FitchRatings

Banks
Other Banks
Germany

Erste Abwicklungsanstalt

Ratings

Foreign Currency

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

Sovereign Risk (Germany)

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

Key Rating Drivers

Support Drives IDRs: Erste Abwicklungsanstalt's (EAA) Issuer Default Ratings (IDRs), reflect Fitch Ratings' view that support from EAA's owners would be extremely likely, in particular from the federal State of North Rhine-Westphalia (NRW; AAA/Stable/F1+), and the German Federal Agency for Financial Market Stabilisation (FMSA), based on the support mechanism outlined in EAA's statutes. EAA's statutes include statutory loss-absorption obligations, which underpin the agency's view of support.

Loss Absorption Obligation by Owners: NRW and FSMA share unlimited liability for losses above a cap of EUR9.5 billion. NRW also provides a deficiency guarantee, if the other owners are unable to meet their liabilities in relation to EAA. 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.

Main Minority Owner Is NRW: NRW holds the largest stake in EAA at 48.2%. The remaining share is divided between two regional savings banks associations in NRW (25% each) and two regional authorities in NRW (0.9% each). However, the ultimate liability lies with NRW and FMSA. All stakeholders and the FMSA are liable for the timely compensation of EAA's losses to varying degrees, based on several thresholds and as outlined in the support scheme in EAA's statutes.

Wind-Down Mandate: EAA's ratings are based on our view that the owners' propensity to support EAA and, therefore, to meet their obligations in a timely manner, is very high. We believe that a default of EAA would imply a default of the owners under the loss-absorption guarantee laid down in EAA's statutes. We do not assign a Viability Rating to EAA because its wind-down business model would not be viable without external support. In our view, this prevents a meaningful assessment of its standalone creditworthiness.

Continued Progress in Wind-Down Portfolio: At end-1H22, EAA's banking and trading book exposures had declined by 5% and 8%, respectively, since end-2021, and by 92% and 94% since its peak at the beginning of 2012. Total assets were EUR25.8 billion at end-1H22.

Wind-Down Costs Erode Earnings: EAA has reported losses since 3Q19, except for 2021 when its performance benefitted from the liquidation of its Irish subsidiary Erste EAA Ireland plc., leading to a profit of EUR1.7 million. In 1H22, EAA again reported a loss of EUR1.1 million.

As the wind-down of earning assets progresses, EAA's operating income will be increasingly insufficient to cover its administrative expenses. This will also not be fully compensated by favourable funding terms based on the public owner's support obligation. Nevertheless, the bank's management expect EAA's equity to remain positive until 2027.

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

'Fitch Affirms Erste Abwicklungsanstalt at 'AAA'; Outlook Stable' (October 2022)

'Fitch Affirms 11 German Laender at 'AAA'; Outlook Stable' (October 2022)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

EAA's ratings are primarily sensitive to adverse changes to NRW's and Germany's ratings or to EAA's support mechanism.

A downgrade of NRW or Germany's IDRs would trigger a downgrade of EAA's IDRs and debt ratings.

EAA's ratings (including the SSR) are also sensitive to Fitch's assumptions around NRW's propensity to provide support, or to adverse changes to EAA's legal status, although Fitch views a weakening of the support mechanisms backed by NRW as highly unlikely.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

EAA's ratings are at the highest levels on Fitch's rating scale and therefore cannot be upgraded.

Other Debt and Issuer Ratings

Rating level	Rating
Senior unsecured: Long-term	AAA
Senior unsecured: Short-term	F1+

Source: Fitch Ratings

Derivative Counterparty Rating (DCR)

EAA's DCR is aligned with its IDRs. EAA's senior debt could not become subject to bail-in measures, as it is not a bank pursuant to the German Banking Act. As a result, EAA's derivative counterparties do not benefit from the protection of junior loss-absorbing debt buffers that could warrant uplift of the DCR.

