Investitionsbank Schleswig-Holstein

Key Rating Drivers

Owner Support Drives Ratings: Investitionsbank Schleswig-Holstein's (IB.SH) ratings reflect Fitch Ratings' view of the highest probability of support from the bank's sole owner, the federal State of Schleswig-Holstein (SH; AAA/Stable/F1+). The equalisation of IB.SH's ratings with SH's is underpinned by the latter's explicit and irrevocable, unlimited, unconditional and first-demand statutory guarantee covering all of IB.SH's liabilities and a statutory guarantor's liability (Gewaehrtraegerhaftung). In addition, a maintenance obligation (Anstaltslast) ensures the bank's continuation as an economic entity.

The Stable Outlook on IB.SH's Long-Term Issuer Default Rating (IDR) mirrors that on SH and reflects our view that support is unlikely to change due to the bank's strategic role in SH's economy.

Ratings Aligned with Germany's: As a fully owned bank of SH, IB.SH's ratings are indirectly linked to the German sovereign ratings (AAA/Stable/F1+). This is because the ratings of the German Laender (federal states), including SH, are linked to those of Germany due to a strong mutual support system among Laender, an extensive financial equalisation mechanism, and the solidarity principle.

Important Policy Role: IB.SH's mandate is to support SH's economic, social and environmental policies. It provides subsidised loans, grants and guarantees. IB.SH's activities include providing funding for corporates, startup companies and municipalities, plus loans for affordable housing and energy-efficient real estate. The bank also funds special projects for SH on request and manages the distribution of EU structural and cohesion funds in the region.

Support Compliant with EU Rules: Similar to its peers, IB.SH's business model is compliant with EU state aid rules by engaging exclusively in non-competitive activities. A state guarantee framework agreed in 2002 between Germany and the European Commission allows German public-sector development banks to receive state support.

Insolvency-Remote Public Law Institution: IB.SH can only be dissolved by law and benefits from insolvency protection. It is exempt from the Capital Requirements Directive, Capital Requirements Regulation (CRR), the Single Resolution Mechanism, the Recovery and Resolution Act and the Restructuring Fund Act. However, it is subject to the German Banking Act and supervision by the Federal Financial Supervisory Authority and the Bundesbank.

Guarantee Facilitates Market Funding: Banks and insurance companies investing in IB.SH's debt benefit from 0% regulatory risk-weighting and level one treatment (classification of high-quality liquid assets) for their liquidity coverage ratios. This reflects SH's guarantee and provides IB.SH with reliable access to debt markets.

No Viability Rating: Fitch does not assign a Viability Rating to IB.SH as its operations are largely determined by its policy role as a development bank.

Ratings

Foreign Currency	
Long-Term IDR	AAA
Short-Term IDR	F1+
Shareholder Support Rating	aaa

Sovereign Risk (Germany)	
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

Highest ESG Relevance Scores

Environmental	2
Social	3
Governance	3

Applicable Criteria

Bank Rating Criteria (March 2025)

Related Research

Fitch Affirms Investitionsbank Schleswig-Holstein at 'AAA'; Outlook Stable (August 2025)

Fitch Affirms State of Schleswig-Holstein at 'AAA'; Outlook Stable (September 2024)

German Development Banks – Peer Review 2024 (November 2024)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

IB.SH's ratings are primarily sensitive to negative changes in SH's ratings, which are linked to those of Germany.

A downgrade of IB.SH's IDRs would be most likely to result from a downgrade of SH's IDRs. The bank's ratings are also sensitive to adverse changes in Fitch's assumptions about SH's propensity to support, such as a weakening of the terms of SH's guarantees, which we consider highly unlikely.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

IB.SH's ratings are at the highest level on Fitch's rating scale and, therefore, cannot be upgraded.

Other Debt and Issuer Ratings

Rating Level	Rating
Senior unsecured: long term	AAA
Senior unsecured: short term	F1+

Source: Fitch Ratings

IB.SH's senior unsecured debt ratings are aligned with the bank's IDRs.

