2013

Annual Financial Report

Financial Statements in accordance with German Commercial Code (HGB) of Landwirtschaftliche Rentenbank as of 31.12.2013

rentenbank

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Combined Management Report

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The combined management report consists of the group management report of Landwirtschaftliche Rentenbank (Group in accordance with IFRS) and the management report of Landwirtschaftliche Rentenbank (Rentenbank in accordance with HGB). The combined management report was prepared pursuant to the provisions of Section 289 in conjunction with Sections 315 and 315a of the German Commercial Code (Handelsgesetzbuch, HGB) as well as in accordance with German Accounting Standard (GAS) 20.
The difference between the Group and Rentenbank is minor, given the low significance of the consolidated subsidiaries LR Beteiligungsgesellschaft mbH (LRB), Frankfurt/Main, and DSV Silo- und Verwaltungsgesellschaft mbH (DSV), Frankfurt/Main. Therefore, the comments included in the combined management report generally also apply to both the Group and Rentenbank. In the section on results of operations, financial position and net assets, the disclosures specifically related to Rentenbank on the basis of HGB financial reporting are incorporated at the end of the corresponding section.

General information on the Group

Group structure

Rentenbank is a public law institution directly accountable to the German federal government, with its registered office in Frankfurt/Main. It operates no branch offices.

All material risks are concentrated in Rentenbank and are managed by Rentenbank on a group-wide basis. The Group comprises Rentenbank and three subsidiaries: LR Beteiligungsgesellschaft mbH (LRB), DSV Silo- und Verwaltungsgesellschaft mbH (DSV), and Getreide-Import Gesellschaft mbH (GIG). The business activities of subsidiaries are strictly limited. Rentenbank has issued a comfort letter to LRB. Subsidiaries are funded exclusively within the Group.

Promotional mandate

The Group's responsibilities are to promote the agricultural sector and rural areas based on Rentenbank's Governing Law. The Group’s business activities are directed towards fulfilling this promotional mandate. The Group’s risk structure is essentially defined by the framework established by Rentenbank's Governing Law and its statutes.

As a promotional bank for the agricultural sector and rural areas, Rentenbank provides funds for a variety of investment projects. Within the framework of special promotional loans, the refinancing loans are granted according to the on-lending principle for projects in Germany in accordance with Rentenbank's competition neutrality. The range of products is geared towards manufacturing businesses in the agricultural and forestry sectors, viticulture and horticulture sectors as well as in aquaculture and fish farming. Rentenbank also provides funds for projects in the food industry and other upstream and downstream industries as well as investments in renewable energies and for rural infrastructure measures.

Management system

Rentenbank pursues the following objectives within the context of its business strategy:

- Optimize the implementation of the promotional mandate and continuous development of the promotional business
- Provide promotional benefit from own funds
- Generate an adequate operating result
- Low risk tolerance

The strategic objectives are presented on a segment-specific basis. The segments break down as follows:

- Promotional Business

The segment Promotional Business includes the promotional lending business, the securitized promotional business as well as long-term funding of the Group. As part of the promotional lending business, Rentenbank grants special promotional loans as well as standard promotional loans, e.g. in the form of promissory note loans. The transactions are conducted predominantly with other banks. The securitized promotional business primarily includes investments in securities to ensure Rentenbank‘s liquidity. Accordingly, and in particular, they serve to satisfy banking regulatory requirements regarding liquidity management. The Group does not hold securities or receivables with structured credit risks such as asset-backed securities, or collateralized debt obligations.

- Capital Investment

The Capital Investment segment includes investments of own funds reported on the balance sheet and non-current provisions. The investments are made primarily in securities and promissory note loans as well as registered debt securities of other banks.

- Treasury Management

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

A distinction is made between financial and other key performance indicators with regard to measures used to assess the strategic objectives within the internal management system.

Financial key performance indicators include:

- Operating result

The business activities of Rentenbank are not primarily aimed at generating profits, but are based on business principles. These comprise the profitability of activities to ensure the Group's long-term ability to carry out promotional tasks. The operating result is used to establish a solid capital base, which is objected at complying with the increasing regulatory requirements as well as providing the funds necessary for growing demand for special promotional loans. Profitability and stable earnings are also a prerequisite for carrying out the promotional activities without having to rely on government subsidies. In this context, Rentenbank uses its high credit quality as a promotional state agency in combination with its capital market strategy in order to raise funds at favorable conditions. In addition, the promotional activities benefit from income generated from securitized promotional business and from general promotional business as well as from the high cost efficiency level achieved in the processes within the Group.

- Cost-income ratio

The cost-income ratio is a key performance indicator for the relation between cost and income in order to measure the efficient use of Rentenbank's resources. This performance indicator is both influenced by changes of expenses (numerator) and income (denominator). Therefore, the indicator is inherently sensitive to short-term fluctuations of income. The cost-income ratio always refers to a longer period of time and is supplemented by regular analyses of changes in expenses.

- Promotional performance

The promotional performance is a key performance indicator reflecting the total quantitative promotional benefit within one fiscal year. It includes income used for the interest rate reduction of the special promotional loans granted, the distributable profit and the other promotional measures, such as additions to Rehwinkel-Foundation or funds provided by Rentenbank as subsidies in the program Research on Agricultural Innovation.

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 reported separately in the multi-year plans.

The othter 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 strategies.

Further information on financial key performance indicators are included in the sections on Rentenbank's results of operations, financial position and net assets as well as in the report on expected developments. The other key performance indicators are described in more detail in a separate section.

Economic report

Macroeconomic and bank-specific environment

International interest rate and monetary policy

The fiscal year 2013 – as also its preceding year – was characterized by a very accommodative interest rate and monetary policy, which was further eased in the course of the year, particularly in the eurozone.

The European Central Bank (ECB) initially left the interest rate for its main refinancing transactions unchanged at 0.75% during the first months of the year. Against the backdrop of lower inflation expectations, deteriorated economic prospects and subdued growth of money supply and lending volume in the eurozone, the ECB reduced this rate in May to 0.5% in order to support the economic recovery through the remainder of the year. In view of the prevailing uncertainty in the financial sector and in order to establish stable conditions on the money markets, the ECB also announced that interest rates would remain at the current or an even lower level for a sustained period (forward guidance). At the beginning of November, the ECB surprised the markets by cutting the key interest rate to 0.25%, expecting an easing of price pressures in the eurozone in the medium term. In 2013, ECB's 3-year tenders issued in December 2011 and February 2012 once more caused a structural excess liquidity within the banking sector, resulting in low interest rates for overnight deposits. Additional repayments made by the banking sector to the ECB reduced this excess liquidity by year-end 2013. The money market rates rose moderately.

In contrast to the ECB, the US Federal Reserve decided at year-end 2013 to terminate its accommodative monetary policy. It reduced its purchase program related to government bonds and mortgage securities of initially USD 85 billion to USD 75 billion per month.

Development of the long-term interest rate level

Long-term yields on safe haven investments such as German government bonds initially started to rise at the beginning of the year 2013 due to an easing of the capital markets.

The financial market crisis intensified again in March, with the imminent danger of Cyprus' insolvency. This accordingly curbed the risk appetite of many investors and yields on safe haven investments fell. In May, the yield on German 10-year government bonds reached its 2013 low of 1.17%. The prospect that the US Federal Reserve could gradually exit its highly accommodative monetary policy as well as a slight alleviation of the eurozone debt crisis caused yields to rise again. Yields declined again temporarily following the budget crisis in the US in October. At year-end, 10-year German government bonds had a yield of 1.94%.

Development at local banks and within the German agricultural sector

The persistently low interest rate level contributes to the banks increasingly using Rentenbank as a funding source for medium and long-term loans, thus fully eliminating interest rate risks. The demand from local banks for Rentenbank funds, characterized by low costs and margins determined by the risk-adjusted interest system, remained very high.

This effect is intensified by the increased regulatory requirements for banks, particularly the liquidity ratios Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) resulting from Basel III. The objective of the liquidity ratios is to limit the short-term (LCR) and the longer-term maturity transformation (NSFR). This is intended to enable banks to maintain liquidity even in stress scenarios. LCR is scheduled to be introduced in 2015 effectively. However, the required liquidity buffers are to be increased gradually with 100% of the liquidity buffer to be achieved by 2019. While a decision about the introduction of NSFR from the year 2018 will be made at a later date, local banks are already making efforts to adjust their balance sheets accordingly. Thus, Rentenbank will become an increasingly important partner for banks due to the stable provision of long-term funds.

The demand for promotional loans does not only depend upon the situation on the financial markets, but also and above all, upon the investment activities in the business areas relevant for us. In 2013, as a result of high prices for agricultural products, sentiment remained positive. In addition, the reform of the Common Agricultural Policy in Europe passed in 2013 creates reliable conditions for planning until 2020. The cuts related to direct payments and environmental requirements were smaller than expected.

Sentiment continues to be benign in all types of business (arable farming, dairy farming and stock farming). Above all, arable farms had a successful fiscal year. In the summer of 2013, prices for grain, the most important arable product, fell, but they still remain on a high level when compared over many years. Investments in farm buildings, the major part of the promotional line Agriculture, were dominated by stable buildings. The financial situation within animal husbandry was good. A combination of rising milk prices and abolished production limits led to a particularly high demand for promotional loans within dairy farming. The stock farming sector also had a successful fiscal year characterized by rising profits.

The positive framework, the encouraging economic situation and, last but not least, the low interest rates caused farmers to make huge investments and apply for promotional loans.

The favorable general sentiment in the agricultural sector also leads to strong investment activities in the upstream and downstream industries. This is reflected in our Agribusiness promotional line.

The investment momentum in the Renewable Energies promotional line is determined by the Renewable Energy Sources Act (Erneuerbare-Energien-Gesetz (EEG)). The Renewable Energy Sources Act is adjusted regularly. After the amendment in mid 2012, new construction of biogas plants almost came to a grinding halt. However, incentives for making the process for feeding electricity into the grid more flexible and opportunities for follow-up investments at existing plants ensured a stable business development. As expected, photovoltaics suffered from especially high losses compared to the previous year due to the reduction of the feed-in tariffs in the first half of 2012. The installation of new capacity is now capped by law through the development of the feed-in tariffs. We benefited massively from increased installations in the wind energy sector (growth of 29% year-on-year). This was due to the attractive conditions and the increased distribution of the financing model Bürger- und Bauernwindpark (a special promotional loan program for investments in wind turbine installations of citizens and farmers in rural areas), which we supported with a special program.

