

Germany
Credit Analysis

Landwirtschaftliche Rentenbank

Ratings

Foreign Currency	
Long-Term IDR	AAA
Short-Term IDR	F1+
Support Rating	1
Support Rating Floor	AAA
Sovereign Risk	
Foreign-Currency Long-Term IDR	AAA
Local-Currency Long-Term IDR	AAA

Outlooks

Foreign-Currency Long-Term IDR	Stable
Sovereign Foreign-Currency Long-Term IDR	Stable
Sovereign Local-Currency Long-Term IDR	Stable

Financial Data

Landwirtschaftliche Rentenbank			
IFRS	31 Dec 08	31 Dec 07	
Total assets (USDm)	126,997.4	130,542.8	
Total assets (EURm)	90,101.0	88,677.7	
Total equity (EURm)	2,056.5	2,000.5	
Operating profit (EURm)	464.0	51.5	
Published net income (EURm)	463.4	51.0	
Comprehensive income (EURm)	66.5	-25.1	
Operating ROAA (%)	0.51	0.06	
Operating ROAE (%)	23.48	2.55	
Comprehensive income/AE (%)	3.36	-1.24	
Eligible capital/regulatory weighted risks	13.83	11.80	
Tier 1 ratio (%)	12.40	10.30	

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Rating Rationale

- Landwirtschaftliche Rentenbank's (LR) ratings are based on its guarantee from the German federal government in the form of Anstaltslast (a maintenance obligation). As a development bank benefiting from state guarantees, LR's activities are limited to the development of the agricultural sector and rural areas in Germany and the EU.
- In line with the agreement between the German federal government and the European Commission (EC) from 2002, German development banks have retained their state guarantees for their development business. LR's permitted business activities are outlined in the law governing LR and statutes of LR. LR pays no corporation tax or dividends. Net income is used to strengthen its capitalisation and to support agricultural and rural development.
- Due to its business model, interbank assets continue to represent more than 90% of total assets. Reflecting the deteriorating operating environment the share of its exposures in the lowest two internal ratings classes increased substantially in FY08. Counterparty bank risk also arises from derivatives held for hedging purposes, which are, however, mitigated by collateral agreements.
- Net interest revenues (NIRs) represent the bulk of operating revenues. The traditionally narrow net interest margin (NIM) benefited in FY08 from the widening of credit spreads of financial institutions and LR's low refinancing costs. A lean corporate structure allows LR to achieve high cost efficiency. In FY08, LR's net income benefited from a 75% improvement in NIRs and a strong EUR249m fair-value measurement gain. At the same time, its revaluation reserves fell by EUR397m.
- LR is predominantly wholesale funded and taps the international market through various debt issuance programmes to diversify its investor base. Despite the current market environment the bank has access to wholesale funding, benefiting from its state guarantees. The bank's exposure to FX risk is limited, as positions are in general hedged into EUR. Structural interest rate risks appear to be well-managed via swaps and a modest limit for structural mismatches.
- LR's regulatory capital ratios, which benefit from relatively low risk-weighting of its assets, are solid, although its leverage is fairly high. Given LR's legal status, the bank has to rely on its sound internal capital generation to support growth and to set aside sufficient funds to sponsor its preferential loans.

Support

- LR is a public law institution. Although not an owner, the German state acts as LR's liable public entity (Anstaltssträger) and is responsible for ensuring that the bank can meet its obligations at all times.

Key Rating Drivers

- The Outlook on LR's Long-Term IDR is Stable in line with the Sovereign's, as Fitch Ratings does not foresee any changes in LR's public promotional role or guarantee by the German state. The EC allows this, as LR functions as a development bank and is not in direct competition with other banks.

Profile

LR, established in 1949, is the central provider of credit to the agricultural sector in Germany and almost exclusively channels its funds through other banks.

- Development bank for the German agricultural sector
- Lending almost exclusively channelled through other banks
- Scope of activities restricted by law and statutes

Profile

As the central provider of credit to the German agricultural sector (including farming, forestry and fishing), LR extends loans for rural infrastructure and environmental projects. The bank almost entirely grants loans to banks, mainly in Germany, but increasingly also in other EU countries, including the new EU member states, which, in turn provide loans to the end-borrowers. Most lending is medium- and long-term, and is provided either in the form of standard promotional loans (allgemeine Förderkredite) for agricultural and rural development or in the form of preferential-rate loans (Programmkredite) under special loan programmes, which are sponsored out of LR's own retained profits. Apart from providing financing, the bank's mission is to promote the interests of the agricultural sector and the rural community, raise educational standards, and support scientific research related to agriculture.

LR does not have any shareholders, and its capital is considered similar to an endowment fund. LR's capital base was established by levying charges on agricultural land from 1949-1958. This raised a capital base of EUR102.3m, including retained profits. In addition, part of the land charges were held at Deutsche Genossenschaftskasse (now DZ Bank AG Deutsche Zentral-Genossenschaftsbank – DZ Bank IDR 'A+' / Outlook Stable), which produces a special-purpose reserve of EUR32.7m that was converted into participations in the mid-1970s, representing 3.4% of DZ Bank's capital. LR's governing bodies include representatives of the agricultural sector, the food industry, the Federal Ministry of Food, Agriculture and Consumer Protection, the Federal Ministry of Finance and the ministries of agriculture of the German states, as well as farmers' associations acting on behalf of the landowners and tenant farmers subject to the land charge.

