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CREDIT OPINION
23 January 2017

Update

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RATINGS

Landwirtschaftliche Rentenbank

Domicile	Frankfurt am Main, Germany
Long Term Debt	Aaa
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Aaa
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Goetz Thurm, CFA 49-69-70730-773
VP-Senior Analyst
goetz.thurm@moodys.com

Alexander Hendricks, CFA 49-69-70730-779
Associate Managing Director - Banking
alexander.hendricks@moodys.com

Carola Schuler 49-69-70730-766
Managing Director - Banking
carola.schuler@moodys.com

Landwirtschaftliche Rentenbank

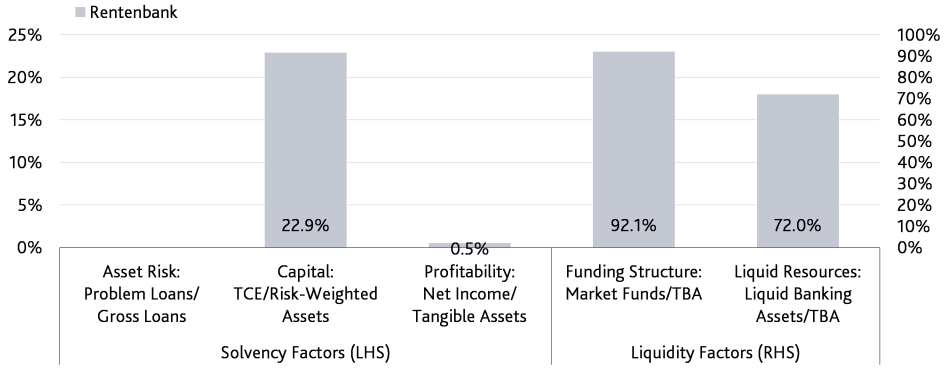
Semiannual update

Summary Rating Rationale

We assign Aaa/P-1 deposit and debt ratings to Landwirtschaftliche Rentenbank (Rentenbank), the development agency for agribusiness of the Federal Republic of Germany (Germany; Aaa stable[1]). The outlook on the long-term ratings is stable. The ratings are based on the guarantee framework provided by Germany, which explicitly and unconditionally guarantees Rentenbank's liabilities. As such, the bank's ratings qualify for a "credit substitution approach", which is based on a full risk transfer to the guarantor.

We recognise Rentenbank's (1) important role as Germany's public development bank focused on the agricultural sector; (2) stable, but modest core operating performance; and (3) sound asset quality in the domestic and international loan portfolio, with declining legacy exposures to banks in euro area periphery countries. However, given credit substitution, the bank's fundamentals have no bearing on our ratings.

Exhibit 1
Key Financials Rentenbank



Note: Key Financials are for information only
Source: Moody's Financial Metrics

Credit Strengths

» Germany provides support for the bank's obligations in the form of a direct guarantee and Anstaltslast

» Adequate regulatory loss-absorbing capacity

» Sound asset quality in the domestic loan portfolio

» Low liquidity risk based on good market access and fall-back options

» Rentenbank's importance as the central government's development agency for the agricultural sector defines its franchise

Credit Challenges

» Tail risks from legacy exposures to financial institutions in euro area periphery countries, but mitigated by high levels of collateral

» Valuation effects continue to drive earnings volatility in the IFRS accounts

Rating Outlook

» The outlook on Rentenbank's long-term ratings remains stable, reflecting the stable outlook of the bank's guarantor, Germany.

Factors that Could Lead to an Upgrade

» Rentenbank's ratings are at the highest level and therefore cannot be upgraded.

Factors that Could Lead to a Downgrade

» Negative pressure could be exerted on the ratings if (1) the credit profile of the bank's guarantor, Germany, were to weaken; or (2) the strong support mechanisms were to weaken or were to become disallowed, which we currently consider to be highly unlikely.

Key Indicators

Exhibit 2
Landwirtschaftliche Rentenbank (Consolidated Financials) [1]

