

# Investitionsbank Schleswig-Holstein

## Key Rating Drivers

**Owner Support Drives Ratings:** Investitionsbank Schleswig-Holstein's (IB.SH) ratings are based on support from the federal state of Schleswig-Holstein (SH; AAA/Stable/F1+), the bank's sole owner. SH provides an explicit and irrevocable, unlimited, unconditional and first-demand statutory guarantee covering all of IB.SH's liabilities, a maintenance obligation (Anstaltslast), which ensures its continuation as an economic entity, and a statutory guarantor's liability (Gewaehrtraegerhaftung).

The owner's very strong ability and very high propensity to support IB.SH drive the equalisation of the bank's ratings with SH. The Stable Outlook on IB.SH's Long-Term Issuer Default Rating (IDR) mirrors that on the bank's owner and guarantor, given that the nature of support from SH is unlikely to change due to IB.SH's strategic role for SH's economy.

**Regional Development Bank:** IB.SH is a public-law institution established as a legally independent development bank. Its primary mandate is to support the economic, environmental and social development of SH by providing promotional development funding and grants.

IB.SH's activities include funding for corporates, start-up companies and municipalities as well as loans for affordable housing and energy-efficient real estate. The bank also funds special projects for SH on request and manages the distribution of EU structural and cohesion funds in the region.

**Support Compliant with EU Rules:** IB.SH's business model complies with EU state-aid rules, similar to peers, 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.

**Legal Insolvency Protection:** IB.SH is insolvency-remote by law and has not been subject to capital requirement regulation since June 2019, in line with peers. It is exempt from the Single Resolution Mechanism, the Recovery and Resolution Act and the Restructuring Fund Act.

**Funding Access Benefits from Guarantee:** Banks and insurance companies investing in IB.SH's debt benefit from 0% regulatory risk-weighting and level 1 treatment for their liquidity coverage ratio. This reflects SH's guarantee and provides IB.SH with reliable access to debt markets. IB.SH's sound liquidity is underpinned by a large pool of unencumbered assets. IB.SH's non-deposit funding also includes funds from SH, KfW, Landwirtschaftliche Rentenbank and the European Investment Bank.

**No Viability Rating Assigned:** Fitch Ratings does not assign a Viability Rating to IB.SH, as with other German development banks, as its operations are largely determined by its policy role as a development bank.

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

## Ratings

### Investitionsbank Schleswig-Holstein

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 Ratings Criteria \(September 2023\)](#)

## Related Research

[German Development Banks - Peer Review 2023 \(November 2023\)](#)

[German Laender Rated 'AAA', But Standalone Profiles Differ \(October 2023\)](#)

[Fitch Affirms Investitionsbank Schleswig-Holstein at 'AAA'; Outlook Stable \(January 2023\)](#)

## Analysts

Marco Diamantini  
+49 69 768076 114  
[marco.diamantini@fitchratings.com](mailto:marco.diamantini@fitchratings.com)

Markus Glabach  
+49 69 768076 195  
[markus.glabach@fitchratings.com](mailto:markus.glabach@fitchratings.com)

**Rating Sensitivities**

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

IB.SH's ratings are primarily sensitive to adverse changes in SH's ratings, which are linked to those of Germany.

A downgrade of SH's or Germany's IDRs would trigger a downgrade of IB.SH's IDRs and senior debt ratings. IB.SH's ratings are also sensitive to adverse changes in Fitch's assumptions about SH's propensity to support, which could result from a weakening of the terms of the guarantee.

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

IB.SH's ratings are at the highest level on Fitch's rating scale and therefore cannot be upgraded.

**Other Debt and Issuer Ratings**

Rating level	Rating
Long-Term Senior Unsecured Debt	AAA

Source: Fitch Ratings

IB.SH's senior unsecured debt ratings are aligned with the bank's IDRs, which are at the highest level on Fitch's rating scale.

## Company Summary and Key Qualitative Factors

### Operating Environment

German development banks continued to support the German economy in 2022, providing a total promotional volume of EUR115 billion, of which EUR72.3 billion were development loans and EUR42.3 billion grants. The promotional volume was 8% lower than in 2021, but it was the third-largest volume on record, as the two previous years were strongly affected by the large volumes of Covid-19-related relief support packages. The substantial development support underpins the important role of these banks for the federal and respective regional economies.

