

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



STABLE
OUTLOOK
AAA

Credit strengths

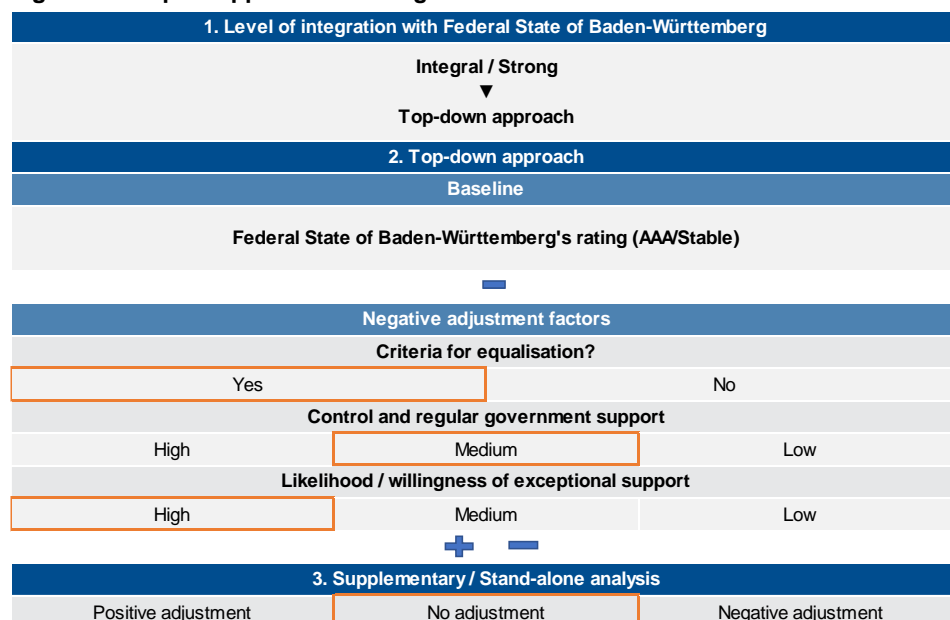
- Explicit guarantee from German Federal State of Baden-Württemberg
- Supportive legal framework
- Strategic importance
- Sound asset quality and high capitalisation
- Strong liquidity and funding profile

Credit weaknesses

- Modest but stable profitability
- Limited loan portfolio diversification

Rating rationale and Outlook: The AAA rating of L-Bank reflects: i) the explicit, unconditional, unlimited, statutory, direct and irrevocable guarantee of the German Federal State of Baden-Württemberg (AAA/Stable) for L-Bank's obligations; ii) the mature and very supportive legal set-up, which makes changes to L-Bank's business model or guarantee structure unlikely; iii) the bank's high strategic importance to the federal state as a key government-related entity (GRE) implementing economic and social policies; iv) high capitalisation and asset quality; and v) a strong liquidity and funding profile with excellent capital market access. L-Bank's modest but stable profitability and limited loan portfolio diversification, both foreseen by L-Bank's public policy mandate, are challenges. The Stable Outlook reflects our assessment that the risks L-Bank faces are balanced.

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



N.B. The orange colouring indicates the outcome of the analysis.

Source: Scope Ratings GmbH

Positive rating-change drivers

- Not applicable

Negative rating-change drivers

- Downgrade of the Federal State of Baden-Württemberg
- Changes to guarantee framework, leading to weaker government support

Ratings & Outlook

Foreign currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

Local currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

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Related ratings

Scope affirms and publishes Baden-Württemberg's credit rating of AAA and Stable Outlook

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Bloomberg: RESP SCOP

Strong level of integration with the federal state's economic development activities**Level of integration with government**

Landeskreditbank Baden-Württemberg – Förderbank – (L-Bank), operating via its head office in Karlsruhe and a branch in Stuttgart, is the promotional bank of the German Federal State of Baden-Württemberg (AAA/Stable) and the fourth largest promotional bank in Germany with total assets of EUR 86.8bn at end-2020. L-Bank operates as an institution under public law and delivers essential, competition-neutral services, making it a GRE as defined¹ in Scope's GRE methodology. Its key area of promotion is the regional economy, to which it provides a wide range of funding instruments including promotional loans, equity participations and housing and municipal infrastructure financing. Further details on L-Bank's business and financial profile are presented in the section on L-Bank's **stand-alone fundamentals**.

