FitchRatings

Banks
Development Banks
Germany

Hamburgische Investitions- und Foerderbank

Key Rating Drivers

Owner Support Drives Ratings: Hamburgische Investitions- und Foerderbank's (IFB Hamburg) ratings are based on support from its owner, the federal 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. This drives 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

Hamburg's IDRs and Support Arrangements: IFB Hamburg's ratings are at the highest levels on Fitch's rating scales and cannot be upgraded. 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.

Ratings

Foreign Currency	
Long-Term IDR	AAA
Short-Term IDR	F1+
Shareholder Support Rating	aaa
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 Hamburgische Investitions- und Foerderbank at 'AAA'; Outlook Stable (February 2022)

State of Hamburg (October 2021)

Analysts

Roger Schneider
+49 69 768076 242
roger.schneider@fitchratings.com

Patrick Rioual
+49 69 768076 123
patrick.rioual@fitchratings.com

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, which is at the highest possible level.

Brief Company Summary and Key Qualitative Assessments

Key Contributor to Hamburg's Economic Development

About 85% of IFB Hamburg's loan exposure at end-2020 was to real estate. In June 2021 Hamburg's Senate renewed its alliance for housing with real estate developers and the municipal districts. The alliance is committed to build 10,000 rental apartments a year, for which IFB Hamburg can provide promotional financing if requested by the investor. The alliance also contractually increased its share of subsidised housing to 50% from 30%.

Municipal lending (primarily for environmental projects) accounts for 12% of total loans. Financing of enterprises is mainly through grants. The bank's subsidiary IFB Innovationsstarter provides equity funding to start-ups and manages as a trustee for Hamburg an SME portfolio that assumes the counterparty risk.

IFB Hamburg's low risk appetite is limited to its policy role, with no incentives to assume more risks to generate additional profits. This differentiates the bank from its peers, which generally aim to generate sufficient earnings to conduct their promotional activities and strengthen their capital without relying on regular capital injections from their owners.

Summary Financials and Key Ratios

	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017
	EURm	EURm	EURm	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
Total operating income	79	43	58	51
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				
Assets				
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
Net loans	5,175	4,985	4,844	4,538
Interbank	226	237	207	172
Other securities and earning assets	470	323	266	298
Total earning assets	5,871	5,545	5,317	5,008
Other assets	115	40	29	40
Total assets	5,986	5,591	5,346	5,115
Liabilities				
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
Total funding and derivatives	4,944	4,622	4,388	4,173
Other liabilities	224	152	141	125
Total equity	819	818	817	817
Total liabilities and equity	5,986	5,591	5,346	5,115

Summary Financials and Key Ratios

	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017
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				
Gross 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 / total non-equity funding	4.9	7.4	6.2	6.5

Key Financial Metrics – Latest Developments

Significant Provider of Federal and Regional Pandemic Support

IFB Hamburg's support to corporates, SMEs and households of EUR2 billion in 2020 (of which EUR0.7 billion was for pandemic relief) and EUR1.3 billion in 1H21 highlights its important role for Hamburg's economy. Lending volumes are likely to have declined in 2H21 but could rise in 2022, depending on the impact of the recent resurgence of the pandemic.

Reduced Disclosure Requirements

The German Risk Reduction Act in force since end-2020 transposes European legislation into national law and supplements the German Banking Act. The Risk Reduction Act also includes specific provisions for state-owned development banks, notably exemptions from Pillar III disclosure requirements of the CRR. Accordingly, the bank no longer publicly reports certain financial data, including non-performing loans and loan loss allowances. However, despite being non-CRR institutions, state-owned development banks must continue to comply with the financial reporting requirements of the ECB regulation.

Robust Asset Quality

The bank’s robust asset quality reflects its prudent underwriting standards in direct lending and its lower-risk municipal loans. We expect asset quality to remain strong and stable despite the current resurgence of the pandemic. IFB Hamburg cooperates with established real estate developers and has high local concentration on property loans. Its credit risk is therefore comparable with that of a regional, monoline residential real estate lender. Consequently, it would be vulnerable to a regional housing crisis. However, the shareholder support mechanisms, in particular Hamburg’s loss-absorption agreement, ultimately cover IFB Hamburg’s counterparty risk. In addition, the scarcity of living space and affordable housing in Hamburg mitigate such risks.

The bank conservatively manages its small securities portfolio, which it uses for liquidity management only.

Hamburg’s Contribution Ensures Balanced Financial Result

IFB Hamburg receives direct compensation from Hamburg for its provision of promotional services on top of its interest income, the bank’s main revenue source. It also receives interest-rate compensation for its real estate activities that covers the difference between promotional lending and market rates. This compensation depends on the bank's business volumes as well as refinancing and market rates. Grants, which are a main source of promotion for corporates, are reimbursed by Hamburg and rose significantly through the pandemic. Consequently, IFB Hamburg’s net annual income is always close to nil. The bank’s revenue is concentrated on interest income from real estate activities.

Strong Capitalisation

IFB Hamburg is well capitalised due to a EUR611 million special contribution from Hamburg to promote housing development. Its common equity Tier 1 ratio at end-2020 was more than 2x its regulatory requirement. The bank reports under German GAAP and measures its risk-weighted assets conservatively under the standardised approach for credit risk.

State Guarantee Ensures Stable Access to Market Funding

IFB Hamburg is wholesale funded and has issued bonds, mainly in sub-benchmark format (EUR250 million issue size), since 2013. Its moderate annual funding needs range from EUR0.5 billion and EUR0.7 billion. It has decreased its share of funding from other development banks such as KfW by developing its access to a broader range of institutional investors. The bank is committed to allocate increasing resources to foster sustainability. It issued social bonds in 2016 and in 2019.

Shareholder Support Rating

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.

SSR Key Rating Drivers	
Shareholder IDR	AAA
Total Adjustments (notches)	0
Shareholder Support Rating	**aaa**
Shareholder ability to support	
Shareholder Rating	AAA
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

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	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.

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	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

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.

IFB Hamburg'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 or 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.

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.