Landwirtschaftliche Rentenbank Group

Disclosure Report pursuant to Section 26a KWG as of December 31, 2010

rentenbank

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1. Disclosure pursuant to Section 26a KWG

The Regulation governing the capital adequacy of institutions, groups of institutions and financial holding groups (German Solvency Regulation – SolvV) of December 14, 2006, as last amended by Article 1 of the Regulation to Further Implement the Amended Banking Directive and the Amended Capital Adequacy Directive dated October 5, 2010 (*Verordnung zur weiteren Umsetzung der geänderten Bankenrichtlinie und der geänderten Kapitaladäquanzrichtlinie)* was published in the Federal Law Gazette (volume 2006, part I no. 61, p. 2926 et seq.) on December 20, 2006 and came into force on January 1, 2007.

The Solvency Regulation transposes European minimum equity capital requirements stipulated in the Banking Directive (2006/48/EC) and the Capital Adequacy Directive (2006/49/EC) and the corresponding equivalent requirements of the Basel Capital Accord ("Basel II") into national law.

The Solvency Regulation replaces the previously applicable Principal I (Grundsatz I, GS I) and specifies the adequacy of an institutions' own funds demanded under Section 10 of the German Banking Act (Kreditwesengesetz, KWG). Pursuant to Section 26a KWG, financial institutions must publish, on a regular basis, qualitative and quantitative information about equity, capital adequacy as well as risks assumed and risk management procedures followed, and must have in place formal procedures and rules to fulfill their disclosure requirements within the context of implementing of Chapter 5 ("Disclosure by credit institutions") of Directive 2006/48/EC of the European Parliament and of the Council of June 14, 2006 relating to the taking up and pursuit of the business of credit institutions.

Landwirtschaftliche Rentenbank has published its disclosure report since December 31, 2008 on an annual basis. The Bank complies with its disclosure obligations within the scope of this report. Individual aspects of the disclosures are also included in the group management report and the consolidated financial statements. Disclosure obligations that are not listed are not applicable to Rentenbank.

Landwirtschaftliche Rentenbank is the controlling company of the group of institutions within the meaning of Section 10a (1) Sentence 1 KWG. The disclosures are made on a group-level.

In accordance with the principle of materiality set out in Section 320 (1) SolvV, it was determined within the framework of the definition of materiality that the disclosures do not include subsidiaries which account for less than 1% in the Group's total assets or the Group's net income, respectively, and whose risk situation is negligible for the Group given their business approach. In addition to Rentenbank, the disclosures also include the consolidated subsidiaries.

2. Scope of application (Section 323 SolvV)

The consolidated financial statements of Landwirtschaftliche Rentenbank for fiscal year 2010 include the Bank as the Group’s parent company as well as its two subsidiaries, LR Beteiligungsgesellschaft mbH, Frankfurt/Main, (LRB) and DSV Silo- und Verwaltungsgesellschaft mbH, Frankfurt/Main, (DSV). The subsidiaries were included by way of full consolidation. There are no differences between the scope of consolidation under IFRS and the regulatory scope of consolidation.

As a promotional bank for the agricultural sector and rural areas, Rentenbank provides funds for a variety of investment projects. The range of products is geared towards manufacturing businesses in the agricultural and forestry sectors, winegrowing and

horticulture sectors as well as in aquaculture and fish farming. The bank also provides funds for projects in the food industry and other upstream and downstream companies as well as investments by municipalities in rural development projects.

The business activities of LRB are limited to the administration of equity investments. The business activities of DSV Silo- und Verwaltungsgesellschaft mbH encompass the settlement of pension obligations and the administration of its financial assets, which consist of financial investments and short-term cash deposits.

In accordance with the principle of materiality, two companies (Getreide-Import-Gesellschaft mbH, Frankfurt/Main, and Deutsche Bauernsiedlung – Deutsche Gesellschaft für Landentwicklung GmbH, Frankfurt/Main) were not included in the consolidated financial statements due to their minor significance for the assessment of the Group's financial position, cash flows, and profit or loss. The interests held in these companies are reported as financial investments.

As a result of the small percentage of interests held in subscribed capital, the other companies were not required to be consolidated.

The following companies are included by way of full consolidation:

Description	Name	Regulatory / IFRS
Banks	Landwirtschaftliche Rentenbank, Frankfurt am Main	X / X
Finance companies	LR Beteiligungsgesellschaft mbH, Frankfurt am Main	X / X
	DSV Silo- und Verwaltungsgesellschaft mbH, Frankfurt am Main	X / X

The unconsolidated companies are shown in the following table:

Description	Name	Shareholding in %
Banks	DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt	3,4
Other companies	Getreide-Import-Gesellschaft mbH, Frankfurt	100
	Deutsche Bauernsiedlung - Deutsche Gesellschaft für Landentwicklung GmbH, Frankfurt	25,1
	LAND-DATA Gesellschaft für Verarbeitung landwirtschaftlicher Daten GmbH, Hannover	10,9
	Landgesellschaft Mecklenburg-Vorpommern mbH, Leezen	9,8
	Landgesellschaft Sachsen-Anhalt mbH, Magdeburg	5,6
	Landgesellschaft Schleswig-Holstein mbh, Kiel	3,2

3. Risk management (Section 322 SolvV)

Due to the limited business activities of subsidiaries and the letter of comfort issued by Rentenbank to LR Beteiligungsgesellschaft mbH, all material risks are concentrated in Rentenbank and are therefore managed by the Bank on a Group-wide basis. Subsidiaries are funded exclusively with Group resources. Office furniture and equipment as well as equipment to be used by employees are provided by Rentenbank.

The Group's corporate objective, derived from the Bank's legal mandate, is to promote the agricultural sector and rural areas on a sustainable basis. The Group's business activities are directed towards achieving this goal. In this context, care must be taken to ensure that the Group is able to fulfill this promotional mandate at all times in the future.

