10 November 2023

Sovereign and Public Sector

LfA Förderbank Bayern

Rating Report

SCOPE AAA STABLE OUTLOOK

Credit strengths

- Explicit guarantee from the Free State of Bavaria (AAA/Stable)
- Supportive legal framework
- High strategic importance to the Free State of Bavaria
- Sound asset quality and capitalisation
- Robust liquidity and funding profile

Credit challenges

- Modest profitability, driven by non-profit-maximising development mandate
- Limited loan portfolio diversification

Rating rationale and Outlook

The AAA rating of LfA Förderbank Bayern (LfA) is equalised with the AAA/Stable rating of the Free State of Bavaria, given the German federal state's explicit, unconditional, unlimited, statutory, direct and irrevocable guarantee for LfA's obligations.

Scope further acknowledges i) a mature and very supportive legal set-up, which makes changes to LfA's business model or guarantee structure unlikely; ii) the bank's high strategic importance to the federal state, where it serves as a crucial government-related entity (GRE) with a counter-cyclical function, reinforced by the bank's resource stability; iii) high levels of capitalisation and asset quality; and iv) a robust liquidity and funding profile that ensures strong access to capital markets.

Challenges relate to LfA's modest but stable profitability and limited loan portfolio diversification, both influenced by the bank's public policy mandate.

Scope's approach to rating LfA Förderbank Bayern

LfA Förderbank Bayern		
Public sponsor	Free State of Bavaria (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**	

Note: For further details, please see Scope's Government Related Entities Rating Methodology.

Source: Scope Ratings

The Stable Outlook reflects our assessment that the risks LfA faces are balanced.

Positive rating-change drivers

- Not applicable

Negative rating-change drivers

- Downgrade of the Free State of Bavaria
- Changes to guarantee framework, leading to weaker government support

Ratings and Outlook

Local & foreign currency

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

Lead Analyst

Jakob Suwalski
+34 919491 663
j.suwalski@scoperatings.com

Team Leader

Dr Giacomo Barisone
+49 69 6677389-22
g.barisone@scoperatings.com

Related Research

Scope affirms the Free State of Bavaria's AAA rating with Stable Outlook

17 March 2023

Scope Ratings GmbH

Neue Mainzer Straße 66-68
60311 Frankfurt am Main

Phone +49 69 6677389-0

Headquarters

Lennéstraße 5
10785 Berlin

Phone +49 30 27891-0
Fax +49 30 27891-100

info@scoperatings.com
www.scoperatings.com

in X

Bloomberg: RESP SCOP

Integration with the Free State of Bavaria

Strong integration with Bavaria's economic development activities

LfA is a promotional bank that is wholly owned by the Free State of Bavaria (AAA/Stable), with total assets amounting to EUR 24.4bn at YE 2022. It operates out of its headquarters in Munich and two offices in Bavaria with a staff of 378, or 329 full-time equivalents.

LfA is an institution under public law and delivers essential, competition-neutral services, aligning with the criteria[1] of a Government-related entity (GRE) as per our GRE methodology. Its primary focus lies in promoting the regional economy, offering a diverse array of financing tools, such as promotional loans, equity participations, and municipal infrastructure funding. Further details on LfA's business and financial profile are provided in the section on LfA's **stand-alone fundamentals**.

Top-down approach for rating analysis

We have employed a 'top-down' approach to determine LfA's ratings, commencing with Bavaria's AAA rating as the foundational point. This approach is driven by our assessment of LfA's 'strong' integration with the Free State of Bavaria (see **Qualitative Scorecard 1** in **Appendix I**) based on the following considerations:

- LfA's status as an 'Anstalt des öffentlichen Rechts' (public law institution) affords it legal exemptions from insolvency procedures and German income tax, in accordance with the common practice among German federal state development banks. Altering the bank's legal structure would require a legal act by the Free State of Bavaria, a scenario we consider highly unlikely.

- LfA's operating activities are performed on behalf of Bavaria and are governed and regulated by the LfA law[2].

  The bank's activities carry a 'high' level of strategic importance for its public sponsor. LfA plays a pivotal role in advancing critical regional economic objectives, primarily by providing financing to medium-sized corporations, freelancers, start-up enterprises, and municipalities in Bavaria, further enhancing Bavaria's appeal as a business hub. LfA's strategic significance and its capacity to adapt to crises were demonstrated during the Covid-19 pandemic, as it swiftly adjusted existing products and introduced new ones to provide vital support, underpinned by a dedicated guarantee from the federal state.

  The risks to LfA's position, being one of two of the two development banks of the federal state, and its provision of competition-neutral activities are minimal, given the solid, and supportive legal framework at both national and European levels[3].

