

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 sole owner, the State of Hamburg (Hamburg; AAA/Stable/F1+). Hamburg provides an explicit and irrevocable, unlimited, unconditional and first-demand statutory guarantee covering all of IFB Hamburg's liabilities, a maintenance obligation (Anstaltslast), which ensures its continuation as an economic entity, and a statutory guarantor's liability (Gewahrtraegerhaftung).

Unlike other German state-owned development banks, IFB Hamburg is additionally covered by a statutory loss-absorption obligation from its owner, which offsets any annual loss. The owner's very strong ability and very high propensity to support IFB Hamburg drive the equalisation of the bank's ratings with Hamburg's.

Stable Outlook: The Stable Outlook on IFB Hamburg's Long-Term Issuer Default Rating (IDR) mirrors that of the bank's owner and guarantor, given that the nature of support from Hamburg is unlikely to change due to the bank's important role for Hamburg's economy.

Ratings Aligned with Germany's: IFB Hamburg's ratings are indirectly linked to the German sovereign ratings (AAA/Stable/F1+). This is because the ratings of the German Laender (federal states), including Hamburg, are linked to those of Germany on the back of a strong mutual support system between the Laender and extensive financial equalisation among them, together with the solidarity principle.

Development Bank for Hamburg: IFB Hamburg's primary mandate is to provide funding and grants to support Hamburg's economic, environmental, social and business development and to foster innovation. The key focus of its activities relates to housing and urban development. IFB Hamburg finances predominantly multi-family property projects providing affordable housing across all income groups, including subsidised rental homes, in cooperation with its owner.

Its economic promotional activities also target entrepreneurs, as well as small and medium-sized corporates in Hamburg. In addition, IFB Hamburg takes on special tasks on request by Hamburg and, to a smaller extent, participates in projects initiated by other European development institutions.

Support Compliant with EU Rules: Similar to that of its peers, IFB Hamburg's business model complies with EU state-aid rules as the bank 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.

Legal Insolvency Protection: IFB Hamburg is insolvency-remote by law and, in line with peers, it has been exempt from the capital requirement regulation since 2019 but must follow minimum capital standards set by the local regulator. It is exempt from the Single Resolution Mechanism, the Recovery and Resolution Act and the Restructuring Fund Act.

Funding Access Benefits from Guarantee: Owing to the guarantee, banks and insurance companies investing in IFB Hamburg's debt benefit from 0% regulatory risk-weighting and level 1 treatment for their liquidity coverage ratios. This ensures IFB Hamburg's reliable access to debt markets.

No Viability Rating Assigned: As with other German state-owned development banks, Fitch Ratings does not assign a Viability Rating to IFB Hamburg as its operations are determined by its policy role as a development bank.

Ratings

Foreign Currency	
Long-Term IDR	AAA
Short-Term IDR	F1+

Shareholder Support Rating	aaa
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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

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

[Fitch Affirms Hamburgische Investitions- und Foerderbank at 'AAA'; Outlook Stable \(January 2023\)](#)

[Fitch Affirms German Development Banks' Joint Agency Social Bond at 'AAA' \(January 2023\)](#)

[German Development Banks Peer Review - 2022 \(November 2022\)](#)

Analysts

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

Markus Glabach
+49 69 768076 195
markus.glabach@fitchratings.com

Rating Sensitivities

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

IFB Hamburg's ratings are primarily sensitive to negative changes in Hamburg's ratings, which are linked to those of Germany.

A downgrade of Hamburg's or Germany's IDRs would trigger a downgrade of IFB Hamburg's IDRs. IFB Hamburg's ratings are also sensitive to adverse changes in Fitch's assumptions about Hamburg's propensity to support. This could result from a weakening of the terms of the guarantee.

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

IFB Hamburg's ratings are at the highest level on Fitch's rating scale and cannot be upgraded.

Other Debt and Issuer Ratings

Rating level	Rating
Senior Unsecured: Long Term	AAA

Source: Fitch Ratings

IFB Hamburg's senior unsecured debt rating is aligned with the bank's Long-Term IDR, which is at the highest level on Fitch's rating scale.

