Landeskreditbank Baden-Württemberg – Förderbank – (L-Bank)

Rating Report

Rating rationale and Outlook

The AAA rating of Landeskreditbank Baden-Württemberg – Förderbank – (L-Bank) is equalised with the AAA/Stable rating of the German Federal State of Baden-Württemberg (Baden-Württemberg), given the state's explicit, unconditional, unlimited, statutory, direct, and irrevocable guarantee for L-Bank's existing and future obligations with respect to money borrowed, bonds issued, and derivative transactions entered into by the bank.

The rating is further underpinned by i) a mature and very supportive legal set-up, which makes changes to L-Bank's business model or guarantee structure unlikely; ii) the bank's high strategic importance to the Federal State as a key government-related entity implementing economic and social policies with a countercyclical role, supported by the stability of its resources; iii) high capitalisation and asset quality, and iv) a strong liquidity and funding profile with strong capital market access.

Challenges are modest, although stable profitability, and the concentration of the bank's exposure to the financial sector and the regional economy, as foreseen by the public policy mandate.

Figure 1: Scope's approach to rating L-Bank

L-Bank		
Public sponsor	**Federal State of Baden-Württemberg (AAA/Stable)**	
Step 1: Integration with the public sponsor (QS1)	Rating approach	Top-down
Step 2: Equalisation factor	Rating equalisation?	Yes (AAA)
Final rating	**AAA/Stable**	

Source: Scope Ratings

Foreign currency

Long-term issuer rating/Outlook

AAA/Stable

Senior unsecured debt

AAA/Stable

Short-term issuer rating/Outlook

S-1+/Stable

Local currency

Long-term issuer rating/Outlook

AAA/Stable

Senior unsecured debt

AAA/Stable

Short-term issuer rating/Outlook

S-1+/Stable

Lead Analyst

Julian Zimmermann
+49 69 6677389-89
j.zimmermann@scoperatings.com

Team Leader

Alvise Lennkh-Yunus
+49 69 6677389-85
a.lennkh@scoperatings.com

Credit Strengths and Challenges

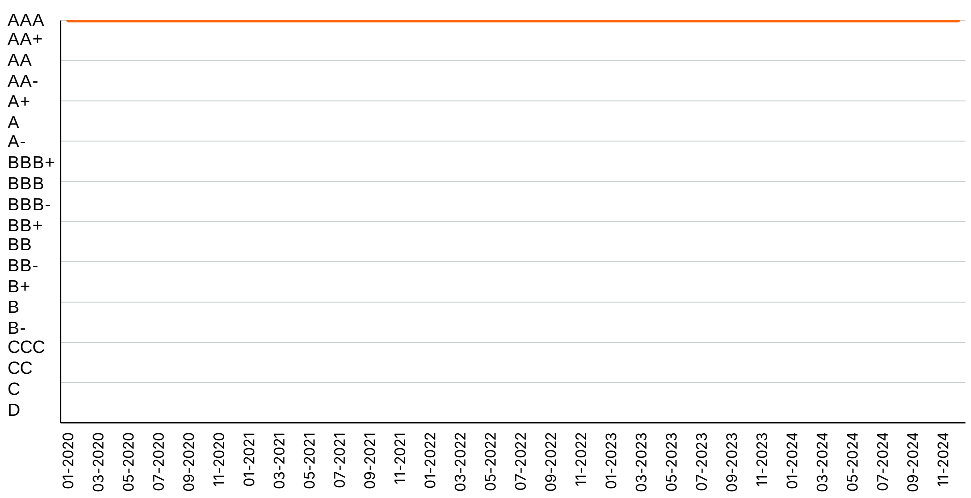
Credit strengths	Credit challenges
• Explicit guarantee from the Federal State of Baden-Württemberg • Supportive legal framework • High strategic importance to Baden-Württemberg • Sound asset quality and high capitalisation • Strong liquidity and funding profile	• Modest but stable profitability, driven by mandate • Sectoral and geographical concentration of loan portfolio, driven by regional development mandate

Rating Outlook and Sensitivities

The Stable Outlook is aligned with the Stable Outlook on the rating of Baden-Württemberg and reflects our assessment that risks L-Bank faces are balanced.

Positive rating divers	Negative rating drivers
• Not applicable	• Downgrade of the Federal State of Baden-Württemberg • Changes to guarantee framework, leading to weaker government support

Figure 2: Rating history[1]



[1] Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Table of contents

Integration with the Federal State of Baden-Württemberg
Rating equalisation with the Federal State of Baden-Württemberg
Supplementary analysis
Environmental, Social and Governance Factors (ESG)
Appendix I. Qualitative Scorecards
Appendix II. Balance sheet and income statement summary
Appendix III. Selected financial ratios

Integration with the Federal State of Baden-Württemberg

Strong integration with Baden-Württemberg

L-Bank is the promotional bank of the Federal State of Baden-Württemberg, with total assets of EUR 95.1bn at YE 2023, making it the fourth largest development bank in Germany. It operates out of its headquarters in Karlsruhe and a branch in Stuttgart with 1,416 staff on average in 2023.

