

# Hamburgische Investitions- und Foerderbank

Update

## Key Rating Drivers

**Owner Support Drives Ratings:** Hamburgische Investitions- und Foerderbank's (IFB Hamburg) ratings are based on support from its owner, the State of Hamburg (AAA/Stable/F1+). Hamburg explicitly guarantees the bank's liabilities and provides a statutory guarantor's liability (Gewaehrtraegerhaftung) and a maintenance obligation (Anstaltslast), which ensures the bank's continuation as an economic entity. Unlike its German development bank peers, the bank benefits from a full statutory loss absorption from Hamburg that offsets any annual loss.

**Outlook Reflects Long-Term Support:** These support mechanisms enable IFB Hamburg to fulfil its mandate without restrictions, driving the bank's Shareholder Support Rating (SSR) of 'aaa'. Support from the Federal Republic of Germany (AAA/Stable/F1+) underpins Hamburg's creditworthiness via the German federal solidarity system. The Stable Outlook on the bank's Long-Term Issuer Default Rating (IDR) reflects Fitch Ratings' view that Hamburg's support propensity is unlikely to change due to IFB Hamburg's strategic role for the regional economy.

**Public-Law Regional Development Bank:** IFB Hamburg's primary mandate is to support Hamburg's economic, environmental, social and business development and innovation with loans, subsidies and guarantees to smaller enterprises and start-ups. It lends mostly to social, affordable and energy-efficient real estate projects. It also performs special tasks for Hamburg, and, to a smaller extent, participates in projects initiated by European development institutions.

**Support Compliant with EU Rules:** Like those of its peers, IFB Hamburg's business model complies with EU state-aid rules as it exclusively undertakes non-competitive activities. A state guarantee framework agreed in 2002 by Germany and the European Commission allows German public development banks to receive state support.

**Insolvency Remote by Law:** IFB Hamburg is exempt from the Capital Requirement Regulation (CRR), the Single Resolution Mechanism, the Recovery and Resolution Act and the Restructuring Fund Act. This releases the bank from the obligation to draw up recovery plans. It is not subject to the German Deposit Guarantee Act.

**Guarantee Facilitates Market Funding:** Banks and insurance companies investing in IFB Hamburg's debt benefit from 0% regulatory risk weights and Level 1 treatment for their liquidity coverage ratio. This reflects Hamburg's guarantee and provides the bank with reliable access to the debt markets.

## Rating Sensitivities

**Downgrade Sensitivities:** A downgrade of Hamburg's IDRs would trigger a downgrade of IFB Hamburg's IDRs and senior debt ratings. IFB Hamburg's ratings are also sensitive to changes in Fitch's assumptions about Hamburg's propensity to support. This could result from a weakening of the terms of the guarantee.

**Upgrade Sensitivities:** IFB Hamburg's ratings are at the highest level on Fitch's rating scale and therefore cannot be upgraded.

## Ratings

### Foreign Currency

Long-Term IDR	AAA
Short-Term IDR	F1+

Shareholder Support Rating	aaa
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### 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

[Hamburgische Investitions- und Foerderbank \(February 2022\)](#)

[Fitch Affirms Hamburgische Investitions- und Foerderbank at 'AAA'; Outlook Stable \(February 2022\)](#)

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## Debt Rating Classes

Rating level	Rating
Senior Unsecured (Long-Term)	AAA

Source: Fitch Ratings Hamburg

IFB Hamburg's long-term senior unsecured debt rating is aligned with its Long-Term IDR, which is at the highest possible level.

## Significant Changes

### Limited Vulnerability to Deteriorating Environment

IFB Hamburg's business is regional and finances mainly social housing projects in Hamburg and provides promotional services for corporates, local municipalities and households. It is thus not directly exposed to Russia or Ukraine. Nevertheless, its promotional activities are linked to factors that affect the dynamics of the national and regional economy. In cooperation with KfW, the sovereign's development institution, IFB Hamburg is currently reviewing support programmes to mitigate the impact of second-round effects of the Ukrainian war on the economy, particularly high gas and energy prices.

We expect the operating environment for German banks to deteriorate as lockdowns in China and the war in Ukraine hinder the post-pandemic economic recovery and affect business and consumer confidence and credit volumes by exacerbating supply-chain disruptions, energy price inflation and raw material shortages.

### German Growth Forecast Lowered

Fitch expects German GDP growth to be slower than Fitch had previously expected. As Russian natural gas accounts for 19% of Germany's total primary energy consumption, the German industry remains exposed to gas supply and price volatility. The latest wage agreements in 1Q22 foresee a 4.4% annual wage increase, and a minimum wage increase is planned in 4Q22. Fitch expects a headline inflation of 5.6% to end-2022, which will squeeze household income and consumer spending.

### Hamburg's Economy Underperformed Germany

Hamburg's real GDP grew by 2.0% in 2021 (-6.7% in 2020), slightly weaker than the nationwide GDP growth of 2.9%. The lag behind the nationwide average is primarily due to a weaker manufacturing sector. Nevertheless, the number of insolvencies in Hamburg remained low given the size of national and regional pandemic support measures.

