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FMS Wertmanagement Anstalt des oeffentlichen Rechts

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FMS Wertmanagement Anstalt des oeffentlichen Rechts

Credit Highlights

Issuer Credit Rating
AAA/Stable/A-1+

Overview

Key strengths	Key risks
Almost certain likelihood of extraordinary support from the German government.	Business limitations as a nonbank workout entity.
Integral link to Germany and partial refinancing by German Finanzagentur.	Marginal internal capital generation capacity and reliance on government support to offset losses.
Critical public policy role for the workout of the Hypo Real Estate group' nonstrategic and nonperforming assets.	Holding of long-lasting and illiquid assets with shrinking capabilities to generate revenue.

We expect strong support from the German government. We strongly believe FMS Wertmanagement Anstalt des oeffentlichen Rechts' (FMSW's) current status as a government-related entity (GRE) will remain unchanged. We expect the German government would provide support to the agency under all foreseeable scenarios considering its integral link to the country and its critical role in maintaining financial stability.

The wind down will continue according to plan, as proven by the DEPFA Bank sale and continuous wind-down. The portfolio is wound down through natural amortization and sale activities. The overall portfolio reduced to €49.6 billion in 2022 from €175.7 billion in 2010.

We expect operational cost pressure. With the continuous portfolio wind down, we expect FMSW to further reduce its operational expenses, thereby maintaining its operational stability. With its "Project NEXT", FMSW plans to define its future operating model with the objective to reduce and diversify costs to ensure operational stability.

Outlook

The stable outlook over the next two years on German nonbank workout entity FMSW reflects that on Germany (unsolicited; AAA/Stable/A-1+). As a result, any rating action on Germany would prompt a similar rating action on FMSW. Any weakening in our assessment of FMSW's role for and link to Germany could cause us to take a negative rating action on the agency. However, we currently do not anticipate any adverse changes. We believe the likelihood of FMSW receiving support from Germany is almost certain and that the agency's current status as a GRE will remain unchanged, at least over the coming two years.

Rationale

We equalize our ratings on FMSW with those on its indirect owner and support provider, Germany. This reflects our opinion that there is an almost certain likelihood of timely and sufficient extraordinary government support to FMSW if needed. FMSW is a nonbank workout entity established in July 2010 under Germany's Financial Market Stabilization Fund Act.

Our view of government support is based on our assumptions of FMSW's:

- Critical role in facilitating the workout of the Hypo Real Estate group's nonstrategic and nonperforming assets, helping to ensure financial market stability in Germany, and bolstering confidence in the country's financial sector; and
- Integral link with the German government because of the agency's ownership structure and the existence of an explicit and credible state-support mechanism. FMSW operates essentially on behalf and at the risk of the government.

We do not doubt the German government's propensity to support FMSW. Furthermore, we believe the government has sufficient financial resources to do so, and we do not consider government support to be subject to transition risk.

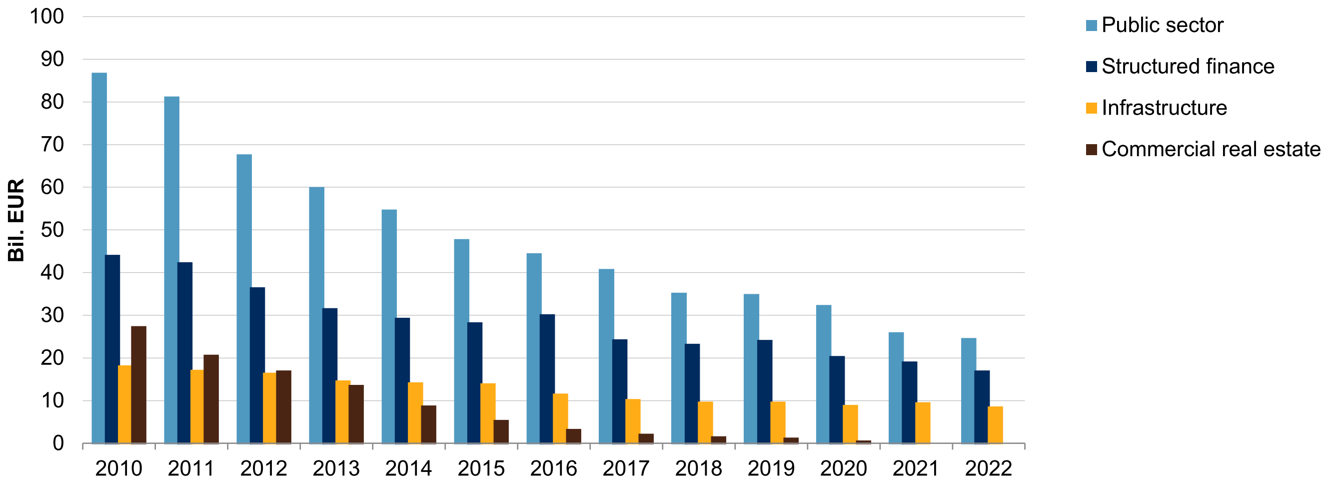
Should FMSW fail to honor its obligations on time, the German Financial Market Stabilization Fund (FMS) is liable for all missed payments. In turn, Germany's federal government is liable for all of FMS' obligations. This relationship strongly supports our assessment of an almost certain likelihood of government support for FMSW.