Business development

A key feature of Rentenbank's performance in 2013 was a continued buoyant demand for promotional loans. Demand for special promotional loans was very high, especially due to the strong investment activity against the backdrop of a good general environment in the agricultural sector. As stated in the outlook for 2013, demand for special promotional loans in the Rural Development promotional line remained stable, while demand increased in the Agriculture and Agribusiness lines. In contrast to our expectations, demand in the Renewable Energies line rose as a result of the unexpectedly high funding requirements for investments in the wind power sector. The promotional volume, which comprises special promotional loans, standard promotional loans and securitized promotional business, amounted to € 75.0 billion in the balance sheet (2012: € 78.6 billion), representing a decline by 4.6% over the prior year. While we assumed an almost flat new business volume year-on-year in our forecast for 2013, we were able to increase new business in the past fiscal year even further to € 11.6 billion (2012: € 10.4 billion), largely thanks to the favorable framework for special promotional loans. As a result, the portfolio of special promotional loans grew by € 3.6 billion or 12% to € 33.7 billion in 2013 (2012: € 30.1 billion). In contrast, the volume of the securitized promotional business declined year-on-year due to the higher volume of redemptions.

Rentenbank was able to raise the necessary borrowings once again at favorable conditions since financial investors preferred safe haven investments. In the reporting year, Rentenbank borrowed funds on domestic and foreign capital markets in the amount of € 10.2 billion (2012: € 9.6 billion). This was in line with the outlook for 2013. The following instruments were used for funding on the capital market:

	2013		**2012**	
	€ billion	%	€ billion	%
Euro Medium Term Note (EMTN)	6.7	65.7	6.3	65.6
AUD Medium Term Note (MTN)	2.1	20.6	1.1	11.5
Global bonds	1.4	13.7	2.2	22.9
Total	**10.2**	**100.0**	**9.6**	**100.0**

Net assets, financial position and results of operations

Results of operations

Group's results of operations

	Jan. 1 to Dec. 31, 2013	Jan. 1 to Dec. 31, 2012	Change in
	€ million	€ million	€ million
1) Income statement			
Net interest income before allowance for credit losses/promotional contribution	333.7	365.9	-32.2
Allowance for credit losses/promotional contribution	34.5	20.7	13.8
Administrative expenses	55.2	48.9	6.3
Net other income/expense	-5.2	3.2	-8.4
Operating result	**238.8**	**299.5**	**-60.7**
Result from fair value measurement and from hedge accounting	221.2	-55.7	276.9
Net income for the year	**460.0**	**243.8**	**216.2**
2) Other comprehensive income			
Result from available-for-sale instruments	250.4	583.8	-333.4
Actuarial gains/losses from pension obligations	-5.8	-18.0	12.2
3) Group's total comprehensive income	**704.6**	**809.6**	**-105.0**

Operating result

The operating result for the fiscal year 2013 amounted to € 238.8 million, a decline by € 60.7 million or 20.3% and below the previous year (2012: € 299.5 million) as expected. This figure historically is still on a relatively high level. The development corresponded to the projected decrease by 20.0% made in the previous year. Interest income, including contributions from fixed-income securities and equity holdings, reached € 3,678.3 million (2012: € 3,959.5 million). After deducting interest expenses of € 3,344.6 million (2012: € 3,593.6 million), net interest income amounted to € 333.7 million (2012: € 365.9 million). Maturing transactions with high margins as well as new business subject to lower margins led to an overall decline of portfolio margins. The decrease of net interest income by € 32.2 million or 8.8% primarily reflects the expected decrease of portfolio margins as well as the effects of the persisting low interest rates.

The item 'Allowance for credit losses/promotional contribution' increased by € 13.8 million or 66.6%, mainly due to the increase of the promotional contribution to € 22.9 million (2012: € 20.8 million) as well as the additions to portfolio valuation allowances in the amount of € 11.7 million (2012: € 0.0 million).

The promotional contribution largely reflects Rentenbank's future expenses for the interest rate subsidies for special promotional loans granted. A promotional expense arises at the time of the grant which leads to a corresponding promotional income over the remaining term to maturity of the transaction. The expense for the additions to promotional contribution increased by € 6.7 million to € 81.6 million (2012: € 74.9 million), while income from the utilization of the promotional contribution rose by € 4.6 million to € 58.7 million (2012: € 54.1 million).

In accordance with IFRS, impairments resulting from payment defaults are only determined for losses already incurred. Since the Group generally extends loans almost exclusively via other banks, any potential losses are identified in a timely manner. To account for any existing residual risk of not having identified losses already incurred, Rentenbank recognizes for the first time as of the balance sheet date a portfolio valuation allowance based on a model for the presentation of expected losses for loans and advances measured at (amortized) cost. The change of the estimation regarding unidentified losses compared to the previous year resulted in the recognition of a portfolio valuation allowance in the amount of € 11.7 million, thus leading to the increased allowance for credit losses.

Administrative expenses increased significantly in 2013 - as we projected - by 12.9% to € 55.2 million (2012: € 48.9 million). The personnel expenses included in this figure amounted to € 32.0 million (2012: € 31.1 million), an increase over the prior-year level by € 0.9 million. Wages and salaries including bonuses grew by € 1.6 million to € 22.2 million. This is mainly attributable to the expected increase of the annual average number of employees (2013: 256 on average; 2012: 250 on average) and to collectively agreed pay rises.

Amortization of intangible assets and depreciation of property and equipment increased to € 4.6 million (2012: € 2.2 million). The main reason for this was amortization of expenses for projects related to the introduction of new IT systems capitalized in previous years.

The other administrative expenses grew by € 3.0 million or 19.2% to € 18.6 million. Above all, this includes IT expenses, which increased significantly by € 2.1 million to € 9.9 million. This was largely attributable to investments required to meet the additional regulatory requirements as well as necessary improvements of the infrastructure, in particular the implementation of the new trading and risk management system. The other non-staff expenses were largely unchanged.

The decline of net other income/expense is particularly attributable to the introduction of the program to finance research projects to promote agricultural innovation. Moreover, the previous year's figures included positive one-off effects owing to the disposal of a security and the reversal of provisions.

Operating result by segment

Jan. 1 to Dec. 31	Promotional Business		Capital Investment		Treasury Management		Total	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Net interest income before allowance for credit losses/promotional contribution	184.5	194.5	118.1	114.2	31.1	57.2	333.7	365.9
Allowance for credit losses/promotional contribution	34.5	20.7	0.0	0.0	0.0	0.0	34.5	20.7
Administrative expenses	42.2	37.0	8.0	7.0	5.0	4.9	55.2	48.9
Net other income/expense	-5.2	3.3	0.0	0.0	0.0	-0.1	-5.2	3.2
Operating result	**102.6**	**140.1**	**110.1**	**107.2**	**26.1**	**52.2**	**238.8**	**299.5**

Net interest income of the Promotional Business segment in fact declined as expected due to lower portfolio margins from € 194.5 million in the previous year to € 184.5 million. The item 'Allowance for credit losses/promotional contribution' increased as a result of higher expenses for the interest rate reduction related to special promotional loans as well as due to the additions to the portfolio valuation allowance to a total of € 34.5 million (2012: € 20.7 million). Administrative expenses in the Promotional Business segment, including depreciation and amortization, rose by € 5.2 million to € 42.2 million. The operating result amounted to € 102.6 million (2012: € 140.1 million).

As expected in our projection for 2013, interest income from the Capital Investment segment in fact increased further by € 3.9 million to € 118.1 million compared to the previous year. The decreased yield for new long-term investments against the backdrop of a persisting low interest rate environment as well as maturing higher yielding funds were more than compensated for by interest income of the newly allocated funds from the retention of prior-year earnings. Overall, the segment's operating result amounted to € 110.1 million (2012: € 107.2 million).

As expected, the result of the Treasury Management segment was characterized by a substantial decline due to lower investment volumes and the further decrease in margins (following the monetary policy of the ECB). Net interest income fell by 45.6% to € 31.1 million. The segment's operating result amounted to € 26.1 million (2012: € 52.3 million).

Result from fair value measurement and from hedge accounting

All derivatives and certain non-derivative financial instruments are measured at fair value. Changes in the fair value are recorded as unrealized gains or losses in the result from fair value measurement and from hedge accounting.

In the context of hedged items as part of accounting hedging relationships, only those fair value changes are taken into account where these changes result from changes in the OIS (overnight interest rate swap) curves. With respect to the remaining financial instruments measured at fair value, all market parameters, such as credit spreads, are included.

Changes in interest rates and exchange rates do not have significant measurement effects due to refinancing at largely matching maturities as well as hedging through derivatives. Therefore, the result from fair value measurement and from hedge accounting is largely dominated by reversals of measurement losses recognized in previous years as a result of changes in credit spreads and from macro hedge accounting. It increased considerably to € 221.2 million as of December 31, 2013 (2012: € -55.7 million).

Measurement gains or losses are only of a temporary nature due to the buy and hold strategy of the Group with its status as a non-trading book institution, provided that no counterparty default occurs. These measurement effects are reduced to zero at the latest when the relevant transactions become due.

Net income for the year

Despite the decline of the operating result by € 60.7 million, net income for the year rose by € 216.2 million to € 460.0 million (2012: € 243.8 million) due to the increase of the result from fair value measurement and from hedge accounting by € 276.9 million.

Other comprehensive income

Other comprehensive income shows changes in the revaluation reserve. It shows the results from the measurement of available-for-sale securities and the actuarial gains and losses from the measurement of pension provisions.

The fair value changes largely attributable to changes in credit spreads related to the securities in the 'Available for sale" category are recognized under this item. The changes in the fair value of these securities attributable to fluctuations of the OIS curves are reported in the result from fair value measurement and from hedge accounting. In addition, other comprehensive income includes the amortization of measurement results from securities that were reclassified in 2008 to the 'Held to maturity' category at the then applicable market value.

Due to a certain easing that returned to the financial markets, credit spreads decreased further in 2013, however not to the extent seen in the previous year. This was especially true for issuers from countries hard hit by the crisis. This led to measurement gains in the amount of € 248.3 million (2012: € 575.3 million) due to the resulting higher market values. Amortization for securities reclassified in 2008 resulted in income of € 2.1 million (2012: € 8.5 million).

Actuarial gains and losses from the measurement of pension obligations are caused by differences between expected and actual actuarial assumptions of the prior period and from changes in assumptions for the future. In 2013, actuarial losses reported in the financial statements amounted to € 5.8 million (2012: € -18.0 million).

Group's total comprehensive income

The Group's total comprehensive income for the period ending December 31, 2013 amounted to € 704.6 million (2012: € 809.6 million), representing a decline of € 105.0 million. Apart from the decreased operating result, this decline is attributable to the decrease of measurement gains by € 44.3 million, which consists of the changes in the revaluation reserve as well as of the result from fair value measurement and from hedge accounting.