L-Bank is an institution under public law and delivers essential, competition-neutral services, making it a GRE as defined[1] by our GRE methodology. Its key area of promotion is the regional economy, to which it delivers services which are instrumental to the Federal State's implementation of policy objectives. Further details on L-Bank's business and financial profile are provided in the **supplementary analysis**.

Top-down approach for rating analysis

We have used a 'top-down' approach to assign L-Bank's ratings, with Baden-Württemberg's AAA rating as the starting point. This is driven by our assessment of L-Bank's 'strong' integration with Baden-Württemberg (see **Qualitative Scorecard 1** in **Appendix I**) based on the following considerations:

- L-Bank's public legal status as an 'Anstalt des öffentlichen Rechts' (public law institution) legally exempts it from insolvency procedures and German income tax, in line with most other German regional development banks. Any changes to the bank's legal form are only permissible via a legal act of Baden-Württemberg which we deem an unlikely scenario.
- L-Bank's operating activities are performed on behalf of Baden-Württemberg and are governed and regulated by the L-Bank Act.[2]

  The bank's activities have a 'high' strategic importance for its public sponsor. It fulfils a central role in supporting regional economic and social objectives by financing economic development, housing developments and infrastructure projects, and providing financial aid. L-Bank's strategic relevance and adaptability have been highlighted in recent years. During the Covid-19 pandemic, the bank paid out emergency funds on behalf of the central and state governments. In response to the energy and cost-of-living shock in 2022, the bank established programmes to support municipalities and businesses, and to further support investments in renewables to increase energy resilience. With targeted adjustments to existing products, the bank is actively supporting the regional green and digital transition.

  Risks to L-Bank's position as the Federal State's development bank and its provision of competition-neutral activities (underpinned by a stable and supportive legal framework on national and European levels[3]) are remote.
- The Federal State of Baden-Württemberg is L-Bank's sole owner and exerts comprehensive strategic, operational and financial control.

Rating equalisation with the Federal State of Baden-Württemberg

Equalisation with Baden-Württemberg's AAA rating

L-Bank's rating is equalised with Baden-Württemberg's AAA/Stable rating. This is because the Federal State provides an explicit, unconditional, unlimited, statutory, direct and irrevocable guarantee for existing and future obligations with respect to money borrowed, bonds issued, and derivative transactions entered into by the bank. As the guarantee is set in public law, it can only be amended, revoked or restricted through a parliamentary act of the Federal State of Baden-Württemberg, which would only apply to future transactions entered into after the act is enacted. Any such change is unlikely.

---

1 See point 1.1 of our Government Related Entities Rating Methodology for the definition of a GRE.
2 L-Bank Act, a specific law governing L-Bank.
3 An agreement called 'Verständigung II' in 2002 between the European Commission and the German federal government defines regulations for legally independent development banks engaging in competition-neutral infrastructure and development business. This ensures that German development banks will continue to benefit from state support. We therefore do not expect changes in the bank's ownership status, business model, policy role or guarantee structure that would be subject to amendments in the respective laws.

As is the case with other German regional development banks, L-Bank benefits from two additional ownership liability support mechanisms:

Extensive guarantee framework provided by Baden-Württemberg

- 'Anstaltslast' (maintenance liability), requiring Baden-Württemberg (and entitling the bank, but no third party, to demand from its owner) to safeguard the bank's economic basis at all times, to pursue its operations and to enable it in case of financial difficulties, through the allocation of funds or in some other appropriate manner, to perform its obligations when due; and
- 'Gewährträgerhaftung' (guarantor liability), which comprises Baden-Württemberg's unlimited legal liability for all obligations of L-Bank. However, creditors of the bank can assert claims against the federal state of Baden-Württemberg only after not having been compensated from the bank's assets. The guarantor liability is only relevant in certain and unlikely circumstances as L-Bank is exempt from insolvency procedures as it is chartered under public law and benefits from the maintenance liability described above.

Supplementary analysis

Business profile determined by public policy mandate

L-Bank is a credit institution subject to the German Banking Act as well as prudential regulation and supervision by the German Federal Financial Supervisory Authority BaFin and the German Bundesbank. Since the implementation of CRD V in June 2019, which includes an explicit exemption for all German development banks, L-Bank is no longer subject to the Single Supervisory Mechanism.

The bank's business model is driven by its regional development banking, non-profit-maximising mandate leading to modest, although stable, profitability, earnings concentrated on net interest and some sectoral and regional concentration of its exposures. L-Bank is self-supporting and funds itself via capital markets and credit facilities from other development banks, including KfW (AAA/Stable), as it does not take private-sector retail deposits. The bank's funding costs are low, underpinned by the extensive guarantee framework. L-Bank has never required financial support, and we do not consider that financial support will be needed. Other strengths are its high capitalisation, prudent risk management, strong asset quality, and high liquidity buffers with excellent market access.