3.1 Organization of risk management processes

3.1.1 Risk management

The Bank's Board of Managing Directors has the overall responsibility for risk management. It determines the Bank's sustainable overall risk strategy, taking into account the proposals of cross-divisional senior management. Risk management functions are primarily performed by the departments Treasury, Promotional Loan Business, Banks, and Collateral and Equity Investments. The Risk Manual provides a comprehensive overview of all business risks on the basis of risk management and controlling processes.

The inclusion of transactions in new products, business types, sales channels or new markets requires adherence to a New Product Process ("NPP"). Within the scope of the NPP, the organizational units involved analyze the risk level, the processes and the main consequences for management of these risks.

3.1.2 Risk controlling

Risk controlling is part of the Finance department from an organizational perspective and comprises the regular monitoring of the limits determined by the Board of Managing Directors as well as reporting on market price risks, operational risks, liquidity risks, and risk-bearing capacity; risk reporting is based on risk level and regulatory requirements. The Banks department monitors credit risks. The Board of Managing Directors and the Audit and Credit Committees of the Advisory Board are informed about the overall risk situation at least once per quarter. Information that is material in terms of risk is forwarded by the Board of Managing Directors to the Advisory Board.

The instruments used for risk management and monitoring reviewed and updated on a constant basis.

3.1.3 Internal audit

The Internal Audit department of Rentenbank is active at Group level, performing the function of a Group Audit department. Since none of the Group's companies has its own Internal Audit department, the Group Audit department conducts the necessary audit activities.

The Internal Audit department directly reports to the Board of Managing Directors of Rentenbank and carries out its duties on its own and independently. The Board of Managing Directors is authorized to issue instructions to cause additional reviews to be performed.

Based on a risk-based review planning, the Internal Audit Department generally reviews and assesses all activities and processes of the Group, including risk management and internal controlling system, on a risk-based and process-independent basis.

3.2 Risk categories – Individual risks

3.2.1 Credit risk

Definition

The granting of loans and the associated assessment and assumption of credit risk is an essential element of the Bank's business activities.

Credit risk is defined as the risk of a potential loss as a result of default or a deterioration in the credit quality of business partners. The credit risk subsumes credit default risk, which comprises counterparty risk, issuer risk, country risk, and structural risk, as well as settlement and replacement risk.

Country risk is the risk that a foreign borrower – despite being solvent – may not be able to make interest and principal payments when they are due as a result of economic or political risks. Structural risks (i.e. cluster risks) are risks resulting from the concentration of the lending business on regions, sectors or borrowers.

The scope of the Group's promotional business is largely defined by the Rentenbank Law and its Statutes. Accordingly, loans for the promotion of the agricultural sector and rural areas are in general currently granted only to banks in the Federal Republic of Germany or in another country of the European Union that is engaged in business with companies in the agricultural sector and with companies offering related upstream or downstream activities or activities in rural areas. The program-based loans are limited to Germany as an investment location. Accordingly, the lending business of Rentenbank is, for the most part, limited to the refinancing of banks and other interbank business. The latter is conducted through general refinancing facilities, global loans, and specific refinancing loans. The credit risk related to the ultimate borrower is always borne by such borrower's principal bank.

Risks associated with the ultimate borrower are borne by Rentenbank only in the direct lending business (syndicate business with companies) as well as in the context of the venture capital fund for the agricultural sector. At the moment, the Bank does not enter into new business within its syndicate business with companies. The range of promotional activities also comprises the possibility to provide equity capital to suitable companies in the agricultural sector. For this purpose, the Bank launched a venture capital fund in an amount of €100 million in order to support established companies by acquiring minority shareholdings.

For the purpose of diversifying credit risks, the Bank has intensified its lending business with the German federal states and individual EU countries.

The departments Promotional Loan Business, Banks and Treasury are responsible for new business with regard to promotional loans, depending on the type of transaction. The Treasury Department is responsible for new business with regard to securitized promotional lending as well as money market transactions and derivatives. Derivatives are only entered into as hedging instruments for existing or expected market price risks and only with business partners in EU or OECD countries. New business is only conducted with business partners where we have concluded a collateral agreement.

Organization of the transactions subject to credit risk

The Board of Managing Directors defines the Bank's credit risk strategy on an annual basis and presents this strategy to the Credit Committee, which is formed by the Advisory Board.

Credit risk monitoring and controlling is based on uniform principles and does not depend on the type of business from which these risks result. The relevant tasks are performed

by the Board of Managing Directors and by the Banks department. The Banks department is responsible for establishing and implementing a uniform credit risk strategy and for controlling the Bank's credit risks. In addition, its responsibilities also include analyzing credit risks, establishing internal rating categories, creating templates for credit approvals, issuing the back office (or risk management) vote, and controlling credit risks. The Treasury department represents the front office (or market unit) within the loan business workflow.

In accordance with the Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement, "MaRisk") certain tasks have to be performed outside of the front office. Several of these so-called back office functions are performed by the departments Promotional Loan Business, Banks, and Collateral & Equity Investments. The departments issue the independent second vote for lending decisions, review certain collateral within the meaning of the MaRisk provisions, and are responsible for intensified loan management as well as for the management of non-performing loans. Any necessary measures are agreed in cooperation with the Board of Managing Directors. The Banks department monitors credit risks on the level of the overall loan portfolio as well as on an individual borrower level and is responsible for risk reporting with regard to credit risks. It is also responsible for methodological development, quality assurance, and monitoring the procedures used to identify and quantify credit risk. The functional and organizational separation of risk controlling and the departments Banks and Collateral & Equity Investments from the Treasury and Promotional Loan Business department guarantees independent risk assessment and monitoring. The management and monitoring of credit risks is performed for individual transactions at borrower level as well as at borrower unit level and the level of the overall loan portfolio. The overall loan portfolio is managed and monitored by breaking down the counterparty portfolio into its various features, with transactions having similar structures being summarized in several product groups.

Credit assessment

The rating category of Rentenbank, which is determined on the basis of the Bank's internal credit ranking while taking external ratings into consideration, is a key risk management instrument for credit risks, as reflected in the limit system.