Reconciliation to distributable profit

Pursuant to Section 2 (3) Sentence 2 of the Law Governing the Landwirtschaftliche Rentenbank, the guarantee reserve (Deckungsrücklage) may not exceed 5% of the nominal amount of the covered bonds outstanding at any time. Resulting from a decline in the volume of covered bonds, an amount of € 48.5 million (2012: € 21.8 million) was withdrawn from the guarantee reserve and transferred to the principal reserve in the same amount.

Subject to the pending resolutions of the relevant corporate bodies regarding the annual financial statements in accordance with the HGB, Rentenbank intends to transfer € 39.8 million (2012: € 38.3 million) from net income for the year to the principal reserve, and a further amount of € 406.9 million (2012: € 192.7 million) to other retained earnings. The distributable profit remaining after the transfer to reserves amounts to € 13.3 million (2012: € 12.8 million).

Results of operations of Rentenbank

The results of operations in Rentenbank's financial statements in accordance with the German Commercial Code (HGB) developed satisfactorily as follows:

	Jan. 1 to Dec. 31, 2013	**Jan. 1 to Dec. 31, 2012**	**Change in**
	€ million	€ million	€ million
Net interest income	**312.7**	**352.9**	**-40.2**
thereof expenses for interest rate subsidy for special promotional loans	78.4	70.6	7.8
Net fee and commission income	-1.7	-2.1	0.4
Administrative expenses	53.2	44.7	8.5
Other operating result	-9.1	-2.4	-6.7
Operating result before provision for loan losses and valuation	**248.7**	**303.7**	**-55.0**
Provision for loan losses and valuation	-195.7	-252.7	57.0
Net income	**53.0**	**51.0**	**2.0**

The development of the operating result before provision for loan losses and valuation corresponds in structural terms with the development of the operating result under IFRS, except for the portfolio valuation allowance in the amount of € 11.7 million recognized under IFRS within the context of the allowance for credit losses. Therefore, we refer to the general comments on the results of operation of the Group.

The personnel expenses included in the administrative expenses amounted to € 29.8 million (2012: € 25.6 million), an increase over the prior-year level of € 4.2 million. Pension expenses increased by € 2.4 million to € 4.8 million, mainly due to a one-time effect under HGB regarding pension provisions. In the IFRS consolidated financial statements, the rise in personnel expenses only amounted to € 0.9 million.

As of December 31, 2013, the operating result before provision for loan losses and valuation amounted to € 248.7 million. As a result of the credit rating improvement of our portfolio, largely due to maturing amounts in the lower rating categories, general valuation allowances in the amount of € 16.6 million could be reversed proportionately. The fund for general banking risks (Section 340g HGB) was increased by € 218.1 million. The overall increase of net income amounted to € 2.0 million, resulting in net income of € 53.0 million (2012: € 51.0 million), of which an amount of € 39.7 million (2012: € 38.2 million) was transferred to the principal reserve. Distributable profit after the transfer to reserves amounts to € 13.3 million (2012: € 12.8 million), which will be used to promote agriculture and rural areas.

Financial key performance indicators

The operating result before provision for loan losses and valuation amounted to € 248.7 million (2012: € 303.7 million) and developed in line with the projected operating result set out in the outlook for 2013. As stated in the section on Group’s results of operation, the reason for this was the expected decline of net interest income and the simultaneously rising administrative expenses.

This trend also had an impact on the key performance indicator cost-income ratio. As a result of the growth of expenses to a total amount of € 66.7 million (2012: € 52.6 million) and the simultaneous decline in income to € 315.4 million (2012: € 356.3 million), this indicator increased from 14.8% to 21.2%. However, the cost-income ratio still is on a moderate level when compared with competitors.

The promotional performance as a key performance indicator includes the interest rate reduction of the special promotional loans for which a nominal amount of € 77.0 million (2012: € 75.9 million) from own funds was expended in the reporting year. In addition, Rentenbank provided grants in the amount of € 3.0 million in relation to the program Research on Agricultural Innovation. The promotional performance for 2013, including the distributable profit of € 13.3 million and the capital increase at Rehwinkel-Foundation by € 3.0 million, increased in line with our forecast to € 96.3 million (2012: € 90.7 million).

Financial position

Capital structure

Capital structure of the Group

	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change in € million
Liabilities			
Liabilities to banks	5,549.9	2,868.0	2,681.9
Liabilities to customers	5,148.8	5,802.6	-653.8
Securitized liabilities	60,860.9	66,632.3	-5,771.4
Subordinated liabilities	686.8	924.4	-237.6
Equity			
Subscribed capital	135.0	135.0	0.0
Retained earnings	2,999.5	2,552.8	446.7
Revaluation reserve	46.5	-198.1	244.6
Distributable profit	13.3	12.8	0.5

Liabilities

Liabilities to banks increased by € 2.6 billion to € 5.5 billion (2012: € 2.9 billion), largely due to higher positions held in the short-term money market business. Liabilities to customers decreased by € 0.7 billion to € 5.1 billion (2012: € 5.8 billion) due to maturing registered bonds and promissory note loans.

The changes in the nominal volume of securitized liabilities amounted to € 0.8 billion or 1.3%. However, the carrying amount of securitized liabilities declined by € 5.8 billion or 8.7% due to exchange rate changes, resulting in a carrying amount of € 60.9 billion (2012: € 66.6 billion) as of December 31, 2013. The Medium Term Note (MTN) programs are furthermore the most important refinancing source and amounted to € 46.3 billion (2012: € 48.9 billion). The carrying amount of the global bonds amounted to € 10.6 billion (2012: € 12.4 billion) as of year-end. The volume of Euro commercial papers (ECP) declined by € 1.3 billion to € 3.9 billion (2012: € 5.2 billion).

Subordinated liabilities decreased by € 0.2 billion to € 0.7 billion (2012: € 0.9 billion) due to maturing amounts and exchange rate changes.

All funds borrowed on the money and capital markets for refinancing purposes were made available on an arm's length basis. The credit spread is a key factor due to the margin-based management of Rentenbank. It declined in the fiscal year under review over the previous year. This led to an improvement of funding costs.

The following analysis is a breakdown of liabilities by maturity, currency and interest structure:

	Maturity					
	up to 1 year		1 to 5 years		more than 5 years	
	Dec. 31, 2013	**Dec. 31, 2012**	**Dec. 31, 2013**	**Dec. 31, 2012**	**Dec. 31, 2013**	**Dec. 31, 2012**
	€ million	€ million	€ million	€ million	€ million	€ million
Fixed interest rate						
EUR	5,496.8	2,250.7	9,004.6	8,207.2	7,705.2	8,698.2
USD	2,439.6	4,774.6	11,791.4	12,792.7	948.0	2,229.4
AUD	1,050.0	1,039.9	3,978.3	4,862.9	2,748.7	2,443.8
JPY	470.4	1,000.7	86.5	673.9	408.7	562.3
CHF	83.0	256.4	1,343.0	1,340.4	93.4	241.3
NOK	0.0	298.9	1,158.5	911.3	183.9	472.6
GBP	0.0	320.1	1,147.9	437.8	13.3	14.3
Other	435.0	486.8	1,491.2	1,901.0	169.5	85.6
Zero coupon						
EUR	1,266.9	0.0	96.1	79.9	819.1	836.7
USD	1,979.4	4,208.6	0.0	0.0	37.2	38.6
AUD	12.9	0.0	0.0	0.0	0.0	0.0
CHF	0.0	116.0	0.0	0.0	0.0	0.0
GBP	530.0	539.9	0.0	0.0	0.0	0.0
Other	123.3	326.2	0.0	0.0	0.0	0.0
Variable interest						
EUR	535.5	130.5	5,187.1	4,917.5	3,496.3	3,163.4
USD	1,735.8	417.1	2,482.5	2,857.2	0.0	0.0
AUD	0.0	554.4	670.3	492.0	0.0	0.0
JPY	20.9	19.8	49.0	67.5	345.5	515.1
NOK	0.0	0.0	156.4	138.0	0.0	40.8
Other	0.0	0.0	455.3	419.8	0.0	45.5
Total	16,179.5	16,740.6	39,098.1	40,099.1	16,968.8	19,387.6

Equity

Net income for the year of € 460.0 million (2012: € 243.8 million) led to a rise in equity. In addition, equity increased due to measurement gains in the amount of € 244.6 million (2012: € 565.8 million) reported in the revaluation reserve.

Capital structure of Rentenbank

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

	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change in € million
Liabilities			
Liabilities to banks	6,272.1	3,598.5	2,673.6
Liabilities to customers	4,730.3	5,249.1	- 518.8
Securitized liabilities	61,433.8	62,151.4	- 717.6
Subordinated liabilities	597.7	717.5	- 119.8
Equity (including fund for general banking risks)			
Subscribed capital	135.0	135.0	0.0
Retained earnings	925.5	885.8	39.7
Distributable profit	13.3	12.8	0.5
Fund for general banking risks	2,437.3	2,219.2	218.1

Liabilities under HGB and IFRS developed structurally similar. The difference between the Group and Rentenbank is due to the measurement at fair value and the application of hedge accounting required under IFRS. We therefore refer to the representation of liabilities in the Group's capital structure.

Equity, including the fund for general banking risks, increased by € 0.3 billion compared to 2012. The fund for general banking risks was increased by € 0.2 billion to € 2.4 billion.

Capital expenditure

The major capital expenditures made by Rentenbank in fiscal years 2012 and 2013 primarily related to the implementation of a new trading and risk management system, a regulatory reporting software and a rating platform as well as in the implementation of the SEPA and EMIR requirements. For further information, please refer to the explanations regarding administrative expenses in the section on the Group's result of operations.

