FitchRatings

Banks
Development Banks
Germany

Investitionsbank Berlin

Update

Key Rating Drivers

Ratings Based on Support: Investitionsbank Berlin's (IBB) ratings are based on institutional support from its owner, the federal State of Berlin (AAA/Stable/F1+). Berlin explicitly and directly guarantees IBB's liabilities and ensures the bank's viability through an indirect maintenance obligation. Changes to IBB's ownership structure were legally enacted in June 2021 and have not affected the bank's ratings. Support from the Federal Republic of Germany underpins Berlin's creditworthiness through the German federal solidarity system.

Support Compliant with EU Rules: Unlike peers, IBB's support mechanism does not include a statutory guarantor liability (Gewaehtraegerhaftung). Fitch Ratings believes this does not weaken Berlin's commitment to IBB. As with other German development banks, IBB's activities comply with EU state-aid rules. A state guarantee framework agreed in 2002 by Germany and the European Commission allows German public development banks to receive state support.

Stable Outlooks Mirror IDRs: The Outlooks on the Issuer Default Ratings (IDR) reflect our view that the nature of the support from Berlin is unlikely to change significantly in the medium term due to the strategic importance of IBB to the regional economy.

Legal Insolvency Protection: IBB is insolvency remote by law and has not been a Capital Requirement Regulation institution since June 2019, in line with its peers. It is exempt from the Single Resolution Mechanism, the Recovery and Resolution Act and the Restructuring Fund Act. This releases IBB from the obligation to draw up recovery plans. In addition, IBB no longer falls under the scope of the German Deposit Guarantee Act.

Regional Development Bank: IBB is a public law institution established as a legally independent development bank in 2004 following a carve-out from Landesbank Berlin. Its legal framework and statutes set out its strategic objectives and business principles. Its primary policy mandate is to support the economic development of Berlin by providing promotional funding as outlined in the IBB Law and its statutes. IBB only undertakes purely promotional and non-competitive activities and we do not expect the bank's public sector role to change.

IBB focuses on housing loans, of which a significant proportion is funded by Berlin, and funding for urban and economic development projects, similar to other regional development banks. Promotional lending for SMEs including venture capital has risen in recent years. The bank funds special projects for its owner on request and distributes European structural and cohesion funds.

Funding Access Benefits from Guarantee: Banks investing in IBB's debt benefit from 0% regulatory risk-weighting and Level 1 treatment for their liquidity coverage ratio. The 0% risk-weighting reflects Berlin's guarantee and provides IBB with privileged access to the debt capital markets. The bank expects a total funding volume between EUR2.5 billion and EUR3 billion in 2021. Its sound liquidity is underpinned by a large pool of unencumbered assets.

Rating Sensitivities

Berlin's Rating, Support Arrangements: IBB's ratings cannot be upgraded as they are at the highest levels of Fitch's rating scales. A downgrade of Berlin's or Germany's IDRs would trigger a downgrade of IBB's Issuer Default Ratings (IDRs) and senior debt ratings. IBB's ratings are also sensitive to changes in Fitch's assumptions about Berlin's propensity to support. This could result from a weakening in the terms of the guarantee.

Ratings

Foreign Currency	
Long-Term IDR	AAA
Short-Term IDR	F1+
Support Rating	1
Sovereign Risk	
Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

State of Berlin - ESG Navigator (August 2021)

Fitch Affirms Investitionsbank Berlin at 'AAA'; Outlook Stable (September 2020)

Investitionsbank Berlin (March 2021)

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Debt Rating Classes

Rating Level	Rating
Senior unsecured debt	AAA/F1+

Source: Fitch Ratings

IBB's long-term senior unsecured debt ratings are aligned with its IDRs. The differentiation between senior preferred and senior non-preferred debt does not apply to IBB because the bank cannot by law become subject to insolvency proceedings or bail-in measures.

Significant Changes

Improving Economic Prospects

We expect the operating environment for German banks to improve in 2H21 and 2022. The German authorities' large-scale response to the pandemic has ensured a supportive operating framework, reducing the risk of significant deterioration in the banks' loan quality more effectively than in most EU countries. German banks front-loaded fewer provisions for expected credit losses in 2020, and loan impairment charges (LICs) were generally low in 1H21 despite lower releases than at many European peers. With a GDP decline of 4.8%, Germany's economy was more resilient than most large European countries in 2020.