LR's largest equity investment, its 3.4% stake in DZ Bank, is considered long-term, and is held through LR's wholly owned and fully consolidated subsidiary, LR Beteiligungsgesellschaft mbH (LRB). LRB, with a total equity base of EUR52m, acts as a holding company for several smaller investments (total balance-sheet assets of EUR221.3m at end-2008). LR's investments must be in accordance with the bank's statutes, and typically reflect LR's promotional role within the agricultural sector and the food industry rather than a focus on investment returns. As a result, they are considered long-term and disposals are not planned to date. The bank also has small direct shareholdings in the rural restructuring agencies (Landgesellschaften) of three eastern German states, Mecklenburg-West Pomerania, Thuringia and Saxony-Anhalt and one western German state, Schleswig-Holstein. The shareholding in all of these is below 25%.

The bank is organised around three segments, of which only the promotional one can be considered client-driven. The treasury management captures revenues from the bank's liquidity and interest rate management; the capital investment segment reflects LR's revenues from the investment of own free capital.

Legal and Administrative Aspects

LR was established by the Landwirtschaftliche Rentenbank Law (Gesetz über die Landwirtschaftliche Rentenbank) of May 1949, amended in 2002 and 2005 to define more accurately the bank's development activities. The Rentenbank Land Charge Law (Gesetz über die Rentenbankgrundschuld) of May 1949 laid down the guidelines for the land charges that raised the bank's initial capital. LR is defined as a public law institution (Anstalt des öffentlichen Rechts). In addition to the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht) and the Bundesbank, the bank is supervised by the Ministry of Food, Agriculture and Consumer Protection. The ministry represents the public interest, ensuring that LR's business activities are in accordance with the law and the bank's statutes. The German state, even though it is not a shareholder of the bank, is LR's liable public entity (Anstaltsträger). Under Anstaltslast, the federal, state and local governments

are obliged to maintain the solvency of public law institutions they establish. The creditor has no direct claim on the liable public entity, only on the bank itself, which in turn can fully rely upon the liable public entity in the light of the latter's obligation to maintain it in a financial position such that it is able to carry out its function as a bank. Although Anstaltslast was abolished in July 2005 for the German Landesbanken, the federal government reached agreement with the EC in March 2002 to allow it to continue to exist for Germany's development banks. As LR functions exclusively as a development bank and is not in direct competition with other banks, a change in the federal government's maintenance obligation for this bank is not expected.

Presentation of Accounts

Unless otherwise stated, the analysis is based on the LR's IFRS accounts, which LR, as a bank with listed debt and consolidated accounts, first produced for the financial year ending 2007.

Performance

LR's financial performance has been modest throughout the last years, also reflecting the bank's promotional role. In FY08 LR benefited from a strong improvement in net interest revenues (see 'Revenues') and a EUR249m gain from fair value measurement of assets and liabilities designated at fair value, which resulted in a strong improvement of net income. In FY07, the bank's net income was burdened by EUR131m valuation losses from its assets and liabilities designated at fair value, driven by the significant widening of credit spreads.

Whereas the bank's treasury management and capital investment segment could improve their profit contribution significantly in FY08 on the back of a favourable refinancing and credit spread environment, the promotional business segment was burdened by a write down of an equity investment and an increase in impairment charges and would have been loss-making without the aforementioned gain from fair value measurement.

Under local GAAP ("HGB", see Table 1 below), the bank can adjust provisions and transfers to and from published and hidden reserves to ensure consistent performance in reported net income. In addition, the principles for accounting for valuation changes of securities are different under local GAAP and IFRS. Under IFRS, the fair value measurement has resulted in a high income volatility as reflected in LR's income statement.

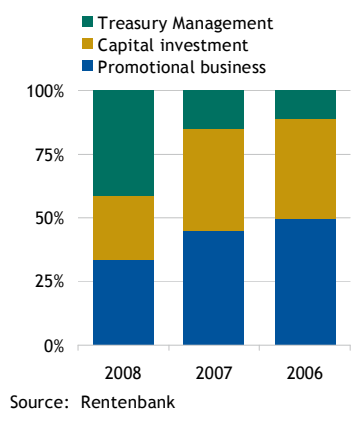
LR has a significantly lower NIM than most of its peers (see Table 1), which is driven by the high share of interbank exposure. This is mitigated by a lean cost structure, as reflected in the cost/income, and low provisioning needs given the generally high quality of its assets with low risk weightings. The latter also explains LR's comparatively low equity/asset ratio. Due to different accounting standards the comparability of peer data is limited.

Revenues

Like other development banks and as a result of its business model, LR generates its operating revenues almost exclusively from NIR, which makes it fairly sensitive to spreads, on the assets and liabilities side of the balance sheet. Traditionally, a significant share of the bank's interest revenues stem from its promotional lending business via intermediary banks (see Chart 1), where the bank benefits from low funding costs as a result of its low risk profile and special status. In 2008, net interest income grew strongly (by 76%); the NIM grew by 15bp, in Fitch's definition. This was mainly attributable to treasury management, where NIR increased almost 5x during the period and significantly increased its share in the total (see Chart 1). In this segment, LR benefited from widening of refinancing spreads between its 'AAA' funding and counterparties' debt. NIR from its promotional business has also increased (by 31%), partly thanks to growth in medium- and long-term outstanding

- Net interest revenue, LR's key income stream, improved in 2008
- Under IFRS, profitability deteriorated in FY07 due to valuation losses, which however reversed in FY08
- New business volume continues to grow
- High cost efficiency, but increase in operating cost base

Chart 1: Net Interest



promotional loans (up 8%) and somewhat higher lending margins. NIR from the bank's investment of free capital improved by a strong 9% in 2008 based on reserve allocation and higher investment yields.