Business model and strategy

L-Bank's business focused on regional economy, housing

L-Bank's promotional banking activities focus on the regional economy and housing market and are grouped into four development pillars. Across its offerings, L-Bank has demonstrated an ability to adapt to current needs of the economy and society, and its public sponsor's longer-term green and digital policy agenda, underpinning its high strategic relevance to the federal state.

- First, the bank provides development loans for regional economic development, renewable energy and energy efficiency, the promotion of affordable housing and home ownership, and municipal infrastructure development. Loans are either on-lent to businesses via commercial banking partners or lent directly to public sector borrowers or for housing-related loans.
- L-Bank offers equity participations and guarantee products;
- The bank invests in and manages technology parks to promote the business location; and
- L-Bank acts as the Land's agent for financial assistance, such as parental allowance.

Business volume of EUR 13bn in 2023, down from record-high volumes of EUR 16.1bn in 2022

In 2023, business volumes dropped from elevated levels in 2022. For economic development, activity amounted to EUR 3.7bn, down from EUR 5.9bn, largely explained by the near-complete phase-out of Covid-19 related activity, which still amounted to EUR 1.9bn in 2022. Apart from Covid-19 related effects, volumes dropped by 7.2%. Demand for the 'Liquiditätskredit Plus', a dedicated programme for businesses facing liquidity risks due to higher energy costs, saw record volumes of over EUR 400m in 2023, after EUR 120m in 2022.

Volumes for housing activity declined sharply by 26% to EUR 1.53bn (**Figure 3**). This was driven by a drop in new constructions due to unfavourable macroeconomic and interest rate conditions as well as limited state funds.

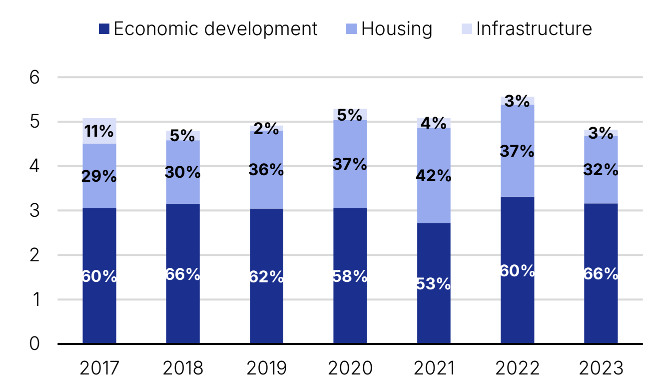
2024 business volume to remain subdued

In 2024, we expect business volume to remain relatively subdued. In the first six months of the year, business volume for economic development amounted to EUR 1.7bn, compared to EUR 2.1bn over the same period in 2023. Declines were pronounced for investment loans for more mature small- and medium-sized enterprises (SMEs) and the liquidity loan programme. At the same time, demand for the programme targeted at earlier-stage SMEs remained largely in line with their 2023 levels. Generally, the interest-rate conditions L-Bank can offer on its loan programmes are driven by state-aid EU base rates. The base rate stood at an elevated 4.11% for the first nine months of 2024, but recently declined to 3.45% until YE 2024. The rate is expected to decline further, improving the relative attractiveness of L-Bank's offerings.

L-Bank supports the regional economy's green and digital transitions, in line with key policy priorities of the Federal State. Demand for the sustainability bonus ('Nachhaltigkeitsbonus'), introduced in 2022, remains robust. With the bonus, L-Bank grants interest rate reductions on its loan programmes for businesses that report on their emissions and introduce emission reduction plans. Recently, L-Bank extended the bonus to its tourism loan programme and added a third layer to further reduce interest costs for businesses that report on their emission reduction progress. Finally, the bank introduced a similar bonus for investments in artificial intelligence ('KI Bonus') within its programme focussed on innovation ('Innovationsfinanzierung 4.0').

Figure 3: Development loan volume

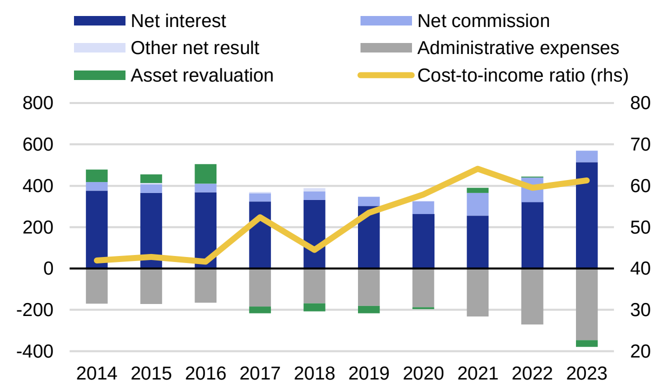
EUR bn; % of total



Source: L-Bank, Scope Ratings

Figure 4: Operating result breakdown

EUR m (LHS), % (RHS)