- Bavaria exclusively owns LfA and wields extensive operational and financial authority over the institution. The increased need for coordination during the Covid-19 pandemic and the energy crisis that ensued after Russia's full-scale invasion of Ukraine in 2022 led to more frequent interactions between the bank and the federal state. This heightened level of engagement is regarded positively.

Rating equalisation with the Free State of Bavaria

Equalisation with Bavaria's ratings given explicit guarantee

LfA's rating is equalised with Bavaria's AAA/Stable rating. This is because the federal state provides an explicit, unconditional, unlimited, statutory, direct and irrevocable guarantee for obligations related to money borrowed, bonds issued and derivative

---

[1] See point 1.1 of our Government Related Entities Rating Methodology for the definition of a GRE.
[2] LfA law (a specific law governing LfA).
[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.

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 Bavaria. Any such change is unlikely.

Extensive guarantee framework provided by the federal state

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

- ‘Anstaltslast’ (institutional liability):

  This provision empowers the bank to make a claim against Bavaria, requiring the federal state to promptly and unconditionally cover any financial deficits. This ensures that LfA has the essential resources to fulfill its mandated functions. Creditors do not possess the right to seek recourse against the federal state.

- ‘Gewährträgerhaftung’ (guarantor liability):

  This entails the guarantor's unconditional legal obligation to assume LfA's liabilities in the event of the bank's liquidation. This guarantor liability only becomes relevant in specific and unlikely circumstances, given that LfA is exempt from insolvency procedures due to its public law charter.

Stand-alone fundamentals

Business profile determined by public policy mandate

LfA maintains high levels of capitalisation, adheres to prudent risk management practices, follows a conservative risk profile, and exhibits strong asset quality. This is further reinforced by the implementation of double-recourse loan protection[4] through the bank's lending activities.

LfA operates under the regulatory framework of the German Banking Act and is subject to prudential oversight by the German financial regulator BaFin and the German Bundesbank. Its public policy mandate and non-profit status contribute to its modest profitability, with the majority of its earnings originating from net interest income.

The institution is self-sustaining and secures funding for its investments through capital markets and credit facilities from other development banks, primarily Germany's KfW. The bank benefits from low funding costs, thanks to its robust guarantee framework.

Business model and earnings

LfA’s business focused on regional SMEs and start-ups

LfA's core mission as a promotional bank centres on supporting small- and medium-sized enterprises (SMEs), start-up companies, and regional economic development within Bavaria. Its operations are required to have a direct or indirect positive impact on businesses within the Bavarian region. Furthermore, alongside its development banking functions, LfA prudently manages a treasury portfolio.

Development activities across six main areas

LfA's development banking activities encompass six primary focus areas: i) facilitating financing for start-up businesses; ii) supporting investments that drive growth; iii) promoting technology initiatives; iv) addressing energy and environmental impact concerns; v) providing liquidity support; and vi) contributing to municipal infrastructure development. To achieve these objectives, the bank engages in on-lending to commercial banks for SMEs and start-ups, direct lending to municipalities, offering guarantees, providing risk-mitigation products, and making equity participations through its holding companies.

2022 business volume of EUR 3bn, 8% down from 2021

In 2022, the bank's overall banking activities amounted to EUR 2.95bn (comprising

[4] In this lending practice that is common to German regional development banks, LfA benefits from both the direct claim against the ultimate borrower as well as the intermediary bank to whom it provided the initial loan.

EUR 2.61bn in loans and EUR 336m in risk-participation products). This was a decrease from the levels seen in 2021 and 2020, which were EUR 3.2bn and EUR 4.3bn, respectively (see **Figure 2**). The higher volumes in 2020-21 were influenced by the impact of the Covid-19 pandemic, with the bank disbursing EUR 2bn in loans and providing guarantees to support businesses. These actions were also counter-guaranteed by the Bavarian state. Traditional product volumes have remained relatively stable over the past three years, averaging around EUR 2.7bn.