Top-down approach for rating analysis

We have used a 'top-down' approach to assign L-Bank's ratings, with the Federal State of Baden-Württemberg's AAA rating as the starting point. This is driven by our assessment of L-Bank's 'strong' integration with the Federal State of Baden-Württemberg (see **Qualitative Scorecard 1** in **Appendix I**), given 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 federal state development banks. Any changes to the bank's legal form are only permissible via a legal act of the Federal State of Baden-Württemberg. We deem this scenario to be unlikely.
- L-Bank's operating activities are performed on behalf of the Federal State of Baden-Württemberg with the purpose of providing key services in the public interest to support regional economic and social objectives.
- The Federal State of Baden-Württemberg is L-Bank's sole owner.

Equalisation of L-Bank's rating with Baden-Württemberg's given the explicit guarantee**Explicit government support**

L-Bank's rating is fully aligned with that of the Federal State of Baden-Württemberg (AAA/Stable) as the bank benefits from an explicit, unconditional, unlimited, statutory, direct and irrevocable guarantee from the federal state for its obligations in respect of money borrowed, bonds issued and derivative transactions entered into (see **Appendix II** for a summary of the guarantor). As the guarantee is laid down in public law, it can only be amended, revoked or restricted through a parliamentary act of Baden-Württemberg, which would only apply to future transactions entered into with L-Bank after that act is enacted. We deem this scenario to be unlikely.

Extensive guarantee framework provided by the federal state

As is the case with other German regional development banks, L-Bank benefits from two additional ownership liability support mechanisms: i) an 'Anstaltslast' (institutional liability), which enables the bank to assert a claim against Baden-Württemberg, upon which the federal state must settle any financial shortfall on an unlimited and timely basis, thus providing L-Bank with the necessary resources to carry out required functions (i.e. creditors have no right to claim against the federal state); and ii) a 'Gewährträgerhaftung' (guarantor liability), which comprises the guarantor's unlimited legal liability to step in for L-Bank's liabilities in case of the bank's liquidation. This is only relevant in certain unlikely circumstances, given that L-Bank is exempt from insolvency procedures as it is chartered under public law.

¹ Under Scope's GRE rating methodology, a GRE is defined as an issuer that meets both of the following conditions: i) it is directly or indirectly majority owned; and ii) its activities fulfil a public-sector mandate by implementing government policies or delivering essential public services.

Strong oversight, with specific laws governing L-Bank**Government control and regular government support**

Under our ‘top-down’ approach, we assess the level of government control and regular support for L-Bank as ‘medium’ (see **Qualitative Scorecard 2** in **Appendix I**). This is based on:

- Baden-Württemberg’s ‘high’ ability to exert control over L-Bank’s activities as their scope and content are defined and regulated by law² (L-Bank Act).
- The ‘limited’ regular financial support for L-Bank despite our expectation that timely financial support would be given prior to any potential call on the guarantees for L-Bank. Our evaluation reflects L-Bank’s low but sufficiently high profits and excellent access to capital markets, which enable it to fulfill its promotional duties without recourse to federal state contributions.

Guided by L-Bank’s statutes, government exercises operational and financial control

Baden-Württemberg’s control over L-Bank enables the federal state to: i) alter L-Bank’s strategy or mandate, which is defined and regulated by public law; ii) appoint and dismiss key personnel, including members of governing and oversight bodies – the supervisory board consists mainly of Baden-Württemberg representatives and members delegated by the federal state; and iii) intervene in decisions, including the distribution of profits. L-Bank must preserve its capital through profit retention to comply with its statutes and fulfill its role as a competition-neutral public-law institution. At least half of annual profits must be retained.

L-Bank is a self-supporting GRE

L-Bank finances its investment programme via capital markets. There is no track record of direct financial support for L-Bank. We do not consider financial support to be needed. This is further supported by the guarantee framework, which allows L-Bank to operate without regular financial support from the Federal State of Baden-Württemberg.

Very high likelihood of government support**Likelihood of exceptional support**

The extensive three-fold guarantee framework provided by Baden-Württemberg almost certainly ensures that it would provide timely financial support to L-Bank if needed.