The internal credit ranking is performed by the back office of the Banks department, with individual business partners or types of transactions being allocated to different rating categories using an internally established procedure. The ten best rating categories AAA to BBB- are used for business partners with few risks ("Investment Grade"). The Bank also introduced seven rating categories (BB+ to C) for latent risks and three rating categories (DDD to D) for non-performing loans or exposures already in default.

The credit ranking is carried out at least once per year within the context of the review of the counterparties' financial situation, based on annual financial statements or annual reports. The analysis also takes key performance indicators into account, so-called soft facts, the background of the company, and additional supporting data such as membership in a protection scheme or liability mechanisms provided by the government. If available, the credit ratings of the rating agencies Standard & Poor's, Moody's, and Fitch are also used for credit assessment purposes. Specific transaction types such as accepting Pfandbriefe (German covered bonds) are classified into a specific rating category. In addition, country risks are evaluated separately as a structural risk relevant to the Bank. Moreover, current information concerning negative financial data or a deterioration of the economic perspectives of a business partner may initiate a review or, if necessary, an adjustment of the credit ranking based on early warning indicators as well as an adjustment of the limit. The internal risk classification procedure is continuously developed and monitored annually.

The consequences of the international financial crisis are also reflected in the changes of financial situation of the Group's counterparties. Individual counterparties were considered to have a high level of risk. In spite of downgrades of some of the Group's counterparties, the average credit quality of the Group's overall loan portfolio can be classified as "good", especially due to high-quality new business. Special attention is paid to the exposure of Rentenbank in the so-called PIIGS countries (Portugal, Ireland, Italy, Greece and Spain). No valuation allowances had to be recognized for single exposures in these countries.

Quantification of credit risk

In order to ensure that overall loan portfolio has good credit quality, risk management focuses on the credit risk strategy and risk-bearing capacity concept.

The internal rating category system forms the basis for measuring credit default risks with the help of statistical procedures. In order to determine the potential default, historical probabilities of default as published by the rating agencies are used. The historical probabilities of default in the Group cannot be relied upon due to the negligible number of defaults in the past decades. The calculations are made at the end of each month. In order to assess credit risks, a standard scenario (annual, potential default related to utilization) is supplemented by stress scenarios (annual, potential default related to internally granted limits, assuming deteriorations of credit quality as well as increased probabilities of default). In a further stress scenario, the highest potential default resulting from stress scenarios is multiplied with a concentration indicator. In accordance with the risk-bearing capacity concept set out in the Risk Manual, credit risks are allocated a certain portion of the risk cover. During the year under review, internally established limits were monitored daily to ensure compliance at all times.

Limitation and reporting

Risk assumption and risk limitation are the key elements of managing credit risk. Risk limitation ensures that the risk actually assumed is in line with the risk strategy determined in the Risk Manual and the Group's risk-bearing capacity. Within this context, limitation is made both at borrower level and at borrower unit level as well as at the level of the overall loan portfolio. The basis for limitation is the credit risk strategy from which strategy-consistent sub-limits are derived.

Based on the proportion of the risk cover made available for credit risks, an overall upper limit is set for all counterparty limits using statistical methods. Concentration risks with regard to corporate groups are limited through an overall upper limit (the so-called "limit equivalent value") for each borrower unit. In addition, country-based credit and transfer limits have been established, as well as an upper limit for unsecured facilities, an upper limit for lending business with companies, and an upper limit for securitized promotional lending (product limit).

A limit system governs the level and the structure of all credit risks. Limits are recorded for all borrowers, issuers, and counterparties and sub-divided into groups according to product and maturity. The internal risk classification procedure represents the central basis for decisions related to the definition of limits. The total amount of limits granted to a particular business partner is determined on the basis of various internal upper grid limits, depending on the current economic situation of such business partners and their resulting credit quality. In addition, an overall upper limit has been established, the utilization of which is determined depending on the individual types of business transactions. Furthermore a certain minimum credit quality is required for particular types of business or limits.

All limits are monitored on a daily basis by the back office. The utilization of the limits within the context of money market and promotional loan transactions is measured on

the basis of the relevant carrying amounts. For securitized promotional lending, the level of utilization of the limits is calculated on the basis of current market prices and, in the case of derivatives, the positive fair values, taking into account collateral received, if any. Limit reserves are used as a cushion for market price fluctuations. The responsible member of the Board of Managing Directors receives a daily report on the risk-relevant limits as well as their utilization. The Board of Managing Directors is informed promptly if limits are exceeded.

At the end of each quarter, a credit risk report is prepared by the Banks department (Back Office). The report is submitted to the Board of Managing Directors and to the Credit Committee of the Advisory Board and complies with MaRisk requirements. Among other things, the report includes quantitative and qualitative information about the performance of the overall loan portfolio, which is monitored on the basis of structural features such as rating categories, collateral, size classes, and maturities. In addition, the reports include statements concerning the extent of limits granted internally, new business development, direct business with companies, equity investments, the development of potential defaults from credit risks, new products, new markets, new sales channels, new countries, and large loan exposures. Comparisons with prior years, changes and comments to these changes, and the performance of counterparties that are subject to special monitoring measures or with potential risk are also included in the reports.

3.2.2 Market price risk

Definition

Market price risk occurs in the form of interest rate risks, spread risks, foreign exchange risks, and other price risks. It takes into account potential losses related to items held in the Bank's portfolio as a result of changing market prices.

Organization of transactions subject to market price risk

The Bank, as a sub-entity of the Group, does not maintain a trading book within the meaning of Section 2 (11) KWG. Open positions from transactions in the banking book are only entered into to a very limited degree.

The objective of risk management is the identification, qualitative assessment, and control of market price risks. Risk controlling quantifies market price risks, monitors limits and prepares reports. The Operations department controls the market conformity of transactions.

Quantification of market price risks

Interest rate risks

The Group limits interest rate risk by refinancing assets recognized in the balance sheet through liabilities recognized in the balance sheet with matching maturities and through hedges using derivatives. Derivatives are entered into on the basis of micro or macro hedge relationships.

