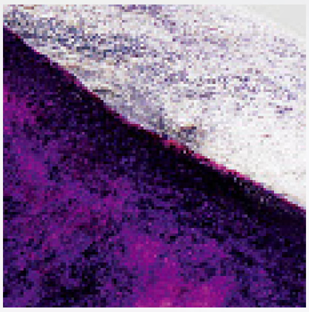


Annual Report 2017

Germany's development agency
for agribusiness and rural areas

rentenbank

Key figures

In accordance with the German Commercial Code (HGB)

Balance sheet in EUR billion	2017	2016
Total assets	90.8	86.3
Loans and advances to banks	60.5	57.8
Loans and advances to customers	6.9	6.0
Bonds and other fixed-income securities	15.9	17.8
Liabilities to banks	2.7	3.1
Securitized liabilities	76.9	70.0
Fund for general banking risks	3.2	3.1
Equity	1.2	1.2

Income statement in EUR million	2017	2016
Net interest income	305.6	318.7
Administrative expenses	69.3	61.1
Operating profit before provision for loan losses and valuation	**223.8**	**254.4**
Provision for loan losses and valuation	162.8	195.4
Net income	61.0	59.0
Distributable profit	**15.3**	**14.8**
Cost-income ratio (%)	27.6	21.9
Employees (year end)	285	282

Capital ratios (%)	2017	2016 *
Total capital ratio	29.7	25.7
Tier 1 capital ratio	27.8	23.2

* reported in accordance with IFRS, therefore not directly comparable with 2017

Rating

	Long-term rating	Short-term rating
Moody's Investors Service	Aaa	P-1
Standard & Poor's	AAA	A-1+
Fitch Ratings	AAA	F1+

Annual Report 2017

Contents

The English edition of the Annual Report 2017 is an abridged version of the German edition which was published in April 2018.

Company Profile: Landwirtschaftliche Rentenbank

Landwirtschaftliche Rentenbank is Germany's development agency for agribusiness and rural areas. Our range of products is geared towards businesses in the agricultural, horticultural, viticultural and forestry sectors. We also provide funds for manufacturers of agricultural inputs as well as for agriculture-related trade and service companies. In addition, we finance projects in the food industry and the associated upstream and downstream industries, across the entire value chain of food production. We also promote civic engagement and public investments in rural areas, placing a strong emphasis on expanding renewable energy and driving innovation.

As part of our promotional business, we extend special promotional loans to ultimate borrowers via local banks. We also provide funding for banks, savings banks, and local authorities related to rural areas through registered bonds, promissory notes, and securities. In addition, we award grants for innovations and applied research projects, as well as for projects and institutions that are of particular importance to agribusiness and rural areas. The Rehwinkel Foundation of Rentenbank supports scientific research, promotes events that foster collaboration between agricultural science and industry, and awards scholarships to university students.

We fund our promotional business primarily through loans and the issuance of securities in the capital markets and interbank markets. Rating agencies have assigned their highest ratings (AAA and Aaa) to Rentenbank's long-term obligations.

Rentenbank was established by law in 1949 as a central refinancing institution with a statutory promotional mandate. The bank's capital base was provided by the German agricultural and forestry sectors between 1949 and 1958. Rentenbank is a public law institution and has its registered office in Frankfurt am Main. Due to the institutional liability of the Federal Republic of Germany, Rentenbank's obligations are backed by the Federal Republic. Rentenbank is subject to banking supervision by the European Central Bank (ECB), supported by the national competent authorities, the Federal Financial Supervisory Authority (BaFin) and the Bundesbank. Legal supervision is exercised by the Federal Ministry of Food and Agriculture (BMEL) in concert with the Federal Ministry of Finance (BMF). Rentenbank is a member of the Association of German Public Banks *(Bundesverband Öffentlicher Banken Deutschlands e. V., VÖB)*, Berlin, and the European Association of Public Banks (EAPB).

Foreword from the Board of Managing Directors

"Wine for the dead, water for the living, this is a rule for fish."
Martin Luther (1483 – 1546)

Dr. Horst Reinhardt

Hans Bernhardt

Also in the fiscal year 2017, around 500 years after the above quote was coined, fish dishes and good wine were among the classics of German cuisine. In contrast to these traditional favorites, locusts, for example, are more likely to be associated with plagues than gourmet food, especially in the agricultural and financial sectors. Or at least this is still the case, one should add. The European novel food regulation came into force on January 1, 2018. Under the new legislation, it is relatively easy to place so-called novel foods for human consumption on the EU market.

In the early years of Rentenbank, efforts were concentrated on boosting the scarce food supply in postwar Germany. Today, the focus has shifted on producing healthy, high-quality food products as well as on improving environmental and consumer protection and animal welfare. At the same time, we witness the emergence of several new food trends, varying from organic and regional cuisine to slow food and superfood – not to mention algae and insects. But which of these trends are here to stay and which of them are just fads? And, more importantly, which opportunities and challenges do they bring for German agriculture and food industry?

Agribusiness is not the only industry affected by emerging trends. The winds of change are also sweeping through the financial sector: digitalization is transforming the entire industry. In 2017, we at Rentenbank also implemented several extensive IT projects. At the same time, we are faced with ever-increasing regulatory requirements and the prevailing low interest rate environment.

In light of these challenging conditions, we are proud of the large volume of investments we funded in the past year to promote agribusiness and rural areas. Thanks to easing price pressures in the agricultural sector, only a small number of agricultural businesses had to rely on our liquidity assistance loans. The financing of wind turbines enjoyed particularly strong demand. Our new promotional business remained at a high level, totaling EUR 11.9 billion. At the same time, we were able to further strengthen our solid capital base, thus contributing towards the bank's sustainable success in the future.

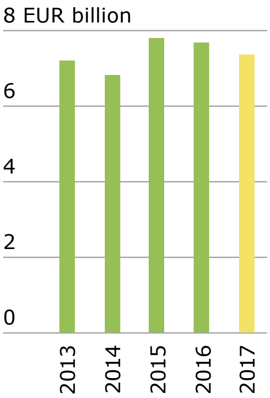
Overall, we remain optimistic. While we may not know what exactly we will eat in the future, we can be sure of one thing: healthy, high-quality food will stay in demand. Hence, food producers will also be needed. They, in turn, will continue investing in their businesses – and no doubt maintain a healthy appetite for our tailored long-term financing.

Dr. Horst Reinhardt Hans Bernhardt

Fiscal year 2017 in review

Promotional activities for agribusiness and rural areas

New business in special promotional loans



In 2017, our new promotional business totaled EUR 11.9 billion (2016: EUR 12.4 billion) and thus remained at a high level. With our special promotional loans, we supported investments in agriculture and the associated upstream and downstream industries, as well as projects of public borrowers and private initiatives in rural areas. In addition to our special promotional loans, we provided funding for banks, savings banks, and local authorities related to rural areas through registered bonds, promissory notes, and securities.

New business in special promotional loans remains strong

In 2017, we saw continued high demand for our special promotional loans. New business totaled EUR 7.4 billion (2016: EUR 7.7 billion), while the number of new commitments decreased by 5.4 % to 19,328 (2016: 20,430). However, demand varied with each promotional line. Despite the improved economic situation in agribusiness, our Agriculture promotional line saw a drop in demand for financing. In particular, the decline was due to a reduced need for liquidity assistance loans. In contrast, new business was up in the Agribusiness and Renewable Energy promotional lines. The financing volume decreased in the Rural Development promotional line.

New business in special promotional loans (EUR million)	**2017**	**2016**
Agriculture	2,211	2,383
of which: at particularly low interest rates	*932*	*944*
Aquaculture and Fisheries	15	3
Agribusiness	1,054	954
Renewable Energy	2,358	1,914
Rural Development	1,797	2,433
Total*	**7,436**	**7,687**

*Figures may not add up to totals due to rounding.

Decline in new business in the Agriculture promotional line

Within our Agriculture promotional line, we primarily finance typical agricultural investments. In 2017, we committed a total of EUR 2.2 billion (2016: EUR 2.4 billion), a decrease of 7.2 % compared with the prior year. Of this amount, EUR 0.9 billion (2016: EUR 0.9 billion) was granted at particularly low interest rates. These most favorable terms are available for young farmers and particularly sustainable investments. They also apply to our liquidity assistance program.

Drop in demand for liquidity assistance loans

The economic situation in the agricultural sector is strongly influenced by external factors. Epizootic diseases, weather-related crop losses or growing volatility in agricultural commodity prices can lead to an increased need for finance. In such cases, we open our liquidity assistance program to provide the affected businesses with liquidity.

We were pleased to see a favorable turn in the challenging market conditions for agriculture. This was followed by a sharp decline in demand for our liquidity assistance loans. Overall, we extended 102 loans worth EUR 11.2 million (2016: 1,281 loans worth EUR 108.0 million).

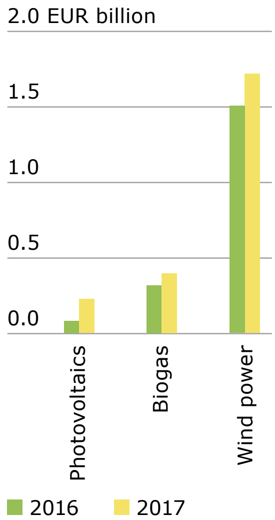
Higher new business volume in the Agribusiness promotional line

Our Agribusiness promotional line has been experiencing steady growth for several years now. Within this promotional line, we support businesses across the entire value chain – from contractors as agricultural service providers, through trade companies, to food and craft industries. In 2017, the volume of new commitments amounted to EUR 1,054.2 million (2016: EUR 954.4 million), up 10.5 % year-on-year.

Renewable Energy promotional line: wind turbine projects on the rise

New business in our Renewable Energy promotional line continued to grow in 2017. The volume of new commitments amounted to EUR 2.4 billion, an increase of 23.2 % compared with the prior year (2016: EUR 1.9 billion). Investment in generating renewable energy is strongly influenced by political decisions. Consequently, changes in the German Renewable Energy Sources Act (EEG) are reflected in our promotional business. The new Renewable Energy Sources Act entered into force on January 1, 2017. Since then, the amount of funding has no longer been fixed by the government, but is now determined by auctions. This aims to improve the ability to plan the expansion of renewable energy, to enhance competition between plant operators, and thus to reduce costs for electricity customers.

New business in Renewable Energy



In 2017, we committed a total of EUR 1.7 billion for the financing of wind turbines, an increase of 14.1 % compared with the prior year (2016: EUR 1.5 billion). Of this amount, EUR 627.9 million (2016: EUR 456.1 million) was accounted for by the Community Wind Farms program. This program enables us to extend our activities beyond our main agricultural target group to provide funds for wind farms involving financial participation of local residents and farmers. Local participation models can help to increase residents' acceptance of these investments, since the added value remains in the region and thus directly benefits local communities.

The volume of new loans for biogas plants saw significant year-on-year growth, amounting to EUR 395.5 million (2016: EUR 316.6 million). In particular, the funds provided by Rentenbank enabled existing plants to convert to flexible electricity generation and supported their direct marketing activities. Demand-responsive electricity generation is a major advantage that biogas plants have over wind turbines or photovoltaic installations. The construction of new biogas plants, however, stagnated at a very low level.

In 2017, the financing of photovoltaic projects increased to EUR 224.8 million (2016: EUR 80.8 million). The growth was driven by falling module prices that added to the appeal of solar power generation.

EUR 2.7 billion to promote sustainability projects

We offer loans at particularly low interest rates to promote investments of the agribusiness sector in animal welfare as well as in environmental and consumer protection. Our Sustainability program as well as our

Environmental and Consumer Protection program provide financing for efforts to improve animal welfare and energy efficiency and to reduce emissions. Under these programs, we also promote direct and regional marketing of agricultural products, organic farming, and animal-welfare oriented husbandry.

We provided a total of EUR 306.9 million (2016: EUR 263.7 million) in funding for animal welfare as well as for environmental and consumer protection. This included investments in organic farming of EUR 73.7 million (2016: EUR 59.7 million). The volume of commitments related to animal husbandry amounted to EUR 101.7 million (2016: EUR 111.1 million). The volume of funds granted for sustainability projects, including EUR 2.4 billion for renewable energy, totaled EUR 2.7 billion (2016: EUR 2.2 billion).

Lower new business volume in the Rural Development promotional line

In the Rural Development promotional line, new business in special promotional loans decreased by 26.1 % to EUR 1.8 billion (2016: EUR 2.4 billion). Within this line, we promote rural development under our Rural Infrastructure and Rural Living programs.

Under the Rural Infrastructure program, we finance infrastructure projects of municipalities in rural areas. The funds are used for municipal administration buildings, educational institutions, water supply and sewage disposal, as well as for road construction. In 2017, we committed a total of EUR 187.5 million (2016: EUR 315.0 million), a decrease of 40.5 % compared with the prior year. This reflected the improved financial situation of municipalities, owing to more stable economic conditions.

In addition, we promote rural development through global refinancing agreements with the promotional banks of the federal states. This enables us to support municipalities in rural areas and thus complements our activities in promoting agribusiness. In 2017, we extended global loans of a total volume of EUR 1.5 billion (2016: EUR 2.0 billion).

Promoting innovation

Innovations and technological advancements play a key role in the sustainable development of agriculture. Therefore, we are strongly committed to promoting innovation and applied research projects involving partners from trade and industry. Under our promotional programs, we support the entire innovation process, from conception to implementation, including the dissemination of particularly sustainable practices. In order to promote agricultural innovation, Rentenbank also provides resources from the Special Purpose Fund of the Federal Republic, to which the bank annually allocates half of its distributable profit.

In 2017, the promotional volume for innovations was slightly below the prior year's level. Grants provided by Rentenbank for newly approved projects totaled EUR 10.0 million (2016: EUR 10.7 million). Of this volume, EUR 8.6 million was awarded from the Special Purpose Fund (2016: EUR 4.1 million). In addition, we provided a total of EUR 1.4 million in grants under our Research on Agricultural Innovation program (2016: EUR 6.6 million).

Slight decrease in total new promotional business

In addition to our special promotional loans, we provide funding for banks, savings banks, and local authorities related to rural areas through registered bonds, promissory notes, and securities. In 2017, our new promotional business in the form of registered bonds and promissory notes increased from EUR 2.3 billion to EUR 2.5 billion. In contrast, our new promotional business in the form of securities decreased from EUR 2.5 billion to EUR 1.9 billion.

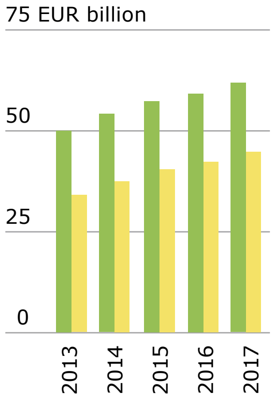
New promotional business (EUR billion)	2017	2016
Special promotional loans	7.4	7.7
Registered bonds/promissory notes	2.5	2.3
Securities	1.9	2.5
Total*	**11.9**	**12.4**

* Figures may not add up to totals due to rounding.

Balance sheet (HGB): Proportion of promotional loans increases

Our promotional loan portfolio, comprising special promotional loans, registered bonds and promissory notes, grew by 3.9 % to EUR 61.2 billion (2016: EUR 58.9 billion). The growth was mostly attributable to new business in special promotional loans: its high volume of EUR 7.4 billion exceeded redemptions of EUR 4.9 billion. As of December 31, 2017, the special promotional loans were valued in the balance sheet at EUR 44.4 billion (December 31, 2016: EUR 41.9 billion).

Portfolio of medium and long-term promotional loans (HGB)



Promotional funding in the form of securities is recognized in the balance sheet as bonds and other fixed-income securities. Their volume decreased to EUR 14.6 billion (December 31, 2016: EUR 15.9 billion).

Appropriation of profits

In accordance with Rentenbank's Governing Law, the bank's distributable profit is used to promote agriculture and rural areas. Rentenbank's net profit for the year is divided equally between the Special Purpose Fund *(Zweckvermögen)* and the Promotional Fund *(Förderungsfonds)*.

Special Purpose Fund promotes innovation

In addition to its special promotional loans, Rentenbank is particularly committed to promoting innovation. To this end, the bank provides low-interest loans and grants from the Special Purpose Fund. Rentenbank manages the fund, serving as a trustee of the German Federal Government.

Promotional Fund focuses on research and training

In the year under review, the Promotional Fund had a total of EUR 7.6 million available to support individual projects as well as institutions operating in the agricultural sector and rural areas. Apart from agriculture-related research projects, the focus lies on practical pilot projects, training programs, and events. For a number of years, the fund has also supported rural youth work, activities for rural senior citizens, as well as the German Rural Women's Association *(LandFrauenverband)*.

Sustainability

Sustainability is an integral part of our promotional mandate

Agriculture and forestry influence the environment in many ways. Due to the elemental nature of the soil as a non-reproducible production factor and the need to think in terms of generations, farmers and foresters have always been keen to use sustainable practices. In fact, the term 'sustainability' *(Nachhaltigkeit)*, in its sense of long-term utilization of a natural resource, was coined in German forestry.

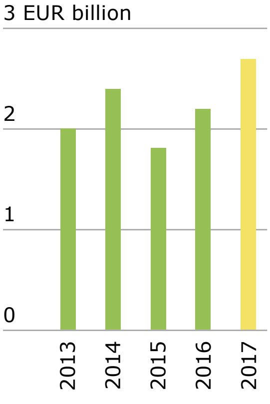
Agriculture offers numerous opportunities for achieving sustainability goals. Reducing further direct emissions of methane and nitrous oxide from livestock and fertilizers, respectively, or generating renewable energy are factors that significantly contribute to global climate protection. Conserving and promoting biodiversity in areas used for agriculture and forestry also strengthens environmental and economic sustainability.

Corporate social responsibility and environmental protection have always been a priority for Rentenbank. Since 2002, key aspects of environmental sustainability have also been an explicit component of the bank's promotional mandate.

Particularly favorable terms for sustainable investments

Rentenbank promotes sustainable investments in agribusiness by granting loans on particularly favorable terms. These include investments in animal welfare, environmental and consumer protection, as well as in the use of renewable energy and resources. We also promote emission reductions, energy efficiency, organic farming, as well as regional production and marketing of agricultural products.

New commitments for sustainable projects



In the year under review, the focus of our promotional activities was on promoting renewable energy. Our Rural Energy program provides funds for investments in generating, storing and distributing renewable energy. In addition, the program aims to recover energy from renewable resources, agricultural manure, or wood waste from forestry. Under this program, we also promote community wind farms that are majority-owned by local residents, businesses, and landowners. We thus ensure that the added value primarily remains in rural areas, which in turn increases the local acceptance of these investments.

In 2017, we committed a total of EUR 2.7 billion (2016: EUR 2.2 billion) for sustainable investments under our various promotional loan programs, including the sustainability projects of the Renewable Energy promotional line. Within this line, the volume of loans for biogas projects significantly exceeded the prior year's figure. New commitments for investments in photovoltaic installations also saw a significant increase. As in the previous year, the financing of wind turbines was particularly sharply on the rise.

Promoting innovation: focus on sustainability

Innovations play a key role in driving sustainable development in agriculture. They improve resource efficiency and ensure that agricultural businesses remain competitive despite the increased societal demands on animal welfare, environmental and consumer protection, among others. Therefore, we support the entire innovation process, from conception to implementation, including the dissemination of particularly sustainable practices. Under our programs geared towards promoting innovation, we finance innovative projects aimed at improving on-farm animal welfare and increasing agrobiodiversity or resource efficiency, among others. More information on how Rentenbank contributes to agricultural innovation can be found in section 'Promoting innovation' on page 8.

Commitment to climate protection and species conservation through sustainable forest management

In 2016, Landwirtschaftliche Rentenbank and the Institute for Federal Real Estate (*Bundesanstalt für Immobilienaufgaben, BimA*) signed a master agreement on the sustainable management of 550 hectares of forest in the region of Wetterau, Hesse. Since January 2017, our forest area has been managed by the Federal Forest Department Schwarzenborn according to a strict set of principles. These include, inter alia, enrichment of deadwood, refraining from the use of biocides, and maintaining forest cover that suits local forest conditions. Various measures, commissioned by Rentenbank, are also being implemented to improve biotopes and conserve species. These projects complement Rentenbank's long-term commitment to sustainability.

The 1,000 Giant Trees project aims to conserve old trees to protect nature and species. The forest district of Buchenborn is a mixed forest with a large quantity of old trees and is thus ideal for this purpose. The giant trees produce a lot of seeds, thus aiding the natural regeneration of the forest. Furthermore, the giant trees provide habitats for many species and consequently help to stabilize populations.

Three SRI bonds issued by Rentenbank

Rentenbank is also active in the market of socially responsible investments (SRI). In 2017, the bank issued three renewable energy bonds to promote sustainability projects. The issue proceeds of EUR 122 million were fully allocated to promoting renewable energy. At year-end 2017, the volume of SRI bonds outstanding amounted to EUR 187 million (December 31, 2016: EUR 65 million). The SRI bonds enable us to expand our investor base.

Sustainability is a key element of our human resources policy

Work-life balance, together with professional, methodological and personal development, as well as executive development are of great importance to Rentenbank. We offer our employees numerous opportunities in these areas.

The overall well-being of our employees is a high priority for us. Not only do we provide an ergonomic work environment to our employees but we also take preventive action to protect their health.

Reducing the consumption of resources in internal banking operations

As a service provider, Rentenbank is committed to conducting its banking operations in an environmentally sustainable manner, saving energy and reducing the use of materials. We are currently planning the substantial modernization, extension, and energy-efficient refurbishment of our bank building, built in the 1950s. The key architectural elements of the listed building that are characteristic of this period will be preserved, including the flat, overhanging roof, the limestone façade, and the stairway, among others.

Funding of Rentenbank

Strong demand from investors seeking safety and liquidity

In the year under review, we continued to attract new investors. Our triple-A credit ratings and the special regulatory treatment of our obligations due to the guarantee of the Federal Republic of Germany enabled us to maintain our excellent market access in all maturities.

Our funding costs, measured in terms of the margin against 6-month Euribor, improved year-on-year. The funds were mostly raised in EUR. Particularly in longer maturities, EUR issuance offered more favorable funding terms than issuance in most foreign currencies. In the short-term funding segment, we continued to raise funds at very attractive rates under our Euro Commercial Paper (ECP) program.

Medium and long-term issuance volume slightly down on 2016

We raised EUR 12.4 billion (2016: EUR 12.7 billion) with maturities of more than two years in the capital markets. The breakdown by funding instrument is shown in the table below.

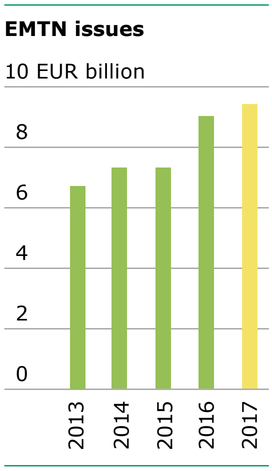
Medium and long-term issuance volume (maturities of more than 2 years)

	EUR billion		Share (%)*	
	2017	**2016**	**2017**	**2016**
EMTN	9.4	9.0	76.1	70.7
Global bonds	1.1	2.8	8.7	21.9
AUD MTN	1.2	0.5	9.9	4.0
International loans	0.5	0.0	4.1	0.0
Domestic capital market instruments	0.2	0.4	1.2	3.4
Total	**12.4**	**12.7**	**100.0**	**100.0**

*Differences in percentage due to rounding.

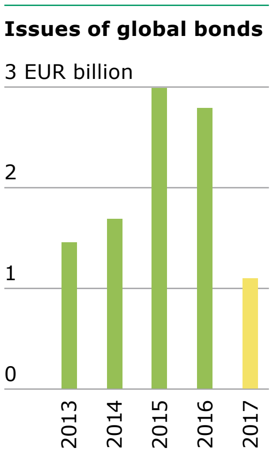
High importance of the EMTN program

Our EUR 60 billion Euro Medium Term Note (EMTN) program is our most important funding instrument. Its utilization reached EUR 44.3 billion at year-end 2017 (December 31, 2016: EUR 41.0 billion). The EMTN program allows us to issue securities denominated in various currencies with different sizes, maturities, and structures using standard documentation. In the year under review, we used this program to obtain primarily medium and long-term funding. The volume of issues with maturities of more than two years amounted to EUR 9.4 billion (2016: EUR 9.0 billion), including three benchmark issues of EUR 3.75 billion in total as well as USD-denominated transactions equivalent to EUR 1.2 billion. In addition, we placed bonds denominated in six other currencies under this program. In 2017, we also issued four notes of EUR 0.2 billion in total. The notes were allocated to the short-term segment due to a call option, exercisable within the first two years.



Successful USD global bond

Global bonds, registered with the US stock market regulator Securities and Exchange Commission (SEC), play an important role in our funding. The registration under Schedule B provides us the access to the US market. Only foreign governments and their political subdivisions are eligible to register securities under Schedule B, which underlines our positioning as an agency in the international capital markets. In 2017, global bonds accounted for EUR 1.1 billion (2016: EUR 2.8 billion) or 8.7 % (2016: 21.9 %) of our total medium and long-term funding. In November, we issued a 10-year global bond with a volume of USD 1.25 billion.