In September 2021 Fitch slightly lowered its German 2021 GDP growth forecast to 3.6%, but expects an acceleration to 4.2% in 2022. Berlin's economy fared better than the German average for the last seven years and also in 2020 (GDP minus 3.3%). Medium-sized manufacturing companies in Berlin proved particularly resilient to the pandemic. We expect progress with the vaccine rollout to limit the impact of potential rises in coronavirus cases on economic activity.

Structural Weaknesses Will Continue to Weigh on German Banks' Profitability

German banks' profits have been remarkably low for years despite steady economic growth pre-pandemic, and are likely to remain under pressure in the coming years due to stubbornly pronounced fragmentation, intense competition, vulnerable business models with limited revenue diversification, and untested strategic directions at some large banks.

We expect the German banking sector to restore more adequate profits in 2021 given the recovering economy, the rising penetration of negative rates on deposits, and the progress made in restructuring at several large banks. However, a more disciplined and sustainable focus on risk-adjusted pricing, instead of following pre-crisis strategies of low-margin lending to gain market shares, is necessary so the sector can close its wide profitability gap relative to the European average.

New Corporate Structure Legally Enacted

In June Berlin's senate voted in favour of a law that aims to reorganise some of the state's holdings, including IBB. A new holding company IBB Unternehmensverwaltung, fully owned by Berlin, was created retroactively on 1 January 2021 and is IBB's new direct owner. Berlin's statutory refinancing guarantee for IBB's liabilities, which is the key driver for the bank's 'AAA' Long-Term IDR, has not been affected by the reorganisation.

Berlin's maintenance obligation for IBB, which ensures the entity's economic viability, was transferred to the new entity but will remain an indirect obligation of Berlin. IBB's role, particularly its function as Berlin's development bank and its promotional activities, are also not affected.

Local Election Favours Current Coalition

Berlin's state election was held on 26 September 2021. According to the provisional official final results the leading social democrat party won the election and will form a new coalition, likely with its current coalition partners, the green party and the left-wing party 'Die Linke'. This will in our view ensure consistency in Berlin's promotional support agenda with a distinct focus on affordable housing and urban development. Meanwhile IBB's CEO retired as planned in June. His successor took over as Chairman of the Management Board of IBB on 1 July 2021.

IBB Provides Significant Federal and Regional Covid-19 Support

IBB has devoted significant operational resources to support corporates, SMEs and households in Berlin during the pandemic. Support measures exceeded EUR4.4 billion in 2020 (of which about EUR2.2 billion was for pandemic relief) and EUR3.5 billion (of which about EUR2.0 billion was for pandemic relief) in 1H21. This highlights the bank's important role in Berlin's economic development.

IBB channels federal support measures (mainly loans provided through KfW's emergency programme and federal grants) and a range of local aid programmes and grants on behalf of Berlin. By end-3Q21 the sovereign alone had provided almost EUR120 billion of pandemic support to the German economy, including grants and guarantees. IBB also continues to perform its traditional promotional lending role, which almost achieved the same volume in 2020 compared to the previous year despite the pandemic.

IBB's performance was robust in 2020 despite the operational challenge of processing a large number of applications during the pandemic and performing relevant eligibility checks, particularly for grants. Its balance sheet grew by almost 7% to EUR19.4 billion in 2020, equivalent to about 12% of Berlin's GDP, close to the average share of regional development bank peers.

The strong support mechanism enables IBB to fulfil its mandate without any restrictions. We expect short-term pandemic-support measures to decrease as some emergency programmes are being terminated in 2021, but IBB will support the recovery until the pandemic is under control. We believe it will increasingly revert to its core promotional business and switch to more selective measures to deal with the deferred effects of the pandemic.

Commitment to Sustainability

Similar to peers, sustainability is an important element of the strategy of IBB. IBB published its first sustainability report in September 2016 and plans to become climate neutral in 2021. The bank supports Berlin's sustainability policies and targets (including climate neutrality by 2045) and is committed to offer up to EUR 15 billion of promotional loan programmes until 2030 in line with its sustainable development goals.

