Erste Abwicklungsanstalt

Press Release

EAA Interim Report 2014

Good progress made in reducing risk exposure

- **Trading portfolio reduced by half ahead of schedule**
- **Restructuring measures at subsidiaries implemented as planned**
- **Net profit of around EUR 30 million as at the end of the first half of the year**

Düsseldorf, August 20, 2014 - Within two years, EAA has reduced by half the derivatives portfolio transferred to it in 2012. The notional volume of the trading portfolio declined to nearly EUR 533 billion as at June 30, 2014. The reduction totaled EUR 112 billion in the period from January to June alone. In the meantime, several product types, such as commodity derivatives in the trading portfolio, have been reduced almost completely. This also lowers the risks associated with the trading portfolio. The wind-up result is still ahead of schedule, as the original plan was to reduce the trading portfolio by half by 2015.

There was also another significant decrease in the loan and securities portfolio during the first half of 2014. The favorable market environment was used, for example, to dispose of especially risky structured securities. This means, in particular, that the risks associated with EAA's so-called Phoenix Portfolio were considerably reduced. As at the reporting date of June 30, the banking book portfolio totaled just slightly more than EUR 63 billion. This represents a decline of some EUR 7.6 billion or about 11 percent in the first half-year. Overall, EAA has scaled back the transferred loans and securities by around 60 percent since it commenced operations. This reduction has been evenly spread across all ratings classes. More than half (56%) of the remaining portfolio had a good rating as at June 30, 2014.

“We achieved our objectives in full in the first half of the year; the pace of the portfolio reduction remains high, and we still succeeded in generating a profit despite the reduced portfolios,” said Matthias Wargers, Spokesman of EAA's Managing Board. EAA ended the first half of 2014 with a net profit of around EUR 30 million. Although net interest income as well as net fee and commission income decreased sharply compared with the same period last year, this is consistent with the logic of the wind-up process. Moreover, this trend was offset as at June 30 by considerably better net income from investment securities and equity investments. Wargers emphasized that EAA also conducts its activities with strict cost control in mind: administrative expenses are some EUR 30 million (-16.5%) lower than in the comparable period of the prior year.

As announced, EAA undertook extensive measures in the first half of 2014 to limit the risks from project financing in Spain and Italy. It also implemented important restructuring steps in key equity investments. In order that Westdeutsche Immobilienbank (WestImmo) continues to focus on its business as a pure Pfandbrief bank, EAA assumed securities and loans with a notional volume of a good EUR 800 million. This did not impact on EAA's risk profile because it has taken the WestImmo portfolio into account since the transfer. At the same time, WestImmo transferred a portion of its equity back to EAA.

The entire transaction, as well as market value fluctuations in derivatives in the trading portfolio, is why EAA's total assets as at June 30, 2014 decreased by just EUR 2 billion to EUR 76.9 billion. It also explains why the progress made in reducing the portfolio is only partially reflected in the reduction of total assets.

Positive expectations for the second half-year

The Managing Board anticipates that developments on the capital markets in the months ahead will, in principle, continue to facilitate the reduction of the portfolio. Nonetheless, the current geopolitical conflicts pose risks. According to Wargers, the negotiations regarding the sale of WestImmo, which were initiated in May, have been going well. He added that EAA has initiated, as planned, the second step in the sales process.

“We therefore stand a good chance of reducing the remaining risks in the EAA portfolio even further during the second half of the year,” said Wargers. A new subsidiary for the portfolio management was formed in order to contribute to the future success of the resolution process. EAA Portfolio Advisers GmbH took on 68 employees of the Portigon Group as at July 1, 2014. “This step ensures that EAA will retain the unique expertise gained thus far for scaling back the portfolio, while enhancing its operational stability at the same time," stated Wargers. This objective was also served by consolidation measures also undertaken in July in Japan. EAA transferred assets – which it has guaranteed until now – from Portigon AG to its Japanese subsidiary. Processes were thereby optimized and synergies leveraged.

Inquiries

EAA Press Office: 0211 826-7900

EAA is a financially and organisationally independent public law institution. It was established in 2009 with a view to helping stabilise the financial markets. According to its statutes, its mission is to wind up risk positions taken over from the former WestLB in a risk-minimising manner. EAA has taken over positions totalling approximately EUR 200 billion. The portfolio was transferred in two steps. The “first fill” in 2009/2010 comprised loans and securities with a nominal value of EUR 77.5 billion. The second transfer, also referred to as “refill”, took place in 2012 and comprised loans, securities (banking portfolio) and derivatives (trading portfolio) totalling EUR 124.4 billion. The first fill portfolio was reduced by almost half by the end of 2012 – much faster than originally planned.

Being a public-law institution, EAA has a bankruptcy-remote structure and funds itself independently in the capital market. Thanks to the loss compensation duties of the State of NRW, the North Rhine-Westphalian savings bank and regional associations and the Financial Market Stabilisation Fund laid down in the statutes, EAA can issue securities at favourable conditions. EAA nevertheless plans to complete the wind-up activities in 2027 at least “with a black zero” - i.e. without taking advantage of the loss compensation duties.