

Press release

Fiscal year 2019

EAA well equipped for ongoing wind up

Annual results slightly negative // Loans and securities reduced by 18%, derivatives by 20% // Progress on wind-up exceeds previous wind-up planning // Reserves strengthened in relation to remaining portfolio

Düsseldorf, 27 April 2020. The EAA closed the 2019 financial year with a net loss of EUR 2.7 million after tax. “This means that the winding up of the former WestLB will generate a negative annual result for the first time since 2011,” commented Horst K pker, Member of the EAA’s Managing Board. At the same time, however, he stressed that losses in this phase of the portfolio wind-up were taken into account from the outset in the wind-up planning. “The small negative annual result for 2019 has not therefore come as a surprise, and is no indication of changed conditions or risks from winding up the portfolio of the former WestLB,” K pker said.

The EAA has already made it clear on several occasions that its interest-bearing business would inevitably shrink as the winding up progressed, and that costs could no longer be reduced in proportion to the shrinking portfolio. However, the economic losses in 2019 were significantly lower than forecast. Among other things, this was due to revaluations of participations as well as recoveries on previously written-off exposures and a favourable refinancing. The positive market trend and progress made on winding up, for example through restructuring, allowed further value adjustments to be reversed. In addition, the EAA has reduced its costs further still. General administrative expenses fell by about 15% year on year to EUR 135.7 million. Compared with 2012 – the year of the so-called refill – costs were reduced by around two thirds.

The EAA successfully reduced the volume of financial products under its management further in 2019. Of the loans and securities in the banking book acquired in 2009/2010 and 2012, some EUR 14.9 billion were still on the EAA's books as of 31 December 2019. This is roughly 18% less than in the previous year. Overall, the nominal volume of the transferred financial products has so far been reduced by more than 90%. The nominal volume of derivatives in the trading portfolio fell by around 20% in 2019 to EUR 136.8 billion. This means that around 87% has been reduced since the takeover in 2012.

Ten years of the EAA – stock take and outlook

The bottom line is that after operating for around ten years, the wind-up portfolio is smaller and of a better quality than originally planned. At the same time, the EAA's reserves are higher than they were expected to be at this time. At year-end 2019, the buffer of equity and risk provisions added up to around EUR 1.7 billion including the equity drawing facility, which means that it was strengthened again in relation to the remaining banking book. The risk assessment for the remaining portfolio also improved, particularly in the context of "stress tests". For example, the risks in the crisis scenario for the wind-up planning have fallen by around 69% since 2012, the year of the refill.

The EAA has been pursuing a package of active measures since the end of last year which will further accelerate the reduction of risk compared with the continuously updated wind-up planning. "The 2020 business year will be characterized by the ongoing implementation of these measures," underscored EAA Managing Board Member Christian Doppstadt. Among other things, these measures focus on significantly reducing the number of borrowers in the EAA's portfolio, and massively winding up the trading portfolio. The EAA has launched a project with banks to achieve this. The EAA's Managing Board has indicated that it is not yet possible to estimate how much the coronavirus pandemic could affect its winding-up activities in the future.

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 its 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%).