Banks
Development Banks
Germany

Hamburgische Investitions- und Foerderbank

Update

Key Rating Drivers

Hamburg's Support Drives Ratings: The Issuer Default Ratings (IDRs) of Hamburgische Investitions- und Foerderbank (IFB Hamburg) are based on support from its owner, the State of Hamburg (AAA/Stable/F1+). Hamburg's explicit and direct funding guarantee and statutory guarantor's liability (Gewaehtraegerhaftung) fully cover the bank's liabilities. Hamburg's maintenance obligation (Anstaltslast) ensures the bank's economic viability. Germany's (AAA/ Stable/F1+) support underpins Hamburg's IDRs through the German federal solidarity system.

Statutory Loss Absorption: Similar to the other German development banks, IFB Hamburg does not seek to maximise profit but, unlike its peers, it is covered by Hamburg's statutory loss absorption obligation. This prevents annual losses and protects its capitalisation from unexpected losses. In addition, Hamburg contractually compensates IFB Hamburg for the difference between the rates charged by the bank on its subsidised residential housing loans and market rates.

Stable Outlook Mirrors Hamburg's: The Stable Outlook on the bank's Long-Term IDR reflects Fitch Ratings' view that the nature of Hamburg's support is unlikely to change significantly due to the bank's strategic importance for the local economy.

Legal Insolvency Protection: IFB Hamburg is "insolvency-remote" by law and has not been subject to the Capital Requirement Regulation since June 2019, similar to the other German development banks. It is exempt from the application of 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 and resolution plans. In addition, IFB Hamburg no longer falls under the scope of the German Deposit Guarantee Act.

Development Bank for Hamburg: The primary mandate of IFB Hamburg, a public-law institution, is to support Hamburg's economic development and provide promotional loans and grants, as outlined in the Law Concerning IFB Hamburg (IFB Law) and its statutes. The vast majority of its lending relates to housing. The bank takes on special tasks if requested by Hamburg and, to a lesser extent, participates in projects initiated by other European development institutions. It also funds start-ups through a dedicated subsidiary.

Significant Coronavirus Support Programmes: In 2019 IFB Hamburg's new business volume (loans and grants) rose by more than 25%, mostly driven by the housing sector. The bank has an important role in supporting Hamburg's protective shield for households and corporates against the negative impact of the coronavirus pandemic.

Funding Access Benefits from Guarantee: Banks investing in IFB Hamburg's debt benefit from 0% regulatory risk-weighting and Level 1 treatment for their liquidity coverage ratios. This reflects Hamburg's guarantee and provides IFB Hamburg with privileged access to the debt capital markets.

Rating Sensitivities

Hamburg's IDRs and Support Arrangements: IFB Hamburg's ratings are at the highest levels on Fitch's scales and cannot be upgraded. A downgrade of Germany's or Hamburg's IDRs would trigger a downgrade of the bank'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 the bank. This could result from a weakening in the terms of the guarantees, which we view as unlikely.

Ratings

Foreign Currency	
Long-Term IDR	AAA
Short-Term IDR	F1+
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 Hamburgische Investitions- und Foerderbank at 'AAA'; Outlook Stable (September 2020)

Hamburgische Investitions- und Foerderbank - Rating Report (March 2021)

State of Hamburg - ESG Navigator (August 2020)

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Debt Rating Classes

Rating Level	Rating
Senior unsecured debt	AAA

Source: Fitch Ratings

IFB Hamburg's long-term senior unsecured debt rating is aligned with its Long-Term IDR. The differentiation between senior preferred and senior non-preferred debt is not applicable, because the bank cannot by law be subject to insolvency proceedings or bail-in measures

Significant Changes

Improving Economic Prospects

We expect the operating environment for German banks to improve in 2H21 and 2022. The German authorities' large-scale response to the pandemic has ensured a supportive operating framework, reducing the risk of significant deterioration in the banks' loan quality more effectively than in most EU countries. German banks front-loaded less provisions for expected credit losses in 2020, and LICs were generally low in 1H21 despite lower releases than at many European peers.

Germany's GDP was more resilient than most large European economies in 2020, declining by 4.8%. Fitch has slightly revised its 2021 expectation of a recovery downwards to 3.6% in September, but expects an acceleration of growth to 4.2% again in 2022. However, Hamburg's GDP declined 5.8% in 2020, well above the German average, as a temporary shutdown affected the city state's concentrated economy. We expect the progress with the vaccine roll-out in Germany to limit the impact of rises in coronavirus cases on economic activity.

Structural Weaknesses Will Continue to Weigh on German Banks' Profitability

German banks' profits have been remarkably low for years despite steady economic growth pre-pandemic, and are likely to remain under pressure in the coming years due to stubbornly pronounced fragmentation, intense competition, vulnerable business models with limited revenue diversification, and untested strategic directions at some large banks.

We expect the German banking sector to restore more adequate profits in 2021 on the back of the economic recovery, rising penetration of negative rates on deposits and several large banks' restructuring progress. However, a more disciplined and sustainable focus on risk-adjusted pricing, instead of following pre-crisis strategies of low-margin lending to gain market shares, is necessary so the sector can close its wide profitability gap relative to the European average.

