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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:

- Extremely high likelihood of extraordinary government support.
- Strong implicit 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.

Weaknesses:

- Volatile profitability, also due to high foreign currency sensitivity.
- Limited business diversity as a specialized lending institution in international export and project finance.
- Substantial exposure to the maritime portfolio.

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 owner Kreditanstalt für Wiederaufbau's (KfW's) strong commitment to the bank will keep its business position stable over the next two years. Moreover, we believe the likelihood of timely and sufficient support for IPEX from the German government will stay extremely high over the same period. The outlook also incorporates our current view that the EU Bank Recovery and Resolution Directive (BRRD), in connection with European competition law, is unlikely to meaningfully hinder the German government from providing timely support to IPEX via KfW.

Considering our assessment of an extremely high likelihood of support by Germany (unsolicited, AAA/Stable/A-1+), we do not anticipate that small movements in the bank's stand-alone credit profile (SACP) will affect the ratings. The SACP would need to change by four notches in any direction to prompt us to take a rating action on IPEX. Nevertheless, we believe that the strength of IPEX's individual credit standing supports our view that IPEX will remain an important, valued, and well-supported mechanism for KfW to deliver its mission.

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 see any.

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

Our ratings on IPEX reflect its anchor of 'bbb+', which represents our view of the economic environment of the numerous countries in which the bank operates, alongside banking industry risk in Germany.

We consider IPEX's commercial business model as a specialized lending institution in international export and project finance to be more vulnerable to adverse operating conditions than the one of a typical, diversified German bank. On balance, the business is less favorable than for other banks with the same industry score but has some diversification strengths if compared to direct peers in a similar area of financing. We assess the bank's capital and earnings as strong, underpinned by a projected risk-adjusted capital (RAC) ratio of 13.0%-14.0% in the next 12-24 months. We anticipate it will drop from its temporary December 2017 high of 17.6% due to new business generation plans and possible 2018-2019 exchange rate effects. The significant RAC increase of the previous year resulted from a meaningful loan portfolio reduction over 2017, accompanied by the depreciation of the U.S. dollar against the euro. We also note €300 million additional core capital received from KfW in 2017, which aims to compensate for the gradual phasing out of core capital recognition of the IPEX hybrids that KfW owns. Our assessment of IPEX's risk position is moderate, mainly as a result of concentration risks not covered by our RAC calculation and the substantial exposure to the maritime and oil and gas industry. Also, IPEX's business is currently open to various global trade-related risks, including dropping international trade levels. We view funding as above average and liquidity as strong, due to substantial ongoing benefits from KfW's ownership. IPEX's funding is almost exclusively provided by KfW and the bank benefits from ample liquidity line commitment from its parent.

The ratings also factor in IPEX's status as a government-related entity (GRE) and our view of an extremely high likelihood of timely and sufficient support from the German government if needed.

Anchor: 'bbb+', one notch lower than that for banks operating exclusively in Germany

Under our bank criteria, we use our Banking Industry Country Risk Assessment economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a commercial bank operating only in Germany is 'a-', based on an economic risk score of '1' and an industry risk score of '3'. However, we use a 'bbb+' anchor, based on a weighted economic risk score of '3', for IPEX to reflect that it does the majority of its lending in markets with weaker economic risk scores than that of Germany.

To assess the economic risk for IPEX, we analysed the distribution of the bank's exposure at default. IPEX's ultimate geographical area of risk stands at about 70% for markets with a weaker economic development than that of Germany. These include other European countries (40%) and the rest of the world (30%).

IPEX and its parent KfW benefit from Germany's extensive funding market with banks' domestic funding surpluses, as well as from material strengthening of banking regulation and supervision stemming from the ongoing EU-wide regulatory harmonization and convergence under Basel III. However, we believe that strong competition, especially for lower-risk financings in developed markets, coupled with a very low interest rate environment, remain a drag on IPEX's commercial business activity.

