FitchRatings

Banks
Development Banks
Germany

Hamburgische Investitions- und Foerderbank

Key Rating Drivers

Hamburg's Support Drives Ratings: Hamburgische Investitions- und Foerderbank's (IFB Hamburg) Issuer Default Ratings (IDRs) are based on institutional 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 creditworthiness through the German federal solidarity system.

Statutory Loss Absorption: Like the other German development banks, IFB Hamburg is not profit-maximising 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 IDR: 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 in the medium term 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 ratio. 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 of 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 Germany at 'AAA'; Outlook Stable (November 2020)
Fitch Affirms Hamburgische Investitions- und Foerderbank at 'AAA'; Outlook Stable' (September 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 IDRs. 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

Development Banks Support Economy amid Pandemic

Fitch considers there to be risks from the pandemic to German banks' credit profiles, despite the Outlook revision for the German banking sector back to Stable in December 2020, in line with the sector outlook for western European banks. The Outlook reflects our expectation that the business environment for banks in the region will remain challenging, although it will stabilise in 2021. We lowered our operating environment score for German banks to 'aa-'/Negative from 'aa'/Stable in April 2020 as the pandemic increased banks' vulnerability to a rapid and severe deterioration in earnings and asset quality. Fitch expects the German GDP to have contracted by 5.6% in 2020 and recover by 5% in 2021 – for further details see Fitch's Global Economic Outlook – December 2020, published December 2020.

The German government has launched large support programmes, largely distributed by KfW, to rapidly alleviate the impact of the pandemic on the economy. IFB Hamburg has launched its own emergency support programmes for corporates and households in its region, which it executes and manages. The programmes include grants, mainly to overcome small businesses and corporates' short-term liquidity shortages, and are supplemented by various new loan programmes available for specific segments, such as sport and culture. Since July 2020, IFB Hamburg has provided a recovery fund and bridge loans, primarily to support innovative start-ups and high-growth SMEs. In light of the pandemic and new restrictions in place since December 2020, some of the coronavirus relief programmes have been extended into 2021.

We expect the impact of the coronavirus crisis on German development banks to be mitigated by their widespread use of the house bank principle, whereby development banks partner with commercial banks that assume the credit risk from end-borrowers. Strong collateralisation requirements and a focus on (partly socially supported) residential housing, should also mitigate the impact of the crisis on development banks' asset quality, earnings and capitalisation.

Institutional Support Assessment

Support Factors (negative)	Equalised	1 Notch	2+ Notches
Parent ability to support and subsidiary ability to use support			
01 Parent/group regulation	✓		
02 Relative size	✓		
03 Country risks	✓		
Parent Propensity to Support			
01 Role in group	✓		
02 Potential for disposal	✓		
03 Implication of subsidiary default	✓		
04 Integration	✓		
05 Size of ownership stake	✓		
06 Support track record	✓		
07 Subsidiary performance and prospects	✓		
08 Branding	✓		
09 Legal commitments	✓		
10 Cross-default clauses			✓

IFB Hamburg's important role in Hamburg's economy and Hamburg's commitments resulting from the statutory support mechanisms have a high influence on the bank's IDRs and Support Rating of '1' and drive the alignment of the bank's IDRs with those of Hamburg.

Chart Legend

■	Higher influence
■	Moderate influence
■	Lower influence

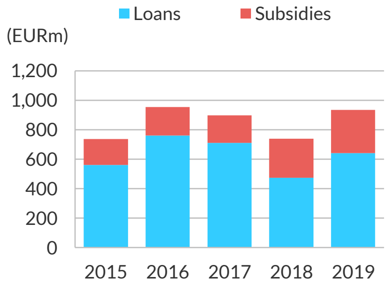
Brief Company Summary

Key Contributor to Hamburg's Economic Development

IFB Hamburg is the legal successor to Hamburgische Wohnungsbaukreditanstalt, a public law institution established in 1953 mainly to finance and develop the residential housing sector in post-war years. IFB Hamburg was established on 1 August 2013 to cover broader promotional activities, including loans, subsidies and guarantees to smaller enterprises and start-ups.

IFB Hamburg's risk appetite is low and limited to the risks inherent in its policy role, as it has no incentive to generate additional returns. The bank's strong capitalisation offers sufficient buffers above its regulatory requirements. The bank reports under German GAAP and measures its risk-weighted assets conservatively under the standard approach. Its comparably small security portfolio is conservatively managed and used for liquidity-management purposes only. Issuances of senior unsecured bonds have gained importance in recent years, including social bonds in sub-benchmark format (EUR250 million).

Promotional Volume



Source: Fitch Ratings, IFB Hamburg

Summary Financials and Key Ratios

	31 Dec 19 (EURm)	31 Dec 18 (EURm)	31 Dec 17 (EURm)	31 Dec 16 (EURm)
Summary income statement				
Net interest and dividend income	36	50	43	42
Net fees and commissions	1	2	2	2
Other operating income	6	5	7	10
Operating costs	32	31	28	25
Pre-impairment operating profit	11	27	23	30
Loan and other impairment charges	3	7	6	4
Operating profit	8	20	17	26
Net income	1	1	1	1
Summary balance sheet				
Gross loans	4,995	4,855	4,549	4,470
- Of which impaired	8	20	27	32
Loan loss allowances	9	11	11	10
Interbank	237	207	172	183
Other securities and earning assets	323	266	298	330
Cash and due from banks	6	0	66	0
Total assets	**5,591**	**5,346**	**5,115**	**5,009**
Customer deposits	344	274	271	269
Interbank and other short-term funding	2,724	2,760	2,798	2,915
Other long-term funding	1,554	1,355	1,103	903
Other liabilities	152	141	125	106
Total equity	818	817	817	816
Total liabilities and equity	**5,591**	**5,346**	**5,115**	**5,009**
Profitability				
Operating profit/risk-weighted assets	0.2	0.6	0.5	0.8
Net interest income/average earning assets	0.7	1.0	0.9	0.8
Non-interest expense/gross revenue	74.3	53.7	54.2	45.9
Net income/average equity	0.1	0.1	0.1	0.1
Asset quality				
Impaired loans ratio	0.2	0.4	0.6	0.7
Growth in gross loans	2.9	6.7	1.8	1.3
Loan loss allowances/impaired loans	119.7	52.7	39.3	29.9
Loan impairment charges/average gross loans	0.1	0.2	0.1	0.1
Capitalisation				
Common equity Tier 1 ratio	23.4	23.5	24.2	24.1
Tangible common equity/tangible assets	14.6	15.3	16.0	16.3
Net impaired loans/common equity Tier 1	-0.2	1.2	2.0	2.7
Funding and liquidity				
Loans/customer deposits	1,453.6	1,773.1	1,677.9	1,659.2
Customer deposits/funding	7.4	6.2	6.5	6.6

Source: Fitch Ratings, Fitch Solutions, IFB Hamburg

Environmental, Social and Governance Considerations

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.

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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.