A downgrade of IFB Hamburg's Long-Term IDR would lead to a downgrade of the senior unsecured debt rating. As the senior unsecured debt rating is at the highest level on Fitch's rating scale, it cannot be upgraded.

Company Summary and Key Qualitative Factors

Business Profile

Key Contributor to Hamburg's Economic Development

IFB Hamburg's promotional business is regional and adapted to Hamburg's requirements and economic structure as a city state. Developing affordable housing in Hamburg is the bank's key priority. Consequently, the vast majority of its loan book relates to housing, while the remainder is municipal lending (primarily for environmental projects) and loans to corporates in Hamburg. The bank's subsidiary IFB Innovationsstarter provides equity funding to start-ups and holds a SME portfolio as a trustee for Hamburg, which assumes the counterparty risk. IFB Hamburg's share of pass-through promotional business, where the end-borrowers' house bank assumes the credit risk, is small compared with that of peers.

Substantial Volumes of Covid-19 Pandemic Relief

Similar to its peers, IFB Hamburg has been instrumental in managing national and regional support measures through the pandemic. The bank has disbursed EUR3.4 billion in pandemic-related grants since March 2020. We expect a decline in volumes in 2H22 as most support programmes started to be phased out. However, as for peers, a thorough review of payments and eligibility of beneficiaries against defined support criteria still places a material operational burden on the bank.

Normalisation of Traditional Promotional Business Post-Pandemic

As for peers, we expect a normalisation of IFB Hamburg's business volume post-pandemic and a stronger focus on its traditional promotional business in 2022. This implies a significantly lower share of grants (EUR2.7 billion in 2021). Like its peers, IFB Hamburg faces more challenging conditions in its housing business segment due to rising interest rates, significantly higher building material prices, and labour shortages. These reduce the economic feasibility of real estate projects, although demand is increasing for subsidised rental housing given the scarcity of living space in Hamburg.

Sustainability Strategy

IFB Hamburg places strong emphasis on sustainability strategies, which we believe will have a rising impact on its future business activities. The bank – like its peers – committed itself to the UN's sustainable development goals (SDG) and issued its first sustainability report in 2021. We expect an increasing role for the bank in supporting the sustainable transformation of Hamburg's economy.

Financial Profile

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 broadly stable despite the uncertain operating environment in Germany and rising risks in the real estate sector. The bank's cooperation with established real estate developers and conservative valuation of property collateral mitigate the local concentration of its loan book. The properties it finances are typically fully let, and rents are partly paid by public sources. In addition, these properties are long-term commitments by their owners and not considered to be tradable assets.

The bank conservatively manages its small securities portfolio, which it uses for liquidity management only. Unlike some of its peers, it refrains from engaging in maturity transformation as part of its asset/liability management.

Earnings and Profitability

Hamburg directly compensates IFB Hamburg for its provision of promotional services. This complements the bank's interest income, which is its main revenue source that primarily arises from real estate lending. The bank also receives an interest-rate compensation from Hamburg in relation to its interest-rate lending, which is the difference between promotional lending and market rates and depends on the bank's business volumes, as well as refinancing and market rates. Grants are a main source of promotion for corporates and are reimbursed by Hamburg.

Consequently, IFB Hamburg's net annual income is structurally close to nil.

Capital and Leverage

IFB Hamburg's capital requirements increased in 2022 with Germany's introduction of a countercyclical capital buffer of 75bp of risk-weighted assets on domestic exposures. Furthermore, the bank has to meet a sectoral systemic risk buffer of 200bp of risk-weighted assets on residential property loans, which – unlike most peers – form the majority of its loan book. These additional charges are to be met in full from 1 February 2023. We expect limited impact from this surcharge on IFB Hamburg's new business volume, because the bank is well capitalised, with a common equity Tier 1 ratio of 26.4% at end-2021 – more than twice its minimum requirement. The bank reports under German GAAP and measures its risk-weighted assets conservatively under the standardised approach for credit risk.