Company Summary and Key Qualitative Factors

Business Profile

Supporting SH's Economic Development

IB.SH is highly integrated into SH's social, environmental and economic policies, as outlined in the Investitionsbankgesetz, which specifies IB.SH's policy role as a development institution with a mandate to support SH's public duties and the public interest. The bank's promotional activities span a range of programmes, offering grants, direct lending, pass-through loans and guarantees across four business segments. These segments are support for affordable housing and home ownership; corporates, focusing on SMEs and startups; labour market initiatives; and municipal infrastructure projects. Grants are reimbursed by the federal state, and pass-through loans are extended to commercial banks, which provide the funds to customers.

New promotional business increased to EUR3.5 billion in 2024 (2023: EUR2.9 billion), above the target of EUR1.9 billion–EUR2.9 billion. This was driven by municipalities and social housing, while demand for corporate investment loans remained subdued due to relatively high promotional interest rates and uncertain economic prospects. Promotional lending accounted for 77% of new business, followed by grants (21%), and guarantees and warranties (2%), broadly in line with 2023.

Fitch expects the German government's recently announced fiscal measures, dedicated to strengthening the country's infrastructure, to lead to higher business volumes at development banks, including IB.SH. The degree of economic support and corresponding business volumes will depend on the scale, structure and implementation speed of the measures. A significant portion of the funds will be routed to municipalities to improve infrastructure. We therefore expect the level of promotional activities with municipalities to stay high in the next few years. We also believe social housing will remain a key development area, as promotional activities help to counterbalance an already-tight housing market and rising rents. A renewed rise in construction activity due to lower interest rates is also likely to drive demand for owner-occupied housing loans.

Like other development banks, IB.SH is non-profit-oriented, but is expected to self-fund its operations and risk costs. For this purpose, the bank holds a small strategic investment portfolio, which follows strict credit risk, environmental, social and governance guidelines. IB.SH also earns a modest fee income by offering advisory and other services on promotional issues as well as through disbursing grants.

Reduced Disclosure Requirements

The German Risk Reduction Act, in force since end-2020, transposes EU legislation into national law and supplements the German Banking Act. The Risk Reduction Act also includes specific provisions for state-owned development banks, notably exemptions from Pillar III disclosure requirements of the CRR. Accordingly, IB.SH no longer publicly reports certain financial data, including non-performing loans and loan loss allowances. However, state-owned development banks must continue to comply with the financial reporting requirements under ECB regulation and the German Banking Act, even though they are not CRR institutions.

Financial Profile

Asset Quality

IB.SH's robust loan quality reflects its cautious underwriting standards in direct lending and lower-risk municipal exposure (39% of its loan book at end-2024). The bank's direct lending focuses on the real estate and corporate sectors in SH. Its loan book entails sizeable concentrations, such as to multi-family housing, in line with other German regional development banks. Loan impairment charges (LICs) remained low at 13bp of gross loans in 2024. LICs are likely to moderately increase in the direct lending business, following the trend of SME insolvencies. The bank has a moderate share of pass-through development loans, where borrowers' commercial banks bear the credit risk. IB.SH's high-quality liquidity portfolio mainly comprises sovereign and sub-sovereign corporate, unsecured bank and covered bonds.

Earnings and Profitability

IB.SH does not focus on profit maximisation, but funds its statutory development and support activities without relying on financial contributions from SH and must cover the operating and risk costs from its promotional activities. The bank's net interest margin is limited by its low-margin promotional business and is supported by revenue from its bond investment portfolio. Its operating costs increased by 24% in the past three years due to wage inflation, the processing of pandemic aid programmes and higher compliance, IT and project expenses. We expect costs to remain heightened.

Capitalisation and Leverage

Steady profit retention ensures sufficient capital buffers above current and expected regulatory requirements. IB.SH's total capital ratio (end-2024: 21.8%) is strong despite the conservative risk-weighting arising from the use of the standardised approach to assess its credit risk. We expect the bank's total capital ratio to remain stable in the next two years, offering room for moderate pay-outs.

Funding and Liquidity

IB.SH is purely wholesale-funded and does not take deposits from the public. It has good access to the debt market and has broadened its investor base in recent years by increasingly issuing in benchmark format. IB-SH has also increased its money market funding, but we expect its long-term debt funding needs to remain more than EUR1 billion a year.