In its analysis Fitch deducts from LR's net interest income net funds that are set aside for preferential lending (2008: EUR23.3m; 2007: EUR17.6m). These represent the present value of the difference between the lending and market interest rates at a reporting date, which also explains the growth in provisions, as well as their amortization over the remaining term. LR includes these funds in its provisions line.

As LR's business generates minimal fee income, the bank's net commission income is structurally negative. Commissions paid include fees to intermediaries and securities custody fees. LR's negligible 'other operating income' largely relates to rental income.

Net gains/losses on securities shown in the spreadsheet annex include EUR48m write-downs of an equity investment.

Costs

Given its low-margin business, cost control is vital to the bank's profitability, which management acknowledges by committing itself to a medium-term cost/income ratio target of less than 20% under HGB. Operating solely from its head office in Frankfurt, with 211 staff at end-2008, the bank benefits from a lean corporate structure, and this is reflected in the standardised nature of its financial products. Cost control remains strict. As a result of higher pension reserves, personnel expenses increased by 9% yoy in 2008. Other operating expenses rose by 15%, primarily driven by higher IT expenditure and costs related to premises. Due to the aforementioned fair-value measurement, the cost/income ratio under IFRS experiences a high volatility and is understated for 2008 and overstated for 2007. Excluding the gain from fair value measurement in FY08 the cost/income ratio under IFRS stood at 15.1% in FY08.

Risk Provisions

In FY08 LR faced, in contrast to prior years, write-downs amounting to EUR35m related to two bank exposures. Due to the current financial market crisis the bank may face further impairment charges.

Revaluation Reserves/Comprehensive Income

In FY08, LR reported a EUR249m gain from its asset and liabilities, which were designated at fair value through the income statement, compared with a loss of EUR131m in FY07. Fitch understands that the fair-value measurement of own liabilities is driven by market-related changes and is not credit-linked.

In FY08, LR's revaluation reserve, which relates to its available-for-sale (AFS) securities, declined further by EUR397m to negative EUR441m at FYE08, as a result

Table 1: Peer^a Comparison

	LR (IFRS)		LR (HGB)		NRW.Bank (HGB)		KfW (IFRS)		L-Bank (HGB)		ICO (IFRS)	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	9M08	2007
Net interest margin	0.36	0.21	0.44	0.28	0.31	0.21	0.54	0.51	0.57	0.59	0.65	0.59
Operating ROAA	0.51	0.06	0.10	0.14	-0.03	0.10	-0.73	-1.79	0.16	0.41	0.56	0.38
Operating ROAE	23.48	2.55	4.62	6.43	-0.22	0.71	-20.53	-38.97	4.92	12.24	9.99	7.79
Fitch comprehensive income/AE	3.36	-1.24	2.24	2.29	0.16	0.64	-23.29	-40.57	1.14	5.52	6.82	4.14
Equity/assets	2.28	2.26	2.22	2.13	12.60	13.24	2.99	4.22	3.20	3.10	5.13	5.29
Total assets (EURbn)	90.1	88.7	87.8	88.7	156.9	148.5	394.8	354.0	61.0	59.4	50.4	39.9

^a NRW.Bank (state development bank in Northrhine-Westphalia), KfW (Kreditanstalt für Wiederaufbau, the largest German development bank), L-Bank (Landeskreditbank Baden-Württemberg Förderbank, a state development bank in Southern Germany), ICO (Instituto de Credito Oficial, a Spanish development bank), all are rated 'AAA', 'F1+' and Support '1'; LR and its German peers are exempt from corporate tax
Source: Banks' financial statements, adjusted by Fitch

of the further widening of credit spreads. This resulted in much lower Fitch comprehensive income for 2008 (EUR66.5m). Via a reclassification of EUR4.9bn of securities in 2008 to held-to-maturity from AFS, the bank avoided a further negative impact on its revaluation reserve amounting to EUR79m.

Prospects

Given LR's legal status and therefore its strategy (which is highly unlikely to change), the bank will continue to stimulate the agricultural sector in the weakening operating environment. Given the bank's sole reliance on internal capital generation, it is crucial for LR to uphold its strict cost controls, stringent interest and FX risk management as well as its credit-spread adjusted pricing to generate sufficient profits to maintain its track record of steady growth rates in its lending business (especially for preferential lending). Volume growth (with the exception of preferential loans) could be restricted by regulatory limits on large exposures and LR would be somewhat vulnerable to further consolidation among large German banks. To alleviate this problem (and to improve its margins), LR has steadily increased its share of EU counterparties. In light of the continued demand for long-term financing in the agricultural sector and LR's market positioning, Fitch expects further growth in the bank's lending business. Under IFRS, LR will continue to face income volatility due to its assets and liabilities accounted for at fair value.

- Solid asset quality
- Banks represent largest counterparty group
- Exposure to FX and interest rate risk appears to be well-managed

Risk Management

LR's overall risk exposure is modest and reflects the legal boundaries of the bank's operations as outlined in LR law. The management board has overall responsibility for the bank's risk management and approves LR's limits for market, credit, liquidity and operational risk exposure, which are regularly monitored through a central risk department.

The bank uses the standardised approach for measuring its credit risk and the basic indicator approach for operational risks under Basel II. LR has tracked losses related to and managed operational risks under specified guidelines since 2006.

