FitchRatings

Banks
Development Banks
Germany

Investitions-und Strukturbank Rheinland-Pfalz

Key Rating Drivers

Aligned with Guarantor's Ratings: The Issuer Default Ratings (IDRs) of Investitions-und Strukturbank Rheinland-Pfalz (ISB RP) are aligned with those of its owner, the German Federal State of Rhineland Palatinate (RP), based on RP's strong ability and propensity to support the bank. The Outlook on the bank's Long-Term IDR mirrors the Stable Outlook on RP's Long-Term IDR and Fitch Ratings' expectation that ISB RP's importance for RP is unlikely to diminish.

Strong Support Mechanism: We align ISB RP's IDRs with those of RP to reflect the bank's policy role and RP's threefold support obligations. An institutional liability (Anstaltslast) obliges RP to maintain ISB RP's operations in the event of financial distress; a statutory liability (Gewaehrtraegerhaftung) obliges RP to support ISB RP in the event of insolvency or liquidation (whereas ISB RP is statutorily insolvency protected and can only be dissolved by law); and a direct, explicit, unconditional guarantee covers ISB RP's liabilities.

Creditors can present claims against ISB RP directly to the federal state based on the guarantee.

RP's IDRs Aligned with Sovereign: We align the German federal states' IDRs with Germany's to reflect their strong mutual support, extensive financial equalisation and solidarity principle.

Core Policy Role: As a public-law institution and RP's policy bank, ISB RP fulfils core functions by supporting public and private investments in the region. It assists in the government of RP's social, environmental and economic policies, in which the bank is embedded through its statutes. As a strong contributor to RP's economic welfare, ISB RP was instrumental in moderating the impact of the pandemic on RP's households and corporates.

Competition-Neutral Activities: Support from RP is compatible with EU competition rules because the bank engages in non-competitive business only. An agreement in 2002 between the German government and the European Commission allows German public-sector development banks to receive state support for their development business, as long as the banks' activities remain purely promotional and non-competitive.

Benefits from Regulatory Exemptions: As a German development bank, ISB RP is not subject to the Capital Requirements Directive V, the Capital Requirement Regulation, the German Deposit Guarantee Act, the Single Resolution Mechanism, the Recovery and Resolution Act and the Restructuring Fund Act. The bank is not obliged to draw up recovery plans.

Development Financing Product Suite: ISB RP provides subsidised long-term loans, grants and guarantees with a focus on municipal and infrastructure financing. It also supports both corporates (with grants to foster employment, new technologies, digitalization and sustainability) and households (with subsidised loans for social housing construction and modernisation). It also acts as agent for RP's venture capital financing.

No Viability Rating: As with the other German development banks, we do not assign a Viability Rating to ISB RP because its operations are largely determined by its policy role.

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

Bank Rating Criteria (November 2021)

Related Research

Fitch Rates Investitions- und Strukturbank Rheinland-Pfalz 'AAA'; Outlook Stable (July 2022)

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Ratings Sensitivities

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

A downgrade of ISB RP's IDRs would most likely result from a downgrade of RP's IDRs, likely to be driven by a downgrade of Germany' IDRs. The bank's ratings are also sensitive to adverse changes in Fitch Ratings' assumptions about RP's propensity of support. This could result from a weakening of the terms of RP's guarantees. The agreement in 2002 with the European Commission makes significant adverse changes to the bank's business model unlikely.

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
Senior Unsecured: Long Term	AAA

Source: Fitch Ratings

Senior Unsecured Debt

ISB RP's long-term senior unsecured debt rating is aligned with its Long-Term IDR. The differentiation between senior preferred and senior non-preferred debt does not apply to ISB RP, because, as a public development bank, it is insolvency-remote by law and cannot become subject to bail-in or insolvency proceedings.

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

A downgrade of ISB RP's IDRs would result in a downgrade of the bank's senior unsecured debt ratings.

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.

Company Summary and Key Qualitative Factors

Operating Environment

Limited Vulnerability to Deteriorating Environment: ISB RP finances projects for corporates, municipalities and households in RP and is not exposed to Russia or Ukraine. Nevertheless, its promotional activities are linked to factors that affect the dynamics of the national and regional economy. We expect the operating environment for German banks to deteriorate as lockdowns in China and the war in Ukraine hinder the post-pandemic economic recovery, affecting business and consumer confidence and credit volumes by exacerbating supply-chain disruptions, energy price inflation and raw material shortages.

