

Wirtschafts- und Infrastrukturbank Hessen

October 23, 2023

This report does not constitute a rating action.

Credit Highlights

Overview

Key strengths

Almost certain likelihood of timely and sufficient extraordinary support from Hesse government in the event of financial distress.

Critical public policy role for, and integral link with, the government for implementing government economic policies.

Twofold guarantee mechanism covers liabilities.

Key risks

Complex structure as an institute-within-institute, relying on Helaba's banking license and various support services.

Small and almost no own or separate tangible capital with the Helaba umbrella fulfilling all capital requirements.

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Outlook

The stable outlook on Wirtschafts- und Infrastrukturbank Hessen (WIBank) reflects that on the state of Hesse. We believe the bank's status as Hesse's key tool in implementing economic and social development policies, and its explicit guarantee, will not change over the medium term.

Downside scenario

Any negative rating action on Hesse would trigger a similar one on WIBank. In addition, a material weakening of the bank's key policy role for, or link to, the state could also constrain the rating. For example, changes to WIBank's guarantee or ownership structure, or a significant portion of promotional lending being channeled through other institutions could prompt a negative rating action.

Upside scenario

We could raise the ratings on WIBank if we took a similar rating action on Hesse.

Rationale

We equalize our ratings on WIBank with those on the state of Hesse. We regard WIBank a government-related entity (GRE), benefiting from an almost certain likelihood of timely and sufficient government support if needed. We base this assessment on the bank's:

- Critical role for the government as Hesse's only development bank, which carries out key government-mandated policies in support of housing, infrastructure, agriculture, education, urban, and business development, as well as social and environmental projects in Hesse. WIBank is also involved in managing various economic support funds that can provide capital to eligible businesses. We expect the bank to retain its flagship role as the sole regional development bank in Hesse, remaining essential to the state's economic and social development initiatives.
- Integral link to the government of Hesse, as demonstrated by WIBank's special public status defined by an act of the state parliament, the state's explicit and comprehensive guarantee framework for an institution's debt liabilities, the government's strategy for the bank's lending programs, and the reserved majority for state representatives on the bank's supervisory board. WIBank is legally fully embedded into Landesbank Hessen-Thüringen (Helaba), which is 8% owned by the state. The bank benefits from Helaba's banking license, IT systems, and (regulatory) reporting structure, but retains operational independence and produces a separate set of accounts. The state's minister of economy and minister of finance, and another two representatives appointed by the state government sit on the bank's board and cannot be outvoted. The bank can only be dissolved by an act of the state parliament.

The guarantee structure for WIBank demonstrates the integral link between the bank and Hesse. The guarantee framework is twofold, comprising the statutory guarantee of Hesse (Gewährträgerhaftung), which we understand is not timely, and the state's explicit guarantees on liabilities for loans incurred and bonds issued. The guarantee mechanism fully complies with the relevant agreement from 2002 between Germany and the EU on guarantees for promotional banks (Agreement II).

We expect WIBank to continue to play a critical public policy role as the state's only development bank and dominant economic promotion agency. The bank's business model is distinctly different from that of a commercial bank because the bank focuses purely on promotional activities and the execution of government policies. These cannot readily be transferred to a private entity, in our view.

Since 2018, WIBank has refinanced a voluntary program for short-term municipal debt taken over by a fund created by Hesse. Over the past few years, the bank has also extended financial support to small and midsize businesses amid a challenging macroeconomic environment.

We do not view government support as subject to transition risk. Accordingly, we do not expect the ownership structure or guarantee mechanism to change. Since the ratings on WIBank are linked to those on the state government, we do not assess its stand-alone credit profile (SACP).

We believe WIBank's profits will remain relatively stable over the next few years. Total assets increased by €1.0 billion to €27.5 billion in 2022, and profits by €7.3 million to €23.9 million. The bank distributed the bulk to Helaba and retained the remainder on its balance sheet. All profits, whether retained at Helaba or at WIBank, are earmarked for promotional purposes.

In 2022, WIBank underwrote new business of €4.0 billion, up from €3.4 billion in 2021, under its program framework. The bank's housing segment volume increased, with a focus on social

housing units. Infrastructure financing also increased markedly in 2022, driven by ongoing COVID-related support programs for hospitals and municipalities' high investment spending.

WIBank's lending programs furthermore provided an attractive way for many Hessian municipalities to refinance themselves amid rising interest rates.

In response to the macroeconomic repercussions of the Russia-Ukraine conflict, some German state governments such as Hesse have come up with local policy initiatives beyond federal support. In December 2022, the Hesse state government mandated WIBank to administer and disburse a loan program for small and midsize companies as well as freelance workers to counteract elevated energy prices. The program will run until the end of 2023. In our view, this underlines the bank's importance for the state as a crucial policy and crisis response tool.

With the expiry of most COVID-related support programs, WIBank's new business volume will likely normalize in 2023. Volume could decrease to the pre-COVID level of around €2 billion. Following state elections in October 2023, we expect the bank to maintain its strategic orientation, with the potential expansion of support programs facilitating the green transition as well as a continued focus on financing municipal investments.

WIBank displays a solid funding base. The bank has the following predominant funding sources: (1) around €17.7 billion of borrowings from banks (such as KfW, "umbrella" Helaba, European Investment Bank); and (2) privately placed promissory notes (Schuldschein); and bonds (Namenschuldverschreibung).

Furthermore, WIBank has €3.1 billion of its own bonds (five issues) outstanding in public capital markets. The bank last issued bonds in January 2023, when it successfully issued a €600 million bond maturing in 2033. Finally, WIBank administers €1.9 billion of public funds originally injected into Helaba in 2005, which are used to fund eligible projects.

Key Statistics

	2022	2021	2020	2019	2018
Adjusted assets	27.501	26.460	25.879	24.905	24.105
Growth in adjusted assets (%)	3,9	2,2	3,9	3,3	36,8
Customer loans (gross)	14.392	13.949	14.130	13.924	14.023
Loans to banks	11.795	11.266	10.595	10.102	9.292
Loans from refinancing banks	17.679	16.833	16.724	16.337	16.019
Bonds issued	3.858	4.122	3.927	3.746	3.380
Other funding instruments	2.563	2.191	2.021	1.907	1.892
Operating revenues	145	130	118	106	95
Noninterest expenses	101	99	84	83	79
Core earnings	24	17	19	14	14
Net interest income/operating revenues	52,17	54,03	59,92	61,15	57,64
Fee income/operating revenues	45,68	44,73	38,87	37,92	41,30
Cost to income ratio	69,58	75,60	71,36	78,16	83,31

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Banking Industry Country Risk Assessment: Germany, June 6, 2023
- German State of Hesse Affirmed At 'AA+/A-1+'; Outlook Stable, Oct. 21, 2022

Ratings Detail (as of October 23, 2023)*

Wirtschafts- Und Infrastrukturbank Hessen (WIBank)

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

Issuer Credit Ratings History

27-Oct-2021	AA+/Stable/A-1+
28-Oct-2020	AA+/Negative/A-1+
06-Mar-2018	AA+/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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