Financials

Financial Statements

	31 Dec 24		31 Dec 23	31 Dec 22	31 Dec 21
	12 months (USDm) Audited – unqualified	12 months (EURm) Audited – unqualified	12 months (EURm) Audited – unqualified	12 months (EURm) Audited – unqualified	12 months (EURm) Audited – unqualified
Summary income statement					
Net interest and dividend income	153	147	153	149	139
Net fees and commissions	0	0	0	-1	-1
Other operating income	44	42	40	40	33
Total operating income	196	189	193	188	170
Operating costs	135	130	114	121	105
Pre-impairment operating profit	62	59	79	67	65
Loan and other impairment charges	17	16	12	-8	21
Operating profit	45	43	67	75	44
Other non-operating items (net)	0	0	-64	-72	-41
Tax	0	0	0	0	0
Net income	45	43	3	3	3
Summary balance sheet					
Assets					
Gross loans	13,814	13,292	12,745	12,430	11,877
Loan loss allowances	156	150	134	127	140
Net loans	13,658	13,142	12,611	12,303	11,737
Interbank	4,428	4,260	4,206	4,603	4,450
Other securities and earning assets	3,724	3,584	3,464	3,030	2,625
Total earning assets	21,810	20,986	20,281	19,937	18,812
Cash and due from banks	17	16	7	3	914
Other assets	157	152	160	172	183
Total assets	21,985	21,153	20,449	20,112	19,909
Liabilities					
Customer deposits	2,121	2,041	1,804	1,680	808
Interbank and other short-term funding	9,632	9,268	9,374	9,651	10,213
Other long-term funding	6,797	6,540	6,027	5,609	5,795
Total funding and derivatives	18,549	17,848	17,205	16,940	16,816
Other liabilities	1,201	1,156	1,147	1,151	1,160
Total equity	2,234	2,150	2,097	2,021	1,933
Total liabilities and equity	21,985	21,153	20,449	20,112	19,909
Exchange rate		USD1 = EUR0.962186	USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173

Source: Fitch Ratings, Fitch Solutions, Investitionsbank Schleswig-Holstein

Key Ratios

(%)	31 Dec 24	31 Dec 23	31 Dec 22	31 Dec 21
Profitability				
Operating profit/risk-weighted assets	0.4	0.7	0.8	0.5
Net interest income/average earning assets	0.7	0.8	0.8	0.7
Non-interest expense/gross revenue	68.7	59.0	64.2	61.9
Net income/average equity	2.0	0.2	0.2	0.2
Asset quality				
Growth in gross loans	4.3	2.5	4.7	-0.8
Loan impairment charges/average gross loans	0.1	0.1	-0.1	0.2
Capitalisation				
Total capital ratio	21.8	21.5	20.7	20.3
Tangible common equity/tangible assets	10.2	10.2	10.0	9.7
Funding and liquidity				
Gross loans/customer deposits	651.4	706.4	739.9	1,469.7
Liquidity coverage ratio	232.0	182.0	178.0	188.0
Customer deposits/total non-equity funding	11.4	10.5	9.9	4.8
Net stable funding ratio	122.0	118.0	112.0	–

Source: Fitch Ratings, Fitch Solutions, Investitionsbank Schleswig-Holstein

Support Assessment

Shareholder Support	
Shareholder IDR	AAA
Total Adjustments (notches)	0
Shareholder Support Rating	aaa
Shareholder ability to support	
Shareholder Rating	AAA/ Stable
Shareholder regulation	Equalised
Relative size	Equalised
Country risks	Equalised
Shareholder propensity to support	
Role in group	Equalised
Reputational risk	Equalised
Integration	Equalised
Support record	Equalised
Subsidiary performance and prospects	Equalised
Legal commitments	Equalised

The colours indicate the weighting of each KRD in the assessment.

Higher influence Moderate influence Lower influence

The guarantee and IB.SH's important role for SH's economy have a high influence on the bank's Shareholder Support Rating, and drive the alignment of its IDRs with those of SH.

Environmental, Social and Governance Considerations

FitchRatings **Investitionsbank Schleswig-Holstein**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Investitionsbank Schleswig-Holstein has 5 ESG potential rating drivers

- Investitionsbank Schleswig-Holstein 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.

				ESG Relevance to Credit Rating
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) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
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	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	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; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	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	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	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	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

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

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.h 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), the Sustainability Accounting Standards Board (SASB), and the World Bank.

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 highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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