Pandemic-era 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 for by a significantly higher volume in grants for housing, which more than doubled to EUR22.3 billion in 2022 and comprised 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 due mainly to higher interest rates in the euro zone and general cost inflation. We expect business volumes to moderate in 2023 but to remain elevated against the long-term average.

A ruling by the German Federal Constitutional Court in November limits the government discretion in re-allocating unused pandemic funds towards green projects and industry subsidies. As a consequence, some development banks placed some programmes under review. We believe that the development banks could restrict the scope of the grants they extend, particularly direct subsidies backed by programmes of the federal government. This could drive demand for pass-through development loans as a substitute for grants.

### Business Profile

#### Key Contributor to SH's Economic Development

IB.SH is highly integrated into SH's social, environmental and economic policies as outlined in the Investitionsbankgesetz, which specifies IB.SH's policy role as a development institution with a mandate to support SH's public duties and the public interest. The bank's promotional activities span a broad range of programmes offering grants, direct lending, pass-through loans and guarantees across its four business segments, including support for affordable housing and home ownership, corporates focussing on SMEs as well as start-ups, labour market initiatives and municipal infrastructure projects. Grants are reimbursed by the federal state and pass-through loans are extended to commercial banks, which provide the funds to customers.

New promotional business declined to EUR1.3 billion in 1H23 (1H22: EUR1.7 billion) following the termination of emergency support programmes during the pandemic. New promotional business included EUR454 million for municipal customers, for example for investments in municipal infrastructure and renewable energy projects, EUR312 million for housing, EUR259 million SME loans and EUR293 million grants for labor market initiatives, sustainable and energy infrastructure and distribution of European funds. We expect new promotional business in 2023 at the higher end of IB.SH's EUR1.8 billion-2.7 billion target range.

We expect promotional activities with municipalities to intensify in the next years, particularly for climate-protection measures. We also believe the housing sector is a key development target as promotional activities help counterbalance Germany's sharply declining construction activity.

Like other development banks, IB.SH is non-profit oriented, but is expected to self-fund its operations and risk costs. For this purpose, the bank holds a small strategic investment portfolio. IB.SH also earns modest fee income by offering advisory and other services on promotional issues as well as disbursing grants.

#### Reduced Disclosure Requirements

The German Risk Reduction Act, in force since end-2020, transposes EU 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 Capital Requirement Regulation (CRR). Accordingly, the bank no longer publicly reports certain financial data, including non-performing loans and loan loss allowances. However, state-owned development banks must continue to comply with the financial reporting requirements under the ECB regulation even though they are not CRR institutions.

## Financial Profile

### Asset Quality

IB.SH's robust loan quality reflects its prudent underwriting standards in direct lending and lower-risk municipal exposure (34% of its loan book). The bank's lending focuses on the real estate and corporate sectors in SH. Its loan book entails sizeable concentrations, for example to multi-family housing, in line with other German regional development banks. IB.SH has a moderate share of pass-through development loans, where borrowers' commercial banks bear the credit risk, which mitigates IB.SH's credit risk.

IB.SH's high-quality liquidity portfolio mainly comprises (sub-) sovereign, corporate, unsecured bank and covered bonds. Unrealised losses in IB.SH's bond investment portfolio accounted for about 24% of IB.SH's equity at end-2022, but the bonds are held to collect and the bank's predictable cash flow and mostly matched-funded balance sheet make a sell of these securities unlikely.

### Earnings and Profitability

IB.SH does not focus on profit maximisation but funds its statutory development and support activities without relying on financial contributions from SH and must cover the operating and risk costs from its promotional activities. A conservative risk profile means it has consistently generated sufficient recurring earnings to perform its promotional business and other statutory tasks. IB.SH's earnings are limited by its low-margin business. IB.SH's revenue relies strongly on net interest income from its lending business and from its more volatile treasury activities, given its negligible fee income.

### Capital and Leverage

Steady profit retention ensures sufficient capital buffers above the existing and expected regulatory requirements. IB.SH's total capital ratio of 20.7% at end-2022 was strong despite the conservative risk-weights arising from the use of the standardised approach to assess its credit risk.

### Funding and Liquidity

IB.SH is purely wholesale-funded and does not take deposits from the public. It has good access to the debt market and has broadened its investor base in recent years by increasingly issuing in benchmark format.