High strategic importance given L-Bank’s role as the federal state’s development bank

L-Bank’s ‘high’ strategic importance is reflected in its central role in supporting key regional economic and social objectives by financing economic development, housing developments and infrastructure projects, and providing financial aid. L-Bank’s crucial strategic position has been highlighted during the Covid-19 crisis. In 2020 the bank paid out emergency funds from the central and state government to businesses in Baden-Württemberg affected by the pandemic amounting to EUR 2.7bn. Risks to L-Bank’s position as the federal state’s sole development bank and its provision of competition-neutral activities, which are underpinned by a stable and supportive legal framework, are remote. This is because a change to L-Bank’s public status would fundamentally undermine its access to low-cost funding and, in turn, its clearly defined public mission.

No change in ownership or explicit support expected

In a formal understanding established in March 2002, the European Commission confirmed that L-Bank’s promotional activities do not fall under illegal state aid and will continue to benefit from the statutory guarantee from the Federal State of Baden-Württemberg. Further, L-Bank was considered a CRR credit institution under the Capital Requirements Directive and was thus subject to supervision under the Single Supervisory Mechanism. In June 2019 with the implementation of CRD V, L-Bank was explicitly exempted from the directive. Consequently, L-Bank is now supervised by the German Federal Financial Supervisory Authority BaFin in cooperation with the Deutsche Bundesbank under the Kreditwesengesetz. Against this regulatory backdrop, we do not

² L-Bank Act (a specific law governing L-Bank): <https://www.l-bank.info/en/for-investors/investor-relations/l-bank-act.html>.

expect changes in L-Bank's ownership status, business model, policy role or guarantee structure that would be subject to amendments in the respective laws.

Stand-alone fundamentals

Business profile and risk positioning are determined by public policy mandate

L-Bank is a credit institution subject to financial prudential regulation. Its public policy mandate and non-profit status are reflected in its modest profitability and stable but undiversified earnings, while the extensive guarantee framework supports L-Bank's excellent capital market access and favourable refinancing conditions. High and rising capitalisation buffers with prudent management of the bank's regulatory capital, the high quality of assets and double-recourse loan protection underpin the robustness of L-Bank's balance sheet.

L-Bank's business is focused on the regional economy and housing market...

Business model and earnings

L-Bank's promotional banking is focused on the regional economy and housing market. In addition to development banking activities, the bank holds a conservatively managed treasury portfolio. As L-Bank is not allowed to take retail customer deposits, it funds its activities on the capital markets and via facilities from national and multilateral development banks.

...and activities are split between four promotional pillars

L-Bank's activities are split into four promotional pillars: i) development loans granted to support the regional economy and promote affordable housing, home ownership and municipal infrastructure; ii) equity participations; iii) the development of Baden-Württemberg as an investment location through the bank's technology parks; and iv) the provision of financial assistance on behalf of Baden-Württemberg. L-Bank's activities take the form of on-lending via commercial banks for loans granted to SMEs, direct lending to the public sector, direct lending to businesses and individuals for housing-related loans, equity participations and guarantees.

Business performance affected by persistently low interest rates

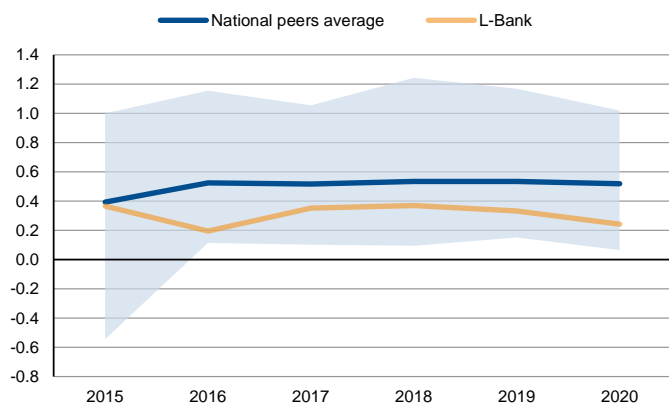
Due to its public mandate, L-Bank's earnings are stable but undiversified. L-Bank's net interest income relative to total assets over the past five years has been around 0.3%, below the national peer³ average of 0.5% (**Figure 2**, next page). The bank's primary activity of supporting investments and demand for housing loans in Baden-Württemberg results in stable credit volumes, but net interest margins on loans are limited.

Earnings centered on interest income

Net interest income, L-Bank's primary source of revenue, decreased by 12% to EUR 263m in 2020. Net commission income, which mainly comprises the management of payments by Baden-Württemberg for the distribution of family benefits and financial aid, totalled EUR 61.2m, significantly up by 37% over 2019 due to compensation by Baden-Württemberg for the implementation of Covid-19 related programmes. Other net operating income amounted to EUR 2.5m. L-Bank's administrative expenses increased by 4% to EUR 187m in 2020 (**Figure 3**, next page). Consequently, L-Bank's cost-to-income ratio rose from 53.5% in 2019 to 57.9% in 2020. Net income has remained stable in recent years and totalled EUR 50m in 2020.

