

Press release

2014 Annual Report

EAA reports net profit of EUR 62.5 million

- **Positive earnings after tax for the third year in a row**
- **Sales processes for major equity investments successfully concluded**
- **Five-year results: banking book already two-thirds wound up, trading portfolio reduced by more than half**

Düsseldorf, April 16, 2015 As in the two prior years, Erste Abwicklungsanstalt (EAA) has concluded 2014 in the black, generating a net profit of EUR 62.5 million. This follows on EUR 59 million achieved in 2013 and EUR 6.6 million in 2012. “We have once again realized a good result even though the wind-up of the portfolio is already well advanced, which means we generate less income from interest and commissions,” said Matthias Wargers, Spokesman of the EAA’s Managing Board. With its annual report for 2014, the EAA is presenting a positive interim result for the some five years since the commencement of its operations.

- Its banking book, which includes loans, securities and equity investments, has been reduced to a notional volume of slightly more than EUR 52 billion. The former WestLB AG transferred to the EAA several tranches of exposures with a total value of around EUR 155 billion. EUR 103 billion of this amount has been wound up as of the end of 2014, which is already more than two-thirds of the originally transferred portfolio. Of the EUR 103 billion in total reduction, more than EUR 18 billion is attributable to the previous fiscal year.
- In 2014 the EAA successfully completed the privatization processes for two major operating equity investments. The UK subsidiary Basinghall Finance Ltd. has been sold. The agreement on the disposal of Westdeutsche Immobilienbank (WestImmo) to Aareal Bank Group was signed at the start of 2015. These sales significantly lower the complexity of the remaining EAA portfolio and reduce the operating and economic risks associated with the wind-up. The disposal of WestImmo will have a positive effect on the EAA’s earnings in fiscal year 2015.

- The trading portfolio, which consists primarily of derivatives transactions, currently still totals a notional volume of EUR 466 billion. It amounted to EUR 1,064 billion when the EAA assumed the portfolio in the middle of 2012. “We have accomplished more than half of this wind-up task,” summarized Wargers. Of the EUR 598 billion in total reduction, more than EUR 178 billion is attributable to the previous fiscal year. The book value of the trading portfolio stood at nearly EUR 34 billion at the end of 2014; this amount reflects the current market value of the derivatives and is considerably less than the notional volume.
- The EAA has established itself as a reliable issuer on the international financial markets. In 2014 it was able to place for the first time ever a large-volume US dollar issue. However, as the portfolio decreases the need for funding will decline as well. At the end of last year the EAA’s liabilities to banks and customers, and the securitized liabilities, totaled around EUR 45 billion, more than EUR 32 billion less than when the so-called refill portfolio was assumed in the middle of 2012.

“During the crisis we made a significant contribution to the stabilization of the financial market,” underscored Wargers. “A major international bank was removed from the market without any serious negative repercussions.” In his view, the concept of a wind-up agency has proven itself: losses have been avoided for many exposures, risks have been mitigated and value has been preserved.

Despite the pace of the wind-up, the quality of the remaining EAA portfolio remains high. More than half of the banking book assets have a medium, good or very good rating. The EAA anticipates that the trend in the economy will continue to support the wind-up process in the next several months, making it possible to continue winding up the portfolio in both a rapid and a value-preserving manner.

“In order to accomplish this, last year we optimized our organizational structure even further,” said Wargers. By founding its own service subsidiary – EAA Portfolio Advisors (EPA) – the EAA has secured its operational stability and bundled the necessary expertise for its responsibilities going forward. Wargers emphasized that the foundation of the subsidiary was an initiative that has no impact on profit or loss and also will not change the wind-up planning.

The EAA currently has its own risk buffer totaling around EUR 2 billion. To absorb losses that might result in the further course of the wind-up, the EAA still has at its disposal – even after the wind-up of two-thirds of the banking book – a risk provision in the amount of EUR 1.4 billion as well as equity capital totaling around EUR 618 million. Furthermore, the EAA can also draw on equity overdraft lines with its liable stakeholders and the Financial Market Stabilization Fund in the amount of EUR 480 million in order to strengthen its capital base.

“In 2014 we took a major step towards our goal of winding up the exposures we assumed in a value-preserving manner,” said Wargers. From today’s perspective and according to the current wind-up planning, the EAA’s risk provision and equity capital are sufficient to offset any potential losses in the future.

For inquiries

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The EAA is a structurally and financially independent public law entity that was founded in 2009 to contribute to the stabilization of the financial markets. In accordance with its charter, the EAA is responsible for winding up in a loss-minimizing manner the risk exposures it has assumed from the former WestLB. It acquired exposures with a volume totaling about EUR 200 billion. Their transfer took place in several steps. The so-called first fill in 2009/2010 included loans and securities with a notional volume of EUR 77.5 billion. The second major transfer, the so-called refill, occurred in 2012 and comprised loans, securities (banking book) and derivatives (trading portfolio) with a volume of EUR 124.4 billion.

As a public law entity, the EAA is protected against insolvency and funds itself independently on the capital market. The EAA's charter stipulates that the German State of North Rhine-Westphalia (NRW), NRW's Sparkassen- und Landschaftsverbände and the German Financial Market Stabilization Fund have a duty to offset any EAA losses. This obligation makes it possible for the EAA to obtain favorable conditions when issuing securities. Its planning, however, is aimed at finalizing the wind-up activities in 2027 with at least a break-even result – and thus avoiding the need to utilize these duties to offset losses. The liable stakeholders of the EAA are the German State of North Rhine-Westphalia (about 48.2%), the two North Rhine-Westphalian Associations of Giro and Savings Banks (each about 25%) and the two North Rhine-Westphalian Landschaftsverbände (associations of municipalities in NRW) (each about 0.9%).