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Ratings

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KfW IPEX-Bank GmbH

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KfW IPEX-Bank GmbH

SACP	bbb+

Anchor	bbb+	
Business Position	Moderate	-1
Capital and Earnings	Strong	+1
Risk Position	Moderate	-1
Funding	Above Average	+1
Liquidity	Strong	

+

Support	+6
ALAC Support	0
GRE Support	+6
Group Support	0
Sovereign Support	0

+

Additional Factors	0

Issuer Credit Rating
AA+/Stable/A-1+

Major Rating Factors

Strengths:	Weaknesses:
• Extremely high likelihood of extraordinary government support. • Strong benefits of ownership by Kreditanstalt für Wiederaufbau (KfW), especially in terms of funding and liquidity. • Important role of exposure guarantees provided by export credit agencies or other sovereign-related entities worldwide.	• Volatile profitability due to high foreign currency sensitivity and single loss events. • Meaningful exposure to the currently vulnerable aviation and maritime industries. • Limited business diversity and high single-name risk as a specialized lending institution.

Outlook: Stable

The stable outlook on Germany-based KfW IPEX-Bank GmbH (IPEX) reflects S&P Global Ratings' expectation that the bank's ownership structure and its sole owner KfW's strong commitment to the bank will keep its business profile unchanged over the next two years. Moreover, we believe that the likelihood of timely and sufficient support for IPEX from the German government will stay extremely high over the same period.

Considering our assessment of an extremely high likelihood of support by Germany (AAA/Stable/A-1+), we do not anticipate that potential moderate movements in the bank's stand-alone credit profile (SACP) or our German Banking Industry Risk Assessment (BICRA) will affect the ratings.

Downside scenario

We could downgrade IPEX if we considered that support from Germany through KfW was weakening, and that IPEX had no alternative forms of support. We do not anticipate that this will occur, however. We could consider a negative rating action if, for example, any EU regulatory initiatives were to introduce meaningful barriers to extraordinary government support for IPEX but we currently do not foresee any.

A change of the SACP by more than four notches would be needed to prompt us to change the issuer credit rating on KfW IPEX-Bank.

We might consider changing the SACP if credit losses significantly exceed our base case assumptions.

Upside scenario

We consider any further positive rating action unlikely at this stage, absent an unexpected increase in IPEX's role for the German government or any substantial strengthening of IPEX's SACP.

Rationale

We base our ratings on IPEX on our expectations that IPEX will remain tightly integrated with KfW and continue to implement economic policy via export promotion. Therefore, we see an extremely high likelihood for extraordinary support from its parent, and ultimately from the German state, if needed.

Our view of IPEX's intrinsic creditworthiness is captured by the 'bbb+' SACP. The SACP reflects IPEX's business model as a specialized lending institution in export and project finance, which we consider to be more vulnerable to the current adverse external operating environment than that of a typical, more diversified German bank.

We consider IPEX's maintenance of a solid capital ratio as a supporting factor. We expect a slight decline in our risk-adjusted capital (RAC) ratio (our measure of a bank's future capital adequacy) to around 15.0% in the next 12-24 months, from 16.5% at end-2019 as the bank plans to increase business activities, such as increasing export finance to African countries.

Our risk position assessment reflects IPEX's concentration risks, especially to the higher-risk maritime and aviation industry, which are being heavily impacted by the COVID-19 induced economic slowdown. We believe that IPEX's business model is also being affected by a cooling of global trade routes and the current breakdown of supply chains. Such factors are not captured in our RAC framework and are therefore reflected in a weaker risk position.

IPEX's funding and liquidity profile is stronger than that of German peers thanks to substantial ongoing benefits from KfW's ownership. The bank's funding is almost exclusively provided by KfW, and the bank benefits from ample liquidity line commitments from its parent.

Anchor: 'bbb+', reflecting the bank's countries of operation

The 'bbb+' anchor draws on our Banking Industry Country Risk Assessment (BICRA) methodology and our view of the weighted-average economic risk across the countries in which IPEX operates, based on the geographic distribution of its total credit exposures at default.

About 80% of IPEX's ultimate geographic risk exposures (after guarantees) are within markets with a higher economic risk than that of Germany. These include other European countries (50%, including the Netherlands and the U.K.) and the rest of the world (30%). The weighted-average economic risk score rounds to '3.5' on a scale of '1' to '10' ('1' representing the lowest risk and '10' the highest). Considering that the trend on economic risk in Germany and several other countries is now negative, we expect IPEX's weighted average to weaken slightly but not to an extent that it affects the anchor.