Gains or losses from maturity transformation are realized from cash deposits and, to a lesser extent, from the promotional lending and securitized lending businesses.

The value-at-risk (VaR) is calculated and reported daily in relation to "money market funding" for information purposes. A forecast is made of the maximum daily potential valuation loss arising from market-related developments assuming a prediction accuracy of 99%. The scenarios used are based on historical data. The factors influencing portfolio valuation are concentrated on the interest rate curves for interbank loans (EURIBOR) and derivatives (EONIA).

Spread risks

Changes to market parameters in the form of spread premiums on the swap curve have a direct effect on the measurement of existing positions and influence risk cover. The potential effects of spread risks on profit or loss are simulated using scenario analyses and are covered with risk cover within the scope of the risk-bearing capacity analysis. Spread risk would only occur if the buy-and-hold strategy is breached, provided that no credit defaults occur.

Foreign currency risk

The Bank's general policy is to eliminate foreign currency risks and other price risks by means of hedging transactions. Open currency positions result from fractional amounts during settlement, but only to a very small extent. No currency is subject to any material risk.

Standard scenarios

For all open interest rate-sensitive transactions related to the items "money market funding" and "promotional lending," the present value sensitivity is calculated daily, assuming a positive parallel shift of 100 basis points (Bp) in the yield curves, and compared with the relevant limits.

Stress scenarios

In order to estimate risks arising from extreme market developments, we regularly calculate additional scenarios of interest rate changes individually for the items "money market funding" and "promotional lending." Under the stress scenario, we do not assume a parallel shift of the interest rate curve (as in the standard scenario), but a non-parallel shift within the framework of two distinct scenarios.

Potential risk premiums and risk discounts on the interbank market for money market funding are simulated to determine spread risks. In the "promotional lending" segment, we calculate an increase in costs for the swap of liquidity between various currencies on the derivatives market and risks from changes in credit spreads.

Limitation and reporting

The interest-rate risks from open positions may not exceed the risk limits determined by resolution of the Board of Managing Directors. Compliance with the limits is monitored daily and reported to the Board of Managing Directors. Sensitivity, scenario and VaR analyses, and back-testing processes are part of risk management and risk controlling. The Advisory Board is informed about the results of the risk analyses on a quarterly basis.

Back testing

The procedures for an assessment of market price risks and the market parameters underlying the standard and stress scenarios are validated at least annually.

The scenario parameters in "money market funding" and "promotional lending" are validated daily using historical interest rate trends. To this end risk-based thresholds are compared with changes in the short-term interest rate curves for interbank loans (EURIBOR) and derivatives (EONIA) as well as long-term swap rates occurring within 10, 20, and 30 days.

The quality of the VaR model is reviewed daily using a back testing procedure. As part of back testing, the potential measurement gains and losses arising from actual market-related developments are compared with the VaR.

The results from the daily scenario analyses for monitoring interest rate risks on the level of the entire Bank are validated on a quarterly basis using a model based on present values.

3.2.3 Liquidity risk

Definition

Liquidity risk is the risk of being unable to meet current or future payment obligations without restrictions or of being unable to raise the required funds under the expected terms and conditions.

Controlling and monitoring

The liquidity risks of the Bank are determined using a limit for cash balances set by the Board of Management. The Finance department monitors liquidity risks daily and reports the results to the Board of Managing Directors and the responsible departments.

Pursuant to the requirements of the third amendment to the Minimum Requirements for Risk Management (MaRisk), the Bank has sufficient, sustainable highly liquid liquidity reserves to be able to meet any short-term refinancing requirements of at least one week and to cover any additionally required refinancing requirements from stress scenarios. In order to limit short-term liquidity risks, the liquidity requirements must not exceed the relevant freely available funding facilities for a period of up to two years.

For the purpose of monitoring medium and long-term liquidity, scheduled maturities are presented for the coming 15 years on a quarterly basis. A long-term liquidity limit has been set for all time bands. The cumulated cash flows may not exceed this limit.

Stress scenarios

Stress scenarios are intended to examine the effects of unexpected events on the Bank's cash position. The main liquidity scenarios are an integral part of the internal controlling model and are calculated and monitored on a monthly basis. The scenario analyses take into account price declines in securities, simultaneous drawdowns of all irrevocable credit commitments, defaults by major borrowers and the utilization of cash collateral from collateralization agreements due to an increase in the negative fair values of derivative portfolios or a decrease in the positive fair values of derivative portfolios. This scenario mix is used to simulate the simultaneous (combined) occurrence of bank-specific and market-based stress scenarios.

The adequacy of the stress tests as well as the underlying assumptions and procedures to assess liquidity risks are reviewed at least once annually.

Liquidity ratio pursuant to the German Liquidity Regulation

Pursuant to regulatory requirements (German Liquidity Regulation, Liquiditätsverordnung), weighted cash is compared with the weighted payment obligations for the same payment period on a daily basis. The ratios calculated in this manner are then extrapolated to encompass the due dates to be observed for reporting purposes. In the 2010 reporting year, the monthly reported liquidity ratio for the period up to 30 days was between 2.16 and 3.30 (compared with 1.90 and 4.99, respectively, in 2009) and was thus significantly above the 1.0 ratio defined by regulatory requirements.

Reporting

The Board of Managing Directors is provided daily with a short-term liquidity projection and monthly with the liquidity risk report, which include information about short- and long-term liquidity as well as the results of the scenario analyses. The Advisory Board is informed on a quarterly basis.

3.2.4 Operational risk

Definition

Operational risk refers to risks arising from non-working or defective systems or processes, human failure or external events. Operational risk primarily includes legal risks, risks from fraud and white-collar crime, risks from outsourcing risks, operating risks, and event or environmental risks, but does not comprise strategic risks, business risks, and reputational risks.