IFB Hamburg Provides Significant Federal and Regional Corona Support

IFB Hamburg has devoted significant operational resources to support corporates, SMEs and households in its region during the pandemic. Support measures to Hamburg's households exceeded EUR2 billion in 2020 (of which about EUR700 million for pandemic relief) and EUR1.3 billion in 1H21. This highlights the bank's important role in Hamburg's economic development.

IFB Hamburg channels federal support measures (mainly loans provided through KfW's emergency programme and federal grants) and a range of local aid programmes and grants on behalf of the State of Hamburg. By September 2021 the sovereign alone had provided almost EUR120 billion of pandemic support to the German economy, including grants and guarantees.

IFB Hamburg also continues to perform its traditional promotional lending role, particularly in the housing sector. It financed more than 2,600 new homes for the rental market in 2020, slightly below expectations. It has also committed to raise the share of promotional lending for new rental apartments from 30% to up to 50%, reflecting the shortage of affordable housing in Hamburg.

IFB Hamburg's operational performance was robust in 2020 despite the operational challenge of processing over 140,000 applications during the pandemic to date, while performing robust eligibility checks, particularly for grants. In line with peers, IFB Hamburg's balance sheet grew by 7% to EUR6 billion in 2020, which is equivalent to 5% of Hamburg's GDP. The strong support mechanism enables the bank to fulfil its mandate without any restrictions.

We expect short-term pandemic support measures to decrease as some emergency programmes are being terminated in 2021. IFB Hamburg will continue to support the recovery until the pandemic is fully under control and will increasingly revert to its core promotional business.

Commitment to Sustainability

Similar to peers, sustainability is an important element of the strategy of IFB Hamburg, which has committed to allocate more resources to foster sustainability. The bank issued its first social bond in 2016 and is preparing to issue its first sustainability report in 2021.

Institutional Support Assessment

Institutional Support			Value
Parent IDR			AAA
Total Adjustments (notches)			+0
Institutional Support:			**AAA**
Support Factors (negative)	Equalised	1 Notch	2+ Notches
Parent ability to support and subsidiary ability to use support			
Parent/group regulation	✓		
Relative size	✓		
Country risks	✓		
Parent Propensity to Support			
Role in group	✓		
Potential for disposal	✓		
Implication of subsidiary default	✓		
Integration	✓		
Size of ownership stake	✓		
Support track record	✓		
Subsidiary performance and prospects	✓		
Branding	✓		
Legal commitments	✓		
Cross-default clauses			✓

Chart Legend

- Higher influence
- Moderate influence
- Lower influence

Summary Financials and Key Ratios

	31 Dec 2020 EURm	31 Dec 2019 EURm	31 Dec 2018 EURm	31 Dec 2017 EURm
Summary Income Statement				
Net interest and dividend income	57	36	50	43
Net fees and commissions	1	1	2	2
Other operating income	21	6	5	7
Operating costs	42	32	31	28
Pre-impairment operating profit	37	11	27	23
Loan and other impairment charges	13	3	7	6
Operating profit	24	8	20	17
Other non-operating items (net)	-24	-7	-19	-17
Net income	1	1	1	1
Summary Balance Sheet				
Gross loans	5,185	4,995	4,855	4,549
- of which impaired	n.a.	8	20	27
Loan loss allowances	10	9	11	11
Interbank	226	237	207	172
Other securities and earning assets	470	323	266	298
Cash and due from banks	0	6	0	66
Other assets	115	40	29	40
Total assets	**5,986**	**5,591**	**5,346**	**5,115**
Customer deposits	244	344	274	271
Interbank and other short-term funding	2,905	2,724	2,760	2,798
Other long-term funding	1,794	1,554	1,355	1,103
Other liabilities	224	152	141	125
Total equity	819	818	817	817
Total liabilities and equity	**5,986**	**5,591**	**5,346**	**5,115**
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	0.7	0.2	0.6	0.5
Net interest income/average earning assets	1.0	0.7	1.0	0.9
Non-interest expense/gross revenue	53.3	74.3	53.7	54.2
Net income/average equity	0.1	0.1	0.1	0.1
Asset quality				
Impaired loans ratio	n.a.	0.2	0.4	0.6
Growth in gross loans	3.8	2.9	6.7	1.8
Loan loss allowances/impaired loans	n.a.	119.7	52.7	39.3
Loan impairment charges/average gross loans	0.3	0.1	0.2	0.1
Capitalisation				
Common equity Tier 1 ratio	23.1	23.4	23.5	24.2
Tangible common equity/tangible assets	13.7	14.6	15.3	16.0
Basel leverage ratio	n.a.	13.9	14.5	15.0
Net impaired loans/common equity Tier 1	n.a.	-0.2	1.2	2.0
Funding and liquidity				
Loans/customer deposits	2,124.8	1,453.6	1,773.1	1,677.9
Liquidity coverage ratio	n.a.	237.0	150.0	270.0
Customer deposits/funding	4.9	7.4	6.2	6.5

Source: Fitch Ratings, Fitch Solutions, IFB Hamburg

Environmental, Social and Governance Considerations

FitchRatings **Hamburgische Investitions- und Foerderbank** **Banks** Ratings Navigator

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.

			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	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.