The industry risk score of '3' is based solely on IPEX's home market Germany. We believe that German banks entered the pandemic already under profitability pressure because of intense competition, low interest rates, and a relatively high cost base. Rising credit losses could increase pressure on profits and are reflected in our negative industry risk trend. In addition to increasing--but manageable--risk costs, we see challenges from much-needed investments in IT-infrastructure systems to avoid tech disruption and franchise damage from cyber-attacks and customer data mismanagement.

Table 1

KfW IPEX-Bank GmbH Key Figures

	--Year-ended Dec. 31--				
(Mil. €)	**2019**	**2018**	**2017**	**2016**	**2015**
Adjusted assets	25,627.7	26,900.0	25,156.4	29,164.6	28,369.3
Customer loans (gross)	24,204.1	24,141.4	22,327.0	25,540.4	24,746.0
Adjusted common equity	3,423.8	3,268.1	3,177.6	2,842.3	2,830.6
Operating revenues	504.3	502.4	381.0	501.1	574.5
Noninterest expenses	226.9	244.3	234.2	216.9	216.0
Core earnings	191.8	253.7	68.7	116.8	180.4

Business position: IPEX is vulnerable to cyclical sectors

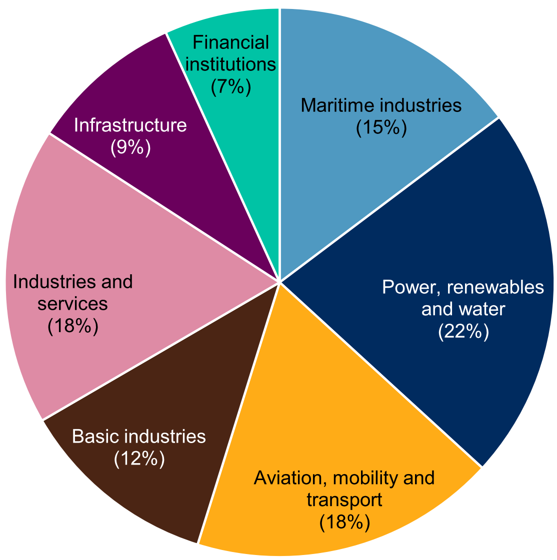
In our view, IPEX's business model as a specialized lending institution in export and international project finance is inherently exposed to cyclical sectors. While sovereign guarantees allow for a cushioning of losses, the bank will be affected by the economic downturn. However, we believe that IPEX is more diversified in terms of sector exposure compared to narrowly specialized peers, such as banks active only in transportation finance (DVB Bank or Danmarks Skibskredit).

With total assets of €26.0 billion as of Dec. 31, 2019, IPEX offers corporate loans and trade, export, and project finance in sectors such as shipping, transportation, infrastructure, and energy to clients mainly located in Germany and

Europe. By managing promotional export programs on behalf of KfW, IPEX continues to play an important role in supporting Germany's large export-driven economy by supporting the government's economic agenda.

Chart 1

Volume Of Lending Per Business Sector As Of Year-End 2019
Diversified portfolio with focus on possible vulnerable sectors

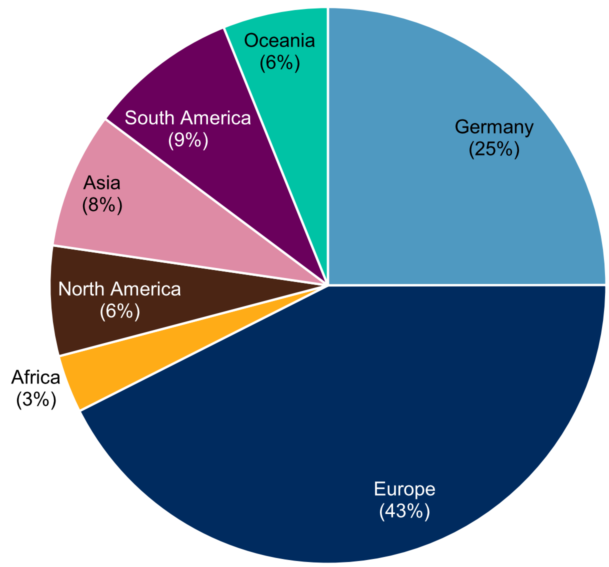


Source: KfW IPEX-Bank's financial reporting, S&P Global Ratings.

