

Investitions- und Strukturbank Rheinland-Pfalz

Update

Key Rating Drivers

Owner Support Drives Ratings: Investitions- und Strukturbank Rheinland-Pfalz's (ISB RP) ratings are based on support from the bank's ultimate owner, the German federal State of Rhineland-Palatinate (RP; AAA/Stable/F1+). RP provides an explicit and irrevocable, unlimited, unconditional and first-demand statutory guarantee covering all of ISB RP'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 ISB RP drive the equalisation of the bank's ratings with RP. The Stable Outlook on ISB RP's Long-Term Issuer Default Rating (IDR) mirrors that on the bank's owner and guarantor, given that the nature of support from RP is unlikely to change due to ISB RP's strategic role for RP's economy.

Regional Development Bank: ISB RP has a mandate to support the regional government's economic, social, and environmental policies. ISB RP provides subsidised long-term loans, grants and guarantees with a focus on municipal and infrastructure financing in RP. It also supports corporates (with grants to foster employment, new technologies, digitalisation and sustainability) and households (with subsidised loans for social housing construction and modernisation). ISB RP also acts as agent for RP's venture-capital financing.

Support Compliant with EU Rules: ISB RP's business model complies with EU state-aid rules as it exclusively undertakes non-competitive business, similar to its peers'. A state guarantee framework agreed in 2002 by Germany and the European Commission allows German public-sector development banks to receive state support.

Legal Insolvency Protection: ISB RP is insolvency-remote by law and, in line with other German development banks, has not been subject to capital requirement regulation since June 2019, but has to 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 ISB RP's debt benefit from 0% regulatory risk-weighting and level one treatment for their liquidity coverage ratios. This ensures ISB RP's reliable access to debt markets.

No VR Assigned: Fitch Ratings does not assign a Viability Rating (VR) to ISB RP as its operations are largely determined by its policy role as a development bank, as with other German development banks.

Ratings Aligned with Germany's: ISB RP's ratings are indirectly linked to the German sovereign ratings (AAA/Stable/F1+), as a fully owned bank of RP. This is because the ratings of the German Laender (federal states), including RP, 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.

Ratings

Foreign Currency	
Long-Term IDR	AAA
Short-Term IDR	F1+
Shareholder Support Rating	aaa

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

Banks Rating Criteria (March 2024)

Related Research

Fitch Affirms Investitions- und Strukturbank Rheinland-Pfalz at 'AAA'; Outlook Stable (January 2023)

Fitch Affirms German Development Banks' Joint Agency Social Bond at 'AAA' (January 2024)

Fitch Affirms Germany at 'AAA'; Outlook Stable (March 2024)

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Rating Sensitivities

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

ISB RP's ratings are primarily sensitive to negative changes in RP's ratings, which, in turn, are linked to those of Germany.

A downgrade of ISB RP's IDRs would most likely result from a downgrade of RP's IDRs. The bank's ratings are also sensitive to adverse changes in Fitch's assumptions about RP's propensity of support. This could result from a weakening of the terms of RP's guarantees.

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

ISB RP'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
Senior unsecured: long-term	AAA

Source: Fitch Ratings

ISB RP's senior unsecured debt rating is aligned with the bank's Long-Term IDR.

Significant Changes from Last Review

Solid Promotional Loan Business; Strongly Declining Grants

The volume of ISB RP's total new promotional business (loans, grants and guarantees) of almost EUR2 billion in 2023 was well below the previous year (EUR2.8 billion). This is mainly due to significantly lower grants (-78% yoy), which dropped from EUR1.349 million in 2022 to EUR367 million as most pandemic-related support measures were faded out in 2023. These extraordinary measures accounted for almost half of ISB RP's new business in 2022. The bank's promotional loan business on the contrary increased notably by 7.4% in 2023, led by its SME segment despite a weak economic environment in Germany.

Financing of municipal and infrastructure remained ISB RP's strongest business segment in 2023 in terms of new loan volume (EUR847.3 million), accounting for more than half of ISB RP's total promotional lending. The higher share in this segment differentiates ISB RP from most of its regional development bank peers and the credit risk for municipal and infrastructure lending is primarily borne by public sector sources.

Developments in the housing segment were ambiguous as housing related loans and grants declined by almost 30%, but mainly due to the decline in flood-related support measures to address housing damages and rebuilding in the Ahrtal. Social housing support remained a key focus for ISB RP with a significantly higher number of apartments (around 3,000 units versus 1,800 units in 2022) being created for low- and middle-income earners. However, activity is overall subdued due to higher interest rates, rising construction costs, supply bottlenecks and high energy standards – similar to development at other regional development banks.