Institutional Support Assessment

Support Factors (negative)	Equalised	1 Notch	2+ Notches
Parent ability to support and subsidiary ability to use support			
01 Parent/group regulation	✓		
02 Relative size	✓		
03 Country risks	✓		
Parent Propensity to Support			
01 Role in group	✓		
02 Potential for disposal	✓		
03 Implication of subsidiary default	✓		
04 Integration	✓		
05 Size of ownership stake	✓		
06 Support track record	✓		
07 Subsidiary performance and prospects	✓		
08 Branding	✓		
09 Legal commitments	✓		
10 Cross-default clauses			✓

Chart Legend

- Higher influence
- Moderate influence
- Lower influence

IBB's important role for Berlin's economic development and Berlin's commitments resulting from the statutory support mechanisms have a high influence on the bank's IDRs and Support Rating of '1', driving the alignment of the bank's IDRs with those of Berlin.

Summary Financials and Key Ratios

	31 Dec 20 (EURm)	31 Dec 19 (EURm)	31 Dec 18 (EURm)	31 Dec 17 (EURm)
Summary income statement				
Net interest and dividend income	89.4	108.0	98.5	132.6
Net fees and commissions	16.6	2.0	2.4	2.7
Other operating income	21.8	19.1	44.8	7.1
Operating costs	92.7	88.0	92.5	95.7
Loan and other impairment charges	23.2	18.4	34.2	36.0
Operating profit	11.9	22.7	19.0	10.7
Other non-operating items (net)	n.a.	-0.7	-0.5	n.a.
Net income	11.8	21.8	18.3	10.6
Summary balance sheet				
Assets				
Gross loans	11,774.0	11,227.1	10,909.8	10,972.3
- Of which impaired	n.a.	185.2	269.7	138.3
Loan loss allowances	n.a.	42.1	35.7	27.5
Interbank	2,062.0	2,376.0	2,000.3	2,070.3
Other securities and earning assets	4,797.8	4,012.6	4,149.7	4,321.7
Cash and due from banks	223.3	224.9	363.1	35.3
Other assets	86.0	62.9	49.6	58.7
Total assets	18,943.1	17,861.4	17,436.8	17,430.8
Customer deposits	4,485.5	5,232.4	5,794.9	6,381.9
Interbank and other short-term funding	5,088.5	4,398.3	4,258.2	3,706.7
Other long-term funding	7,767.4	6,698.9	5,962.7	6,062.2
Other liabilities	545.9	490.6	399.6	274.8
Total equity	1,055.8	1,041.2	1,021.4	1,005.2
Total liabilities and equity	18,943.1	17,861.4	17,436.8	17,430.8
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	0.2	0.4	0.4	0.2
Net interest income/average earning assets	0.5	0.6	0.6	0.8
Non-interest expense/gross revenue	72.5	68.2	63.5	67.2
Net income/average equity	1.1	2.1	1.8	1.1
Asset quality				
Impaired loans ratio	n.a.	1.7	2.5	1.3
Growth in gross loans	4.9	2.9	-0.6	-4.0
Loan loss allowances/impaired loans	n.a.	22.7	13.2	19.9
Loan impairment charges/average gross loans	0.2	0.2	0.3	0.3

Capitalisation				
Common equity Tier 1 ratio	n.a.	16.7	18.1	17.9
Tangible common equity/tangible assets	5.6	5.8	5.9	5.8
Funding and liquidity				
Loans/customer deposits	262.5	214.6	188.3	171.9
Customer deposits/funding	25.9	32.0	36.2	39.5

Source: Fitch Ratings, Fitch Solutions, IBB

Environmental, Social and Governance Considerations

IBB's highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact, either due to their nature or the way in which they are being managed by the bank.

FitchRatings **Investitionsbank Berlin**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

				Overall ESG Scale
Investitionsbank Berlin has 5 ESG potential rating drivers Investitionsbank Berlin has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating. Governance is minimally relevant to the rating and is not currently a driver.	key driver	0	issues	5
	driver	0	issues	4
	potential driver	5	issues	3
	not a rating driver	4	issues	2
		5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.