Chart 2

Volume Per Lending By Region As Of Year-End 2019

Majority of lending in Europe and North America



Source: S&P Global Ratings.

IPEX's stable customer base is a combination of specialized midsize companies and leading German and European exporters, for which the bank provides tailor-made financing solutions. These long-standing customer relationships provide stability to IPEX's business model. In addition, IPEX's franchise is supported by expertise in arranging export credit agency (ECA) covered lending.

Despite the worsened economic outlook, we expect new business to grow during 2020 and 2021 and approach total assets of €30 billion. IPEX is to be supervised by the European Central Bank (ECB) instead of the German Federal Regulation Authority (BaFin). We expect the regulatory transition to lead to sizable additional costs in the coming years, which might affect the bank's cost structure in the short term.

Table 2

KfW IPEX-Bank GmbH Business Position

	--Year-ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Total revenues from business line (currency in millions)	504.3	502.4	381.0	501.1	574.5
Return on average common equity	0.0	0.0	0.0	0.0	5.2

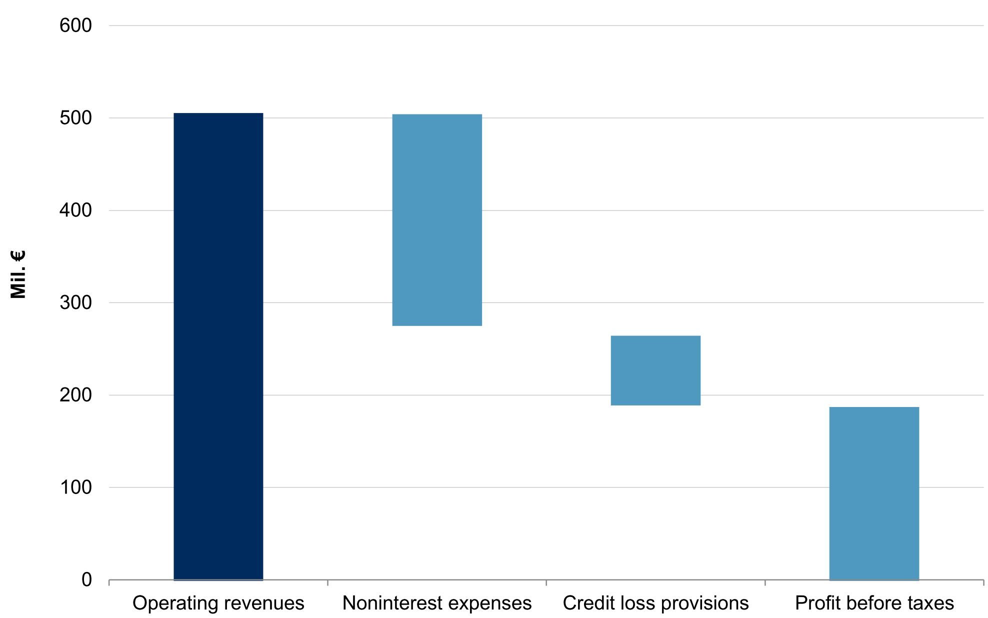
Capital and earnings:

We assess IPEX's capitalization as a rating strength, mainly reflecting our projection that the bank's RAC ratio before diversification will remain 10%-15% in the coming years. In case of higher credit losses, its RAC ratio may weaken slightly. We also recognize the uncertainties in IPEX's balance sheet size associated with exchange-rate fluctuations and its influence on the exposure's size.

As part of the profit transfer agreement, IPEX had been transferring its annual profits under German commercial law to its direct legal owner, KfW Beteiligungsholding GmbH. In 2019, €185 million of which €94 million was re-injected into KfW IPEX-Bank in June 2020 to fund business growth and to maintain comfortable regulatory capital levels. We view additional direct capital injections from KfW as unlikely over the next two years, given the bank's sufficient capital base.

Chart 3

KfW IPEX-Bank Earnings Breakdown 2019
Increasing credit losses



Source: S&P Global Ratings.

In contrast to the sizable €186 million profit in 2019, we expect the bank to post only a minor profit in 2020 at most. Rising credit costs, also driven by rating downgrades, together with an increasing cost base will leave less headroom for profits. For 2019-2020, we factor in high new business growth of 5%-7%, combined with an average net interest margin of around 1.05%–1.10%, slightly lower than previous years. Driven by higher default rates, especially in vulnerable sectors, we believe that risk costs will more than double in the short term.

