

Research Update:

# Germany's Wirtschafts- Und Infrastrukturbank Hessen Affirmed At 'AA+/A-1+'; Outlook Stable

October 29, 2019

## Overview

- Wirtschafts- und Infrastrukturbank Hessen (WI Bank) has demonstrated its key economic policy role for the State of Hesse by managing and financing a municipal support program (Hessenkasse), which took over practically all the short-term debt of Hessian municipalities and refinanced it with longer maturities.
- We see an almost certain likelihood of Hesse providing extraordinary financial support, if needed, to WI Bank, given its critical role as the promotional financing agency for, and its integral link with, the state.
- We are therefore affirming our long- and short-term issuer credit ratings on WI Bank at 'AA+/A-1+', the same level as those on Hesse.
- The outlook is stable, reflecting that on Hesse.

## Rating Action

On Oct. 29, 2019, S&P Global Ratings affirmed its 'AA+/A-1+' long- and short-term issuer credit ratings on Wirtschafts- und Infrastrukturbank Hessen (WI Bank). The outlook is stable.

## Rationale

WI Bank is the State of 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, education, urban and business development, as well as social and ecological projects in Hesse. In particular it managed and financed Hesse's special financing fund for the municipal support program, which is accompanied by optional infrastructure loans. We expect WI Bank to retain its flagship role as the sole regional development bank in Hesse and to continue being the vehicle of choice for the state's economic and social development initiatives.

We base our ratings on WI Bank on our opinion of its status as a government-related entity (GRE)

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for which we assume an almost certain likelihood of extraordinary support from the State of Hesse in case of financial difficulties. Accordingly, we equalize our ratings on WI Bank with those on Hesse.

We see WI Bank as having a critical role for and an integral link with Hesse. We do not consider the likelihood of extraordinary government support as being subject to transition risk, and we do not doubt the state government's general propensity to support its GRE sector. Furthermore, we believe that Hesse's limited (other) contingent liabilities do not constrain its capacity and willingness to support WI Bank in a timely manner, in case the bank were to encounter financial difficulties.

Hesse established WI Bank as a public law institution by an act of the state parliament, which contains the explicit and comprehensive guarantee framework for WI Bank and forms the basis for our assessment of WI Bank's integral link with Hesse. WI Bank has a special public status, and is legally fully embedded into Helaba, which is 8% owned by the State of Hesse. WI Bank benefits from Helaba's banking license, information technology 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 the state's strategy for the bank's lending programs and the reserved majority for state representatives on the supervisory board. The state ministers of economy and minister of finance are appointed members of the board and cannot be outvoted. WI Bank could only be dissolved by an act of the state parliament.

In our view, WI Bank's role for Hesse is critical. It plays a pivotal role in supporting the state's economic and social development initiatives and acts in this respect as an arm of the government. In particular, it administers and executes the financial aspects of the vast majority of Hesse's development programs for local enterprises, infrastructure, social housing, urban development, agriculture, education and employment, and (since 2018) refinances a voluntary program for short-term municipal debt taken over by a fund, created by Hesse.

The guarantee framework for WI Bank 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 to be in full compliance with the relevant agreement from 2002 between Germany and the EU on guarantees for promotional banks ("Agreement II"), and hence not to 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 as it purely focuses on promotional activities and the execution of government policies, which cannot readily be transferred to a private entity in our view.

Due to our assessment of an almost certain likelihood of extraordinary government support--and that we do not see this support as subject to a medium-term transition risk--as well as the bank's role in executing strategic government policies, we do not derive a stand-alone credit profile for WI Bank.

In 2018, WI Bank acquired new business volumes of €7 billion, primarily related to a state-sponsored municipal support program. This scheme allowed municipalities to transfer about €5 billion of short-term loans to Hessenkasse, a special financial fund of Hesse. The fund repaid them on maturity or stepped in with a collateral promise besides the municipality and refinanced them via WI Bank with longer-term obligations, allowing for repayments to be spread over up to a 30-year period. The State of Hesse assumes the debt service (with one-third funded by lower transfers of Hesse to its municipalities). This has been accompanied by an additional loan program for municipalities that did not participate in the short-term loan transfer, which amounts to roughly €700 million and will also be extended by WI Bank. Further increases in WI

Bank's business volume were recorded for housing loans and urban rehabilitation, as well as for economic promotion investments.

WI Bank's total assets increased by €6.4 billion to €24.1 billion in 2018, which reflected a one-off effect related to the municipal support scheme. Although new business increased in all business segments, repayments exceeded new business in general. Loans to the public sector accounted for 85.1% of lending and investment business, real estate financing 7.0%, other financing 5%, and trustee business for the state 3%. Funding is primarily taken from banks including domestic and European development banks (73%), customers (9%), and bond investors (15%). Major shifts are related to the municipal support scheme, which was financed by WI Bank for the special financing fund.

WI Bank expects to have refinancing needs of roughly €1.5 billion in 2019 and a similar amount for 2020. This year, we expect the bank to increase new business only marginally. Federal and state governments have initiated new political programs (e.g. digitalization of schools) and are trying to enhance existing programs (e.g. refurbishment of schools, hospitals, and construction of affordable housing), which should pave the way for increasing business. However, capacity issues in the German construction market may delay projects and funding.

We expect WI Bank's profits to remain stable over the next few years, with the majority distributed to Helaba, as seen previously, and the remainder retained in the bank's balance-sheet reserves.

## Outlook

The outlook on WI Bank is stable, reflecting that on the State of Hesse. Given our assessment of an almost certain likelihood of extraordinary support in case of financial stress, any future rating actions on WI Bank, positive or negative, would likely be triggered by those on the state government.

Additionally, we could take a negative rating action on WI Bank if we concluded that the bank's public policy role for, or link with, the state weakened significantly. For example, changes to the bank's guarantee or ownership structure, or a significant portion of promotional lending being 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 (WI Bank) Selected Indicators

(Mil. €)	2018	2017	2016	2015	2014
Adjusted assets	15,861	16,813	17,413	17,627	24,105
Growth in adjusted assets (%)	9.4	6.0	3.6	1.2	36.8
Customer loans	8,760	9,444	9,579	9,664	14,023
Loans to banks	6,381	6,670	7,010	7,086	9,292
Loans from refinancing banks	10,961	11,340	11,668	11,707	16,019
Bonds issued	1,531	1,913	2,053	2,098	3,380
Other funding instruments	640	813	826	902	1,892
Operating revenues	88	96	96	93	95

Table 1

**Wirtschafts- Und Infrastrukturbank Hessen (WI Bank) Selected Indicators (cont.)**

(Mil. €)	2018	2017	2016	2015	2014
Noninterest expenses	74	75	64	73	79
Core earnings	13	21	20	14	14
Net interest income/operating revenues (%)	56.1	55.6	51.2	55.6	57.6
Fee income/operating revenues (%)	42.9	43.6	40.2	42.8	41.3
Noninterest expenses/operating revenues (%)	84.6	78.4	66.6	78.5	83.3

**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**

- Banking Industry Country Risk Assessment: Germany, Oct. 1, 2019
- German State of Hesse 'AA+/A-1+' Ratings Affirmed; Outlook Stable, Aug. 30, 2019
- S-Finanzgruppe Hessen-Thueringen Outlook Revised To Stable From Positive On Weaker Capital Forecast; Affirmed At 'A/A-1', Aug. 14, 2019

**Ratings List**

**Ratings Affirmed**

**Wirtschafts- Und Infrastrukturbank Hessen (WIBank)**

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

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://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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