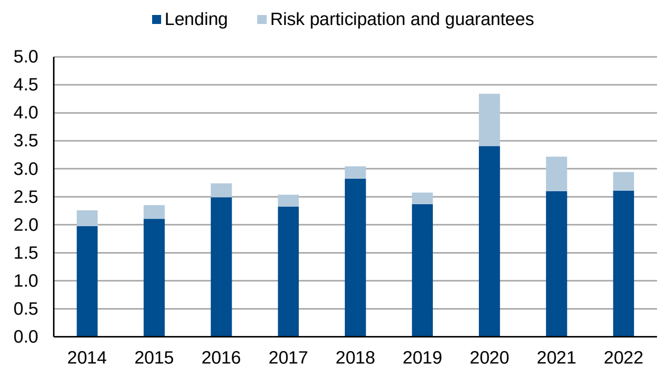
2023 business volume to shrink due to higher interest rates, macroeconomic situation

In 2023, we anticipate a substantial reduction in LfA's business volume compared to 2022. This decline in business volume for 2023 can be attributed to multiple factors, including the conclusion of pandemic-related initiatives and the prevailing macroeconomic conditions, characterised by high interest rates. Although overall loan volumes in 2023 have been consistent with the bank's strategic projections, specific financial products, like the Innovationskredit 4.0 have defied the overall trend by experiencing increased demand. This divergence in product performance highlights the importance of adaptability and diversification in the face of changing macroeconomic market conditions.

The bank has consistently demonstrated its capacity to tailor its product offerings to meet current requirements. It expanded its guarantee products to assist businesses affected by the inflationary shock and the Ukraine conflict in 2022. It introduced an energy liquidity loan programme to aid businesses grappling with surging energy costs. Moreover, LfA is actively promoting the adoption of renewable energy and enhanced energy efficiency through products like Energiekredit Regenerativ and Energiekredit.

Figure 2: Business volume

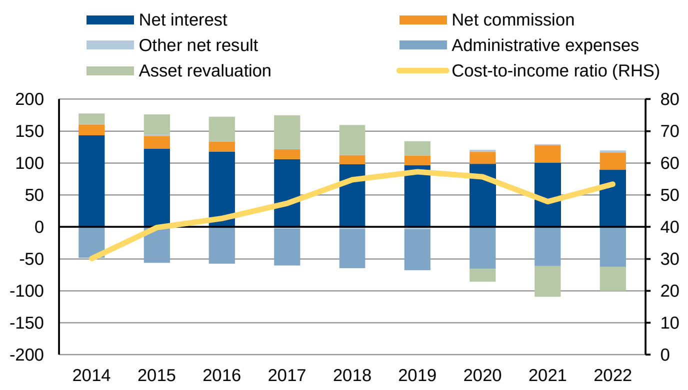
EUR bn



Source: LfA, Scope Ratings

Figure 3: Operating result breakdown

EUR m (LHS); % (RHS)



Source: LfA, Scope Ratings

Net interest is main income source

LfA's revenue streams are steady but relatively undiversified, mirroring its prescribed role. The predominant source of revenue is net interest income, typically constituting approximately 80% of total operating income. In 2022, net interest income was approximately EUR 90m, a decrease from the previous years when it stood at around EUR 100m. The decline was attributed to a reduction in interest income from the bank's loan and investment portfolios, offset in part by a decrease in interest expenditures. Net interest income relative to total assets has remained at around 0.4% over the past five years, aligning with the national peer average. Looking ahead, we anticipate LfA's earnings prospects to be generally stable, given that earnings from its hold-to-maturity security holdings should benefit from higher interest rates.

Main lever for continued profitability is cost containment

In 2022, net commission income amounted to EUR 27m, primarily stemming from compensation related to the bank's guarantee programmes. Additionally, other net operating income reached EUR 3.2m. Administrative expenses for LfA stood at EUR 62.2m in 2022, consistent with their 2021 levels (see **Figure 3**). The bank's reported cost-to-income ratio was 53.4%, falling below the bank's targeted 55% and comparing favourably with national peers. Looking forward, we anticipate some cost pressures arising from the prevailing inflationary environment, particularly related to staff and other administrative expenses, although the continued digitisation of processes, including automated loan approvals within specific programmes, is expected to yield moderate long-term cost savings. The bank's intensified investments in IT infrastructure to expedite digitalisation will elevate costs in the near term. LfA's digitalisation progress is evident, as reflected in the reduction of the average time for loan approval from 4.8 days in 2019 to 2.9 days in 2022, thereby aligning with the established target of 6 days.

Continued risk provisions, net profit of EUR 20m in 2022

In 2022, the net income amounted to EUR 20m, in line with its level in 2021, and including the bank's allocation of EUR 37.7m to risk provisions. The operating profit, prior to accounting for provisions, stood at around EUR 58m, aligning closely with its historical long-term average.