Organizational structure of operational risk

The Group manages operational risk through various measures that it applies to eliminate the cause of the risk, to control the risk, or to limit damage. These measures include organizational precautions (separation of trading and settlement units as well as of front and back office operations, principle of dual control), detailed procedural instructions, and qualified personnel.

Legal risks from business transactions are reduced, insofar as possible, by using standardized contracts. The legal department is consulted at an early stage regarding decisions that may result in legal obligations or benefits for the Bank and in case of deviations from standard agreement clauses.

Based on a hazard analysis pursuant to Section 25c KWG, risks from fraud to the detriment of Rentenbank and from white-collar crime within Rentenbank are identified and actions to optimize fraud prevention are established. Compliance with general and bank-specific requirements with regard to effective fraud prevention is analyzed within fraud-relevant subject areas.

Outsourcing risks are generally considered under operational risks and are included in the risk-bearing capacity concept under this type of risk. A distinction is made between significant and insignificant outsourcing based on a standardized risk analysis. Significant outsourcing is incorporated in risk management and risk monitoring through decentralized outsourcing controlling.

An emergency manual describes the procedures to be followed as part of disaster prevention measures and in the event of an actual disaster. Further emergency plans govern the procedures to be used for potential business disruptions. The outsourcing of time-critical activities and processes is included in these emergency plans.

Quantification of operational risk

Operational risks are quantified as part of the risk-bearing capacity plan, using a process based on the basic indicator approach in accordance with the Solvency Regulation. The factors underlying the standard and stress scenarios were defined based on business volume.

Incident reporting database

All incidents at the Bank are systematically collected and analyzed in an incident reporting database. All current losses and near-losses are recorded in a decentralized manner by the relevant operational risk officers. The management of operational risks is performed in the individual business areas. This means that the measures to prevent and limit risks are primarily the responsibility of the organizational units. The analysis and aggregation of incidents as well as the methodological development of the instruments used is part of risk controlling.

Self assessment

The Bank regularly carries out self-assessment procedures. The goal of such self assessment is to make use of knowledge to identify and evaluate risks in the business units in which they materialize. Workshops are held at least once annually, during which significant potential operational risk scenarios for all material business processes are identified based on a company-wide process map, and then assessed with respect to amount and frequency of incidents, also under consideration of fraud prevention aspects. Depending on the risk assessment, additional preventive measures are taken to reduce operational risk.

Limitation and reporting

Th limit in the standard scenario corresponds to the risk cover allocated for operational risks within the framework of the risk-bearing capacity concept. Reports are prepared on a quarterly basis and submitted to the Board of Managing Directors, the Advisory Board, and senior management.

4. Own funds (Section 324, 325, 330 and 331 SolvV)

4.1 Own funds structure

The Group's regulatory capital was determined pursuant to the provisions of Sections 10 and 10a KWG. Pursuant to the option set out in Section 10a (7) KWG, we elected not to use the IFRS consolidated financial statements as the basis for calculating regulatory capital. The calculation of the amount of the Group's own funds is made in accordance with Section 64h (4) KWG based on the single-entity financial statements of the Group companies prepared under HGB. Own funds comprise liable capital – consisting of core capital (Tier 1) and supplementary capital (Tier 2) – plus Tier 3 capital.

The composition of the Group's consolidated own funds as of December 31, 2010 and December 31, 2009 on the basis of the HGB values is shown in the following table:

	Dec. 31, 2010 € million	Dec. 31, 2009 € million
- Subscribed capital	176	176
- Disclosed reserves	782	748
- Fund for general bank risks	1.126	1.043
- Intangible assets	-1	-1
- Losses carried forward	-12	-12
Core capital (Tier I)	**2.071**	**1.954**
- Subordinated liabilities	900	913
- Other components	289	173
Supplementary capital (Tier II)	**1.189**	**1.086**
- Tier III capital	0	0
- thereof: Tier III capital utilized	0	0
Total own funds	**3.260**	**3.040**
Own funds for the large exposure limit in the overall business	**3.260**	**3.040**

Subscribed capital of €176 million consists of basic capital of Landwirtschaftliche Rentenbank in the amount of €135 million, which was provided by the agricultural and forestry sector of the Federal Republic of Germany between 1949 and 1958. An amount of €753 million (compared with €719 million on December 31, 2009) of disclosed reserves totaling €782 million (compared with €748 million on December 31, 2009) is attributable to the principal and guarantee reserves.

As of December 31, 2010, the subordinated liabilities amounted to €900 million (compared with €913 million on December 31, 2009) on the basis of the values according to the German Commercial Code. The associated interest rates amount to up to 5.0 % for maturities until April 21, 2036. The subordinated liabilities are structured as promissory note loans, loan agreements and bearer securities issued in the form of global certificates. All subordinated liabilities met the requirements for inclusion as liable capital pursuant to Section 10 (5a) Sentence 2 KWG and do not provide for early repayment or conversion. The capping limit (50% of core capital) was not broken.

The loss carryforwards as reported under HGB are attributable to the subsidiary DSV and result from impairment losses in previous years.

4.2 Adequacy of own funds

All material risks of the Group are identified and monitored to detect any concentration risks. An essential part of the risk management system is the definition and monitoring of risk limits, which are based on the Bank's risk-bearing capacity. The risk-bearing capacity concept ensures that the risk cover potential is sufficient to cover all material risks. For this purpose, various risk scenarios are used to compare the total sum of the capital charges resulting from the Group's credit, market price, and operational risks with a portion of the aggregate risk cover. Pursuant to the risk-bearing capacity concept, no liquidity risks have been taken into account, since the Group has sufficient cash funds, and its triple A ratings, amongst other factors, enable it to obtain any additionally required cash funds on the interbank markets or, in case of market disruptions, within the framework of deposited collateral from Eurex Clearing AG (securitized money market

funding) and from the German central bank (Deutsche Bundesbank; through collateralized loans or so-called "Pfandkredite").