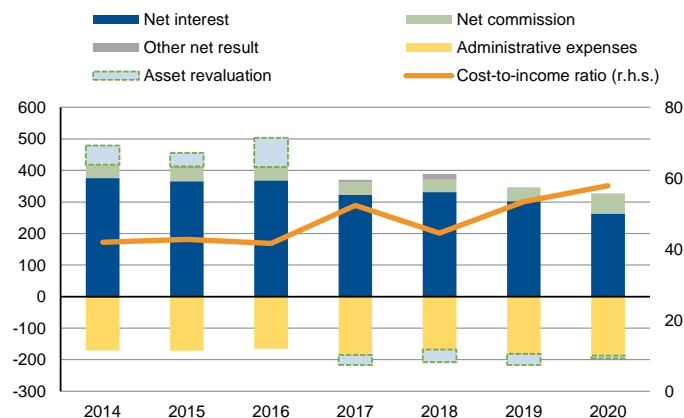
³ National peers refer to the 12 largest German regional development banks excluding L-Bank.

Figure 2: Net interest income/average assets
%



N.B. The light blue area shows the range for national peers.
Source: SNL Financial, Scope Ratings GmbH

Figure 3: Operating result breakdown
EUR m (LHS); % (RHS)



Source: L-Bank, Scope Ratings GmbH

Development banking stable in 2020; financial aid increased significantly due to Covid-19

In 2020, the bank's overall financing activities increased markedly to EUR 12.1bn, from EUR 8.3bn in 2019. This was mainly caused by a notable rise in the bank's financial aid in the context of the balance sheet-neutral distribution of federal and state grants to businesses affected by the pandemic. The volume of the bank's development loan products was broadly stable at around EUR 5bn in 2020, due to the resilience of Baden-Württemberg's growing housing market, low unemployment and substantial savings, which accumulated further during the crisis. The high competitiveness of the regional manufacturing sector should support the uneven economic recovery and lead to stable demand for financing.

Overall, we expect the bank's performance to be resilient to the lingering effects of the crisis. This is because most of the bank's direct exposures to ultimate borrowers are related to public and social housing sectors, mainly stemming from its housing development business, which benefits from direct central government crisis support. Going forward, the bank's financial performance will be supported on an ongoing basis by administrative relief through its exemption from European banking supervision⁴.

Profitability and capitalisation

Modest profitability owing to public policy mandate and low interest rate environment

L-Bank's development banking activities are reflected in its low but stable returns on average assets over the past five years, which average 0.07% and are in line with the national peer average of 0.1%. Profitability has been supported by L-Bank's excellent access to capital markets, which is underpinned by the explicit guarantee. We expect profitability to remain subdued in view of the low interest rate environment and a stable lending book. In past years, net profits have been retained, strengthening capitalisation.

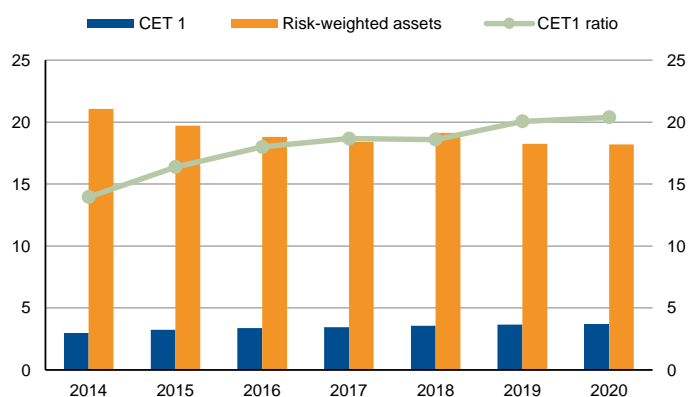
Adequate and rising regulatory capitalisation supported by earnings retention

L-Bank's capitalisation was well above regulatory requirements at year-end 2020, with Common Equity Tier 1 (CET1) capital of EUR 3.7bn and risk-weighted assets of EUR 18.2bn, resulting in a 20.4% CET1 capital ratio (**Figure 4**, next page). L-Bank's capitalisation has grown steadily in recent years as it has consistently opted to retain net profits. Between 2014 and 2020, risk-weighted assets have declined by 14% despite an increase in total assets by 24%, and the CET1 ratio rose from around 14% to around 20%, underpinned by conservative capital management. We expect capital buffers to rise further with L-Bank retaining profits going forward. Finally, we expect L-Bank's leverage

⁴ The provisions of the Bank Recovery and Resolution Directive and the Single Resolution Mechanism, including the bank's contribution to the Single Resolution Fund, no longer apply after the exemption, which led to moderate cost savings.