	12-15[2]	12-14[2]	12-13[3]	12-12[3]	12-11[3]	Avg.
Total Assets (EUR billion)	93.3	88.8	81.9	88.4	88.9	1.2[4]
Total Assets (USD billion)	101.3	107.5	112.9	116.5	115.4	-3.2[4]
Tangible Common Equity (EUR billion)	3.6	3.2	3.1	2.7	2.5	10.0[4]
Tangible Common Equity (USD billion)	3.9	3.8	4.3	3.5	3.2	5.2[4]
Tangible Common Equity / Risk Weighted Assets (%)	22.9	17.8	23.2	20.2	18.4	20.3[5]
Net Interest Margin (%)	0.4	0.4	0.4	0.4	0.4	0.4[6]
PPI / Average RWA (%)	1.5	1.5	2.1	2.4	2.4	1.5[5]
Net Income / Tangible Assets (%)	0.5	0.1	0.6	0.3	-0.1	0.3[6]
Cost / Income Ratio (%)	21.6	18.5	17.0	12.2	12.5	16.3[6]
Market Funds / Tangible Banking Assets (%)	92.1	93.6	94.4	91.8	91.9	92.8[6]
Liquid Banking Assets / Tangible Banking Assets (%)	72.0	72.0	76.8	74.2	74.5	73.9[6]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; IFRS [3] Basel II; IFRS [4] Compound Annual Growth Rate based on IFRS reporting periods [5] Basel III - fully-loaded or transitional phase-in & IFRS reporting periods have been used for average calculation [6] IFRS reporting periods have been used for average calculation
Source: Moody's Financial Metrics

Detailed Rating Considerations

Strong support and extensive guarantee framework

Rentenbank's Aaa/P-1 ratings are based on a direct and unconditional refinancing guarantee as well as the Anstaltslast (maintenance obligation) provided by Germany.

In 2013, the law governing Rentenbank was amended to include a direct government guarantee for the obligations of Rentenbank, which came into effect on 1 January 2014 and complements the existing Anstaltslast support. The guarantee adds direct recourse to the guarantor for the payment of all the bank's obligations, which Anstaltslast could not provide.

In addition to the direct guarantee, the Anstaltslast support requires Germany to ensure that the entity has sufficient funds to meet all of its obligations in a timely manner. Anstaltslast does not differentiate between different classes of debt obligations. Nevertheless, unlike a guarantee, investors and creditors do not have direct recourse to the Anstaltslast provider, as the maintenance obligation is towards the guaranteed entity. However, no legislative action is necessary to activate this support mechanism. In consequence, Rentenbank's governing law explicitly states that insolvency proceedings with respect to Rentenbank's assets are inadmissible.

Rentenbank's role as Germany's development agency for agribusiness defines its franchise

Similar to other development agencies, we consider Rentenbank's franchise value to be incomparable with those of commercially oriented banks given its defined mandate as a development agency. This limits its product offering, geographic reach and market shares to its designated functions, and the bank is prohibited from competing with commercial banks.

Rentenbank is the government's development agency specialising in the promotion of agribusiness. It operates under a policy mandate as stipulated by Rentenbank's Governing Law and its statutes. The bank mainly provides loans and other types of financing for the agricultural industry (including forestry, horticulture and fisheries) and related sectors, as well as for rural development. Its promotional activities are limited to the EU/EEA (European Economic Area) and its treasury management activities to selected Organisation for Economic Co-operation and Development (OECD) member states. Within its legal framework and constraints, Rentenbank therefore occupies a unique position, mainly focusing on the German market, which accounts for 74% of the bank's total credit exposure, but also extending its activities through the purchase of debt securities from EU/EEA-based banks, thus supporting the agricultural lending activities of those institutions.

Sound asset quality in the domestic loan portfolio; declining tail risks from exposure to financial institutions in the Euro area periphery

Rentenbank's agriculture-focused promotional lending results in limited exposure to ultimate borrowers because its loans are typically passed through the borrower's local "house bank"; this bank, in turn, passes the loans through with the positive effect of assured funding while taking on the primary credit risk. This concept mitigates Rentenbank's high direct credit exposure to the banking sector (€55.5 billion of its €91 billion credit risk exposure represents loans and advances to other banks as of 2015). In cases of bank failure, Rentenbank would also benefit from its priority of claims over receivables from the ultimate borrowers (partially accomplished by collaterals), thereby providing another important layer of recourse to the bank.

Further risks to both earnings and capital arise from Rentenbank's euro area periphery exposure of €2.4 billion as of year-end 2015, compared with €3.3 billion in 2014 and €4.2 billion in 2013. The bank reported carrying values of government and bank exposures to Spain (Baa2 stable[2]) of €1.5 billion, to Italy (Baa2 negative[3]) of €0.8 billion, and to Portugal (Ba1 stable[4]) of €0.2 billion, of which 79% was related to banks (or 61% of its Tier 1 capital). While we note that the level of these exposures is declining and that a high proportion is invested in collateralised instruments like covered bonds, these exposures remain material and negatively affect the bank's risk profile.

