FitchRatings

Banks
Development Banks
Germany

Investitions- und Strukturbank Rheinland-Pfalz

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 (September 2022)

Related Research

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

Fitch Affirms German Development Banks' Joint Agency Social Bond at 'AAA' (January 2023)

German Development Banks Peer Review - 2022 (November 2022)

Analysts

Roger Schneider
+49 69 768076 242
roger.schneider@fitchratings.com

Patrick Rioual
+33 1 44 29 91 21
patrick.rioual@fitchratings.com

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 (Gewaehrtraegerhaftung).

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.

Ratings Aligned with Germany's: ISP 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.

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 bank, has not been subject to capital requirement regulation (CRR) 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 1 treatment for their liquidity coverage ratios. This ensures ISB RP's reliable access to debt markets.

No VR Assigned: Fitch 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.

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, which is at the highest level on Fitch's rating scale.

Company Summary and Key Qualitative Factors

Operating Environment

Business Profile

Key Contributor to RP's Economic Development

The majority of ISB RP's loan book relates to municipal and infrastructure lending in its region, where the credit risk is perceived to be similar to the federal state's. The relatively higher share in this segment differentiates ISB RP from most of its regional development bank peers. ISB RP launched its own housing loan programme in 2021 in addition to its established government sponsored social housing promotional framework. Its share for lending to housing development is comparably smaller than peers, given the preference and high share of home ownership in RP. The bank also acts as an agent in relation to its venture capital business.

Substantial Covid-19 Relief and Natural Disaster Recovery Support

ISB RP has been instrumental in managing both national and regional Covid-19 support measures through the pandemic, like its peers. The related support exceeded EUR1.8 billion in 2021; we expect total Covid-19 support to be more than EUR2.0 billion as various support programmes started to be phased out in 2022 as the pandemic faded. However, as for peers, a thorough review of payments and eligibility of beneficiaries against defined support criteria still places a material operational burden on the bank.

ISB RP has also set up specific support for households and corporates that were affected by the flood in the Ahrtal region in 2021. This support continued in 2022 following payments of EUR70 million to end-2021.

Normalisation of Traditional Promotional Business Expected

We expect a normalisation of ISB-RP's new business volume, which was overstated by Covid-19 relief measures in recent years and a stronger focus on its traditional promotional business in 2022, including support to mitigate the impact from sharply rising energy costs. This implies a significantly lower share of grants (EUR 2.1 billion at end-2021) and a rising share of promotional loans (EUR921 million at end-2021), which materially declined in 2021. While ISB has no direct exposure to Russia or Ukraine given its regional business, a focus of potential support measures will be on mitigating the economic impact for corporates in RP, particularly those operating in energy-intensive sectors.

We expect a healthy business in its municipal and infrastructure lending, reflecting ongoing demand for digitalisation, modernisation and energy efficiency. ISB RP, like most German banks, faces more challenging conditions for promotion in its housing business segment due to rising interest rates for borrowers, higher building material prices and labour shortages, albeit an ongoing demand for subsidised rental housing.

Sustainability Strategy

ISB-RP committed itself to the UN's Sustainable Development Goals and built its defined sustainability strategy alongside the targets of its owner. We expect an increasing role for the bank to play in supporting the sustainable transformation of the economy.

Financial Profile

Asset Quality

ISB RP's asset quality is strong and its gross impaired loans ratio compares well with German commercial banks. The bank reflects its prudent underwriting standards in direct lending and a high share of lower-risk municipal and infrastructure exposure compared with peers. In this segment, the credit risk is primarily borne by public sources but not the bank itself. Its traditional promotional business is based on the pass through of credit risks to end-borrowers' house banks, as for peers, which instead exposes ISB RP to banking sector risks. Corporate lending is limited because ISB RP directs this business mainly through grants.

ISB RP's loan book entails sizeable concentrations on municipal entities, which we believe are sufficiently protected through mutual municipal liability. At end-2021, ISB RP assumed only 12% of the default risk of its lending and guarantee business volumes, which we do not expect to materially change in 2022. 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. Therefore, we expect ISB RP's asset quality to remain resilient, despite the deteriorating operating environment in Germany.

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

Earnings and Profitability

ISB RP does not seek profit maximisation, similar to its peers, but aims to generate sufficient earnings to conduct its policy role and strengthen its capital without relying on capital injections from RP. Owing to its conservative risk profile, the bank has consistently generated small but sufficient earnings to perform its policy business and statutory tasks in the past. We expect the bank to continue to achieve this in 2022 and in the future. Its low-margins business and focus on few segments, primarily municipal and infrastructure financing, constrain its earnings, however.

We expect ISB-RP to moderately benefit from rising interest rates, while net interest income can be volatile due to varying yearly contributions from its maturity transformation (including a TLTRO bonus in 2022). Fee income from the administration of trust assets and the allocation of grants accounts for a higher proportion of ISB RP's total revenue than at most of peers, but is likely to decline more notably when the compensation for Covid-19 services fades. Higher personnel and IT expenses weigh on profitability as ISB RP invests in its service offering, staffing and digitalisation.

Capital and Leverage

ISB RP is well capitalised (total capital ratio of 22.0% at end-2021), considering the use of the standardised approach to assess credit risk. We expect ISB RP to comfortably exceed its regulatory minimum requirements despite the introduction of an anticyclical buffer of 0.75% by BaFin, the German regulatory authority, in February 2022 and other add-ons. The bank will fully retain its 2021 profit, as in previous years. Regulatory changes in the calculation of risk weights under the standardised approach will increase ISB RP's risk-weighted assets (RWAs) in 2023 and weigh on its capital ratios, like for most peers. In our view, this will not constrain the bank's policy mandate and growth.

Funding and Liquidity

ISB RP is purely wholesale-funded and does not take deposits from the public, similar to peers. Besides central bank funding, ISB RP sources a material, albeit declining, share of its funding from the interbank market, including from other development banks, especially KfW and Landwirtschaftliche Rentenbank. ISB RP's capital market history is comparably younger, as only in 2021 the bank issued EUR525 million of inaugural senior unsecured bonds. ISB RP was one of the three participating development banks issuing benchmark joint agency social bonds as a novelty in German capital markets at end-September 2022.

We expect the bank's capital market issuance to be higher in 2022 compared with the previous year (including its 35% share in the joint agency social bond) and expect continued and regular tapping of capital markets in the future, which will diversify its funding profile.

Financials

Financial Statements

	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

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.

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.