Credit Risk

Although increasing, LR's overall credit risk is comparatively modest, with loans to other banks, which are partly secured, representing around 60% of its total assets at end-2008. This asset structure is explained by the bank's business model and governing law, which obliges LR to extend the loans through other banks, but not directly to the end-borrowers in most cases (Hausbankenprinzip). The banks use the funds received to support the agricultural sector, related industries and rural projects and bear all credit risks related to the end-borrower. LR is therefore exposed to credit risks related to the intermediary bank, but not to the end-borrower. All banks are subject to thorough analysis by a separate department within the lending division, and LR assesses the borrowers' creditworthiness using its own analysis and external ratings. LR classifies about 1,300 banks according to 12 internal rating categories. All internal ratings are updated at least once a year, and more frequently in the case of new business activities and of banks rated below 'A-', for which additional collateral is required. The borrowers are based exclusively in Germany or other EU countries. At end-2008 LR's exposure to banks was split as follows: EUR35.7bn or 43% relates to foreign banks, EUR28.0bn (34%) to German public sector banks, EUR13.8bn (16%) to private sector/other banks and 5.6bn (7%) to cooperative banks. The lending to foreign banks is predominantly concentrated in western European countries, above all Spain, France, the UK and Sweden. For new EU member states, the current exposure amounting to EUR144m relates mainly to Slovenia, Hungary and Poland.

LR's promotional lending activities, which stood at EUR64bn at end-2008, can be further broken down into two pillars. At 70%, standard promotional lending for agricultural and rural development represents the bulk of its lending activities and

is offered on a non-competitive basis to banks in the EU. They are either extended as interbank or as securitised loans. The latter continues to gain in importance and represented about 43% of LR's outstanding standard promotional loans at end-2008. The rest relates to preferential lending under special programmes, which, for example, include the promotion of young farmers or environmental protection and are set up by the bank depending on market demand. These programmes depend on LR's ability to generate operating profit and are restricted to German banks and recipients domiciled in Germany. As a result, and in contrast to standard promotional lending activities, LR insists on detailed information on the end-borrower to judge their eligibility. However, credit risk remains with the intermediary bank.

LR's new business in promotional lending (including special promotional loans, standard promotional loans, interest rate adjustments and renewals as well as securitised lending) increased by 17% yoy to EUR20.1bn in FY08, of which EUR8.3bn related to special and standard promotional loans (compared with EUR7.1bn in FY07). About 60% of the new lending business volume generated in FY08 was unsecured (compared with 65% in FY07). Although interbank business is in general unsecured, in FY08 a higher share of LR's new business was secured by mortgages and other collateral (23%; FY07: 24%) and related to public sector banks (18%; FY07: 11%), which are still state guaranteed.

At end-2008, LR's securities portfolio stood at EUR27.5bn or 31% of total assets and almost exclusively consisted of bonds issued by banks, including highly rated covered bonds as well as government-guaranteed Landesbank bonds. The portfolio almost exclusively comprises floating-rate bonds or enjoys floating rates as a result of swap operations. The portfolio is held to ensure liquidity and to generate additional earnings. As a result of the current turbulent market environment, the bank faces credit spread risks from its securities portfolio as reflected in the development of its revaluation reserve. The bank is neither directly nor indirectly invested in the US subprime market and is not active in the credit derivatives market and ABS market. The exposure to issuers distressed during the crisis is not significant to date (around 3% of equity at end-2008).

Given the regulatory requirements, customer liabilities are moderate, but have increased substantially in FY08 (end-2008: EUR6.5bn, 7% of total assets, compared with EUR1.3bn/1.4% at end-2007). More than half of these are promissory notes and the rest primarily relate to short-term overdraft facilities extended to government-owned entities. Most of the non-bank lending has been covered by first-class guarantees (2008: 75%) bearing little credit risk. Since the beginning of 2007, LR has cautiously offered lending business directly to customers when certain requirements are fulfilled. This increased sharply in 2008 (by almost 3x) but was still a minor EUR256m at year-end and LR expects it to remain so.

Due to the bank's sizeable derivatives portfolio, which is exclusively held for hedging purposes, the bank faces counterparty risks. At end-2008, the positive market value of its EUR121bn derivatives portfolio (2007: EUR163bn) stood at EUR2.9bn. Counterparty risks are mitigated through limit systems, the same credit assessment as for loans, regular monitoring and a growing number of collateral agreements. Accounting for about 92% of total contract values, counterparties are predominantly EU/OECD banks.

In FY08, the share of total assets that fell into the bank's lowest two internal rating classes increased substantially to 3.1% from 0.9%, reflecting the operating environment. At the same time, the share of assets with the highest internal credit rating increased to 27% from 21% of total assets in 2008.

LR acts as a trustee for the federal government of a special-purpose fund, which was set up in 1952. LR feeds part of its net income (EUR5.3m in 2008) into the fund and extends loans as well as subsidies targeted at research and future innovative projects. However, new business volume is comparatively low (EUR6.4m).

Non-Performing Loans and Loan Impairments

Given the bank's business model and customer base, loan loss experience has been limited – EUR35m of customer loan exposures were written off in 2008 while previous problem loan experience dates back to 2002. There may be further pressure on asset quality; however, LR has strengthened its credit criteria.

Market Risk

LR's market risk exposure is limited. As a non-trading book institution according to German banking law, the bank's trading activities are limited; LR's market risks are primarily driven by interest and credit spread risks.