Higher issuance volume in the Kangaroo market

Under our Australian dollar Medium Term Note (AUD MTN) program, we issued a total of AUD 1.8 billion of bonds and notes in 2017, equivalent to EUR 1.2 billion (2016: EUR 0.5 billion). At year-end 2017, Rentenbank was the fourth largest foreign issuer in this market segment, the volume of notes outstanding amounting to AUD 12.9 billion. The Kangaroo market remains an essential pillar of our funding.

Rise in the utilization of the ECP program

Issuances under our EUR 20 billion Euro Commercial Paper (ECP) program continue to play a key part in our short-term funding. They comprise bearer notes with maturities of less than one year, generally issued at a discount (i. e. without a coupon). EUR played virtually no role as an issuance currency in light of significantly negative yields. However, we were able to place our currency-hedged, especially USD-denominated, issues at particularly low cost. The average program utilization in 2017 was EUR 7.8 billion (2016: EUR 7.4 billion). At year-end 2017, the program utilization was EUR 11.2 billion (2016: EUR 5.7 billion).

Zero risk-weighting for Rentenbank bonds and notes

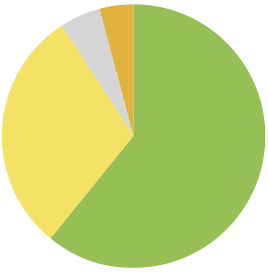
Under the Credit Risk Standardized Approach provided for in the CRR, banks in Germany and other EU countries do not have to hold capital against claims on Rentenbank. Due to the explicit guarantee of the Federal

Republic of Germany, this rule also applies in many non-EU countries. In connection with the regulatory requirements for banks, the zero risk-weighting for our issuances has proven to be particularly advantageous, increasing opportunities for our securities to be placed with investors.

Banks remain the leading group of investors

In the year under review, 39 % (2016: 47 %) of our medium and long-term funding volume was placed with banks. As in previous years, this group of investors sought to minimize the cost of capital, risk, and liquidity by investing in zero risk-weighted securities characterized by outstanding credit quality and attractive spreads and which are also recognized as liquid assets. In addition, central banks and other official institutions play an important role in our funding. In 2017, their share of total funding increased slightly to 34 % (2016: 32 %). The proportion of asset managers remained almost flat at 13 % (2016: 14 %). The share of insurance companies, corporations, and pension funds increased significantly to 14 % (2016: 7 %).

Medium and long-term issues 2017 – breakdown by region



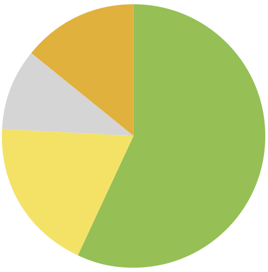
- Europe 61 %
- Asia 30 %
- America 5 %
- Other 4 %

Compared to 2016, the share of German investors rose to 23 % (2016: 18 %), while 38 % of our bonds and notes was placed with other European investors (2016: 39 %). Asian demand increased to 30 % (2016: 21 %), whereas the share of investors from the Americas decreased to 5 % (2016: 11 %). Of the remaining issuance volume, New Zealand and Australia accounted for 3 % (2016: 2 %), while the Middle East and Africa represented 1 % (2016: 9 %).

EUR as the main issuance currency

In 2017, our medium and long-term funding was raised in nine currencies. EUR was the predominant issuance currency: with a share of 57 %, EUR accounted for a significantly larger volume of total funding than in the previous year (2016: 32 %). It was followed by USD, whose share of total issuance decreased to 19 % (2016: 50 %). The sharp decline in USD issuance reflected the higher attractiveness and cost-efficiency of EUR in our preferred longer maturities. AUD ranked third with a share of 10 % (2016: 4 %). The remaining 14 % of the issues represented the following currencies: British pound sterling, Mexican peso, Norwegian krone, New Zealand dollar, Swedish krona and, for the first time, Singapore dollar.

Medium and long-term issues 2017 – breakdown by currency



- EUR 57 %
- USD 19 %
- AUD 10 %
- Other 14 %

Rentenbank issues recognized as liquid assets …

Under the supervisory reporting framework set out in the CRR, bonds issued by promotional banks qualify as liquid assets in the EU. Our bonds are explicitly guaranteed by the Federal Republic of Germany. Therefore, they meet the eligibility requirements for Level 1 liquid assets in the EU. Corresponding provisions also apply in Canada and Switzerland.

… and as repo-eligible assets

Our listed EUR-denominated issues fulfill the requirements of the European System of Central Banks (ESCB) for eligible tier one assets. Our bonds and notes fall under liquidity category II. Only securities issued by central banks and central governments are allocated to liquidity category I. Liquidity category II includes, inter alia, securities issued by supranational institutions and issuers classified as agencies. Furthermore, our Kangaroo bonds and Kauri bonds are repo-eligible with the Reserve Bank of Australia and the Reserve

Bank of New Zealand, respectively. Our issues also enjoy a privileged status in private repo markets. For example, Eurex Clearing AG accepts our issues as collateral for the GC Pooling ECB Basket.

Exception to the statutory subordination of unsecured debt instruments

Based on Article 2 of the German Resolution Mechanism Act *(Abwicklungsmechanismusgesetz, AbwMechG)*, the German Banking Act *(Kreditwesengesetz, KWG)* was amended to include a special insolvency rule (Section 46f (5) KWG) that provides for the statutory subordination of certain debt instruments in bank insolvency proceedings. This does not include debt instruments issued by public law institutions that cannot be subject to insolvency proceedings (Section 46f (6) sentence 2 KWG). A corresponding provision is found in Section 16 (1) of Rentenbank's Governing Law: "Insolvency proceedings with respect to the Bank's assets are inadmissible."

Rentenbank bonds included in key bond indices

Our liquid EUR and USD-denominated large-volume bonds are included in the most important bond indices. These comprise, inter alia, the Markit iBoxx EUR Benchmark Index Overall, the Barclays Euro Aggregate Bond Index, the Barclays U.S. Aggregate Bond Index, and the ICE BofA Merrill Lynch US Broad Market Index. These indices measure the performance of domestic or international market segments. They also serve as performance benchmarks against which many institutional investors are measured. Therefore, bonds that are part of an index typically enjoy stronger demand since institutional investors buy these bonds and manage their portfolios to match the index performance.

Money market business

We use a variety of instruments to fund our short-term assets, to manage liquidity, and to hedge short-term interest rate risk. The funds can be raised through the ECP and EMTN programs, overnight and term deposits in the interbank market and ECB funding facilities. We also use derivatives to manage interest rate risk. We accept deposits from non-banks only to a very limited extent and only as part of our statutory promotional activities.

Equity trading

As a general rule, we do not trade in equities. We only hold shares in connection with our participations.

Consistently conservative liquidity risk management

Tighter liquidity requirements are a crucial element of the regulatory framework under Basel III. We continue to place a strong emphasis on the efficient management of liquidity risk. Accordingly, liquidity risks of the bank are transparent and limited by the Board of Managing Directors. Foreign currency liquidity risk is eliminated by hedging. The measurement of liquidity risk is thus limited to EUR-denominated cash flows. All scheduled EUR inflows and outflows over a two-year horizon are netted on a daily basis in a short-term liquidity statement. Negative balances (liquidity gaps) must always be covered by liquidity reserves. This ensures that the bank maintains sufficient liquidity resources at all times. As part of our strategic liquidity management, we also analyze risk scenarios. In addition, we monitor medium and long-term liquidity risk. Cash flows from principal payments maturing in more than 2 to 15 years are aggregated into quarterly segments. The outstanding liquidity balance must not exceed a limit determined by the Board of Managing Directors.

During 2017, we complied with all liquidity limits. Neither individual nor cumulative shortages were identified in the calculation of monthly liquidity scenarios. Throughout 2017, we held eligible liquid assets in excess of the regulatory minimum coverage level for the Liquidity Coverage Ratio (LCR). By virtue of our largely maturity-matched refinancing, the bank also exceeded the proposed minimum Net Stable Funding Ratio (NSFR) requirement. We also meet all the requirements specified in the fourth amendment to the German Minimum Requirements for Risk Management (MaRisk) and we are currently implementing the requirements of the fifth MaRisk amendment.

Market risk hedged by derivatives

In 2017, Rentenbank entered into swaps with a value of EUR 24.3 billion (2016: EUR 27.4 billion) to hedge interest rate and currency risk. Of the total amount, EUR 18.1 billion (2016: EUR 17.9 billion) related to interest rate swaps, while EUR 6.2 billion (2016: EUR 9.5 billion) represented cross-currency swaps or cross-currency basis swaps. We also entered into FX swaps to hedge foreign currency exposures arising from our foreign currency-denominated ECP issues.

We use derivatives exclusively to hedge known or expected market risk. Counterparty credit risk arising from our derivative transactions is always mitigated by collateral agreements.

Rentenbank remains a non-trading book institution

Rentenbank does not have a trading book as defined in the German Banking Act (KWG) or in Article 4 (1) point (86) CRR. In 1998, the bank classified itself as a non-trading book institution, which was reported to the Federal Financial Supervisory Authority (BaFin) and the Deutsche Bundesbank. We do not hold any positions with trading intent as defined in Article 4 (1) point (85) CRR. All transactions are allocated to the banking book.

Corporate Governance

Rentenbank is committed to complying with the German Public Corporate Governance Code

Effective corporate governance is central to responsible and sustainable management. The Public Corporate Governance Code of the Federal Republic of Germany (*Public Corporate Governance Kodex, PCGK*, as of June 30, 2009) was therefore adopted by the Board of Supervisory Directors of Rentenbank on July 16, 2009. The PCGK is primarily directed at enterprises that are legal entities incorporated under private law and in which the Federal Republic holds a majority stake. However, corporations that are legal entities under public law – including Rentenbank as a public law institution – are also recommended to comply with the PCGK, unless otherwise precluded by law (e. g. the Governing Law of Landwirtschaftliche Rentenbank).

The Board of Managing Directors and the Board of Supervisory Directors of Rentenbank identify with and recognize the principles of the PCGK. Compliance with the PCGK's nationally and internationally recognized standards for good and responsible management is explicitly in the general interest of the Federal Government with regard to Rentenbank's activities. Any deviations from the principles of the PCGK are disclosed and explained in the declaration of conformity on an annual basis.

Management and control of the bank by the Board of Managing Directors and the Board of Supervisory Directors

The Board of Managing Directors and the Board of Supervisory Directors work closely together for the benefit of the bank, applying the principles of sound management. On a regular basis, at least quarterly, the Board of Managing Directors reports to the Board of Supervisory Directors on the course of business, including all relevant matters regarding the bank's planning, risk situation, risk management, compliance with the regulatory requirements, and financial position. In addition, the Board of Managing Directors maintains regular contact with the Chairman and the Deputy Chairman of the Board of Supervisory Directors and consults with them on matters relating to management and strategy. At its meeting on November 22, 2017, the Board of Supervisory Directors also determined a non-exhaustive list of events and criteria that trigger the obligation to immediately notify the Board of Supervisory Directors, its Chairman, and the Chairmen of the Committees.

In the reporting year, the Board of Managing Directors informed the Board of Supervisory Directors of all matters concerning the bank's planning, risk situation, risk management, compliance with regulatory requirements, business performance, and financial position.

Board of Managing Directors

The Board of Managing Directors is responsible for managing the bank in accordance with the legal requirements, in particular the Governing Law of Landwirtschaftliche Rentenbank, the bank's statutes, and the rules of procedure of the Board of Managing Directors. It is obliged to act in the best interests of the bank and to comply with the statutory promotional mandate.

The allocation of responsibilities to the members of the Board of Managing Directors is laid down in a schedule of responsibilities. In the year under review, the schedule of responsibilities was modified to provide a framework for the newly established independent risk controlling function as well as for the appointment of a new board member to fill the vacant position on the Board of Managing Directors.

According to the current schedule of responsibilities, the areas of responsibility of each member of the Board of Managing Directors were as follows:

- Dr. Horst Reinhardt, Spokesman of the Board of Managing Directors: Promotional Business, Treasury, Legal & Human Resources, as well as Public Relations and Economics
- Hans Bernhardt: Finance, IT Organization, Collateral & Participations, and Facility Management. Mr. Bernhardt is also responsible for Financial Institutions, Risk Controlling, and Operations Financial Markets on a temporary basis, until the vacant board position is filled.

Board of Supervisory Directors

The Board of Supervisory Directors supervises and advises the Board of Managing Directors in its management of Rentenbank in accordance with the Governing Law of Landwirtschaftliche Rentenbank, the bank's statutes, and the rules of procedure of the Board of Supervisory Directors. It appoints the members of the Board of Managing Directors and ensures with the Board of Managing Directors that long-term succession planning for the board is in place. The Board of Supervisory Directors may issue general or specific instructions to the Board of Managing Directors.

In accordance with Rentenbank's Governing Law, the Board of Supervisory Directors comprises 18 members. The Chairman of the Board of Supervisory Directors is elected by the board from the members appointed by the German Farmers' Association (*Deutscher Bauernverband, DBV*). In the year under review, Joachim Rukwied, President of the DBV, served as Chairman of the Board of Supervisory Directors. During the fiscal year 2017, the Board of Supervisory Directors had four female members.

In the reporting year, two members of the Board of Supervisory Directors attended fewer than half of the board meetings (including a training event).

Legal supervision

In accordance with Section 11 (1) of Rentenbank's Governing Law, Rentenbank is subject to the legal supervision of the Federal Ministry of Food and Agriculture (supervisory authority) which makes its decisions in concert with the Federal Ministry of Finance. The supervisory authority ensures that the operations of Rentenbank are consistent with the public interest, particularly with respect to the promotion of agriculture and rural areas, and that the bank's activities are in compliance with Rentenbank's Governing Law and its statutes.

Efficiency review of the Board of Supervisory Directors

In accordance with Section 25d (11) sentence 2 No. 3 and 4 of the German Banking Act (KWG), the Board of Supervisory Directors annually assesses the structure, size, composition, and performance of the Board of Managing Directors and the Board of Supervisory Directors, as well as the knowledge, capabilities, and experience of the individual board members as well as of the respective boards collectively. In accordance with Section 9 (4) No. 2 (c) and (d) of the rules of procedure of the Board of Supervisory Directors, the Administrative Committee supports the Board of Supervisory Directors in the assessment by preparing a questionnaire at its autumn meeting.

At the time of the evaluation, the Board of Supervisory Directors comprised 16 members, of whom 12 members took part in the review. The participation level thus was 75 %. The outcomes of the efficiency review as well as possible options for improvement were discussed by the Board of Supervisory Directors at its meeting on April 6, 2017.

Avoiding conflicts of interest

The members of the Board of Managing Directors and the Board of Supervisory Directors must perform their duties in the best interests of Rentenbank. They are required to disclose any potential conflicts of interests arising in connection with their business activities to the Chairman of the Board of Supervisory Directors or to the Board of Supervisory Directors. In 2017, the rules of procedure of the Board of Supervisory Directors were complemented by a policy on managing identified conflicts of interest. No conflicts of interest involving members of the Board of Managing Directors or the Board of Supervisory Directors arose during the reporting year.

Remuneration arrangements for the Board of Managing Directors and the Board of Supervisory Directors

The Board of Supervisory Directors determines the appropriate levels of remuneration for the members of the Board of Managing Directors based on their individual performance. The total remuneration of the members of the Board of Managing Directors does not include any components that provide incentives for the members to enter into certain transactions or to take on certain risks.

Since 2016, the remuneration system for the Board of Managing Directors has been based on a model of purely fixed remuneration.

The remuneration of the members of the Board of Supervisory Directors is determined by resolution of the General Meeting, taking into account the members' responsibilities and the scope of their activities as well as Rentenbank's economic situation.

The individual remuneration of the members of the Board of Managing Directors and the Board of Supervisory Directors is disclosed in the notes to the financial statements on pages 70 and 71.

Transparency and information

Transparency and information are of particular importance to Rentenbank. The bank follows the principle of equal treatment of investors and other interested parties regarding information exchange. All relevant information published by Rentenbank is also available on the bank's website at www.rentenbank.de. In addition to the consolidated and annual financial statements, all of Rentenbank's press releases and ad hoc announcements, together with the declaration of conformity with the PCGK, can be found on our website.

Financial reporting and auditing

Rentenbank has prepared its annual financial statements for the fiscal year 2017 in accordance with the provisions of the German Commercial Code (HGB) applicable to large corporations as well as with the relevant provisions of the German Regulation on the Accounting of Banks and Financial

Services Institutions *(Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute, RechKredV)*. The Board of Supervisory Directors appoints the external auditor, issues the audit mandate, and fixes the remuneration of the external auditor. The Audit Committee, established by the Board of Supervisory Directors, monitors the independence of the external auditor.

Declaration of conformity by the Board of Managing Directors and the Board of Supervisory Directors

In the fiscal year 2017, Landwirtschaftliche Rentenbank has complied with the recommendations of the PCGK, as amended on June 30, 2009, with the following exceptions:

- As the remuneration of each member of the Board of Managing Directors and the Board of Supervisory Directors is disclosed by name in Rentenbank's Annual Report in a generally comprehensible way (notes to the financial statements, pages 70 and 71), these disclosures are not included in the Corporate Governance Report.
- In accordance with Section 4 (2) of the rules of procedure of the Board of Managing Directors, the allocation of responsibilities to its members can be defined in a schedule of responsibilities – in derogation of clause 4.2.2 of the PCGK – without the approval of the Board of Supervisory Directors. This is to ensure the flexibility required to make necessary changes.
- In exceptional cases, the committees not only prepare the decisions of the Board of Supervisory Directors but also – in derogation of clause 5.1.8 of the PCGK – make final decisions. This is done for reasons of practicality and efficiency.

Landwirtschaftliche Rentenbank intends to continue to comply with the PCGK (as amended on June 30, 2009), as set out above.

Landwirtschaftliche Rentenbank
March 2018

The Board of Managing Directors
The Board of Supervisory Directors

Management Report

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Introduction

In the previous year, Rentenbank prepared a combined management report, consisting of a voluntary Group management report in accordance with IFRS and the management report of the bank in accordance with the German Commercial Code *(Handelsgesetzbuch, HGB)*. If the prior-year figures refer to IFRS financial reporting, this is indicated in the tables.

The Declaration of Conformity with the German Public Corporate Governance Code by the Board of Managing Directors and the Board of Supervisory Directors is publicly available on Rentenbank's website.

General information about Rentenbank

Ownership structure

Rentenbank is a public law institution, with its registered office in Frankfurt am Main. It has no branch offices.

All material risks of the subsidiaries are concentrated in Rentenbank and are managed centrally by Rentenbank. The bank's direct and indirect subsidiaries are: LR Beteiligungsgesellschaft mbH (LRB), DSV Silo- und Verwaltungsgesellschaft mbH (DSV), and Getreide-Import Gesellschaft mbH (GIG). The business activities of the subsidiaries are strictly limited. Rentenbank has issued a comfort letter to LRB. The subsidiaries are funded exclusively by Rentenbank.

Promotional mandate

According to Rentenbank's Governing Law, Rentenbank has a mandate to promote agriculture and the associated upstream or downstream industries as well as rural areas. The bank's business activities are aligned with this promotional mandate. Rentenbank's Governing Law and its statutes primarily define the framework for the bank's risk structure.

As a promotional bank for agribusiness and rural areas, Rentenbank provides funds for a variety of agriculture-related investments. Rentenbank extends its special promotional loans for projects in Germany via local banks in a competitively neutral way (on-lending procedure). The range of products is geared towards businesses in the agricultural, horticultural, viticultural and forestry sectors, as well as in the aquaculture sector, including fisheries. Rentenbank also finances projects in the food industry and agriculture-related upstream and downstream industries. Further, the bank promotes investments in renewable energy and rural infrastructure. In addition, Rentenbank provides funding for other banks, savings banks, and local authorities related to rural areas through registered bonds, promissory notes, and securities.

Management system

Rentenbank's business strategy focuses on achieving the following objectives:

- Provision of self-supporting promotional activity
- sustainable promotional activity
- being able, at all times, to adjust the promotional activity to changed requirements

The objectives are specified by eight measures which have been assigned corresponding quantitative metrics. The main accounting-related metrics are translated into key performance indicators (see below). The section on outlook and opportunities and the section on the results of operations include information on targets and target achievement.

Segments

Rentenbank's financing activities are based on Rentenbank's Governing Law. The segments break down as follows:

- Promotional Business
- Capital Investment
- Treasury Management

Within the Promotional Business segment, the bank promotes investments in the agricultural sector and rural areas. This is achieved by refinancing special purpose loans which are extended to ultimate borrowers via local banks. The loans are granted in accordance with the terms and conditions applicable to our special promotional loans to support agriculture-related projects in Germany. By offering particularly low interest rates, we support preferred promotional targets, such as animal welfare, environmental protection or investments by young farmers.

In addition, the bank fulfils its promotional mandate by acting as a refinancing partner to banks with business activities in the agricultural sector and rural areas as well as to local authorities related to rural areas. To this end, we use various forms of providing funds (loans, registered bonds, promissory notes, securities). To some extent, these transactions also contribute to compliance with the regulatory liquidity requirements. Rentenbank manages the business volume and the risk structure.

Refinancing, which is mainly maturity-matched, is also allocated to the Promotional Business segment. The bank does not hold securities, receivables or other exposures with structured or derivative credit risks, such as ABSs (asset-backed securities), CDOs (collateralized debt obligations) or CDSs (credit default swaps).

The Capital Investment segment includes the investments of equity reported in the balance sheet and the investments of non-current provisions. The investments are made primarily in securities and promissory notes as well as in registered bonds issued by banks and public sector institutions.

Short-term liquidity and short-term interest rate risk are managed in the Treasury Management segment.

Key performance indicators

Financial key performance indicators are the key accounting-related metrics used to measure the achievement of the strategic objectives within the internal management system. In addition, non-financial key performance indicators complement this management system.

The financial key performance indicators reflect operating activities. The financial key performance indicators include:

- Operating profit before provision for loan losses and valuation

The business activities of Rentenbank are aimed at fulfilling its promotional mandate, rather than at generating profits. However, in order to be able to provide self-supporting promotional activity, the bank takes into account business principles. This includes measures based on economic principles to ensure the bank's long-term ability to carry out its promotional activities as well as to guarantee the flexibility to adjust the promotional activity at any time. In light of increasing regulatory requirements, the operating profit is used to strengthen the bank's capital base through the retention of profits. Acting in accordance with economic principles and generating stable earnings are also prerequisites for generally performing promotional activities without having to rely on government subsidies. To this end, Rentenbank uses its high credit quality as a public law institution, combined with its capital market strategy, to borrow funds at favorable rates. In addition, the promotional activities benefit from the highly cost-efficient processes within the bank.

- Cost-income ratio

The cost-income ratio is a key performance indicator that measures the efficient use of Rentenbank's resources. This performance indicator is influenced by both changes in expenses (numerator) and income (denominator). Therefore, the indicator is, by definition, sensitive to short-term fluctuations in income. The cost-income ratio is monitored on an ongoing basis over a longer period of time and adjusted for changes in expenses on the basis of regular analyses.

- Promotional contribution

Promotional contribution is a key performance indicator reflecting the total quantitative promotional activity within one fiscal year. It includes income used for granting special promotional loans at reduced interest rates. It also comprises the distributable profit and other promotional measures, such as funds provided by Rentenbank as grants for the Research on Agricultural Innovation program.

The three financial key performance indicators and their main components are determined within the framework of monthly reporting and are compared with target values. They are also included as separate figures in the multi-year plans.

Non-financial key performance indicators comprise corporate citizenship, responsibility towards employees, and compliance with legal and regulatory requirements. These are managed primarily on a qualitative basis within the context of the business strategy.

Further information on the financial key performance indicators is included in the sections on Rentenbank's results of operations, financial position, and net assets as well as in the section on outlook and opportunities. The non-financial key performance indicators are described in more detail in the corresponding section.

Economic report

Macroeconomic and bank-specific environment

International interest rate and monetary policy

The US Federal Reserve (Fed) continued to reverse its accommodative monetary policy stance in 2017 by raising the federal funds rate by 25 basis points in March, June and December to a range of 1.25 % to 1.5 %.

In contrast, the European Central Bank (ECB) modified its expansionary monetary policy in the course of 2017 only slightly. Starting in April, the ECB reduced the volume of its monthly net purchases under the asset purchase program by EUR 20 billion to EUR 60 billion. Since the ECB also reinvested the proceeds from maturing bonds, the portfolio of assets continued to increase by an amount equal to these monthly net purchases. The monthly gross purchase values exceeded the net values by up to approximately EUR 10 billion. In October 2017, the ECB announced that it will halve the net purchases to a monthly pace of EUR 30 billion from January 2018 until at least the end of September 2018. During 2017, the interest rate on the deposit facility and the interest rate on the main refinancing operations remained unchanged at – 0.40 % and 0.0 %, respectively.

Despite the increasing interest rate differential compared to the US dollar, the euro showed surprising strength during 2017. At the end of 2017, the ECB set the reference rate for the EUR/USD exchange rate at 1.20, which was around 14 % above the rate of 1.05 at year-end 2016. The weaker US dollar was mainly attributable to the disappointment regarding the economic policy of US president Donald Trump.

