FitchRatings

Banks
Other Banks
Germany

Erste Abwicklungsanstalt

Ratings

Foreign Currency

Long-Term IDR	AAA
Short-Term IDR	F1+
Derivative Counterparty Rating	AAA(dcr)
Support Rating	1

Sovereign Risk

Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Fitch Affirms Erste Abwicklungsanstalt at 'AAA'/Stable (November 2021)

Fitch Affirms 11 German Laender at 'AAA'; Outlook Stable (April 2021)

Analysts

Markus Glabach
+49 69 768076 195
markus.glabach@fitchratings.com

Patrick Rioual
+49 69 768076 123
patrick.rioual@fitchratings.com

Key Rating Drivers

Support-Driven IDRs: Erste Abwicklungsanstalt's (EAA) Issuer Default Ratings (IDRs) reflect Fitch Ratings' view of an extremely high likelihood of support from its public owners, primarily the German regional State of North Rhine-Westphalia (NRW; AAA/Stable/F1+) and the Federal Agency for Financial Market Stabilisation (FMSA), an institution legally and operationally supervised by Germany's Ministry of Finance. The statutory loss-absorption obligations stipulated in EAA's statutes underpin the agency's view of support.

Main Minority Owner is NRW: NRW holds the largest stake in EAA (48.2%). The other owners are the regional savings banks associations of Westphalia-Lippe and Rhineland (25% each) and the local public authorities of Westphalia-Lippe and Rhineland (0.9% each). All shareholders and the FMSA are, to varying degrees, liable for timely compensation of EAA's losses based on several thresholds according to a scheme laid down in EAA's statutes.

Loss-Absorption Obligation: EAA's statutes outline the liability cascade for the owners, which defines the individual guarantors' contributions for predefined loss thresholds. NRW and FSMA share unlimited liability for losses above a cap of EUR9.5 billion. Based on this support mechanism, we equalise EAA's ratings with those of NRW, and therefore of Germany, as the solidarity system links the German federal states' creditworthiness to that of Germany (AAA/Stable/F1+), which underpins NRW's rating.

Wind-Down Mandate: The propensity of EAA's owners to support EAA in a timely manner is very high. We believe that a default of EAA would imply a default of the owners under the support framework laid down in EAA statutes. We do not assign a Viability Rating to EAA due to its business model, which is limited to winding down legacy assets and relies on state support.

Earnings Eroded by Wind-Down Costs: EAA became loss-making in 2019 and reported a loss of EUR2 million in 2020. As the wind-down of earning assets progresses, EAA's operating income will be increasingly insufficient to cover its administrative expenses until the planned completion of the wind-down in 2027. Nevertheless, the management expects EAA's equity to remain positive until the end of the wind-down process. EAA's 1H21 performance benefited from a one-off gain by the liquidation of its Irish subsidiary Erste EAA Ireland plc.

Stable Access to Capital Markets: The public stakeholders' support obligation facilitates EAA's stable access to low-cost funding, which is a cornerstone of its business model as it helps to mitigate wind-down losses. EAA's purely wholesale funding comprises bonds and commercial papers placed with institutional investors. Banks investing in its debt benefit from 0% risk-weighting and Level 1 treatment for their liquidity coverage ratios due to EAA's public support.

Rating Sensitivities

NRW's IDRs; Support Mechanisms: EAA's ratings are primarily sensitive to changes in NRW's ratings. A downgrade of NRW's IDRs would trigger a downgrade of EAA's IDRs, Derivative Counterparty Rating (DCR) and debt ratings. EAA's ratings (including its Support Rating) are also sensitive to Fitch's assumptions around NRW's propensity to support or any change of EAA's legal status, although we view a weakening in support as highly unlikely.

Debt Rating Classes

Rating Level	Rating
Senior unsecured debt	AAA/F1+

Source: Fitch Ratings

EAA's DCR and senior unsecured debt ratings are aligned with and subject to the same sensitivities as the IDRs. We do not expect any changes to the nature of the support arrangements and do not believe EAA's senior debt could become subject to bail-in measures.

Significant Changes

Owners' Loss-Absorption Mechanism Mitigates Litigation Risk

EAA was established at end-2009 to wind down in a value-preserving manner a large portfolio of the former Landesbank WestLB. In 2012, Portigon AG, WestLB's legal successor since July 2012, transferred additional assets to EAA.