Profitability and capitalisation

Modest profitability due to mandate and low interest rates

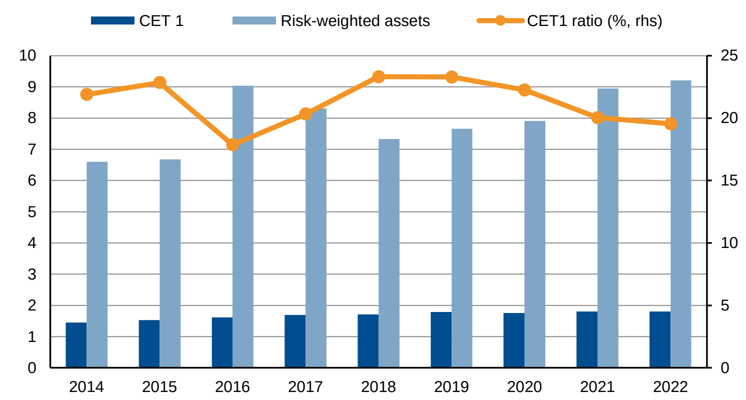
LfA's profitability is characterised by its modest performance, a direct consequence of its public mandate. Over the past five years, the return on equity averaged approximately 1.6%, closely mirroring the national peer average. One of LfA's strengths lies in its strong access to capital markets, further reinforced by the explicit state guarantee. In previous years, net profits were either retained or distributed to the Free State of Bavaria. The state subsequently redirected these proceeds back to the bank, in accordance with the stipulations of Article 18 of the LfA law, thereby reinforcing the institution's capitalisation.

Adequate and rising regulatory capitalisation

Earnings retention plays a pivotal role in bolstering LfA's capitalisation, which significantly surpasses regulatory requirements. As of year-end 2022, the bank maintains a robust Common Equity Tier 1 (CET1) capital of EUR 1.8bn against risk-weighted assets amounting to EUR 9.2bn, resulting in a high CET1 capital ratio of 19.5% (see **Figure 4**).

Figure 4: CET1 development

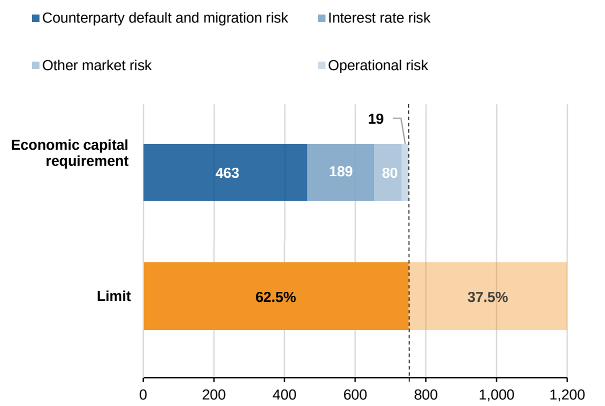
EUR bn, %



Source: LfA, S&P Capital IQ Financial, Scope Ratings

Figure 5: LfA's risk-bearing capacity

EUR m, %



Source: LfA, Scope Ratings

Over the five-year period from 2017 to 2022, there was an approximate 10% increase in risk-weighted assets, which closely corresponded with the rise in CET1 capital achieved through earnings retention. We anticipate that capital buffers will experience a moderate expansion as LfA continues its practice of retaining profits. The leverage ratio remained consistent at 12.5% in 2022 compared to 2021, marking an increase from 6.9% in 2020. This rise was influenced by adjustments in response to the Capital Requirements Regulation 2, which aimed to address LfA's exposure to promotional loans. The recent stability in the leverage ratio indicates a prudent approach to capital management.

Prudent risk management ensures capital adequacy…

The bank's risk management aligns with national prudential regulations, particularly adhering to BaFin's MaRisk requirements. LfA employs an Internal Capital Adequacy Assessment Process, which mirrors the risk-bearing concept stipulated in Article 25a of the German Banking Act. As part of this framework, the management establishes the bank's comprehensive risk appetite by establishing value-at-risk limits for various risk categories, thereby ensuring a systematic management of the bank's capital in alignment with regulatory standards.

… and significant capital buffers of internal capital

In accordance with the economic capital requirement approach, the bank ensures that it maintains internal capital reserves sufficient to cover potential losses arising from various activities. As of year-end 2022, the bank's analysis identified a value at risk amounting to EUR 750m, with credit and interest rate risks comprising the bulk of this figure. In response to the increasing interest rates observed throughout 2022, the bank decided to reallocate EUR 30m toward the interest rate risk limit, elevating it to EUR 310m (with a 60.9% utilisation), while concurrently reducing the market risk limit to EUR 190m (41.8%), down from EUR 220m. The bank's internal limit stands at EUR 1.2bn, of which 37.5% remains unutilised, signifying a significant cushion of unallocated internal capital (see **Figure 5**). This approach helps safeguard the bank's financial stability in adverse scenarios.

