rentenbank

Press release

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First half of 2016

Rentenbank: Promotional business dampened by weak agricultural markets

Frankfurt. The subdued performance of agricultural markets is reflected in the interim results of Landwirtschaftliche Rentenbank. For the first half of 2016, Germany's development agency for agribusiness reported a new business volume of EUR 3.4 billion in low-interest special promotional loans, down 6.9% year-on-year. Due to the challenging market environment faced by many agricultural enterprises, liquidity assistance loans remained high in demand. Their volume amounted to EUR 89.5 million in the first six months of 2016.

"Our business is of course affected by the difficult market situation in agriculture and the low interest rate environment. However, our promotional loans remain attractive. This is not solely due to our favorable interest rates, but also to our ability to offer competitive terms to local banks even for long maturities," said Horst Reinhardt, Speaker of the Board of Managing Directors.

The volume of new promotional business varied across the bank's promotional lines. The effects of the price crisis in agricultural markets were particularly pronounced in the Agriculture promotional line. New commitments totaled EUR 1.1 billion, down 24.6% compared to the prior-year period. Demand for loans for buildings and machinery as well as land finance declined sharply. In contrast, new business in the Renewable Energy promotional line increased by 5.9% to EUR 732.8 million (H1 2015: EUR 692.1 million). This was driven by strong growth of 19.2% in wind power financing, amounting to EUR 608.3 million (H1 2015: EUR 510.2 million), which more than offset the decline in the financing of photovoltaic installations and biogas plants. In the Agribusiness promotional line, Rentenbank committed a total of EUR 508.1 million (H1 2015: 368.1 million) for machinery, buildings and farm inputs, a year-on-year increase of 38.0%. In the Rural Development promotional line, the volume of new business remained flat at EUR 906.4 million (H1 2015: EUR 909.2 million).

EUR as the main issuance currency

To fund its promotional business, Rentenbank raised EUR 7.4 billion (H1 2015: 8.4 billion) in medium and long-term funding in the first half of 2016. The funding volume thus covered approximately two-thirds of the planned EUR 11 billion target for 2016. The Euro Medium Term Note program (EMTN) remained the most important funding instrument, contributing EUR 6.9 billion (H1 2015: EUR 3.3 billion) or more than 90% to total funding. In the first half of 2016, EUR was the largest source of funding, representing 39% (H1 2015: 7%) of total issuance. It was followed by USD and GBP, accounting for 37% (H1 2015: 60%) and 17% (H1 2015: 2%) of the funding volume, respectively.

Earnings marked by one-off effects

In the first half of 2016, the operating result before loan losses and valuation under the German Commercial Code (HGB) exceeded expectations by far, increasing by EUR 26.4 million or 23.9% to EUR 136.9 million compared to the prior-year period (H1 2015: EUR 110.5 million). This was primarily driven by one-off effects. Net interest income of EUR 164.3 million was above the prior-year level (H1 2015: EUR 148.7 million). While net interest income from promotional business declined as expected, the decrease was more than offset by lower expenses related to interest rate reductions granted for special promotional loans. In the Capital Investment segment, a dividend of EUR 6.5 million was initially recognized in the financial statements prepared under HGB as a result of intra-group restructuring. The Treasury Management segment benefited from higher margins, leading to a significant increase in net interest income. Administrative expenses decreased from EUR 34.0 million to EUR 31.5 million due to a high level of accruals included in the prior-year figure. Other comprehensive income rose by EUR 9.0 million, reflecting, inter alia, the adjustment of the discount rate (HGB) for calculating pension provisions as prescribed by law.

Continued growth in total assets

Total assets (HGB) stood at EUR 87.6 billion at the end of June 2016, up from EUR 83.9 billion at year end 2015. This was mainly due to an increase in the money market business as of the reporting date. Loans and advances to banks, including cash and balances with central banks, rose to EUR 58.4 billion (December 31, 2015: EUR 55.7 billion), accounting for 67% of total assets (December 31, 2015: 66%). Securitized liabilities of EUR 71.5 billion (December 31, 2015: EUR 67.3 billion) were the largest item on the liability and equity side of the balance sheet, representing a share of 82% (December 31, 2015: 80%). Own funds (including subordinated liabilities) were relatively flat compared to year end 2015, totaling EUR 4.7 billion as of June 30, 2016.

Modest increase in operating result under IFRS

In the first half of 2016, the operating result under IFRS rose to EUR 124.8 million from the prior-year level of EUR 118.8 million, thus mirroring the upward trend in earnings performance under HGB. However, the increase was less significant under IFRS. Net gains/losses from fair value and hedge accounting decreased by EUR 129.8 million to EUR -155.6 million. As in the prior-year period, the result was primarily attributable to valuation losses on the bank’s own issuances of EUR -173.4 million. It was also driven by negative effects in macro hedge accounting. In contrast, lower credit spreads led to valuation gains in the revaluation reserve, an increase of EUR 30.1 million compared to the prior-year period. The Group’s total comprehensive income of EUR -26.8 million was thus below the prior-year level (H1: EUR 66.9 million).

Strengthened capital ratios

Compared to year end 2015, the capital ratios in accordance with the Capital Requirement Regulation (CRR) increased in Q2 2016, resulting from the addition of interim net income. The tier 1 capital ratio strengthened to 22.7% (December 31, 2015: 20.2%), the total capital ratio to 25.7% (December 31, 2015: 23.2%). Both ratios were thus well in excess of the regulatory requirements applicable to Rentenbank.

“This underlines our strategy to strengthen both our capital base and capital ratios on a continuous basis,” said Hans Bernhardt, Member of the Board of Directors responsible for finance.

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Landwirtschaftliche Rentenbank is Germany's development agency for agribusiness. Within the framework of its statutory promotional mandate, Rentenbank provides low-interest loans for agriculture-related investments via other banks in line with its competitive neutrality. The appropriation of profits is subject to the promotional mandate as well. The bank is a public law institution whose capital stock was formed by contributions paid by Germany's agricultural and forestry sectors. The bank mainly raises funds in the international capital markets and is triple-A rated by the three major rating agencies.

Forward-Looking Statements: This press release contains forward-looking statements that are based on current expectations, estimates, forecasts and projections of Rentenbank's management and currently available information. Such statements include, in particular, statements about our plans, strategies and prospects. Words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", variations of such words and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in these forward-looking statements. Except as required by law, Rentenbank does not have any intention or obligation to update publicly any forward-looking statements after they are made, whether as a result of new information, future events or otherwise.