Table 1

KfW IPEX-Bank GmbH Key Figures

	--Year-ended Dec. 31--				
(Mil. €)	**2017**	**2016**	**2015**	**2014**	**2013**
Adjusted assets	25,156.4	29,164.6	28,369.3	26,149.8	23,279.8
Customer loans (gross)	22,327.0	25,540.4	24,746.0	22,821.8	21,134.5
Adjusted common equity	3,177.6	2,842.3	2,830.6	2,650.3	2,472.8
Operating revenues	425.5	501.1	574.5	526.0	456.8
Noninterest expenses	234.2	216.9	216.0	192.6	169.9
Core earnings	113.3	116.8	180.4	180.5	75.3

Business position: Challenging international business environment for a specialist lender

In January 2018, the bank celebrated the 10-year anniversary of its official spin-off from KfW. The split followed a March 2002 agreement between Germany and the European Commission on the separation of commercial and public-policy business. Since then, it has financed over 3,000 projects with total lending of about €143 billion in line with its commercial but also economic and social mandates. KfW remains IPEX's sole owner and IPEX continues to be operationally closely linked with KfW.

In our view, IPEX's business model as a specialized lending institution in export and international project finance is inherently exposed to cyclical sectors. Despite increased concentration on wind-solar energy lending, we believe its overall diverse business areas enable the bank to follow different business cycles. This differentiates IPEX from more narrowly specialized peers, such as banks active only in transportation finance. 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. Also, the bank plays an important role in supporting Germany's large export-driven economy, and it underwrites and manages promotional business on behalf of KfW, extending its policy programs. This also partially explains why the bank cannot diversify more or exit its involvement in various segments, for instance maritime, despite higher risks as it has to continue fulfilling its policy role.

With total assets of €25.4 billion as of Dec. 31, 2017, IPEX offers German and other European clients corporate loans and trade, export, and project finance in sectors such as shipping, transportation, infrastructure, and energy. We note a significant reduction by 13% in the bank's loans and advances throughout 2017, resulting predominantly from lower new business generation and sales of exposures to optimize the portfolio, but also from U.S. dollar depreciation.

We expect that new business will pick up significantly through 2018-2019, by about €2 billion in total, but that total assets will remain below €30 billion over the next few years. This means IPEX will not qualify as a "significant" bank under the ECB's direct supervision recognition criteria.

Table 2

KfW IPEX-Bank GmbH Business Position					
	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Total revenues from business line (currency in millions)	425.5	501.1	574.5	526.0	456.8
Commercial banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Core earnings/average adjusted common equity (%)	3.76	4.12	6.58	7.05	3.09

Capital and earnings: Strong capitalization, but earnings are vulnerable

As part of the profit transfer agreement that was introduced in January 2016, IPEX had been transferring its entire annual profits under German commercial law to its direct legal owner, KfW Beteiligungsholding GmbH. From the €113 million pre-tax 2017 profit generated by IPEX, €75 million had been reinvested in the bank in June 2018. We believe that IPEX's capital base will be supported by partial reinvestments of the transferred profits in the form of a shareholder contribution in the future, depending on capital development and planning needs.

We see any direct capital injections from KfW as highly unlikely over the next two years given the bank's strong capital base. Our assessment corresponds with our expectation that the bank's RAC ratio will drop from the December 2017 temporary high of 17.6% to about 13.0%-14.0% in 2019-2020, predominantly due to accelerated new business growth but also the continued phase-out of the equity content of hybrid instruments, and exchange-rate fluctuations.

For 2018-2019, we factor in high new business growth of over 10% combined with a net interest margin of around 1.10%-1.15%, slightly improved from the 2017 low of 1.08%. We also believe that risk costs will increase toward a normalized about €100 million per year. We currently do not foresee the more challenging areas of IPEX's operating environment improving--particularly shipping or oil and gas.

IPEX's capital includes €1 billion in hybrids (provided by KfW). These hybrid instruments, however, will be gradually excluded from the regulatory core capital ratio under Basel III in the coming years, continuing the phasing out begun in 2014. We are similarly phasing them out from IPEX's total adjusted capital (TAC): 50% or €500 million of the hybrid instrument was included in TAC as of December 2017.

We assess IPEX's earnings quality and capacity as its main weakness. With IPEX's business model, we continue to observe marked volatility in its net profits. Reflecting the bank's concentration risk and exposure to cyclical industries, potential loan-loss impairments might represent significant volatility risk, particularly in light of only modest pre-impairment profitability. We estimate IPEX's three-year average earnings buffer, which measures the capacity for bank's earnings to cover normalized losses, to oscillate around 40 basis points (bps).