Liquidity

The liquidity analysis reflects the contractually agreed redemption amounts:

Dec. 31, 2013	up to 3 months	more than 3 months to 1 year	more than 1 year to 5 years	more than 5 years or unspecified maturity
	€ million	€ million	€ million	€ million
Liabilities to banks	3,238.4	565.7	1,327.0	370.0
Liabilities to customers	429.4	268.5	907.5	3,976.5
Securitized liabilities	8,523.9	3,678.4	35,153.1	12,269.3
Negative fair values of derivative financial instruments	154.0	158.0	1,166.0	627.0
Subordinated liabilities	5.9	16.0	45.0	560.9
Total	**12,351.6**	**4,686.6**	**38,598.6**	**17,803.7**

Dec. 31, 2012	up to 3 months	more than 3 months to 1 year	more than 1 year to 5 years	more than 5 years or unspecified maturity
	€ million	€ million	€ million	€ million
Liabilities to banks	279.7	311.7	1,755.4	460.0
Liabilities to customers	306.6	526.8	1,047.1	4,327.5
Securitized liabilities	10,165.8	5,668.7	34,819.6	13,337.1
Negative fair values of derivative financial instruments	296.0	90.0	386.0	57.0
Subordinated liabilities	29.2	118.3	10.4	690.1
Total	**11,077.3**	**6,715.5**	**38,018.5**	**18,871.7**

Net assets

Net assets of the Group

	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change in € million
Loans and advances to banks	49,750.9	51,164.0	-1,413.1
Loans and advances to customers	5,570.6	4,652.4	918.2
Financial assets	20,894.4	22,588.7	-1,694.3
Positive fair values of derivative financial instruments	3,236.1	7,486.4	-4,250.3
Negative fair values of derivative financial instruments	5,796.6	5,832.2	-35.6

In accordance with competition neutrality, Rentenbank basically extends its loans via other banks. Within the net assets, this is reflected in the loans and advances to banks which amount to 60.7% (2012: 57.9%) of total assets. As of December 31, 2013, the carrying amount of this item was € 49.8 billion (2012: € 51.2 billion). The significantly increased volume of special promotional loans was faced with maturing registered debt securities and reduced term deposits and open market operations.

Loans and advances to customers increased by € 0.9 billion to € 5.6 billion (2012: € 4.7 billion) as a result of new business with German federal states.

Financial assets, which consist almost exclusively of bank bonds and notes, declined by € 1.7 billion to € 20.9 billion (2012: € 22.6 billion) as maturing amounts exceeded new business. Information related to the exposure in peripheral states of the eurozone is set out in the risk report in the section 'Credit Risk.'

The positive fair values of derivative financial instruments decreased by € 4.3 billion to € 3.2 billion (2012: € 7.5 billion), while negative fair values remained unchanged at € 5.8 billion (2012: € 5.8 billion). This development was particularly influenced by exchange rate changes. Derivatives are exclusively entered into to hedge existing or expected market price risks. Collateral agreements were concluded with all counterparties with whom the Bank enters into derivative transactions. The Bank does not enter into credit default swaps (CDS).

Net assets of Rentenbank

The net assets of Rentenbank's financial statements in accordance with the HGB is as follows:

	Dec. 31, 2013	Dec. 31, 2012	Change in
	€ million	€ million	€ million
Loans and advances to banks	50,042.5	51,215.6	-1,173.1
Loans and advances to customers	5,451.3	4,560.9	890.4
Bonds and other fixed-income securities	20,301.9	22,026.3	-1,724.4

The development of the net assets under HGB and IFRS was similar in structural terms. The difference between the Group and Rentenbank is due to the measurement at fair value and the application of hedge accounting required under IFRS. Therefore, we refer to the comments on the Group's net assets.

The securities portfolio almost exclusively consisted of bank bonds and notes. At year end, this balance sheet item included bonds classified as fixed assets in a nominal amount of € 19.9 billion (2012: € 21.8 billion). As in the previous year, debt securities of the liquidity reserve were not held in the portfolio.

The Board of Managing Directors is satisfied with the course of business as well as the development of the results of operation, financial position and net assets.

Other key performance indicators

Corporate citizenship

As a public law institution, Rentenbank has a responsibility beyond its promotional mandate to be an active corporate citizen. Rentenbank, with its registered office in Frankfurt, Germany, primarily supports local cultural institutions and selected projects. Grants are provided on a regular basis to Oper Frankfurt, Schirn Kunsthalle, Städel Museum, the English Theatre and the State Academy of Fine Arts (Städelschule). With respect to Städelschule, we support young talented artists through the donation of a group prize within the framework of the annual 'Rundgang.' Rentenbank supports various projects of churches, associations and societies in the context of its regular donation at Christmas. In fiscal year 2013, these included Malteser Migranten Medizin Frankfurt, the Winter Feeding for the Homeless in St. Catherine's Church, Frankfurt, the children and young people's charity 'Die Arche e.V.," Frankfurt, and the association 'Herzen für eine neue Welt' in Königstein, Germany. In addition to these regular charity projects, we were again a sponsor of the Operngala 2013 at Oper Frankfurt.

Employees

The number of employees remained virtually unchanged in the past year. At year-end 2013, Rentenbank employed 257 (2012: 256) employees, of which 214 (2012: 213) were full-time employees. These figures include neither employees in parental leave nor members of the Board of Managing Directors. The average seniority was approximately 11.5 years. The ratio of men and women is almost on par, with 53% of the employees being male and 47% being female. The possibility to work on a part-time basis is primarily utilized by women, which represent 88% of part-time employees.

Compliance with legal and regulatory requirements

Rentenbank prepares its consolidated and annual financial statements as well as the combined management report in accordance with the requirements of the German Commercial Code, the International Financial Reporting Standards as well as the German Accepted Accounting Principles (Grundsätze ordnungsgemäßer Buchführung, GoB) and the related supporting pronouncements. The financial statements prepared are subject to an audit opinion issued by an auditor. In this context, we pay attention to proper preparation as well as to compliance with publication deadlines. The realization of this objective is primarily ensured by an effective Internal Control System (ICS).

Regulatory requirements regarding own funds and liquidity have strategic relevance. Full compliance with all existing regulatory provisions is a top priority. The Group ensures that new regulatory requirements are identified at an early stage and managed within the Group, among other things through the Regulatory Topics working group, which also comprises the Compliance desk.

Report on events after the balance sheet date

There were no events of material importance after the end of the fiscal year 2013.

Report on expected developments and opportunities

Development of business and environment

The economic development of Rentenbank primarily depends on the conditions on the credit and financial markets. These are influenced by the monetary policy of the central banks, the development of prices and exchange rates as well as the development of public sector finances. The demand for promotional loans is particularly influenced by both the interest rate trend, the economic situation on the agricultural markets, and the funding behavior of local banks.

At the beginning of 2014, the European Central Bank continued to pursue its monetary policy and left its key interest rate unchanged at 0.25%, although the eurozone inflation rate in January declined unexpectedly to 0.7%.

Rentenbank expects a persistently low price pressure and a moderate recovery of the economy so that the ECB will continue its accommodative monetary policy for the foreseeable future. However, gradual changes in the form of minor reductions of key interest rates or the use of additional monetary policy instruments cannot be ruled out if money markets rates increase or if bank lending, especially in the southern eurozone countries, does not recover.

Also, in view of the ECB's promise to keep its key interest rate at a low level for the foreseeable future (forward guidance), we expect money market rates to remain low during the year.

At the end of January 2014, the US Federal Reserve (Fed) continued the measures resolved at the end of the previous year to quit its accommodative monetary path and cut its purchase program related to government bonds and mortgage securities. The change in the Fed's policy contributed to investors removing capital from and turmoil on the currency markets in some of the major emerging economies. As a result, the demand for safe haven investments, such as German federal government bonds and bonds of Rentenbank, increased worldwide. Accordingly, long-term yields declined.

Against the backdrop of global economic recovery and the less accommodative monetary policy of the Federal Reserve, we expect that long-term interest rates will rise slightly during the year. However, the increase will likely be limited due to the highly accommodative monetary policy of the ECB and only minor price pressures.

According to the agricultural business sentiment, farmers plan slightly lower overall investments in the first half of 2014 compared to the previous year, above all with respect to farm buildings. While they rate their current economic situation as very good, they are only cautiously optimistic as regards their future. Since the promotional activities in the Agriculture line directly depend on the investment activities, a subdued development can be expected here as well.

The fundamentals suggest that the relatively scarce global supply of agricultural commodities will not change in general. The Food and Agriculture Organization of the United Nations (FAO) expects that the international price levels for agricultural commodities will increase in nominal terms in the next few years, but will hardly change when taking into account inflation. In this case, the promotional business within the Agriculture line should be stable.

Animal husbandry remains a subject to critical public discussions. If this debate results in intensified requirements regarding animal welfare and in changes of construction law, the cost for animal husbandry will rise. Another possibility would be that such changes in law trigger investments: generally for animal welfare or in additional facilities such as exhaust air filters or slurry stores. Rentenbank expects that intensified requirements regarding the application of organic fertilizer and building permissions, especially in the stock farming regions, will weigh on construction activities.

The development of the Renewable Energies promotional line is largely dependent upon the Renewable Energy Sources Act (EEG). The German federal government plans to introduce a reform of the EEG by mid-2014, expected to become effective in August. Accordingly, the demand for special promotional loans is not likely to change in the first half. Pull-forward effects are likely prior to the effective date. In order to be able to evaluate the medium to longer-term effects, the detailed stipulations in the amended EEG need to be analyzed. Since the process of developing an informed opinion has yet to be completed, reliable predictions related to the Renewable Energies promotional line are not yet possible.

Taking these conditions into account, Rentenbank anticipates that it will be able to successfully fulfill its promotional mandate based on its conservative risk business policy and triple A ratings.

Against the backdrop of the regulatory changes in the banking sector on EU level, especially in connection with the implementation of Basel III in the European Union (EU) (CRD IV/CRR), Rentenbank's Governing Law was amended within the context of the law implementing CRD IV. Effective January 1, 2014, a government guarantee for the obligations of Rentenbank (refinancing guarantee) was established, complementing the existing institutional liability.

The Group will comply with the requirements of the EU Capital Requirement Regulation (CRR), which became effective on January 1, 2014, and of the EU Capital Requirement Directive (CRD IV). According to the trial calculations, the requirements regarding the capital ratios as well as the liquidity ratios LCR and NSFR will be met.

Forecast of business development

Comprehensive annual plans and multi-year plans are prepared in order to project Rentenbank’s future results of operations, financial position and net assets. They comprise planning for Rentenbank's new business, portfolio, equity, income and costs. Unlike the multi-year plans, the annual plan examines individual factors in greater detail. In the following, the projections refer to the planning period of 2014.

Within the framework of our current planning, the Group assumes that new business volume for fiscal year 2014 in the Promotional Business segment will be slightly below the level of the previous fiscal year. This new business will continue to be funded through Rentenbank's issuance programs. Due to the stabilization that set in on the capital markets in the meantime, we expect margins from new business to decline somewhat.

Special promotional loans will likely remain the focus within the lending business. After the good framework conditions on the agricultural markets and the low interest rate level led to a strong demand for special promotional loans in the past year, new business for 2014 will probably be below the figure for 2013.

