | EUR | -6,304 | -3 |
| 67 | Projektgesellschaft Klosterberg mbH [8)] | Düsseldorf | 94.00 | | EUR | -594 | -27 |

## Other shareholdings

| No. | Name | Location | Capital share | Voting rights | CCY | Equity | Result |
|---|---|---|---|---|---|---|---|
| 68 | S-Chancen-Kapitalfonds NRW GmbH i.L. [8)] | Haan | 50.00 | | EUR | 2,103 | -60 |
| 69 | Sechste EAA-Beteiligungs GmbH [8)] | Düsseldorf | 100.00 | | EUR | 20 | -5 |
| 70 | Siebte EAA-Beteiligungs GmbH | Düsseldorf | 100.00 | | | n. s. | n. s. |
| 71 | Special PEP II GP Investors, L.L.C. [8)] | Wilmington, USA | 50.00 | 0.00 | USD | 304 | 14 |
| 72 | Vierte EAA-Beteiligungs GmbH [8)] | Düsseldorf | 100.00 | | EUR | 7 | -8 |
| 73 | Vivaldis Gesellschaft für strukturierte Lösungen S.A. [8)] | Luxemburg, Luxemburg | 100.00 | | EUR | 70 | -69 |
| 74 | West Equity Fonds GmbH [8) 12)] | Düsseldorf | 100.00 | | EUR | 25 | 0 |
| 75 | West Life Markets GmbH & Co. KG [4) 8)] | Düsseldorf | 100.00 | | EUR | 1,312 | 0 |
| 76 | West Merchant Limited [8)] | London, Great Britain | 100.00 | | GBP | 67 | 45 |
| 77 | West Zwanzig GmbH [4) 8)] | Düsseldorf | 100.00 | | EUR | 25 | 0 |
| 78 | Westdeutsche Immobilien Fonds Beteiligungsgesellschaft mbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 42 | 0 |
| 79 | Westdeutsche ImmobilienHolding GmbH [4) 8)] | Düsseldorf | 94.60 | | EUR | 5,539 | 0 |
| 80 | Westfälische Textil-Gesellschaft Klingenthal & Co. mit beschränkter Haftung [10)] | Salzkotten | 25.26 | | EUR | 10,370 | 154 |
| 81 | WestFonds 5 Büropark Aachen Laurensberg KG [1) 8)] | Düsseldorf | 49.16 | 49.01 | EUR | 3,320 | 390 |
| 82 | WestFonds 5 Palazzo Fiorentino Frankfurt KG i.L. [1) 8)] | Düsseldorf | 45.66 | 45.53 | EUR | 2,239 | -61 |
| 83 | WestFonds 5 Walle-Center Bremen KG i.L. [1) 8)] | Düsseldorf | 46.07 | 45.94 | EUR | 4,259 | -108 |
| 84 | WestFonds BI-Management GmbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 22 | -5 |
| 85 | WestFonds Dachfonds Schiffe GmbH [1) 8)] | Düsseldorf | 100.00 | | EUR | -109 | 5 |
| 86 | WestFonds Fondsvermögensverwaltungs GmbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 20 | -6 |
| 87 | WestFonds Geschäftsführungsgesellschaft 1 mbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 74 | -16 |
| 88 | WestFonds Geschäftsführungsgesellschaft 2 mbH i.L. [1) 9)] | Düsseldorf | 100.00 | | EUR | 0 | -4 |
| 89 | WestFonds Gesellschaft für geschlossene Immobilienfonds mbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 57 | -4 |
| 90 | WestFonds Holland Grundstücksgesellschaft Voorburg und s'Hertogenbosch mbH [1) 8)] | Düsseldorf | 100.00 | | EUR | -18 | -9 |
| 91 | WestFonds Immobilien Gesellschaft Objekt Halle/Saale Charlottenstraße mbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 4,530 | 10 |
| 92 | WestFonds Immobilien Gesellschaft Objekt Wien Heiligenstädter Lände 29 mbH i.L. [1) 8)] | Düsseldorf | 100.00 | | EUR | 335 | 23 |
| 93 | WestFonds Immobilien-Anlagegesellschaft mbH [4) 8)] | Düsseldorf | 94.90 | | EUR | 4,302 | 0 |
| 94 | WestFonds Immobiliengesellschaft Objekt Essen Schnieringshof 10-14 mbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 2,520 | 329 |
| 95 | WestFonds Management GmbH & Co KG i.L. [1) 8)] | Düsseldorf | 94.90 | | EUR | 74 | -1 |
| 96 | WestFonds Premium Select Management GmbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 24 | -2 |
| 97 | WestFonds Premium Select Verwaltung GmbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 43 | 1 |
| 98 | WestFonds Verwaltung GmbH [1) 8)] | Schönefeld | 100.00 | | EUR | 115 | 28 |
| 99 | WestFonds-PHG Gesellschaft RWI-Fonds 125 mbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 21 | -5 |
| 100 | WestFonds-PHG Gesellschaft RWI-Fonds 140 mbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 26 | -4 |
| 101 | WestFonds-PHG Gesellschaft RWI-Fonds 43 mbH i.L. [1) 8)] | Düsseldorf | 100.00 | | EUR | 18 | -5 |