The risk cover under IFRS was as follows as of December 31, 2010 and December 31, 2009:

	Dec. 31, 2010 € million	Dec. 31, 20009 € million
Available operating result	250,0	220,0
+ Retained earnings (other reserves)	110,0	5,0
= Risk cover 1	**360,0**	**225,0**
+ Retained earnings (other reserves)	1.482,7	1.505,4
+ Revaluation reserve	-403,6	-173,6
= Risk cover 2	**1.439,1**	**1.556,8**
+ Retained earnings (principal reserve, guarantee reserve)	810,8	753,0
+ Subscribed capital	135,0	135,0
+ Subordinated liabilities	889,5	1.121,9
= Risk cover 3	**3.274,4**	**3.566,7**

Risk cover 1 amounts to €360 million (compared with €225 million as of December 31, 2009). The available operating result amounts to €250 million (compared with €220 million on December 31, 2009), derived from current business development. Of the other reserves reported in the balance sheet as part of retained earnings, an amount of €110.0 million (compared with €5.0 million on December 31, 2009) was allocated to risk cover 1. An amount of €351 million (compared with €221 million on December 31, 2009) was allocated to the individual risk types.

The allocation of risk cover to the individual risk types (credit, market price, and operational risk) is also the basis for the granting of global limits for credit risk and market price risk. It can be broken down as follows:

	Dec. 31, 2010		Dec. 31, 2009	
	€ million	%	€ million	%
Credit risk	260,0	72,2	130,0	57,8
Market price risk	61,0	16,9	61,0	27,1
Operational risk	30,0	8,3	30,0	13,3
Total risk limit	**351,0**	**97,4**	**221,0**	**98,2**
Risk cover 1	**360,0**	**100,0**	**225,0**	**100,0**

The results from the calculations of the risk-bearing capacity reflect the risk strategy, which is based on sustainability and stability.

4.2.1 Capital requirements for credit risks and for equity exposures

The Credit Risk Standardized Approach (CRSA) is used for all exposure classes to determine the regulatory capital requirements for credit risks.

Specific risk weightings, as prescribed by the German regulatory authority, apply for capital requirements for credit risk. The risk weight for the exposure classes “Central governments” and “Corporates” depends on the external rating, while the risk weight of the “Institutions” class depends on the external rating of the country of domicile.

The following table shows the capital requirements from the credit risk under CRSA by exposure class as of December 31, 2010 and December 31, 2009:

	Dec. 31, 2010 € million	Dec. 31, 2009 € million
- sovereigns	4	0
- Institutions	894	874
- Corporates	24	22
- Equity exposures	14	14
- Covered bonds issued by credit institutions	72	60
- Other items	2	2
Capital requirements for credit risk	**1.010**	**972**

4.2.2 Capital requirements for market risks

In order to determine the capital requirements for foreign currency risks, we calculate the total currency exposure, which amounted to €0.3 million as of December 31, 2010 (compared to €0.6 million on December 31, 2009), based on the standardized approach.

There are no commodity, trading book or other market risk exposures. The Bank does not use its own risk models.

4.2.3 Capital requirements for operational risks

In the year under review, the exposure to operational risks was determined for regulatory purposes using the basic indicator approach in accordance with Section 269 (2) SolvV. Capital requirements for operational risk amounted to €25 million as of December 31, 2010 (compared with €46 million on December 31, 2009).

4.2.4 Capital requirements and capital ratios

The Group's overall capital requirements were as follows as of December 31, 2010 and December 31, 2009:

	Dec. 31, 2010 € million	Dec. 31, 2009 € million
Risk-weighted assets	12.614	12.157
Capital requirements		
- Credit risk	1.010	972
- Market risk	0	1
- Operational risk	25	46

The following overview shows the total capital and core capital ratios for the Group and the Bank as of December 31, 2010 compared to the previous year:

	Dec. 31, 2010 in %	Dec. 31, 2009 in %
Total capital ratio		
Landwirtschaftliche Rentenbank (Group)	25,2	23,9
Landwirtschaftliche Rentenbank (Institution)	24,5	23,8
Core capital ratio		
Landwirtschaftliche Rentenbank (Group)	16,0	15,3
Landwirtschaftliche Rentenbank (Institution)	15,5	15,3

5. Credit risks (Section 326 to 329 and 336 SolvV)

The following tables present the credit risk exposures as of December 31, 2010, separately by region, sectors, and maturities, without taking credit risk mitigation techniques into account. Loans include outstanding commitments and other off-balance sheet items from the lending business.

The figures presented relate to the gross carrying amount in accordance with IFRS 7.B9, which corresponds to the carrying amount of the relevant balance sheet item in the IFRS consolidated financial statements. Contingent liabilities were reported at nominal amounts.

5.1 Gross lending volumes by exposure classes

Gross lending volume in € million	Loans	Financial investments	Derivative financial instruments
Total	51.701	26.542	6.040

5.2 Gross lending volumes by exposure classes and regions

	Loans		Financial investments		Derivative financial instruments	
	€ million	%	€ million	%	€ million	%
Banks						
Germany	44.632	86,3	6.508	24,5	802	13,3
Other EU countries	5.544	10,7	18.195	68,5	2.906	48,1
OECD countries	0	0,0	41	0,2	1.041	17,2
Total banks	**50.176**	**97,1**	**24.744**	**93,2**	**4.749**	**78,6**
Other counterparties						
Germany	1.508	2,9	824	3,1	0	0,0
Other EU countries	17	0,0	974	3,7	1.066	17,7
OECD countries	0	0,0	0	0,0	225	3,7
Total other counterparties	**1.525**	**2,9**	**1.798**	**6,8**	**1.291**	**21,4**
Total	**51.701**	**100,0**	**26.542**	**100,0**	**6.040**	**100,0**

5.3 Gross lending volumes by exposure classes and sectors

	Loans		Financial investments		Derivative financial instruments	
	€ million	%	€ million	%	€ million	%
Private-sector banks/other banks	10.951	21,2	1.842	6,9	623	10,3
Foreign banks	5.544	10,7	18.236	68,7	3.946	65,4
Public-sector banks	26.059	50,5	4.288	16,2	109	1,8
Cooperative banks	7.622	14,7	378	1,4	71	1,2
Non-banks	1.525	2,9	1.798	6,8	1.291	21,3
Total	**51.701**	**100,0**	**26.542**	**100,0**	**6.040**	**100,0**