For its asset and liability management, the bank uses derivatives, including swaps, options and forward rate agreements, to hedge its currency and interest rate risks. The majority of the assets and liabilities are swapped into Euribor where residual reset risk is reflected in the risk limits of the money market desk. Fixed-rate positions are combined in three-months maturity buckets and refinanced on a fixed basis or swapped into floating rates. In principle, LR closes its fixed-rate positions through a refinancing with matching maturities or by entering into derivatives to expose itself to short-term variable interest rate risks. The risk inherent in the bank's open position is calculated and limited on the basis of a net present value sensitivity analysis, which assumes a parallel shift of 100bp in the yield curve, while the bank also conducts various scenario and value-at-risk analyses. Applied limits – which amounted to a maximum present value change of EUR61m, equivalent to 3% of total equity, and remained stable in FY08 – are adequate in Fitch's view. Since the beginning of 2006, usage of the limit has always been below 60%; the average utilisation in FY08 amounted to 29% (FY07: 28%) – the maximum in FY08 reached EUR32m or about 52%. A daily report showing the open positions at market value, and realised and unrealised gains/losses on a daily and cumulative monthly and annual basis, are presented to the board of directors, which is also in charge of setting the limits. In addition, LR faces credit spread risks related to its securities portfolio. As a result of the market environment and the widening of credit spreads, as well as the widening of spreads between cash and derivative curves, the bank suffered valuation losses, which had a negative impact on its IFRS profit and loss statement and capital reserves (see 'Performance'). However, Fitch understands that management intends to keep its AFS book (end-2008: 54% of total investments in securities) until maturity, which is feasible given the bank's liquidity position.

LR has increasingly resorted to funding in foreign currencies to attract foreign investors, but swaps virtually all its foreign-currency exposure into EUR to match its loan portfolio. In light of the bank's portfolio of cross-currency swaps, market movements might temporarily cause MTM losses under IFRS.

- Largely funded via international capital markets
- Comfortable liquidity position
- Capitalisation sound given LR's risk profile

Funding and Capital

Funding and Liquidity

LR is predominantly wholesale-funded, with debt issuance (EUR67bn at end-2008) accounting for more than 70% of the bank's funding, and is therefore dependent on capital markets. In 2008, the total outstanding bonds and notes remained basically unchanged yoy, and their composition had not altered significantly. LR's EUR60bn EMTN programme represents LR's most important funding vehicle, with total outstanding issuance reducing to EUR39.9bn at end-2008, from EUR41.3bn. Furthermore, the bank uses SEC-registered global bonds (EUR11.5bn, up from EUR10.7bn). For its short-term funding, LR taps the capital markets through its EMTN and commercial paper (CP) programmes. The registered amount of the latter was extended to EUR20bn from EUR10bn to satisfy the market preference for shorter term, very highly rated debt; outstanding CPs increased to EUR12.7bn from EUR10.4bn.

Since January 2007, all LR's debt issuance has had a zero risk-weighting throughout Europe. Consequently, LR has stopped the issuance of its covered debt instruments (covered registered bonds and Rentenbankbriefe), which are legally similar to Pfandbriefe and had a 10% risk weighting until 2007. In the US, LR's issuance is registered as 'for a foreign government or political subdivision thereof'.

The bank's investor base is fairly diversified by type and region. About 57% of its investors of new issuance in 2008 were central banks; banks and asset managers accounted for 16% and 8%, respectively. The rest related to pension funds. At end-2008, 37% of LR's outstanding funding through the capital markets had a maturity of less than one year, 44% between one and five years, and the remainder above five years. Currency risks arising from the significant share of international funding (around 24% was funded in EUR at end-2008) are almost exclusively swapped into EUR, as reflected in the bank's sizeable foreign currency swap portfolio.

Interbank funding represents the second-largest funding source with a share of about 12%, equivalent to EUR10.5bn at end-2008. However, its share is seasonal and changes throughout the year.

With a share of about 5%, customer deposits account for a minor part of LR's funding, and typically are long-term investments of insurance companies into long-term debt issued by LR. LR does not offer deposit accounts for retail customers. Benefiting from its low risk profile and its status as a direct federal institution under public law with a government risk status, LR continued to see inflows of funds during 2008 despite the market turmoil.

Given the bank's sizeable portfolio of assets, which are eligible for refinancing with the central bank, amounting to EUR24.5bn or 27.2% of total assets at end-2008, LR's liquidity situation is comfortable in Fitch's opinion. Liquidity risks are monitored on a daily basis. The management board sets limits for the maximum open medium- to long-term liquidity positions; liquidity gaps within two years have to be within the bank's free refinancing facilities with the ECB. In addition, LR calculates and monitors various liquidity scenarios quarterly.

Capital

LR has calculated and disclosed its capital adequacy under Basel II simplified approach guidelines since 2008. Due to the relatively low granularity of LR's risk-weighted assets (RWAs), it did not benefit from the adoption: at end-June 2008 the Tier 1 ratio under Basel II was 10.2% compared with 10.4% under Basel I (Grundsatz I), reflecting additional charges for operational risks. The Tier 1 capital adequacy ratio improved to 12.4% at end-2008 thanks to a reduction in RWAs, an increase in reserves and a provisional profit for the period (see 'Performance').

Given the bias toward interbank lending, LR requires a certain level of capital to comply with regulations on large exposure limits. LR's Tier 1 capital, amounting to EUR1.9bn at end-2008, largely consisted of reserves (EUR1.7bn or 93% of Tier 1 capital), while the rest related to its principal capital; hybrids are not used as a capital source. LR's Tier 2 capital, which stood at EUR1bn at end-2008, predominantly consisted of subordinated debt eligible for regulatory capital (EUR0.9m) and a taxed hidden reserve (transferred to general reserves under IFRS). To further expand its business, LR plans to strengthen its total capital base by about 6% per year through earnings retention as well as issuance of subordinated capital. Although regulatory capitalisation is solid, the bank's leverage remains fairly high in Fitch's view.