## Other shareholdings

| No. | Name | Location | Capital share | Voting rights | CCY | Equity | Result |
|---|---|---|---|---|---|---|---|
| 102 | WestFonds-PHG Gesellschaft RWI-Fonds 47 mbH i.L. [1) 8)] | Düsseldorf | 100.00 | | EUR | 22 | -5 |
| 103 | WestFonds-PHG Gesellschaft WestFonds 2 D mbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 27 | -3 |
| 104 | WestFonds-PHG Gesellschaft WestFonds 2 H mbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 27 | -3 |
| 105 | WestFonds-PHG Gesellschaft WestFonds 5 Aachen mbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 24 | -5 |
| 106 | WestFonds-PHG Gesellschaft WestFonds 5 Frankfurt mbH i.L. [1) 8)] | Düsseldorf | 100.00 | | EUR | 21 | -5 |
| 107 | WestFonds-PHG-Gesellschaft BI-Fonds 12 mbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 27 | -3 |
| 108 | WestFonds-PHG-Gesellschaft BI-Fonds 14 mbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 28 | -3 |
| 109 | WestFonds-PHG-Gesellschaft BI-Fonds 18 S mbH i.L. [1) 8)] | Düsseldorf | 100.00 | | EUR | 25 | -3 |
| 110 | WestFonds-PHG-Gesellschaft BI-Fonds 19 S mbH i.L. [1) 8)] | Düsseldorf | 100.00 | | EUR | 23 | -5 |
| 111 | WestFonds-PHG-Gesellschaft BI-Fonds 23 mbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 22 | -5 |
| 112 | WestFonds-PHG-Gesellschaft KA Deutschland Beteiligungsgesellschaft mbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 27 | -4 |
| 113 | WestFonds-PHG-Gesellschaft KB Zwei Länder Beteiligungsgesellschaft mbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 28 | -4 |
| 114 | WestFonds-PHG-Gesellschaft RWI-Fonds 25 mbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 74 | -4 |
| 115 | WestFonds-PHG-Gesellschaft RWI-Fonds 34 mbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 48 | -10 |
| 116 | WestFonds-PHG-Gesellschaft RWI-Fonds 40 mbH i.L. [1) 8)] | Düsseldorf | 100.00 | | EUR | 22 | -5 |
| 117 | WestFonds-PHG-Gesellschaft WestFonds 3 Berlin mbH i.L. [1) 8)] | Düsseldorf | 100.00 | | EUR | 22 | -5 |
| 118 | WestFonds-PHG-Gesellschaft WestFonds 3 Düsseldorf mbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 29 | -4 |
| 119 | WestFonds-PHG-Gesellschaft WestFonds 4 mbH i.L. [1) 8)] | Düsseldorf | 100.00 | | EUR | 21 | -5 |
| 120 | WestFonds-PHG-Gesellschaft WestFonds 6 mbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 35 | -1 |
| 121 | WestGKA Management Gesellschaft für kommunale Anlagen mbH [2) 8) 13)] | Düsseldorf | 100.00 | | EUR | 642 | 0 |
| 122 | WestLB Asset Management (US) LLC [8)] | Wilmington, USA | 100.00 | | USD | 26,417 | -1,239 |
| 123 | WestLB Venture Capital Management GmbH & Co. KG [8)] | Köln | 50.00 | | EUR | 35 | -6 |
| 124 | WestLeasing International GmbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 182 | -9 |
| 125 | WestLeasing Westdeutsche Leasing Holding GmbH [4) 8)] | Düsseldorf | 94.90 | | EUR | 11,625 | 0 |
| 126 | WestProject & Consult Gesellschaft für Projektentwicklung und Consulting mbH i.L. [1) 8) 13)] | Düsseldorf | 100.00 | | EUR | 276 | 0 |
| 127 | WestVerkehr Beteiligungsgesellschaft mbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 112 | 3 |
| 128 | WLB CB Holding LLC [1) 8)] | New York, USA | 100.00 | | USD | -18 | 302 |
| 129 | WMB Beteiligungs GmbH [1) 8)] | Düsseldorf | 100.00 | | EUR | 26 | -10 |

