

Press release

Interim report as of 30 June 2019

EAA makes further progress in portfolio reduction and achieves break-even result

Düsseldorf, 28 August 2019. The EAA generated a surplus of EUR 0.3 million from January to June 2019. As expected, current income declined as a result of the ongoing portfolio reduction: the net interest result was a good EUR 41 million compared to commission expenses of just under EUR 9 million and general administrative expenses of around EUR 68 million. "This led to a negative operating result which, however, was offset by a positive result from the reversal of loan loss provisions as at 30 June 2019," explained Matthias Wargers, Spokesman of the EAA Managing Board. The portfolio reduction made it possible to release risk provisions established in previous years to a greater extent than new provisions were required.

The EAA once again significantly reduced its costs in the first six months of the current fiscal year; as at 30 June 2019 they were around 13% below the previous year's level. Wargers stressed that the EAA had already reduced its administrative expenses by a total of 61% between 2012 and 2018. The bulk of the remaining expenses is attributable to costs for portfolio and IT services. The EAA's personnel costs accounted for approximately 17% of general administrative expenses in the first half of 2019.

"Despite cost discipline, it is no longer possible at this stage of the process to reduce spending in line with the decrease in income from the wind-up portfolio," Wargers said. The EAA has therefore regularly pointed out that losses are to be expected in coming fiscal years, which are reflected in its planning. The wind-up target remains not to make use of the liability shield provided by investors.

Good portfolio quality despite progress in wind-up

The EAA's loans and securities portfolio contracted by almost 10% to around EUR 16.4 billion in the first half of the year. For the end of the fiscal year, the EAA expects a banking book of around EUR 15 billion; this corresponds to a reduction of more than 90% of all banking book exposures transferred to the EAA since 2009/2010. The EAA's current residual portfolio is qualitatively stable despite the advanced stage of the wind-up process. The proportion of loans and securities with an investment grade rating remains 69%; around 32% of the nominal volume in the banking book has a very good rating and around 37% has a mid-range rating.

The predominantly derivative products in the trading portfolio fell by close to 8% in the first half of the year. Its nominal volume thus fell to around EUR 158.2 billion; it is expected to decline to around EUR 145 billion in the second half of the year. This means that around 85% of the acquired trading portfolio will then be wound up. "In addition, the EAA is intensively examining how the reduction of the remaining portfolios and the associated risks can be driven forward in an effective and cost-efficient manner in order to reach the wind-up targets earlier than planned," said Wargers. To this end, it continuously analyses market conditions and exit opportunities.

The nominal reduction in the EAA portfolio as at 30 June 2019 is not reflected in the development of balance sheet items. This is because the progress made was overlayed in the balance sheet by liquidity management measures and by the change in interest rates, which is reflected in the valuation of the trading portfolio.

Enquiries

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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. In accordance with its charter, its mission is to wind up risk positions taken over from the former WestLB in such a way as to minimise losses.

The EAA has taken over positions totalling approximately EUR 200 billion, which it accomplished in two stages: The "first fill" in 2009/2010 comprised loans and securities with a notional volume of EUR 77.5 billion. The second transfer, or "replenishment", took place in 2012 and comprised loans, securities (banking portfolio) and derivatives (trading portfolio) in the amount of EUR 124.4 billion.

Being a public-law institution, the EAA has a structure that protects it against insolvency 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 its charter, the EAA can issue securities on favourable terms. 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 (each approx. 0.9%).