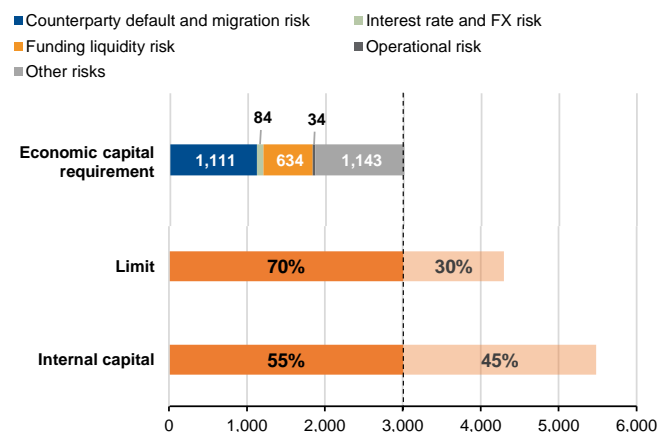
ratio of 4.56% in 2020 to increase significantly in 2021 stemming from changes in the Capital Requirements Regulation 2 in view of L-Bank's high exposures to promotional loans.

Figure 4: CET1 development
EUR bn, % (Basel III fully phased-in, RHS)



Source: L-Bank, SNL Financial, Scope Ratings GmbH

Figure 5: L-Bank's risk-bearing capacity
EUR m, %



Source: L-Bank, Scope Ratings GmbH

Prudent risk management ensures capital adequacy...

L-Bank prudently manages its regulatory capital under both a normative and economic approach, strengthening its risk-bearing capacity. To this end, management defines the bank's total risk appetite by setting limits on total risk-weighted assets and on value at risk per risk type.

... and significant capital buffers of internal capital under economic capital requirements

Under the economic capital requirement approach, the bank ensures that, in a stressed scenario, internal capital would be sufficient to meet risks stemming from activities (e.g. credit, liquidity and operational risks) that may entail economic losses (value at risk). At end-2020, the bank identified EUR 3bn of value at risk, comprised mostly of credit and liquidity risks. Internal capital was EUR 5.5bn, indicating 45% in unused internal capital, which implies a significant buffer to available resources (Figure 5). Further, to ensure that economic capital requirements remain manageable, the bank limits value at risk to EUR 4.3bn. At end-2020, 30% of the value-at-risk limit was unused.

Portfolio risks and asset quality

Concentrated exposures due to development business model...

Most of L-Bank's activities are composed of direct loans to customers (26% of total assets in 2020), and loans to the financial sector (33%), mostly for on-lending to regional SMEs, with commercial banks assuming 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 – further reduces capital requirements, mitigates concentration risks and shields L-Bank's sound asset quality from the pandemic's impact on certain corporate segments.

... with the quality of the loan book affected by the regional economy...