Source: L-Bank, Scope Ratings

Net interest is main income source, supported by high interest rates in euro area

L-Bank's earnings are stable but relatively undiversified, reflecting its mandate. Net interest income (NII) is the primary source of revenue, at around 80% of total operating income on average over the past five years. NII increased markedly in 2023 to EUR 513.9m (+60.6% YoY) (**Figure 4**), due to dynamic growth in interest income. We expect the bank's net interest income to continue to benefit from relatively high interest rates prevailing in the euro area, with 2024 interest income likely surpassing 2023 volumes. At the same time, and in relation to monetary policy easing of the ECB, we expect NII to gradually decline from its expected peak in the following years.

Net commission income, which mainly comprises compensation for the management of payments by Baden-Württemberg for the distribution of family benefits and financial aid, totalled EUR 56.1m in 2023, down from EUR 119.4 in 2022. This reduction was mainly because of the declining compensation paid to L-Bank for the implementation of Covid-19 related payments.

L-Banks's operating expenses mainly consist of administrative expenses, which increased by 28% to EUR 344.3m in 2023, primarily due to a provision for balancing Covid-19 related costs and associated compensation payments received in previous years. Thus, L-Bank's cost-to-income ratio increased to 61.3% in 2023 (after 59.5% in 2022). We expect cost pressures to persist on staff and other expenses, and ongoing investments in IT infrastructure and digitalisation. The bank initiated a modernisation and efficiency programme in 2022, which aims to achieve cost savings of EUR 21m per year from 2025.

IT and regulatory requirements lead to necessary investments and increased costs

Overall, net income improved to EUR 50.3m in 2023, from EUR 42.6m in 2022, due to the marked improvement in NII, which overcompensated higher administrative expenses and lower commission income, and a moderate negative impact of valuation changes and provisions.

Profitability and capitalisation

We assess L-Bank's profitability as modest, albeit stable, reflecting its public development banking mandate. Profitability benefits from L-Bank's excellent access to capital markets, itself underpinned by the explicit state guarantee. In past years, net profits have been retained. This is in line with the bank's statutes, stipulating that at least half of annual net profits must be retained.

Modest profitability due to mandate

Continued earnings retention supports L-Bank's capitalisation. It's Common Equity Tier 1 (CET1) capital of EUR 3.9bn against risk-weighted assets (RWAs) of EUR 18.5bn results in a 21.2% CET1 capital ratio as of end-2023 (**Figure 5**).

CET1 ratio of 21.2% at YE 2023, ample regulatory buffers

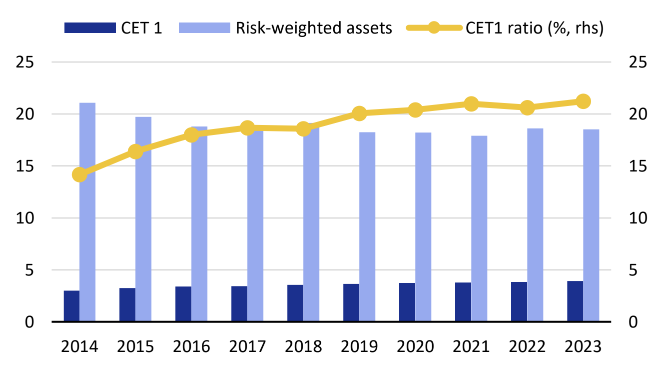
L-Bank's asset risk intensity (RWAs over total assets) is relatively low at 19.5% at YE 2023. With the implementation of CRR III from 1 January 2025, we expect a manageable increase in RWAs. This mainly relates to risk weights on certain unrated bank exposures, which would be treated less favourably than currently. However, the final impact will only be determined by Germany's implementation of CRD VI.

Low average risk weight of 19%, manageable increase from Basel IV expected from 2025

Finally, the bank's leverage ratio stood at 7.0% at end-2023, up from 4.6% in 2020 due to changes in the Capital Requirements Regulation 2 lowering L-Bank's total exposure via the deduction of promotional loans.

Figure 5: CET 1 development

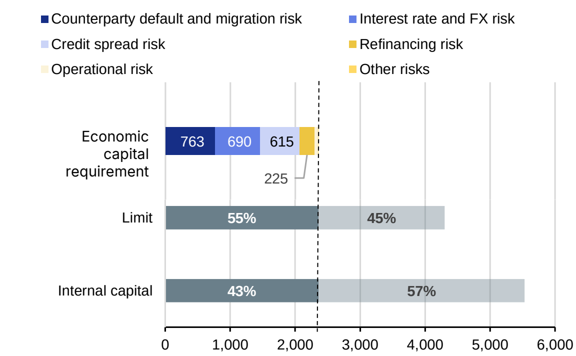
EUR bn (LHS), % of RWA (RHS)



Source: SNL Financial, Scope Ratings

Figure 6: L-Bank's risk-bearing capacity, YE 2023

EUR m, %



Source: L-Bank, Scope Ratings

The bank's risk management follows national prudential regulation, including BaFin's MaRisk requirements. L-Bank manages its capital according to the Internal Capital Adequacy Assessment Process, which is equivalent to the risk-bearing concept as defined in Article 25a of the German Banking Act. Under the normative approach, this ensures compliance with minimum regulatory capital ratios.