German Growth Forecast Lowered: Fitch expects the German GDP to grow by only 1.6% in 2022 (compared to 2.5% in our March forecast) and reach its pre-pandemic level only in 1Q23. As Russian natural gas accounts for 19% of Germany's total primary energy consumption, the German industry remains exposed to gas supply and price volatility. The latest wage agreements in 1Q22 foresee a 4.4% annual wage increase, and a minimum wage increase is planned in 4Q22. Fitch expects a headline inflation of 5.6% to end-2022, which will squeeze household income and consumer spending.

Business Profile

Export-Driven Regional Economy: RP is a mid-sized German federal state by area that neighbours France, Belgium and Luxembourg. It has about four million inhabitants (5% of the German population) and its GDP per capita of about EUR 40,000 at end-2021 is moderately below the German average. However, RP has the third-lowest unemployment rate among the 16 German states. Its ratio of above 55% of domestically produced goods and services that go into export indicates an open regional economy. SMEs from the chemical, pharmaceutical, automotive, and mechanical engineering industries, which are key pillars of RP's economy.

RP's GDP grew by 9.6% in real terms (Germany: +2.9%) to EUR162 billion in 2021 (4.5% of Germany's GDP). Its budgetary performance was very good, with a surplus of EUR2.3 billion largely driven by recovering tax revenues (+22% yoy). RP's debt per capita of EUR7,000 at end-2021 is slightly below the average of western German states.

Significant Coronavirus Support Programs: ISB RP originated an exceptionally high EUR3.0 billion of development business in 2021, due to EUR1.8 billion of pandemic-related emergency support, driven by strong demand for government grants (at the expense of its loan business). The bank also set up specific support for households and corporates that suffered a flood in the Ahrtal region in 2021. Business volumes from emergency programmes are likely to decrease as pandemic support programmes are being phased out.

Risk Profile

Low-Risk Profile: Similar to its German development bank peers, ISB RP's risk appetite is aligned with its policy role, with limited incentives to assume more risks to increase profits. ISB RP aims to generate sufficient earnings to conduct its policy roles and strengthen its capital without relying on capital injections from RP.

The majority of its loan book is low-risk due to its focus on municipal and infrastructure lending, where credit risk is similar to the federal state's. At end-2021, ISB RP assumed only 12% of the default risk of its lending and guarantee business volumes. For housing-related loans, RP typically provides an 80% guarantee on the investment, while the remaining 20% is secured by second charges on the residential properties.

ISB RP launched a housing loan programme outside its established social housing promotional framework in 2021 to help mitigate housing shortages. The bank carries the credit risk from this programme, which is still relatively small. 15% of ISB RP's loans are pass-through development loans, where borrowers' commercial banks assume the credit risk. ISB RP's trust assets do not entail credit risk. In its venture capital business, the bank acts as an agent only.

ISB RP's bond investment guidelines are not particularly conservative, with 'BBB+' the minimum eligible rating for new bond investments which leaves room for additional income generation in light of its low margins. Its bond portfolio mainly comprises (sub)-sovereign, corporate and unsecured bank bonds.

Limited Interest Rate Risk: Duration mismatches between the bank's assets and liabilities are moderate, as a large share of its funding is from other development banks with matching maturities, while only the granular part of its promotional business bears smaller mismatches. ISB RP hedges its interest rate risk with derivatives.

Financial Profile

Asset Quality

Robust Asset Quality: ISB RP's gross impaired loan ratio of 0.2% at end-2021 reflects its prudent underwriting standards in direct lending and lower-risk municipal and infrastructure exposure that account for about 60% of its loan book. We expect asset quality to remain resilient amid the weaker economic outlook for 2H22 and 2023. Corporate lending is limited because ISB RP directs this business mainly through grants. Its loan book entails sizeable concentrations on municipal entities, which we believe are sufficiently protected through mutual municipal liability.

