

# 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 (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 main 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 and small and medium-sized corporates in Hamburg. In addition, IFB Hamburg takes on tasks at the request of Hamburg and, to a lesser 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, 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 \(September 2023\)](#)

## 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' \(January 2023\)](#)

[Fitch Affirms Germany at 'AAA'; Outlook Stable \(September 2023\)](#)

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## 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.

## Company Summary and Key Qualitative Factors

### Operating Environment

#### *Substantial Economic Support through German Promotional Banks*

In 2022, German development banks continued to support the German economy, providing a total promotional volume of EUR115 billion, of which EUR72.3 billion was development loans and EUR42.3 billion grants. The promotional volume is 8% lower than in 2021; however, it represents the third largest volume on record as the two previous years were strongly affected by the large volumes of pandemic relief support. The substantial development assistance underpins the important role of these banks for the federal and respective regional economies.

Pandemic emergency support was mainly in the form of grants for SMEs, which decreased notably in 2022 as the crisis subsided. However, the drop was almost entirely compensated by a far higher volume in grants for housing, which more than doubled to EUR22.3 billion in 2022, comprising 53% of all grants. The steep rise balances a similar reduction in housing loans and urban development, reflecting sharply declining construction activity in Germany. This is mainly due to higher interest rates in the eurozone and general cost inflation. At the same time, demand for affordable housing has remained high and living space scarce.

### 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 borrowers' house bank assumes the credit risk, is small compared with that of peers.

#### *Housing Promotion Is IFB Hamburg's Priority in 2023*

IFB Hamburg has a higher exposure to housing than most of its peers, based on a long-term agreement between Hamburg and the housing industry for the creation of living space and subsidised rental. IFB Hamburg also has a major role in the modernisation of housing stock and financing of energy-efficient measures.

IFB Hamburg, together with its owner, have reacted quickly to worsening conditions on the local housing market. IFB Hamburg implemented a wide range of counterbalancing measures, which included granting higher subsidies and an active management of social rent linkage (in terms of size and duration) within its housing stock.

We believe that IFB Hamburg is unlikely to suffer a material deterioration in its asset quality, because it does not engage in project development, and properties are typically fully let with strong pent-up demand if vacancies arise.

## 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 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 and 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 strong common equity Tier 1 ratio (end-2022: 25.3%) comfortably exceeded its capital requirements. 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 mainly issues bonds 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), which has boosted its liquidity over the past two years. Following maturity in 2023, we expect funding and liquidity conditions to normalise.

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% equivalent to EUR175 million.

## Financials

### Financial Statements

	31 December 2022		31 December 2021	31 December 2020	31 December 2019
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
<b>Summary income statement</b>					
Net interest and dividend income	62	58	57	57	36
Net fees and commissions	-1	-1	0	1	1
Other operating income	51	48	51	21	6
Total operating income	113	106	107	79	43
Operating costs	76	71	77	42	32
Pre-impairment operating profit	36	34	30	37	11
Loan and other impairment charges	13	13	8	13	3
Operating profit	23	22	22	24	8
Other non-operating items (net)	-22	-21	-22	-24	-7
Tax	n.a.	n.a.	n.a.	n.a.	n.a.
Net income	1	1	1	1	1
<b>Summary balance sheet</b>					
<b>Assets</b>					
Gross loans	5,772	5,412	5,356	5,185	4,995
Net loans	5,772	5,412	5,347	5,175	4,985
Interbank	687	644	235	226	237
Other securities and earning assets	651	610	578	470	323
Total earning assets	7,110	6,667	6,160	5,871	5,545
Cash and due from banks	0	0	0	0	6
Other assets	176	165	123	115	40
Total assets	7,286	6,832	6,282	5,986	5,591
<b>Liabilities</b>					
Customer deposits	509	477	239	244	344
Interbank and other short-term funding	3,534	3,313	3,073	2,905	2,724
Other long-term funding	2,059	1,930	1,855	1,794	1,554
Total funding and derivatives	6,102	5,721	5,166	4,944	4,622
Other liabilities	310	291	297	224	152
Total equity	875	820	819	819	818
Total liabilities and equity	7,286	6,832	6,282	5,986	5,591
Exchange rate		USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015

Source: Fitch Ratings, Fitch Solutions, IFB Hamburg

## Key Ratios

	31 December 2022	31 December 2021	31 December 2020	31 December 2019
Ratios (%; annualised as appropriate)				
<b>Profitability</b>				
Operating profit/risk-weighted assets	0.7	0.7	0.7	0.2
Net interest income/average earning assets	0.9	0.9	1.0	0.7
Non-interest expense/gross revenue	67.6	71.8	53.3	74.3
Net income/average equity	0.1	0.1	0.1	0.1
<b>Asset quality</b>				
Growth in gross loans	1.0	3.3	3.8	2.9
Loan impairment charges/average gross loans	0.2	0.2	0.3	0.1
<b>Capitalisation</b>				
Common equity Tier 1 ratio	25.3	26.4	23.1	23.4
Tangible common equity/tangible assets	12.0	13.0	13.7	14.6
<b>Funding and liquidity</b>				
Gross loans/customer deposits	1,134.1	2,239.2	2,124.8	1,453.6
Gross loans/customer deposits + covered bonds	1,134.1	2,239.2	2,124.8	1,453.6
Liquidity coverage ratio	300.0	970.0	320.0	237.0
Customer deposits/total non-equity funding	8.3	4.6	4.9	7.4
Net stable funding ratio	121.5	120.6	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, IFB Hamburg

## Support Assessment

Shareholder Support	
Shareholder IDR	AAA
Total Adjustments (notches)	0
Shareholder Support Rating	aaa
<b>Shareholder ability to support</b>	
Shareholder Rating	AAA/Stable
Shareholder regulation	Equalised
Relative size	Equalised
Country risks	Equalised
<b>Shareholder propensity to support</b>	
Role in group	Equalised
Reputational risk	Equalised
Integration	Equalised
Support record	Equalised
Subsidiary performance and prospects	Equalised
Legal commitments	Equalised

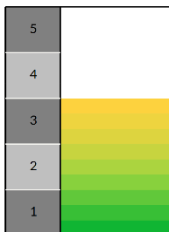
The colours indicate the weighting of each KRD in the assessment.

■ 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

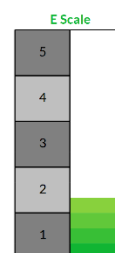


### How relevant are E, S and G issues to the overall credit rating?

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.

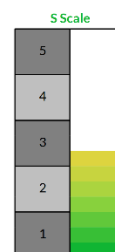
### Environmental (E)

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



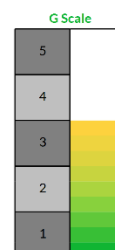
### Social (S)

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)



The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.



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