Normalisation of Business Expected for 2024 and 2025

ISB RP's management expects a normalisation of its business in the coming two years, with its traditional lending programmes dominating new business as non-recurring specific measures recede. However, in 2023 ISB RP continued support measures for households and corporates, that were affected by the flood in the Ahrtal region in 2021. The total volume of approved applications reached almost EUR1.3 billion on 1 July 2024. The application deadline for these support measures was extended to end-June 2026 by the German government and the affected federal states.

Moderate Capital Market Issuance

ISB RP's moderate balance sheet size leads to a less pronounced capital market presence compared to larger peers. In 2023, ISB RP issued EUR575 million debt securities (2022: EUR695 million), equivalent to about a third of its long-term funding. ISB RP plans at least a similar issue size this year.

Financials

Financial Statements

	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	12 months (USDm)	12 months (EURm)	12 months (EURm)	12 months (EURm)	12 months (EURm)
Summary income statement					
Net interest and dividend income	45	41	35	28	28
Net fees and commissions	29	27	29	20	16
Other operating income	5	4	1	2	1
Total operating income	79	73	65	49	45
Operating costs	67	61	60	49	44
Pre-impairment operating profit	13	12	5	0	2
Loan and other impairment charges	2	2	2	-1	1
Operating profit	11	10	3	2	1
Other non-operating items (net)	-9	-8	-2	-	0
Tax	0	0	0	0	0
Net income	2	2	2	2	1
Summary balance sheet					
Assets					
Gross loans	8,147	7,437	7,048	6,304	6,122
Net loans	8,147	7,437	7,048	6,304	6,122
Interbank	1,750	1,597	1,670	1,490	1,902
Other securities and earning assets	1,193	1,089	906	847	832
Total earning assets	11,090	10,122	9,624	8,641	8,856
Cash and due from banks	10	9	16	282	185
Other assets	16	15	15	12	11
Total assets	11,116	10,146	9,654	8,935	9,052
Liabilities					
Customer deposits	1,032	942	1,165	1,389	1,437
Interbank and other short-term funding	7,718	7,044	6,920	6,679	7,287
Other long-term funding	1,980	1,808	1,225	525	-
Total funding and derivatives	10,730	9,794	9,309	8,593	8,724
Other liabilities	89	81	84	84	72
Total equity	297	271	261	258	256
Total liabilities and equity	11,116	10,146	9,654	8,935	9,052
Exchange rate		USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963

Source: Fitch Ratings, Fitch Solutions, ISB RP

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)				
Profitability				
Net interest income/average earning assets	0.4	0.4	0.3	0.3
Non-interest expense/gross revenue	84.0	92.3	99.4	96.2
Net income/average equity	0.7	0.7	0.6	0.4
Asset quality				
Growth in gross loans	5.5	11.8	3.0	11.1
Loan impairment charges/average gross loans	0.0	0.0	0.0	0.1
Capitalisation				
Tangible common equity/tangible assets	2.7	2.7	2.9	2.8
Funding and liquidity				
Gross loans/customer deposits	789.6	605.0	453.9	426.1
Liquidity coverage ratio	282.5	210.5	238.1	153.9
Customer deposits/total non-equity funding	9.6	12.5	16.2	16.5
Net stable funding ratio	129.3	110.6	—	—

Source: Fitch Ratings, Fitch Solutions, ISB RP

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

ISB RP's important role in RP's economic development, and RP's commitments resulting from the statutory support mechanisms, have a high influence on the bank's IDRs and SSR of 'aaa', and drive the alignment of the bank's IDRs with those of RP.

Environmental, Social and Governance Considerations

Credit-Relevant ESG Derivation

Investitions-und Strukturbank Rheinland-Pfalz has 5 ESG potential rating drivers				Overall ESG Scale	
	key driver	0	issues	5	
<ul style="list-style-type: none"> Investitions-und Strukturbank Rheinland-Pfalz 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. 	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	<p>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.</p> <p>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.</p> <p>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.</p>
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	

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale	<p>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).</p> <p>Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.</p>
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)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale	CREDIT-RELEVANT ESG SCALE How relevant are E, S and G issues to the overall credit rating?
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	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.
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	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.
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	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.
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	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 <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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