LANDWIRTSCHAFTLICHE RENTENBANK

Income Statement

	31 Dec 2008		31 Dec 2007		31 Dec 2006	
	Year End	As % of	Year End	As % of	Year End	As % of
	EURm	Assets	EURm	Assets	EURm	Assets
	Original	Original	Original	Original	Original	Original
Income Statement						
1. Interest Income on Loans	2,810.9	3.1	3,180.5	3.6	2,455.4	3.0
2. Other Interest Income	1,867.2	2.1	1,625.3	1.8	1,744.8	2.1
3. Dividend Income	n.a.	-	n.a.	-	n.a.	-
4. Gross Interest and Dividend Income	4,678.1	5.2	4,805.8	5.4	4,200.2	5.1
5. Interest Expense on Customer Deposits	744.4	0.8	1,231.3	1.4	975.7	1.2
6. Preferred Dividends Paid & Declared	n.a.	-	n.a.	-	n.a.	-
7. Other Interest Expense	3,606.3	4.0	3,392.3	3.8	3,052.3	3.7
8. Total Interest Expense	4,350.7	4.8	4,623.6	5.2	4,028.0	4.9
9. Net Interest Income	327.4	0.4	182.2	0.2	172.2	0.2
10. Net Gains (Losses) on Trading and Derivatives	12.9	0.0	36.4	0.0	18.4	0.0
11. Net Gains (Losses) on Other Securities	-48.4	-0.1	1.4	0.0	0.0	0.0
12. Net Gains (Losses) on Assets at FV through Income Statement	n.a.	-	n.a.	-	n.a.	-
13. Net Insurance Income	n.a.	-	n.a.	-	n.a.	-
14. Net Fees and Commissions	-0.9	0.0	-1.0	0.0	-0.9	0.0
15. Other Operating Income	252.4	0.3	-127.7	-0.1	22.8	0.0
16. Total Non-Interest Operating Income	216.0	0.2	-90.9	-0.1	40.3	0.0
17. Personnel Expenses	27.3	0.0	25.0	0.0	24.3	0.0
18. Other Operating Expenses	17.2	0.0	15.0	0.0	12.5	0.0
19. Total Non-Interest Expenses	44.5	0.0	40.0	0.0	36.8	0.0
20. At Equity Profit/ Loss - Operating	n.a.	-	n.a.	-	n.a.	-
21. Pre-Impairment Operating Profit	498.9	0.6	51.3	0.1	175.7	0.2
22. Loan Impairment Charge	34.9	0.0	-0.2	0.0	-0.2	0.0
23. Other Credit Impairment Charges	n.a.	-	n.a.	-	n.a.	-
24. Operating Profit	464.0	0.5	51.5	0.1	175.9	0.2
25. At Equity Profit/ Loss - Non-operating	n.a.	-	n.a.	-	n.a.	-
26. Non-recurring Income	n.a.	-	n.a.	-	n.a.	-
27. Non-recurring Expense	n.a.	-	n.a.	-	n.a.	-
28. Change in Fair Value of Own Debt	n.a.	-	n.a.	-	n.a.	-
29. Other Non-operating Income and Expenses	n.a.	-	n.a.	-	n.a.	-
30. Pre-tax Profit	464.0	0.5	51.5	0.1	175.9	0.2
31. Taxes	0.6	0.0	0.5	0.0	1.5	0.0
32. Net Income	463.4	0.5	51.0	0.1	174.4	0.2
33. Profit/Loss from Discontinued Operations	n.a.	-	n.a.	-	n.a.	-
34. Change in Value of AFS Investments	-396.9	-0.4	-76.1	-0.1	32.1	0.0
35. Currency Translation Differences	n.a.	-	n.a.	-	n.a.	-
36. Other OCI Gains/(losses)	n.a.	-	n.a.	-	n.a.	-
37. Fitch Comprehensive Income	66.5	0.1	-25.1	0.0	206.5	0.2
38. Memo: Profit Allocation to Non-controlling Interests	n.a.	-	n.a.	-	n.a.	-
39. Memo: Net Income after Allocation to Non-controlling Interests	463.4	0.5	51.0	0.1	174.4	0.2
40. Memo: Common Dividends Paid & Declared in respect to the Period	n.a.	-	n.a.	-	n.a.	-

