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CREDIT OPINION
15 September 2020

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RATINGS

Erste Abwicklungsanstalt

Domicile	Dusseldorf, Germany
Long Term Rating	Aa1
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Tamas Fuszenecker **+49.69.70730.971**
Analyst
tamas.fuszenecker@moodys.com

Max Dietz **+49.69.70730.890**
Associate Analyst
max.dietz@moodys.com

Massimo Visconti **+39.02.9148.1124**
VP-Sr Credit Officer/Manager
massimo.visconti@moodys.com

Erste Abwicklungsanstalt (Germany)

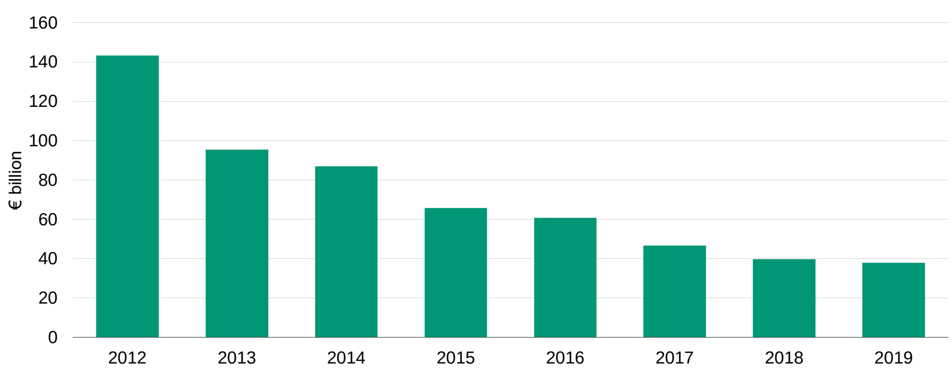
Update to credit analysis

Summary

The credit profile of Erste Abwicklungsanstalt (EAA, Aa1 stable) reflects the entity's direct credit links with the Land of Nordrhein-Westfalen (NRW, Aa1 stable), which result from the guarantee mechanism provided primarily by NRW, and the supportive legal framework that defines EAA as a public-sector entity with strict oversight from its shareholders. In 2019, EAA's outstanding portfolio totalled €37.8 billion, continuing the downward trend of the previous years (see Exhibit 1). Since 2012, this portfolio has shrunk faster than initially expected. Therefore, it is likely that the portfolio will be wound down before the initially announced target of 2027.

Exhibit 1

The wind-down of EAA's portfolio has proceeded faster than initially planned



Sources: Issuer and Moody's Investors Service

Credit strengths

» Direct credit links with NRW, its main shareholder

» Systemic support in the form of guarantees under the framework of the federal act

» Liquidity support, which is ensured by the support providers

Credit challenges

» Exposure to financial market developments

Rating outlook

The stable outlook on EAA's rating is aligned with the outlook assigned to NRW's rating and reflects our expectation that the entity will maintain its direct links to the Land.

Factors that could lead to an upgrade

We could upgrade EAA's rating in case of a positive change in NRW's rating.

Factors that could lead to a downgrade

We could downgrade EAA's rating in the event of any negative change in NRW's rating.

Profile

EAA was established in 2009 under the Financial Market Stabilisation Funds Act (it is now called the StFG) as a public-sector entity as a windup agency for Westdeutsche Landesbank AG's (WestLB) risk exposure and nonstrategic businesses, focusing on minimising losses over time. The entity started operating under the aegis of the Financial Market Stabilisation Fund (SoFFin) and the Financial Market Stabilisation Agency (FMSA). It is subject to neither national regulatory capital requirements nor international accounting standards.

In 2010, the first portfolio of €77 billion was taken over from WestLB, while the second and last portfolio with higher quality of underlying assets was transferred in 2012, as part of its restructuring. This portfolio comprised various loans and securities with a nominal value of €72.3 billion, and derivatives with a market value of €52.1 billion at the time of transfer.

During the transfer of the last portfolio in 2012, callable equity was provided, and the guarantee structure was newly defined. EAA has equity and callable equity to absorb losses, and a guarantee structure in place that covers all the remaining liquidity needs. EAA's stakeholders are obliged to provide such amounts when necessary to ensure that the entity is always in a position to meet its due liabilities on first demand. The proportional amount per guarantor is defined by EAA's charter. In 2018, the Federal Republic of Germany's Finance Agency was entrusted with the maintenance of FMSA (which is still responsible for EAA's oversight), while SoFFin's management and administration was fully integrated into the Finance Agency.

Detailed credit considerations

The credit profile reflects our view that, from a credit risk perspective, it is not relevant to distinguish between the entity and NRW because of the support provided to the windup entity by its shareholders, and NRW's strong participation in the guarantee scheme and its ultimate responsibility to provide any additional support.