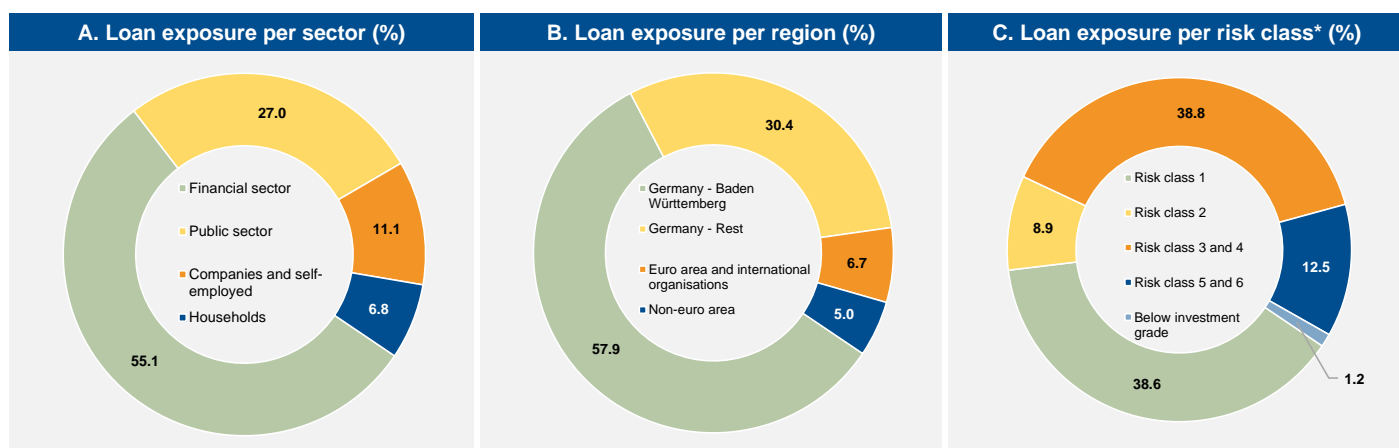
L-Bank's exposure is concentrated on the financial and public sector, at 55% and 27% of the overall loan portfolio in 2020 respectively (Figure 6-A, next page). L-Bank's loans are also exposed to regional concentration risks, with 88% of the portfolio attributable to Germany and 58% to Baden-Württemberg (Figure 6-B). Both sectoral and geographical concentration are a consequence of L-Bank's mandate and are prudently managed by the bank via single obligor, country and concentration limits. Longer-term risks relate to transition risks in the automotive sector, to which Baden-Württemberg's export-oriented economy is particularly exposed.

...and mitigated by strong asset quality

L-Bank's loan book benefits from strong asset quality and a very low share of non-performing exposures. Its share of non-performing exposures relative to loans to customers has been steadily decreasing and reached 0.5% in 2020 or EUR 118m. This reflects L-Bank's conservative lending strategy focused on low-risk borrowers, the benefits of on-lending to commercial banks, and a high share of secured lending.

The strong average borrower quality is reflected by the large share of exposures internally rated AA- or above of 48% (risk classes 1 and 2 in **Figure 6-C**) and only 1.2% having a non-investment grade rating at the end of 2020.

Figure 6: Total loan⁵ concentration risks and loan quality



N.B. * As reported by L-Bank. 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, SNL Financial, Scope Ratings GmbH

Conservative investment strategy and limited market price risks

L-Bank continues to pursue a conservative investment strategy, holding a portfolio of fixed-income securities worth EUR 25bn (29% of total assets) as well as EUR 260m in strategic equity holdings at the end of 2020, including the bank's technology parks.

Favourable refinancing conditions

Funding and liquidity

L-Bank benefits from excellent market access and the preferential regulatory treatment of its obligations thanks to the explicit liability support provided by the federal state.

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 21.7bn was utilised at year-end 2020), as well as a commercial paper programme used for short-term refinancing, which has a funding limit of EUR 20bn, increased from EUR 15bn in December 2019 (utilisation at year-end 2020: EUR 17.2bn). In line with other German development banks, refinancing conditions are very favourable.

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. We expect L-Bank to continue to tap capital markets at very favourable rates.

Assured liquidity: L-Bank remains compliant with all regulatory capital requirements

The bank's established capital market access with a diversified investor base and its treasury portfolio of highly liquid securities ensure that liquidity is sufficient. Liquidity adequacy is ensured from a value-at-risk perspective as well as via liquidity coverage ratios and survival horizons under stressed scenarios, on top of regulatory liquidity and funding ratios.

⁵ Includes outstanding amounts, arrears, irrevocable loan commitments and undrawn, externally approved lines of credit associated with loans.

Appendix I. Qualitative scorecards

Qualitative Scorecard 1: Level of integration with the government

Criteria	Level of integration with government	
	<i>Integral / Strong</i>	<i>Limited / Weak</i>
Legal status & resolution framework	<input checked="" type="radio"/> Public; insolvency, bankruptcy and resolution laws unlikely to apply	<input type="radio"/> Private; insolvency, bankruptcy and resolution laws do apply
Purpose/activities	<input checked="" type="radio"/> Good/service is backed by constitution or in the public interest	<input type="radio"/> Good/service has mostly a commercial purpose
Shareholder structure, funding & control	<input checked="" type="radio"/> Significant public ownership/funding & control	<input type="radio"/> Mostly private ownership/limited public funding & control
Approach*	Top-down	

* Two of the three parameters indicate the chosen approach for most instances.