5.4 Gross lending volumes by exposure classes and maturities

	Loans		Financial investments		Derivative financial instruments	
	€ million	%	€ million	%	€ million	%
< 1 year	14.824	29,0	6.891	26,0	606	18,0
1 year - 5 years	17.655	34,5	14.430	54,4	2.141	63,6
> 5 years to unspecified maturity	18.675	36,5	5.182	19,6	618	18,4
Total	**51.154**	**100,0**	**26.503**	**100,0**	**3.365**	**100,0**

The amounts stated in the maturity analysis represent the contractually agreed cash flows, which differ from the carrying amounts reported in the balance sheet.

The positive fair values of derivative financial instruments have been allocated to the asset side of the balance sheet based on their fair value. Substantial changes to risk

concentrations might occur if the fair value of an item changes from positive to negative, or vice versa.

5.5 Provision for loan losses / promotional contribution

As of each balance sheet date, all financial instruments carried as assets, except for transactions classified as "financial assets/liabilities at fair value through profit or loss" are reviewed as to whether there is any objective evidence that interest and principal payments may not be made in the full amount as agreed. A financial instrument is considered "non-performing" when, in particular, the following criteria are met:

- interest or principal payments past due more than 90 days ("in default")
- Significant downgrade in the internal rating system, resulting in the transfer of the exposure to intensified or non-performing loan management

The Bank determines the recoverability on an individual basis for both large single exposures and exposures of minor significance (promotional business). If no objective evidence for impairment is identified during the individual review, these loans and advances are also tested for impairment on a portfolio basis. For this purpose, loans and advances with similar credit risk profiles are combined to form homogeneous portfolios.

As of December 31, 2010, the income statement item "provision for loan losses/promotional contribution" does not include any write-offs of loans and advances and specific valuation allowances. On the one hand, the item includes the discounting of the future expenses for the special loans (additions to promotional contribution) made at the draw down date (recognition) and on the other hand their amortization over the remaining term. The portfolio-based valuation allowance in the amount of €6.1 million recognized in the prior year for potential risks decreased by €2.3 million due to the reduction of the underlying portfolio.

	Jan. 1 to Dec. 31, 2010 € million	Jan. 1 to Dec. 31, 2009 € million	Change in € million
Expenses for additions to promotional contribution	71,7	75,4	-3,7
Income from amortization of promotional contribution	44,1	38,5	5,6
Impairment and write-offs of loans and advances	0,0	6,1	-6,1
Revesal of portfolio valuation allowance	2,3	0,0	2,3
Recoveries on loans and advances previously written off	20,3	2,6	17,7
Provisions for losses/promotional contribution	**5,0**	**40,4**	**-35,4**

Loans are extended to banks or other borrowers with top credit quality for the most part. Recoveries on loans and advances previously written off amounted to €20.3 million (compared with €2.6 million on December 31, 2009) and referred to loans and advances to banks previously written off.

5.6 Exposure amounts with risk weights prescribed by regulatory authorities

In the context of the determination of the capital requirements for credit risk exposures under CRSA, the Bank only uses external ratings by Moody's Investors Service in the exposure classes "Corporates," "Institutions" and "Central governments."

The risk weight for covered bonds issued by financial institutions which are included in the assets portfolio is determined in accordance with Section 32 in conjunction with Section 31 SolvV.

The following table shows the amount of the credit risk exposures before and after collateral of the regulatory risk weights applicable under CRSA as of December 31, 2010.

Risk weights	**Total amount of receivable outstanding**	
	before credit risk mitigation	after credit risk mitigation
in %	€ million	€ million
0	9.428	17.240
10	7.715	7.679
20	59.438	52.443
50	1.659	885
100	1.015	1.008
Total CRSA	**79.255**	**79.255**

Due to substitution effects, exposure amounts with originally higher risk weights are reported in exposures with a risk weight of 0%. Therefore, the sum total of the exposure amounts does not change.

5.7 Derivative credit risk exposures and netting positions

Derivatives are generally entered into by the Group for hedging purposes. Only counterparties from EU and OECD countries with top credit quality are chosen for such transactions.

The Bank has concluded collateral agreements with almost all counterparties with which it enters into derivative transactions. These agreements provide for cash deposits denominated exclusively in euros to secure the positive fair values from derivatives exceeding the contractually agreed allowance amounts and minimum transfer amounts, which depend on the credit quality. In return, the Bank undertakes to provide cash deposits denominated in euros in the case of negative fair values if these exceed the corresponding allowance and minimum transfer amounts. The interest applied to the collateral provided and accepted is the EONIA rate. Interest payments are made on a monthly basis.

The credit risk exposure from all derivative transactions amounted to €5,807 million (credit equivalent value) as of December 31, 2010 (compared with €1,605 million on December 31, 2009). This exposure is determined using market price-based replacement cost pursuant to Section 18 SolvV. Netting arrangements are exclusively used for derivatives. The use of netting options from standardized netting arrangements as well as netting arrangements generally accepted by regulatory authorities with all counterparties leads to a reduction of positive replacement values.

The following overview shows the positive fair values from derivative transactions as of December 31, 2010, before and after application of netting arrangements and eligible collateral:

	in € million
Positive replacement values before netting and collateral	**6.040**
Netting arrangements	2.652
Eligible collateral	4.008
Positive replacement values after netting and collateral	**0**

The positive fair values before netting and before collateral arrangements in the amount of €6,040 million consist of interest rate contracts (€1,777 million) foreign exchange contracts of €4,261 million, and equity/index-related contracts of €2 million. The Bank does not enter into credit derivatives (credit default swaps or CDS) and therefore does not hold such instruments in its portfolio.