Prudent risk management ensures capital adequacy

Under the economic capital requirement approach, L-Bank ensures sufficient internal capital to meet risks stemming from activities that may entail economic losses. At YE 2023, the bank identified around EUR 2.4bn of value-at-risk, comprised mostly of credit and interest rate risk (**Figure 6**). While usage increased compared to the previous year, L-Bank retains ample buffers both to internal limits (55% utilised at YE 2023) and its capital (43%). In response to increasing interest rates, the bank increased the limit for interest-rate and exchange-rate risks to EUR 900m from EUR 600m in 2022 (and EUR 200m in 2021), while concurrently reducing the credit-spread risk limit to EUR 900m from EUR 1.1bn (and EUR 1.5bn in 2021).

Significant capital buffers

In addition to the economic capital requirement approach, the bank sets limits for its risk-weighted assets per business unit to ensure compliance with minimum regulatory capital requirements. For 2024, the aggregate RWA limit was further reduced to EUR 21.5bn, from EUR 22.5bn, implying a CET1 ratio of around 18% under maximum utilisation and given current capitalisation, against the actual ratio of 21.2% at YE 2023.

Portfolio risk and asset quality

L-Bank's aggregate exposure is mostly towards financial institutions (56% of total exposure) and public sector entities (29%) (**Figure 7**). L-Bank's portfolio is geographically concentrated, with 84% attributable to Germany and 51% to Baden-Württemberg. The high degree of sectoral and geographical concentration is a direct consequence of L-Bank's mandate and prudently managed via single obligor and concentration limits.

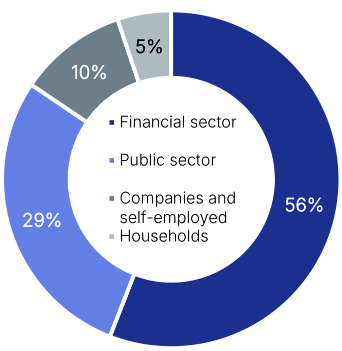
Portfolio concentrated on financial and public sectors

Most of L-Bank's exposure towards financial institutions are loans for on-lending to businesses at around EUR 21.9bn (21.5% of total exposure). Here, commercial banks assume the credit risk on the ultimate borrower (i.e. the 'house-bank principle'). L-Bank's double-recourse loan protection – that is, its direct claim against the ultimate borrower as well as the intermediary bank to whom it provided the initial loan – shields L-Bank's asset quality from adverse developments. In addition to on-lent funds, exposure to financial institutions includes central bank deposits of EUR 17.9bn, unsecured claims on banks of EUR 8.4bn and other development business with companies in the financial sector of EUR 8.6bn.

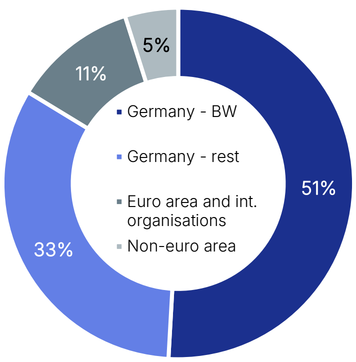
Most loans benefit from double recourse protection

Figure 7: Exposure concentration and asset quality, YE 2023

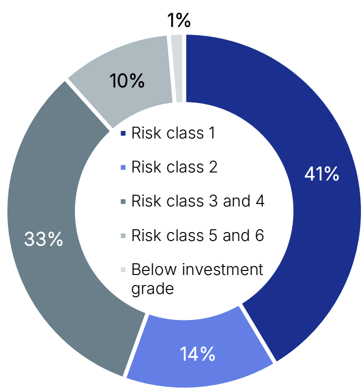
A. Total exposure per sector (%)



B. Total exposure per region (%)



C. Total exposure per risk class* (%)



* Note: Risk class 1 corresponds to a AAA rating, class 2 to the AA category, classes 3 and 4 to the A category and classes 5 and 6 to the BBB category.
Source: L-Bank, Scope Ratings

In addition to on-lent funds via intermediary commercial banks, L-Bank's other, direct exposures also benefit from strong asset quality and protection. First, around EUR 29.0bn of total exposure

Direct lending also well protected

was towards public sector entities of high credit quality. Second, the Bank's mortgage lending benefits from security of the underlying real estate.