Source: Scope Ratings GmbH

Qualitative Scorecard 2: 'Top-down' approach

Top-down approach	Analytical considerations	Assessment			Outcome & indicative notching		
		<i>High</i>	<i>Medium</i>	<i>Limited</i>			
	Equalisation factor	Statutory guarantee or laws to similar effect			Equalisation		
Control and regular government support	Organisational structure	Legal status	<input checked="" type="radio"/> Government department or similar	<input type="radio"/> Legal structure with significant government involvement	<input type="radio"/> Legal structure with limited government involvement	Medium	High
		Ownership of & rights to GRE's assets	<input checked="" type="radio"/> Mostly government	<input type="radio"/> Somewhat government	<input type="radio"/> Public and private		
	Government control	Mission, mandate and strategy	<input checked="" type="radio"/> Mostly directed by government	<input type="radio"/> Government-influenced	<input type="radio"/> Mostly independent		
		Financial, operating and investment policies	<input checked="" type="radio"/> Mostly directed by government	<input type="radio"/> Government-influenced	<input type="radio"/> Mostly independent		
		Key personnel and oversight bodies	<input checked="" type="radio"/> Mostly directed by government	<input type="radio"/> Government-influenced	<input type="radio"/> Mostly independent		
	Financial support	Funding options	<input type="radio"/> Mostly via government	<input type="radio"/> Balanced mix of government and private funds	<input checked="" type="radio"/> Mostly private funds		
		Support agreements	<input type="radio"/> Regular cash or capital injections	<input type="radio"/> Active/open credit lines or similar	<input checked="" type="radio"/> No regular use of support mechanisms		
	Track record	<input checked="" type="radio"/> N/A	<input type="radio"/> History of timely support under all circumstances	<input type="radio"/> History of support under select circumstances	<input type="radio"/> Support not yet required		
Likelihood of exceptional support	Strategic importance to government	<input type="radio"/> N/A	<input checked="" type="radio"/> High strategic importance/central policy role	<input type="radio"/> Medium strategic importance/important policy role	<input type="radio"/> Low strategic importance/secondary policy role	High	
	Ease of substitution	<input checked="" type="radio"/> N/A	<input type="radio"/> Good/service is difficult to replace	<input type="radio"/> Prospects of private players entering the market	<input type="radio"/> Private sector operators provide same good/service		
	Default implications	<input checked="" type="radio"/> N/A	<input type="radio"/> Large; default likely to affect government's creditworthiness	<input type="radio"/> Some financial or reputational damage expected	<input type="radio"/> Limited impact		
Overall assessment		Indicative notches		Indicative notching		0	
Equalisation		0		Additional adjustment		0	
High		0-1		Final indicative notching		0	
Medium		1-2					
Limited		2-9					

Source: Scope Ratings GmbH

Appendix II. Summary of the guarantor: Federal State of Baden-Württemberg

Integrated framework results in strong alignment with sovereign creditworthiness

Institutional framework

Like all of Germany's federal states, Baden-Württemberg (AAA/Stable) benefits from a mature, predictable and integrated institutional framework. We view the established German institutional framework, with a proven record of institutional support from the central government and strong policy coordination, as very supportive for Baden-Württemberg. This was highlighted during the Covid-19 pandemic, when the federal government assumed the role of primary shock absorber by implementing substantial deficit spending policies.

We consider the federal system under which the German federal states operate to be the most integrated among European sub-sovereigns. Consequently, we apply an indicative downward rating distance of a maximum one notch between the German sovereign (AAA/Stable) and the individual state's rating. This assessment is informed by:

- **the track record of providing rule-based support** on the grounds of a solidarity principle that ensures extraordinary system support for budgetary emergencies;
- **credible fiscal rules**, with the Stability Council and the debt brake as important pillars for integrated financial relations between central and regional governments;
- **a strongly interconnected revenue equalisation mechanism** enshrined in the German constitution, which largely aligns fiscal capacities between the regions;
- **the highly integrated tax authority**, with a large degree of shared decision-making on taxes and a high share of common taxes;
- **wide-ranging participation and veto rights** for the federal states in national legislation, with equal entitlement of the federal states regarding negotiations on federal reforms, requiring close coordination between government levels; and
- **the high share of common national legislation** and the increasing political and financial involvement of the central government in regional policy.

'High' institutionalised support: legislative procedure allows for rules-based financial support

'High' fiscal interlinkage: legal rules to lower differences in living standards

'High' political coherence: clear distribution of responsibilities

Baden-Württemberg has one of the strongest credit profiles among peers...