### Pandemic Relief Dominates Support

IFB Hamburg's support to corporates, SMEs and households remained substantial in 2021. The bank paid out EUR2.3 billion grants in conjunction with the pandemic (including national support) in 2021 and more than EUR0.4 billion to end-1H22, accumulating to a total EUR3.4 billion since March 2020. IFB Hamburg's core promotional lending business moderately declined to EUR639 million in 2021. We expect some reversal as most of the pandemic support programmes are being phased out in 2H22.

Hamburg's housing sector remained resilient reflecting the scarcity of social housing stock despite rising interest rates, high inflation and lower affordability. Incoming orders for housing construction rose sharply in 1Q22, but IFB Hamburg expects some cooling down later in 2022.

### High Liquidity and Moderate Funding

Like most development bank peers, IFB Hamburg participated in 2021 in the ECB's targeted longer-term refinancing operations (TLTRO), which boosted its liquidity coverage ratio. IFB Hamburg's issuance volume of unsecured bonds was moderate, totalling EUR60 million, and within its targeted range.

## Summary Financials and Key Ratios

	31 Dec 21 (EURm)	31 Dec 20 (EURm)	31 Dec 19 (EURm)	31 Dec 18 (EURm)
<b>Summary income statement</b>				
Net interest and dividend income	56.5	56.9	36.2	50.2
Net fees and commissions	-0.3	0.9	1.3	2.4
Other operating income	51.1	20.8	5.7	4.9
Total operating income	107.3	78.6	43.2	57.5
Operating costs	77.0	41.9	32.1	30.9
Pre-impairment operating profit	30.3	36.7	11.1	26.6
Loan and other impairment charges	8.1	12.6	3.4	6.6
Operating profit	22.2	24.1	7.7	20.0
Other non-operating items (net)	-21.5	-23.5	-7.1	-19.3
Net income	0.7	0.6	0.6	0.7
<b>Summary balance sheet</b>				
<b>Assets</b>				
Gross loans	5,356.1	5,184.5	4,994.5	4,854.7
Loan loss allowances	9.4	9.6	9.1	10.6
Net loans	5,346.7	5,174.9	4,985.4	4,844.1
Interbank	234.9	226.1	236.8	207.0
Other securities and earning assets	577.9	470.4	322.8	266.2
Total earning assets	6,159.5	5,871.4	5,545.0	5,317.3
Cash and due from banks	0.3	0.0	6.1	0.0
Other assets	122.5	114.7	40.0	28.8
Total assets	6,282.3	5,986.1	5,591.1	5,346.1
<b>Liabilities</b>				
Customer deposits	239.2	244.0	343.6	273.8
Interbank and other short-term funding	3,072.5	2,905.2	2,723.7	2,759.7
Other long-term funding	1,854.5	1,794.4	1,554.4	1,354.5
Total funding and derivatives	5,166.2	4,943.6	4,621.7	4,388.0
Other liabilities	296.9	224.0	151.5	140.8
Total equity	819.2	818.5	817.9	817.3
Total liabilities and equity	6,282.3	5,986.1	5,591.1	5,346.1

Source: Fitch Ratings, Fitch Solutions, IFB Hamburg

## 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>				
Operating profit/risk-weighted assets	0.7	0.7	0.2	0.6
Net interest income/average earning assets	0.9	1.0	0.7	1.0
Non-interest expense/gross revenue	71.8	53.3	74.3	53.7
Net income/average equity	0.1	0.1	0.1	0.1
<b>Asset quality</b>				
Impaired loans ratio	n.a.	n.a.	0.2	0.4
Growth in gross loans	3.3	3.8	2.9	6.7
Loan loss allowances/impaired loans	n.a.	n.a.	119.7	52.7
Loan impairment charges/average gross loans	0.2	0.3	0.1	0.2
<b>Capitalisation</b>				
Common equity Tier 1 ratio	26.4	23.1	23.4	23.5
Tangible common equity/tangible assets	13.0	13.7	14.6	15.3
Basel leverage ratio	n.a.	n.a.	13.9	14.5
Net impaired loans/common equity Tier 1	n.a.	n.a.	-0.2	1.2
<b>Funding and liquidity</b>				
Gross loans/customer deposits	2,239.2	2,124.8	1,453.6	1,773.1
Liquidity coverage ratio	970	320.	237	150
Customer deposits/total non-equity funding	4.6	4.9	7.4	6.2
Net stable funding ratio	120.6	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, IFB Hamburg

## Shareholder Support

The strong statutory support mechanisms and IFB Hamburg’s important strategic role for Hamburg’s economy have a high influence on the bank’s SSR and drive the alignment of its IDRs with those of Hamburg.

### Shareholder Support

Shareholder 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	Equalised
Reputational risk	Equalised
Integration	Equalised
Support record	Equalised
Subsidiary performance and prospects	Equalised
Legal commitments	Equalised

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

■ Higher influence ■ Moderate influence ■ Lower influence

Environmental, Social and Governance Considerations

Credit-Relevant ESG Derivation

Hamburgische Investitions- und Foerderbank has 5 ESG potential rating drivers

- Hamburgische Investitions- und Foerderbank 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.

Driver	Score	Issues	Overall ESG Score
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

**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.

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

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.

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

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.

Unless otherwise disclosed in this section, the 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 on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

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