Steady performance in core promotional lending business; valuation effects continue to affect earnings volatility

Given Rentenbank's government mandate and obligation to act in a competition-neutral manner, the bank does not primarily pursue profit maximisation, as reflected in its modest performance indicators (development loans are granted at preferential rates). Profit levels are nevertheless aimed at supporting the continuation of the bank's development programmes in the form of regular allocations of a portion of earnings to the bank's capital reserves. The bank is highly reliant on interest income as an earnings source and reported a slight increase in interest income under IFRS to €331million in 2015, translating into an unchanged low net interest margin of 0.4%.

It should be noted, however, that the bank's risk adjusted profitability metrics reflect the low risk weights of its assets and are therefore not comparable to the same metrics of commercial banks.

Compared with other German development agencies, Rentenbank performs in line with its underlying lending portfolios, whilst its overall earnings are more volatile given its accounting under IFRS; many of its peers report their financials under local GAAP. For 2015, Rentenbank's unadjusted pre-provision income as a percentage of risk-weighted assets (RWA) increased sharply to 2.95% from 0.43%, whilst its net income as a percentage of RWA rose to 2.8% from 0.34%. A positive fair value result and a rise in net interest income due to higher new business drove this increase in both ratios. We note that increased credit spread volatility caused by the debt crisis results in significant revaluation movements for the bank under fair value, a situation which might persist in the near term. While collateral agreements mitigate derivative-linked credit risks, we note a high nominal derivative volume of €157 billion, comprising FX swaps, cross-currency swaps and interest rate hedges.

Adequate regulatory capitalisation

With a Tier 1 ratio of 20.2% as of year-end 2015, Rentenbank reported a good regulatory capital ratio in accordance with the CRR. We consider Rentenbank's Tier 1 capital to be of high quality, as it does not include any hybrid components. The bank applies the credit risk standardised approach (CRSA), therefore an average risk weight of slightly below 20% currently applies for its credit risk exposures. The bank's exemption from the payment of corporate/trade tax underpins its internal capital generation, as well as the fact that it is not required to make dividend payments. At year-end 2015, the Tier 1 leverage ratio to total assets under the Moody's definition amounted to 3.5%.

Rentenbank is among the banks considered significant under the Single Supervision Mechanism (SSM) and as such is subject to European Central Bank (ECB) supervision.

Liquidity risk is low given good market access and fall-back options

Rentenbank is highly reliant on market funding and depends on regular access to international capital markets for refinancing its promotional and treasury activities. However, the group's high standing as a quasi sovereign prime issuer has so far ensured uninterrupted access to domestic and international capital markets at very attractive rates. We expect the favourable conditions to remain broadly unchanged and consider the risk of market access interruption to be sufficiently mitigated by (1) Rentenbank's securities portfolio; and (2) the bank's ability to access the ECB for repo transactions.

Apart from Germany's largest development agency, Kreditanstalt fuer Wiederaufbau (Aaa stable/Aaa stable[5]), Rentenbank has the most visible international funding franchise of all the German development agencies. Rentenbank's medium and long-term capital market funding needs are approximately €10 to €12 billion per year, primarily funded out of its €60 billion Euro Medium Term Note (EMTN) programme, its AUD15 billion Australian Dollar Domestic Medium Term Note programme (AUD MTN) and global bonds (SEC registered). In 2015, the main funding currencies were US dollars (50%), Euros (22%), and Australian dollars (17%).

The bank maintains a fairly high level of short-term maturities under drawings of its €20 billion Euro Commercial Paper (ECP) programme and other money market operations. Rentenbank's average drawings under the ECP programme increased slightly to €6.9 billion in 2015 (versus €6.3 billion in 2014). Additionally, the bank's short-term liabilities are largely matched by Rentenbank's traditionally very liquid balance sheet, accompanied by a substantial unused collateral portfolio that provides additional cushioning, enabling the bank to mitigate short-term market disruption.

Methodology

The principal methodology we used in rating Landwirtschaftliche Rentenbank was Government-Related Issuers published in October 2014.

Ratings

Exhibit 3

Category	Moody's Rating
LANDWIRTSCHAFTLICHE RENTENBANK	
Outlook	Stable
Bank Deposits	Aaa/P-1
Senior Unsecured	Aaa
Subordinate	Aaa
Commercial Paper -Dom Curr	P-1
Other Short Term	(P)P-1

Source: Moody's Investors Service

Endnotes

1 The rating shown is the Government of Germany's long-term issuer rating and outlook

2 The rating shown is the Government of Spain's long-term issuer rating and outlook

3 The rating shown is the Government of Italy's long-term issuer rating and outlook

4 The rating shown is the Government of Portugal's long-term issuer rating and outlook

5 The ratings shown are Kreditanstalt fuer Wiederaufbau's deposit rating and outlook, and senior unsecured rating and outlook

REPORT NUMBER 1055360

Contacts

Christina Gerner
Associate Analyst

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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