Direct credit links with NRW, its main shareholder

EAA is supported by all of its shareholders (the former WestLB owners). The ownership structure is as follows:

» NRW: 48.2%

» Sparkassenverband Westfalen-Lippe (SVWL): 25.0%

» Rheinischer Sparkassen- und Giroverband (RSGV): 25.0%

» Landschaftsverband Rheinland (LVR): 0.9%

» Landschaftsverband Westfalen-Lippe (LWL): 0.9%

NRW has a high participation in the guarantee scheme, and it has the ultimate responsibility to provide support. The ownership group and FMSA agreed on the following:

» The obligations of the two savings bank associations (SVWL and RSGV) to cover losses are capped at €4.5 billion.

» In case of need, NRW will provide pre-funding and act as a guarantor for the savings bank associations' obligations.

» The obligations for the two municipal associations (LVR and LWL) to cover losses are capped at €52 million.

In case the equity (including callable equity) and guarantees are not sufficient to cover the losses, NRW and the federal government have to step in (through the FMSA).

Systemic support in the form of guarantees under the framework of the federal act

To cover the expected losses on the initial portfolio, a €3.1 billion capital injection and a guarantee scheme were provided, and NRW additionally incorporated its existing €5 billion guarantee provided for its WestLB support scheme in 2008 into the current scheme. In 2012, the guarantee structure was modified to absorb the second portfolio transfer linked to the WestLB breakup. Under the defined legal framework, the FMSA provided €1 billion (€330 million in callable equity and €670 million in additional guarantees), while the owners of EAA are responsible for any unexpected losses and any liquidity shortfalls of the windup agency.

The first layer to cover losses is the equity provided by the owners. As of December 2019, the equity amounted to €656 million. The second layer in the newly modified structure included callable equity capital of €480 million. It will automatically be drawn if the equity falls below a defined minimum level. In case the equity and callable equity are not sufficient to cover losses, a defined guarantee mechanism will apply, which was modified in 2012, signalling a more evident backing of the federal government.

Liquidity support, which is ensured by the support providers

Based on these mechanisms of the guarantee structure, we directly link EAA's credit risk to NRW's creditworthiness. Because NRW provides the lion's share (48.2%) of guarantees, it is responsible for providing the savings bank associations with liquidity in the form of pre-funding, if necessary, and the ultimate backstop for any potential losses, in line with the guarantee framework outlined above.

Exposure to financial market developments

The latest windup plan shows positive equity capital as of the end of the planning period. This means that a loss, which would require the use of EAA's liability mechanism, would only occur in case of an adverse scenario during this period. Currently, such a scenario is unlikely, according to management's assumptions. To date, the original plan for the windup of the total portfolio has been met or exceeded, so the entity has been well ahead of its initial windup plan. The coronavirus pandemic has slowed down the speed of the portfolio wind-down, but the original plan has not been jeopardised. The wind-down activity should at all times be carried out economically, thus its pace is subject to market developments.

ESG considerations

How environmental, social and governance risks inform our credit analysis of EAA

We take account of the impact of the ESG factors when assessing sub-sovereign issuers' economic and financial strength. In the case of EAA, the significance of ESG factors to the credit profile is as follows:

Environmental considerations are not material to EAA's rating. It has only limited exposure to environmental risks, and, in any adverse case, the owners provide support.

Social risks are not material to the rating either because the entity's activities are not focused on areas where they would be exposed to these risks or because the entity receives support from its owners.

Governance considerations are material to EAA's rating. The governance framework is intrinsically intertwined with the supporting government, which exerts strong oversight and ultimately takes key decisions.

Further details are provided in the Detailed credit considerations section. Our approach to ESG is explained in our cross-sector rating methodology General Principles for Assessing ESG Risks.

Rating methodology

We consider EAA a government-related issuer. From a credit risk profile perspective, it is not relevant to distinguish between the entity and NRW, its main guarantor. EAA's rating is derived from the credit strength of NRW, its support provider, as described in our rating methodology for Government-Related Issuers, published in February 2020. For rating guaranteed debt, we also apply the rating methodology for Credit Substitution, Rating Transactions Based on the Credit Substitution Approach: Letter of Credit-backed, Insured and Guaranteed Debts, published in May 2017.

Ratings

Exhibit 2

Category	Moody's Rating
ERSTE ABWICKLUNGSANSTALT	
Outlook	Stable
Issuer Rating -Dom Curr	Aa1
Senior Unsecured	Aa1
Commercial Paper -Dom Curr	P-1
Other Short Term	(P)P-1
EAA COVERED BOND BANK PLC	
Outlook	Stable
Bkd Bank Deposits	Aa1/P-1

Source: Moody's Investors Service

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