In 2020, Portigon received several amended assessments from the tax authorities in connection with dividend arbitrage transactions ('cumex') performed by WestLB from 2005 to 2011. The resulting additional tax payments triggered a net loss of EUR0.6 billion at Portigon, which more than halved its share capital. In 1H21, Portigon took legal action against EAA to obtain compensation for the additional tax payments. Portigon argues that, based on transfer agreements concluded in 2012 by EAA's liable stakeholders, EAA would be liable for the cumex transactions. EAA has assessed the claim, helped by external legal opinions, and considers it to be unfounded. Therefore, EAA has not made any provisions related to Portigon's claim so far.

In September 2021, the Regional Court of Frankfurt ordered EAA to pay to Portigon about EUR1 billion. EAA is convinced that there is no legal basis for such a claim. and will appeal against the ruling. A final ruling seems highly unlikely in the short term and the financial impact for EAA cannot be reliably estimated at this stage. However, we believe EAA's equity (both paid-in and undrawn), in combination with its stakeholders' loss absorption mechanism, could adequately cover related litigation or compensation costs potentially arising at EAA.

Brief Company Summary and Key Qualitative Assessments

Wind-Down Mandate Defines Business Model

The European Commission ordered WestLB's liquidation in 2009 following multiple support measures from its public sector owners before and during the 2008 global financial crisis. EAA's creation aimed to prevent the market disruption that a disorderly collapse of the relatively large and interconnected WestLB could have triggered.

EAA has been modestly profitable until 2018, but became loss-making in 3Q19. Its shrinking asset base and revenue no longer generate sufficient income at this advanced stage of its wind-down to cover its operating cost base, which is neither fully variable nor scalable. EAA envisages accelerating and completing its wind-down before 2027 to mitigate losses by countering the rising cost pressure. We view this as realistic given EAA's good run-off progress. EAA expects to complete its wind-down without drawing on its stakeholders' loss-absorption commitments. In the absence of unexpectedly adverse market developments, we view this as feasible.

EU Bank Regulation Does Not Affect Support; No New Business Origination

As a wind-down institution, EAA is not a bank pursuant to the German Banking Act. It can conduct banking activities if they serve its wind-down purpose, but it is not allowed to originate new business. We do not expect any changes to the nature of the support arrangements and do not believe EAA's senior debt could become subject to bail-in measures.

Adequate Corporate Governance; No Regulatory Capital Requirements

EAA prepares comprehensive quarterly financial reports based on German GAAP. The FMSA monitors the execution of its wind-down plan, and the federal and NRW regional audit courts monitor its commercial and budgetary performance. The German regulators supervise EAA to the limited extent that local banking regulation is applicable.

EAA adheres to most regulatory requirements on the risk management of financial institutions. It includes its subsidiaries in its wind-down plan and risk reporting, although it is exempt from the obligation to prepare consolidated financial statements. EAA's management has a proven record of managing a complex portfolio diversified by region, sector, counterparty and structure, including riskier assets that require restructuring.

EAA is not subject to regulatory capital requirements. It is also excluded from the scope of the Bank Recovery and Resolution Directive based on an independent assessment. This enables EAA to operate with a very thin equity base. It does not disclose its risk-weighted assets, leverage and risk-weighted capital ratios as it is not obliged to do so.

