

Press Release

Interim Report as at 30 June 2015

The EAA reduces loans and securities by almost a quarter in six months and achieves a positive result

- **WestImmo sale characterises the wind-up success of the first six months**
- **Falling administrative costs support earnings**
- **Almost 75 percent of the credit and securities portfolio has been wound up**
- **Notional volume of the trading portfolio reduced by around 64 percent**

Düsseldorf, 25 August 2015. In the first half-year the EAA (Erste Abwicklungsanstalt) has reduced the volume of loans and securities by almost EUR 13 billion, which equates to a decline of almost 25 percent since the start of 2015. Its performance was defined largely by the sale of Westdeutsche Immobilienbank AG (WestImmo). The transaction was definitively concluded (closing) at the end of May and contributed more than EUR 7 billion to the wind-up success.

In addition to considerable progress at winding up the portfolio, the EAA achieved a positive result of around EUR 10 million before taxes as at 30 June 2015. "Thanks to the successful sale of WestImmo, we were able to make up for burdens arising elsewhere," said Matthias Wargers, Spokesman of the EAA. The EAA had to make unexpected additional risk provisioning for securities as a result of the controversial approach taken by the Republic of Austria with regard to the wind-up of Hypo Alpe Adria. Although these securities are guaranteed by the State of Carinthia, this debt is no longer being serviced. The EAA has initiated legal action in Germany and Austria against this. The EAA also created additional provisions in the first half-year, e.g. for project financings. However, the net result from all provisioning measures is positive because thanks to the ongoing portfolio wind-up and reduction of risks in individual markets relevant for the EAA, previously established provisions could be reversed.

Although the ongoing portfolio wind-up is generally linked with falling income, net interest income as well as net fee and commission income were increased in the first six months over the same period of the previous year. This is attributable in particular to income from successful restructurings and dividends. The favourable refinancing terms available to the EAA are also reflected here. Besides the good net interest income and net fee and commission income, falling administrative expenses also had a positive effect on the results of the first half-year. These fell by a good ten percent to around EUR 149 million. In addition to the EAA's personnel costs, they

include expenses for service providers. At almost EUR 100 million, the services provided by Portigon Financial Services GmbH (PFS), a subsidiary of Portigon AG, account for the lion's share of these expenses.

"The EAA will concentrate on lowering the wind-up costs further and optimising existing structures in order to ensure the successful wind-up of the remaining portfolio," Wargers stated with regard to the second half-year. The EAA is currently reviewing the economic effects of linking the corporate structure of PFS with the EAA. "Our objective is to reach a negotiation outcome that is equally beneficial to all participants," Wargers said. At the same time, he emphasised that all decisions taken by the EAA regarding its organisation are made on the assumption that the planned wind-up is neither delayed nor more costly.

Ambitious schedule for winding up the remaining portfolio

The notional volume of the credit and securities portfolios has now already fallen below the EUR 40 billion mark. The reduction since the beginning of the EAA's activities therefore adds up to around EUR 115 billion. The trading portfolio taken over for wind-up from the former WestLB AG – comprising mainly derivative financial products – was reduced by a notional amount of more than 17 percent or good EUR 81 billion in the first six months to around EUR 385 billion. Since the portfolio was taken over, its volume has been reduced by a total of about EUR 680 billion.

"The figures clearly show that we have made very significant progress in fulfilling our mandate," Wargers commented. Despite the rapid pace, the wind-up has progressed in a value-preserving manner. This is reflected in the investment grade share of the remaining banking book portfolio as at 30 June 2015, which stood at around 67 percent (previous year: 56%). According to Wargers, this high share of good exposures is due to both the further stabilisation of important markets and the EAA's wind-up strategy. The objective was always to wind-up positions across all rating classes in a balanced manner.

The EAA aims to reduce its credit and securities portfolios to around EUR 16 billion by 2020. The notional volume of the trading portfolio should be reduced to around EUR 170 billion by then. "The EAA is reviewing options over and above these key points to speed up the process of winding up the remaining risks of the liable stakeholders," Wargers stated.

Inquiries

EAA Press Office: 0211 826-7900

The 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.

The EAA has taken over positions totalling approximately EUR 200 billion. The acquisition was carried out in two stages: The so-called first fill in 2009/2010 comprised loans and securities with a notional volume of EUR 77.5 billion. The second transfer, the so-called replenishment, took place in 2012 and comprises loans, securities (bank portfolio) and derivatives (trading portfolio) in the amount of EUR 124.4 billion.

Being a public-law institution, the EAA has a bankruptcy-remote structure and funds itself independently on 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, the EAA can issue securities at favourable conditions. The 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. Stakeholders in the EAA are the state of North Rhine-Westphalia (approx. 48.2%), the two North Rhine-Westphalian savings banks and giro associations (both approx. 25%) and the two Regional Associations of North-Rhine Westphalia (both approx. 0.9%).