## Interest greater than 5% (large corporations)

| No. | Name | Location | Capital share | Voting rights | CCY | Equity | Result |
|---|---|---|---|---|---|---|---|
| 130 | AKA Ausfuhrkredit-Gesellschaft mbH [8)] | Frankfurt am Main | 5.02 | | EUR | 201,032 | 14,125 |
| 131 | Banco Finantia S.A. [8)] | Lisbon, Portugal | 8.57 | | EUR | 383,711 | 11,871 |

## Other companies for whom the EAA assumes unlimited liability

| No. | Name | Location | Capital share | Voting rights | CCY | Equity | Result |
|---|---|---|---|---|---|---|---|
| 132 | GBR Industrie- und Handelskammer Rheinisch-Westfälische-Börse | Düsseldorf | 5.88 | 5.00 | | n.s. | n.s. |
| 133 | GLB GmbH & Co. OHG | Frankfurt am Main | 15.47 | | | n.s. | n.s. |

[1] Indirect shareholdings.
[2] Including indirectly held shares.
[3] A letter of comfort exists.
[4] A profit and loss transfer agreement is in place with this company.
[5] Data as of 31 December 2009.
[6] Data as of 31 October 2013. The financial statements have been prepared but not yet adopted.
[7] Data as of 31 October 2014.
[8] Data as of 31 December 2014.
[9] Data as of 31 March 2015.
[10] Data as of 30 June 2015.
[11] A global guarantee exists. The company's capital was reduced by EUR 750 million in the first half of 2015.
[12] The EAA is the beneficial owner of the company; a profit and loss transfer agreement is in place between the company and the PAG.
[13] A profit and loss transfer agreement is in place between the company and its immediate parent; a profit and loss transfer agreement is also in place between the parent company and the EAA.

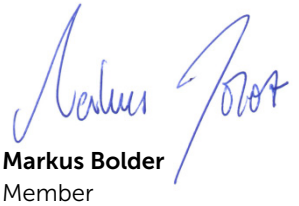
# Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets and financial position as well as the earnings situation of the institution, and the management report includes a fair review of the development and performance of the business and the position of the institution, together with a description of the material opportunities and risks associated with the expected development of the institution.

Düsseldorf, 17 March 2016

Erste Abwicklungsanstalt

**Matthias Wargers**
Spokesman
of the Managing Board



**Markus Bolder**
Member
of the Managing Board

**Horst Küpker**
Member
of the Managing Board

# Review report

We have audited the annual financial statements – comprising the balance sheet, income statement, notes, cash flow statement and statement of changes in equity – of the Erste Abwicklungsanstalt, Düsseldorf, for the fiscal year from 1 January to 31 December 2015, taking the accounts and management report into account. The maintenance of the accounts and preparation of the annual financial statements and management report in accordance with the provisions of German commercial law and the additional guidance of the EAA's charter are the responsibility of the institution's Managing Board. Our responsibility is to issue an opinion on the annual financial statements – taking the accounts and management report into account – based on our audit.

We conducted our audit of the annual financial statements in accordance with section 317 HGB and the German generally accepted principles for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany or IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Audit activities are defined based on familiarity with the institution's business activities and its commercial and legal environment, as well as expectations with respect to potential errors. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes an assessment of the accounting principles applied and the main estimates made by the Managing Board, as well as an appraisal of the general presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

Based on the findings of our audit, we believe that the annual financial statements comply with statutory provisions and the additional guidance of the charter, and give an accurate impression of the institution's actual net assets, financial position and results of operations in accordance with generally accepted accounting principles. The management report is consistent with the annual financial statements, provides an accurate impression of the institution's circumstances on the whole, and accurately reflects the opportunities and risks associated with its future development.