Summary Financials and Key Ratios

	30 Jun 21 (EURm)	31 Dec 20 (EURm)	31 Dec 19 (EURm)	31 Dec 18 (EURm)
Summary income statement				
Net interest and dividend income	23	63	77	109
Net fees and commissions	-9	-18	-18	-18
Other operating income	3	51	57	76
Operating costs	54	149	167	167
Pre-impairment operating profit	-37	-53	-51	0
Loan and other impairment charges	-72	-51	-49	-5
Net income	35	-2	-3	3
Summary balance sheet				
Gross loans	6,216	7,173	8,292	9,305
Interbank	2,935	3,188	5,662	6,023
Derivatives	9,222	11,859	15,393	14,561
Other securities and earning assets	5,210	6,379	6,464	8,280
Total earning assets	23,582	28,599	35,811	38,169
Cash and due from banks	5,722	3,451	1,769	1,401
Total assets	**29,350**	**32,135**	**37,784**	**39,647**
Customer deposits	1,622	1,720	1,953	2,527
Interbank and other short-term funding	9,257	9,633	11,319	11,272
Other long-term funding	9,172	8,328	8,666	10,742
Trading liabilities and derivatives	8,392	11,351	15,045	14,324
Total funding	28,443	31,032	36,983	38,865
Other liabilities	220	450	145	124
Total equity	688	654	656	658
Total liabilities and equity	**29,350**	**32,135**	**37,784**	**39,647**
Ratios (annualised as appropriate)				
Net interest income/average earning assets	**0.2**	0.2	0.2	0.3
Non-interest expense/gross revenue	**312.7**	276.1	149.1	103.3
Net income/average equity	**10.3**	-0.3	-0.4	0.4
Growth in gross loans	**-13.3**	-13.5	-10.9	-15.3
Loan impairment charges/average gross loans	**-0.6**	-0.4	-0.6	-0.1
Tangible common equity/tangible assets	**2.3**	2.0	1.7	1.7
Loans/customer deposits	**383.3**	417.0	424.6	368.3
Customer deposits/funding	8.1	8.7	8.9	10.3

Sources: Fitch Solutions, Fitch Ratings, EAA

Key Financial Metrics - Latest Developments

At end-1H21, EAA's banking and trading book exposures had declined by 10% and 13%, respectively since end-2020 and by 91% and 92%, since its peak of above EUR120 billion at the beginning of 2012. Total assets were EUR29 billion at end-1H21. Derivatives (primarily interest rate derivatives) remain the largest items on the balance sheet. EAA's banking book exposure also includes structured notes dominated by high-risk US mortgage loans. EAA had reduced these notes to EUR3.2 billion at end-1H21 from originally EUR23 billion.

Institutional Support Assessment

Support Factors (negative)	Equalised	1 Notch	2+ Notches
Parent ability to support and subsidiary ability to use support			
01 Parent/group regulation	✓		
02 Relative size		✓	
03 Country risks	✓		
Parent Propensity to Support			
01 Role in group			✓
02 Potential for disposal	✓		
03 Implication of subsidiary default	✓		
04 Integration	✓		
05 Size of ownership stake		✓	
06 Support track record	✓		
07 Subsidiary performance and prospects			✓
08 Branding			✓
09 Legal commitments	✓		
10 Cross-default clauses			✓

Loss-Absorption Obligation of Owners and FMSA

EAA must request loss compensation from its liable stakeholders within a reasonable time prior to an imminent insolvency. The stakeholders' loss compensation is triggered if these losses are likely to deplete EAA's paid-in equity (EUR688 million at end-1H21) and undrawn capital (EUR480 million). The loss absorption must ensure EAA's ability to honour its liabilities on first demand. A deficiency guarantee of NRW caps and covers the other owners' obligations. These loss-absorption commitments have never been drawn upon since EAA was set up.

Loss-Absorption Cascade

	Loss (EURm)
First loss up to EUR850 million is carried by: • NRW: 48.2% • Savings banks associations Westphalia-Lippe and Rhineland: each 25.0% • Local authorities of Westphalia-Lippe and Rhineland: each 0.9%	0 ⇩ 850
Second loss up to further EUR2,670 million is carried by: • NRW: 36.1% • Savings banks associations Westphalia-Lippe and Rhineland: each 18.7% • Local authorities of Westphalia-Lippe and Rhineland: each 0.7% • FMSA: 25.1%	851 ⇩ 3,520
Third loss up to further EUR6,000 million is carried by: • NRW: 50.0% • Savings banks associations Westphalia-Lippe and Rhineland: each 25%	3,521 ⇩ 9,520
Any loss above EUR9,520 million carried by: • NRW: 50.0% • NRW and FMSA: 50% (in proportions agreed by NRW and FMSA)	9,521 ⇩ Unlimited

Source: Fitch Ratings, Fitch Solutions, EAA

Environmental, Social and Governance Considerations

EAA's highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact, either due to their nature of the way in which they are being managed by the bank.

Erste Abwicklungsanstalt

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Credit-Relevant ESG Derivation				Overall ESG Scale
Erste Abwicklungsanstalt has 5 ESG potential rating drivers	key driver	0	issues	5
Erste Abwicklungsanstalt has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.	driver	0	issues	4
Governance is minimally relevant to the rating and is not currently a driver.	potential driver	5	issues	3
	not a rating driver	4	issues	2
		5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2021 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.