

Wirtschafts- und Infrastrukturbank Hessen

October 24, 2024

This report does not constitute a rating action.

Credit Highlights

Overview

Key strengths	Key risks
Almost certain likelihood of timely and sufficient extraordinary support from the government of Hesse in the event of financial distress.	Complex structure as an institution-within-institution, relying on Helaba's banking license and various support services.
Critical public policy role for, and integral link with, the government involving implementing government economic policies.	Small and almost no own or separate tangible capital with the Helaba umbrella, fulfilling all capital requirements.
Two-fold guarantee mechanism covers liabilities.	

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S&P Global Ratings expects Wirtschafts- und Infrastrukturbank Hessen (WIBank) to continue to play a critical public policy role as the state of Hesse's only development bank and dominant economic promotion agency. We also do not expect any change in the guarantee framework of the state against the bank's liabilities.

We base our ratings on WIBank on our opinion of its status as a government-related entity (GRE) for which we assume an almost certain likelihood of extraordinary support from the state of Hesse. Accordingly, we equalize our ratings on WIBank with those on Hesse (AA+/Stable).

The bank's new business volumes are likely to normalize at about €2 billion in 2024, with the remainder of pandemic-related support measures having been concluded in 2023. Future lending activities will continue to focus on housing and infrastructure segments.

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 as a GRE that benefits 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 30% 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.

WIBank is legally a part of Helaba, in which the state of Hesse has a 30% share. However, specific laws determine profit/loss-sharing, state supervision, and tasks of WIBank, ensuring that its activities are fully controlled by the state and its assets are only employed to pursue the state's promotional activities. As a public law institution, WIBank cannot be privatized in its current form.

The guarantee structure for WIBank demonstrates the integral link between the bank and Hesse. The guarantee framework is two-fold, 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). Following the state elections in October 2023, we expect the bank will 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.

We believe WIBank's profits will remain relatively stable over the next few years. Total assets increased by €700 million to €28.2 billion in 2023, and profits increased by €1.5 million to €25.4 million. The bank distributed the bulk of profits 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 2023, WIBank underwrote new business of €3.1 billion, down from €4.0 billion in 2021, under its program framework. The drop was driven by a decrease in infrastructure- and housing-related lending. However, WIBank remains committed to supporting both housing, with a focus on social housing units, and infrastructure. 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 until end-2023 for small and midsize companies as well as freelance workers to counteract elevated energy prices. In our view, this underlines the bank's importance for the state as a crucial policy and crisis response tool. With the expiry of pandemic-related support programs in 2023, WIBank's new business volumes will likely normalize, dropping to the pre-pandemic historical average of around €2 billion.

WIBank displays a solid funding base, with the following main sources: around €17.2 billion (about 60% of total liabilities) of borrowings from banks (such as KfW, "umbrella" Helaba, European Investment Bank); and privately placed promissory notes (Schuldschein) and bonds (Namenschuldverschreibung). The bank last issued a 10-year €500 million bond in February 2024. WIBank will continue to administer €1.9 billion of public funds originally injected into Helaba in 2005, which are used to fund eligible projects. This is despite the latter recently having been transferred back to the state of Hesse in exchange for a cash capital injection by the state into Helaba. For additional information see "No Material Change To Hesse's Net Financial Position From Plans To Replace In-Kind Contribution At Helaba With Cash," April 30, 2024.

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, Aug. 7, 2024
- State of Hesse, Oct. 14, 2024
- No Material Change To Hesse's Net Financial Position From Plans To Replace In-Kind Contribution At Helaba With Cash, April 30, 2024

Ratings Detail (as of October 24, 2024)*

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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