FMSW has a long-term mandate from the German government to manage the wind-down of former Hypo Real Estate assets. We expect FMSW's public policy role as a workout agency to continue until its task is complete. We do not expect FMSW's ownership status or the state-support mechanism to weaken.

By end-2022, FMSW reduced its portfolio to €49.6 billion (see chart 1). The portfolio wind down remains dominated by public-sector bonds with typically long-dated maturities. FMSW completed its wind-up of commercial real estate exposure, and the minimal balance exposure was transferred to the infrastructure segment. Due to FMSW's asset composition and the majority of its exposure being backed by sovereign or sovereign-related entities, we expect only a minor impact from rising inflation and the Russia-Ukraine conflict--similar to the fallout from the COVID-19 pandemic. However, increasingly adverse market conditions could slow the portfolio wind down.

Chart 1

Portfolio de-risking continues with most public sector debt remaining
FMS-Wertmanagement wind-up portfolio by size



Source: S&P Global Ratings.

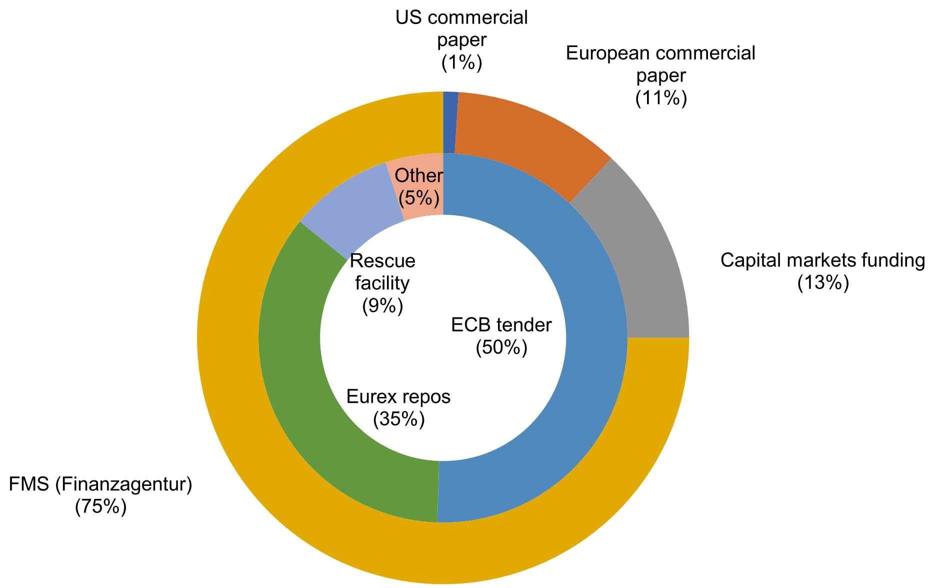
FMSW continues to post lower profitability, with net income of €50 million in 2022, following €44 million in 2021. FMSW could profit from increased interest rates and lower refinancing costs from FMS, but would likely use this to pay increased administrative costs on IT transition and higher provisions. Still, low-yielding assets, long-dated maturities, the illiquid nature of exposures, and a high percentage of inflation-linked assets make FMSW's performance very sensitive to event risks. Medium-term risks persist around the level of public sector debt and the viability of publicly guaranteed institutions.

Although we expect FMSW to post marginally positive results over the coming years, offsetting high fixed costs with its reducing net interest, commission income will remain management's main challenge. Internal capital accumulation remains negligible in relation to FMSW's size and risk profile, and administrative costs will most likely decrease slower than in previous years.

FMSW currently obtains up to €60 billion of long-term euro-denominated financing directly from Finanzagentur GmbH (the German Finance Agency). We see this as beneficial to FMSW's funding cost structure and funding mix.

Chart 2

FMSW increasingly benefits from direct government funding by Finanzagentur
Comparison of 2010 refinancing structure (inner circle) and 2022 (outer circle)



Source: S&P Global Ratings.

At the same time, we understand FMSW successfully continues to refinance its operations via its own money and capital market refinancing programs--for example commercial paper programs--focusing on the euro, U.S. dollar, and pound sterling.

Key Statistics

Table 1

FMS Wertmanagement Anstalt des oeffentlichen Rechts--Key figures

	--Year-ended Dec. 31--			
(Mil. €)	**2022**	**2021**	**2020**	**2019**
Adjusted assets	98,963.7	124,291.9	145,794.3	146,489.4
Customer loans (gross)	14,636.2	10,713.1	14,195.0	15,730.8
Adjusted common equity	1,867.7	1,817.3	1,773.6	1,751.0
Operating revenues	389.2	353.5	419.8	379.8
Noninterest expenses	130.6	135.2	140.8	149.1
Core earnings	50.4	43.8	22.4	236.1

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Germany 'AAA/A-1+' Ratings Affirmed; Outlook Stable, March 24, 2023

Ratings Detail (As Of August 10, 2023)*	
FMS Wertmanagement Anstalt des oeffentlichen Rechts	
Issuer Credit Rating	AAA/Stable/A-1+
Commercial Paper	A-1+
Issuer Credit Ratings History	
25-Jan-2012	AAA/Stable/A-1+
08-Dec-2011	AAA/Watch Neg/A-1+
22-Sep-2010	AAA/Stable/A-1+
Sovereign Rating	
Germany	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.