Strong asset quality with low non-performing exposures

Because of its conservative lending practices, L-Bank's loan book benefits from strong asset quality and a low share of non-performing exposures. Non-performing exposures of EUR 128m at YE 2023 represented 0.1% of L-Bank's total exposure, slightly down from EUR 138m in 2022. The strong average borrower quality is also reflected by the large share of exposures internally rated as risk class 1 or 2, i.e. AA- or above, of 55%, while only around 1% was internally assigned non-investment grade, i.e. grade 7 (BB+) or below.

Overall conservative risk profile supports resilience to shocks

The bank's asset quality has proved resilient to the Covid-19 and energy shocks from 2020-23 due to conservative lending and sizeable federal and state government financial support for the real economy. Despite the adverse macroeconomic backdrop in Germany, we expect L-Bank's asset quality to remain very robust. The bank has held its risk provisions at prudent levels, including via management adjustments to account for increased uncertainty. For its general provisioning, L-Bank adopted the simplified approach under IDW RS BFA 7 as of 2022, in line with peers, which did not result in a material change to the level of provisions.

In addition to its development-banking related assets, L-Bank holds a conservatively managed portfolio of fixed-income securities totalling EUR 32bn (vs EUR 25bn in 2022). Investments are usually held until maturity and derivative use is limited. For its treasury portfolio, L-Bank follows ESG-related guidelines, including exclusion criteria and the UN PRIs.

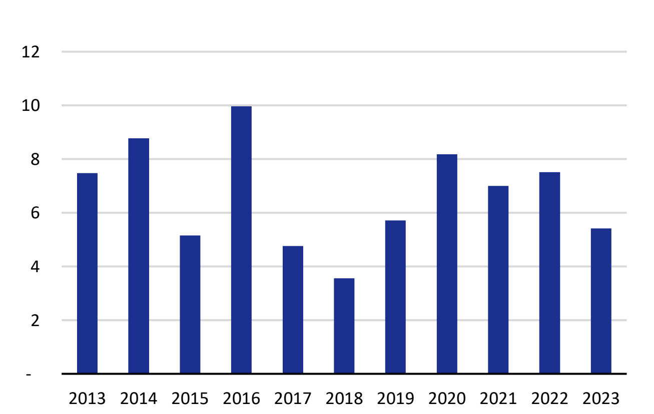
Funding and liquidity

Favourable financing conditions

Given the explicit liability support from the Federal State of Baden-Württemberg, L-Bank benefits from strong market access and the preferential regulatory treatment of its debt obligations. The bank predominantly funds its operations by issuing short- and long-term debt securities. L-Bank has a long-term debt issuance programme with an authorised size of EUR 30bn (of which EUR 20.7bn was utilised at YE 2023), as well as a commercial paper programme with a limit of EUR 20bn at YE 2023 (utilisation: EUR 19.3bn). In 2024, the limit for the commercial paper programme was increased to EUR 30bn. In line with other German development banks, refinancing conditions are very favourable. Funding volumes averaged around EUR 6.6bn in the last three years (**Figure 8**).

Figure 8: Annual market funding

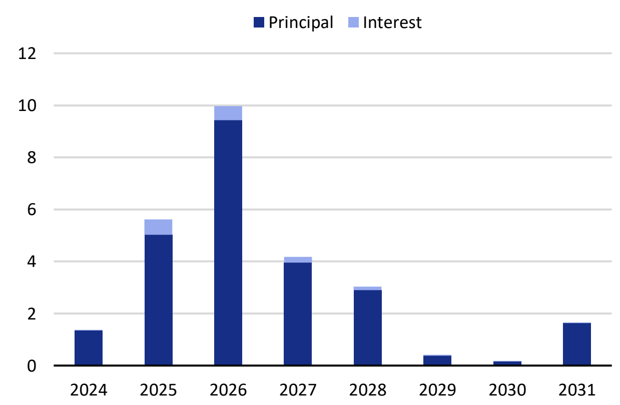
EUR bn



Source: L-Bank, Scope Ratings

Figure 9: Bond redemption profile

EUR bn, as of 9 December 2024



Source: Bloomberg Financial L.P., Scope Ratings

L-Bank's debt securities carry a 0% regulatory risk weight, are recognised as Level 1 high-quality liquid assets for liquidity coverage ratio requirements and are eligible for preferential treatment under Solvency II. The bank's bonds are also eligible for the ECB's monetary policy operations, including its asset purchase programmes.

Assured liquidity

In addition to debt capital markets, L-Bank has access to central bank facilities, with a stock of EUR 27.3bn available in securities that can be pledged as collateral with the ECB. The portfolio of EUR 3.7bn of funding outstanding via the ECB's targeted longer-term refinancing operations (TLTRO III) at YE 2022 was reduced to a residual amount of EUR 0.3bn at YE 2023.

The bank's established capital market access with a diversified investor base and its portfolio of highly liquid securities ensure ample liquidity. Liquidity adequacy is ensured from a VaR perspective as well as via liquidity coverage ratios and survival horizons under stress scenarios.

