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## Wirtschafts- Und Infrastrukturbank Hessen (WIBank)

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# Wirtschafts- Und Infrastrukturbank Hessen (WIBank)

## Credit Highlights

### Issuer Credit Rating

AA+/Stable/A-1+

### Overview

Key strengths	Key risks
Almost certain likelihood of timely and sufficient extraordinary support from Hesse's government in an event of financial distress.	Complex structure as an "institute-within-institute," relying on Helaba's banking license and various support services.
Critical public policy role for, and integral link with, the government because it is a quintessential tool for the implementation of the government's economic policy objectives.	Relatively small and almost no "own"/separate tangible capital (Helaba umbrella fulfils all capital requirements for WI Bank).
Twofold guarantee mechanism covers liabilities.	

## 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 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.

## 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. Since 2018, the bank has refinanced a voluntary program for short-term municipal debt taken over by a fund created by Hesse. 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. WIBank 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, even amid the current geopolitical challenges, and remain the vehicle of choice for the state's economic and social development initiatives.

- Integral link to the government of Hesse, demonstrated by its special public status defined by an act of the state parliament, the explicit and comprehensive guarantee framework for an institution's debt liabilities, and the government's strategy for the bank's lending programs and the reserved majority for state representatives on the 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 it retains operational independence and produces a separate set of accounts. The state ministers of economy and minister of 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 structure demonstrates the integral link between the bank and Hesse. 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).

We expect the bank will continue to play a critical public policy role as the state's only development bank and dominant economic promotion agency. As such, the organization's business model is distinctly different from that of a commercial bank, because it focuses purely on promotional activities and the execution of government policies, which cannot readily be transferred to a private entity, in our view. We do not view government support as subject to transition risk. Accordingly, we do not expect the ownership structure or guarantee mechanism will change, and also do not derive a stand-alone credit profile (SACP) for WIBank.

We believe that WIBank's profits will remain relatively stable over the next few years. Total assets increased by €0.6 billion to €26.5 billion in 2021. Profits reduced by €2 million to €16.6 million, but remained solid compared to prior years. The majority is 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.

In 2021, WIBank acquired new business of €3.4 billion, compared with €3.2 billion in 2020, under its program framework. The bank's housing segment has seen a noticeable uptick in volumes, while its infrastructure programs displayed stability--comprising almost 60% of business volume. In response to the pandemic, the state government mandated WIBank in 2020 to administer and disburse some of its local COVID-19-related support funds, heavily shaping results of the year. While these measures remain visible in 2021, for example through funds provided for hospitals due to pandemic-related needs, their overall demand is subsiding.

In response to the Russia-Ukraine conflict and rising geopolitical tensions, some state governments including Hesse are initiating own programs beyond federal support. In Hesse we believe the government will mandate that WIBank will administer and disburse local support funds and programs. While concrete measures are still to be determined, this underlines WIBank's importance for the state as a crucial policy and crisis response tool.

WIBank displays a solid funding base. Its predominant funding source (around €16.8 billion) is borrowing from refinancing banks (from other promotional banks like KfW, "umbrella" Helaba, EIB) and via privately placed "Schuldschein" (promissory notes) and "Namensschuldverschreibung" (registered bond). Furthermore, WIBank has €2.9 billion of own bonds (5 issues) outstanding in the public capital markets. Finally, WIBank administers €1.9 billion of public funds originally injected into Helaba in 2005, which are used to fund eligible projects.

## Selected Indicators

**Table 1**

Wirtschafts- Und Infrastrukturbank Hessen (WI Bank)--Selected Indicators					
(Mil. €)	2021	2020	2019	2018	2017
Adjusted assets	26,460	25,879	24,905	24,105	17,627
Growth in adjusted assets (%)	2.2	3.9	3.3	36.8	1.2
Customer loans (gross)	13,949	14,130	13,924	14,023	9,664
Loans to banks	11,266	10,595	10,102	9,292	7,086
Loans from refinancing banks	16,833	16,724	16,337	16,019	11,707
Bonds issued	4,122	3,927	3,746	3,380	2,098
Other funding instruments	2,191	2,021	1,907	1,892	902
Operating revenues	130	118	106	95	93
Noninterest expenses	99	84	83	79	73
Core earnings	17	19	14	14	14
Net interest income/operating revenues (%)	50.0	59.9	61.1	57.6	55.6
Fee income/operating revenues (%)	44.7	38.9	37.9	41.3	42.8
Cost to income ratio (%)	75.6	71.4	78.2	83.3	78.5

## 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 Affirmed At 'AA+/A-1+'; Outlook Stable, Oct. 21, 2022
- Banking Industry Country Risk Assessment: Germany, Oct. 5, 2021

### Ratings Detail (As Of October 31, 2022)\*

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

Issuer Credit Rating

AA+/Stable/A-1+

**Ratings Detail (As Of October 31, 2022)\*(cont.)**

Senior Unsecured	AA+
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**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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