Movements in long-term interest rates

The yields on Germany's 10-year government bonds closed the year 2017 at 0.42 %, more than twice as high as at year-end 2016 (0.19 %). However, this did not represent a turnaround in interest rates (i. e. a steady rise in interest rates), since the long-term interest rates continued to fluctuate throughout 2017, ranging from 0.15 % on January 2 and 0.64 % on July 12. The yields were mainly affected by the ECB's asset purchase program, but also temporarily by the flight to safe-haven assets, owing to elections in various countries in the eurozone.

Changes in the economic environment for our promotional business

The demand for Rentenbank's promotional loans is largely driven by investments of the German agribusiness sector in renewable energy and rural development. In 2017, the economic situation in the agricultural sector improved considerably, attributable to rising producer prices in almost all business segments. Growing exports led to stronger demand for financing in agribusiness. The market situation in the renewable energy segment depends primarily on the legal framework. The amended version of the Renewable Energy Sources Act (EEG) came into force on January 1, 2017. As a consequence, the level of funding is no longer fixed by law, but is rather determined on the market by auctions. Wind farms will continue to receive a fixed rate of funding, provided that approval was granted by the end of 2016 and that the installation starts operating before the end of 2018. The financial situation of municipalities in rural areas has improved due to sound economic conditions.

Business development

The economic situation in the agricultural sector continued to stabilize in the fiscal year 2017, which strengthened the liquidity position of many agricultural businesses. Despite the benign economic environment, the Agriculture promotional line saw a drop in demand for financing. This was mostly driven by a substantial decline in demand for liquidity assistance loans. Above all, economic conditions resulted in a growing number of machinery loans. Due to the necessary planning lead time, financing for livestock housing and land purchases remained at a low level. Falling demand for loans in the Agriculture promotional line was largely offset by buoyant demand in other promotional lines.

Apart from the domestic market, the export markets play a major role for the German agribusiness. According to the German Export Association for Food and Agriproducts e. V. (GEFA), the exports of German agricultural and food products as well as agricultural machinery reached a new record high in 2017. The positive sentiment in many agricultural enterprises companies stimulated investments. As a result, demand for special promotional loans also increased in the Agribusiness promotional line in the fiscal year 2017.

In contrast, the investment momentum in the Renewable Energy promotional line depends largely on the legal framework. In 2017, strong demand for wind turbine financing was driven by investments that had been approved before the revised Renewable Energy Sources Act (EEG) entered into force. Due to lower module prices, the financing of photovoltaic installations was also on the rise. The volume of new loans for biogas plants was above the prior-year level: in particular, the funds provided by Rentenbank enabled existing plants to convert to flexible electricity generation and supported their direct marketing activities.

The Rural Development promotional line saw a decline in financing activity, attributable to the improved financial situation of municipalities.

Overall, the demand for special promotional loans decreased marginally.

The notional amounts for new promotional business are as follows:

	Jan. 1 to Dec. 31, 2017 EUR billion	%	Jan. 1 to Dec. 31, 2016 EUR billion	%
Special promotional loans	7.4	62.7	7.7	61.8
Registered bonds/promissory notes	2.5	21.2	2.3	18.3
Securities	1.9	16.1	2.5	19.9
Total	**11.9**	**100.0**	**12.4**	**100.0**

In the year under review, new promotional business totaled EUR 11.9 billion (2016: EUR 12.4 billion). It was thus slightly down year-on-year.

Rentenbank raised the necessary funds again at favorable terms as financial investors preferred safe investments. In the reporting year, Rentenbank raised a total of EUR 12.4 billion (2016: EUR 12.7 billion) in funding in the domestic and international capital markets. Thus, the funding volume in 2017 was higher than initially planned. The following instruments were used for debt issuance in the capital markets:

	Jan. 1 to Dec. 31, 2017 EUR billion	%	Jan. 1 to Dec. 31, 2016 EUR billion	%
Euro Medium Term Notes (EMTN)	9.4	75.8	9.0	70.9
Global bonds	1.1	8.9	2.8	22.0
AUD Medium Term Notes (MTN)	1.2	9.7	0.5	3.9
International loans	0.5	4.0	0.0	0.0
Domestic capital market instruments	0.2	1.6	0.4	3.2
Total	**12.4**	**100.0**	**12.7**	**100.0**

Results of operations, financial position, and net assets

<u>Results of operations</u>

The results of operations, as presented in the following table, were satisfactory overall:

	Jan. 1 to Dec. 31, 2017 EUR million	Jan. 1 to Dec. 31, 2016 EUR million	Change in EUR million
Net interest income [1]	305.6	318.7	−13.1
Net fee and commission income	−1.9	−2.1	0.2
Administrative expenses	69.3	61.1	8.2
Other operating income/expenses	−9.4	−0.1	−9.3
Income taxes	1.2	1.0	0.2
Operating profit before provision for loan losses and valuation	**223.8**	**254.4**	**−30.6**
Provision for loan losses/valuation	162.8	195.4	−32.6
Net income	**61.0**	**59.0**	**2.0**

[1] Net interest income, including income from participations

Operating profit before provision for loan losses and valuation

In 2017, the operating profit before provision for loan losses and valuation of EUR 223.8 million was, as expected, below the prior-year figure of EUR 254.4 million. However, the decline of 12.0 % was significantly smaller than planned (approx. 25 %).

Margins in the Treasury Management segment were considerably higher compared to the forecast and the corresponding projected figures. Moreover, the increase in administrative expenses was notably lower than planned. These factors are explained in more detail below.

Interest income, including income from participations, amounted to EUR 3,485.3 million (2016: EUR 3,647.9 million). After deducting interest expenses of EUR 3,179.7 million (2016: EUR 3,329.2 million), net interest income amounted to EUR 305.6 million (2016: EUR 318.7 million).

Administrative expenses rose by 13.4 % to EUR 69.3 million (2016: EUR 61.1 million). This was mainly driven by higher personnel expenses and operating expenses, up EUR 3.5 million and EUR 5.8 million year-on-year, respectively. In contrast, depreciation, amortization and write-downs declined by EUR 1.1 million.

The rise in personnel expenses is largely attributable to the increase in the number of employees (by seven employees on average) as well as to higher expenses for pensions, up EUR 2.2 million year-on-year. In terms of operating expenses, expenses for IT projects rose by EUR 3.7 million compared to the previous year, while costs for external advisors saw a year-on-year increase of EUR 0.8 million. The latter was due to the implementation of regulatory requirements, among others. In addition, the direct costs for banking supervisory authorities (ECB, BaFin, SRB/FMSA) grew by EUR 0.4 million. Furthermore, expenses for the use of hardware and software as well as costs for IT services provided by third parties, primarily for the SAP basis operations and the preparations for the relocation of the data center, increased by a total of EUR 0.6 million.

In contrast, depreciation, amortization and write-downs of intangible assets and property and equipment decreased to EUR 5.9 million (2016: EUR 7.0 million). This was due to the scheduled termination of amortization of capitalized project expenses for our IT system Murex. Compared to the prior year, net other operating income/expenses, consisting of other operating expenses and other operating income, saw a significant decline by EUR 9.3 million. However, the prior-year figure was affected by two positive one-off items in a total amount of EUR 11.1 million. The adjustment of the discount rate for pension provisions, as prescribed by law, resulted in a year-on-year decline in expenses by a total of EUR 6.1 million. An issue that was repurchased in the previous year at the request of an investor, led to net income of EUR 5.0 million.

Operating profit by segment

Jan. 1 to Dec. 31	Promotional Business 2017 EUR million	Promotional Business 2016 EUR million	Capital Investment 2017 EUR million	Capital Investment 2016 EUR million	Treasury Management 2017 EUR million	Treasury Management 2016 EUR million	Total 2017 EUR million	Total 2016 EUR million
Net interest income	150.9	158.1	117.1	118.8	37.6	41.8	305.6	318.7
Net fee and commission income	−1.7	−2.0	0.0	0.0	−0.2	−0.1	−1.9	−2.1
Administrative expenses	53.6	46.6	9.4	8.9	6.3	5.6	69.3	61.1
Other operating income/ expenses	−9.4	−0.1	0.0	0.0	0.0	0.0	−9.4	−0.1
Income taxes	0.0	0.0	1.2	1.0	0.0	0.0	1.2	1.0
Operating profit before provision for loan losses and valuation	**86.2**	**109.4**	**106.5**	**108.9**	**31.1**	**36.1**	**223.8**	**254.4**

The operating profit of the **Promotional Business** segment decreased in line with expectations, totaling EUR 86.2 million (2016: EUR 109.4 million). Net interest income amounted to EUR 150.9 million and was, as expected, below the prior-year figure of EUR 158.1 million. The decrease was mostly driven by the declining portfolio margin and the lower average balance of securities, registered bonds, and promissory notes. Administrative expenses in the Promotional Business segment, including depreciation and amortization, rose by EUR 7.0 million to EUR 53.6 million. Other operating income/expenses declined by EUR 9.3 million due to the one-off items described above.

Net interest income of the **Capital Investment** segment fell slightly to EUR 117.1 million, which was in line with expectations. The additional income from new investments was not sufficient to offset the significantly lower reinvestment rates of maturing investments of own funds. Overall, the segment's operating profit decreased slightly to EUR 106.5 million (2016: EUR 108.9 million).

In the **Treasury Management** segment, net interest income of EUR 37.6 million far exceeded our expectations since the lending/funding margins realized were higher than planned. At the same time, the segment's average portfolio volume increased, primarily owing to an increase in cash collateral provided. However, the exceptionally high net interest income of the prior year (EUR 41.8 million) could not be fully achieved. Overall, the segment's operating profit amounted to EUR 31.1 million (2016: EUR 36.1 million).

Provision for loan losses/valuation

Within the framework of provision for loan losses/valuation, a net amount of EUR 162.8 million was allocated to loan loss provisions pursuant to Sections 340f and 340g HGB.

Net income/distributable profit

The overall increase in net income amounted to EUR 2.0 million, resulting in net income of EUR 61.0 million (2016: EUR 59.0 million).

In accordance with Section 2 (3) sentence 2 of Rentenbank's Governing Law, the guarantee reserve may not exceed 5 % of the notional amount of the covered bonds outstanding at any given time. As the volume of the covered bonds declined, an amount of EUR 0.1 million (2016: EUR 21.6 million) was withdrawn from the guarantee reserve and allocated to the principal reserve. A total amount of EUR 45.7 million (2016: EUR 44.2 million) of net income was allocated to the principal reserve.

Distributable profit after the allocation to reserves amounts to EUR 15.3 million (2016: EUR 14.8 million), 50 % of which will be transferred to each the Special Purpose Fund and the Promotional Fund.

Financial key performance indicators

As described above, the operating profit before provision for loan losses and valuation amounted to EUR 223.8 million (2016: EUR 254.4 million). This decline was expected although it was much smaller than anticipated. Net interest income decreased by 4.1 % year-on-year to EUR 305.6 million (2016: EUR 318.7 million). In the Promotional Business segment, the decline was particularly driven by falling portfolio margins and lower average balances of securities, registered bonds, and promissory notes. In contrast, the decrease in net interest income in the Treasury Management segment was considerably lower than expected, since the lending/funding margins realized were significantly higher than planned. The increase in administrative expenses by 13.4 % to EUR 69.3 million (2016: EUR 61.1 million) was below expectations due to lower-than-expected IT and project expenses. In addition, personnel expenses were substantially below plan, since additional vacant posts were filled on a step-by-step basis.

The developments that affected the operating profit were also reflected in the cost-income ratio, one of our key performance indicators. The related negative effects were also somewhat smaller than planned. While income decreased by 5.1 % to EUR 309.1 million (2016: EUR 325.8 million), expenses climbed to EUR 85.3 million (2016: EUR 71.4 million). This led to an increase in the cost-income ratio from 21.9 % to 27.6 %. However, compared with other German promotional banks, our cost-income ratio remains at a very moderate level.

Promotional contribution, a further key performance indicator, comprises the interest rate reduction granted for the special promotional loans, inter alia. In the year under review, we used EUR 64.0 million of our own income (2016: EUR 66.4 million) in nominal terms for this purpose. This was complemented by the excellent funding terms which we obtained and passed on to borrowers and which account for the attractiveness of our special promotional loans. In addition, we provided grants of EUR 4.0 million (2016: EUR 3.0 million) to our Research on Agricultural Innovation program. The promotional contribution, including the distributable profit of EUR 15.3 million (2016: EUR 14.8 million) intended for distribution as well as other promotional contributions, declined marginally to EUR 83.4 million (2016: EUR 84.2 million). This figure is slightly below our planning assumptions, mostly due to the lower interest rate reduction given the low interest rate environment.

Financial position

Capital structure

The financial position based on Rentenbank's financial statements in accordance with the provisions of HGB is as follows:

	Dec. 31, 2017 EUR million	Dec. 31, 2016 EUR million	Change in EUR million
Liabilities			
Liabilities to banks	2,710.6	3,053.6	−343.0
Liabilities to customers	3,854.3	3,766.6	87.7
Securitized liabilities	76,894.5	69,982.0	6,912.5
Subordinated liabilities	405.7	615.1	−209.4
Equity (including fund for general banking risks)			
Subscribed capital	135.0	135.0	0.0
Retained earnings	1,099.5	1,053.8	45.7
Distributable profit	15.3	14.8	0.5
Fund for general banking risks	3,195.6	3,106.9	88.7

Liabilities

Liabilities to banks decreased by EUR 0.3 billion to EUR 2.7 billion (2016: EUR 3.1 billion), mainly due to maturing registered bonds and promissory notes. Liabilities to customers saw a slight increase of EUR 0.1 billion or 2.6 %, amounting to EUR 3.9 billion (2016: EUR 3.8 billion).

Securitized liabilities rose by EUR 6.9 billion or 9.9 % to EUR 76.9 billion (2016: EUR 70.0 billion). The Medium Term Note (MTN) programs remained our main refinancing instruments, amounting to EUR 53.2 billion (2016: EUR 49.8 billion). The portfolio of global bonds declined to EUR 12.0 billion (2016: EUR 14.0 billion). The issued Euro Commercial Paper (ECP) increased by EUR 5.5 billion to EUR 11.2 billion (2016: EUR 5.7 billion).

Subordinated liabilities fell by EUR 0.2 billion to EUR 0.4 billion due to redemptions.

All funds raised in the money and capital markets for refinancing purposes were obtained on market terms.

Equity

Equity rose by a total of EUR 134.9 million to EUR 4,445.4 million (2016: EUR 4,310.5 million). An amount of EUR 45.7 million was allocated from net income to retained earnings. The fund for general banking risks was increased by EUR 88.7 million. The distributable profit rose from EUR 14.8 million to EUR 15.3 million.

Regulatory capital ratios

The conditions of issue of the promissory notes taken into account in total capital meet the requirements of Article 63 of the Capital Requirements Regulation (CRR). Subordinated liabilities in the form of bearer securities issued as global certificates and in the form of loan agreements do not meet the requirements set out in points (k) and (l) of Article 63 CRR and, in accordance with the transitional provisions, are included in tier 2 capital only until December 31, 2021.

Rentenbank applies the waiver provision by virtue of Article 7 (3) CRR on an individual basis in accordance with Article 6 (1) CRR. As of December 31, 2017, the bank determines its own funds and risk-weighted assets in accordance with HGB accounting. In the previous year, these indicators were determined using IFRS accounting. Both the total capital ratio and the Common Equity Tier 1 capital ratio of 29.7 % (2016: 25.7 %) and 27.8 % (2016: 23.2 %), respectively, were well above regulatory requirements, as well as above the minimum requirements set by the ECB.

Capital expenditure

In the past years, Rentenbank heavily invested in the modernization of its IT application systems. The objective is to replace the proprietary iSeries applications largely with Murex and SAP as well as to modernize the electronic loan processing in the promotional business on a step-by-step basis. In terms of an integrated front-to-back system, the so-called Murex Limit Controller was introduced in addition to the migration of the derivatives and money market business to Murex.

Loan processing was modernized by introducing WebServices and electronic mailboxes.

The described investments, which were mainly carried out as part of project activities, are reflected in both current administrative expenses as well as in the changes in intangible assets. In the year under review, acquisition costs of EUR 4.1 million in total (2016: EUR 4.3 million) were capitalized and led to corresponding additions to intangible assets.

Net assets

The net assets of Rentenbank's financial statements under HGB are as follows:

	Dec. 31, 2017 EUR million	Dec. 31, 2016 EUR million	Change in EUR million
Loans and advances to banks	60,532.2	57,793.8	2,738.4
Loans and advances to customers	6,883.9	6,048.2	835.7
Bonds and other fixed-income securities	15,870.3	17,764.6	–1,894.3

Loans and advances to banks amounted to EUR 60.5 billion as of year-end (2016: EUR 57.8 billion). At 66.6 % (2016: 67.0 %), they continue to represent the largest share of total assets.

Loans and advances to customers mainly comprise promissory notes of the German federal states. Overall, they increased by EUR 0.9 billion to EUR 6.9 billion (2016: EUR 6.0 billion).

The securities portfolio decreased by EUR 1.9 billion to EUR 15.9 billion (2016: EUR 17.8 billion) as redemptions exceeded new business. As in the previous year, the portfolio of bank bonds and notes was fully allocated to fixed assets. Accordingly, no securities were held in the liquidity reserve.

The Board of Managing Directors is satisfied with the bank's performance as well as with the development of results of operations, financial position, and net assets. This also applies to the achievement of the strategic objectives within the internal management system.

Non-financial key performance indicators

Corporate citizenship

As a public law institution with a promotional mandate, Rentenbank has a particular responsibility to be a good corporate citizen. The bank mainly supports cultural institutions and selected charity projects in Frankfurt am Main, the location of its registered office. Grants are provided on a regular basis to Oper Frankfurt, Schirn Kunsthalle, Städel Museum, the English Theatre, and the Städelschule (State Academy of Fine Arts), inter alia. In the case of the Städelschule, Rentenbank supports young talented artists by awarding a group prize as part of the "Rundgang", an annual exhibition of works by students of the academy.

Rentenbank also supports various charity projects of churches, associations, and societies with regular donations at Christmas.

Employees

The number of employees grew in the year under review. At year-end 2017, Rentenbank employed 285 (2016: 282) employees (excluding trainees, interns, employees on parental leave and members of the Board of Managing Directors). The average length of service was approximately eleven years. The ratio of male and female employees was almost on par, with 55 % of the employees being male and 45 % being female. 88 % of the part-time employees were women.

Compliance with legal and regulatory requirements

Rentenbank prepares its annual financial statements and the management report in accordance with the requirements of the German Commercial Code as well as the German Generally Accepted Accounting Principles (*Grundsätze ordnungsgemäßer Buchführung, GoB*) and other relevant statements. In this context, we pay attention to proper preparation as well as to compliance with publication deadlines. This is primarily ensured by an Internal Control System (ICS).

Regulatory requirements regarding own funds, liquidity, the basis for calculating the leverage ratio, and the risk weighting of assets have strategic relevance. Comprehensive compliance with all existing regulatory provisions is a top priority. The Regulatory working group, which also includes the Compliance desk, ensures that new regulatory requirements are identified at an early stage within the bank and that their implementation is managed and monitored.

Outlook and opportunities

Changes in business and market conditions

The economic development of Rentenbank primarily depends on the prevailing conditions in the credit and financial markets.

These are mainly influenced by the monetary policy of the central banks, price and exchange rate movements, as well as the development of public finances. The demand for promotional loans is particularly influenced by both the interest rate trend and the situation in the agricultural markets and in agribusiness. These, in turn, are influenced by the agricultural policy of the EU and the German federal government.

Macroeconomic outlook

At the beginning of 2018, the economic situation is very stable in the major industrialized countries. The outlook also bodes well for a continued broad-based upturn. Concerns that political uncertainty may dampen growth have not yet materialized.

Rentenbank expects a slight increase in interest rates for the current year. The rate hikes announced by the Fed will particularly contribute to the upward trend. In contrast, the ECB's decision to scale back its asset purchase program is expected to have a minor effect: although the monthly net purchases will be halved from EUR 60 billion to EUR 30 billion starting in early 2018, the reduction will be offset at least in part by reinvestments of growing proceeds from maturing bonds.

Meanwhile, as there is currently no expectation of significantly rising inflation in the eurozone, the ECB should not be under pressure in this respect to abandon its zero interest rate policy. As a result, the overall increase in yields will be limited.

Outlook of the economic environment for our promotional business

The Food and Agriculture Organization of the United Nations (FAO) expects in its long-term projection until 2026 that global agricultural commodity prices will follow different trends. FAO anticipates falling producer prices for cereals and animal products. In contrast, prices of oilseeds and sugar are expected to remain flat. According to FAO, this is due to globally high levels of production in the agricultural industry and large inventories worldwide. Since agriculture is embedded in the world economy and influenced by a number of factors such as weather events, prices on global markets should remain volatile. Therefore, longer-term projections are always subject to uncertainties.

Apart from domestic demand, exports are of major significance for the German agribusiness. According to FAO estimates, global growth in food demand will slow compared to the previous decade. Only in the least developed countries, demand is expected to show stronger growth than in the previous years.

Within the framework of Agrar, a barometer of the agricultural business sentiment, approximately 1,800 farmers are interviewed regarding their plans for capital expenditures in the next six months, inter alia. According to the survey conducted in December 2017, German farmers plan to invest a total of EUR 4.0 bilion in the first half of 2018. This volume exceeds the prior-year level of EUR 3.6 billion. Therefore, we expect growth in new business volume in the Agriculture promotional line for the fiscal year 2018.

In particular, the exports of the agribusiness sector have increased. There are strong indications that this trend will continue in 2018. We therefore anticipate continued growth in new business in the Agribusiness promotional line for 2018.

New business in the Renewable Energy promotional line depends largely on the Renewable Energy Sources Act (EEG) and thus on political decisions. The amended EEG entered into force on January 1, 2017. The key aspect of the revised EEG is that as from 2017, the level of funding is no longer fixed by the government but is now determined on the market by auctions. This aims to enhance competition between plant operators and to reduce costs related to the EEG. Wind turbines benefit from a transitional provision: all wind farms that were approved until the end of 2016 and start operating before the end of 2018 will receive the fixed EEG funding. Therefore, our new business was driven by wind turbine installations that were subject to the transitional provision. We thus expect a lower volume of new business in the Renewable Energy promotional line in 2018 than in the previous year.

On the basis of its risk-conscious business policy, its triple-A ratings, the guarantee of the Federal Republic of Germany, and the associated excellent access to funding, Rentenbank anticipates that it will continue to fulfill its promotional mandate successfully.

Forecast of business development

Comprehensive annual plans and multi-year plans with a 5-year time horizon are prepared in order to project Rentenbank's future results of operations, financial position, and net assets. These plans comprise planning for Rentenbank's new business, portfolio, equity, income and costs as well as stress scenarios. In addition, the planning includes regulatory indicators relevant for management purposes as well as a projection of the development of the risk-bearing capacity. In the following, the projections refer to the planning period of 2018.

Projections: operating profit

Within the framework of our current planning, we anticipate that the portfolio in the Promotional Business segment will decline slightly. Due to the ECB's expanded asset purchase program, we expect lending/funding margins for new business to remain approximately at the prior-year level. However, the planned margins in new business will be below those of the redemptions in 2018. Overall, this should lead to a significant decrease in net interest income in the Promotional Business segment.

Special promotional loans will remain the focus of our lending business. However, after the high new business volume of more than EUR 7 billion in 2017, we expect that the new business volume will decrease in 2018, driven by various changes in our ultimate borrowers' investment activities. Nevertheless, we expect that both the portfolio of special promotional loans as well as their share in total assets will remain almost unchanged.

The portfolio of securities as well as registered bonds and promissory notes declined in the year under review. The portfolio is also expected to decrease somewhat in 2018.

Within the Capital Investment segment, we expect that interest income will be down on 2017. The decline is mainly driven by lower return on new business, owing to the low interest rate environment. This effect cannot be offset by the slightly higher portfolio volume, resulting in a significant decrease in the segment's total interest income.

In 2018, net interest income of the Treasury Management segment is likely to be considerably below the high prior-year level as we anticipate declining margins.

Net interest income of the three segments is expected to decline significantly in 2018.

Cost planning for 2018, in particular, takes into account the necessary long-term investments in Rentenbank's infrastructure as well as the necessary adjustments to comply with additional regulatory requirements. This includes investments in the development of Murex, the extension of the new SAP financial accounting system as the central data platform as well as the upgrade of other hardware and software currently in use. Despite our rigorous cost management, the numerous changes in the regulatory framework are expected to incur considerably higher administrative expenses also in 2018 (2017: EUR 69.3 million). This particularly applies to personnel and IT expenses.

Against a backdrop of the development of income and expenses, we expect the operating profit before provision for loan losses and valuation for 2018 to decline overall by around 27 % (2017: EUR 223.8 million). Compared over the long term, this key performance indicator would nevertheless be at a satisfying level.

Within the framework of our planning, we expect to be able to keep the promotional contribution (2017: EUR 83.4 million) at an appropriate level, and anticipate an increase by 5 % to 10 % in 2018 for this key performance indicator.

Due to falling income combined with the simultaneous increase (driven by investment activities) in administrative expenses, the cost-income ratio is expected to increase considerably (2017: 27.6 %). Nevertheless, the ratio will remain at a comparatively satisfying level.

Opportunities and risks

In comparison to the planned targets for 2018, additional opportunities and risks may arise for our business development due to changes in market conditions.