IPEX's capital includes €1 billion in hybrids (provided by KfW). However, these hybrid instruments are being gradually excluded from the regulatory core capital ratio under Basel III. We are similarly phasing them out from IPEX's total adjusted capital (TAC). As of December 2019, 30% or €300 million of the hybrid instruments was still included in TAC.

We assess IPEX's earnings quality and capacity as weak. Given its business model, the bank's net profits are prone to volatility. Reflecting its concentration risk and exposure to industries more severely hit by the crisis, increasing loan-loss impairments represent significant volatility risk, particularly in light of only modest profitability. We estimate IPEX's three-year average earnings buffer, which measures the capacity for bank's earnings to cover normalized losses, will weaken to about 35 basis points, down by 10 basis points year-on-year.

Table 3

KfW IPEX-Bank GmbH Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Tier 1 capital ratio	20.7	20.5	23.6	17.7	15.7
S&P Global Ratings' RAC ratio before diversification	16.5	14.6	17.6	12.8	12.2
S&P Global Ratings' RAC ratio after diversification	15.2	14.4	16.3	13.1	12.5
Adjusted common equity/total adjusted capital	91.9	89.1	86.4	82.6	80.2
Net interest income/operating revenues	61.8	58.1	77.1	67.0	58.1
Fee income/operating revenues	39.8	33.4	39.3	30.5	32.7
Market-sensitive income/operating revenues	(3.3)	2.6	(17.9)	1.5	8.0
Cost to income ratio	45.0	48.6	61.5	43.3	37.6
Preprovision operating income/average assets	1.0	1.0	0.5	1.0	1.3
Core earnings/average managed assets	0.7	1.0	0.3	0.4	0.7

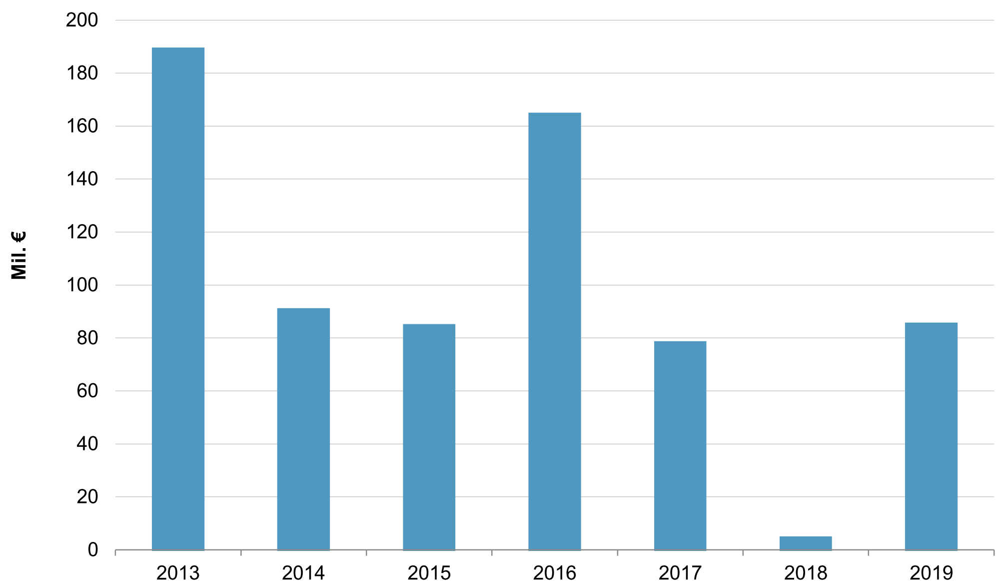
Risk position:

IPEX's moderate risk position reflects inherent risks in its export finance business, concentration risks in single sectors, and currency risks, which are not adequately reflected in our RAC calculation.

We assess concentrations in high-risk sectors as the dominant weakness in the bank's risk position. In recent years, the bank has focused on increasing the granularity of its risk exposure, but high single-name and single-ticket concentration remains intrinsic to the business model. This is also a reflection of the relatively large size of IPEX's corporate customers. Moreover, IPEX's export finance products are typically more complex than mainstream loans, and therefore more difficult to manage. We acknowledge that the ultimate risk is largely reduced through guarantees from ECAs, especially for the more challenging projects or geographic regions. We believe that syndication and risk sharing will gain further relevance for IPEX's business model.