The portfolio of securities and standard promotional loans will continue to decrease moderately due to the anticipated large amount of redemptions. In contrast, the share of special promotional loans in the total promotional volume is likely to increase slightly. Overall, we expect a marginal decline of net interest income for the Promotional Business segment attributable to lower margins of the portfolio and lower volumes.

We forecast, that interest income within the Capital Investment segment in 2014 will be slightly below the prior-year level. The higher investment volume from the retention of profits is offset with negative effects from lower interest rates for new investments due to the low interest rate environment as well as the higher yielding funds falling due. In 2014, net interest income of the Treasury Management segment is likely to be considerably below the prior-year level. We expect net interest income for the three segments to decrease slightly in 2014.

Cost planning for 2014 and the following years in particular takes into account the necessary investments for Rentenbank's infrastructure as well as the necessary adjustments to fulfill additional regulatory requirements. This includes investments for the development of the new trading and risk management system, the introduction of a new financial accounting system as well as for the upgrade of hardware and software currently in use. Apart from that, multi-year planning takes into account investments for the modernization of the bank building. The many changes in the regulatory framework and accounting standards will result in a significant increase of administrative expenses in 2014 and the following years, despite our rigorous cost management. This particularly applies to personnel costs as Rentenbank acknowledges the need for new positions to be created.

Against the backdrop of the development of income and costs, the Group expects the operating result to decline by around 15-20% for 2014. This key performance indicator will still remain on a historically high level.

The satisfying earnings trend will enable us to keep the promotional performance on a high level. Therefore, we expect that the promotional performance will stay largely flat compared to 2013.

Due to the decline in income and higher administrative expenses, we expect a substantial increase of the key performance indicator cost-income ratio. The cost-income ratio will still be on a moderate level when compared with competitors.

Opportunities and risks

Based on the forecast results for 2014, additional opportunities and risks may occur for our business development due to changes in framework conditions.

The changes within the economic environment may lead to a renewed aggravation of the financial market crisis, which will impact new business volume and margins in the asset and funding businesses. A deterioration of the economic environment may result in new business volume lower than planned. However, the financial market crisis showed that such difficult situations may also pose opportunities, attributable to Rentenbank's superior credit ratings and its solid capital base. These opportunities may be related to attractive funding opportunities as well as higher margins in the securitized and the standard promotional loan business.

On the one hand, the current low-interest environment presents opportunities for business activities, particularly due to the high demand of the agricultural sector for special promotional loans. On the other hand, the persisting low interest rate level also weighs on the result in the segments Capital Investment and Treasury Management. A change of this low interest environment, e.g. in the wake of a strong rate hike, is therefore associated with both risks and opportunities for Rentenbank. The actual outcome depends on the extent of the rate change as well as on the observation method for the segment and the selected observation period.

Administrative expenses may be subject to further burdens resulting from additional regulatory requirements which are not yet known. This may have an impact on IT and personnel expenses (due to new jobs being created). Apart from the investments already planned, further improvements to the IT and building infrastructure may become necessary.

Even taking Rentenbank's risk-averse new business policy into account, it cannot be ruled out that additional information regarding the financial circumstances of our business partners with a negative impact on their respective credit quality will be identified during the course of 2014. This can result in additional rating downgrades for exposures held in the portfolio and thereby burden the risk covering potential within the context of the risk-bearing capacity concept.

Further information on risks is included in the risk report section.

Development in the current year

The operating result of all segments was slightly above plan in the first month of the current fiscal year. The result from fair value measurement declined moderately. Based on the results achieved in the current fiscal year, the Board of Managing Directors is confident that planned volumes in the promotional business and the planned operating results will be achieved for fiscal year 2014. As a result of the high volatility of market parameters, the future development of measurement gains or losses in the course of the year cannot be estimated reliably.

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 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.

Risk report

All material risks are concentrated in Rentenbank and are managed by Rentenbank on a group-wide basis. The business activities of subsidiaries are strictly limited. The explanations included in the risk report generally refer to the Group. Essential bank-specific aspects of Rentenbank are presented separately.

Organization of risk management

Based on the company objective derived from the relevant laws and regulations, the Board of Managing Directors determines the Group's sustainable business strategy. Rentenbank's business strategy is defined above all by its promotional mandate and the measures to fulfill this mandate. In addition, targets are set for the material business areas as well as measures to achieve these.

Within the framework of a risk inventory, the Group analyzes which risks may have a significant effect on its assets, capital resources, results of operations, or liquidity situation. The Group's material risks are identified as part of the risk inventory, the risk indicators, within the self-assessment, the New Product Process (NPP), in the ICS key controls as well as in the daily monitoring activities and are reviewed for any concentration effects.

The risks resulting from business activities are identified, limited and managed using a risk management system (RMS), which was established specifically for this purpose, and on the basis of the risk-bearing capacity concept. In this context, the Board of Managing Directors has determined a risk strategy and the sub-strategies derived therefrom. These are reviewed at least annually and adjusted if necessary by the Board of Managing Directors.

A significant component of the risk management system is the implementation, management and monitoring of limits, which are in line with Rentenbank’s risk-bearing capacity. The risk-bearing capacity concept aims to ensure that the risk covering potential is sufficient to cover all material risks. It is based on the going concern approach.

The requirements of the fourth amendment of the Minimum Requirements for Risk Management (MaRisk) were implemented by year-end 2013. Above all, the Group implemented and fine-tuned the risk strategies, capital planning processes, the risk controlling function as well as the liquidity transfer pricing system. The Compliance Officer was appointed in 2013. Moreover, Rentenbank established the Compliance function pursuant to MaRisk in 2013.

As part of the planning process, potential risk scenarios are used to evaluate the future net assets, financial position and results of operations. Deviations between target and actual performance are analyzed within an internal monthly report. Capital planning is made for the next ten years. The risk-bearing capacity is planned using a 3-year projection.

The inclusion of transactions in new products, business types, sales channels or new markets requires an NPP to be conducted. Within the scope of the NPP, the organizational units involved analyze the risk level, the processes and the main consequences for risk management.

The risk manual of the Board of Managing Directors provides a comprehensive overview of all risks in the Group on the basis of the risk management and controlling processes. Risk management functions are primarily performed by the divisions Treasury, Promotional Business, and Collateral & Equity Holdings. The member of the Board of Managing Directors which is responsible for the back office function is also responsible for the risk controlling function. The Finance division, including its risk controlling group, and the Financial Institutions division, comprising its Credit Risk desk, report to this Board member. In the Finance division, risk controlling comprises the regular monitoring of the limits determined by the Board of Managing Directors as well as reporting on market price risks, liquidity risks, operational risks, and risk-bearing capacity; risk reporting is based on risk level and regulatory requirements. The Financial Institutions division monitors the limits defined for credit risks and is responsible for reporting on credit risks, taking into account risk aspects and regulatory requirements.

The compliance risks relevant to Rentenbank are characterized primarily by the fact that in case of non-compliance with material (bank) regulatory rules and requirements fines and penalties, claims for damages and/or the nullity of contracts may be the consequences which might endanger the assets of Rentenbank. Rentenbank's compliance function in cooperation with the divisions and as part of the ICS attempts to ensure that the employees can review and guarantee the lawfulness and appropriateness of their actions.

Both the Board of Managing Directors and the Accounting and Audit Committee established by the Board of Supervisory Directors as well as the Risk Committee (since January 1, 2014; Credit Committee until the end of 2013) are informed about the risk situation at least quarterly. If material risk-relevant information or transactions become known and in the case of non-compliance with the MaRisk, the Board of Managing Directors, Internal Audit department and, if necessary, the heads of divisions or departments concerned must be notified immediately. Information about material risk aspects is forwarded immediately by the Board of Managing Directors to the Board of Supervisory Directors.

The Internal Audit department of Rentenbank is active at Group level, performing the function of a Group Audit department. It reviews and assesses the appropriateness of activities and processes, supplemented by safety and effectiveness aspects, as well as the adequacy and effectiveness of the RMS and ICS.

The Group Audit department directly reports to the Board of Managing Directors of Rentenbank and carries out its duties on its own and independently. The Board of Managing Directors is authorized to issue instructions to cause additional reviews to be performed. The chairman of the Board of Supervisory Directors and the Risk Committee as well as the Accounting and Audit Committee may request information directly from the head of Internal Audit.

On the basis of risk-based review planning, the Group Audit department generally reviews and assesses all of the Group's activities and processes, including RMS and ICS, on a risk-based and process-independent basis.

The risks are monitored generally across segments. If risk monitoring is limited to individual segments, this is presented in the risk types.

Credit risks

Definition

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

The issuer, counterparty, and original country risk refer to the potential loss due to defaults or deteriorations in the credit quality of business partners (counterparties/issuers/countries), taking into account the valuation of collateral. The derivative country risk results from the general economic and political situation of the country in which the debtor is located. Derivative country risks are divided into country transfer risks and redenomination risks. Country transfer risk is the risk that a foreign borrower – despite being solvent – may not be able to make interest and principal payments when they are due as a result of economic or political risks. The redenomination risk refers to the risk that the nominal value of a receivable is converted into another currency. In case of a conversion into a 'weak' currency based on a fixed exchange rate, this may be equivalent to a partial disappropriation of the creditors.

Structural risks (i.e. cluster or concentration risks) are risks resulting from the concentration of the lending business on regions, sectors or borrowers. Collateral risk is the risk which results from the lack of recoverability of loan collateral during the loan term or a mispricing of collateral. Equity investment risk is the risk of losses incurred due to a negative performance within the portfolio of equity holdings.

The scope of the Group's business activities is largely defined by Rentenbank's Governing Law and its statutes. Accordingly, loans for the promotion of the agricultural sector and rural areas are in general currently granted only to banks in the Federal Republic of Germany or in another EU country as well as Norway that are engaged in business activities with companies in the agricultural sector and with companies offering related upstream or downstream activities or activities in rural areas. In addition, general promotional business may also be conducted with the German federal states. The special promotional loans are limited to Germany as an investment location. Accordingly, the lending business of Rentenbank is, for the most part, limited to the refinancing of banks and other interbank business. The credit risk related to the ultimate borrower is generally borne by that borrower's local bank.

Furthermore, all transactions may be carried out that are directly connected with fulfilling its tasks, taking into account 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 Group's treasury management and risk management.

When granting loans to companies, Rentenbank is only exposed to risks as part of the direct lending business and the syndicated lending business. In 2013, no transactions were entered into with companies in the syndicated lending business.

For the purpose of diversifying credit risks, Rentenbank has intensified its lending business with the German federal states.