Portfolio risks and asset quality

Most of LfA's loans are to financial institutions

The majority of LfA's activities involve exposures to the financial sector, accounting for 84% of its total exposure, which includes loans for on-lending. LfA's utilisation of double-recourse loan protection serves a twofold purpose: it not only reduces capital requirements but also effectively mitigates concentration risks. This strategy further safeguards the bank's strong asset quality from the adverse impacts caused by the pandemic and the energy crisis on specific corporate segments.

Loans to municipalities and guarantees are provided at bank's own risk

In addition to its financial sector activities, LfA undertakes business at its own risk, including direct lending to municipalities in Bavaria, with this activity amounting to approximately EUR 1.6bn at YE 2022. Moreover, the bank's portfolio includes guarantee and risk mitigation products designed to facilitate commercial banks in financing businesses that might otherwise face challenges in obtaining bank credit, particularly startups lacking adequate collateral. In this context, LfA offers guarantees that typically cover up to 80% of credit risk or assumes liability for the commercial bank in case of any incurred losses.

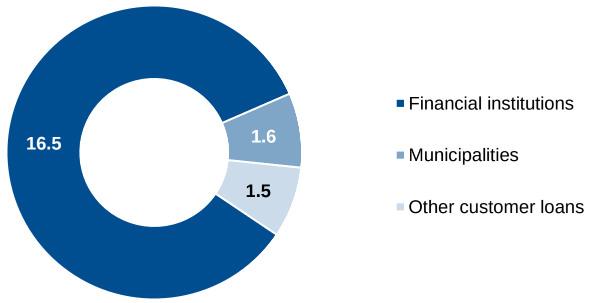
During the Covid-19 and Ukraine crises, the bank's guarantee coverage ratio recorded an increase, reaching 90%, and even up to 100% for specific loan programmes. As of year-end 2022, the volume of the bank's guarantee and risk participation products stood at approximately EUR 1.9bn, nearly doubling its 2019 level. This substantial increase primarily resulted from the bank's response to the Covid-19 pandemic, as mandated by the Free State of Bavaria. Thanks to counter-guarantees provided by Bavaria for crisis-related activities, only around 50% of guarantee and risk participation products entail risk for LfA. This approach effectively minimizes the bank's exposure to adverse economic developments and enhances its overall risk management.

LfA's lending mostly to banks, benefitting Bavarian companies

LfA's exposure exhibits a notable concentration in the financial sector, amounting to EUR 16.5bn at the end of 2022, representing a substantial 84% of its overall exposure. Within this financial sector exposure, the bank holds investments totalling around EUR 5bn in securities issued by financial institutions. The remaining 16% of LfA's exposure is distributed evenly between loans to municipalities and other loans (**Figure 6**). This distribution pattern in LfA's exposure is largely influenced by the bank's specific mandate, which defines its focus.

Figure 6: Exposure* by sector

EUR bn

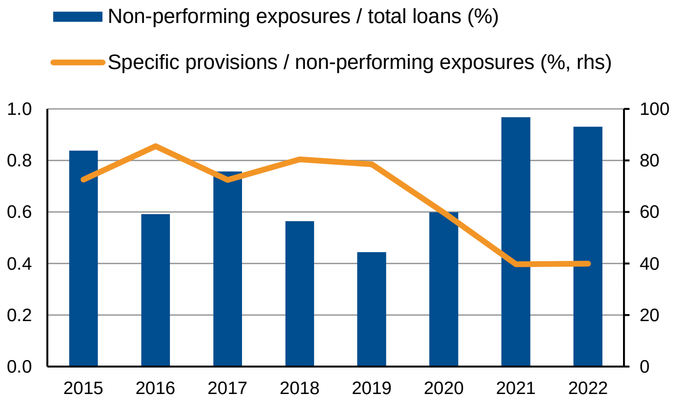


* Note: Exposures include interbank assets and net loans to customers.

Source: LfA, Scope Ratings

Figure 7: LfA's asset quality*

%



* Note: Non-performing exposures as reported by LfA. Total loans are net customer loans and interbank assets. Specific provisions include individual asset revaluations for customers and provisions for specific positions.

Source: LfA, Scope Ratings

The underlying loan portfolio held by the end-customers of funds on-lent to LfA's partner banks is characterised by diversification across sectors and geographic regions within Bavaria. This concentration, both sectoral and geographical, directly results from the nature of the bank's mandate. Over the long term, the bank is exposed to transition risks, particularly in the automotive sector, given Bavaria's economy is significantly linked to the export-oriented automotive industry. Nonetheless, Bavaria's economy has exhibited relative resilience, even in the face of challenges like the surge in energy prices and rising interest rates during the first half of 2022, which led to robust growth of 0.5% YoY in real terms. In contrast, Germany as a whole contracted by 0.3% during the same period.