Earnings and Profitability

Low Profitability: Similar to its peers, ISB RP does not seek profit maximisation but is expected to cover its operating and risk costs and preserve its equity with its own resources, without relying on contributions from RP. Owing to its conservative risk profile, it has consistently generated sufficient earnings to perform its policy business and statutory tasks. Its low margins and concentration on few segments, primarily municipal and infrastructure financing, constrain its earnings. Fee income (from the administration of trust assets and the allocation of grants) accounted for a higher proportion of ISB RP's total revenue than at most of its peers. Higher personnel and IT expenses are likely to weigh on profitability over the next two years as ISB RP invest in its service offering and digitalisation.

Capital and Leverage

Full Profit Retention Supports Capital Buffers: ISB RP's total capital ratio of 22.0% at end-2021 was strong considering the use of the standardised approach to assess credit risk and should continue to comfortably exceed its regulatory requirements. As in previous years, the bank will fully retain its 2021 profit. However, regulatory changes in the calculation of risk weights under the standardised approach (expected to become effective in 2023) ISB RP -like its peers- will experience a significant rise in risk-weighted assets (RWAs) that will drag on its capital ratios.

Funding and Liquidity

Diversifying Funding Franchise: Similar to its peers, ISB RP is purely wholesale-funded and does not take deposits from the public. Beside central bank funding (like most peers, it participated in the ECB's TLTRO), it sources a large share of its funding from the interbank market, including other development banks, especially KfW and Landwirtschaftliche Rentenbank. It issued EUR525 million of inaugural senior unsecured bonds in 2021 and plans further issuance in the next few years to broaden its investor base. It manages its liquidity prudently and reported an liquidity coverage ratio (LCR) of 238% and a net stable funding ratio (NSFR) of 111% at end-2021.

Financials

Financial Statements

Summary Financials and Key Ratios

	31 Dec 21 (EURm)	31 Dec 20 (EURm)	31 Dec 19 (EURm)	31 Dec 18 (EURm)
Summary income statement				
Net interest and dividend income	28	28	25	21
Net fees and commissions	20	16	12	12
Other operating income	2	1	3	3
Total operating income	49	45	39	37
Operating costs	49	44	39	39
Pre-impairment operating profit	0	2	-0	-3
Loan and other impairment charges	-1	1	-1	-3
Operating profit	2	1	1	1
Net income	2	1	1	1
Summary balance sheet				
Assets				
Gross loans	6,304	6,122	5,508	5,267
Net loans	6,304	6,122	5,508	5,267
Interbank	1,490	1,902	1,900	2,124
Other securities and earning assets	847	832	427	413
Total earning assets	8,641	8,856	7,835	7,804
Cash and due from banks	282	185	96	117
Other assets	12	11	11	12
Total assets	8,935	9,052	7,942	7,932
Liabilities				
Customer deposits	1,389	1,437	1,030	731
Interbank and other short-term funding	6,679	7,287	6,596	6,890
Other long-term funding	525	n.a.	n.a.	n.a.
Total funding and derivatives	8,593	8,724	7,626	7,621
Other liabilities	84	72	62	58
Total equity	258	256	255	254
Total liabilities and equity	8,935	9,052	7,942	7,932

Source: Fitch Ratings, Fitch Solutions, ISB RP

Summary Financials and Key Ratios

	31 Dec 21	31 Dec 20	31 Dec 19	31 Dec 18
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	n.a.	n.a.	n.a.	n.a.
Net interest income/average earning assets	0.3	0.3	0.3	0.3
Non-interest expense/gross revenue	99.4	96.2	100.5	106.8
Net income/average equity	0.6	0.4	0.4	0.2
Asset quality				
Impaired loans ratio	n.a.	n.a.	n.a.	n.a.
Growth in gross loans	3.0	11.1	4.6	0.4
Loan impairment charges/average gross loans	0.0	0.1	0.0	-0.1
Capitalisation				
Common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Tangible common equity/tangible assets	2.9	2.8	3.2	3.2
Funding and liquidity				
Gross loans/customer deposits	453.9	426.1	535.0	720.5
Liquidity coverage ratio	238.1	153.9	279.4	n.a.
Customer deposits/total non-equity funding	16.2	16.5	13.5	9.6

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

FitchRatings **Investitions-und Strukturbank Rheinland-Pfalz**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Investitions-und Strukturbank Rheinland-Pfalz has 5 ESG potential rating drivers

- 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.

			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	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	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.

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	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
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'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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.