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Press release

The EAA publishes its annual financial statements for the second abridged financial year (1 July to 31 December 2010)

One-fifth of portfolio already wound up

Reduction in portfolio exceeds forecasts / results driven by risk provisions / successful wind-ups continue in Q1/2011 / successful capital market launch / set-up complete

The Erste Abwicklungsanstalt (*First Winding-up Agency*) (EAA) has already wound up around 22 percent of its original portfolio, adjusted for exchange rate effects, in its first year of operation: By the end of March 2011, the public law financial institution had reduced the nominal volume of the portfolio by almost €17 billion. The portfolio, which was taken over as part of financial market stabilisation measures, has decreased from €77.5 billion to around €60.7 billion. By the end of 2010, €13.7 billion of the portfolio had been wound up, adjusted for exchange rate effects. Of this amount, €6.2 billion was attributable to the first abridged financial year (11 December 2009 to 30 June 2010) and €7.5 billion was attributable to the second (1 July 2010 to 31 December 2010). The successful winding up process thus exceeded expectations for 2010 by around 15 percent.

"The figures show that we are on the right track and the agency's model is working," said Managing Board members Markus Bolder and Matthias Wargers at the presentation of the financial statements for the second abridged financial year. The EAA will do everything in its power to continue surging ahead with winding up the commitments it has taken over, while at the same time minimising risks. "Of course we are also reliant on economic performance," noted Wargers, "but we remain optimistic for 2011, despite the somewhat strained situation on

the capital markets." The Managing Board is sticking to its goal of halving the original portfolio volume by 2014.

Like the first set of financial statements, the second set of the EAA's financial statements was driven by the recognition of provisions for loan losses, which resulted in a loss of around €600 million as at 31 December 2010. "These are not the same as losses already incurred," stressed Bolder. "Before provisions for loan losses, we reported a profit in the second abridged financial year as well." Net income before provisions for loan losses was around €70 million in the second abridged financial year and a good €270 million for the year as a whole.

The EAA conducted a detailed review of its portfolio in 2010 using refined methods and stricter standards in order to assess all identifiable risks. It has recognized risk provisions both for the particularly risky structured securities portfolio as well as for the loan portfolio amounting to around €1 billion each and thus created a sort of buffer for losses expected in the future. Overall, equity according to the German Commercial Code (*Handelsgesetzbuch* – HGB) has been reduced significantly by around €1.6 billion as a result of risk provisions since EAA's inception. However, an amount of similar magnitude is still available in the coming years to cover currently unidentifiable risks. "From a current perspective that's a solid basis," said Wargers. "Provisions for loan losses do not continue in a linear fashion." The EAA's strategy is aimed at leaving the guarantees provided by its stakeholders untouched to the extent possible. "We believe that the EAA's capital resources are sufficient," said Bolder.

Bolder and Wargers described the EAA's speedy portfolio wind-up as a success story. The experts needed to manage the EAA's portfolio are on board. The EAA currently has around 50 employees. They are assisted by around 85 employees in the Portfolio Exit Group (PEG), a unit of WestLB, which works exclusively on behalf and at the instruction of the EAA. "We have developed structures together with consultants and partners that enable us to respond quickly and flexibly to challenges and to manage complex international portfolios in a professional manner," said Wargers. The EAA's first benchmark bond, issued in March 2001, was extremely well received by the capital market. "This debut was an important milestone for the EAA," said Bolder. "We are now capable of trading on the capital market as well."

Enquiries

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About the Erste Abwicklungsanstalt (EAA)

The EAA took over certain risk exposures and non-strategic businesses and assets from WestLB AG originally valued at €77.5 billion. It manages this portfolio with the objective of minimising risk. The EAA is a structurally and financially independent public law entity with partial legal capacity operating under the umbrella of the Financial Market Stabilisation Authority (Bundesanstalt für Finanzmarktstabilisierung – FMSA). The EAA is not a credit institution within the meaning of the German Banking Act (Kreditwesengesetz – KWG) and does not conduct business that requires a licence pursuant to EU Directive 2006/48/EC. The EAA is not regulated in the same way as credit institutions by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin). The EAA's stakeholders are the State of North Rhine-Westphalia (around 48.2%), both Sparkassen-und Giroverbände in North Rhine-Westphalia (each around 25%) and both Landschaftsverbände in North Rhine-Westphalia (each around 0.9%).