The divisions Promotional Business and Treasury are responsible for new business with regards to promotional loans, depending on the type of transaction. The Promotional Business division enters into all special promotional loans. The Treasury division is responsible for the purchase of securities, promissory note loans and registered debt securities as well as new commitments within the syndicated lending business with companies and the direct lending business as part of the standard promotional business. It is also responsible for new business in money market business and for derivatives. Derivatives are only entered into as hedging instruments for existing or expected market price risks and only with business partners in EU or OECD countries. Transactions are only concluded with business partners with whom an existing collateral agreement has been signed.

Organization

The Treasury division represents the front office and is strongly involved in the workflow of the standard and securitized promotional business. In accordance with the MaRisk certain tasks have to be performed separate from the front office. These so-called back office functions are performed by the Financial Institutions and Collateral & Equity Holdings divisions. These divisions issue the independent second vote for lending decisions, process new business entered into and assess collateral. They are also responsible for intensified loan management as well as for the management of non-performing loans. Any necessary measures are agreed upon in cooperation with the Board of Managing Directors. The member of the Board of Managing Directors responsible for the back office function is responsible for the process.

The Financial Institutions division drafts a bank-wide credit risk strategy and is responsible for its implementation. Rentenbank's Board of Managing Directors deliberates on the credit risk strategy on an annual basis and presents this strategy to the Risk Committee established by the Board of Supervisory Directors (since January 1, 2014; Credit Committee until the end of 2013) and for information purposes. In addition, the Financial Institutions division analyzes credit risks, allocates exposures to Rentenbank-specific ratings, prepares votes for lending decisions and the vote of the back office function, and continuously monitors overall credit risk.

The Financial Institutions division monitors credit risks on an individual borrower level as well as on the level of the overall loan portfolio and is responsible for risk reporting on credit risks. It is also responsible for methodological development, quality assurance, and monitoring of the procedures used to identify and quantify credit risk. The functional and organizational separation of risk controlling and the Financial Institutions and Collateral & Equity Holdings divisions from the Treasury and Promotional Business divisions guarantees independent risk assessment and monitoring. The management and monitoring of credit risks is performed for individual transactions at borrower level as well as at borrower unit level or at the level of a group of connected customers and the level of the overall loan portfolio. Within the framework of the management of the overall loan portfolio, the loan portfolio is subdivided by various features, with transactions that have similar structures being summarized in several product groups.

Credit assessment

The credit ratings which are determined using the bank‘s risk classification procedure are a key risk management instrument for credit risks and the relevant internal limits.

The credit rating is established by the Financial Institutions division as a back office organizational unit in accordance with an internally established procedure. Individual business partners or types of transactions are allocated to one of the 20 rating categories during this process. The ten best rating categories AAA to BBB- are used for business partners with few risks (Investment Grade). Rentenbank also introduced seven rating categories (BB+ to C) for latent or increased latent risks and three rating categories (DDD to D) for non-performing loans or exposures already in default.

The credit ranking of our business partners is reviewed at least annually based on an assessment of their annual financial statements and the analysis of their financial condition. In addition to key performance indicators, the analysis also takes into account qualitative characteristics, the background of the company, and additional supporting data such as membership in a protection scheme or state liability support. Furthermore, country risks are evaluated separately as a structural risk relevant to Rentenbank. For certain transaction types, such as mortgage bonds, collateral is included as an additional assessment criterion. Current information concerning negative financial data or a deterioration of the economic perspectives of a business partner also may trigger a review of a business partner‘s credit rating and, if necessary, an adjustment of the limit. The internal risk classification procedure is continuously developed and monitored annually.

Quantification of credit risk

Rentenbank's rating category system forms the basis for measuring credit default risks with the help of statistical procedures. In order to determine the expected loss, historical default rates as published by rating agencies are used. The Group does not have own historical data due to the negligible number of defaults in the past decades. In order to assess credit risks, a standard scenario (annual, potential loss related to utilization) is supplemented by stress scenarios (annual, potential loss related to internally granted limits, assuming deterioration of credit quality, lower recovery rates as well as increased probabilities of default).

Based on its business model, which is mainly defined by Rentenbank's Governing Law and its statutes, the Group places its focus on the interbank business. This results in a material concentration risk. A specific risk amount (lump-sum risk buffer) is set aside for these sector-related concentration risks.

In accordance with the risk-bearing capacity concept set out in the risk manual, credit risks are allocated a certain portion of the risk covering potential. Internally established limits are monitored daily to ensure compliance at all times.

The stress scenarios also take country-specific effects into account and focus on concentration risks within the loan portfolio. Default of the borrower units or foreign exposures that are largest based on risk exposure level (taking into account product-specific loss given default percentages) as well as the default of all exposures with increased latent risks are assumed in additional worst-case scenarios. The potential loss determined on the basis of these worst-case scenarios is used to measure risk concentrations and does not have to be backed by risk covering potential under the going concern approach. Priority is given in this context to the critical reflection of the results and the derivation of necessary actions (for example in the form of limit reductions or intensified risk monitoring). In addition, the effects of current developments on risk covering potential may be examined on the basis of additional stress scenarios on an ad-hoc basis.

Limitation and reporting

Risk limitation ensures that the risk actually assumed is in line with the risk strategy determined in the risk manual and the Group's risk-bearing capacity. Within this context, limitation is made both at borrower level and at borrower unit level or at the level of a group of connected customers as well as at the level of the overall loan portfolio.

Based on the proportion of the risk covering potential made available for credit risks, an overall upper limit is set for all credit risk limits. In addition, specific country-based credit and transfer limits have been established, as well as an upper limit for unsecured facilities, and an upper limit for the corporate lending business.

A limit system governs the level and the structure of all credit risks. Limits are recorded for all borrowers, issuers, and counterparties and sub-divided into groups according to product and maturity. Rentenbank's risk classification procedure represents the central basis for decisions related to the definition of limits. In addition, an overall upper limit for each borrower unit and each group of connected customers has been established, the utilization of which is determined depending on the individual types of business transactions. Furthermore, a certain minimum credit quality is required for particular types of business or limits.

All limits are monitored on a daily basis by the responsible back office function. The utilization of the limits within the context of money market and promotional loan transactions as well as equity holdings is measured on the basis of the relevant carrying amounts. For the securitized promotional business, the level of utilization of the limits is calculated on the basis of current market prices and, in the case of derivatives, the positive fair values of derivative portfolios, taking into account collateral received, if any. Limit reserves are used as a buffer for market price fluctuations. The member of the Board of Managing Directors responsible for the back office function receives a daily report on the risk-relevant limits as well as their utilization. The Board of Managing Directors is informed promptly if limits are exceeded.

Rentenbank has concluded collateral agreements with all counterparties with which it enters into derivative transactions. These agreements provide for cash deposits denominated exclusively in euros to secure the positive fair values from derivatives exceeding the contractually agreed allowance amounts and minimum transfer amounts. The collateral agreements reduce the utilization of limits and thus the credit risks.

At the end of each quarter, the Financial Institutions division (back office organizational unit) prepares a credit risk report for the Board of Managing Directors and the Risk Committee (since

January 1, 2014; previously the Credit Committee until the end of 2013) established by the Board of Supervisory Directors based on the MaRisk guidelines.

Current risk situation

Pursuant to IFRS 7, the maximum exposure to credit risk is to be disclosed without taking collateral into account. Therefore, it corresponds to the carrying amount of the relevant assets or the nominal amount, in the case of irrevocable loan commitments.

Maximum exposure to credit risk pursuant to IFRS 7:

	Dec. 31, 2013 € million	**Dec. 31, 2012** € million	**Change in** € million
Loans and advances to banks	49,750.9	51,164.0	-1,413.1
Loans and advances to customers	5,570.6	4,652.4	918.2
Fair value changes of hedged items in a portfolio hedge	677.3	1,210.7	-533.4
Positive fair values of derivative financial instruments	3,236.1	7,486.4	-4,250.3
Financial assets	20,894.4	22,588.7	-1,694.3
Irrevocable loan commitments	115.2	496.2	-381.0
Total	**80,244.5**	**87,598.4**	**-7,353.9**

The Group has received collateral in the form of assignments of receivables, guarantors' liability as well as state guarantees for the majority of the risk exposures presented. The remaining risk positions primarily include 'covered securities' such as German Pfandbriefe (covered bonds).

As regards the positive fair values of derivative financial instruments, the disclosed maximum exposure to credit risk of € 3,236.1 million (2012: € 7,486.4 million) represents the volume of receivables recognized in the balance sheet on an individual contract level. In contrast, the risk-relevant economic collateralization is made on counterparty level. Rentenbank has concluded collateral agreements based on master agreements with netting effect with all counterparties with which it enters into derivative financial instruments. Taking netting agreements and cash collateral into account, the maximum credit risk exposure pursuant to IFRS 7 for derivative financial instruments as of December 31, 2013 amounts to € 29.1 million (2012: € 136 million).

Exposure to credit risk by rating category:

Dec. 31, 2013

	AAA	AA	A	BBB	BB-B	CCC-C	D
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Loans and advances to banks	12,388.9	6,137.6	26,595.4	4,503.7	125.3	0.0	0.0
Loans and advances to customers	5,536.6	0.0	13.4	20.5	0.0	0.1	0.0
Fair value changes of hedged items in a portfolio hedge	146.7	38.9	389.0	102.7	0.0	0.0	0.0
Positive fair values of derivative financial instruments	1.6	1,058.5	1,797.2	376.6	2.2	0.0	0.0
Financial assets	10,383.9	4,995.4	2,938.3	2,393.9	158.0	24.9	0.0
Irrevocable loan commitments	115.2	0.0	0.0	0.0	0.0	0.0	0.0
Total	**28,572.9**	**12,230.4**	**31,733.3**	**7,397.4**	**285.5**	**25.0**	**0.0**

Dec. 31, 2012

	AAA	AA	A	BBB	BB-B	CCC-C	D
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Loans and advances to banks	11,509.6	21,861.5	13,725.3	3,760.3	260.7	46.6	0.0
Loans and advances to customers	4,600.5	0.0	24.1	26.1	0.2	1.5	0.0
Fair value changes of hedged items in a portfolio hedge	238.4	353.2	479.7	139.4	0.0	0.0	0.0
Positive fair values of derivative financial instruments	0.0	2,031.3	5,172.0	192.0	91.1	0.0	0.0
Financial assets	10,302.7	5,329.8	4,852.0	1,678.1	371.1	55.0	0.0
Irrevocable loan commitments	496.2	0.0	0.0	0.0	0.0	0.0	0.0
Total	**27,147.4**	**29,575.8**	**24,253.1**	**5,795.9**	**723.1**	**103.1**	**0.0**

The aggregation of carrying amounts in the following two analyses is based on the member state or the group affiliation on business partner level, without taking into account group relationships.

