

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 (Gewahrtraegerhaftung).

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, as the nature of support from SH is unlikely to change due to IB.SH's strategic role for SH's economy.

Ratings Aligned with Germany's: As a fully owned bank of SH, IB.SH'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 SH, are linked to those of Germany due to a strong mutual support system among Laender, an extensive financial equalisation mechanism, and the solidarity principle.

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 as it exclusively undertakes non-competitive activities, similar to peers. 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 its 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 one 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: As with other German development banks, Fitch Ratings does not assign a Viability Rating to IB.SH as the bank's operations are largely 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 \(March 2024\)](#)

Related Research

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

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

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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

Business Profile

Supporting 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, focusing on SMEs and 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 EUR2.9 billion in 2023 (2022: EUR3.6 billion, including EUR0.5 billion pandemic aid) reflecting the end of pandemic aid measures and lower demand for housing loans and investment loans from corporates due to higher interest rates and uncertain economic prospects. Promotional lending accounted for about 70% of new business, followed by grants (25%), and guarantees and warranties (5%) and grants for 25%, broadly in line with 2022.

We expect promotional activities with municipalities to intensify in the next few years, particularly for dedicated to transition financing measures. We also believe social housing will remain a key development area as promotional activities help counterbalance Germany's sharply declining construction activity amid already-tight housing markets and rising rents.

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 a modest fee income by offering advisory and other services on promotional issues as well as through 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 (about 30% of its loan book in recent years). The bank's lending focuses on the real estate and corporate sectors in SH. Its loan book entails sizeable concentrations, such as 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.

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. Due to its conservative risk profile, 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. SH relies strongly on net interest income, given its negligible fee income, in part from its more volatile contribution from its treasury activities.

Capitalisation and Leverage

Steady profit retention ensures sufficient capital buffers above the existing and expected regulatory requirements. IB.SH's total capital ratio (end-2023: 21.5%) 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. We expect it to issue about EUR1.2 billion–EUR1.4 billion in 2024.

Financials

Financial Statements

	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
Summary income statement					
Net interest and dividend income	168	153	149	139	140
Net fees and commissions	0	0	-1	-1	-1
Other operating income	43	40	40	33	22
Total operating income	211	193	188	170	160
Operating costs	125	114	121	105	83
Pre-impairment operating profit	87	79	67	65	77
Loan and other impairment charges	13	12	-8	21	35
Operating profit	74	67	75	44	42
Other non-operating items (net)	-70	-64	-72	-41	-39
Net income	3	3	3	3	3
Summary balance sheet					
Assets					
Gross loans	13,964	12,745	12,430	11,877	11,968
Loan loss allowances	147	134	127	140	119
Net loans	13,817	12,611	12,303	11,737	11,849
Interbank	4,608	4,206	4,603	4,450	4,602
Other securities and earning assets	3,795	3,464	3,030	2,625	2,968
Total earning assets	22,220	20,281	19,937	18,812	19,418
Cash and due from banks	8	7	3	914	361
Other assets	176	160	172	183	102
Total assets	22,404	20,449	20,112	19,909	19,881
Liabilities					
Customer deposits	1,977	1,804	1,680	808	1,159
Interbank and other short-term funding	10,270	9,374	9,651	10,213	10,241
Other long-term funding	6,603	6,027	5,609	5,795	5,451
Total funding and derivatives	18,850	17,205	16,940	16,816	16,851
Other liabilities	1,256	1,147	1,151	1,160	1,155
Total equity	2,298	2,097	2,021	1,933	1,876
Total liabilities and equity	22,404	20,449	20,112	19,909	19,881
Exchange rate		USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963

Source: Fitch Ratings, Fitch Solutions, IB.SH

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	0.7	0.8	0.5	0.4
Net interest income/average earning assets	0.8	0.8	0.7	0.7
Non-interest expense/gross revenue	59.0	64.2	61.9	51.6
Net income/average equity	0.2	0.2	0.2	0.2
Asset quality				
Growth in gross loans	2.5	4.7	-0.8	3.6
Loan impairment charges/average gross loans	0.1	-0.1	0.2	0.3
Capitalisation				
Tangible common equity/tangible assets	10.2	10.0	9.7	9.4
Total capital ratio	21.5	20.7	20.3	20.0
Funding and liquidity				
Gross loans/customer deposits	706.4	739.9	1,469.7	1,032.8
Liquidity coverage ratio	182.0	178.0	188.0	250.0
Customer deposits/total non-equity funding	10.5	9.9	4.8	6.9
Net stable funding ratio	118.0	112.0	—	—

Source: Fitch Ratings, Fitch Solutions, IB.SH

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 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

FitchRatings Investitionsbank Schleswig-Holstein

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

ESG Relevance to
Credit Rating

<p>Investitionsbank Schleswig-Holstein has 5 ESG potential rating drivers</p> <ul style="list-style-type: none"> Investitionsbank Schleswig-Holstein 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. 	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) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
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 relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact. 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), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
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) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
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.

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.

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