Chart 4

KfW IPEX-Bank Credit Loss Provisions 2013-2019
Back to normal previous levels after exceptional year 2018



Source: S&P Global Ratings.

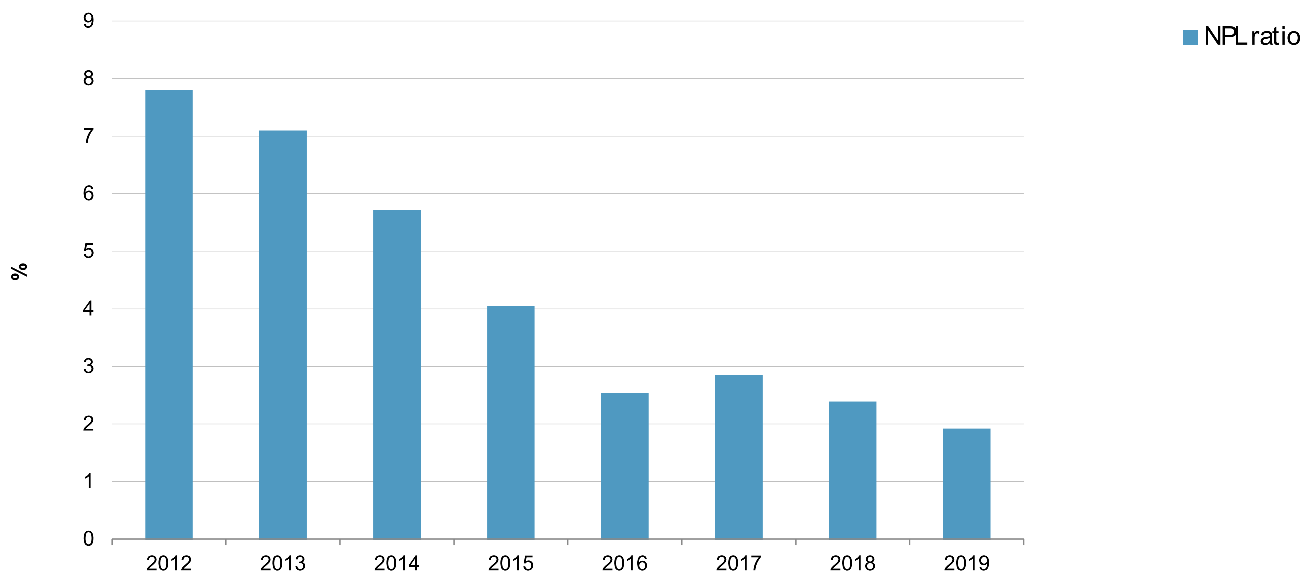
In 2019, IPEX's new business volume reached an all-time high, mostly driven by the energy industry and climate protection segment, which we anticipate will remain the largest contributors to new business volume over the upcoming years.

In our view, IPEX's exposure to the engineering, automotive, and maritime sectors, as well as to aviation, will remain a significant risk for its asset quality. With cruise ship operators and airline companies experiencing severe disruptions, loan repayments remain at risk after the phase-out of several moratoriums. While we expect further support measures by governments, IPEX's NPL ratio will be affected by increasing default rates. The oil and gas segment, especially its offshore portfolio, could also continue to be a source of increased losses over time.

Chart 5

KfW IPEX-Bank's Risk Metrics

We expect the NPL ratio to increase further, from an all-time low in 2019, in the upcoming years



NPL--ratio is defined as gross non-performing assets as % of customer loans. Source: S&P Global Ratings.

IPEX's ratio of NPLs to total loans improved to 1.9% as of Dec. 31, 2019, down from 2.4% as of end-2018 (see chart 5). We expect the bank's NPL ratio to increase significantly up to at least 2.9% in 2020, outpacing its balance sheet growth. Still, we acknowledge the increased use of collateralization, which allows for a partial absorption of losses by ECA guarantees.