Risk concentration by country:

Dec. 31, 2013

	Germany		Europe (excl. Germany)		OECD countries (excl. EU)	
	€ million	%	€ million	%	€ million	%
Loans and advances to banks	47,526.8	59.3	2,224.0	2.8	0.1	0.0
Loans and advances to customers	5,570.6	6.9	0.0	0.0	0.0	0.0
Fair value changes of hedged items in a portfolio hedge	677.3	0.8	0.0	0.0	0.0	0.0
Positive fair values of derivative financial instruments	831.4	1.0	2,134.8	2.7	269.9	0.3
Financial assets	5,380.3	6.7	15,456.1	19.3	58.0	0.1
Irrevocable loan commitments	115.2	0.1	0.0	0.0	0.0	0.0
Total	**60,101.6**	**74.8**	**19,814.9**	**24.8**	**328.0**	**0.4**

Dec. 31, 2012

	Germany		Europe (excl. Germany)		OECD countries (excl. EU)	
	€ million	%	€ million	%	€ million	%
Loans and advances to banks	48,412.7	55.3	2,751.2	3.1	0.1	0.0
Loans and advances to customers	4,652.4	5.3	0.0	0.0	0.0	0.0
Fair value changes of hedged items in a portfolio hedge	1,210.7	1.4	0.0	0.0	0.0	0.0
Positive fair values of derivative financial instruments	1,424.2	1.6	5,091.3	5.8	970.9	1.1
Financial assets	5,707.3	6.5	16,843.9	19.3	37.5	0.0
Irrevocable loan commitments	496.2	0.6	0.0	0.0	0.0	0.0
Total	**61,903.5**	**70.7**	**24,686.4**	**28.2**	**1,008.5**	**1.1**

Risk concentration by group of counterparty:

Dec. 31, 2013

	Private-sector banks/ other banks		Foreign banks		Public-sector banks	
	€ million	%	€ million	%	€ million	%
Loans and advances to banks	7,261.2	9.0	2,223.4	2.7	30,179.9	37.6
Loans and advances to customers	0.0	0.0	0.0	0.0	0.0	0.0
Fair value changes of hedged items in a portfolio hedge	122.0	0.2	1.4	0.0	315.9	0.4
Positive fair values of derivative financial instruments	418.6	0.5	2,084.5	2.6	180.8	0.2
Financial assets	1,686.8	2.1	14,667.0	18.4	2,943.0	3.7
Irrevocable loan commitments	0.0	0.0	0.0	0.0	115.0	0.1
Total	**9,488.6**	**11.8**	**18,976.3**	**23.7**	**33,734.6**	**42.0**

	Cooperative banks		Central banks		Non-banks	
	€ million	%	€ million	%	€ million	%
Loans and advances to banks	10,086.4	12.6	0.0	0.0	0.0	0.0
Loans and advances to customers	0.0	0.0	0.0	0.0	5,570.6	6.9
Fair value changes of hedged items in a portfolio hedge	238.0	0.3	0.0	0.0	0.0	0.0
Positive fair values of derivative financial instruments	168.9	0.2	0.0	0.0	383.3	0.5
Financial assets	164.3	0.2	0.0	0.0	1,433.3	1.8
Irrevocable loan commitments	0.0	0.0	0.0	0.0	0.2	0.0
Total	**10,657.6**	**13.3**	**0.0**	**0.0**	**7,387.4**	**9.2**

Dec. 31, 2012

	Private-sector banks/ other banks		Foreign banks		Public-sector banks	
	€ million	%	€ million	%	€ million	%
Loans and advances to banks	8,739.4	10.0	2,750.9	3.1	29,381.7	33.5
Loans and advances to customers	0.0	0.0	0.0	0.0	0.0	0.0
Fair value changes of hedged items in a portfolio hedge	216.3	0.2	1.2	0.0	561.5	0.6
Positive fair values of derivative financial instruments	840.2	1.0	5,302.7	6.1	260.4	0.3
Financial assets	1,509.8	1.7	15,998.9	18.3	3,320.2	3.8
Irrevocable loan commitments	0.0	0.0	0.0	0.0	496.0	0.6
Total	**11,305.7**	**12.9**	**24,053.7**	**27.5**	**34,019.8**	**38.8**

	Cooperative banks		Central banks		Non-banks	
	€ million	%	€ million	%	€ million	%
Loans and advances to banks	9,491.9	10.8	800.1	0.9	0.0	0.0
Loans and advances to customers	0.0	0.0	0.0	0.0	4,652.4	5.3
Fair value changes of hedged items in a portfolio hedge	431.7	0.5	0.0	0.0	0.0	0.0
Positive fair values of derivative financial instruments	234.7	0.3	0.0	0.0	848.4	1.0
Financial assets	274.4	0.3	0.0	0.0	1,485.4	1.7
Irrevocable loan commitments	0.0	0.0	0.0	0.0	0.2	0.0
Total	**10,432.7**	**11.9**	**800.1**	**0.9**	**6,986.4**	**8.0**

Carrying amounts in the peripheral eurozone countries:

Dec. 31, 2013:

	Italy € million	Portugal € million	Spain € million	Total € million
Government bonds	314.4	126.8	94.7	535.9
Bonds and promissory note loans of banks	924.0	413.0	2,279.7	3,616.7
Positive fair values of derivative financial instruments			2.2	2.2
Gross exposure	**1,238.4**	**539.8**	**2,376.6**	**4,154.8**
Collateral	577.1	286.6	2,259.2	3,122.9
Net exposure	**661.3**	**253.2**	**117.4**	**1,031.9**

Dec. 31, 2012:

	Italy € million	Portugal € million	Spain € million	Total € million
Government bonds	345.6	125.6	95.3	566.5
Bonds and promissory note loans of banks	1,273.2	451.3	2,620.9	4,345.4
Positive fair values of derivative financial instruments			0.0	0.0
Gross exposure	**1,618.8**	**576.9**	**2,716.2**	**4,911.9**
Collateral	676.1	278.6	2,491.4	3,446.1
Net exposure	**942.7**	**298.3**	**224.8**	**1,465.8**

In light of their strained economic and fiscal situation, the peripheral eurozone countries are being monitored closely. The only business in Ireland consists of a swap transaction with the subsidiary of a large U.S. bank. The transaction had a negative market value at year end.

There are no available credit limits or irrevocable loan commitments with counterparties located in peripheral eurozone countries and no transactions of this type were entered into in 2013. Until further notice, only derivatives that are collateralized by cash collateral may be concluded.

The government bonds of peripheral eurozone countries as well as bonds and promissory note loans of banks from these countries are assigned to the following measurement categories under IFRS:

	Government bonds		Bonds and promissory note loans of banks	
	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012
	€ million	€ million	€ million	€ million
Available for sale	304.0	324.2	3,067.9	3,231.8
Held to maturity	196.5	197.5	174.6	262.0
Loans and receivables	0.0	0.0	21.4	22.0
Designated as at fair value	35.4	44.8	352.8	829.6
Total	**535.9**	**566.5**	**3,616.7**	**4,345.4**

Allowances for credit losses

Allowances for credit losses are recognized in the case of exposures at risk of default on individual exposure level. In this context, impairments resulting from payment defaults are only determined for losses already incurred. The impairment is determined based on the difference between the carrying amount and the present value of the expected cash flows. The method for recognizing the impairment is described in more detail in Note (9) in the notes to the consolidated financial statements. In the reporting year, no specific valuation allowances needed to be recognized. One exposure for which a specific valuation allowance had been recognized previously was repaid as contractually agreed. There were no specific valuation allowances on Group level as of December 31, 2013.

The annual financial statements of Rentenbank include a specific valuation allowance of € 5 million (2012: € 3.6 million). This valuation allowance was not recognized on Group level as the related exposure is measured at fair value through profit or loss in the consolidated financial statements.

The Group has recognized a portfolio valuation allowance of € 11.7 million (2012: € 0.0 million) on the basis of a model for the presentation of expected losses. The method for recognizing the allowance is described in Note (9) in the notes to the consolidated financial statements. Rentenbank recognized a portfolio valuation allowance of € 15.0 million (2012: € 31.6 million) in its annual financial statements. The difference to the Group is based on exposures that are recognized at fair value through profit or loss in the consolidated financial statements and which therefore are not taken into account in the calculation.

Standard scenarios

The basis of the calculations for measuring potential loss under the standard scenario is the annual potential loss related to utilization, taking into account 1-year probabilities of default. As of December 31, 2013, the cumulative potential loss, including a lump-sum risk buffer of € 50 million for sector-related concentration risks, amounted to € 70.4 million (2012: € 88.9 million). The decrease compared to the previous year is primarily attributable to amounts maturing in the lower rating categories and credit rating improvements of single business partners from the banking sector. In fiscal year 2013, the average potential loss, which is calculated on a monthly basis, amounted to € 76.1 million (2012: € 60.2 million). In relation to the allocated risk covering potential for credit risks as of the reporting date, the average potential loss was 29.3% (2012: 23.2%). The maximum utilization amounted to € 87.7 million (2012: € 88.9 million) and is below the limit of € 260 million approved by the Board of Managing Directors for the standard scenario. The lowest utilization during the reporting year was € 69.2 million (2012: € 36.2 million).

Stress scenarios

In a first stress scenario, the potential loss is calculated based on a full utilization of all internally granted limits, taking into account 1-year probabilities of default. As of December 31, 2013, the potential loss under this stress scenario amounted to € 83.3 million (2012: € 102.3 million). Under two further scenarios, we simulate an increase of default probabilities by a country-specific factor (at least twice as high), deterioration of credit quality (by at least two notches), and higher loss ratios for potential losses of collateralized transactions. The stress scenario associated with the highest risk exposure is used for inclusion within the calculation of the risk-bearing capacity. As of the reporting date, the maximum potential loss calculated under the above mentioned stress scenarios was € 176.6 million (2012: € 242.0 million). The reduction compared with the previous year is largely attributable to the risk-averse new business strategy as well as limit cancellations in the lower rating categories.

A lump-sum risk buffer for concentration risks within the banking sector of € 50.0 million is also included in the calculations to measure potential credit defaults in the stress scenarios.