## Financials

### Summary Financials

	31 Dec 22		31 Dec 21	31 Dec 20	31 Dec 19
	(USDm) Audited - unqualified	(EURm) Audited - unqualified	(EURm) Audited - unqualified	(EURm) Audited - unqualified	(EURm) Audited - unqualified
<b>Summary income statement</b>					
Net interest and dividend income	159	149	139	140	142
Net fees and commissions	-1	-1	-1	-1	0
Other operating income	43	40	33	22	13
Total operating income	201	188	170	160	155
Operating costs	129	121	105	83	77
Pre-impairment operating profit	72	67	65	77	77
Loan and other impairment charges	-9	-8	21	35	9
Operating profit	80	75	44	42	68
Other non-operating items (net)	-77	-72	-41	-39	-65
Tax	0	0	0	0	0
Net income	3	3	3	3	3
<b>Summary balance sheet</b>					
<b>Assets</b>					
Gross loans	13,258	12,430	11,877	11,968	11,549
Loan loss allowances	135	127	140	119	90
Net loans	13,123	12,303	11,737	11,849	11,459
Interbank	4,910	4,603	4,450	4,602	4,444
Other securities and earning assets	3,232	3,030	2,625	2,968	2,777
Total earning assets	21,264	19,937	18,812	19,418	18,680
Cash and due from banks	3	3	914	361	321
Other assets	183	172	183	102	111
Total assets	21,451	20,112	19,909	19,881	19,111
<b>Liabilities</b>					
Customer deposits	1,792	1,680	808	1,159	1,381
Interbank and other short-term funding	10,294	9,651	10,213	10,241	9,779
Other long-term funding	5,982	5,609	5,795	5,451	4,982
Total funding and derivatives	18,068	16,940	16,816	16,851	16,143
Other liabilities	1,228	1,151	1,160	1,155	1,148
Total equity	2,155	2,021	1,933	1,876	1,821
Total liabilities and equity	21,451	20,112	19,909	19,881	19,111
Exchange rate		USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015

Source: Fitch Ratings, Fitch Solutions, IB.SH

## Key Ratios

	31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
<b>Profitability</b>				
Operating profit/risk-weighted assets	0.8	0.5	0.4	0.8
Net interest income/average earning assets	0.8	0.7	0.7	0.8
Non-interest expense/gross revenue	64.2	61.9	51.6	50.1
Net income/average equity	0.2	0.2	0.2	0.2
<b>Asset quality</b>				
Growth in gross loans	4.7	-0.8	3.6	4.5
Loan impairment charges/average gross loans	-0.1	0.2	0.3	0.1
<b>Capitalisation</b>				
Tangible common equity/tangible assets	10.0	9.7	9.4	9.5
Basel leverage ratio	20.7	20.3	20.0	20.0
<b>Funding and liquidity</b>				
Gross loans/customer deposits	739.9	1,469.7	1,032.8	836.1
Gross loans/customer deposits + covered bonds	739.9	1,469.7	1,032.8	836.1
Liquidity coverage ratio	178.0	188.0	250.0	193.0
Customer deposits/total non-equity funding	9.9	4.8	6.9	8.6
Net stable funding ratio	112.0	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, IB.SH

## 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

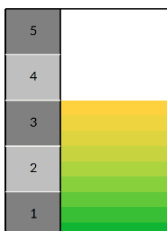
The colours indicate the weighting of each KRD in the assessment.

■ Higher influence ■ Moderate influence ■ Lower influence

The guarantee and IB.SH’s important role for SH’s economy have a high influence on the bank’s Shareholder Support Rating and drive the alignment of its IDRs with those of SH.

## Environmental, Social and Governance Considerations

### Overall ESG

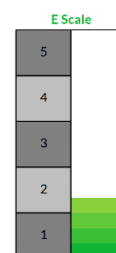


### How relevant are E, S and G issues to the overall credit rating?

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.

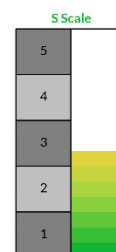
### Environmental (E)

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



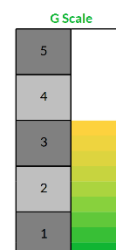
### Social (S)

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 [www.fitchratings.com/topics/esg/products#esg-relevance-scores](http://www.fitchratings.com/topics/esg/products#esg-relevance-scores).



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