



Fitch Affirms 6 German State-Owned Development Banks at 'AAA'/Stable

Fitch Ratings-Paris-15 January 2019: Fitch Ratings has affirmed the Long-Term Issuer Default Ratings (IDRs) of six German state-owned development banks at 'AAA' with Stable Outlooks and their Short-Term IDRs at 'F1+'. The peer review covers KfW, Landwirtschaftliche Rentenbank (Rentenbank), NRW.BANK, Investitionsbank Berlin (IBB), Investitionsbank Schleswig-Holstein (IB.SH), and Landeskreditbank Baden-Wuerttemberg - Foerderbank (L-Bank).

A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

IDRS, SENIOR UNSECURED DEBT, SUPPORT RATINGS (SRs) AND SUPPORT RATING FLOORS (SRFs)

The IDRs and senior unsecured debt ratings of the six banks reflect their policy roles and formal support arrangements with their respective owners or federal state guarantors which, in our view, result in an extremely high likelihood of support from the issuers' respective owners. The affirmation of KfW's and Rentenbank's SRs at '1' and SRFs at 'AAA' reflects both banks' explicit guarantees from the Federal Republic of Germany (Germany, AAA/Stable).

The SRs of NRW.BANK, IBB, IB.SH and L-Bank have been affirmed at '1' to reflect the guarantees from their respective owners, the German federal states where they are located and operate. The solidarity system between the German sovereign and the German federal states underpins the latter's creditworthiness. We do not assign Viability Ratings to any of these banks as their business models rely entirely on support from their state guarantors.

KfW

KfW, the largest development bank in Europe, is 80%-owned by Germany, with the remainder held by German federal states. KfW's obligations are backed by a direct, explicit and unlimited statutory guarantee from Germany. The maintenance obligation (Anstaltslast) commits the German state to safeguard KfW's operations and ensure the continuity of the bank's operations in the event of financial difficulty. KfW undertakes SME, retail, housing, municipal and social infrastructure lending, capital market activities and lending in developing countries. Its wholly-owned subsidiary KfW IPEX-Bank GmbH carries out commercial international export and project financing and does not benefit from the state guarantee.

Rentenbank

Rentenbank's mandate is to support the development of the German agricultural sector and rural areas. The bank benefits from a maintenance obligation from Germany and all of its liabilities are covered by a direct and unlimited statutory guarantee from Germany, in place since 2014. As stipulated in its law, Rentenbank is insolvency-remote and can only be dissolved by law.

NRW.BANK

NRW.BANK finances municipal, infrastructure and housing projects in North Rhine-Westphalia (NRW). The State of NRW (AAA/Stable) wholly owns the bank and provides it with an explicit, irrevocable, unlimited, unconditional and first-demand statutory guarantee covering all its liabilities.

The bank also benefits from a maintenance obligation and a statutory guarantor's liability (Gewährtraegerhaftung). Unlike its peers, NRW.BANK is not protected from insolvency by law, but we believe its support framework makes it highly unlikely to ever become subject to bail-in measures.

IBB

IBB benefits from an explicit and unconditional statutory guarantee covering all liabilities and a maintenance obligation from the State of Berlin (AAA/Stable). As a public law institution, IBB is insolvency-remote in accordance with state legislation. Its development activities are narrower in scope than peers' because Berlin is a city-state and IBB does not finance municipalities or renewable energy projects, two areas of growth for its peers in recent years. However, IBB faces strong demand for promotional housing and urban development loans.

IB.SH

IB.SH finances social, infrastructure and environmental projects, as well as corporates, municipalities, affordable housing and energy efficient real estate in the State of Schleswig-Holstein (SH; AAA/Stable). SH provides IB.SH with an explicit and unconditional statutory guarantee, covering all liabilities, as well as a maintenance obligation and a statutory guarantor's liability. SH's legislation ensures IB.SH cannot be subject to insolvency procedures and can only be dissolved by law.

L-Bank

L-Bank's mandate is to support home ownership and SMEs in Baden-Wuerttemberg (BW). The State of BW provides the bank with an explicit and unconditional statutory guarantee obligation, covering all liabilities, a maintenance obligation and a statutory guarantor's liability. L-Bank is insolvency-remote by law. In Fitch's view, the creditworthiness of BW is underpinned by the strength of the German solidarity system and closely linked to that of Germany.

The six rated German development banks, which are public law institutions, largely pass on their low support-driven funding costs to their borrowers. Some development banks also extend a large share of their development lending through domestic commercial banks, which assume the credit risk of their ultimate borrowers. This results in sound non-performing loan (NPL) ratios at the development banks (and no NPLs at Rentenbank), but also low interest margins and, for some of them, large concentrations on individual commercial banks.

The revision of Basel III could significantly inflate the risk-weighted assets (RWAs) of the development banks that use the internal rating-based approach, if the revised standards no longer recognise as risk-mitigating the ultimate borrowers' loans (including collateral) that secure their pass-through loans to commercial banks. We expect such RWA inflation to be manageable in light of the long phasing-in period that is likely to be applied and possible mitigating measures such as regulatory exemptions, a reduction of new business or pre-emptive capital injections from the development banks' respective guarantors, if necessary. The banks' Tier 1 ratios have ranged between 17% and 45% in the past 12-18 months.