Advancements in digital issuance

Finally, L-Bank is taking steps towards digitalising its capital market activities. After the digital issue of a fixed-income security, the bank issued a blockchain-based commercial paper within the ECB's trial.

Environmental, Social and Governance Factors (ESG)

Material ESG factors are captured by Scope's rating approach through several analytical areas.

Governance and social considerations

Governance and social considerations are material to L-Bank's credit rating and are included in the assessment of: i) the level of integration with the public sponsor, highlighting the supportive legal framework that requires the bank to comply with its statutes and fulfil its role as a competition-neutral public-law institution, including the provision of key services to support regional economic and social objectives; and ii) L-Bank's standalone fundamentals in the supplementary analysis, highlighting its conservative risk profile and management.

L-Bank supports federal state's climate agenda

Environmental considerations include the bank's role in fostering and enabling the public sponsor's climate protection agenda. The Federal State of Baden-Württemberg's Climate Protection and Climate Change Adaptation Act (Climate Act) foresees a reduction in greenhouse gas emissions of 65% versus 1990 levels, and net neutrality by 2040, five years earlier than the German central government. In 2023, L-Bank updated its sustainability strategy incorporating the Climate Act which expanded the bank's promotional mandate to include climate change adaptation programmes and measures. The multi-year project to establish a bank-wide ESG database initiated in 2022 has progressed as planned in 2023 on the conceptualisation of ESG data requirements.

As regards its development activity, L-Bank reports on their impact in relation to the UN's Sustainable Development Goals. The bank's activities positively impact 13 out of the 17 goals, with a particular focus on "decent work and economic growth", "industry, innovation and infrastructure" and "sustainable cities and communities". Further, as part of the federal state's Climate Act, any new, renewed or altered development programme has to undergo a compatibility check with the Climate Act. Further initiatives to report on impact are progressing.

The bank is expanding its development loan products to support its public sponsor's sustainability agenda, for example via adding an 'Energiefinanzierung' loan product targeted at funding sustainable investments. Further, the bank is broadening its 'sustainability bonus', i.e. interest-rate deductions to businesses with CO_2 reporting and/or emissions reduction plans. In 2024, tourism financing can benefit from the bonus, and a third stage was introduced, with businesses reporting on their emission reductions benefitting from further interest rate deductions.

Finally, the bank produces non-financial reports, including on its efforts to be climate-neutral by 2030 for its own operations, and by 2040 for its overall banking activities, considering the impact of its lending, investing and refinancing operations. The bank plans to voluntarily report on certain CSRD disclosures from 2025, covering the year 2024.

Appendix I. Qualitative Scorecards

Qualitative Scorecard 1: Integration with the Federal State of Baden-Württemberg (AAA/Stable) and Rating Approach

Analytical component (weight)	Assessment (score)	Analytical rationale
Legal status (40%)	High (100)	L-Bank's public legal status as an 'Anstalt des öffentlichen Rechts' (public law institution) legally exempts it from insolvency procedures, in line with most other German state development banks. Any changes to the bank's legal form are permissible only via a legal act of the Federal State of Baden-Württemberg. In addition, as is the case with its peers, L-Bank can only be dissolved by law and is not directly subject to the Capital Requirement Regulation (CRR), the Single Resolution Mechanism, the Recovery and Resolution Act and the Restructuring Fund Act. This releases the bank from the obligation to draw up recovery plans. L-Bank is not subject to the German Deposit Guarantee Act.
Purpose & activities (20%)	High (100)	L-Bank is the promotional bank of the German Federal State of Baden-Württemberg (AAA/Stable) and delivers essential, competition-neutral services. Its key area of promotion is the regional economy. The bank's promotional activity takes the form of subsidised loans and grants, generally funded with state subsidies and contributions from its own profits. L-Bank tends to channel its promotional lending through commercial banks, which as intermediaries carry associated credit risk related to end borrowers.
Shareholder structure (20%)	High (100)	The German Federal State of Baden-Württemberg is L-Bank's sole owner.
Financial interdependencies (20%)	High (100)	L-Bank provides a substantial volume of direct loans to municipalities in Baden-Württemberg, thereby directly supporting the public sponsor's related entities. L-Bank is financially self-sustaining and does not depend on regular contributions from the public sponsor for its operations, investments, or debt service.
Approach adopted		**Top down**