Funding and Liquidity

IFB Hamburg is purely wholesale-funded and does not collect deposits from the public. It has issued bonds, mainly in sub-benchmark format (EUR250 million issue size) since 2013. In line with peers, IFB Hamburg has decreased its share of traditional funding from other development banks, such as KfW, by developing its capital market access. This has enabled the bank to access a broader range of institutional investors. IFB Hamburg emphasises the importance of sustainable funding and issued social bonds as early as in 2016 and in 2019.

Like most peers, IFB Hamburg participated in the ECB's targeted longer-term refinancing operations (TLTRO). The majority of its exposure will mature in 2023.

IFB Hamburg was one of three regional German development banks that issued a benchmark Joint Agency Social Bond as a novelty in German capital markets at end-September 2022. Its share of the issue was 35%.

Financials

Financial Statements

	31 Dec 21		31 Dec 20	31 Dec 19	31 Dec 18
	Year end (USDm)	Year end (EURm)	Year end (EURm)	Year end (EURm)	Year end (EURm)
Summary income statement					
Net interest and dividend income	64	57	57	36	50
Net fees and commissions	0	0	1	1	2
Other operating income	58	51	21	6	5
Total operating income	121	107	79	43	58
Operating costs	87	77	42	32	31
Pre-impairment operating profit	34	30	37	11	27
Loan and other impairment charges	9	8	13	3	7
Operating profit	25	22	24	8	20
Other non-operating items (net)	-24	-22	-24	-7	-19
Net income	1	0.7	0.6	0.6	0.7
Summary balance sheet					
Assets					
Gross loans	6,058	5,356	5,185	4,995	4,855
Loan loss allowances	11	9	10	9	11
Net loans	6,047	5,347	5,175	4,985	4,844
Interbank	266	235	226	237	207
Other securities and earning assets	654	578	470	323	266
Total earning assets	6,966	6,160	5,871	5,545	5,317
Cash and due from banks	0	0	0	6	0
Other assets	139	123	115	40	29
Total assets	7,105	6,282	5,986	5,591	5,346
Liabilities					
Customer deposits	271	239	244	344	274
Interbank and other short-term funding	3,475	3,073	2,905	2,724	2,760
Other long-term funding	2,097	1,855	1,794	1,554	1,355
Total funding and derivatives	5,843	5,166	4,944	4,622	4,388
Other liabilities	336	297	224	152	141
Total equity	927	819	819	818	817
Total liabilities and equity	7,105	6,282	5,986	5,591	5,346
Exchange rate		USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015	USD1 = EUR0.873057

Source: Fitch Ratings, Fitch Solutions, Hamburgische Investitions- und Foerderbank

Key Ratios

	31 Dec 21	31 Dec 20	31 Dec 19	31 Dec 18
Ratios (annualised as appropriate)				
Profitability				
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
Asset quality				
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
Capitalisation				
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
Funding and liquidity				
Gross loans/customer deposits	2,239.2	2,124.8	1,453.6	1,773.1
Liquidity coverage ratio	970.0	320.0	237.0	150.0
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, Hamburgische Investitions- und Foerderbank

Support Assessment

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

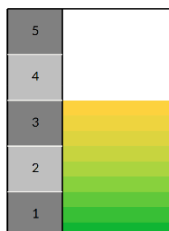
The colours indicate the weighting of each KRD in the assessment.

■ Higher influence ■ Moderate influence ■ Lower influence

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.

Environmental, Social and Governance Considerations

Overall ESG

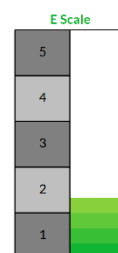


How relevant are E, S and G issues to the overall credit rating?

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.

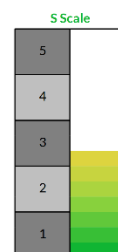
Environmental (E)

General Issues	Score	Impact	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1		n.a.	n.a.
Energy Management	1		n.a.	n.a.
Water & Wastewater Management	1		n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1		n.a.	n.a.
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



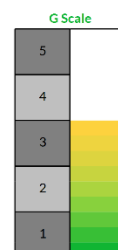
Social (S)

General Issues	Score	Impact	Sector-Specific Issues	Reference
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
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
Labor Relations & Practices	2		Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)
Employee Wellbeing	1		n.a.	n.a.
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



Governance (G)

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



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

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