Table 4

KfW IPEX-Bank GmbH Risk Position

	--Year-ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Growth in customer loans	0.3	8.1	(12.6)	3.2	8.4
Total diversification adjustment/S&P Global Ratings' RWA before diversification	8.4	1.4	7.5	(2.5)	(2.7)
Total managed assets/adjusted common equity (x)	7.6	8.3	8.0	10.3	10.1
New loan loss provisions/average customer loans	0.4	0.0	0.3	0.7	0.4
Net charge-offs/average customer loans	0.2	0.2	0.5	0.8	1.2
Gross nonperforming assets/customer loans + other real estate owned	2.9	2.4	2.8	2.5	4.0
Loan loss reserves/gross nonperforming assets	42.6	51.7	50.9	63.1	39.7

Funding and liquidity:

IPEX's comfortable funding and liquidity position benefits from implicit and explicit support from its parent. Thanks to KfW's strong standing in capital markets and its federal government guarantee, we believe IPEX will continue to enjoy unimpeded access to funding even in periods of market stress.

IPEX's funding mix consists of promissory note loans and registered covered bonds being acquired by KfW. We also note that IPEX equalizes its refinancing profile with financed transactions in terms of maturity and currency.

In line with our expectations, IPEX's stable funding ratio of 76% as of Dec. 31, 2019, remained below the 100% that usually signals a well-balanced funding profile. IPEX relies heavily on short-term funding (that matures within one year), which we do not treat as available stable funding in our calculation of its stable funding ratio. However, IPEX's short-term funding is provided by its parent and we therefore do not view this as a concern.

Our assessment of IPEX's liquidity position as strong is chiefly based on the ongoing liquidity support provided by KfW, mitigating the bank's weak and further shrinking one-year horizon liquidity ratio of 0.27x as of Dec. 31, 2019 (broad liquid assets to short-term wholesale funding).

IPEX has entered into further irrevocable credit facilities with KfW, to a total availability of €3.7 billion, to fulfil the regulatory liquidity coverage ratio, which we deem very beneficial for the bank's funding profile.

Table 5

KfW IPEX-Bank GmbH Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Core deposits/funding base	0.5	0.9	1.1	1.5	2.3
Customer loans (net)/customer deposits	21,650.5	12,214.7	9,500.2	6,748.3	4,381.5
Long-term funding ratio	76.3	72.2	74.4	73.2	72.2
Stable funding ratio	76.5	76.1	80.8	80.3	80.0
Short-term wholesale funding/funding base	27.8	32.3	30.1	30.5	31.8
Broad liquid assets/short-term wholesale funding (x)	0.2	0.3	0.4	0.4	0.5
Net broad liquid assets/short-term customer deposits	(4,783.0)	(2,708.3)	(2,066.8)	(1,394.8)	(864.7)
Short-term wholesale funding/total wholesale funding	27.5	32.0	29.7	30.2	31.6

Support:

We regard IPEX as a government-related entity (GRE) in Germany. The long-term issuer credit rating is six notches higher than the SACP, reflecting our view that there is an extremely high likelihood of timely and sufficient extraordinary government support from KfW, and ultimately from the German state if needed. Our assessment is based on IPEX's:

- Very important role for KfW and ultimately for Germany in supporting public policy as a major export finance institution; and
- Integral link with its sole owner, KfW, which is also a GRE.

We do not envisage that the bank's GRE status and our view of an extremely high likelihood of extraordinary government support will change in the near future. Although IPEX has no public policy role in its commercial business, the bank is engaged in promotional lending on a trustee basis in the name of KfW and the German government. Promotion of export financing is a key economic and political objective for the German government, reflecting the country's strong export quota of about 47% of GDP.

IPEX, similar to many of its GRE peers in the EU, is within the scope of the BRRD, which includes restrictions on government support. However, we currently see no material impediment to timely support for IPEX from KfW.

Related Criteria

- Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Germany 'AAA/A-1+' Ratings Affirmed; Outlook Stable, April 3, 2020
- Full analysis: KfW, Aug. 25, 2020
- Latest Banking Industry Country Risk Assessment On Germany Published, Oct. 1, 2019
- Banking Industry Country Risk Assessment Update Published For August 2020, Aug. 21, 2020

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	**3**	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	**bbb+**	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of September 30, 2020)*

KfW IPEX-Bank GmbH	
Issuer Credit Rating	AA+/Stable/A-1+
Issuer Credit Ratings History	
27-May-2016	AA+/Stable/A-1+
25-Jan-2012	AA/Stable/A-1+
08-Dec-2011	AA/Watch Neg/A-1+
Sovereign Rating	
Germany	AAA/Stable/A-1+
Related Entities	
KfW	
Issuer Credit Rating	AAA/Stable/A-1+
Commercial Paper	
Foreign Currency	A-1+
Senior Unsecured	AAA

*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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