Source: Scope Ratings

Appendix II. Balance sheet and income statement summary

	2019	2020	2021	2022	2023
Balance sheet summary (EUR m)					
Assets					
Cash and interbank assets	28,966	37,216	43,062	44,286	39,807
Total securities	24,396	25,491	22,955	25,248	31,817
Net loans to customers	22,862	22,941	21,571	22,042	22,031
Other assets	1,398	1,112	2,009	1,650	1,463
Total assets	**77,623**	**86,760**	**89,597**	**93,227**	**95,118**
Liabilities					
Interbank liabilities	25,988	28,812	30,216	35,727	31,133
Senior debt	34,450	39,822	42,376	36,959	43,341
Deposits from customers	10,757	10,133	10,593	14,021	14,114
Subordinated debt	379	229	229	229	121
Other liabilities	2,334	3,999	2,341	2,356	2,405
Total liabilities	**73,909**	**82,995**	**85,755**	**89,292**	**91,114**
Ordinary equity	3,714	3,764	3,842	3,934	4,005
Total liabilities and equity	77,623	86,760	89,597	93,227	95,118
Core tier 1/ common equity tier 1 capital	*3,659*	*3,712*	*3,761*	*3,839*	*3,933*
Income statement summary (EUR m)*					
Net interest income	302.0	263.2	254.8	320.0	513.9
Net fee and commission income	44.7	61.2	110.4	119.4	56.1
Net result from other income/expenses	-1.4	2.5	-2.0	-0.8	-2.4
Administrative expenses	180.0	187.1	229.6	269.9	344.3
Operating result before risk provisions	***165.3***	***139.8***	***133.6***	***168.7***	***223.3***
Net income from asset revaluation	-35.1	-8.8	24.2	4.4	-31.9
Operating result	***130.2***	***131.0***	***157.8***	***173.1***	***191.4***
Taxes on income	0.2	0.6	0.5	0.5	1.1
Addition to development funds	80.0	80.0	80.0	80.0	120.0
Addition to general banking risk funds	0.0	0.0	40.0	50.0	20.0
Net income	**50.0**	**50.4**	**37.3**	**42.6**	**50.3**
Profit carried forward	1.0	1.0	1.4	0.7	0.3
Net profit	**51.0**	**51.4**	**38.7**	**43.3**	**50.6**

* Summary ('betriebswirtschaftliche Betrachtung') of the income statement. The key difference to the income statement according to the German Commercial Code (HGB) is the treatment of the 'addition to development funds' line, which is treated as either interest expenses or other administrative expenses according to the HGB.
Source: L-Bank, SNL Financial, Scope Ratings

Appendix III. Selected financial ratios

	2019	2020	2021	2022	2023
Asset growth					
Asset growth (%)	11.5%	11.8%	3.3%	4.1%	2.0%
Earnings and profitability*					
Net interest margin (%)	0.3%	0.2%	0.2%	0.3%	0.4%
Net interest income/ average RWAs (%)	1.3%	1.1%	1.1%	1.4%	2.2%
Net interest income/ operating income (%)	80.6%	63.3%	54.8%	65.8%	85.8%
Net fees & commissions/ operating income (%)	13.6%	18.3%	30.8%	31.0%	11.6%
Cost/ operating income ratio (%)	68.8%	65.0%	72.2%	75.5%	77.5%
Operating expenses/ average RWAs (%)	1.1%	1.1%	1.4%	1.6%	2.0%
Pre-impairment operating profit/ average RWAs (%)	0.5%	0.6%	0.5%	0.5%	0.6%
Impairment on financial assets / pre-impairment income (%)	46.6%	53.6%	19.1%	1.0%	34.3%
Pre-tax profit/ average RWAs (%)	0.3%	0.3%	0.2%	0.2%	0.3%
Return on average assets (%)	0.1%	0.1%	0.0%	0.0%	0.1%
Return on average RWAs (%)	0.3%	0.3%	0.2%	0.2%	0.3%
Return on average equity (%)	1.4%	1.3%	1.0%	1.1%	1.3%
Capital and risk protection					
Common equity tier 1 ratio (%, transitional)	20.1%	20.4%	21.0%	20.6%	21.2%
Total capital ratio (%, transitional)	22.2%	22.3%	22.8%	22.1%	22.5%
Leverage ratio (%)	4.9%	4.6%	7.8%	7.1%	7.0%
Asset risk intensity (RWAs/ total assets, %)	23.5%	21.0%	20.0%	20.0%	19.5%

* As reported by SNL Financial. Selected ratios might differ to ratios calculated under the summary approach 'betriebswirtschaftliche Betrachtung' of L-Bank's income statement.
Source: SNL Financial, Scope Ratings

Lead Analyst
Julian Zimmermann
+49 69 6677389-89
j.zimmermann@scoperatings.com

Associate Analyst
Elena Klare
+49 69 6677389-21
e.klare@scoperatings.com

Team Leader
Alvise Lennkh-Yunus
+49 69 6677389-85
a.lennkh@scoperatings.com

Related research

Scope affirms the Land of Baden-Württemberg's AAA rating with Stable Outlook, 25 October 2024

Applied methodologies

Government Related Entities Rating Methodology, December 2024

Scope Ratings GmbH

Lennéstraße 5
D-10785 Berlin
scoperatings.com

Phone: +44 20 7824 5180
Fax: +49 30 27891-100
info@scoperatings.com

in
Bloomberg: RESP SCOP
Scope contacts

Disclaimer