

Research Update:

Wirtschafts- Und Infrastrukturbank Hessen Outlook Revised To Stable From Negative Following Similar Action On Hesse

October 27, 2021

Overview

- We revised our outlook on the German State of Hesse to stable from negative on Oct. 22, 2021.
- We equalize our ratings on Wirtschafts- und Infrastrukturbank Hessen (WIBank) with those on the state because we believe the bank enjoys an almost certain likelihood of extraordinary government support if necessary.
- We therefore revised our outlook to stable from negative and affirmed our 'AA+/A-1+' ratings on WIBank.

Rating Action

On Oct. 27, 2021, S&P Global Ratings revised its outlook on Wirtschafts- und Infrastrukturbank Hessen (WIBank), the German State of Hesse's bank for the promotion of local economic and social development, to stable from negative. At the same time, we affirmed our 'AA+/A-1+' long- and short-term issuer credit ratings on the bank.

Rationale

The outlook revision follows a similar rating action on the State of Hesse (see "German State of Hesse Outlook Revised To Stable On Improving Budgetary Performance; 'AA+/A-1+' Ratings Affirmed," published Oct. 22, 2021 on RatingsDirect). The outlook revision on the state reflects the reduced likelihood that Hesse's budgetary performance will not rebound in the coming two-to-three years. Rather, the swift recovery of tax revenue in 2021 and the buoyant tax revenue projections given the projected robust economic recovery will help the state improve its budgetary performance, even if expenditure consolidation proves less ambitious.

We consider WIBank a government-related entity (GRE) benefiting from an almost certain likelihood of timely and sufficient government support if needed. We base this opinion on the

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bank's critical role for, and integral link with, Hesse. Accordingly we equalize our ratings on WIBank with those on Hesse and do not derive a stand-alone credit profile (SACP) on WIBank.

We expect the bank will continue to play a prominent public policy role as the state's only development bank and dominant economic promotion agency. We therefore do not view government support as subject to transition risk. Accordingly, we do not expect the ownership structure or guarantee mechanism will change.

In response to the pandemic, the state government in 2020 mandated WIBank to administer and disburse some of its local COVID-19-related support funds. These measures significantly shaped the bank's 2020 annual results, for example through funds provided for hospitals due to pandemic-related needs or micro-liquidity loans for small enterprises affected by the pandemic-related restrictions. This underlines WIBank's importance for the state as a crucial policy and crisis response tool, hence our view of an almost certain likelihood of support from the state.

WIBank is Hesse's only development bank, and it is integrated into Landesbank Hessen-Thüringen (Helaba), a partly state-owned bank. It 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. Since 2018, the bank has refinanced a voluntary program for short-term municipal debt taken over by a fund created by Hesse; this is another key political initiative of the state government. During the pandemic, it expanded some of its programs, for example to support small and midsize companies with liquidity provisions. It also increased its guarantees for enterprises where the bank acts on behalf of the state, and is involved in managing various economic support funds that can provide capital to eligible companies. We expect WIBank to retain its flagship role as the sole regional development bank in Hesse and continue being the vehicle of choice for the state's economic and social development initiatives.

Hesse established WIBank as a public law institution by an act of state parliament, which contains the explicit and comprehensive guarantee framework for WIBank and forms the basis for our assessment of its integral link with Hesse. WIBank has a special public status, and is legally fully embedded into Helaba, which is 8% owned by the state. The bank benefits from Helaba's banking license, IT systems, and (regulatory) reporting structure, but it retains operational independence and produces a separate set of accounts. Our view of an integral link is based on Hesse's strategy for WIBank's lending programs and the reserved majority for state representatives on the supervisory board. The state ministers of economy and finance are appointed members of the board and cannot be outvoted. The bank could only be dissolved by an act of the state parliament.

The guarantee framework for WIBank is twofold and comprises 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. We understand the guarantee mechanism fully complies with the relevant agreement from 2002 between Germany and the EU on guarantees for promotional banks (Agreement II), and therefore not be under any further scrutiny. The guarantee structure demonstrates the importance of the bank to Hesse, which is reflected in our rating assessment. Furthermore, the organization's business model is distinctly different from that of a commercial bank, because it purely focuses on promotional activities and the execution of government policies, which cannot readily be transferred to a private entity, in our view.

In 2020, WIBank acquired new business of €3.2 billion, compared with €2.0 billion in 2019, under its program framework. The significant increase reflects the bank's involvement in promotional financing to mitigate the effects of the pandemic and the resulting restrictions on Hesse's economy. For instance, disbursements to the hospital sector increased by €800 million to €1.1 billion, the main part for compensating hospitals' special financial impact and increase intensive

care capacity. Another important support measure is liquidity support to micro and midsize enterprises--as of June 2021, €243 million has been approved and the program prolonged until end-2021. Hesse covers these measures out of budgetary funds.

WIBank's total assets increased by €1.0 billion to €25.9 billion in 2020. We believe the bank's profits will remain relatively stable over the next few years, with the majority distributed to Helaba and the remainder retained in the bank's balance-sheet reserves. All profits, whether retained at Helaba or at WIBank, are earmarked for promotional purposes.

Outlook

The stable outlook on 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 constrain the rating. For example, changes to WIBank's guarantee or ownership structure, or a significant portion of promotional lending being channelled 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.

Key Statistics

Wirtschafts- Und Infrastrukturbank Hessen (WIBank)--Selected Indicators

(Mil. €)	2020	2019	2018	2017	2016
Adjusted assets	25,879	24,905	24,105	17,627	17,413
Growth in adjusted assets (%)	3.9	3.3	36.8	1.2	3.6
Customer loans (gross)	14,130	13,924	14,023	9,664	9,579
Loans to banks	10,595	10,102	9,292	7,086	7,010
Loans from refinancing banks	16,724	16,337	16,019	11,707	11,668
Bonds issued	3,927	3,746	3,380	2,098	2,053
Other funding instruments	2,021	1,907	1,892	902	826
Operating revenue	118	106	95	93	96
Noninterest expense	84	83	79	73	64
Core earnings	19	14	14	14	20
Net interest income/operating revenue (%)	59.9	61.1	57.6	55.6	51.2
Fee income/operating revenue (%)	38.9	37.9	41.3	42.8	40.2

Wirtschafts- Und Infrastrukturbank Hessen (WIBank)--Selected Indicators (cont.)

(Mil. €)	2020	2019	2018	2017	2016
Cost-to-income ratio (%)	71.4	78.2	83.3	78.5	66.6

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

- German State of Hesse Outlook Revised To Stable On Improving Budgetary Performance; 'AA+/A-1+' Ratings Affirmed, Oct. 22, 2021
- Banking Industry Country Risk Assessment: Germany, Oct. 5, 2021

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Wirtschafts- Und Infrastrukturbank Hessen (WIBank)		
Issuer Credit Rating	AA+/Stable/A-1+	AA+/Negative/A-1+

Ratings Affirmed

Wirtschafts- Und Infrastrukturbank Hessen (WIBank)		
Senior Unsecured	AA+	

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. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 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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