For example, the sovereign debt crisis in the eurozone may intensify again. This would adversely affect the new business volume and the risk situation in the lending business, leading to widening credit spreads. In an uncertain economic environment, our own credit spreads have often proven to be very stable. This is due to the guarantee of the Federal Republic that enables Rentenbank to profit from the flight to safe-haven assets. Overall, rising lending/funding margins would have a positive effect on net interest income, while a decline in business volume would have a negative impact. The provision for loan losses may also increase.

The prevailing low interest rate environment, primarily due to the ECB's monetary policy, supports the demand for loans in agribusiness and rural areas. However, low interest rates also weigh on earnings in the Capital Investment segment and have an impact on the promotional business. Further measures introduced by the ECB within the scope of the expanded asset purchase program could lead to an additional charge on earnings due to falling asset yields and margins. A change in the low interest rate environment, e. g. in the wake of a strong rate hike, would be associated with both risks and opportunities for Rentenbank due to the aforementioned factors. The possible specific consequences depend on the extent and the speed of interest rate changes as well as on the respective segment and the selected time horizon.

Administrative expenses may be subject to additional burdens resulting from further regulatory requirements which are not yet known. This would have an impact on IT and personnel expenses. Apart from the investments already planned, further changes to the IT and building infrastructure may become necessary.

Despite Rentenbank's risk-conscious new business policy, it cannot be ruled out that additional information regarding the financial position of our business partners will be identified during the course of the current fiscal year, which adversely affects their credit quality. This can result in additional rating downgrades for exposures held in the portfolio and thereby burden the risk coverage potential within the context of the risk-bearing capacity concept.

Further information on risks is included in the risk report.

Development in the current year

As expected, net interest income in the first month of the current fiscal year of all three segments was below the prior-year level, but above the pro rata projected figure. On the basis of new business and the results achieved in the current fiscal year, the Board of Managing Directors is confident that the planned volumes in the promotional business and the planned operating profit will be achieved for the fiscal year 2018.

This report on expected developments contains certain forward-looking statements that are based on current expectations, estimates, forecasts, and projections of the Board of Managing Directors and information available to it. These statements include, in particular, statements about our plans, strategies and prospects. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', and similar expressions are intended to identify such forward-looking statements. These statements are not to be understood as guarantees of future performance, but rather as being dependent upon factors that involve risks and uncertainties and are based on assumptions that may prove to be incorrect. Unless required by law, we shall not be obligated to update forward-looking statements after their publication.

Risk report

Rentenbank has implemented a risk management system (RMS) to manage risks resulting from its business activities. The RMS is based on

- a risk strategy, consistently derived from the overall business strategy,
- an ongoing review of an adequate capital and liquidity position,
- the organizational structures and workflows of the RMS,
- the Risk Controlling Function, the Compliance function, and the Internal Audit department as well as
- the preparation of a recovery plan.

Rentenbank is subject to the regulatory standards applicable to CRR institutions and is an institution supervised by the ECB. Rentenbank does not have a trading book pursuant to Article 4 (1) points (85) and (86) CRR.

Organization of risk management

The Board of Managing Directors, which will be expanded by the position of Chief Risk Officer (CRO) in 2018, has overall responsibility for the RMS. The CRO will be responsible for the Risk Controlling department and also for the organizational units responsible for credit and back office functions. Until then, the Risk Controlling department is allocated to the Board member with responsibility for credit and back office functions. The Board of Managing Directors is informed regularly about the risk situation.

The Audit and Risk Committees, established by the Board of Supervisory Directors, are informed of the risk situation at least quarterly. Furthermore, the Board of Supervisory Directors is informed of material risk-related events by the Board of Managing Directors on an ad hoc basis.

The Regulatory working group is responsible for monitoring and evaluating regulatory and other legal initiatives as well as for strengthening the compliance structure. The Regulatory working group identifies topics that are relevant for Rentenbank, ensures that unambiguous responsibilities are defined for the implementation within the bank and is informed regularly about their timely implementation.

In accordance with MaRisk, the bank has delegated the management of the Risk Controlling Function (RCF) to the head of the Risk Controlling department. He is involved in all important management decisions regarding risk policy. The Risk Controlling department performs all duties of the RCF. These include the drafting of the risk strategy and the regular monitoring of the limits within the risk-bearing capacity. In addition, the Risk Controlling department regularly monitors the maximum limit for all credit risk limits as well as the upper limit for unsecured facilities. It is also responsible for risk reporting, the daily valuation of the financial instruments, the coordination of the New Product Process (NPP), as well as for the preparation of the recovery plan.

The credit functions are performed by the Financial Institutions and Collateral & Participations divisions. The Financial Institutions division has an independent second vote in credit decisions and processes transactions involving purchased promissory notes and registered bonds. It is also responsible for a part of the credit risk strategy. The Collateral & Participations division evaluates the collateral and administers payment instructions in the special promotional business. The Financial Institutions and Collateral & Participations divisions are also responsible for the intensified monitoring and management of non-performing loans. Any necessary measures are taken in consultation with the Board of Managing Directors. The member of the Board of Managing Directors responsible for the credit functions is responsible for the process.

The Financial Institutions division is responsible for the methodological development, quality assurance, and monitoring of the procedures used to assess credit risk. In addition, the Financial Institutions division analyzes credit and country risks, inter alia. Business partners and types of transactions are allocated using Rentenbank's own rating categories. In addition, this division prepares proposals for credit decisions according to MaRisk and monitors the aggregate lending portfolio on an ongoing basis. As part of the loan portfolio management, the Financial Institutions division also monitors compliance with the credit risk limits.

As front office functions according to MaRisk, the Promotional Business and Treasury divisions are responsible for new promotional business. The Treasury division manages market and liquidity risks within the framework of the defined risk strategy as well as of the funding and hedging strategy. As processing and controlling units, the Operations Financial Markets department and the Loan Transactions department of the Financial Institutions division control the trading transactions in accordance with MaRisk.

Independent risk assessment and monitoring is ensured by the functional and organizational separation of the Promotional Business and Treasury front office functions from the Risk Controlling and Operations Financial Markets departments and the Financial Institutions, Finance, and Collateral & Participations divisions.

The Internal Audit department reviews and assesses the appropriateness of activities and processes as well as the appropriateness and effectiveness of the RMS and the Internal Control System (ICS) on a risk-based and process-independent basis. It reports directly to the Board of Managing Directors and carries out its duties independently and on its own initiative. The Board of Managing Directors may issue instructions to perform additional reviews. The members of the Audit Committee as well as the chairmen of the Board of Supervisory Directors and of the Risk Committee may request information directly from the head of Internal Audit.

Rentenbank's compliance function, a part of the ICS, acts in collaboration with the organizational units to avoid risks that may arise from non-compliance with the relevant legislation. The compliance risks relevant to Rentenbank are characterized primarily by the fact that non-compliance with key regulatory requirements may result in fines and penalties, claims for damages, and/or the nullity of contracts. This may put the assets of Rentenbank at risk.

Business and risk strategy

The Board of Managing Directors determines the bank's sustainable business strategy on the basis of the company mission derived from the relevant legislation. Rentenbank's business strategy is primarily defined by its promotional mandate and the measures taken to fulfill the mandate. Rentenbank is a non-trading book institution and no investment services provider. The business activities of Rentenbank are not primarily aimed at generating profits, but at fulfilling its statutory promotional mandate in accordance with its competitive neutrality. Rentenbank has to comply with the applicable regulatory requirements at all times. In particular, this applies to equity which can be strengthened through the retention of profits. Rentenbank extends its special promotional loans for agribusiness and rural areas via local banks on a competitively neutral basis (on-lending procedure). The risk strategy is derived from and is consistent with the business strategy. It comprises an overarching risk strategy as well as sub-strategies that focus on each specific risk type. In the risk strategy, the Board of Managing Directors defines the core framework for the bank's risk management. The risk strategy is characterized by the following principles:

- low risk appetite,
- buy-and-hold strategy, and
- analysis focusing on specific risk types.

These principles are specified mainly through the definition of limits within the scope of the risk-bearing capacity. They are also set out in the requirements as regards products and markets as well as in the funding and hedging strategy.

The credit risk strategy is influenced by the promotional mandate. Funds for the promotion of agriculture and rural areas are primarily granted to banks in the Federal Republic of Germany, in another EU country, or in Norway. A further prerequisite is that the banks are engaged in business activities with companies in the agricultural sector or in the associated upstream or downstream industries or in rural development. In addition, the bank acquires participations and purchases promissory notes, registered bonds or bearer securities from the German federal states. Special promotional loans are limited to Germany as an investment location. Accordingly, Rentenbank's lending business is mostly limited to the refinancing of banks and institutions or credit institutions as defined in Article 4 CRR as well as to other interbank transactions. The credit risk of the ultimate borrower is borne by the ultimate borrower's local bank. Furthermore, Rentenbank may carry out all transactions directly related to the fulfillment of its tasks within the limits of Rentenbank's Governing Law and its statutes. This also includes the purchase of receivables and securities as well as transactions within the framework of the bank's treasury management and liquidity management. In accordance with the credit risk strategy, loans may be granted to companies only as part of the direct loan business with the subsidiaries of Rentenbank. No new business was entered into in 2017.

Derivatives are only used as hedging instruments for existing or expected market risks. Furthermore, they are only entered into with counterparties on the basis of collateral agreements.

Rentenbank's risk policy requires a prudent selection of business partners and products in all other business activities. In accordance with its core competencies, Rentenbank focuses on banks and public sector borrowers. The average credit quality of the total loan portfolio, an indicator of the bank's risk profile, should be at least A+. The bank also has the objective to further reduce the share of unsecured exposures in the total loan portfolio.

The market risk strategy prescribes that interest rate risks are largely limited by using derivatives and that foreign currency risks are fully hedged. Spread risks and other market risks are limited within the framework of the risk-bearing capacity.

The liquidity risk strategy aims to ensure the bank's ability to make payments at all times, to optimize the funding structure, and to coordinate own issuance in the money and capital markets.

The management of operational risks focuses on preventing damages and, in this respect, on ensuring the quality of all bank processes. Compliance with regulatory requirements as well as the minimization of reputational risk by means of an appropriate communications management and a code of conduct are also components of the risk strategy.

Risk inventory

As part of a risk inventory, the bank analyzes which risks and risk concentrations may have a significant effect on its assets, capital resources, results of operations, or liquidity situation. This represents the basis for the bank's risk profile. In addition, material risks are identified using indicators based on quantitative and qualitative risk characteristics and determined at an early stage within the self-assessment. Further procedures include the NPP, the ICS key controls, as well as the daily monitoring activities. The major risk types of Rentenbank's risk profile comprise: credit risks, market risks, liquidity risks, operational risks, as well as reputational and regulatory risks. In terms of market risks, Rentenbank distinguishes between interest rate risks and spread and other risks.

Risk-bearing capacity

Rentenbank's risk-bearing capacity is the central element of its Internal Capital Adequacy Assessment Process (ICAAP) and the basis for the operational implementation of the risk strategy. Rentenbank has refined its risk-bearing capacity concept in view of the expected changes arising from regulatory requirements. The risk-bearing capacity concept aims to comply with regulatory requirements regarding minimum own funds, to ensure the substance of the bank in the long term, and to protect creditors against losses from an economic perspective. A further goal of the risk-bearing capacity concept directly associated with the promotional mandate is to ensure an adequate and stable operating profit on a sustainable basis. The objective of the risk-bearing capacity concept is to ensure the long-term viability of the bank (going concern). The risk management processes are geared towards meeting these objectives and requirements equally.

The objectives are reflected in the two perspectives of Rentenbank's risk-bearing capacity concept which consists of a normative approach and an economic approach. The previously used gone concern approach was replaced by the economic approach in the context of the development of the risk-bearing capacity concept, while the previously used going concern approach was replaced by the normative approach. The development of the risk-bearing capacity concept and the discontinuation of IFRS consolidated accounting were associated with changes in the determination of the risk coverage potential as well as in risk measurement. These changes are presented below.

The risk appetite is determined in the context of planning, while limits are defined within the framework of the risk-bearing capacity. The limits restrict and enable planned business activities. They also restrict the related risks in the amount of the allocated risk coverage potential. The determination of the risk coverage potential, the allocation of risk coverage potential to risks and their limitation form the core of the risk-bearing capacity concept. Stress tests supplement the monitoring of the limits within the risk-bearing capacity. Risk concentrations are also taken into account.

Risk-bearing capacity – normative approach

The risk management objective of the normative approach is to meet the regulatory requirements for minimum own funds even if risks materialize, taking into account a confidence level of 99 %. Another objective is to generate an adequate and stable operating profit.

The regulatory minimum own funds requirement is defined by Rentenbank under the normative risk-bearing capacity as the own funds requirement pursuant to the Total SREP Capital Requirement (TSCR) plus a buffer. The buffer comprises the combined capital buffer requirements in accordance with CRR as well as an add-on determined by the Board of Managing Directors. Regulatory own funds are calculated on the basis of HGB accounting starting from December 31, 2017.

Under the normative approach, the risk coverage potential is calculated by deducting regulatory minimum own funds requirements from items eligible for recognition as risk coverage potential. Under the going concern approach used in the previous year, the risk coverage potential was determined on the basis of the Group figures reported in accordance with IFRS. The following table shows the risk coverage potential under the normative approach as of the reporting date as well as under the prior year's going concern approach.

	Dec. 31, 2017 EUR million	Dec. 31, 2016 EUR million
Available operating profit	149.1	151.4
Retained earnings	1,114.8	3,529.8
Fund for general banking risks	3,195.6	–
Hidden liabilities from securities	– 14.1	– 3.3
Subscribed capital (capital stock)	135.0	135.0
Items eligible for recognition as risk coverage potential	**4,580.4**	**3,812.9**
Own funds requirements	2,004.3	2,135.0
Risk coverage potential	**2,576.1**	**1,677.9**

The year-on-year increase in risk coverage potential mainly results from the discontinuation of IFRS consolidated accounting and the related increases in regulatory own funds.

The normative approach takes into account risks that have a negative effect on the results of operations under HGB accounting and, as a consequence, on the regulatory own funds. Under the going concern approach used in the prior year, the focus was on risks that had a negative impact on the results of operations reported under IFRS.

No risk-mitigating diversification effects between the risk types are taken into account when aggregating individual risks. Instead, risk exposures are conservatively summed.

Of the total risk coverage potential, 34.0 % is allocated to the limits. This share represents the maximum total loss limit and may not exceed 80 % in accordance with the risk appetite determined by the bank. As of the reporting date, the utilization of the maximum total loss limit by the risk exposures amounted to 57.2 % and the utilization of the total risk coverage potential to only 19.4 %.

The following table shows the risk exposures under the normative approach as well as under the prior year's going concern approach:

	Risk exposure as of Dec. 31, 2017 EUR million	Risk exposure as of Dec. 31, 2016 EUR million
Credit risk	356.4	123.0
Market risk	45.5	532.3
Operational risk	52.4	47.3
Regulatory and reputational risk	46.0	46.8
Total risk exposure	**500.3**	**749.4**

The most significant risk under the normative approach is credit risk which is calculated using a credit portfolio model that was refined in the reporting year. Under the normative approach, market risks are characterized only by interest rate risks. Under the normative approach, spread and other market risks do not result in valuation losses that affect profit or loss under HGB accounting.

In the previous year, spread and other market risks in the amount of EUR 504.7 million arising from transactions measured at fair value were subject to potential valuation losses under IFRS accounting.

The change of the risk exposure amount for credit risk primarily results from the development of the credit portfolio model.

Capital plan

Rentenbank's medium-term planning extends over a period of five years and includes both capital and risk-bearing capacity planning. The planning also ensures compliance with minimum own funds requirements based on the assumption of adverse scenarios.

Risk-bearing capacity – economic approach

The objective of the economic approach is to ensure the substance of the bank in the long term and to protect creditors against losses from an economic perspective.

All hidden reserves and liabilities are taken into account in the risk coverage potential. Planned profits that have not yet been realized (available operating profit) are not taken into account. Under the economic approach, the remaining amount of the risk coverage potential must be sufficient to cover the risks taking into account a confidence level of 99.9 %.

The risk coverage potential as of the reporting date compared to the prior year is as follows:

	Dec. 31, 2017 EUR million	Dec. 31, 2016 EUR million
Subscribed capital (capital stock)	135.0	135.0
Retained earnings	1,114.8	3,529.8
Fund for general banking risks	3,195.6	–
Hidden liabilities/reserves*	459.8	765.6
Subordinated liabilities	405.7	740.7
Risk coverage potential	**5,310.9**	**5,171.1**

* as of December 31, 2017, only in securities and promissory notes of the German federal states as well as contingency reserves pursuant to Section 340f HGB

Under the economic approach, risks from all positions are analyzed irrespective of their accounting. As regards operational risk as well as regulatory and reputational risk, we assume a risk exposure that is two times higher than under the normative approach. The increase in the risk exposure amount for credit risk primarily results from the development of the credit portfolio model. The calculation of spread and other market risks changed in connection with the development of the prior year's gone concern approach to an economic approach as well as due to the transition in the accounting principles. To measure credit spread risks, a Value-at-Risk (VaR) model was implemented based on a historical simulation. The value fluctuations of liabilities related to IFRS under the gone concern approach that result from spread changes are not taken into account under the economic approach under HGB since they do not lead to losses from an economic perspective.

The following table shows the risk exposures under the economic approach as well as under the prior year's gone concern approach:

	Risk exposure as of Dec. 31, 2017 EUR million	Risk exposure as of Dec. 31, 2016 EUR million
Credit risk	914.4	700.6
Market risk	1,290.3	1,192.3
Of which interest rate risks	*295.0*	*313.6*
Of which spread and other risks	*890.9*	*840.2*
Of which risk buffer	*104.4*	*38.5*
Operational risk	104.8	94.6
Regulatory and reputational risk	92.0	93.6
Total risk exposure	**2,401.5**	**2,081.1**

On the basis of the economic approach, 67.4 % of the risk coverage potential was allocated to the limits to mitigate risk. The overall utilization of the limits was 45.2 % as of the reporting date. The risk-bearing capacity was maintained at a comfortable level at all times in 2017 under the economic approach and in 2016 under the gone concern approach.

Risk-bearing capacity – stress tests

Rentenbank conducted a fundamental review of its stress test concept as part of the development of its ICAAP.

The objective of the stress tests is to analyze whether the risk-bearing capacity of Rentenbank is guaranteed even in exceptional but plausible scenarios across various risk types. This involves a simulation of hypothetical and historical scenarios and an analysis of market-wide and bank-specific aspects in the following three scenarios:

- severe economic downturn,
- financial market crisis and subsequent sovereign debt crisis,
- reputational and regulatory crisis.

Using an inverse stress test, Rentenbank also examines which events may lead to the situation that the risk-bearing capacity is no longer guaranteed.

These stress tests are used to analyze the effects of the risks under the normative and economic approaches. In particular, the effects of the scenarios on risk-weighted assets are simulated under the normative approach. The material risk parameters, on which the stress scenarios are based, include a deterioration of the credit quality as well as changes in interest rates and spreads. Furthermore, the stress test also takes into account the impact of increased capital requirements due to regulatory changes.

The predominant risk monitored under the normative approach is credit risk. Under the economic approach, credit risk and market risk are of equal importance.

The results of the stress tests are taken into account when deriving the risk appetite. They are also a major factor for deriving and allocating risk coverage potential.

The risk-bearing capacity was maintained even under stress scenarios, which confirms the bank's comfortable capital situation.

Recovery plan

Rentenbank has established a recovery plan pursuant to the regulatory requirements and has defined recovery indicators, including early warning indicators as well as warning and recovery thresholds. Under the recovery plan, Rentenbank shows in various stress scenarios that the bank is capable of remedying the recovery situation by taking appropriate recovery measures. The governance processes of the recovery plan are integrated into the risk management processes. This primarily includes regular risk reporting on the recovery indicators.

Credit risk

Definition

Credit risk is the risk of a potential loss resulting from a default or a deterioration in the credit quality of business partners. Credit risk comprises credit default risk, settlement risk, and replacement risk. Credit default risk includes counterparty risk, issuer risk, country risk, structural risk, collateral risk, and participation risk.

Counterparty risk, issuer risk, and original country risk refer to losses due to defaults or deteriorations in the credit quality of business partners (i. e. counterparties, issuers, countries), taking into account the valuation of collateral. Derived country risk results from the general economic and political situation in the debtor's country of incorporation. Derived country risks are divided into country transfer risks and redenomination risks. Country transfer risk refers to the inability of a solvent foreign borrower to make interest and principal payments when they are due as a result of economic or political instability. Redenomination risk refers to the risk of converting the notional value of a receivable into another currency. Structural risks (e. g. cluster or concentration risks) result from the concentration of the lending business in regions, sectors or on borrowers. Collateral risk arises from the lack of recoverability of loan collateral during the loan term or from an incorrect valuation of collateral. Participation risk is the risk of losses incurred due to negative performance within the portfolio of participations.

Rentenbank's lending business is mostly limited to the refinancing of banks and institutions or credit institutions as defined in Article 4 CRR as well as to other interbank transactions. The credit risk of the ultimate borrower is borne by the ultimate borrower's local bank.

Quantification and management

The calculation of credit risk is based on the risk parameters probability of default, loss given default, and exposure at default.

The risk exposure values for credit risk in the risk-bearing capacity calculation are determined using a credit portfolio model, including an adjustment to maturities. At total portfolio level, the bank also calculates a risk contribution from concentration risks. In this calculation, higher exposures with business partners at Group level are taken into account in risk measurement at an above-average rate. The sectoral concentration risk associated with Rentenbank's business model is taken into account on the one hand in the risk rating of the bank's business partners and on the other hand in model-based risk premiums for banks that are exposed to an increased systemic risk.

The probability of default is determined on the basis of allocating our business partners to rating categories. Rentenbank applies an internal risk rating system for this purpose. This involves allocating individual business partners or types of transactions to one of twenty rating categories. The ten best rating categories AAA to BBB- are assigned to business partners who are subject to low credit risk (Investment Grade). The seven further rating categories (BB+ to C) denote latent or increased latent risks and the final three rating categories (DDD to D) are reserved for non-performing loans or exposures in default.

The credit rankings of our business partners are reviewed at least annually based on the assessment of their annual financial statements and their financial position. In addition to the key performance indicators, the analysis also takes into account qualitative characteristics, the background of the company, and other relevant factors, such as protection schemes or state guarantees. In addition, country risks of the country of incorporation of our business partners are reflected in the determination of the credit quality. In the case of certain products, such as mortgage bonds, the associated collateral or cover assets are regarded as an additional assessment criterion. If new information concerning a deterioration in the financial position or in the economic prospects of a business partner becomes available, the Financial Institutions division reviews the credit rating and, if necessary, adjusts the rating.

The loss given default rate quantifies the proportion of the credit claim that is not recoverable after the default of a business partner and the liquidation of collateral provided. Rentenbank uses loss given default rates that are specific for products and types of transactions to quantify credit risk; these are determined based on an analytical and expert-based procedure. Under this procedure, the liquidation chain related to the promotional loans, which are granted within the scope of the so-called on-lending procedure, are particularly taken into account in measurement and parameterization. The bank also uses external data sources since Rentenbank's credit portfolio does not have any statistically significant defaults and, hence, loss given default rates.

The utilization of the credit risk limits as of the calculation date is used to determine the exposure at default. In the case of loans, this is the residual capital of the exposure, and the current market value for securities. In the case of derivatives, the exposure at default comprises the positive fair values of derivative portfolios, taking into account cash collateral received, if any, and, in the case of negative fair values of derivative portfolios, taking into account cash collateral provided.

The method described enables Rentenbank to assess and monitor its risks within the framework of risk management. Negative developments as well as portfolio concentrations can thus be identified at an early stage and countermeasures may be initiated.

Validation

The internal risk rating system, the procedure for the quantification of the loss given default rates, and the credit portfolio model are refined on an ongoing basis and reviewed annually. All measurement parameters are also subject to an annual validation. This involves taking into account in particular the sector-specific aspects as well as the portfolio concentrations due to the promotional mandate.

Limitation and reporting

A maximum limit for all credit risk limits as well as an upper limit for unsecured facilities are determined by the Board of Managing Directors. They thus limit the total of limit utilizations. Concentration risks are managed and effectively limited within the bank on various levels by means of targeted concepts. In addition, country exposure limits and country transfer risk limits have been established.

A limit system manages the level and the structure of all credit risks. Limits are defined for all borrowers, issuers, and counterparties and, if applicable, subdivided by product and maturity. Rentenbank's risk rating system forms the basis for decisions on establishing limits. Furthermore, a certain minimum credit quality is required for certain types of business or limits.

The limitation of this risk type (i. e. credit risk) within the context of risk-bearing capacity takes into account the specific characteristics of the model and the parameters as well as volatilities as of the reporting date. Risk premiums due to concentration risks are included in this limitation.

In addition, risk and recovery indicators provide an indication at an early stage for potential risk increases or for risk transfers within the overall bank portfolio. Warning thresholds ensure that higher limit utilizations are identified at an early stage and that appropriate measures can be taken. These measures may relate to the reducing of internal limits or the increasing of monitoring intensity.

Additional limits are monitored daily by the Financial Institutions division and reported to the member of the Board of Managing Directors responsible for the credit functions. The Board of Managing Directors is notified immediately if the limits are exceeded.