Strong asset quality with low non-performing loans

LfA's loan portfolio exhibits robust asset quality and maintains a relatively low share of non-performing exposures. Specifically, non-performing exposures amounted to EUR 182.8m at YE 2022. In the context of the bank's interbank assets and customer loans, this figure represents approximately 0.93%. The bank's non-performing loans ratio, as defined by BaFin, was recorded at 0.85% at YE 2022, underscoring the bank's strong credit quality and effective management of non-performing assets.

LfA resilient to lingering pandemic effects, energy crisis

Throughout the period 2020-22, the bank's asset quality demonstrated resilience in the face of various crises. This resilience is attributed to the protective cushion provided by double-recourse loan protection within its on-lending portfolio. Moreover, a range of support measures, including federal and state grants extended to businesses and short-time work schemes, contributed to bolstering the Bavarian economy.

LfA adhered to a prudent provisioning approach during the turbulent years of 2020 to 2022. This approach included conservative provisions to account for heightened uncertainty, with adjustments to the general provision. As of YE 2022, the bank maintained the general provision at EUR 47.4m, a level consistent with the preceding year. For its general provisioning of loan exposures, as well as guarantee and risk participation products, LfA adopted the simplified approach under IDW RS BFA 7 as of 2022. This approach relies on the calculation of the 12-month expected loss for performing exposures. It underscores the bank's commitment to sound risk management practices.

Conservative investment strategy; limited market risks

The bank's investment strategy remains consistently conservative. LfA maintains a fixed-income securities portfolio valued at EUR 3.8bn, which constitutes approximately 16% of its total assets. The bank's typical approach is to retain these investments until they mature, and it keeps utilisation of derivatives at a minimum. Approximately EUR 3.3bn of LfA's security holdings, equivalent to 85% of the total, meet the eligibility criteria as collateral for central bank refinancing facilities. This allocation aligns with the bank's prudent risk management and highlights its ability to access essential central bank support when needed.

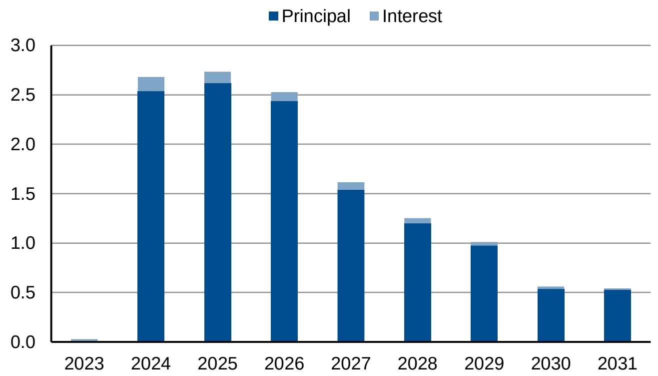
Funding and liquidity

Favourable refinancing conditions

Supported by the explicit liability backing provided by the Free State of Bavaria, LfA benefits from robust access to the financial markets and from the preferential regulatory treatment of its debt obligations. The bank primarily finances its operations through the issuance of medium and long-term debt securities, typically featuring maturities ranging from three to ten years. This financing approach results in a relatively smooth redemption profile, with the peak occurring in 2025, at slightly over EUR 2.5bn (see **Figure 8**).

Figure 8: Redemption profile

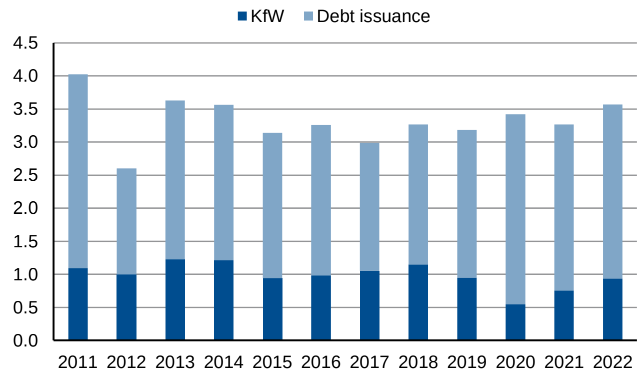
EUR bn, as of 5 October 2023



Source: Bloomberg, Scope Ratings

Figure 9: Annual refinancing

EUR bn



Source: LfA, Scope Ratings

LfA consistently manages annual refinancing volumes within the range of EUR 2bn to EUR 2.5bn, aligning with its financial stability objectives. In 2022, the bank executed total funding activity amounting to EUR 2.6bn. A significant portion, approximately 25%, of LfA's refinancing is traditionally facilitated through KfW facilities (see **Figure 9**). This method is in line with the practices of other German development banks and offers highly favourable refinancing terms, ensuring cost-effective access to funds.