Düsseldorf, 18 March 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Michael Peters
Auditor
(German Public Auditor)

ppa. Susanne Beurschgens
Auditor
(German Public Auditor)

# List of abbreviations

| | |
|---|---|
| **ABS** | Asset backed securities |
| **ALM** | Asset liability management |
| **APAC** | Asia, Pacific and Japan |
| **AT** | General part (Allgemeiner Teil) |
| **BaFin** | German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht) |
| **BGH** | German Supreme Court (Bundesgerichtshof) |
| **BilMoG** | German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz) |
| **bp** | Basis points |
| **CAC-40** | French leading share index |
| **CCY** | Currency code |
| **CDS** | Credit default swaps |
| **CVA** | Credit valuation adjustments |
| **DRS** | German Accounting Standard (Deutscher Rechnungslegungsstandard) |
| **EAA** | Erste Abwicklungsanstalt, Düsseldorf |
| **EAA CBB** | EAA Covered Bond Bank Plc, Dublin/Ireland |
| **EAA GW** | EAA Global Watchlist |
| **EAA KK** | EAA Japan K.K., Tokyo/Japan |
| **EaD** | Exposure at default |
| **EC** | European Community |
| **EMEA** | Europe, Middle East and Africa |
| **EONIA** | Euro Overnight Index Average |
| **ELA** | Emergency Liquidity Assistance |
| **EU** | European Union |
| **EUSS** | European Super Senior Notes |
| **EEC** | European Economic Community |
| **ECB** | European Central Bank |
| **Fed** | Federal Reserve |
| **Fitch** | Fitch Ratings |
| **FMS** | Financial Market Stabilisation Fund |
| **FMSA** | German Federal Agency for Financial Market Stabilisation (Bundesanstalt für Finanzmarktstabilisierung) |
| **FMStFG** | German Financial Market Stabilisation Fund Act (Finanzmarktstabilisierungsfondsgesetz) |
| **FTSE MIB** | Italian leading share index |
| **FX effect** | Foreign exchange effect |
| **GDP** | Gross domestic product |
| **HGB** | German Commercial Code (Handelsgesetzbuch) |
| **HRA** | Commercial register department A (Handelsregister Abteilung A) |
| **HSBC** | HSBC Trinkaus & Burkhardt AG, Düsseldorf |
| **IDW** | Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer) |
| **ICS/RMS** | Internal control and risk management system |
| **IMF** | International Monetary Fund |
| **IT** | Information technology |
| **iTraxx Europe** | European credit default index |

## LIST OF ABBREVIATIONS

| | |
|---|---|
| **KWG** | German Banking Act (Kreditwesengesetz) |
| **LLP** | Limited liability partnership |
| **MaRisk** | Statutory German Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement) |
| **Moody´s** | Moody´s Investors Service |
| **MtM** | Mark to market |
| **Muni GIC** | Municipal guaranteed investment contracts |
| **NPL** | Non-performing loans |
| **N.R.** | Not rated |
| **NRW** | North Rhine-Westphalia |
| **OIS** | Overnight Indexed Swap |
| **OMT** | Outright Monetary Transactions |
| **OPEC** | Organisation of Petroleum Exporting Countries |
| **OTC** | Over the counter |
| **P&L** | Income statement |
| **PFS** | Portigon Financial Services GmbH, Düsseldorf |
| **Portigon** | Portigon AG, Düsseldorf (until 2 July 2012 WestLB AG) |
| **RechKredV** | German Ordinance on Accounting for Banks and Financial Service Providers (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute) |
| **S.R.** | Special rating |
| **S&P** | Standard and Poor's Corporation |
| **TLTRO** | Targeted Long Term Refinancing Operations (of the ECB) |
| **VaR** | Value at risk |
| **WestImmo** | Westdeutsche ImmobilienBank AG, Mainz |
| **WestLB** | WestLB AG, Düsseldorf (operating since 2 July 2012 as Portigon AG) |

## Imprint

**Erste Abwicklungsanstalt**
Elisabethstraße 65
40217 Düsseldorf
+49 211 826 7800
+49 211 826 7883
info@aa1.de
www.aa1.de

**Graphic Concept and Design**
Instinctif Partners
Spichernstraße 77
50668 Köln
www.instinctif.de

**Financial Reporting System**
FIRE.sys GmbH
Kasseler Str. 1a
60486 Frankfurt am Main
www.firesys.de

Print compensated
Id-No. 1654829
www.bvdm-online.de

FSC www.fsc.org
MIX
Paper from responsible sources
FSC® C006990