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Research Update:

Germany-Based WIBank 'AA+/A-1+' Ratings Affirmed; Outlook Stable

Primary Credit Analyst:

Michael Stroschein, Frankfurt (49) 69-33-999-251; michael.stroschein@spglobal.com

Secondary Contact:

Benjamin Heinrich, CFA, FRM, Frankfurt + 49 693 399 9167; benjamin.heinrich@spglobal.com

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Overview

- Alongside its core promotional banking activities in support of regional infrastructure, housing, and social and economic development, Wirtschafts- und Infrastrukturbank Hessen (WIBank) is currently demonstrating its key economic policy role for the State of Hesse by refinancing and helping to operate "Hessenkasse," the state's effort to restructure practically all short-term debt of Hessian municipalities into longer maturities.
- We equalize our ratings on WIBank with those on the State of Hesse, as we see an almost certain likelihood of extraordinary government support for WIBank in the event of financial distress.
- We are therefore affirming our 'AA+/A-1+' ratings on WIBank.
- The outlook is stable, reflecting the outlook on the State of Hesse.

Rating Action

On Oct. 8, 2018, S&P Global Ratings affirmed its 'AA+' long-term and 'A-1+' short-term local and foreign currency issuer credit ratings on the German state development bank Wirtschafts- und Infrastrukturbank Hessen (WIBank). The outlook is stable.

Rationale

WIBank is Hesse's state promotional bank. It administers lending programs and grant transfer schemes in support of local enterprises, infrastructure, social housing, urban development, agriculture, education and employment, and, since 2018, refinances a voluntary restructuring program for short-term municipal debt.

We base our ratings on WIBank on our opinion of its status as a government-related entity (GRE). We assume an almost certain likelihood of extraordinary support from the State of Hesse, the bank's guarantor, in case of financial difficulties. Accordingly, we equalize our ratings on WIBank with those on Hesse.

Our view that there is an almost certain likelihood of extraordinary government support reflects our assessment of WIBank's:

- Critical role. As the state's only promotional bank, WIBank plays a

pivotal role in support of Hesse's economic and social development initiatives. In particular, it administers and executes the monetary aspects of the vast majority of the state's promotional lending and grant-giving programs. Acting only on behalf of the state, and with a guarantee that creates a direct fiscal importance for the state, the bank's business model is clearly different from that of a commercial bank and cannot readily be transferred to a private entity, in our view.

- **Integral link.** Founded as a public law institution and by an act of the state parliament, WIBank essentially acts as an arm of the state. Its business strategy is approved and its lending programs are monitored by a special supervisory board where state representatives are reserved a majority. Hesse is the explicit guarantor of all of WIBank's liabilities, and we understand the guarantee framework provides for the repayment of WIBank's financial obligations by the state on first request. WIBank could only be dissolved by an act of the state parliament.

We expect that WIBank will generally continue to play a prominent public policy role as Hesse's development bank and moderately increase the volume of its "traditional" promotional banking activities. Reflecting political priorities, we assume, in particular, (limited) growth in the volume of funding provided for housing and the development of local enterprises.

WIBank's role as the state's banking partner for the refinancing and operation of "Hessenkasse" is, however, currently more visible and much larger in size than the bank's other new business volume generated. This state-organized scheme enables municipalities to voluntarily restructure about €5 billion of short-term loans into longer-term obligations, spread out their repayment over a 30-year period, and benefit from Hesse taking over, at least, one-half of the principal repayments as well as the full interest cost. WIBank's leading role in this operation further emphasizes its relevance as a key economic policy tool of the state. Because of providing the refinancing for the Hessenkasse program, we expect WIBank's balance sheet to expand by about €3 billion still in 2018. Already, WIBank sourced part of the required funding for Hessenkasse from the capital market by having issued two benchmark bonds in 2018.

WIBank has a special public status as an institute-within-institute, or "Anstalt in der Anstalt," meaning that while legally fully embedded into Landesbank Hessen-Thüringen (Helaba)--and benefitting, for example, from Helaba's banking licence, IT systems, and (regulatory) reporting structure--it retains operational independence and produces a separate set of accounts. Furthermore, this structure allows Hesse to guarantee WIBank's obligations in a way that we understand to be acceptable to EU competition authorities.

We do not expect the bank's public policy role, institutional set-up, or the guarantee mechanism to change in the medium term. Furthermore, in our view, there is currently no uncertainty regarding Hesse's willingness to support WIBank under practically all circumstances, since it is one of the state's key GREs, and that it has access to sufficient financial resources to do so.

Outlook

The outlook on WIBank is stable, reflecting that on Hesse. Given our assessment of an almost certain likelihood of extraordinary government support if needed, any future rating actions on WIBank, positive or negative, would likely be triggered by one on the state.

We could also downgrade WIBank if we concluded that the bank's public policy role for or link with the state had weakened meaningfully. For example, changes to the bank's guarantee or ownership structure, or a significant portion of promotional lending channeled through other institutions in the future could signal a relevant change. However, we currently consider such a scenario as highly unlikely.

Key Statistics

Table 1

Wirtschafts- Und Infrastrukturbank Hessen (WIBank) Key Figures				
	2014	2015	2016	2017
Adjusted assets	15,861	16,813	17,413	17,627
Growth in adjusted assets (%)	9.4	6.0	3.6	1.2
Customer loans	8,760	9,444	9,579	9,664
Loans to banks	6,381	6,670	7,010	7,086
Loans from refinancing banks	10,961	11,340	11,668	11,707
Bonds issued	1,531	1,913	2,053	2,098
Other funding instruments	640	813	826	902
Operating revenues	88	96	96	93
Noninterest expenses	74	75	64	73
Core earnings	13	21	20	14
Net interest income/operating revenues (%)	56.1	55.6	51.2	55.6
Fee income/operating revenues (%)	42.9	43.6	40.2	42.8
Noninterest expenses/operating revenues (%)	84.6	78.4	66.6	78.5

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Research Update: German State of Hesse Ratings Affirmed At 'AA+/A-1+' On Very Strong Finances; Outlook Stable, Aug. 31, 2018
- Research Update: Outlook On S-Finanzgruppe Hessen-Thueringen Members Now Positive On Improving Capitalization; 'A/A-1' Ratings Affirmed, Aug. 21, 2018
- Banking Industry Country Risk Assessment: Germany, Oct. 11, 2017

Ratings List

Ratings Affirmed

Wirtschafts- Und Infrastrukturbank Hessen (WIBank)

Issuer Credit Rating	AA+/Stable/A-1+
Senior Unsecured	AA+

Additional Contact:

EMEA Sovereign and IPF; SovereignIPF@spglobal.com

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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