Credit risks are managed, monitored, and reported for individual transactions at the borrower level as well as at the level of the group of connected clients, at the country level, and the level of the total loan portfolio. Accordingly, the bank is capable of identifying and assessing risks at an early stage.

Current risk situation

The maximum exposure to credit risk is disclosed without taking into account probabilities of default and collateral. Therefore, it corresponds to the carrying amounts or, in the case of irrevocable loan commitments, to the notional amounts of the relevant assets.

Maximum exposure to credit risk:

	Dec. 31, 2017 HGB EUR million	Dec. 31, 2016 IFRS EUR million
Loans and advances to banks	60,532.2	57,511.0
Loans and advances to customers	6,883.9	7,496.8
Fair value changes of hedged items in a portfolio hedge	–	1,258.6
Bonds and other fixed-income securities	15,870.3	19,135.6
Shares and other variable-yield securities	0.1	0.2
Participations	326.2	118.8
Positive fair values of derivative financial instruments	–	6,549.5
Investments in affiliated companies	49.6	0.0
Irrevocable loan commitments	956.3	990.0
Total	**84,618.6**	**93,060.5**

The bank has received collateral for the majority of the risk exposures presented in the form of assignments of receivables, guarantor liability, and state guarantees. The remaining risk positions mostly include covered bonds, such as German Pfandbriefe. Unsecured risk exposures mainly refer to loans and advances to banks of the German joint liability schemes *(Haftungsverbund)*. As regards the positive fair values of derivative financial instruments, the disclosed maximum exposure to credit risk of EUR 2,575.3 million (2016: EUR 6,549.5 million) represents the carrying amounts in the balance sheet at an individual contract level. The risk-related economic collateralization is used for risk mitigation at the counterparty level.

Entering into financial instruments in the derivatives business is permitted only on the basis of a netting and collateral agreement. The remaining credit risks may result in the short term from differences between the net market values of netting pools and the cash collateral provided or received. As of December 31, 2017, this residual risk amounted to EUR 0.2 million (2016: EUR 13.6 million).

Exposure to credit risk by rating category:

Dec. 31, 2017 (HGB)

	AAA	AA	A	BBB	BB-B	CCC-C	DDD-D
	EUR million	EUR million	EUR million	EUR million	EUR million	EUR million	EUR million
Loans and advances to banks	22,058.0	22,885.9	14,477.4	1,096.6	14.3	0.0	0.0
Loans and advances to customers	6,847.2	0.0	36.7	0.0	0.0	0.0	0.0
Bonds and other fixed-income securities	13,181.7	1,257.0	1,399.7	31.9	0.0	0.0	0.0
Shares and other variable-yield securities	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Participations	0.0	4.0	322.2	0.0	0.0	0.0	0.0
Investments in affiliated companies	0.0	49.6	0.0	0.0	0.0	0.0	0.0
Irrevocable loan commitments	124.7	2.6	589.6	233.8	5.6	0.0	0.0
Total	**42,211.7**	**24,199.1**	**16,825.6**	**1,362.3**	**19.9**	**0.0**	**0.0**

Dec. 31, 2016 (IFRS)

	AAA	AA	A	BBB	BB-B	CCC-C	DDD-D
	EUR million	EUR million	EUR million	EUR million	EUR million	EUR million	EUR million
Loans and advances to banks	17,753.9	3,040.6	26,835.1	9,881.4	0.0	0.0	0.0
Loans and advances to customers	7,496.8	0.0	0.0	0.0	0.0	0.0	0.0
Fair value changes of hedged items in a portfolio hedge	349.6	7.8	591.6	309.6	0.0	0.0	0.0
Positive fair values of derivative financial instruments	2.6	742.1	3,901.1	1,806.1	97.6	0.0	0.0
Financial investments	13,217.6	2,799.3	2,191.4	967.4	78.9	0.0	0.0
Irrevocable loan commitments	131.8	3.1	529.7	317.4	8.0	0.0	0.0
Total	**38,952.3**	**6,592.9**	**34,048.9**	**13,281.9**	**184.5**	**0.0**	**0.0**

The bail-in exemption of special promotional loans, which was taken into account for the first time in the risk rating system in 2017, results in rating uplifts for special promotional loans compared to the prior year. This leads to a change in the distribution of the rating categories as regards the special promotional loan portfolio from A to AA as well as from BBB to A.

The aggregation of carrying amounts in the following two tables is based on the country of incorporation and on the level of the legally independent business partner, without taking into account group relationships.

Risk concentration by country (group):

Dec. 31, 2017 (HGB)

	Germany		Europe		OECD	
	EUR million	%	EUR million	%	EUR million	%
Loans and advances to banks	59,351.2	70.1	1,180.9	1.4	0.1	0.0
Loans and advances to customers	6,883.9	8.1	0.0	0.0	0.0	0.0
Bonds and other fixed-income securities	3,618.5	4.3	10,626.0	12.6	1,625.8	1.9
Shares and other variable-yield securities	0.0	0.0	0.1	0.0	0.0	0.0
Participations	326.2	0.4	0.0	0.0	0.0	0.0
Investments in affiliated companies	49.6	0.1	0.0	0.0	0.0	0.0
Irrevocable loan commitments	955.1	1.1	1.2	0.0	0.0	0.0
Total	**71,184.5**	**84.1**	**11,808.2**	**14.0**	**1,625.9**	**1.9e**

Dec. 31, 2016 (IFRS)

	Germany		Europe (excl. Germany)		OECD (excl. Europe)	
	EUR million	%	EUR million	%	EUR million	%
Loans and advances to banks	55,962.7	60.1	1,548.2	1.7	0.1	0.0
Loans and advances to customers	7,496.8	8.1	0.0	0.0	0.0	0.0
Fair value changes of hedged items in a portfolio hedge	1,250.9	1.3	7.7	0.0	0.0	0.0
Positive fair values of derivative financial instruments	1,429.0	1.5	4,842.4	5.2	278.1	0.3
Financial investments	4,043.9	4.3	13,638.7	14.7	1,572.0	1.7
Irrevocable loan commitments	989.9	1.1	0.1	0.0	0.0	0.0
Total	**71,173.2**	**76.5**	**20,037.1**	**21.5**	**1,850.2**	**2.0**

Risk concentration by group of counterparty:

Dec. 31, 2017 (HGB)

	Private sector banks/ other banks		Foreign banks		Public sector banks		Cooperative banks		Central banks		Non-banks	
	EUR million	%	EUR million	%	EUR million	%	EUR million	%	EUR million	%	EUR million	%
Loans and advances to banks	8,939.4	10.6	1,611.8	1.9	31,505.3	37.2	13,875.9	16.4	4,599.8	5.4	0.0	0.0
Loans and advances to customers	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6,882.2	8.1
Bonds and other fixed-income securities	2,098.2	2.5	12,481.7	14.8	767.9	0.9	20.1	0.0	0.0	0.0	502.4	0.6
Shares and other variable-yield securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Participations	0.0	0.0	0.0	0.0	0.0	0.0	322.0	0.4	0.0	0.0	4.2	0.0
Investments in affiliated companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	49.6	0.1
Irrevocable loan commitments	244.9	0.3	1.2	0.0	490.4	0.6	219.8	0.3	0.0	0.0	0.0	0.0
Total	**11,284.2**	**13.3**	**14,094.7**	**16.7**	**32,763.6**	**38.7**	**14,437.8**	**17.1**	**4,599.8**	**5.4**	**7,438.5**	**8.8**

Dec. 31, 2016 (IFRS)

	Private sector banks/ other banks		Foreign banks		Public sector banks		Cooperative banks		Central banks		Non-banks	
	EUR million	%	EUR million	%	EUR million	%	EUR million	%	EUR million	%	EUR million	%
Loans and advances to banks	10,049.7	10.8	1,548.3	1.7	32,572.9	35.0	12,840.1	13.8	500.0	0.5	0.0	0.0
Loans and advances to customers	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7,495.3	8.1
Fair value changes of hedged items in a portfolio hedge	227.9	0.2	7.7	0.0	620.3	0.7	402.7	0.5	0.0	0.0	0.0	0.0
Positive fair values of derivative financial instruments	1,085.1	1.2	4,849.7	5.2	210.6	0.2	133.3	0.1	0.0	0.0	270.8	0.3
Financial investments	2,554.3	2.7	14,347.5	15.4	735.6	0.8	131.9	0.1	0.0	0.0	1,485.3	1.6
Irrevocable loan commitments	143.9	0.2	0.1	0.0	493.8	0.5	352.2	0.4	0.0	0.0	0.0	0.0
Total	**14,062.4**	**15.1**	**20,753.3**	**22.3**	**34,633.2**	**37.2**	**13,860.2**	**14.9**	**500.0**	**0.5**	**9,251.4**	**10.0**

Carrying amounts in the peripheral countries:

The balance of government bonds as well as bonds and promissory notes of banks from peripheral countries decreased from EUR 1,276.7 million to EUR 29.8 million. The remaining exposures refer to Italy in the amount of EUR 5.1 million (2016: EUR 443.2 million) as well as to Spain in the amount of EUR 24.7 million (2016: EUR 733.7 million). The exposure to Portugal was terminated entirely (2016: EUR 99.8 million).

Moreover, there are outstanding derivatives backed by cash collateral that were entered into with Spanish counterparties.

Provision for loan losses

Specific valuation allowance

As of each balance sheet date, Rentenbank assesses whether there is any objective evidence that not all interest and principal payments may be made in accordance with the contractual terms. For accounting purposes, the bank uses the following criteria to determine whether the recognition of a specific valuation allowance is required:

- Internal credit rating as non-investment grade

- Non-performing, forborne or restructured exposures
- Significant deterioration in the business partner's credit quality
- Significant deterioration in the credit quality of the business partner's country of incorporation

Discretionary judgment is used to determine the materiality aspect of a credit quality deterioration and the criteria for the credit ratings.

Rentenbank assesses the recoverability of individually significant receivables for significant single exposures and securities as well as of receivables of small amounts on an individual basis. If there is objective evidence of impairment, the allowance is determined as the difference between the carrying amount and the present value of the expected cash flows. The expected cash flows are determined on the basis of qualified estimates. They take into account the business partner's financial position as well as the liquidation of collateral and other relevant factors, such as protection schemes or state guarantees. The original effective interest rate is used as the discount rate for fixed-interest loans and advances as well as for the fixed-interest securities. In contrast, floating-rate loans and advances and floating-rate securities are discounted at the current effective interest rate. In the case of participations measured at cost, the discount rate is the current market rate of return for a similar financial asset. Specific valuation allowances are recognized through profit or loss.

As in the previous year, Rentenbank has not recognized specific valuation allowances as of the balance sheet date.

General valuation allowance

General valuation allowances are calculated using the total loan volume subject to risks pursuant to Section 19 (1) KWG, the probability of default, and the loss given default rate. Bonds and notes are taken into account to the extent that they are recognized at amortized cost.

In the year under review, the loan portfolio model was refined in the context of credit risk measurement. Consequently, adjustments were made to the probabilities of default and the loss given default rates, which also affected the calculation of general valuation allowances. In addition, the loan volume is no longer derived from the carrying amount, but is determined on the basis of the discounted cash flows with a residual maturity of more than one year.

Due to the low number of defaults at Rentenbank, probabilities of default are determined using a long-term average of the 1-year probabilities of default published by the rating agencies Fitch, Moody's, and Standard & Poor's. The probabilities of default are allocated on the basis of the credit quality for the respective business partner. In contrast to the previously applied methodology, product-specific rating categories, so-called product ratings for German Pfandbriefe or state-guaranteed transactions, are no longer taken into account. This led to an increase in the probabilities of default.

In addition, the procedure to determine the loss given default rate was refined and complemented by an analytical component. In this context, the loss given default rates for specific products and types of business transactions are determined using an analytical and expert-based procedure, taking into account the respective collateralization; they are no longer taken into account at a lump-sum rate of 45 % in accordance with the regulatory basic IRB approach. This resulted in an overall reduction in loss given default rates.

The adjustments have a reciprocal effect on the calculated general valuation allowance. Since the effect arising from the new loss given default rates for specific products and types of business transactions is the predominant one, the excess amount recognized as general valuation allowances could be reversed through profit or loss.

The new methodology for the calculation of the input parameters for the general valuation allowances is a justified exception as set out in Section 252 (2) HGB. The use of an expert-based procedure leads to a more accurate measurement of latent default risks and, therefore, to a more precise presentation of a true and fair view of the net assets, financial position, and results of operations.

Rentenbank recognized general valuation allowances of EUR 2.7 million (2016: EUR 18.7 million) for receivables and irrevocable loan commitments. The reduction of EUR 16.0 million is largely due to the aforementioned change in parameters in connection with the development of the credit portfolio model. The bank recognized a general valuation allowance of EUR 0.9 million for securities.

Market risk

Definition

Market risk is the potential loss resulting from changes in market variables. It comprises interest rate risks, spread risks, and other price risks. Other price risks include currency and volatility risks which, however, are relevant only to a very small extent (e. g. foreign currency risks).

Interest rate risk is the risk from unexpected changes in the economic value or the present value as well as in net interest income due to changes in interest rates. The interest rate risk in terms of the present value is subsumed under the regulatory term Economic Value of Equity (EVE), while the interest rate risk in terms of net interest income is subsumed under the term Net Interest Income (NII). The interest rate risk resulting from the banking book is summarized under the term Interest Rate Risk in the Banking Book (IRRBB). As a non-trading book institution, Rentenbank has allocated all transactions to the banking book and calculates interest rate risk from the EVE and NII perspective.

Spread risks are classified as credit spread risks, cross-currency basis swap risks, and basis swap risks.

Open currency positions only result from fractional amounts related to settlements in foreign currencies, and only to a small extent. The market values of hedged items and hedging transactions differ due to the different valuation parameters, mainly in terms of credit spreads and cross-currency basis swap spreads. In the case of foreign currency positions, the market value differences may result in exchange rate-related market value risks.

Market risks that are subject to only temporary valuation losses are neutralized until the maturity of the relevant financial instruments due to the buy-and-hold strategy. These valuation losses would only be realized if the buy-and-hold strategy was breached or, in the case of a business partner's default, if collateral was insufficient.

Further market risks, such as share price and commodity transaction risks, are not relevant due to Rentenbank's business model.

Quantification and management

Interest rate risks

Under the normative approach, interest rate risks are calculated daily for the transactions of the Treasury Management segment. The calculation is based on a parallel shift in the interest rate curves, taking into account a confidence level of 99 %. Under the economic approach, interest rate risks are also calculated using a parallel shift in the interest rate curve, while taking into account a confidence level of 99.9 %. Risks from negative interest rates are taken into account under both the normative approach and the economic approach. In particular, this involves taking into account the risks from variable-yield transactions with zero floors in terms of present value and income. The interest rate risk of the Capital Investment segment, which comprises the invested capital, is included in both risk-bearing capacity approaches. The income-related interest rate risk is calculated under the normative approach, while the interest rate risk in terms of present value is determined under the economic approach. There is no modeling with a risk-reducing effect of the funding of the capital investment through the available equity. Accordingly, equity is not taken into account pursuant to the regulatory calculation method (IRRBB).

The bank limits its exposure to interest rate risk to the extent possible, especially through the use of derivatives. Derivatives are entered into on the basis of micro or macro relationships. The effectiveness of micro hedges is monitored daily using valuation units established for the hedging relationships.

Gains or losses from maturity transformation are realized from money market transactions and, to a lesser extent, from the special promotional business. Generating income by taking interest rate risks is not a part of Rentenbank's business strategy. Gains or losses from maturity transformation result from short-term open positions as not all of the special promotional loans are hedged instantaneously due to their low volumes in some cases.

The bank calculates the interest rate risk in the banking book in accordance with regulatory requirements. This involves examining whether the negative change of the present value exceeds 20 % of total regulatory own funds. The reporting threshold of 15 % under the amended EBA procedure is already being monitored and complied with by Rentenbank. The available equity is not taken into account pursuant to the regulatory requirements. In addition, the bank calculates the impact of standardized interest rate shock scenarios on the net interest income (NII) of the following twelve months. The bank's net interest income risk is highest in case of a shift in the interest rate curve by –200 basis points (bps).

Spread and other risks

Rentenbank quantifies spread risks using a VaR model based on a historical simulation. The present value sensitivities regarding the spreads of the included transactions are taken into account in the VaR calculation. The maximum loss for the defined confidence level is calculated on the basis of a historical market data development that goes back up to seven years. Credit spread risks are calculated for securities and highly liquid promissory notes of the German federal states.

Risk buffer

Model inaccuracies and simplifications are given appropriate consideration by means of a risk buffer. In addition, the risk buffer includes a component to cover counterparty risk in relation to derivative transactions.

Limitation and reporting

A limit of EUR 70 million has been allocated to market risk under the normative approach and EUR 1,969.4 million under the economic approach. This limit is allocated to interest rate risk, spread and other risks as well as to the risk buffers.

Compliance with the limits for interest rate risks is monitored daily and reported to the Board of Managing Directors. Spread and other risks are monitored on a monthly basis as well as within the scope of the quarterly risk report.

Validation

The methods used to assess market risks, the essential assumptions and parameters as well as the stress scenarios are validated at least annually. The validation of the VaR model for the measurement of spread risks comprises the review of the limitations of the procedure, the updating of the data history, as well as the model parameters.

In the case of money market business and lending business, the scenario parameters used to measure interest rate risks are validated daily using historical interest rate trends.

To monitor interest rate risks at an overall bank level, the results from the daily scenario analyses are validated quarterly using a model based on present values.

Current risk situation

Normative approach

As of December 31, 2017, market risk in the money market business and lending business segments was EUR 4.5 million (2016: EUR 3.1 million) in the case of a parallel shift of 60 bps in the interest rate curve. This corresponds to a risk limit utilization of 15.5 % (2016: 10.6 %). The average limit utilization in the fiscal year 2017 was EUR 6.3 million (2016: EUR 2.3 million) or 21.9 % (2016: 7.9 %). The maximum risk for the reporting year amounted to EUR 13.5 million (2016: EUR 10.4 million), while the lowest utilization was EUR 0.0 million (2016: EUR 0.0 million). No limits were exceeded in 2016 and 2017.

The risk buffer was increased to EUR 41.0 million (2016: EUR 24.5 million) in the course of the validation.

Economic approach

A parallel shift of 135 bps in the interest rate curves was used to calculate interest rate risks. As of the reporting date, the risk exposure amounted to EUR 295 million.

The risk exposure for spread and other risks amounts to EUR 890.9 million. The risk buffer is EUR 104.4 million.

Interest rate risks in the banking book

In accordance with the BaFin Circular 11/2011 (BA), sudden and unexpected interest rate changes were simulated using a parallel shift of +(–)200 bps. As of the reporting date, the risk exposure in the case of rising interest rates amounted to EUR 344.9 million (2016: EUR 418.3 million). The ratio based on the regulatory own funds amounted to 7.7 % (2016: 10.8 %). At no point during 2017 or 2016 did the ratio exceed the reporting threshold of 20 %.

Foreign currency risks

No material risk was identified for any currency in 2017 or 2016. The following table presents a breakdown of the notional amounts by foreign currency:

Dec. 31, 2017 Notional amounts in EUR million	**USD**	**AUD**	**GBP**	**NZD**	**CHF**	**NOK**	**JPY**	**Other**	**Total**
Assets									
Loans and advances to banks	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.1**
Loans and advances to customers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Financial investments	98.0	51.9	3,309.4	0.0	989.6	0.0	285.3	173.5	**4,907.7**
Positive fair values of derivative financial instruments	33,011.9	9,456.9	2,348.6	1,846.1	197.1	767.3	471.4	1,567.7	**49,667.0**
Total assets	**33,110.0**	**9,508.8**	**5,658.0**	**1,846.1**	**1,186.7**	**767.3**	**756.7**	**1,741.2**	**54,574.8**
Liabilities									
Liabilities to banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Liabilities to customers	112.6	0.0	11.3	12.5	0.0	0.0	37.0	0.0	**173.4**
Securitized liabilities	32,833.0	9,455.4	2,338.8	1,833.6	213.6	767.3	250.4	1,567.7	**49,259.8**
Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	0.0	185.2	0.0	**185.2**
Negative fair values of derivative financial instruments	164.3	53.4	3,307.9	0.0	973.1	0.0	284.1	173.5	**4,956.3**
Total liabilities	**33,109.9**	**9,508.8**	**5,658.0**	**1,846.1**	**1,186.7**	**767.3**	**756.7**	**1,741.2**	**54,574.7**
Net currency position (assets)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.1**
Net currency position (liabilities)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**

Dec. 31, 2016 Notional amounts in EUR million	**USD**	**AUD**	**GBP**	**NZD**	**CHF**	**NOK**	**JPY**	**Other**	**Total**
Assets									
Loans and advances to banks	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.1**
Loans and advances to customers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Financial investments	702.1	55.3	2,296.7	0.0	1,072.4	0.0	229.2	234.1	**4,589.8**
Positive fair values of derivative financial instruments	34,006.9	9,545.3	2,494.0	2,293.2	819.4	979.5	654.8	1,631.9	**52,425.0**
Total assets	**34,709.1**	**9,600.6**	**4,790.7**	**2,293.2**	**1,891.8**	**979.5**	**884.0**	**1,866.0**	**57,014.9**
Liabilities									
Liabilities to banks	0.0	0.0	1.3	0,0	0.0	0.0	0.0	0.0	**1.3**
Liabilities to customers	99.6	0.0	11.7	13.9	0.0	0.0	40.5	0.0	**165.7**
Securitized liabilities	33,652.3	9,544.4	2,482.0	2,279.3	819.4	979.5	290.1	1,631.7	**51,678.7**
Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	0.0	405.2	0.0	**405.2**
Negative fair value of derivative financial instruments	957.1	56.2	2,297.0	0.0	1,072.4	0.0	148.2	234.3	**4,765.2**
Total liabilities	**34,709.0**	**9,600.6**	**4,792.0**	**2,293.2**	**1,891.8**	**979.5**	**884.0**	**1,866.0**	**57,016.1**
Net currency position (assets)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.1**
Net currency position (liabilities)	0.0	0.0	−1.3	0.0	0.0	0.0	0.0	0.0	**−1.3**

Liquidity risk

Definition

Rentenbank defines liquidity risk as the risk that the bank is not able to meet its current or future payment obligations without restrictions.

Market liquidity risk is defined as the risk that the bank may not be able to sell assets, or at least not instantaneously, or that they can only be sold at a loss.

Quantification and management

Rentenbank's open cash balances are limited by an amount defined by the Board of Managing Directors on the basis of the funding opportunities available to Rentenbank. The Risk Controlling department monitors the liquidity position and the utilization of the limits daily and submits reports to the Board of Managing Directors and the Treasury division.

Instruments available for managing the short-term liquidity position include interbank funds, the issuance of ECP, and open-market transactions with the Deutsche Bundesbank. In addition, Rentenbank may purchase securities for liquidity management purposes. It may also borrow funds with terms of up to two years via the Euro Medium Term Note program (EMTN program) or by issuing promissory notes, global bonds, and domestic financial instruments.

In order to limit short-term liquidity risks of up to one month, the imputed liquidity requirement under stress assumptions may not exceed either the amount of liquid assets pursuant to the Liquidity Coverage Ratio (LCR) or the freely available funding potential. In addition, liquidity risks are limited to a period of up to one week pursuant to MaRisk.

For terms of one month to two years, the imputed liquidity requirement is limited to the freely available funding potential.

In addition, for the purpose of calculating medium and long-term liquidity, expected cash inflows and outflows over the next 2 to 15 years are aggregated into quarterly segments and carried forward. The cumulative cash flows may not fall below the limit set by the Board of Managing Directors.

The appropriateness of the stress scenarios as well as the underlying assumptions and methods to assess the liquidity position are reviewed at least annually.

Under the risk-bearing capacity concept, liquidity risks are not covered by the risk coverage potential, but by counterbalancing capacity or liquid assets.

Rentenbank's triple-A ratings and the guarantee of the Federal Republic of Germany enable the bank to raise additional funds in the interbank markets at all times. Cash funds are also obtained from the Deutsche Bundesbank (in the form of pledged securities and credit claims as eligible collateral in accordance with the KEV *(Krediteinreichungsverfahren)* procedure).

In accordance with the LCR, the bonds issued by Rentenbank are classified as liquid assets in the EU. Our bonds also qualify as highly liquid assets in other jurisdictions, such as the United States and Canada.

Liquidity stress scenarios

Stress scenarios are intended to examine the effects of unexpected events on Rentenbank's liquidity position. The liquidity stress scenarios developed for this purpose are an integral part of the internal control model. They are calculated and monitored monthly. The scenario analyses comprise price declines of securities, simultaneous drawdowns of all irrevocable credit commitments, defaults by major borrowers, and calls of cash collateral. A scenario mix is used to simulate the cumulative occurrence of liquidity stress scenarios. Liquidity stress tests are also performed on an ad hoc basis if risk-related events occur.

Liquidity ratios pursuant to the CRR

The regulatory liquidity ratios LCR and NSFR (Net Stable Funding Ratio) are used to limit short-term as well as medium to long-term liquidity risks. The objective is to enable banks to remain liquid even during periods of stress by holding a liquidity buffer and maintaining stable funding. In 2017, the minimum LCR requirement (i.e. the ratio of high-quality liquid assets to total net cash outflows under stress scenarios) was 0.8. The required ratio will increase to 1.0 in 2018. The minimum requirement for the NSFR (i.e. ratio of the amount of available stable funding relative to the amount of required stable funding) is 1.0. The introduction is planned for 2020 at earliest in connection with the entry into force of CRR II.

