

# Erste Abwicklungsanstalt

## Update

### Key Rating Drivers

**Support Drives 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 our view of support.

**NRW Is Main Minority Owner:** 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 FMSA share unlimited liability for losses above a threshold 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+), and this 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's 2021 performance benefitted from a one-off gain by the liquidation of its Irish subsidiary Erste EAA Ireland plc. However, 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. Fitch believes that EAA uses some flexibility to balance releases from undisclosed reserves (section 340f German GAAP) with losses from its wind-down activities to calibrate its net income.

**Loss-Absorption Obligation Still Unused:** Despite decreasing revenue, EAA expects positive equity until its wind-down is completed. Absent unexpected adverse market developments, we view this as feasible. The liable stakeholders' loss-compensation obligation would be triggered if EAA incurs losses likely to deplete its paid-in equity (end-2021: EUR655 million) and undrawn capital (EUR480 million). These loss-absorption commitments have never been drawn upon.

**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:** A downgrade of NRW's IDRs would trigger a downgrade of EAA's IDRs, Derivative Counterparty Rating (DCR) and debt ratings.

**Support Mechanisms:** 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 of the support as highly unlikely.

### 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 \(November 2021\)](#)

### Related Research

[Fitch Affirms Erste Abwicklungsanstalt at 'AAA/Stable' \(October 2021\)](#)

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## 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

### No Material Impact of Pandemic on EAA's Wind-Down

In 2021, the pandemic had only a marginal impact on EAA's wind-down. At end-2021, EAA's banking and trading book exposures had declined by 17% and 31%, respectively, since end-2020, and by 92% and 94% since the peak of above EUR120 billion in 2012. Derivatives (primarily interest-rate derivatives) remain the largest items on the balance sheet. EAA's banking book also includes structured notes dominated by high-risk US mortgage loans. EAA had reduced these notes to EUR3.1 billion at end-2021 from EUR23 billion originally.

## Summary Financials and Key Ratios

	31 Dec 21		31 Dec 20	31 Dec 19	31 Dec 18
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Audited - unqualified	Audited - unqualified	Audited - Unqualified	Audited - unqualified	Audited - unqualified
<b>Summary income statement</b>					
Net interest and dividend income	50	44	63	77	109
Net fees and commissions	-21	-19	-18	-18	-18
Other operating income	34	30	51	57	76
Total operating income	62	55	96	116	167
Operating costs	125	111	149	167	167
Pre-impairment operating profit	-63	-56	-53	-51	0
Loan and other impairment charges	-65	-58	-51	-49	-5
Operating profit	2	2	-2	-2	4
Net income	2	2	-2	-3	3
<b>Summary balance sheet</b>					
<b>Assets</b>					
Gross loans	6,747	5,965	7,173	8,292	9,305
Interbank	2,479	2,192	3,188	5,662	6,023
Derivatives	7,729	6,834	11,859	15,393	14,561
Other securities and earning assets	5,669	5,013	6,379	6,464	8,280
Total earning assets	22,624	20,004	28,599	35,811	38,169
Cash and due from banks	4,212	3,725	3,451	1,769	1,401
Other assets	443	392	85	204	77
Total assets	27,280	24,120	32,135	37,784	39,647
<b>Liabilities</b>					
Customer deposits	1,586	1,403	1,720	1,953	2,527
Interbank and other short-term funding	8,125	7,184	9,633	11,319	11,272
Other long-term funding	9,552	8,445	8,328	8,666	10,742
Trading liabilities and derivatives	7,123	6,298	11,351	15,045	14,324
Total funding and derivatives	26,385	23,329	31,032	36,983	38,865
Other liabilities	154	136	450	145	124
Total equity	741	655	654	656	658
Total liabilities and equity	27,280	24,120	32,135	37,784	39,647
Exchange rate		USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015	USD1 = EUR0.873057

Source: Fitch Ratings, Fitch Solutions, EAA

**Summary Financials and Key Ratios**

	31 Dec 21	31 Dec 20	31 Dec 19	31 Dec 18
<b>Ratios (annualised as appropriate)</b>				
<b>Profitability</b>				
Net interest income/average earning assets	0.2	0.2	0.2	0.3
Non-interest expense/gross revenue	202.0	276.1	149.1	103.3
Net income/average equity	0.3	-0.3	-0.4	0.4
<b>Asset quality</b>				
Growth in gross loans	-16.8	-13.5	-10.9	-15.3
Loan impairment charges/average gross loans	-0.1	-0.4	-0.6	-0.1
<b>Capitalisation</b>				
Tangible common equity/tangible assets	2.7	2.0	1.7	1.7
<b>Funding and liquidity</b>				
Gross loans/customer deposits	425.3	417.0	424.6	368.3
Customer deposits/total non-equity funding	8.2	8.7	8.9	10.3

Source: Fitch Ratings, Fitch Solutions, EAA

## Institutional Support Assessment

### Loss-Absorption Obligation of Owners and FMSEA

EAA must request loss compensation from its liable stakeholders within a reasonable time prior to an imminent insolvency. The loss absorption must ensure EAA's ability to honour its liabilities on first demand. NRW's deficiency guarantee covers the other liable stakeholders' obligations, which are capped.

Bar Chart Legend	
<span style="color: red;">█</span>	Higher influence
<span style="color: blue;">█</span>	Moderate influence
<span style="color: lightblue;">█</span>	Lower influence

Support Factors (negative)	Equalised	1 Notch	2+ Notches
<b>Parent ability to support and subsidiary ability to use support</b>			
01 Parent/group regulation	✓		
02 Relative size		✓	
03 Country risks	✓		
<b>Parent Propensity to Support</b>			
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			✓

## 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. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

### FitchRatings Erste Abwicklungsanstalt

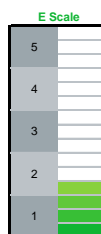
### Banks Ratings Navigator

#### Credit-Relevant ESG Derivation

Erste Abwicklungsanstalt has 5 ESG potential rating drivers				<b>Overall ESG Scale</b>	
➔ 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.	key driver	0	issues	5	
➔ Governance is minimally relevant to the rating and is not currently a driver.	driver	0	issues	4	
	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
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
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



**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.

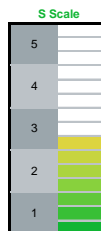
**The Credit-Relevant ESG Derivation table** shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the 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.

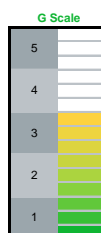
#### Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
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
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
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
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



#### Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
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
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy



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.

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