Table 3

KfW IPEX-Bank GmbH Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Tier 1 capital ratio	23.6	17.7	15.7	15.2	18.1
S&P RAC ratio before diversification	17.6	12.8	12.2	11.8	13.1
S&P RAC ratio after diversification	16.3	13.1	12.5	12.6	13.8
Adjusted common equity/total adjusted capital	86.4	82.6	80.2	76.8	71.2
Net interest income/operating revenues	69.0	67.0	58.1	56.8	64.3
Fee income/operating revenues	35.2	30.5	32.7	35.1	32.8
Market-sensitive income/operating revenues	(5.6)	1.5	8.0	7.3	(3.2)
Noninterest expenses/operating revenues	55.0	43.3	37.6	36.6	37.2
Preprovision operating income/average assets	0.7	1.0	1.3	1.3	0.8
Core earnings/average managed assets	0.4	0.4	0.7	0.7	0.2

Table 4

KfW IPEX-Bank GmbH RACF [Risk-Adjusted Capital Framework] Data

(Mil. €)	**Exposure***	**Basel III RWA**	**Average Basel III RW (%)**	**S&P Global RWA**	**Average S&P Global RW (%)**
Credit risk					
Government and central banks	7,171	55	1	258	4
Of which regional governments and local authorities	13	0	0	0	4
Institutions and CCPs	376	502	134	323	86
Corporate	22,454	14,093	63	18,615	83
Retail	5	4	75	3	59
Of which mortgage	0	0	75	0	20
Securitization§	0	0	0	0	0
Other assets†	36	36	100	32	90
Total credit risk	30,054	14,691	49	19,231	64
Credit valuation adjustment					
Total credit valuation adjustment	--	0	--	0	--
Market risk					
Equity in the banking book	78	274	349	874	1,114
Trading book market risk	--	0	--	0	--

Table 4

KfW IPEX-Bank GmbH RACF [Risk-Adjusted Capital Framework] Data (cont.)					
Total market risk	--	274	--	874	--
Operational risk					
Total operational risk	--	739	--	826	--
		Basel III RWA		**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification		15,704		20,930	100
Total Diversification/Concentration Adjustments		--		1,564	7
RWA after diversification		15,704		22,495	107
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		3,709	23.6	3,678	17.6
Capital ratio after adjustments‡		3,709	23.6	3,678	16.3

Exposure at default, S&P Global Ratings' RWA, and average S&P Global Ratings' RW figures reflect an analytical adjustment for recognition of sovereign guarantees. *Exposure at default. §Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2017, S&P Global.

Risk position: High concentration in export finance and within single sectors

We view IPEX's risk position as moderate, reflecting inherent risk in its export finance business and concentration risk in single sectors that is not adequately reflected in our RAC calculation. This can be seen in the bank's credit loss provisioning, which we expect to increase over the next 12-24 months despite 2017 asset sales, especially in the maritime industry division but also in the offshore oil segment.

We assess high risk concentration 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 -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 to a large extent reduced by guarantees received from export credit agencies, especially for the more challenging projects or geographic regions.

In 2017, IPEX's new business volume of €13.8 billion was less than the initially planned €15.9 billion due to a competitive market environment, characterized, among other things, by extremely high liquidity. This reflects most of the segments apart from raw materials or energy and environment originations. We anticipate that new business volume over 2018-2019 will further focus on energy and environment and raw materials, but also on the riskier maritime industry given recent portfolio optimization and NPL reductions in that segment.

In our view, IPEX's exposure to the maritime sector, with the exception of the cruise ship segment, will remain a burden on the bank's asset quality. The oil and gas segment, especially its offshore portfolio, is another potential source of losses over time.

Positively, we note that IPEX has actively and almost completely reduced its exposure to the legacy KG-Portfolio, which principally explained the elevated risks costs in 2012-2014, to €86 million as of December 2017 (versus €344 million in 2016). IPEX's ratio of NPLs to total loans increased slightly to 2.8% as of Dec. 31, 2017, from 2.5% as of end-2016. The ongoing stable NPL ratio results mainly from the 2017 assets sales, but we expect it to increase toward 4.0% by 2020.

