

Research Update:

KfW IPEX-Bank 'AA+/A-1+' Ratings Affirmed On Unchanged Support; Outlook Remains Stable

February 21, 2023

Overview

- In our view, exposure to countries with governance shortcomings and volatile economies are intrinsic to KfW IPEX-Bank's (IPEX's) business model, including material concentration risks in cyclical sectors.
- We expect the bank's asset quality and business profile to remain resilient, despite increasing economic uncertainty and supply chain disruptions in its core markets; in our opinion, its strong capitalization mitigates the risks.
- We see unchanged support from its parent, KfW, for which IPEX carries out the export-finance business.
- Therefore, we affirmed our 'AA+/A-1+' long- and short-term issuer credit ratings on the bank.
- We base the stable outlook on our expectation that IPEX will remain tightly integrated with its owner, state-owned KfW, and ultimately receive support from the German government if needed.

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Rating Action

On Feb. 21, 2023, S&P Global Ratings affirmed its 'AA+/A-1+' long- and short-term issuer credit ratings on Germany-based KfW IPEX-Bank (IPEX). The outlook is stable.

Rationale

In our view, IPEX is exposed to cyclical sectors that are substantially affected by the uncertain economy and carry material risks to asset quality. Due to IPEX's public mandate as a

specialized lending institution, entailing supporting German export and international project finance, high single-name and single-loan concentration remains intrinsic to its business model.

While the ultimate risk is largely reduced through guarantees from export credit agencies, the bank experienced higher loan loss levels in 2020 and 2021 due to the pandemic and single-loss events like Wirecard, leading to an elevated nonperforming loan ratio. Under our base-case

assumptions, we expect credit losses to decrease to 30-35 basis points in the next couple of years.

We regard IPEX as a government-related entity (GRE) to the German sovereign. The long-term issuer credit rating is six notches higher than the stand-alone credit profile (SACP) because, in our view, there is an extremely high likelihood of timely and sufficient extraordinary government support for IPEX from the German government through KfW. We do not envisage that the bank's GRE status or our view of an extremely high likelihood of extraordinary government support will change in the near future. Promotion of export financing is a key economic and political objective for the German government, and we see IPEX's promotional lending business in the name of KfW as pivotal.

We assess IPEX's €600 million additional tier 1 (AT1) instrument, given by its sole owner KfW, as having high equity content under our capital calculation. We typically assign high equity content to hybrids held solely by or on behalf of a government if we anticipate that the hybrid will absorb losses or conserve cash in a stress scenario. Deciding whether to stop paying the coupon on the AT1 instrument will be independent of considerations for all other instruments issued, and in case of stress, the issuer will stop paying the coupon on government-owned hybrids before other obligations. In our view, KfW has invested in the instrument to provide extraordinary support to IPEX, even if it does not strengthen quickly. The instrument is subordinated in liquidation to the issuer's senior debt obligations and cash coupons are fully discretionary.

Outlook

The stable outlook reflects our expectation that IPEX's ownership structure and KfW's strong commitment to the bank will keep IPEX's business risk profile unchanged over the next two years. Moreover, we believe that the likelihood of timely and sufficient support for IPEX from Germany (AAA/Stable/A-1+) will remain extremely high in that time. Therefore, we do not anticipate that potential moderate movements in the bank's SACP would affect our 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 this, 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 similarly do not expect any.

Upside scenario

We consider a positive rating action unlikely absent an unexpected increase in IPEX's role for the German government or substantial strengthening of the bank's SACP.

Ratings Score Snapshot

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

Issuer Credit Rating	AA+/Stable/A-1+
Anchor	bbb+
Business position	Moderate (-1)
Capital and earnings	Strong (+1)
Risk position	Moderate (-1)
Funding and liquidity	Strong and Strong (+1)
Comparable ratings analysis	0
Support	+6
ALAC support	0
GRE support	+6
Group support	0
Sovereign support	0
Additional factors	0

SACP--Stand-alone credit profile. ALAC--Additional loss absorption capacity. GRE--Government-related entity.

ESG credit indicators: E-2, S-2, G-2

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- KfW, Jan. 19, 2023
- KfW IPEX-Bank GmbH, Dec. 21, 2022

Research Update: KfW IPEX-Bank 'AA+/A-1+' Ratings Affirmed On Unchanged Support; Outlook Remains Stable

- KfW's €20 Million Digital 2024 Issuance Rated 'AAA', Dec. 20, 2022
- Research Update: Germany 'AAA/A-1+' Ratings Affirmed; Outlook Stable, Sept. 23, 2022

Ratings List

Ratings Affirmed

KfW IPEX-Bank GmbH

Issuer Credit Rating	AA+/Stable/A-1+
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

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