LfA's debt securities are subject to a 0% regulatory risk weight, making them highly favourable under regulatory requirements. They are also Level 1 high-quality liquid assets, meeting liquidity coverage ratio requirements, and also qualify for preferential treatment under Solvency II. Furthermore, the bank's bonds are eligible for participation in the ECB's monetary policy operations, including asset purchase programs. Given these advantages, we anticipate that LfA will continue to access capital markets at exceptionally favourable rates, ensuring cost-effective financing for its operations.

Assured liquidity; access to central bank facilities

LfA's well-established access to capital markets, along with its ability to tap central bank facilities and manage its treasury portfolio, collectively contribute to maintaining ample liquidity. The bank's rigorous reporting and monitoring of liquidity coverage ratios further bolster its liquidity position. At YE 2022, LfA's liquidity coverage ratio stood at 318%, aligning with levels observed in prior years. This signifies a robust liquidity position, ensuring that the bank is well-prepared to meet its funding requirements and withstand potential liquidity stress scenarios.

Environmental, Social and Governance considerations

Material ESG factors are captured through several analytical areas

Governance and social considerations play a substantial role in the assessment of LfA's credit rating. These aspects were essential in our evaluation in two key areas:

- Integration with the Public Sponsor: We emphasize the significance of LfA's alignment with the public sponsor, backed by a supportive legal framework that obliges the bank to adhere to its statutes. This mandate positions LfA as a competition-neutral public-law institution, responsible for delivering essential services that facilitate regional economic objectives.
- Standalone Fundamentals: LfA's governance is characterised by high quality, and it maintains a conservative approach to risk management, which has been instrumental in shaping its standalone fundamentals.

Regarding its environmental commitment, LfA plays a pivotal role in advancing its public sponsor's sustainability and environmental goals, particularly Bavaria's Klimaschutzgesetz (climate protection act). The Free State of Bavaria has set a commendable target of achieving net carbon neutrality by 2040, which is five years ahead of the federal government's goal. LfA is equally committed to making its operations climate-neutral by 2028 and expanding its non-financial reporting. Furthermore, LfA has joined the UN Global Compact, pledging to uphold sustainability principles and support the implementation of the UN Sustainable Development Goals (SDGs).

In its banking activities, specific loan products like Energiekredit Regenerativ (Plus) and Ökokredit are designed to fund sustainable investments in renewable energies, energy efficiency, and biodiversity. LfA rigorously assesses loan approvals, taking into account KfW's forward-looking Paris-compatible sector guidelines and employing sector-specific analysis of physical and transition risks for default risk evaluations.

For its securities portfolio, LfA adheres to minimum ESG ratings and maintains a minimal share of housing stock in a covered bond's cover pool, designating them as sustainable investments. Notably, in 2022, 71% of invested assets were classified as sustainable, representing an increase from 68% in 2020.

Regarding its financial activities, LfA is actively considering the introduction of a framework for sustainability bonds that examines and defines the requirements for its own sustainability-related issues. This underscores the bank's commitment to advancing sustainable financing and aligning with broader environmental and social sustainability objectives.

Appendix I. Qualitative scorecard

Qualitative Scorecard 1: Level of integration with the Free State of Bavaria (AAA/Stable)

Analytical component	Assessment (score)	Analytical rationale
Legal status (40%)	High (100)	LfA, like its German state development bank counterparts, is safeguarded against insolvency by its public law status. The bank is exempt from dissolution without legislative intervention, sparing it from CRR, Single Resolution Mechanism, Recovery and Resolution Act, and Restructuring Fund Act obligations. This exemption eliminates the need for the bank to create recovery plans and places it beyond the scope of the German Deposit Guarantee Act.
Purpose & activities (20%)	High (100)	LfA, as one of Bavaria's two promotional banks, plays a crucial role in providing essential, competition-neutral services, primarily supporting the regional economy. Its promotional lending typically consists of subsidised loans and grants, often funded by state subsidies and the bank's own profits.
Shareholder structure (20%)	High (100)	The Free State of Bavaria is the exclusive owner of LfA.
Financial interdependencies (20%)	High (100)	LfA conducts business at its own risk, which includes providing direct loans to municipalities in Bavaria. As of the end of 2022, this activity amounted to approximately EUR 1.6bn. LfA operates as a financially self-sustaining entity, without depending on regular contributions from the public sponsor for its operational needs, investments, or debt repayment.

