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Press Release

Annual Report 2011

Erste Abwicklungsanstalt continues to wind down portfolio at fast pace

Transferred portfolio reduced by a total of 34 percent / Strong reduction in high-risk exposures / Risk provisions for Greece result in high deficit / Ready to take over further assets from WestLB

Düsseldorf. By the end of 2011, Erste Abwicklungsanstalt (EAA) had reduced the portfolio it has taken over by more than one third. The nominal volume declined from the original amount of EUR 77.5 billion to EUR 51 billion in exchange rate-adjusted terms. In 2011, EAA reduced the portfolio by close to EUR 13 billion. "Overall, we were much faster than originally planned," said EAA Board members Markus Bolder and Matthias Wargers on the occasion of the presentation of the financial statements for 2011.

They emphasised that the portfolio wind-down was successful in all segments. For instance, EAA, which has been active for about two years, was able to reduce the high-risk (non-performing) loans in its portfolio by 43 percent. The loan portfolios taken over in 2009/2010 have been reduced by more than half (-56 percent). Even the Phoenix portfolio – which primarily comprises structured exposures in the US housing market – has meanwhile been reduced by 20 percent through repayments and sales.

Greek bonds weigh heavy on the bottom line

The income statement for the past fiscal year was clearly influenced by the developments in Greece. As announced by EAA in early March, it has participated in the haircut for the EU member state. As of December 31, 2011, it had established risk provisions of EUR 848 million (gross; EUR 818 million net) for this case. "The haircut helped prevent a disorderly default of the country, which was also in the interest of EAA as a bondholder. But this move significantly eroded the bottom line for 2011," said Matthias Wargers.

EAA closed the fiscal year 2011 with a loss of approx. EUR 878 million primarily because of the provisions required for Greek bonds. EAA's operating result was again positive in 2011. This is not least attributable to net interest income, which - in spite of the ongoing portfolio reduction and increased funding costs in US-Dollar - reached almost EUR 190 million.

Ready to take on new tasks

Since mid-2011, EAA has been preparing for the takeover of a second portfolio from WestLB. The composition and size will not be finalised before 30 June 2012, as outlined in the transfer roadmap. The EAA Board members currently expect a size of about EUR 100 billion. "This subsequent transfer will again entail major challenges for us, but we are ready to accept them," said Markus Bolder.

A team of roughly 50 experts is currently working to prepare the takeover. EAA benefits from its structure as a small controlling entity relying on flexible outsourcing. This allows its organisation to be quickly adapted to different portfolio sizes. As an issuer, EAA is today well established in the capital markets and meets with great interest from institutional investors. It is able to secure its funding independently and has already built up an increased liquidity buffer in view of its new tasks. "We have effectively taken advantage of the favourable market situation," said Markus Bolder.

EAA is reviewing the risks and values of the relevant assets for the takeover in accordance with standard market methods. "All positions will be taken over at risk-adequate book values," emphasises Matthias Wargers. EAA's structural stability will not change as a result of the subsequent transfer. It remains the objective of the Managing Board not to use the guarantee for EAA. "We maintain our objective of a 'black zero' at the end of the wind-down period." As before, EAA expects the wind-down period to last until 2027.

Inquiries:

EAA Press Office: 0211 826-7900

About the Erste Abwicklungsanstalt (EAA)

The EAA has taken over risk exposures and non-strategic business units from WestLB AG with an original total volume of 77.5 billion euro. It manages this portfolio with the goal of minimizing risk. The EEA is a structurally and financially independent public law institution with partial legal capacity within the FMSA. The EEA is not a credit institution within the meaning of the German Banking Act and does not operate any business requiring authorization within the meaning of the EU-Directive 2006/48/EG. The EEA is not supervised as a credit institution by the German Federal Financial Supervisory Authority (BaFin). Stakeholders in the EAA are the state of Nordrhein-Westfalen (approx. 48.2%), the two savings bank associations of the state of Nordrhein-Westfalen (each approx. 25%) and the two regional associations of the state of Nordrhein-Westfalen (each approx. 0.9%).