SENIOR PREFERRED DEBT AND DERIVATIVE COUNTERPARTY RATINGS (DCRs)

KfW's, Rentenbank's and NRW.BANK's DCRs and NRW.BANK's senior preferred debt ratings are aligned with the respective banks' Long-Term IDRs.

Unlike the other rated German development banks, NRW.BANK is not legally protected from insolvency. Therefore, we view it as the only issuer of the peer group to which the distinction between unsecured senior non-preferred and senior preferred debt applies. NRW.BANK has issued senior preferred debt since the new German resolution regime took effect in 3Q18. We have assigned long-term and short-term senior preferred ratings to NRW.BANK's debt issuance programmes and withdrawn both programmes' short-term senior unsecured ratings. These short-term ratings are no longer relevant for Fitch's coverage because debt issued with original maturities of less than one year has preferred status under the new German resolution regime.

SUBORDINATED TIER 2 DEBT

Fitch rates NRW.BANK's and Rentenbank's subordinated debt at the same level as the respective banks' senior debt, and hence Long-Term IDRs, as we believe the support mechanisms in place for both banks provide the same degree of protection to both senior and subordinated debt instruments.

RATING SENSITIVITIES**IDRS, SENIOR UNSECURED DEBT, SRs AND SRFs**

The banks' IDRs, senior unsecured debt ratings, SRs and SRFs are sensitive to changes in our assumptions on support from the owners, specifically a downgrade of Germany, or changes in the terms of the state guarantees. The Stable Outlooks on the Long-Term IDRs mirror that on Germany's Long-Term IDR and reflect our view that neither of these scenarios is likely in the foreseeable future.

We believe state support is unlikely to diminish for any of the six banks in the medium term due to their strategic importance for the German economy and financial system. The support framework approved by the EU in 2002 and relevant competition laws prevent the banks from engaging in competitive commercial business that could benefit from their state guarantees. This makes significant changes to the banks' business models unlikely. We believe the EU's Bank Recovery and Resolution Directive and Single Resolution Mechanism do not affect state support for these banks. Neither do we expect that the "debt brake", which forbids the German federal states to incur new net debt from 2020, will constrain their ability to support their development banks, if needed.

SENIOR PREFERRED DEBT RATINGS AND DCR

KfW's, Rentenbank's and NRW.BANK's DCRs and NRW.BANK's senior preferred debt ratings are primarily sensitive to changes in the respective banks' Long-Term IDRs. Unlike KfW and Rentenbank, NRW.BANK is not legally protected against insolvency, but the support mechanism in place makes insolvency or bail-in extremely unlikely, in our view.

SUBORDINATED TIER 2 DEBT

Rentenbank's and NRW.BANK's subordinated debt ratings are primarily sensitive to changes in the level of support provided by the respective banks' owners.

The rating actions are as follows:

KfW

Long-Term IDR: affirmed at 'AAA'; Stable Outlook

Short-Term IDR: affirmed at 'F1+'

Support Rating: affirmed at '1'

Support Rating Floor: affirmed at 'AAA'

Derivative Counterparty Rating: affirmed at 'AAA(dcr)'

Senior unsecured notes and issuance programmes: affirmed at 'AAA'/'F1+'

Commercial paper issuance programmes: affirmed at 'F1+'

Landwirtschaftliche Rentenbank

Long-Term IDR: affirmed at 'AAA'; Stable Outlook

Short-Term IDR: affirmed at 'F1+'

Support Rating: affirmed at '1'

Support Rating Floor: affirmed at 'AAA'

Derivative Counterparty Rating: affirmed at 'AAA(dcr)'

Senior unsecured notes and issuance programmes: affirmed at 'AAA'/'F1+'

Commercial paper issuance programme: affirmed at 'F1+'

Subordinated Tier 2 notes: affirmed at 'AAA'

NRW.BANK

Long-Term IDR: affirmed at 'AAA'; Stable Outlook

Short-Term IDR: affirmed at 'F1+'

Support Rating: affirmed at '1'
Derivative Counterparty Rating: affirmed at 'AAA(dcr)'
Senior unsecured notes: affirmed at 'AAA'
Senior preferred notes: affirmed at 'AAA'
Senior unsecured issuance programmes: affirmed at 'AAA'
Senior unsecured issuance programmes: 'F1+' withdrawn
Senior preferred issuance programmes: 'AAA'/'F1+' assigned
Senior preferred commercial paper and certificate of deposit issuance programmes: affirmed at 'F1+'
Subordinated Tier 2 notes: affirmed at 'AAA'

Investitionsbank Berlin

Long-Term IDR: affirmed at 'AAA'; Stable Outlook
Short-Term IDR: affirmed at 'F1+'
Support Rating: affirmed at '1'
Senior unsecured notes: affirmed at 'AAA'

Investitionsbank Schleswig-Holstein

Long-Term IDR: affirmed at 'AAA'; Stable Outlook
Short-Term IDR: affirmed at 'F1+'
Support Rating: affirmed at '1'
Senior unsecured notes: affirmed at 'AAA'

Landeskreditbank Baden-Wuerttemberg - Foerderbank

Long-Term IDR: affirmed at 'AAA'; Stable Outlook
Short-Term IDR: affirmed at 'F1+'
Support Rating: affirmed at '1'

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The following issuer(s) did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure: Landeskreditbank Baden-Wuerttemberg - Foerderbank

Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018) (<https://www.fitchratings.com/site/re/10044408>)

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Issuer(s)**Landeskreditbank Baden-Wuerttemberg - Foerderbank**

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