LANDWIRTSCHAFTLICHE RENTENBANK

Assets & Off-Balance Sheet Items

	31 Dec 2008		31 Dec 2007		31 Dec 2006	
	Year End	As % of	Year End	As % of	Year End	As % of
	EURm	Assets	EURm	Assets	EURm	Assets
	Original	Original	Original	Original	Original	Original
A. Loans						
1. Residential Mortgage Loans	n.a.	-	n.a.	-	n.a.	-
2. Other Consumer/ Retail Loans	n.a.	-	n.a.	-	n.a.	-
3. Corporate & Commercial Loans	n.a.	-	n.a.	-	n.a.	-
4. Other Loans	6,795.2	7.5	1,176.4	1.3	1,728.6	2.1
5. Less: Reserves for Impaired Loans/ NPLs	0.1	0.0	0.1	0.0	0.0	0.0
6. Total Loans	6,795.1	7.5	1,176.3	1.3	1,728.6	2.1
7. Memo: Gross Loans	6,795.2	7.5	1,176.4	1.3	1,728.6	2.1
8. Memo: Impaired Loans included above	0.0	0.0	0.0	0.0	0.0	0.0
9. Memo: Loans at Fair Value included above	n.a.	-	n.a.	-	n.a.	-
B. Other Earning Assets						
1. Loans and Advances to Banks	52,785.4	58.6	60,164.5	67.8	57,768.8	69.8
2. Trading Securities	14,835.1	16.5	12,097.5	13.6	8,369.5	10.1
3. Derivatives	2,894.3	3.2	1,192.4	1.3	889.0	1.1
4. Available for Sale Securities	7,387.9	8.2	13,499.9	15.2	13,432.0	16.2
5. Held to Maturity Securities	5,320.8	5.9	402.1	0.5	466.8	0.6
6. At-equity Investments	n.a.	-	n.a.	-	n.a.	-
7. Other Securities	n.a.	-	n.a.	-	n.a.	-
8. Total Securities	30,438.1	33.8	27,191.9	30.7	23,157.3	28.0
9. Memo: Government Securities included Above	n.a.	-	n.a.	-	n.a.	-
10. Investments in Property	18.2	0.0	14.0	0.0	18.9	0.0
11. Insurance Assets	n.a.	-	n.a.	-	n.a.	-
12. Other Earning Assets	0.0	0.0	4.7	0.0	0.5	0.0
13. Total Earning Assets	90,036.8	99.9	88,551.4	99.9	82,674.1	99.9
C. Non-Earning Assets						
1. Cash and Due From Banks	28.0	0.0	90.8	0.1	10.3	0.0
2. Foreclosed Real Estate	n.a.	-	n.a.	-	n.a.	-
3. Fixed Assets	25.1	0.0	24.7	0.0	24.3	0.0
4. Goodwill	0.0	0.0	0.0	0.0	0.0	0.0
5. Other Intangibles	4.2	0.0	4.0	0.0	3.4	0.0
6. Current Tax Assets	3.9	0.0	3.7	0.0	3.1	0.0
7. Deferred Tax	1.1	0.0	1.5	0.0	1.8	0.0
8. Discontinued Operations	n.a.	-	n.a.	-	n.a.	-
9. Other Assets	1.9	0.0	1.6	0.0	2.4	0.0
10. Total Assets	90,101.0	100.0	88,677.7	100.0	82,719.4	100.0
D. Off-Balance Sheet Items						
1. Managed Securitizied Assets Reported Off-Balance Sheet	n.a.	-	n.a.	-	n.a.	-
2. Liquidity Lines to SPEs	n.a.	-	n.a.	-	n.a.	-
3. Guarantees	117.6	0.1	9.0	0.0	9.7	0.0
4. Acceptances Reported Off-Balance Sheet	n.a.	-	n.a.	-	n.a.	-
5. Committed Credit Lines	1,080.3	1.2	1,120.0	1.3	540.0	0.7
6. Other Contingent Liabilities	n.a.	-	n.a.	-	n.a.	-
7. Total Business Volume	91,298.9	101.3	89,806.7	101.3	83,269.1	100.7
8. Memo: Total Weighted Risks	14,859.0	16.5	16,943.0	19.1	15,424.0	18.6

LANDWIRTSCHAFTLICHE RENTENBANK

Liabilities and Equity

	31 Dec 2008		31 Dec 2007		31 Dec 2006	
	Year End	As % of	Year End	As % of	Year End	As % of
	EURm	Assets	EURm	Assets	EURm	Assets
	Original	Original	Original	Original	Original	Original
E. Interest-Bearing Liabilities						
1. Deposits - Current	186.0	0.2	87.2	0.1	257.8	0.3
2. Customer Deposits - Savings	n.a.	-	n.a.	-	n.a.	-
3. Customer Deposits - Term	4,090.0	4.5	3,600.2	4.1	4,027.1	4.9
4. Total Customer Deposits	4,276.0	4.7	3,687.4	4.2	4,284.9	5.2
5. Deposits from Banks	10,497.4	11.7	11,103.8	12.5	8,875.0	10.7
6. Other Deposits and Short-term Borrowings	n.a.	-	n.a.	-	n.a.	-
7. Total Deposits, Money Market and Short-term Funding	14,773.4	16.4	14,791.2	16.7	13,159.9	15.9
8. Long-term Borrowing	66,589.3	73.9	64,910.8	73.2	61,200.8	74.0
9. Subordinated Borrowing	1,214.7	1.3	1,134.3	1.3	1,197.0	1.4
10. Other Funding	n.a.	-	n.a.	-	n.a.	-
11. Total Long Term Funding	67,804.0	75.3	66,045.1	74.5	62,397.8	75.4
12. Derivatives	5,304.7	5.9	5,709.1	6.4	4,998.2	6.0
13. Trading Liabilities	n.a.	-	n.a.	-	n.a.	-
14. Total Interest Bearing Liabilities	87,882.1	97.5	86,545.4	97.6	80,555.9	97.4
F. Non-Interest Bearing Liabilities						
1. Fair Value Portion of Debt	n.a.	-	n.a.	-	n.a.	-
2. Credit impairment reserves	n.a.	-	n.a.	-	n.a.	-
3. Reserves for Pensions and Other	101.6	0.1	101.4	0.1	101.2	0.1
4. Current Tax Liabilities	n.a.	-	n.a.	-	n.a.	-
5. Deferred Taxes	n.a.	-	n.a.	-	n.a.	-
6. Other Deferred Liabilities	n.a.	-	n.a.	-	n.a.	-
7. Discontinued Operations	n.a.	-	n.a.	-	n.a.	-
8. Insurance Liabilities	n.a.	-	n.a.	-	n.a.	-
9. Other Non-interest Bearing Liabilities	60.8	0.1	30.4	0.0	26.4	0.0
10. Total Liabilities	88,044.5	97.7	86,677.2	97.7	80,683.5	97.5
G. Hybrid Capital						
1. Pref. Shares and Hybrid Capital accounted for as Debt	n.a.	-	n.a.	-	n.a.	-
2. Pref. Shares and Hybrid Capital accounted for as Equity	n.a.	-	n.a.	-	n.a.	-
H. Equity						
1. Common Equity	2,497.4	2.8	2,044.5	2.3	2,003.8	2.4
2. Non-controlling Interest	n.a.	-	n.a.	-	n.a.	-
3. Securities Revaluation Reserves	-440.9	-0.5	-44.0	0.0	32.1	0.0
4. Other Accumulated OCI	n.a.	-	0.0	0.0	0.0	0.0
5. Total Equity	2,056.5	2.3	2,000.5	2.3	2,035.9	2.5
6. Total Liabilities and Equity	90,101.0	100.0	88,677.7	100.0	82,719.4	100.0
7. Memo: Fitch Core Capital	2,055.4	2.3	1,999.1	2.3	2,034.2	2.5
8. Memo: Fitch Eligible Capital	2,055.4	2.3	1,999.1	2.3	2,034.2	2.5

