Erste
Abwicklungsanstalt

Press Release

<u>2013 Annual Report</u>

EAA reports a surplus of about EUR 60 million and reduces its portfolio by nearly EUR 46 billion

- **The EAA is ahead of schedule in winding down the portfolio and has reported positive quarterly results since the start of 2012**
- **In the last four years, it wound down loans and securities with a total nominal value of EUR 85 billion; the book value of the derivatives decreased by more than EUR 25 billion since they were taken over**
- **As a result of the portfolio run-down, balance sheet volume fell by a good one third in 2013; EAA thus made a considerable contribution to reduce German government debt**

Düsseldorf, 10 April 2014. Erste Abwicklungsanstalt (EAA) reduced the volume of its combined total portfolio comprising derivatives, loans and securities by 32 percent in the last financial year. The overall reduction amounted to nearly EUR 46 billion. The portfolio that remains to be wound down – consisting of the banking book and trading portfolio – therefore already sank below the EUR 100 billion level in the first year after the so-called refill.

At the end of the 2013 financial year, the nominal volume of loans and securities in EAA's banking book amounted to EUR 70.7 billion (previous year: EUR 94.4 billion). The positions held by subsidiaries of EAA are also taken into account. Since it began operating four years ago, EAA has wound down loans and securities with a total value of some EUR 85 billion, calculated on the basis of constant exchange rates as of 31.12.2011.

In the end of 2013, the derivatives in the trading portfolio amounted to EUR 26.9 billion. Since they were taken over as of 1 July 2012, their market value has fallen by more than EUR 25 billion and thus nearly halved thanks to the successful wind-down measures. The nominal value of the transactions underlying the derivatives was EUR 1,064 billion at the date of transfer in July 2012 and was reduced by the wind-down measures by about 40 percent to EUR 664.5 billion at the end of 2013.

"The EAA is well ahead of schedule. The run-down of loans and securities in 2013 was nearly 50 percent higher than originally planned," said Matthias Wargers, spokesman of the EAA managing board. In 2013, the successes were reflected in a significant decline in balance sheet volume. This fell by 36 percent from EUR 123.3 to 78.9 billion. In previous years, the success in winding down the portfolio was masked by the balance sheet effects of the so-called refill, which resulted in EAA's total assets rising again. Liabilities on EAA's balance sheet are also reflected in the statistical recording of government debt. Accordingly, by reducing its liabilities EAA also made a significant contribution to reduce German government debt last year.

Balanced reduction with positive result

Wargers emphasized that assets of high as well as of low quality have so far been run down by almost the same amounts. "This is confirmed by the ratings of the remaining assets; about 55 percent of the positions are investment grade, in other words are of good quality." At the same time, EAA again closed the last financial year with a surplus. Pre-tax profit amounted to about EUR 62 million after a profit of nearly EUR 9 million in the previous year.

EAA believes it is making good progress in winding down the portfolio in a timely and qualitatively balanced manner. "Our goal remains to wind down the portfolio assumed from the former WestLB rapidly and to complete our task with no equity shortfall," said Wargers. Accordingly, EAA aims to ensure that taxpayers will not have to shoulder any losses arising out of the wind-down process. In the opinion of EAA's managing board, EAA still has a sufficiently large risk buffer after winding down loans and securities of some EUR 85 billion. Its equity currently amounts to around EUR 560 million. In addition, it has set aside risk provisions of about EUR 1.8 billion to meet future losses. According to Wargers, EAA therefore believes that the ratio of the risk buffer to the remaining wind-down portfolio is now stronger than in the previous year. Moreover, the EAA can make use of equity drawing rights of EUR 480 million.

Well placed to deal with future challenges

EAA assumes that the performance of the economy will continue to support the rundown of the portfolio in 2014. Management's target is to halve the remaining exposure again by 2016. In the next phase of the wind-down process, EAA will concentrate on some complex sub-portfolios. Examples include a portfolio of US life insurance policies, which was transferred in 2012 as part of the refill and a number of loan exposures in the euro periphery states, especially in the energy sector.

EAA's wind-down mandate also involves litigation in Germany and other countries. For example, EAA also took over interest rate swap lawsuits related to around 45 different cities and municipalities from the former WestLB. The municipalities now doubt the effectiveness of those transactions. In this context, EAA does not concentrate solely on the lawsuits. It also conducts in-depth discussions to sound out the scope for out-of-court solutions. To create the basis for this, it has clearly analyzed and documented every single case – and can therefore draw appropriate conclusions with regard to its future actions.

EAA subsidiary is to take over portfolio management experts

According to Wargers, the rapid pace at which EAA's portfolio is being wound down also continues to present new organizational challenges. For example, EAA must, on the one hand, secure the expertise it has gained so far for the coming stages of the wind-down process. On the other hand, it is necessary to lower administrative expenses at the same time as reducing the portfolio and its income. Against this background, EAA has now agreed with Portigon Group – as its most important service provider – to reorganize and optimize the way in which functions are allocated. It was agreed, among other things, that a transfer of the portfolio management function shall take place from the service provider Portigon to one of EAA's subsidiaries. The intention is that the subsidiary will take over about 70 employees from the Portigon Group. These are experts of WestLB's former Portfolio Exit Group who have worked exclusively for EAA since it was established. The step will be cost-neutral. It will enable EAA to bundle the know-how gained in the wind-down process to date and generate synergies in the future. "In this way, we will secure EAA's operating stability and believe we are well equipped to meet future challenges," said Wargers.

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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 statute, its mission is to wind down 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 (on the basis of constant exchange rates as of 31.12.2009). 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 (on the basis of constant exchange rates as of 31.12.2011).

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 statute, EAA can issue securities at favourable conditions. EAA nevertheless plans to complete the wind-down activities in 2027 at least "with a black zero" - i.e. without taking advantage of the loss compensation duties.