The minimum LCR and the currently expected minimum NSFR were complied with in the reporting years 2017 and 2016.

Limitation and reporting

The Board of Managing Directors is provided with a daily report on the short-term liquidity projection and with a monthly liquidity risk report on the medium and long-term liquidity. The latter also includes the results of the scenario analyses, the liquidity ratios

LCR and NSFR, and the calculation of the liquidity buffer pursuant to MaRisk. The Audit Committee and the Risk Committee of the Board of Supervisory Directors are informed on a quarterly basis.

Current risk situation

As in the previous year, liquidity was secured at all times during the reporting year, even under stress assumptions. All liquidity limits and regulatory liquidity ratios were fully complied with.

Operational risk

Definition

Operational risks arise from failed or inadequate systems and processes, people, or external events. Operational risks also include legal risks, risks from money laundering, terrorist financing or other criminal acts, behavioral risks, risks from outsourcing, operating risks, and event or environmental risks. In the bank's view, they do not comprise entrepreneurial risks, such as business risks, regulatory risks, reputational risks, or pension risks.

Quantification and management

As part of the risk-bearing capacity concept for the normative approach, operational risks are quantified using a process based on the regulatory basic indicator approach. The risk assumed under the economic approach is twice the number of incidents assumed under the normative approach.

All loss events and near incidents are recorded in a loss event database by operational risk officers on a decentralized basis. The Risk Controlling function is accountable for the analysis and aggregation of the incidents as well as for the methodological development of the instruments used.

Rentenbank also carries out self-assessments in the form of workshops. At least annually, material operational risk scenarios are analyzed and assessed with regard to individual business processes. This also involves defining subsequent measures (e.g. regarding fraud prevention).

All operational risks are aggregated and analyzed on a centralized basis by the Risk Controlling function. It is responsible for the use of instruments and the methodological development of risk identification, assessment, management and communication. Operational risks are managed by the relevant organizational units.

Legal risk is managed and monitored by the Legal & Human Resources division. It informs the Board of Managing Directors of the current or potential legal disputes both on an ad hoc basis as well as in semi-annual reports. Legal risks from business transactions are largely reduced by the bank by using standardized contracts. The Legal department is involved early in decision-making and significant projects are to be carried out in collaboration with the Legal & Human Resources division. Legal disputes are recorded immediately in the loss event database. They are monitored using a defined risk indicator for the purpose of early risk identification.

In addition, Rentenbank has established a Compliance function and a central unit for the prevention of money laundering, terrorist financing, and other criminal acts. Such risks, which could put the bank's assets at risk, are identified on the basis of a risk analysis in accordance with Section 25h KWG. Organizational measures are then derived from the risk analysis to optimize risk prevention. For this purpose, the bank also analyzes whether general and bank-specific requirements for an effective organization are complied with.

Risks involved in outsourcing are regarded as operational risks. Rentenbank uses decentralized monitoring for outsourcing arrangements, comprising risk management and risk monitoring. A distinction is made between significant and insignificant outsourcing based on a standardized risk analysis. Significant outsourcing is subject to specific requirements, in particular with respect to the contract, the intervals of the risk analysis, and reporting.

Operating risks as well as event or environmental risks are identified on a bank-wide basis. They are managed and monitored based on their materiality.

The bank has appointed an Information Security Officer (ISO) and implemented an Information Security Management System (ISMS). The ISO monitors compliance with the requirements defined by the ISMS and ensures confidentiality, availability, and integrity of the IT systems. The ISO is involved in the case of critical IT-related incidents.

An emergency manual describes the disaster prevention measures and the emergency procedures in the event of a disaster. Further emergency plans are to be applied in the case of potential business disruptions. The outsourcing of time-critical activities and processes is also included in these plans.

Limitation and reporting

The limits for operational risks of EUR 55 million and EUR 110 million under the normative and economic approaches, respectively, are derived using the modified regulatory basis indicator approach. Reports are prepared on a quarterly basis.

Current risk situation

Under the normative approach, the risk value for operational risk amounted to EUR 52.4 million as of the reporting date (2016: EUR 47.3 million). Under the economic approach, the risk exposure amounted to EUR 104.8 million (2016: EUR 94.6 million) as of the reporting date.

In the fiscal year 2017, one (2016: one) significant incident with a potential loss of more than EUR 100 thousand was entered into the loss event database with a total net loss of EUR 224 thousand (2016: EUR 173 thousand).

Regulatory and reputational risks

Definition

Regulatory risk is the risk that a change in the regulatory environment could adversely affect the bank's business activities or operating profit and that regulatory requirements are not sufficiently met.

Reputational risks refer to the risk of negative economic effects from damages to the bank's reputation.

Quantification and management

Regulatory and reputational risks are quantified and monitored in a stress scenario as part of income planning. To this end, regulatory and reputational risks are assumed to have monetary effects (e. g. increased funding costs or unexpected operating and personnel expenses) on the implementation of regulatory requirements. Furthermore, regulatory and reputational risks are identified within the framework of self-assessments.

Losses incurred are monitored in the loss event database as well as in the monthly target/actual comparisons in the income statement.

Regulatory risks are managed through active involvement in regulatory projects as well as other legal initiatives affecting Rentenbank and by identifying potential consequences for Rentenbank. The Regulatory working group plays a central role in the process. In particular, it is responsible for monitoring and evaluating regulatory and other legal initiatives, as well as for strengthening the compliance structure. To this end, the Regulatory working group initiates and monitors implementation projects. It reports to the Board of Managing Directors on a regular basis.

A code of conduct and professional external corporate communications contribute to the management of reputational risks.

Limitation and reporting

As of the reporting date, the risk limit determined for regulatory and reputational risks amounted to EUR 50 million under the normative approach and to EUR 100 million under the economic approach. Reports are prepared on a quarterly basis. The limits approximate the risk exposures due to the statistical (i. e. yearly) risk quantification.

Current risk situation

As of the reporting date, the risk value determined for regulatory and reputational risks amounted to EUR 46.0 million (2016: EUR 46.8 million) under the normative approach and to EUR 92.0 million (2016: EUR 93.6 million) under the economic approach.

As in the prior year, no loss incurring events related to regulatory or reputational risks occurred during the reporting period.

Financial reporting process

The tasks of the financial reporting process range from account allocation and processing of transactions to preparation of the required annual financial statements.

The objectives of the accounting-related ICS/RMS are to comply with financial reporting standards and regulations as well as to ensure the propriety of accounting.

Rentenbank prepares its financial statements in accordance with HGB and the German Regulation on the Accounting of Banks and Financial Services Institutions *(Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute, RechKredV)*.

The rules are documented in manuals and work instructions. The Finance division monitors these on a regular basis and adjusts them, if necessary, to take into account any changes in legal, regulatory, and process-related requirements. The involvement of the Finance division in the New Product Process ensures that new products are included in a proper manner in the financial reporting system.

The documentation of the financial reporting process complies with the German Generally Accepted Accounting Principles *(Grundsätze ordnungsmäßiger Buchführung, GoB)* and is presented in a manner comprehensible to knowledgeable third parties. The relevant records are kept in accordance with the statutory retention periods.

There is a clear separation of functions of the organizational units primarily involved in the financial reporting process. Money market transactions, loans, securities, and liabilities are entered in corresponding sub-ledgers and are allocated to different organizational units which monitor these sub-ledgers. The data is transferred from the sub-ledgers to the general ledger via automated interfaces. The Finance division is responsible for accounting, the definition of account allocation rules, methodology for booking transactions, parameterization of the accounting software, and the administration of the financial accounting system.

Apart from standard software for the bank's operations, Rentenbank uses internally developed financial accounting software. The granting of authorizations solely for required tasks is intended to protect the financial reporting process against unauthorized access. Plausibility checks are conducted regularly. In addition, the principle of dual control, standardized reconciliation routines as well as target/actual comparisons are intended to ensure that errors are identified and corrected in a timely fashion. These measures also ensure the correct recognition, presentation, and measurement of assets and liabilities.

The Internal Audit department regularly performs process-independent reviews to assess whether the accounting-related ICS/RMS functions efficiently.

Timely, reliable and relevant reports are provided to the responsible persons within the framework of the management information system. The Board of Supervisory Directors and its committees are regularly informed about current business developments by the Board of Managing Directors. They are also informed about extraordinary events without delay.

Balance Sheet of Landwirtschaftliche Rentenbank,

ASSETS

	Notes	EUR million	EUR million	EUR million	Dec. 31, 2016 EUR million
1. Cash and balances with central banks					
a) Cash on hand			0.1		0.2
b) Balances with central banks			28.3		6.5
of which:				**28.4**	6.7
with Deutsche Bundesbank					
EUR 28.3 million (2016: EUR 6.5 million)					
2. Loans and advances to banks	11				
a) Payable on demand			5,669.2		874.8
b) Other loans and advances			54,863.0		56,919.0
				60,532.2	57,793.8
3. Loans and advances to customers	12				
of which: Secured by mortgages					
EUR –.– million (2016: EUR –.– million)					
Municipal loans					
EUR 6,845.7 million (2016: EUR 6,003.4 million)				**6,883.9**	6,048.2
4. Bonds and other fixed-income securities	13/17				
a) Bonds and notes					
aa) Public sector issuers		689.4			1,299.0
of which: Securities eligible as collateral					
with Deutsche Bundesbank					
EUR 560.1 million (2016: EUR 1,175.4 million)					
ab) Other issuers		15,153.4	15,842.8		16,240.7
of which: Securities eligible as collateral					
with Deutsche Bundesbank					
EUR 12,183.6 million (2016: EUR 13,064.8 million)					
b) Own debt securities			27.5		224.9
Nominal amount					
EUR 28.2 million (2016: EUR 300.3 million)				**15,870.3**	17,764.6
5. Shares and other variable-yield securities	14			**0.1**	0.1
6. Participations	15/17				
of which: in banks					
EUR 321.9 million (2016: EUR 321.9 million)					
in financial services institutions					
EUR –.– million (2016: EUR –.– million)				**326.2**	326.2
7. Investments in affiliated companies	15/17				
of which: in banks					
EUR –.– million (2016: EUR –.– million)					
in financial services institutions					
EUR –.– million (2016: EUR –.– million)				**49.6**	49.6
8. Assets held in trust	16				
of which: Loans held in trust					
EUR 112.4 million (2016: EUR 113.0 million)				**112.4**	113.0
9. Intangible assets	17				
a) Purchased concessions, industrial property rights and similar rights				**10.9**	11.4
10. Property and equipment	17			**15.5**	14.8
11. Other assets	18			**5,359.9**	2,918.6
12. Prepaid expenses	19				
a) From issuing and lending business			1,353.2		945.8
b) Other			242.6		259.1
				1,595.8	1,204.9
Total assets				**90,785.2**	86,251.9

as of December 31, 2017

LIABILITIES AND EQUITY

	Notes	EUR million	EUR million	EUR million	Dec. 31, 2016 EUR million
1. Liabilities to banks	20				
a) Payable on demand			38.3		6.4
b) With agreed term or notice period			2,672.3		3,047.2
				2,710.6	3,053.6
2. Liabilities to customers	21/31				
a) Other liabilities					
aa) Payable on demand			162.9		190.6
ab) With agreed term or notice period			3,691.4		3,576.0
				3,854.3	3,766.6
3. Securitized liabilities	22				
a) Debt securities issued				**76,894.5**	69,982.0
4. Liabilities held in trust	23				
of which: Loans held in trust					
EUR 112.4 million (2016: EUR 113.0 million)				**112.4**	113.0
5. Other liabilities	24			**208.8**	2,628.3
6. Deferred income	25				
a) From issuing and lending business			238.6		258.3
b) Other			1,442.6		1,056.3
				1,681.2	1,314.6
7. Provisions	26				
a) Provisions for pensions and similar obligations			111.2		105.6
b) Other provisions			361.1		362.6
				472.3	468.2
8. Subordinated liabilities	27			**405.7**	615.1
9. Fund for general banking risks				**3,195.6**	3,106.9
10. Equity	46				
a) Subscribed capital			135.0		135.0
b) Retained earnings					
ba) Principal reserve pursuant to Section 2 (2)					
of Rentenbank's Governing Law		1,052.7			
Allocations from guarantee reserve		0.1			
Allocations from net income		45.7	1,098.5		1,052.7
bb) Guarantee reserve pursuant to Section 2 (3)					
of Rentenbank's Governing Law		1.1			
Withdrawals pursuant to Section 2 (3)					
of Rentenbank's Governing Law		0.1	1.0		1.1
c) Distributable profit			15.3		14.8
				1,249.8	1,203.6
Total liabilities and equity				**90,785.2**	**86,251.9**
1. Contingent liabilities	29				
a) Liabilities from guarantees and indemnity agreements				**0.9**	1.0
2. Other commitments	30				
a) Irrevocable loan commitments				**956.3**	990.0

Income Statement of Landwirtschaftliche Rentenbank for the period from January 1 to December 31, 2017

	Notes	2017 EUR million	2017 EUR million	2017 EUR million	2016 EUR million
1. Interest income from	39				
a) Lending and money market transactions		3,125.4			3,171.9
b) Fixed-income securities and debt register claims		352.0			469.0
			3,477.4		3,640.9
less negative interest EUR 31.6 million					(19.6)
2. Interest expense	40		3,179.7		3,329.2
less positive interest EUR 4.0 million					(7.3)
				297.7	311.7
3. Current income from					
a) Shares and other variable-yield securities			0.0		0.0
b) Participations			7.9		6.9
				7.9	6.9
4. Fee and commission income			0.1		0.2
5. Fee and commission expense			2.0		2.3
				–1.9	(2.1)
6. Other operating income	41			**5.4**	9.2
7. Administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		26.0			24.7
ab) Social security contributions and expenses for pensions and other employee benefits		5.9			3.7
			31.9		28.4
of which: for pensions EUR 2.6 million					(0.4)
b) Other administrative expenses			31.5		25.7
				63.4	54.1
8. Depreciation, amortization and write-downs of intangible assets and property and equipment				**5.9**	7.0
9. Other operating expenses	42			**14.9**	9.1
10. Write-downs of and allowances for loans and advances and certain securities as well as additions to loan loss provisions				**101.8**	0.4
11. Income from reversals of write-downs of participations, investments in affiliated companies and securities held as fixed assets				**27.8**	0.7
12. Additions to the fund for general banking risks				**88.7**	195.7
13. Profit on ordinary activities				**62.2**	60.1
14. Taxes on income			1.1		1.0
15. Other taxes not included in item „Other operating expenses"			0.1		0.1
				1.2	1.1
16. Net income				**61.0**	59.0
17. Withdrawals from retained earnings					
from guarantee reserve pursuant to Section 2 (3) of Rentenbank's Governing Law				**0.1**	21.6
18. Allocations to retained earnings					
to principal reserve pursuant to Section 2 (2) of Rentenbank's Governing Law					
from guarantee reserve				**0.1**	21.6
from net income				**45.7**	44.2
19. Distributable profit				**15.3**	14.8

Cash flow statement for the period ended December 31, 2017

EUR million	2017	2016
Net income/loss for the period	61	59
Depreciation and write-downs of, allowances for and reversals of write-downs of loans and advances and fixed assets	7	6
Increase/decrease in provisions	4	10
Other non-cash expenses/income	224	196
Other adjustments (net)	−233	−226
Increase/decrease in loans and advances to banks	−2,873	−2,112
Increase/decrease in loans and advances to customers	−835	−743
Increase/decrease in other assets from operating activities	−2,835	−95
Increase/decrease in liabilities to banks	−343	−408
Increase/decrease in liabilities to customers	87	−196
Increase/decrease in securitized liabilities	6,912	2,677
Increase/decrease in other liabilities from operating activities	−2,071	72
Interest expense/interest income	−298	−312
Income tax expense/income	1	1
Interest and dividends received	3,655	3,779
Interest paid	−3,124	−3,241
Income taxes paid	−1	−1
Cash flows from operating activities	**−1,662**	**−534**
Proceeds from disposal of financial investments	4,338	3,740
Payments for investments in financial investments	−2,443	−3,201
Payments for investments in property and equipment	−2	−1
Payments for investments in intangible fixed assets	−4	−4
Cash flows from investing activities	**1,889**	**534**
Appropriation of distributable profit pursuant to Section 9 of Rentenbank's Governing Law	−15	−14
Net change resulting from other financing activities	−191	–
Cash flows from financing activities	**−206**	**−14**
Net change in cash and cash equivalents	21	−14
Cash and cash equivalents at beginning of period	7	21
Cash and cash equivalents at end of period	**28**	**7**

The cash flow statement shows the changes in cash and cash equivalents for the fiscal years 2017 and 2016 from operating, investing, and financing activities. Cash and cash equivalents correspond to cash and balances with central banks reported in the balance sheet.

The allocation of cash flows to operating activities is based on the definition of operating profit. The cash flows from investing and financing activities were directly derived from financial accounting. The cash flows from investing activities result from proceeds from and payments for property and equipment and intangible assets as well as from proceeds from and payments for securities held as fixed assets. The net change resulting from financing activities comprises proceeds from and payments for regulatory tier 2 capital as well as the appropriation of our distributable profit.

The cash flow statement was prepared in accordance with the provisions set out in German Accounting Standard 21.

The cash flow statement is only of limited informative value as an indicator of the liquidity position. For further details on the liquidity management, please refer to the information provided in the management report.

Statement of changes in equity as of December 31, 2017

EUR million	Subscribed capital	Principal reserve	Guarantee reserve	Distributable profit	Total 2017
Equity as of Jan. 1	135.0	1,052.7	1.1	14.8	1,203.6
Profit distribution	–	–	–	– 14.8	– 14.8
Net income	–	45.7	–	15.3	61.0
Allocation to/withdrawal from guarantee reserve	–	0.1	– 0.1	–	–
Equity as of Dec. 31	**135.0**	**1,098.5**	**1.0**	**15.3**	**1 249.8**

Statement of changes in equity as of December 31, 2016

EUR million	Subscribed capital	Principal reserve	Guarantee reserve	Distributable profit	Total 2016
Equity as of Jan. 1	135.0	986.9	22.7	14.3	1,158.9
Profit distribution	–	–	–	– 14.3	– 14.3
Net income	–	44.2	–	14.8	59.0
Allocation to/withdrawal from guarantee reserve	–	21.6	– 21.6	–	–
Equity as of Dec. 31	**135.0**	**1,052.7**	**1.1**	**14.8**	**1,203.6**

Notes

Basis of accounting

Landwirtschaftliche Rentenbank (hereinafter referred to as Rentenbank) has its registered office in Frankfurt am Main. The bank is registered in the Commercial Register of the Local Court of Frankfurt am Main under registration number HRA 30636.

The annual financial statements of Rentenbank have been prepared in accordance with the provisions of the German Commercial Code *(Handelsgesetzbuch, HGB)* and the German Regulation on the Accounting of Banks and Financial Services Institutions *(Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute, RechKredV)*. The structure of the balance sheet and the income statement is based on the templates set out in RechKredV. Balance sheet items that are included in the template, but not used at Rentenbank are not reported.

Taking into account the exemption as set out in Section 290 (5) in conjunction with Section 296 (2) HGB, Rentenbank is not required by law to prepare consolidated financial statements in accordance with the German Commercial Code. Consequently, pursuant to Section 315e HGB, Rentenbank is not required to prepare consolidated financial statements in accordance with IFRS. Voluntary consolidated financial statements of Rentenbank were not prepared.

Rentenbank is exempt from corporation tax in accordance with Section 5 (1) No. 2 of the German Corporation Tax Act *(Körperschaftssteuergesetz, KStG)* and trade tax in accordance with Section 3 No. 2 of the German Trade Tax Act *(Gewerbesteuergesetz, GewStG)*. Accordingly, deferred taxes pursuant to Section 274 HGB do not have to be recognized in the annual financial statements of Rentenbank.

Accounting policies

(1) General disclosures

Assets, liabilities and pending transactions are measured pursuant to the provisions of Sections 252 et seq. HGB, taking into account the supplementary provisions for credit institutions (Sections 340 et seq. HGB). The annual financial statements as of December 31, 2017 are generally based on the same accounting policies as were applied in the prior year's annual financial statements. Changes, if any, are described below.

Rentenbank does not have a trading book pursuant to Section 1 (35) of the German Banking Act *(Kreditwesengesetz, KWG)* in conjunction with Article 4 (1) No. 86 of Regulation (EU) No. 575/2013.

(2) Recognition and measurement of financial instruments

In accordance with Section 11 RechKredV, pro rata interest is reported in the corresponding balance sheet item.

<u>Loans and advances/liabilities</u>

Loans and advances are accounted for pursuant to Section 340e (2) HGB, i.e. at their nominal amount less impairment losses, if any. Liabilities are recognized at their settlement amount in accordance with Section 253 (1) sentence 2 HGB. Premiums and discounts from loans and advances as well as from liabilities are reported as either prepaid expenses or deferred income. Zero bonds are recognized at their issue price plus pro rata interest based on the issue yield.

<u>Securities</u>

All securities are carried at amortized cost less any impairment. Reversals of impairment losses are recognized if the reasons for the impairment no longer apply.

Bonds are generally measured on the basis of market data provided by external service providers. If such market data are not available, bonds are measured using the discounted cash flow method. The valuation is based on the risk-free interest rate curve of the relevant currency zone plus a credit spread with a matching maturity.

Fixed-income securities held as fixed assets are measured using the moderate lower-of-cost-or-market rule pursuant to Section 253 (3) sentence 5 HGB. Following the criteria defined by the Insurance Committee of the Institute of Public Auditors in Germany (IDW), Rentenbank assumes that an impairment is permanent when the bond price was more than 20 % below the carrying amount of the bond in the last six months prior to the balance sheet date or when the average of the daily market prices of the last twelve months was more than 10 % below the carrying amount.

Since these securities are expected to be held over the long term, no write-downs to fair value are recognized if the impairment is considered temporary. In particular, write-downs are not recognized when the identified impairment is only of a temporary nature with respect to future financial performance and it is expected that the securities are fully repaid when due.

Shares as well as bonds and other fixed-income securities, to the extent allocated to the liquidity reserve, are measured using the strict lower-of-cost-or-market rule (Section 253 (4) HGB). These instruments are written down to their lower fair value.

Participations and affiliated companies

Participations and investments in affiliated companies are carried at cost less any write-downs.

Derivatives

Derivatives are only used as hedging instruments for existing or expected market risks. Valuation effects from derivatives are taken into account within the context of the loss-free valuation of the banking book.

Other assets/liabilities

Other assets and liabilities are recognized at the nominal amount.

(3) Determination of the fair value for financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value is determined by using either directly observable market prices or own calculations on the basis of valuation models and observable market parameters. The fair value of contracts without option features is determined on the basis of the discounted expected future cash flows (discounted cash flow (DCF) method). Hedged items are discounted using a basis curve plus a credit spread that depends on credit quality.

The discounting of derivatives is based on the OIS (Overnight Interest Rate Swap) curve as well as on basis swap spreads and cross-currency (CCY) basis swap spreads. They are distinguished by maturity and currency, and obtained from external market data providers. Contracts with option features (option-based contracts) are valued using standard option pricing models. Apart from the interest rate curves and spreads mentioned above, volatilities and correlations between observable market data are also taken into account in the calculation.

(4) Provision for loan losses

Any identifiable risks in the lending business are taken into account through the recognition of specific valuation allowances or provisions. Latent (credit) risks are taken into account through the fund for general banking risks reported in the balance sheet as well as by recognizing general valuation allowances and contingency reserves pursuant to Section 340f HGB.

As of each balance sheet date, Rentenbank assesses whether there is any objective evidence that all interest and principal payments may not be made in accordance with the contractual terms. For accounting purposes, the bank uses the following criteria to determine whether the recognition of a specific valuation allowance is required:

- Internal credit rating as non-investment-grade
- Non-performing, forborne or restructured exposures
- Significant deterioration in the business partner's credit quality
- Significant deterioration in the credit quality of the business partner's country of incorporation

General valuation allowances are calculated using the total loan volume subject to risks pursuant to Section 19 (1) KWG, the probability of default, and the loss given default (LGD) rate. Bonds and notes are taken into account to the extent that they are recognized at amortized cost.

In the year under review, the loan portfolio model was refined in the context of credit risk measurement. Consequently, adjustments were made to the probabilities of default and the LGD rates, which also affected the calculation of general valuation allowances. In addition, the loan volume is no longer derived from the carrying amount, but is determined on the basis of the discounted cash flows with a residual maturity of more than one year.

Due to the low number of defaults at Rentenbank, probabilities of default are determined using a long-term average of the 1-year probabilities of default provided by the rating agencies Fitch, Moody's, and Standard & Poor's. The probabilities of default are allocated on the basis of the credit quality of the respective business partner, and no longer on the basis of the credit quality of specific products.

The LGD rates for specific products and types of business transactions are determined using an analytical and expert-based procedure, taking into account the respective collateralization; they are no longer taken into account at a lump-sum rate of 45 % in accordance with the regulatory basic IRB approach.