Significant Changes from Last Review

Operational Risks Still Manageable

The continued wind-down of its portfolios exposes EAA to operational risks. The process requires EAA to reduce administrative costs including personnel costs, while at the same time it needs to maintain the required expertise. As the organisation shrinks, it is likely to become more difficult to maintain the required specialist knowledge, which is in part mitigated through outsourcing. The EAA tendered four new contracts, which were awarded in September 2021 and at beginning of October 2021 to outsource portfolio services, financial data services (including IT platform services), compliance services as well as IT infrastructure and services. The contracts have a term of 14 years (including extension options) and the transition phase began in 4Q21, which will be completed by early 2023. EAA has also implemented a central function for an integrated service provider management system to manage and monitor these service relationships.

Company Summary and Key Qualitative Factors

Business Profile

Wind-Down Mandate Defines Business Model

EAA was established at end-2009 to wind down, in a value-preserving manner, a large portfolio from WestLB, a former German Landesbank. The European Commission ordered WestLB's liquidation 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 exit of the relatively large and interconnected WestLB could have triggered.

EAA's assets peaked above EUR120 billion at end-2012 after it received selected assets and grandfathered state-guaranteed liabilities of WestLB in several tranches from 2009 to 2012. Its public stakeholders' support obligation facilitates stable access to low-cost funding, which underpins EAA's business model, helping it to mitigate wind-down losses.

Shrinking Asset Base Undermines Earnings

EAA was modestly profitable until 2018 but has been loss-making since 2019, except for 2021 when extraordinary income resulting from the liquidation of its Irish subsidiary Erste EAA Ireland plc. led to a small profit. Its shrinking asset base, and associated revenue, no longer generates sufficient income at this advanced stage of its wind-down process to cover its operating cost base, which is neither fully variable nor scalable. EAA aims to complete its wind-down before 2027 to mitigate losses by countering the rising cost pressure, which we consider to be 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

As a wind-down institution, EAA is not a bank pursuant to the German Banking Act. It can conduct banking activities if these serve its wind-down objective, 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.

Risk Profile

No Regulatory Capital Requirements; Adequate Corporate Governance

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.

In addition to its annual accounts, 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 regulatory authorities supervise EAA to the limited extent that local banking regulation is applicable.

Key Financial Metrics - Latest Developments

Exposure to Structured Notes Reduced

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 billion at end-1H22 from originally EUR23 billion.

Stable Access to Capital Markets

EAA's stable access to low-cost funding is facilitated by the public stakeholders' support obligation and 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.

Support Assessment

Shareholder Support	
Parent IDR	AAA
Total Adjustments (notches)	0
Shareholder Support Rating	aaa
Shareholder ability to support	
Shareholder Rating	AAA/ Stable
Shareholder regulation	Equalised
Relative size	Equalised
Country risks	Equalised
Shareholder propensity to support	
Role in group	2+ Notches
Reputational risk	Equalised
Integration	2+ Notches
Support record	Equalised
Subsidiary performance and prospects	2+ Notches
Legal commitments	Equalised

The colours indicate the weighting of each KRD in the assessment.

Higher influence Moderate influence Lower influence

Loss-Absorption Obligation of Owners

EAA's IDRs are based on support from its owners and FMSA that arises from their loss-absorption obligation. EAA's statutes outline the liability cascade and the individual guarantors' contributions for predefined loss thresholds.

EAA must request loss compensation from its liable stakeholders within a reasonable time prior to an imminent insolvency. The stakeholder's loss compensation is triggered if these losses are likely to deplete EAA's paid-in equity (EUR654 million at end-1H22) 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 owner's obligations. These loss-absorption commitments have never been drawn upon.

Loss-Absorption Cascade

	Loss (EURm)
First loss up to EUR850m 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 EUR2,670m 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 EUR6,000m is carried by: • NRW: 50.0% • Savings banks associations Westphalia-Lippe and Rhineland: each 25%	3,521 ⇩ 9,520
Any loss above EUR9,520m 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

FitchRatings **Erste Abwicklungsanstalt**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Erste Abwicklungsanstalt has 5 ESG potential rating drivers

- 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.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
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	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	Business Profile (incl. Management & governance); Risk Profile; 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	Business Profile (incl. Management & governance); Risk Profile	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; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	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	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	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	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	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.

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.

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.

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