Approach adopted	Top-Down

Source: Scope Ratings

Appendix II. Statistics

In EUR m

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Balance sheet summary									
Assets									
Cash and balances with central banks	19.4	41.8	14.3	84.2	1.6	7.7	0.6	9.4	3.8
Interbank assets	14,618.6	14,229.8	14,143.1	13,535.2	13,329.7	13,720.2	15,195.9	16,207.7	16,480.2
Total net customer loans	2,022.1	2,254.2	2,390.4	2,301.2	2,306.2	2,454.8	2,696.3	2,606.6	3,136.5
Total securities	4,830.4	4,848.8	4,864.4	4,869.1	4,734.8	4,972.9	4,521.8	3,902.9	3,844.3
Other assets	647.5	641.8	684.3	685.6	696.4	678.1	731.6	842.5	921.2
Total assets	***22,138.1***	***22,016.4***	***22,096.5***	***21,475.4***	***21,068.7***	***21,833.7***	***23,146.3***	***23,569.1***	***24,385.9***
Liabilities									
Deposits from banks	8,965.6	8,527.1	8,507.0	8,028.0	7,859.5	7,980.2	7,862.5	7,597.0	7,548.6
Deposits from customers	2,958.6	3,000.5	2,686.3	2,506.3	1,880.9	1,723.6	1,622.2	1,486.2	1,407.2
Total debt	8,083.2	8,307.6	8,632.9	8,590.9	8,916.5	9,672.8	11,094.0	11,863.6	12,843.1
thereof: senior debt	7,982.7	8,207.0	8,632.9	8,590.9	8,916.5	9,672.8	11,094.0	11,863.6	12,843.1
Other liabilities	667.2	642.4	654.0	652.6	652.9	665.4	758.6	806.8	766.5
Total liabilities	***20,674.6***	***20,477.6***	***20,480.3***	***19,777.8***	***19,309.8***	***20,042.0***	***21,337.3***	***21,753.6***	***22,565.4***
Equity									
Fund for general banking risk	400.0	470.0	540.0	610.0	660.0	690.0	700.0	700.0	700.0
Common equity	1,063.4	1,068.8	1,076.2	1,087.6	1,098.9	1,101.7	1,109.0	1,115.6	1,120.5
Share capital	368.1	368.1	368.1	368.1	368.1	368.1	368.1	368.1	368.1
Other common equity	695.3	700.7	708.1	719.4	730.8	733.6	740.8	747.4	752.4
Total liabilities and equity	***22,138.1***	***22,016.4***	***22,096.5***	***21,475.4***	***21,068.7***	***21,833.7***	***23,146.3***	***23,569.1***	***24,385.9***
Common Equity Tier 1 capital	*1,445.4*	*1,525.3*	*1,614.3*	*1,688.2*	*1,709.7*	*1,783.4*	*1,759.7*	*1,794.0*	*1,799.0*
Income statement summary									
Net interest income	143.2	122.7	118.0	106.1	97.9	96.9	98.7	100.3	89.6
Net fee and commission income	17.4	19.7	15.7	15.4	14.4	14.7	18.9	27.9	27.0
Net result from other income/expenses	0.5	2.2	-0.9	-2.5	-3.1	-3.7	3.1	1.1	3.2
Administrative expenses	48.1	56.4	56.7	57.6	61.5	63.9	65.5	61.4	62.2
Operating result before risk provisions	***112.9***	***88.2***	***76.1***	***61.4***	***47.6***	***44.0***	***55.1***	***68.0***	***57.6***
Net income from asset revaluation	16.4	31.6	38.9	53.5	47.3	22.4	-20.2	-48.1	-37.7
Operating result	***129.3***	***119.7***	***115.0***	***114.9***	***94.9***	***66.4***	***35.0***	***19.9***	***19.9***
Tax expenses	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Addition to general banking risk fund	70.0	70.0	70.0	70.0	50.0	30.0	10.0	0.0	0.0
Net income	***59.2***	***49.6***	***44.9***	***44.8***	***44.8***	***36.3***	***24.9***	***19.8***	***19.8***
Profit carried forward	0.2	0.3	0.0	0.1	0.1	0.1	0.0	0.1	0.1
Net profit	***59.5***	***49.9***	***44.9***	***44.9***	***44.9***	***36.4***	***24.9***	***19.9***	***19.9***

Source: LfA, S&P Capital IQ, Scope Ratings

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Paris

10 avenue de Messine
FR-75008 Paris

Phone +33 6 6289 3512

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 09 38 35

Madrid

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London

52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com

Disclaimer