LANDWIRTSCHAFTLICHE RENTENBANK

Summary Analytics

	31 Dec 2008	31 Dec 2007	31 Dec 2006
	Year End	Year End	Year End
	EURm	EURm	EURm
	Original	Original	Original
A. Interest Ratios			
1. Interest Income on Loans/ Average Net Loans	95.0	206.5	n.a.
2. Interest Expense on Customer Deposits/ Average Customer Deposits	19.1	30.9	n.a.
3. Interest Income/ Average Earning Assets	5.1	5.6	n.a.
4. Interest Expense/ Average Interest-bearing Liabilities	4.9	5.5	n.a.
5. Net Interest Revenue/ Average Earning Assets	0.4	0.2	n.a.
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	0.3	0.2	n.a.
B. Other Operating Profitability Ratios			
1. Non-interest Income/ Gross Revenues	39.8	-99.6	19.0
2. Non-Interest Expense/ Gross Revenues	8.2	43.8	17.3
3. Pre-impairment Op. Profit/ Average Equity	25.2	2.5	n.a.
4. Pre-impairment Op. Profit/ Average Total Assets	0.6	0.1	n.a.
5. Credit Impairment Charges/ Pre-impairment Op. Profit	7.0	-0.4	-0.1
6. Operating Profit/ Average Equity	23.5	2.6	n.a.
7. Operating Profit/ Average Total Assets	0.5	0.1	n.a.
8. Taxes/ Pre-tax Profit	0.1	1.0	0.9
C. Other Profitability Ratios			
1. Net Income/ Average Total Equity	23.5	2.5	n.a.
2. Net Income/ Average Total Assets	0.5	0.1	n.a.
3. Fitch Comprehensive Income/ Average Total Equity	3.4	-1.2	n.a.
4. Fitch Comprehensive Income/ Average Total Assets	0.1	0.0	n.a.
5. Net Income/ Av. Total Assets plus Av. Managed Assets	n.a.	n.a.	n.a.
D. Capitalization			
1. Fitch Eligible Capital/ Regulatory Weighted Risks	13.8	11.8	13.2
2. Tangible Common Equity/ Tangible Assets	2.3	2.3	2.5
3. Tier 1 Regulatory Capital Ratio	12.4	10.3	10.7
4. Total Regulatory Capital Ratio	19.3	16.5	16.7
5. Fitch Eligible Capital/ Tier 1 Regulatory Capital	108.8	113.2	123.7
6. Equity/ Total Assets	2.3	2.3	2.5
7. Cash Dividends Paid & Declared/ Net Income	n.a.	n.a.	n.a.
8. Cash Dividend Paid & Declared/ Fitch Comprehensive Income	n.a.	n.a.	n.a.
9. Net Income - Cash Dividends/ Total Equity	n.a.	n.a.	n.a.
E. Loan Quality			
1. Growth of Total Assets	1.6	7.2	n.a.
2. Growth of Gross Loans	477.6	-31.9	n.a.
3. Impaired Loans(NPLs)/ Gross Loans	0.0	0.0	0.0
4. Loan Impairment Reserves/ Gross loans	0.0	0.0	0.0
5. Reserves for Impaired Loans/ Impaired Loans	n.a.	n.a.	n.a.
6. Impaired Loans less Reserves for Imp Loans/ Equity	0.0	0.0	0.0
7. Loan Impairment Charges/ Average Gross Loans	1.2	0.0	n.a.
8. Net Charge-offs/ Average Gross Loans	2.3	1.8	n.a.
9. Impaired Loans + Foreclosed Assets/ Gross Loans + Foreclosed Assets	n.a.	n.a.	n.a.
F. Liquidity			
1. Loans/ Customer Deposits	158.9	31.9	40.3
2. Loans/ Deposits and Short-term Funding	46.0	8.0	13.1
3. Liquid Assets/ Total Assets	16.5	28.4	26.3
4. Liquid Assets/ Wholesale Funding	21.9	38.1	34.8
5. Wholesale Funding/ Total Funding and Capital	80.1	79.7	80.4

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