The adjustments have a reciprocal effect on the calculated general valuation allowance. Since the effect of the new LGD rates of specific products and types of business transactions is the predominant one, Rentenbank reversed general valuation allowances in the amount of EUR 16 million through profit or loss. For securities, EUR 0.9 million was allocated to the general valuation allowance.

The new methodology for the calculation of the input parameters for the general valuation allowances is a justified exception as set out in Section 252 (2) HGB. The use of an expert-based procedure leads to a more accurate measurement of latent default risks and, therefore, to a more precise presentation of a true and fair view of the net assets, financial position, and results of operations.

(5) Loss-free valuation of the banking book

In accordance with the IDW statement on individual aspects of the loss-free valuation of interest-bearing transactions in the banking book (interest book) (IDW RS BFA 3), a provision for contingent losses must be recognized for any excess obligations resulting from the banking/interest book in an overall assessment of the transactions.

A periodic (income statement) approach was used to calculate the amount required to be recognized as a provision within the context of the loss-free valuation of the banking book. The banking book comprises all interest-bearing transactions of the bank and is managed on a uniform basis. For calculation purposes, future gains or losses in the banking book were determined by income contributed by closed and open interest rate positions.

These future cash flows were discounted as of the reporting date using generally recognized money market and capital market rates which correspond to the respective period. Risk costs were calculated on the basis of future expected losses and the pro rata share of administrative expenses for portfolio management was determined on the basis of internal analyses. As of December 31, 2017, there was no need for provisions on the basis of this calculation.

(6) Assets/liabilities held in trust

Assets and liabilities held in trust are reported as separate balance sheet items pursuant to Section 6 RechKredV. Owing to the relation between assets held in trust and liabilities held in trust, both are recognized at the nominal amount.

(7) Property and equipment and intangible assets

In accordance with German commercial law, property and equipment as well as intangible assets are recorded at cost, less any depreciation and amortization over their estimated useful lives.

Depreciation of property and equipment as well as amortization of intangible assets are recognized using the straight-line method over their estimated useful lives, ranging from 33 to 50 years for buildings and from three to six years for operating and office equipment. Intangible assets are amortized on a straight-line basis over a period of four years.

(8) Prepaid expenses/deferred income

Prepaid expenses and deferred income are reported pursuant to Section 250 (1) HGB and are amortized pro rata temporis over the relevant term using the effective interest method.

(9) Provisions

Provisions are recognized as liabilities at their expected settlement amount applying the principles of prudent business judgment and taking into account future price and cost increases. Provisions with a remaining term of more than one year are discounted to the balance sheet date.

<u>Pension provisions</u>

Pension obligations are discounted using the average market interest rate for the past ten fiscal years which correspond to the remaining term of the provisions. The rates used are determined and published monthly by the Deutsche Bundesbank in accordance with the German Regulation on the Discounting of Provisions *(Rückstellungsabzinsungsverordnung, RückAbzinsV)*. Pursuant to Section 253 (2) sentence 2 HGB, provisions for pension obligations are discounted at the average market interest rate applicable to an assumed remaining term of 15 years.

In accordance with Section 253 HGB, as amended in 2016, provisions for pension obligations are discounted using the average market interest rate for the past ten fiscal years in accordance with their remaining term (until and including 2015: average market interest rate for the past seven fiscal years). The resulting difference was EUR 14 million in 2017 (2016: EUR 11 million). In accordance with Section 253 (6) sentence 2 HGB, profits may only be distributed if the distributable reserves remaining after distribution, adding profit carried forward and deducting loss carried forward, at least equal the difference determined pursuant to Section 253 (6) sentence 1 HGB.

Pension provisions are measured in accordance with actuarial principles, using the projected unit credit (PUC) method. Under the PUC method, the provision amount is defined as the actuarial present value of the pension obligations, earned by the employees in the past periods of service prior to the relevant date in accordance with the pension benefit formula and vesting provisions. The 2005 G mortality tables, developed by Prof. Dr. Klaus Heubeck and fully adjusted in 2016, were used as the biometric calculation parameters (2016: full adjustment for 2011). The following parameters were used as the basis for the calculation as of December 31, 2017:

	2017	2016
Discount rate pursuant to Section 253 (2) sentence 2 HGB	3.68 % p. a.	4.01 % p. a.
Career trend	1.00 % p. a.	1.00 % p. a.
Expected rate of salary increases	2.25 % p. a.	2.25 % p. a.
Expected rate of pension increases (range of adjustments)	1.0 – 2.25 % p. a.	1.0 – 2.25 % p. a.
Employee turnover	average 3.50 % p. a.	average 2.00 % p. a.
Increase in Consumer Price Index (CPI)	1.75 % p. a.	1.50 % p. a.
Development of contribution ceiling	2.50 % p. a.	2.50 % p. a.

Other provisions

Other provisions are discounted at the average market interest rates for the past seven fiscal years which correspond to the remaining term of the provisions. The rates used are determined and published monthly by the Deutsche Bundesbank in accordance with the German Regulation on the Discounting of Provisions.

Provisions for special promotional loans cover the interest rate reductions for the whole term or until the repricing date. The provisions recorded prior to the BilMoG adjustment for the interest rate reductions granted for special promotional loans are maintained by reference to the option available under Article 67 (1) sentence 2 of the Introductory Act to the Commercial Code *(Einführungsgesetz zum Handelsgesetzbuch, EGHGB)*.

(10) Valuation units/currency translation

Currency translation and the presentation of the transactions in the balance sheet without currency hedging are made pursuant to Section 340h in conjunction with Section 256a HGB and Section 252 (1) No. 4 HGB. In accordance with Section 277 (5) sentence 2 HGB, gains from currency translation are reported in other operating income, while losses from currency translation are recorded in other operating expenses.

Rentenbank uses FX swaps and cross-currency swaps to hedge currency risks. Currency hedges are presented in the balance sheet using valuation units pursuant to Section 254 HGB. In these valuation units, the cash flows of the hedged item are fully reflected in the hedging instrument, i. e. the derivative (perfect hedge). The bank utilizes the net hedge presentation method *(Einfrierungsmethode)* to offset value changes between the hedged item and the hedging instrument. To measure the effectiveness of hedging relationships, the bank uses the critical terms match method which compares the cash flows of the hedged item with those of the hedging instrument. Exchange rate fluctuations of the corresponding hedged items and hedging derivatives offset each other over the remaining period to their respective maturity dates.

If necessary, additional hedged items and hedging instruments are combined into valuation units within the meaning of Section 254 HGB.

Foreign currency-denominated assets, liabilities and pending transactions were translated into euro at the mid spot rate as of December 29, 2017. For this purpose, Rentenbank uses the reference rate of the European System of Central Banks (ESCB).

Notes to the balance sheet

The following notes and disclosures are presented in the order in which the individual items are presented in the balance sheet. Differences between the amounts shown below and those reported in the balance sheet result from the exclusion of pro rata interest.

(11) Loans and advances to banks

Breakdown by residual maturity	Dec. 31, 2017 EUR million	Dec. 31, 2016 EUR million
Payable on demand	5,669	875
Other loans and advances		
– up to 3 months	2,155	3,988
– more than 3 months to 1 year	5,921	6,190
– more than 1 year to 5 years	22,566	23,052
– more than 5 years	23,400	22,845
Total amount	**59,711**	**56,950**

As in the prior year, loans and advances to banks do not include loans and advances to affiliated companies. Loans and advances to companies in which participating interests are held amount to EUR 4,517 million (2016: EUR 4,102 million).

(12) Loans and advances to customers

Breakdown by residual maturity	Dec. 31, 2017 EUR million	Dec. 31, 2016 EUR million
– up to 3 months	97	15
– more than 3 months to 1 year	417	294
– more than 1 year to 5 years	1,148	1,329
– more than 5 years	5,029	4,234
Total amount	**6,691**	**5,872**

As in the previous year, loans and advances to customers do not include loans and advances to affiliated companies. As of December 31, 2017, there were no loans and advances to companies in which participating interests are held, consistent with the prior year. In addition, there are no loans and advances to customers with an indefinite term within the meaning of Section 9 (3) No. 1 RechKredV.

(13) Bonds and other fixed-income securities

The total portfolio of bonds and other fixed-income securities is carried as financial investments. As in the previous year, no securities are held in the liquidity reserve.

Securities held as fixed assets are recorded at a carrying amount of EUR 15,677 million (2016: EUR 17,508 million). The carrying amount of securities reported at amounts exceeding their fair value of EUR 879 million totals EUR 893 million. The fair value of these securities was determined on the basis of market prices. As in the prior year, there is no permanent impairment. Accordingly, the unrecognized write-downs amount to EUR 14 million (2016: EUR 13 million).

As in the prior year, bonds and other fixed-income securities do not include securities of affiliated companies or companies in which participating interests are held.

Disclosures on stock exchange listing and residual maturity:

Stock exchange listing	Dec. 31, 2017 EUR million	Dec. 31, 2016 EUR million
– Listed securities	15,332	17,195
– Unlisted securities	346	313
Total amount	**15,678**	**17,508**

Residual maturity of up to 1 year	Dec. 31, 2017 EUR million	Dec. 31, 2016 EUR million
from public sector issuers	–	205
from other issuers	1,917	3,007
Total amount	**1,917**	**3,212**

(14) Shares and other variable-yield securities

As in the previous year, all of the shares and other variable-yield securities held are marketable and listed.

(15) Participations and investments in affiliated companies

Rentenbank holds participations in the amount of EUR 326 million (2016: EUR 326 million) and investments in affiliated companies in the amount of EUR 50 million (2016: EUR 50 million). As in the previous year, participations and investments in affiliated companies do not include marketable securities.

(16) Assets held in trust

Breakdown	Dec. 31, 2017 EUR million	Dec. 31, 2016 EUR million
Receivables from the Special Purpose Fund of the Federal Republic held at Rentenbank	112	113
Loans and advances to banks	0	0
Total amount	**112**	**113**

(17) Fixed assets

Statement of changes in fixed assets in EUR million

	Intangible assets	Property and equipment		Financial investments		
	Software and licenses	Land and buldings	OOE*	Securities	Participa-tions	Investments in affiliated companies
Historical cost						
Cost as of Jan. 1, 2017	31	20	12	17,765	326	50
Additions	4	–	2			
Disposals	–	–	0			
Transfers	–	–	–			
Net changes in financial investments**				– 1,895	–	–
Cost as of Dec. 31, 2017	35	20	14	15,870	326	50
Depreciation, amortization, write-downs						
Accumulated depreciation, amortization and write-downs as of Jan. 1, 2017	19	6	11			
Accumulated depreciation, amortization and write-downs from disposals	–	–	0			
Depreciation, amortization and write-downs 2017	5	1	1			
Accumulated depreciation, amortization and write-downs as of Dec. 31, 2017	24	7	12			
Reversals of write-downs	–	–	–			
Carrying amount as of Dec. 31, 2017	**11**	**13**	**2**	**15,870**	**326**	**50**
Carrying amount as of Dec. 31, 2016	11	14	1	17,765	326	50

* Operating and office equipment
** Net change pursuant to Section 34 (3) sentence 2 RechKredV

(18) Other assets

Breakdown	Dec. 31, 2017 EUR million	Dec. 31, 2016 EUR million
Cash collateral provided for derivatives	5,359	2,918
Total amount	**5,359**	**2,918**

(19) Prepaid expenses

Breakdown	Dec. 31, 2017 EUR million	Dec. 31, 2016 EUR million
Premium from lending business	1,056	700
Discount from issuing business	297	246
Upfront payments from derivative transactions	241	257
Total amount	**1,594**	**1,203**

(20) Liabilities to banks

Breakdown by residual maturity	Dec. 31, 2017 EUR million	Dec. 31, 2016 EUR million
– up to 3 months	–	230
– more than 3 months to 1 year	200	315
– more than 1 year to 5 years	590	1,065
– more than 5 years	1,190	680
Total amount	**1,980**	**2,290**

As in the prior year, liabilities to banks do not include liabilities to affiliated companies. Liabilities to companies in which participating interests are held amount to EUR 0 million (2016: EUR 0 million).

(21) Liabilities to customers

Breakdown by residual maturity	Dec. 31, 2017 EUR million	Dec. 31, 2016 EUR million
Other liabilities		
– up to 3 months	36	53
– more than 3 months to 1 year	146	33
– more than 1 year to 5 years	692	816
– more than 5 years	2,721	2,580
Total amount	**3,595**	**3,482**

Liabilities to customers include liabilities to affiliated companies in the amount of EUR 101 million (2016: EUR 134 million). Liabilities to companies in which participating interests are held amount to EUR 1 million (2016: EUR 1 million).

Liabilities to customers were covered by assets in accordance with Section 13 (2) of Rentenbank's Governing Law in the amount of EUR 19 million (2016: EUR 22 million).

(22) Securitized liabilities

Breakdown by residual maturity	Dec. 31, 2017 EUR million	Dec. 31, 2016 EUR million
Debt securities issued		
– up to 1 year	19,959	16,157
– more than 1 year to 5 years	31,810	33,576
– more than 5 years	24,688	19,752
Total amount	**76,457**	**69,485**

(23) Liabilities held in trust

Breakdown	Dec. 31, 2017 EUR million	Dec. 31, 2016 EUR million
Liabilities from the Special Purpose Fund of the Federal Republic held at Rentenbank	112	113
Liabilities to customers	0	0
Total amount	**112**	**113**

(24) Other liabilities

Breakdown	Dec. 31, 2017 EUR million	Dec. 31, 2016 EUR million
Cash collateral received for derivatives	202	2,623
Total amount	**202**	**2,623**

(25) Deferred income

Breakdown	Dec. 31, 2017 EUR million	Dec. 31, 2016 EUR million
Discount from lending business	3	4
Premium from issuing business	236	254
Upfront payments received from derivative transactions	1,419	1,031
Total amount	**1,658**	**1,289**

(26) Provisions

This balance sheet item includes provisions for pension obligations of EUR 111 million (2016: EUR 106 million) to employees who are contractually entitled to receive pension benefits. Other provisions consist of the following:

Other provisions	Dec. 31, 2017 EUR million	Dec. 31, 2016 EUR million
Interest rate reduction for special promotional loans	334	334
Promotion of agricultural research and innovation	9	9
Promotion of agriculture (Promotional Fund)	4	3
Miscellaneous provisions	14	17
Total amount	**361**	**363**

(27) Subordinated liabilities

Breakdown by residual maturity	Dec. 31, 2017 EUR million	Dec. 31, 2016 EUR million
– up to 1 year	31	33
– more than 1 year to 5 years	335	303
– more than 5 years	40	279
Total amount	**406**	**615**

The subordinated liabilities are issued in the form of promissory notes (carrying amount: EUR 50 million), loan agreements (carrying amount: EUR 93 million), and bearer securities issued as global certificates (carrying amount: EUR 263 million). The net interest expense for subordinated liabilities after collateralization totals EUR 1 million, unchanged from the prior year.

Disclosures pursuant to Section 35 (3) No. 2 RechKredV in relation to funds raised in an amount exceeding 10 % each of the total amount of subordinated liabilities:

1. Bond of JPY 10 billion;
   carrying amount: EUR 62 million;
   maturity: October 28, 2019;
   interest rate before collateralization: 2.0 %
2. Bond of EUR 100 million;
   carrying amount: EUR 100 million;
   maturity: August 18, 2021;
   interest rate before collateralization: 1.003 %
3. Bond of EUR 100 million;
   carrying amount: EUR 100 million;
   maturity: August 18, 2021;
   interest rate before collateralization: 1.033 %

(28) Foreign currency assets and liabilities

As of the balance sheet date, assets denominated in foreign currency amounted to EUR 4,431 million (2016: EUR 4,808 million), and liabilities denominated in foreign currency stood at EUR 49,970 million (2016: EUR 52,650 million).

(29) Contingent liabilities

The contingent liabilities of EUR 1 million (2016: EUR 1 million) generally result from deficiency guarantees. Rentenbank entered into deficiency guarantees with respect to capital market loans granted at a reduced rate of interest for which the federal government has provided counter-guarantees. We do not expect these guarantees to be called upon.

(30) Other commitments

Other commitments consist of irrevocable loan commitments of EUR 956 million (2016: EUR 990 million) in the special promotional loan business.

The irrevocable loan commitments result from loan commitments where Rentenbank has made a binding commitment to its customers, thus resulting in a potential credit risk for the bank. Based on experience from previous years, Rentenbank expects that drawdowns on these irrevocable loan commitments will be made almost entirely in 2018.

(31) Cover calculation

The outstanding liabilities requiring cover include only registered bonds of EUR 19 million (2016: EUR 22 million). An amount of EUR 43 million (2016: EUR 97 million) of loans and advances to banks is designated to cover debt securities issued.

Notes to the income statement

Expenses and income do not include any significant amounts relating to prior years.

(32) Interest income

Interest income from cash collateral provided as well as from lending and money market transactions is reported net of negative interest of EUR 31.6 million (i.e. reducing income by this amount). Interest income includes the pro rata temporis utilization of the corresponding provisions of EUR 85.1 million, used for the interest rate reduction granted for special promotional loans (2016: EUR 83.6 million).

(33) Interest expense

Interest expense is reported net of positive interest of EUR 4.0 million from money market liabilities and cash collateral received (i.e. reducing expenses by this amount).

Interest expense for the provisions for the interest rate reduction granted for special promotional loans amounted to EUR 74.9 million in 2017 (2016: EUR 82.9 million). In addition, interest expense includes effects of EUR 10.4 million from the compounding of these provisions (2016: EUR 12.3 million).

(34) Other operating income

Disclosures on the most important items pursuant to Section 35 (1) No. 4 RechKredV:

Item 6: Other operating income	Dec. 31, 2017 EUR million	Dec. 31, 2016 EUR million
Rental income from residential buildings and real estate	2	2
Income from reversals of provisions	1	0
Capitalization of project collaboration of internal employees	1	0
Other refunds	1	1
Income from the early repurchase of the bank’s own issue	–	5

Other operating income includes currency translation gains of EUR 0.7 thousand (2016: EUR 8.6 thousand). These currency translation gains result exclusively from the currency translation of balances on current accounts in foreign countries.

(35) Other operating expenses

Disclosures on the most important items pursuant to Section 35 (1) No. 4 RechKredV:

Item 9: Other operating expenses	Dec. 31, 2017 EUR million	Dec. 31, 2016 EUR million
Interest expense from the valuation of pension provisions	9	2
Grants for the Research on Agricultural Innovation program	4	3
Additions to promotional contribution	1	0
Canteen expenses	1	1
Additions to provision for pending litigation	0	2

Other operating expenses include currency translation losses of EUR 7.0 thousand (2016: EUR 33.1 thousand). These currency translation losses result exclusively from the currency translation of balances on current accounts in foreign countries.

Other disclosures

(36) Derivative financial instruments

Derivatives are only used as hedging instruments for existing or expected market risks. The volume of the transactions is capped by counterparty-specific and product-specific limits and is continuously monitored within the framework of our risk management.

Derivative transactions

The notional amount of the derivative transactions totaled EUR 159,220 million as of December 31, 2017 (2016: EUR 161,576 million).

The following table shows the derivatives not accounted for at fair value in accordance with Section 285 No. 19 HGB (netting and collateral agreements have not been taken into account):

Derivatives in the banking book to hedge	Notional amounts		Fair values positive	Fair values negative
	Dec. 31, 2017 EUR million	Dec. 31, 2016 EUR million	Dec. 31, 2017 EUR million	Dec. 31, 2017 EUR million
Interest rate risks				
Interest rate swaps	104,115	103,758	1,176	4,702
– Of which termination and conversion rights embedded in swaps	1,025	1,149	34	11
Swaptions				
– Sales	958	958	–	2
Total exposure to interest rate risks	**105,073**	**104,716**	**1,176**	**4,704**
Currency risks				
Cross-currency swaps	43,192	50,964	1,389	3,005
– Of which currency options embedded in swaps	44	49	3	–
FX swaps	10,955	5,896	10	180
Total exposure to currency risks	**54,147**	**56,860**	**1,399**	**3,185**
Total exposure to interest rate and currency risks	**159,220**	**161,576**	**2,575**	**7,889**

The following table presents a breakdown of the derivative transactions by residual maturity:

Derivatives in the banking book	Notional amounts Interest rate risks		Notional amounts Currency risks	
	Dec. 31, 2017 EUR million	Dec. 31, 2016 EUR million	Dec. 31, 2017 EUR million	Dec. 31, 2016 EUR million
– up to 3 months	3,624	4,908	9,042	8,637
– more than 3 months to 1 year	10,729	10,802	7,724	7,313
– more than 1 year to 5 years	48,348	51,132	20,821	24,692
– more than 5 years	42,372	37,874	16,560	16,218
Total	**105,073**	**104,716**	**54,147**	**56,860**

The table below provides a breakdown of the derivative transactions by counterparty:

Derivatives in the banking book	Notional amounts		Fair values positive	Fair values negative
	Dec. 31, 2017 EUR million	Dec. 31, 2016 EUR million	Dec. 31, 2017 EUR million	Dec. 31, 2017 EUR million
Banks in OECD countries	147,013	150,889	2,459	7,157
Other counterparties in OECD countries	11,895	10,687	116	711
Banks in non-OECD countries	312	–	–	21
Total	**159,220**	**161,576**	**2,575**	**7,889**

(37) Disclosures on valuation units pursuant to Section 285 No. 23 HGB

The following table provides an overview of the hedged items in valuation units as of the balance sheet date:

Balance sheet item	Hedged risk	Carrying amount 2017 EUR million	Carrying amount 2016 EUR million
Bonds and other fixed-income securities	Currency	4,388	4,176
Liabilities to customers	Currency	163	136
Securitized liabilities	Currency	51,219	48,473
Subordinated liabilities	Currency	156	332

(38) Remuneration of the Board of Managing Directors and the Board of Supervisory Directors

In the fiscal year 2017, the total remuneration paid to the members of the Board of Managing Directors of Rentenbank in accordance with Section 285 No. 9b HGB amounted to EUR 1,817 thousand (2016: EUR 2,282 thousand). The following remuneration was paid to the individual members of the Board of Managing Directors in the fiscal year 2017:

Breakdown	Fixed remuneration EUR thousand	Variable remuneration* EUR thousand	Other remuneration EUR thousand	Total EUR thousand
Hans Bernhardt	715	27	41	783
Dr. Horst Reinhardt	715	27	27	769
Imke Ettori **	–	–	265	265
Board of Managing Directors, total	**1,430**	**54**	**333**	**1,817**

* Pro rata variable remuneration for the fiscal year 2015

** Stepped down from the Board of Managing Directors on September 30, 2016

As of December 31, 2017, provisions for pension obligations to the former members of the Board of Managing Directors and their surviving dependents totaled EUR 14,946 thousand (2016: EUR 15,017 thousand). Current benefit payments amounted to EUR 1,258 thousand (2016: EUR 1,253 thousand).

In accordance with the remuneration regulations, the Chairman of the Board of Supervisory Directors receives an annual basic remuneration of EUR 30 thousand, his Deputy Chairman EUR 20 thousand, and all other members of the Board of Supervisory Directors EUR 10 thousand each. In addition, the members of the Supervisory Board who are members of a committee receive remuneration of EUR 2 thousand and members who chair a committee EUR 4 thousand. The total remuneration of the Board of Supervisory Directors in the year under review amounted to EUR 290 thousand (2016: EUR 283 thousand, including VAT).

The following table shows the individual remuneration (excluding VAT):

	Membership		Remuneration	
	2017	2016	2017 EUR thousand	2016 EUR thousand
Joachim Rukwied	Jan. 1 – Dec. 31	Jan. 1 – Dec. 31	42.0	42.0
Christian Schmidt [1]	Jan. 1 – Dec. 31	Jan. 1 – Dec. 31	22.0	22.0
Udo Folgart	Jan. 1 – Dec. 31	Jan. 1 – Dec. 31	14.0	14.0
Bernhard Krüsken	Jan. 1 – Dec. 31	Jan. 1 – Dec. 31	16.0	15.5
Michael Reuther	Jan. 1 – Dec. 31	Jan. 1 – Dec. 31	14.0	14.0
Dr. Caroline Toffel	Jan. 1 – Dec. 31	Jan. 1 – Dec. 31	14.0	14.0
Werner Hilse	Jan. 1 – Dec. 31	Jan. 1 – Dec. 31	12.0	12.0
Manfred Nüssel	Jan. 1 – Dec. 31	Jan. 1 – Dec. 31	12.0	12.0
Harald Schaum	Jan. 1 – Dec. 31	Jan. 1 – Dec. 31	12.0	12.0
Brigitte Scherb	Jan. 1 – Dec. 31	Jan. 1 – Dec. 31	12.0	12.0
Dr. Marcus Pleyer	Jan. 1 – Dec. 31	Jan. 1 – Dec. 31	16.0	14.5
Werner Schwarz	Jan. 1 – Dec. 31	Jan. 1 – Dec. 31	10.0	10.0
Dr. Rolf Bösinger	Jan. 1 – Dec. 31	Jan. 1 – Dec. 31	10.0	10.0
Birgit Keller	Jan. 1 – Dec. 31	Jan. 1 – Dec. 31	10.0	10.0
Peter Hauk	Jan. 1 – Dec. 31	May 12 – Dec. 31	10.0	6.3
Dr. Werner Hildenbrand	Feb. 2 – Dec. 31	–	9.2	–
Dr. Hermann Onko Aeikens	Mar. 20 – Dec. 31	–	12.4	–
Dr. Birgit Roos	Apr. 6 – Dec. 31	–	9.0	–
Wolfgang Reimer	–	Jan. 1 – May 2	–	3.3
Georg Fahrenschon	–	Jan. 1 – June 30	–	7.0
Konrad Weiterer	–	Jan. 1 – Aug. 24	–	6.7
Dr. Robert Kloos	–	Jan. 1 – Dec. 31	–	14.0
Total remuneration			**256.6**	**251.3**

[1] Direct donations to Bundesverband „Deutsche Tafel e. V.," „Trägerverein Jüdisches Museum Franken e. V." and „Rumänienhilfe Markt Nordheim e.V."