Despite half of IPEX's portfolio being FX-denominated, foreign currency risk and interest rate risk are both low because of broadly matched funding, and the bank undertakes appropriate hedging activities, in our view. To match the assets denominated in U.S. dollars, part of the equity capital--funds for general banking risks--is denominated in U.S. dollars (340g HGB). Risks from the bank's securities portfolio are minor, reflecting the portfolio's small size.

Table 5

KfW IPEX-Bank GmbH Risk Position

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Growth in customer loans	(12.6)	3.2	8.4	8.0	(0.1)
Total diversification adjustment / S&P RWA before diversification	7.5	(2.5)	(2.7)	(5.8)	(4.7)
Total managed assets/adjusted common equity (x)	8.0	10.3	10.1	9.9	9.5
New loan loss provisions/average customer loans	0.3	0.7	0.4	0.4	0.9
Net charge-offs/average customer loans	0.5	0.8	1.2	1.1	0.6
Gross nonperforming assets/customer loans + other real estate owned	2.8	2.5	4.0	5.7	7.1
Loan loss reserves/gross nonperforming assets	50.9	63.1	39.7	45.2	50.7

Funding and liquidity: Strong benefits from KfW's ownership

IPEX's comfortable funding and liquidity position benefits from the implicit support from the bank's parent.

We note that funding is provided on market-based terms but it is predominantly matched and, almost exclusively, directly granted by KfW. It mostly consists of promissory note loans and the registered covered bonds being acquired by KfW. We do not expect IPEX to seek medium- or long-term sources from external providers. Accordingly, our assessment reflects likely continued support from the parent; through its high level of integration into KfW, IPEX enjoys unimpeded access to funding.

In line with our expectations, IPEX's stable funding ratio remained at the same level of about 80% as of Dec. 31, 2017, compared with 2016. This is below the 100% that usually signals a well-balanced funding profile. However, the ratio is distorted by the fact that we do not consider funding maturing within one year as available stable funding in our standard ratios, whereas in the case of IPEX the funds are provided by the parent KfW. We also note that IPEX equalizes its refinancing profile with the financed transactions.

Our assessment of IPEX's liquidity position as strong is chiefly based on ongoing liquidity support provided by KfW, mitigating the bank's weak one-year horizon liquidity ratio of 0.43x as of Dec. 31, 2017 (broad liquid assets to short-term wholesale funding). IPEX not only has an undrawn credit facility with KfW of €500 million but also holds a €2 billion portfolio of highly liquid KfW securities in order to fulfil the regulatory liquidity coverage ratio.

Table 6

KfW IPEX-Bank GmbH Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Core deposits/funding base	1.1	1.5	2.3	1.6	2.1
Customer loans (net)/customer deposits	9,500.2	6,748.3	4,381.5	6,170.6	4,846.0
Long term funding ratio	74.4	73.2	72.2	71.2	69.5
Stable funding ratio	80.8	80.3	80.0	79.3	75.5
Short-term wholesale funding/funding base	30.1	30.5	31.8	33.2	36.0
Broad liquid assets/short-term wholesale funding (x)	0.4	0.4	0.5	0.5	0.4
Short-term wholesale funding/total wholesale funding	29.7	30.2	31.6	32.6	34.9

Support: Six notches of uplift to the SACP

The long-term issuer credit rating is six notches higher than the SACP. We regard IPEX as a GRE with an extremely high likelihood of timely and sufficient extraordinary government support if needed. We expect support to come from its parent, KfW, and ultimately from the German state. 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 that there is 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. The German government views promotion of export financing as a key economic and political objective, reflecting Germany's strong export orientation. IPEX's activities include consulting services for export and project financing on behalf of the German government.

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 on timely support for IPEX from KfW.

Related Criteria

- 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: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013

- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- 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

- Banking Industry Country Risk Assessment Update: July 2018, July 24, 2018
- Research Update: Germany 'AAA/A-1+' Ratings Affirmed; Outlook Stable, April 27, 2018
- KfW, Nov. 9, 2017
- Banking Industry Country Risk Assessment: Germany, Oct. 11, 2017

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 August 15, 2018)

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+

Ratings Detail (As Of August 15, 2018) (cont.)	
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.