Baden-Württemberg's individual credit profile

We assess Baden-Württemberg's individual credit profile as 'strong' in a national and international context and expect the federal state to return to balanced budgets and maintain its commitment to start reducing its debt after the Covid-19 shock. This is underpinned by:

- **sizeable cash reserves** vis-à-vis other German Länder;
- **conservative budget management**, reflected by continuous cost control and a track record of high operating surpluses and comfortable surpluses before debt movement;
- **a resilient, highly competitive economy** with a strong manufacturing base; and
- **high-quality governance**, as highlighted during the recent pandemic.

These factors, combined with predictable cash flows and excellent access to liquidity and capital markets (which demonstrate investor confidence in the German framework) help limit the Covid-19 impact on Baden-Württemberg's finances.

Credit challenges relate to the state's debt levels, which are high in an international comparison, and limited revenue flexibility given that the federal states mainly receive shared taxes. This is on top of Baden-Württemberg being a significant net contributor to the German fiscal equalisation system, which weakens the link between its tax revenues and economic performance. In addition, similar to the budgets of other former West German federal states, Baden-Württemberg's budget is burdened by high pension payments, weighing on long-term expenditure flexibility.

...but faces some credit challenges in the medium to long term

Appendix III. Consolidated financial figures

	2014	2015	2016	2017	2018	2019	2020
Balance sheet summary (EUR m)							
Assets							
Cash and interbank assets	20,809	21,097	22,501	23,995	23,508	28,966	37,216
Total net customer loans	23,475	25,670	26,894	24,168	22,645	22,862	22,941
Total securities	22,562	23,027	22,513	21,147	22,024	24,396	25,491
Other assets	3,344	3,502	3,167	1,360	1,432	1,398	1,112
Total assets	70,190	73,295	75,075	70,670	69,609	77,623	86,760
Liabilities							
Deposits from banks	21,113	23,063	24,718	25,269	25,863	25,988	28,812
Deposits from customers	7,096	8,097	7,623	8,009	9,013	10,757	10,133
Total debt	36,917	36,314	36,783	30,837	28,657	34,830	40,051
<i>thereof: Senior debt</i>	35,983	35,584	36,226	30,383	28,278	34,450	39,822
Other liabilities	1,820	2,425	2,507	3,040	2,412	2,334	3,999
Total liabilities	66,945	69,900	71,631	67,155	65,945	73,909	82,995
Equity							
Fund for general banking risk	530	630	630	650	700	700	700
Common equity	2,715	2,765	2,815	2,865	2,964	3,014	3,064
Share capital	250	250	250	250	250	250	250
Other common equity	2,465	2,515	2,565	2,615	2,714	2,764	2,814
Total liabilities and equity	70,190	73,295	75,075	70,670	69,609	77,623	86,760
<i>Common equity tier 1 capital</i>	2,986	3,232	3,384	3,438	3,556	3,659	3,712
Income statement summary (EUR m)							
Net interest income	375.5	365.4	368.9	323.4	331.4	302.0	263.2
Net fee and commission income	42.4	42.4	40.9	40.0	41.4	44.7	61.2
Net result from other income/expenses	-4.9	4.7	1.1	6.6	16.1	-1.4	2.5
Administrative expenses	165.6	171.2	165.3	184.8	167.9	180.0	187.1
Operating result before risk provisions	247.4	241.3	245.6	185.2	221.0	165.3	139.8
Net income from asset revaluation	61.0	42.6	92.9	-31.7	-39.9	-35.1	-8.8
Operating result	308.4	283.9	338.5	153.5	181.1	130.2	131.0
Taxes on income	0.9	4.7	1.5	0.3	0.9	0.2	0.6
Expenses for subsidies and contribution to road construction	128.3	128.6	127.7	2.6	0.0	0.0	0.0
Addition to development funds	0.0	0.0	160.0	80.0	80.0	80.0	80.0
Addition to general banking risk funds	130.0	100.0	0.0	20.0	50.0	0.0	0.0
Net income	49.2	50.6	49.3	50.6	50.2	50.0	50.4
Profit carried forward	1.1	0.3	0.9	0.2	0.8	1.0	1.0
Net profit	50.3	50.9	50.2	50.8	51.0	51.0	51.4

Source: L-Bank, SNL Financial, Scope Ratings GmbH



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