(39) Average number of employees pursuant to Section 267 (5) HGB

Employees	2017			2016		
	Male	Female	Total	Male	Female	Total
Full-time employees	149	79	228	141	80	221
Part-time employees	8	49	57	9	48	57
Total	**157**	**128**	**285**	**150**	**128**	**278**

Overall, Rentenbank employed 128 (2016: 128) female employees and 157 (2016: 150) male employees on average in 2017 (including full-time and part-time employees, employees on parental leave and similar, but excluding trainees and interns).

(40) Country-by-country reporting pursuant to Section 26a (1) sentence 2 KWG

Rentenbank does not prepare consolidated financial statements under German commercial law. The regulatory group forms the basis for country-by-country reporting.

Name and nature of activities

Landwirtschaftliche Rentenbank, a credit institution, and the subsidiaries included in the group, as financial institutions, all with their registered offices in Frankfurt am Main, Germany, do not have branch offices. Therefore, all the disclosures provided in the annual financial statements in accordance with Section 26a (1) sentence 2 KWG relate solely to Germany.

Turnover

Turnover is defined as the total of the following income statement items at group level:

- Net interest income
- Current income from shares and other variable-yield securities, participations
- Net fee and commission income
- Other operating income/expenses
- Income from reversals of write-downs of participations, investments in affiliated companies and securities held as fixed assets (only realized income)

The turnover determined using this method amounted to EUR 322.0 million in the fiscal year 2017.

Since the combined revenues of the two subsidiaries LR Beteiligungsgesellschaft mbH, Frankfurt am Main, (LRB) and DSV Silo- und Verwaltungsgesellschaft mbH, Frankfurt am Main, (DSV) account for less than 1 % of the operating profit before consolidation, their revenues are not presented separately due to immateriality.

Number of employees

The number of employees is stated on an average full-time equivalent basis pursuant to Section 267 (5) HGB. Rentenbank employed 285 employees on average in 2017, of whom 228 were full-time employees. The two subsidiaries LRB and DSV have no employees of their own.

Profit before tax and tax on profit or loss

Profit before tax for the fiscal year 2017 amounted to EUR 61.8 million, tax on profit or loss amounted to EUR 1.2 million.

Public subsidies

The Federal Republic of Germany has an institutional liability *(Anstaltslast)* and has issued a guarantee for the liabilities of Rentenbank (refinancing guarantee). Rentenbank has not received public subsidies.

Return on assets

In accordance with Section 26a (1) sentence 4 KWG, the return on assets is calculated on the basis of the regulatory group as the ratio of net income after tax of EUR 60.6 million and total assets of EUR 90.6 billion. It was 0.07 % as of December 31, 2017.

(41) Participations pursuant to Section 285 No. 11 and Section 340a (4) No. 2 HGB

In accordance with Section 286 (3) sentence 1 No. 1 HGB, we did not provide a list of participations pursuant to Section 285 No. 11 HGB due to their minor significance for the assessment of the bank's net assets, financial position, and results of operations.

Pursuant to Section 340a (4) No. 2 HGB, the participations in large corporations, where the participation exceeds 5 % of the voting rights, are shown below:

- Niedersächsische Landgesellschaft mbH, Hanover

(42) Other commitments

As long as Rentenbank holds 100% of the shares in LR Beteiligungsgesellschaft mbH, Rentenbank has committed itself in a letter of comfort to provide financial resources to LR Beteiligungsgesellschaft mbH, enabling it to fulfill its obligations at all times when due.

(43) Auditors' fees pursuant to Section 285 No. 17 HGB

In connection with the first-time application of the amended statement IDW RS HFA 36, the prior-year figures were adjusted accordingly. Rentenbank's auditors' fees are as follows:

Breakdown	2017 EUR thousand	2016 EUR thousand
Audit services	482.2	431.1
Other certification services	66.9	82.9
Other services	232.0	243.9
Total	**781.1**	**757.9**

(44) Events after the reporting date pursuant to Section 285 No. 33 HGB

There were no significant events occurring after the end of the fiscal year that would affect the bank's income statement or balance sheet.

(45) Proposal for the appropriation of profit pursuant to Section 285 No. 34 HGB

The preparation of the annual financial statements for the fiscal year 2017 with respect to profit appropriation is subject to the approval of the Supervisory Board.

The proposal for the 2017 appropriation of net income and profit presents the following resolutions:

- Of the net income of EUR 61,000,000 reported in the income statement, EUR 45,750,000 is allocated to the principal reserve *(Hauptrücklage)* pursuant to Section 2 (2) of Rentenbank's Governing Law.
- With respect to the remaining distributable profit of EUR 15,250,000, EUR 7,625,000 is provided for the Special Purpose Fund of the Federal Republic and EUR 7,625,000 for the Promotional Fund.
- In addition, in accordance with the regulation that the guarantee reserve *(Deckungsrücklage)* may not exceed 5 % of the amount of the outstanding covered bonds pursuant to Section 2 (3) of Rentenbank's Governing Law, EUR 125,000 is removed from the guarantee reserve and the principal reserve is increased by the same amount.

(46) Disclosure of mandates held pursuant to Section 340a (4) No. 1 HGB

In accordance with Section 340a (4) No. 1 HGB, mandates held by statutory representatives or other employees of Rentenbank in supervisory bodies to be formed by law of large corporations (Section 267 (3) HGB) are shown below:

Dr. Horst Reinhardt	VR-LEASING AG, Eschborn (member of the Supervisory Board)

The Declaration of Conformity with the German Public Corporate Governance Code by the Board of Managing Directors and the Board of Supervisory Directors is publicly available on Rentenbank's website.

The annual financial statements and the management report are available on Rentenbank's website as well as in the electronic Federal Gazette *(Bundesanzeiger)*. They may also be obtained at the registered office of Rentenbank.

Members of the Board of Managing Directors and Members of the Board of Supervisory Directors

Board of Managing Directors

Dr. Horst Reinhardt (Spokesman),
Dipl.-Volkswirt, MBA
Hans Bernhardt, Dipl.-Kaufmann

Board of Supervisory Directors

Chairman:

Joachim Rukwied
President of the German Farmers' Association, Berlin

Deputy Chairman:

Christian Schmidt, Member of the German Bundestag
Minister of Food and Agriculture,
Minister of Transport and Digital Infrastructure, Berlin

Representatives of the German Farmers' Association:

Bernhard Krüsken
Secretary General of the German Farmers' Association, Berlin

Udo Folgart
Honorary President of the Farmers' Association of Brandenburg, Teltow/Ruhlsdorf

Werner Hilse
The Farmers' Association of Lower Saxony, Hanover

Brigitte Scherb
President of the German Rural Women's Association, Berlin

Werner Schwarz
President of the Farmers' Association of Schleswig-Holstein, Rendsburg

Representative of the German Raiffeisen Association:

Manfred Nüssel
Honorary President of the German Raiffeisen Association, Berlin

Representative of the Food Industry:

Dr. Werner Hildenbrand
Deputy Chairman of the Federation of German Food and Drink Industries, Berlin (since February 2, 2017)

State Ministers of Agriculture:

Baden-Württemberg:
Peter Hauk, Member of the Landtag
Minister of Rural Affairs and Consumer Protection, Stuttgart (until December 31, 2017)

Thuringia:
Birgit Keller
Minister of Infrastructure and Agriculture, Erfurt (until December 31, 2017)

Hamburg:
Dr. Rolf Bösinger
State Council of the Ministry of Economy, Transport and Innovation, Hamburg (until December 31, 2017)

Representative of the Trade Unions:

Harald Schaum
Deputy Federal Chairman of the Industrial Union for Construction, Agriculture and Environment (IG BAU), Frankfurt am Main

Representative of the Federal Ministry of Food and Agriculture:

Dr. Hermann Onko Aeikens
State Secretary, Berlin (since March 20, 2017)

Representative of the Federal Ministry of Finance:

Dr. Marcus Pleyer
Head of Directorate, Berlin

Representatives of credit institutions or other lending experts:

Dr. Birgit Roos
Chairwoman of the Board of Managing Directors of Sparkasse Krefeld, Krefeld (since April 6, 2017)

Michael Reuther
Member of the Board of Managing Directors of Commerzbank AG, Frankfurt am Main

Dr. Caroline Toffel
Member of the Board of Managing Directors of Kieler Volksbank eG, Kiel

Frankfurt am Main, March 5, 2018

LANDWIRTSCHAFTLICHE RENTENBANK
The Board of Managing Directors

Dr. Horst Reinhardt

Hans Bernhardt

Responsibility Statement by the Board of Managing Directors

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the net assets, financial position, and results of operations of the bank, and the management report includes a fair review of the development and performance of the business and the position of the bank, together with a description of the principal opportunities and risks associated with the expected development of the bank.

Frankfurt am Main, March 5, 2018

LANDWIRTSCHAFTLICHE RENTENBANK
The Board of Managing Directors

Dr. Horst Reinhardt   Hans Bernhardt

Reproduction of the Independent Auditor's Report

Based on the results of our audit, we have issued the following unqualified audit opinion:

Independent Auditor's Report

To Landwirtschaftliche Rentenbank, Frankfurt am Main

Report on the Audit of the Annual Financial Statements and of the Management Report

Opinions

We have audited the annual financial statements of Landwirtschaftliche Rentenbank, Frankfurt am Main, which comprise the balance sheet as at 31 December 2017, the statement of profit and loss, the statement of cash flows and the statement of changes in equity for the financial year from 1 January to 31 December 2017, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Landwirtschaftliche Rentenbank for the financial year from 1 January to 31 December 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to banks and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2017 and of its financial performance for the financial year from 1 January to 31 December 2017 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and EU Audit Regulation No. 537/2014 (referred to subsequently as „EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the „Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Identification and measurement of provisions for expected credit losses

For further information on the risk provisioning system, please refer to Section 4 'Risk provisions' of the notes to the financial statements as well as 'Counterparty credit risk' in the risk report section of the management report.

THE FINANCIAL STATEMENT RISK

As part of a change in methods for quantifying counterparty credit risk in the area of risk management, the probabilities of default and loss given default LGD used were adjusted in the reporting period. As these parameters were also taken into consideration for accounting purposes, a change in methods for the financial statements of Landwirtschaftliche Rentenbank was also necessary. Risk provisions for receivables from banks, receivables from customers and irrevocable loan commitments as at 31 December 2017 are as follows:

For its lending operations, Landwirtschaftliche Rentenbank has recognised general provisions for inherent credit losses as risk provisions for receivables from banks, receivables from customers and irrevocable loan commitments. In the income statement, EUR 16.0 million (net) was released from provisions for expected credit losses in financial year 2017. No specific provisions for imminent credit losses were recognised in financial year 2017.

General provisions for inherent credit losses are determined by categorising receivables from banks, receivables from customers and irrevocable loan commitments without any identifiable imminent credit losses in accordance with rating levels based on quantitative and qualitative criteria. They are calculated using the expected loss method. For this purpose, the bank uses annual probabilities of default in line with the applicable internal rating levels. Probabilities of default are derived from data published by credit rating agencies. Loss given default is determined for each business line.

To determine specific provisions for imminent credit losses, receivables and irrevocable loan commitments for which debt servicing capacity is likely no longer sustainable must first be identified. The specific provisions or provisions are then determined on a case-by-case basis based on estimated future cash flows, if applicable by taking into account expected proceeds from the sale of collateral.

Due to the change in methods, adherence to the principle of consistency pursuant to Section 252 (1) No. 6 HGB was one significant aspect of our audit. Furthermore, determination of the value-determining parameter 'loss given default' for the general provision was particularly relevant for our audit, as it was the main determinant for the release of general provisions. We also consider the identification of specific provisions fundamentally significant, because the bank has to make proper assumptions for the purpose of credit control as to whether borrowers will meet their payment obligations in full.

OUR AUDIT APPROACH

Based on our risk assessment and evaluation of the risks of material misstatement, we used both control-based and substantive audit procedures for our audit opinion. We therefore performed the following audit procedures, among others:

In a first step, we gained a thorough understanding of the performance of the credit portfolio, the associated credit risks and the internal control system with regard to identifying, controlling, monitoring and evaluating credit risks associated with lending. To assess the appropriateness of the internal control system we conducted interviews and inspected the relevant documents. In addition, we verified the implementation and effectiveness of relevant controls designed to ensure the adequacy of the parameters relevant for general provisions and their correct allocation to the assessed credit volumes.

With regard to the bank's accounting policies, we assessed whether the change in methods to measure general provisions qualifies as a justified exception pursuant to Section 252 (2) HGB and a deviation from the principle of consistency is thereby permissible.
In the course of our audit of risk management, we assessed the adequacy of methods for determining new parameters for probabilities of default and loss given default during the reporting period. In this regard, especially the loss given default determined in this manner was examined for its plausibility by our credit risk experts. We also examined the establishment of controls to ensure proper calculation of the general provision. In addition, we verified the bank's calculations for determining the general provision during our audit.

We examined the establishment of controls for keeping borrower ratings up to date and accurate and ensuring that borrowers in default are identified. Based on deliberately selected individual cases, we verified that specific provisions for imminent credit losses were not necessary.

OUR OBSERVATIONS

The change in methods to measure the general provision is a justified exception within the meaning of Section 252 (2) HGB, as deviation from the principle of consistency has a positive effect on providing a true and fair view of the bank's assets, liabilities, financial position and financial performance in accordance with generally accepted accounting principles. The probabilities of default and loss given default used after the change in methods to determine the general provision have been properly derived. Use of these parameters for general provisions and their calculation is appropriate. The controls established to identify the need to recognise specific provisions are appropriate and effective.

Other Information

Management is responsible for the other information. The other information comprises:

- the remaining parts of the annual report, with the exception of the audited annual financial statements and management report and our auditor's report.
- assurance pursuant to Section 264 (2) sentence 3 HGB regarding the financial statements and assurance pursuant to Section 289 (1) sentence 5 HGB regarding the management report.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Annual Financial Statements and the Management Report

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to banks, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally

Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by supervisory board resolution on 6 April 2017. We were engaged by the Supervisory Board on 23 May 2017. We have been the auditor of Landwirtschaftliche Rentenbank without interruption since financial year 2011.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided the following services that are not disclosed in the annual financial statements or in the management report:

- Project-based audit of the project to introduce SAP (audit service)
- Issuing comfort letters and other assurance services in this context
- Audit of the use of credit claims to collateralise central bank loans (credit claims – submission and administration)
- Sign-off report for the Single Resolution Fund (SRF) reporting form for the annual contribution (bank levy)
- Analysis of costs, benefits, opportunities and risks with a view to discontinuing IFRS consolidated financial reporting
- Expert opinion on potential exemption from the obligation to prepare consolidated financial statements
- Quality assurance during the update of the recovery plan
- Quality assurance during the ECB IRRBB stress test 2017
- Quality assurance with regard to general matters in connection with banking supervisory issues

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Hartmut Bernhard.

Frankfurt am Main, 5 March 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

Bernhard	Müller
[German Public Auditor]	[German Public Auditor]

Management Bodies (as of April 1, 2018)

Board of Managing Directors

Dr. Horst Reinhardt (Spokesman), Dipl.-Volkswirt, MBA
Hans Bernhardt, Dipl.-Kaufmann

Board of Supervisory Directors

Chairman:

Joachim Rukwied
President of the German Farmers' Association (DBV), Berlin

Deputy:

Julia Klöckner
Federal Minister of Food and Agriculture, Berlin
(since March 14, 2018)

Christian Schmidt, Member of the German Bundestag
Federal Minister of Food and Agriculture,
Federal Minister of Transport and Digital Infrastructure, Berlin
(until March 14, 2018)

Representatives of the German Farmers' Association (DBV):

Udo Folgart
Honorary President of the Farmers' Association of Brandenburg, Teltow/Ruhlsdorf

Werner Hilse
The Farmers' Association of Lower Saxony, Hanover

Bernhard Krüsken
Secretary General of the German Farmers' Association (DBV), Berlin

Brigitte Scherb
President of the German Rural Women's Association, Berlin

Werner Schwarz
President of the Farmers' Association of Schleswig-Holstein, Rendsburg

Representative of the German Raiffeisen Association:

Manfred Nüssel
Honorary President of the German Raiffeisen Association, Berlin

Representative of the Food Industry:

Dr. Werner Hildenbrand
Deputy Chairman of the Federation of German Food and Drink Industries (BVE), Berlin (since February 2, 2017)

State Ministers of Agriculture:

Hesse:
Priska Hinz
Minister of the Environment, Climate Protection, Agriculture and Consumer Protection, Wiesbaden (since January 1, 2018)

Mecklenburg-Vorpommern:
Dr. Till Backhaus, Member of the Landtag
Minister of Agriculture and the Environment, Schwerin
(since January 1, 2018)

Lower Saxony:
Barbara Otte-Kinast
Minister of Food, Agriculture and Consumer Protection
(since January 1, 2018)

Hamburg:
Dr. Rolf Bösinger
State Council of the Ministry of Economy, Transport and Innovation, Hamburg (until December 31, 2017)

Baden-Württemberg:
Peter Hauk, Member of the Landtag,
Minister of Rural Affairs and Consumer Protection, Stuttgart
(until December 31, 2017)

Thuringia:
Birgit Keller
Minister of Infrastructure and Agriculture, Erfurt
(until December 31, 2017)

Representative of the Trade Unions:

Harald Schaum
Deputy Federal Chairman of the Industrial Union for Construction, Agriculture and Environment (IG BAU), Frankfurt am Main

Representative of the Federal Ministry of Food and Agriculture:

Dr. Hermann Onko Aeikens
State Secretary, Berlin (since March 20, 2017)

Representative of the Federal Ministry of Finance:

Dr. Marcus Pleyer
Head of Directorate, Berlin

Representatives of credit institutions or other lending experts:

Michael Reuther
Member of the Board of Managing Directors of Commerzbank AG, Frankfurt am Main

Dr. Caroline Toffel
Member of the Board of Managing Directors of Kieler Volksbank eG, Kiel

Dr. Birgit Roos
Chairwoman of the Board of Managing Directors of Sparkasse Krefeld, Krefeld (since April 6, 2017)

General Meeting

Appointed by the Federal State of Baden-Württemberg:

Werner Räpple
President of the Agricultural Association of Baden, Freiburg

Hannelore Wörz
Honorary President of the Rural Women's Association of Württemberg-Baden, Güglingen

Appointed by the Free State of Bavaria:

Franz Kustner
The Bavarian Farmers' Association, Hirschau

Bernhard Weiler
Honorary District President of the Bavarian Farmers' Association, Stadtlauringen

Appointed by the Federal States of Berlin and Brandenburg:

Karsten Jennerjahn
The Farmers' Union of Brandenburg, Schrepkow

Henrik Wendorff
President of the Farmers' Association of Brandenburg, Teltow/Ruhlsdorf

Norbert Pinnow
Managing Director of BBF Unternehmensberatung GmbH, Oberkrämer

Appointed by the Free Hanseatic City of Bremen:

Hermann Sündermann
President of the Chamber of Agriculture of Bremen (retired), Bremen

Appointed by the Free and Hanseatic City of Hamburg:

Heinz Behrmann
Honorary President of the Farmers' Association of Hamburg, Hamburg

Appointed by the Federal State of Hesse:

Jürgen Mertz
Vice President of the Horticultural Association of Baden-Württemberg-Hesse, Hadamar

Karsten Schmal
President of the Farmers' Association of Hesse, Friedrichsdorf

Appointed by the Federal State of Mecklenburg-Vorpommern:

Harald Nitschke
Managing Director of Raminer Agrar GmbH, Ramin

Rainer Tietböhl
The Farmers' Association of Mecklenburg-Vorpommern, Neubrandenburg

Appointed by the Federal State of Lower Saxony:

Andreas Jessen
Chairman of the Association of Organic Farming of Lower Saxony, Visselhövede

Heinz Korte
Chairman of the Supervisory Board of DMK Deutsches Milchkontor GmbH, Bremervörde

Appointed by the Federal State of North Rhine-Westphalia:

Johannes Frizen
The Chamber of Agriculture of North Rhine-Westphalia, Alfter

Friedrich Ostendorff, Member of the German Bundestag
Farmer, Bergkamen-Weddinghofen

Appointed by the Federal State of Rhineland-Palatinate:

Leonhard Blum
Honorary President of the Farmers' and Winegrowers' Association of Rhineland-Nassau, Niederbettingen

Michael Prinz zu Salm-Salm
Chairman of the Association of Family Businesses in Agriculture and Forestry, Schloss Wallhausen

Appointed by the Federal State of Saarland:

Klaus Fontaine
The Farmers' Association of Saar, Saarwellingen

Appointed by the Free State of Saxony:

Gerhard Förster
Vice President of the Farmers' Association of Saxony, Dresden

Dr. Hartwig Kübler
Chairman of the Association of Family Businesses in Agriculture and Forestry of Saxony and Thuringia, Naundorf OT Raitzen

Appointed by the Federal State of Saxony-Anhalt:

Jochen Dettmer
President of the Farmers' Association of Saxony-Anhalt, Belsdorf

Torsten Wagner
The Farmers' Association of Saxony-Anhalt, Sangerhausen

Appointed by the Federal State of Schleswig-Holstein:

Dietrich Pritschau
Member of the Executive Board of the Farmers' Association of Schleswig-Holstein, Rendsburg

Kirsten Wosnitza
Chairwoman of the Schleswig-Holstein Regional Team of the German Dairy Farmers' Association (BDM), Löwenstedt

Appointed by the Free State of Thuringia:

Dr. Lars Fliege
Vice President of the Farmers' Association of Thuringia, Pfiffelbach

Joachim Lissner
Managing Director of the Association of Horticulture of Thuringia, Erfurt

Trustee

Ralf Wolkenhauer
Head of Directorate
Federal Ministry of Food and Agriculture, Berlin

Deputy trustee:

Dr. Karl Wessels
Head of Division
Federal Ministry of Food and Agriculture, Berlin

Report of the Board of Supervisory Directors

The Board of Supervisory Directors and its committees performed the duties delegated to them in accordance with Rentenbank's Governing Law, its statutes, and corporate governance principles, and advised and supervised the Board of Managing Directors in its orderly conduct of business throughout the fiscal year.

The annual financial statements as well as the management report were prepared by the Board of Managing Directors in accordance with the provisions of the German Commercial Code *(Handelsgesetzbuch, HGB)* as of December 31, 2017 and were audited by the auditors KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, who issued an unqualified audit opinion. The findings of the audit were noted with approval by the Board of Supervisory Directors.

The Board of Supervisory Directors reviewed the annual financial statements, including the management report and the annual report 2017 of Landwirtschaftliche Rentenbank. The Board of Supervisory Directors adopts the bank's annual financial statements including the management report for the fiscal year 2017.

In accordance with the regulation that the guarantee reserve *(Deckungsrücklage)* may not exceed 5 % of the amount of the outstanding covered bonds pursuant to Section 2 (3) of Rentenbank's Governing Law, the Board of Supervisory Directors resolved to remove EUR 125,000 from the guarantee reserve and to increase the principal reserve *(Hauptrücklage)* by the same amount.

Of the net income of EUR 61,000,000 reported in the income statement, EUR 45,750,000 is allocated to the principal reserve pursuant to Section 2 (2) of Rentenbank's Governing Law.

With respect to the remaining distributable profit of EUR 15,250,000, the Board of Supervisory Directors resolved to allocate EUR 7,625,000 to the Special Purpose Fund of the German Federal Government and EUR 7,625,000 to the Promotional Fund.

The Board of Supervisory Directors has satisfied itself that the Board of Managing Directors and the Board of Supervisory Directors have complied with the German Public Corporate Governance Code (PCGK) as amended on June 30, 2009. The Board of Supervisory Directors will continuously monitor compliance with and the implementation of the Code. The Board of Supervisory Directors approves the Corporate Governance Report, including the Declaration of Conformity.

Frankfurt am Main, March 21, 2018

THE BOARD OF SUPERVISORY DIRECTORS OF
LANDWIRTSCHAFTLICHE RENTENBANK

Joachim Rukwied
(Chairman)

This annual report contains certain forward-looking statements that are based on current expectations, estimates, forecasts and projections of the Board of Managing Directors and information currently available to it. These statements include, in particular, statements about our plans, strategies and prospects. Words such as 'expects,' 'anticipates,' 'intends,' 'plans,' 'believes,' 'seeks,' 'estimates', and similar expressions are intended to identify such forward-looking statements. These statements are not to be understood as guarantees of future performance, but rather as being dependent upon factors that involve risks and uncertainties and are based on assumptions which may prove to be incorrect. Unless required by law, we shall not be obligated to update forward-looking statements after their publication.

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