The limitation of derivative risk exposures per counterparty is conducted within the scope of the processes for the controlling and monitoring of counterparty-based credit risks.

The possibility of taking interdependencies/correlation effects between the risk types into account is not being made use of. The aggregation of the capital requirements relating to the individual risk types takes place on the basis of a conservative correlation assumption of +1, while correlation effects concerning the market price risk is calculated and correspondingly taken into account.

The allowance amounts granted to Rentenbank relating to collateral agreements are linked to the Bank's legal mandate and the corresponding special liability clauses. The scenario involving a rating downgrade in connection with the provision of further collateral relating to collateral arrangements is not substantial.

The Bank does not hold any credit derivatives.

5.8 Credit risk mitigation techniques

Rentenbank uses collateral and netting arrangements in order to reduce credit risk. Netting options only exist for derivatives in the form of netting arrangements. Rentenbank generally accepts all kinds of collateral commonly accepted by banks. Maintenance obligations (requirement that the owner of a public entity ensures its solvency at all time [Anstaltslast]), liabilities of guarantors (Gewährträgerhaftung) and separate cover funds, used for example with regard to Pfandbriefe (covered bonds), may also be used as collateral. The departments Promotional Loan Business, Banks and Collateral & Equity Investments are responsible for collateral management. All collateral provided to Rentenbank is reviewed as to its intrinsic value on an annual basis per business partner and with a view to the collateral type. The collateral is managed in the Bank's collateral system. The actual provision of collateral is monitored closely.

Only warranties, especially guarantees and indemnities, as well as financial collateral from collateral arrangements are used by the Bank to reduce the capital charge on the basis of the Financial Collateral Simple Method in accordance with Section 185 SolvV.

Only European countries, the German federal government, the German federal states and local authorities are recognized as eligible providers of credit protection.

Under the CRSA, the following collateral was used as of December 31, 2010:

Portfolio in € million	Financial collateral	Guarantees
sovereigns	—	1.216
non-central governments	—	2.676
Institutions	2.992	—
Corporates	1.027	—
Total	**4.019**	**3.892**

6. Market price risk (Section 333 SolvV)

Interest rate risks in the banking book

Within the context of monitoring interest rate risks on the level of the entire bank, the Bank determines, on a daily basis, present value sensitivities for all transactions subject to interest rate risks of the “Promotional Business” and “Treasury Management” segments and additionally measures, on a quarterly basis, interest rate risks for all open positions of the Bank exposed to such interest rate risks using a present-value-based model. The quarterly analysis examines the effects of changes in market interest rates as of a particular date. By closing all open fixed-interest positions, we determine net interest income for all future periods on a calculatory basis.

Early repayments of loans are taken into account for the period up to the contractual maturity. No further assumptions were made as to early repayment of loans. Unlimited customer deposits are not of material significance to Rentenbank and are therefore not taken into account. The calculation of the present value does not take into account items that are not subject to interest rate risks, such as “valuation allowances,” “equity investments,” “non-current assets held for sale,“ “investment property,” “property and equipment,” “intangible assets,” “current income tax assets,” “other assets,” “provisions,” “other liabilities,“ and “equity.”

An interest rate shock of +100 basis points would lead to a decline in value of €140.1 million for the entire bank as of December 31, 2010. The analysis also includes sudden and unexpected interest rate changes as prescribed by the German Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) of currently +130 basis points (€-180.5 million) and -190 basis points (€+299.1 million). Finally, the risk exposures determined for different interest rate change scenarios are analyzed in relation to regulatory equity in accordance with Section 10 KWG. A notification pursuant to Section 24 (1) No. 14 KWG is required if the present value declines by more than 20% of own funds. This was not the case in 2010.

For the purpose of monitoring interest rate risk, in order to achieve a positive asset-liability margin of the banking book, all allocated transactions are measured at fair value (based on interest rate changes) at the end of each month.

We did not provide a breakdown by currency as the Group generally does not enter into open currency positions. It is generally not permitted to enter into open currency positions. Open currency positions result from fractional amounts from settlement, but only to a very limited extent. Exchange rate risks from foreign currency loans or issues of securities in a foreign currency are hedged through currency derivatives or offsetting transactions recognized in the balance sheet. There is no material risk for any currency.

7. Equity exposures (Section 332 SolvV)

7.1 Equity exposures in the banking book

The item "financial assets" in the IFRS consolidated financial statements includes equity investments, inter alia. The investments are motivated by Rentenbank's legal mandate. Promotional lending is the principal focus of the investment strategy, not maximization of contributions to earnings. The strategic investments are made by acquiring equity interests. Due to the very limited business activity of its subsidiaries and the letter of comfort issued to LR Beteiligungsgesellschaft mbH, all material risks are concentrated in Rentenbank and are therefore managed by the Bank on a Group level.

Description	Name	Subscribed capital in € million	Shareholding in %
Banks	DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt	3.160,1	3,4
Other companies	Getreide-Import-Gesellschaft mbH, Frankfurt	7,7	100
	Deutsche Bauernsiedlung - Deutsche Gesellschaft für Landentwicklung GmbH, Frankfurt	8,7	25,1
	LAND-DATA Gesellschaft für Verarbeitung landwirtschaftlicher Daten GmbH, Hannover	0,8	10,9
	Landgesellschaft Mecklenburg-Vorpommern mbH, Leezen	10,2	9,8
	Niedersächsische Landgesellschaft mbH, Hannover	0,8	6,3
	Landgesellschaft Sachsen-Anhalt mbH, Magdeburg	9,2	5,6
	Landgesellschaft Schleswig-Holstein mbh, Kiel	27,5	3,2

7.2 Carrying amounts for equity exposures

Equity investments are recognized at cost as these items relate to unlisted companies and hence a reliable estimate of their fair value is not possible.

The IFRS carrying amount of unlisted companies as of December 31, 2010 amounts to €119 million.

7.3 Realized and unrealized gains/losses from equity exposures

No impairment losses were required to be recognized according to the impairment test performed as of December 31, 2010.