Apart from stress scenarios, Rentenbank also analyzed additional worst-case scenarios in order to review risk concentrations. Under the worst-case scenario 'default of the two borrower units with the largest risk exposure,' the potential loss calculated amounted to € 1.3 billion as of December 31, 2013 (2012: € 1.3 billion). Under the worst-case scenario 'default of the two country exposures with the largest risk exposure' (excl. Germany), the potential loss calculated amounted to € 2.0 billion (2012: € 2.3 billion). Under the worst-case scenario 'default of all exposures subject to latent risks,' the potential loss was € 156 million (2012: € 85 million). The increase compared to the previous year is attributable to tighter scenario assumptions. The three worst-case scenarios focus primarily on concentration risks within the credit portfolio and are used to reflect on the results and to take action if necessary.

Market price risks

Definition

Market price risks occur in the form of interest rate risks, spread risks, foreign exchange risks, and other price risks. The potential loss is calculated by the Group based on the amount held in the portfolio and on the variations of the given market parameters.

Organization

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

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

Quantification of market price risks

Interest rate risks

The interest rate risks are largely reduced on group-level by hedging balance sheet items with derivatives. Derivatives are entered on the basis of micro or macro relationships. The effectiveness of micro hedges is monitored daily for new established hedging relationships.

Gains or losses from maturity transformation are realized from money market transactions and, to a lesser extent, from the promotional lending business. Gains or losses from maturity transformation result only from short-term open positions because individual positions in the promotional lending business are not hedged at the same time due to their low volumes.

Within the context of monitoring interest rate risks, the Group determines, on a daily basis, present value sensitivities for all transactions subject to interest rate risks of the Promotional Business and Treasury Management segments and additionally measures, on a quarterly basis, interest rate risks for all positions of the Group exposed to such interest rate risks using a model based on present values.

The quarterly analysis is conducted based on the requirements set out in Circular 11/2011 of the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) and examines the effects of changes in market rates of interest as of a specific date. The result represents the estimated change in the present value. The present value is calculated on the basis of a scenario analysis, referring to all financial instruments across segments, without taking into account equity components. Pursuant to Section 24 (1) No. 14 KWG, a negative change of the present value exceeding 20% of total own funds must be notified immediately.

The interest-rate risks from open positions may not exceed the risk limits determined by resolution of the Board of Managing Directors. Compliance with the limits is monitored daily and reported to the Board of Managing Directors, with utilization of the risk limits being based on sensitivities.

The value at risk (VaR) is calculated daily for the money market business only for information purposes. A forecast is made of the maximum potential valuation loss arising from market effects assuming a probability of occurrence of 99% and a holding period of ten days. The scenarios used are based on historical data. The factors influencing portfolio valuation are concentrated on the interest rate curves for interbank loans (deposit/swap curve) and derivatives (EONIA swap curve).

Spread risks

Changes to market parameters in the form of a widening of EONIA deposit spreads or changes in the cross-currency basis swap spreads (CCY basis swap spreads), basis swap spreads and credit spreads have a direct effect on the valuation of existing positions and influence the risk covering potential. The potential effects of spread risks on the measurement result are simulated using scenario analyses and are covered with the risk covering potential within the scope of the risk-bearing capacity analysis.

The spread risk would only then materialize if the buy-and-hold strategy is breached or a business partner defaults. Regardless of this fact, these measurement results are also taken into account in the consolidated statement of comprehensive income as well as in the risk-bearing capacity calculations.

Foreign currency risks

As a rule, foreign currency risks and other price risks arising from transactions recorded on the balance sheet are hedged by means of hedges. Open currency positions result from fractional amounts during settlement only, and to a very small extent.

Standard scenarios

Potential market price fluctuations are assumed for purposes of the standard scenario. For all open interest-rate-sensitive transactions related to the portfolios 'money market business' and 'lending business,' the present value sensitivity is calculated daily; assuming a positive parallel shift in the yield curves with a 95% probability of occurrence, and it is compared with the relevant limits.

Stress scenarios

In order to estimate risks arising from extraordinary market developments, we regularly, and on an as-needed basis, calculate additional scenarios of interest rate changes individually for the portfolios 'money market business' and 'lending business.' Under the monthly stress scenario, we assume a parallel shift in the interest rate curve, as in the standard scenario.

A potential widening of the EONIA deposit spread for the money market business is simulated to determine spread risks. In the 'lending business,' we calculated an increase of the CCY basis swap spreads and of the basis swap spreads as well as a reduction of the credit spreads. Correlation effects are included in the aggregation of specific risks.

A probability of occurrence of 99% is assumed.

Limitation and reporting

The risk covering potential allocated to market price risk corresponds to the risk limit of € 19 million (2012: € 19 million). The interest-rate risks from open positions may not exceed the risk limits. Compliance with the limits is monitored daily and reported to the Board of Managing Directors. The Accounting and Audit Committee, and since January 1, 2014 the Risk Committee of the Board of Supervisory Directors, are informed quarterly about the results from the risk analyses within the risk report.

Back testing

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

The scenario parameters in 'money market business' and 'lending business' are validated daily using historical interest rate trends.

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

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

Current risk situation

The assumptions and market parameters for calculating the standard and stress scenarios were validated and adjusted during the 2013 fiscal year. The adjustments are shown in the following standard and stress scenarios.

Standard scenarios

As of December 31, 2013, the utilization of the risk limit for the market price risk in the 'money market business' and 'lending business' segments was € 5.2 million (2012: € 6.7 million) or 27.4% (2012: 35.3%) in case of a parallel shift of the interest rate curves by 40 basis points (bps) (2012: 40 bps). The average limit utilization in fiscal year 2013 was € 3.2 million (2012: € 5.9 million). This corresponded to an average utilization of 16.8% (2012: 14.3%). Maximum risk for the reporting year amounted to € 7.5 million (2012: € 15.6 million), while the lowest utilization was € 0.04 million (2012: € 0.1 million). No limits were exceeded in the whole of 2012, nor in 2013.

Stress scenarios

Risk calculation in stress scenarios for interest rate risk is made in the portfolios 'money market business' and 'lending business.' For each portfolio, the interest rate curves are subjected to parallel shifts (2012: non-parallel shifts within the framework of two individual scenarios). As of the reporting date, the risk exposure calculated assuming a parallel shift of the interest rate curves by 60 bps amounted to € 7.7 million. In the previous year, the risk exposure calculated assuming a non-parallel shift of the interest rate curves EONIA swap by +2 bps and deposit/swap by +60 bps for the short end, and EONIA swap of -2 bps and deposit/swap by -60 bps for the long end amounted to € 8.1 million.

The costs for the swap of flows of interest payments between interest bases of different maturities in the same currency amounted to € 85.4 million (2012: € 105.1 million) based on a parallel increase of the basis swap spreads by 11 bps (2012: 16 bps).

An increase of the CCY basis swap spread by 116 bps (2012: 105 bps) is assumed under the scenario in relation to the costs for the swap of payment flows with the same maturity between different currencies. This resulted in a spread risk of € 989.1 million (2012: € 1,035.4 million).

The credit spreads are based on a debtor's credit (structural credit quality), collateral and market-specific parameters (e.g. liquidity, spreads of government bonds, arbitrage opportunities). Within the relevant rating category, a parallel shift of 115 bps (125 bps) for the asset business and 120 bps (118 bps) for the funding business is assumed in the stress scenario in order to measure sensitivity. The credit spread sensitivity was € 803.0 million (2012: € 791.0 million).

A widening of 56 bps of the EONIA swap deposit spreads is assumed in relation to the measurement risk. The risk exposure amounted to € 0.9 million at the reporting date. No EONIA swaps were held in the previous year.

Value-at-risk (VaR)

The value-at-risk shows the maximum loss from market-related developments in 'money market business,' assuming a holding period of ten days and a prediction accuracy of 99% and amounted to € 1.1 million as of December 31, 2013 (2012: € 0.8 million).

Interest rate risk at the level of the entire bank

In accordance with the requirements of BaFin, sudden and unexpected interest rate changes were simulated using a parallel shift of +(-)200 bps. Since September 30, 2013, interest rate risks have been determined on Group level as the Group uses the Group waiver pursuant to Section 2a (6) KWG. As of the reporting date, the risk exposure in the case of rising interest rates amounts to € 418.9 million (2012: € 323.1 million). The ratio based on regulatory own funds amounts to 10.6% (2012: 8.6%). At no point during 2013 or 2012 did the ratio exceed the notification threshold of 20%.

Foreign currency risks

No material risk was identified for any currency in 2013 or 2012. Nominal foreign currency amounts are broken down as follows:

Dec. 31, 2013

Nominal amounts in € million	USD	GBP	CHF	JPY	CAD	AUD	Other	**Total**
Assets								
Loans and advances to banks	0.1	0.0	48.9	0.0	0.0	0.0	0.0	**49.0**
Loans and advances to customers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Financial assets	724.0	816.6	21.2	203.6	205.4	48.6	6.7	**2,026.1**
Positive fair values of derivative financial instruments	21,651.5	1,681.3	1,417.4	1,182.5	428.1	8,031.3	3,712.4	**38,104.5**
Total assets	**22,375.6**	**2,497.9**	**1,487.5**	**1,386.1**	**633.5**	**8,079.9**	**3,719.1**	**40,179.6**
Liabilities								
Liabilities to banks	61.6	0.0	0.0	0.0	0.0	0.0	0.0	**61.6**
Liabilities to customers	108.7	12.0	0.0	34.5	0.0	0.0	0.0	**155.2**
Securitized liabilities	21,006.3	1,669.3	1,417.4	872.7	428.1	8,031.3	3,711.0	**37,136.1**
Subordinated liabilities	0.0	0.0	0.0	345.5	0.0	0.0	0.0	**345.5**
Negative fair values of derivative financial instruments	1,198.9	816.6	70.1	133.4	205.4	48.6	8.1	**2,481.1**
Total liabilities	**22,375.5**	**2,497.9**	**1,487.5**	**1,386.1**	**633.5**	**8,079.9**	**3,719.1**	**40,179.5**
Net currency position	0.1	0.0	0.0	0.0	0.0	0.0	0.0	**0.1**

Dec. 31, 2012

Nominal amounts in € million	USD	GBP	CHF	JPY	CAD	AUD	Other	**Total**
Assets								
Loans and advances to banks	0.1	0.0	49.7	0.0	0.0	0.0	0.0	**49.8**
Loans and advances to customers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Financial assets	984.1	331.3	0.0	223.8	221.1	59.0	0.0	**1,819.3**
Positive fair values of derivative financial instruments	27,203.8	1,255.5	1,805.8	2,582.5	729.1	8,686.4	4,242.0	**46,505.1**
Total assets	**28,188.0**	**1,586.8**	**1,855.5**	**2,806.3**	**950.2**	**8,745.4**	**4,242.0**	**48,374.2**
Liabilities								
Liabilities to banks	64.4	0.0	0.0	0.0	0.0	0.0	0.0	**64.4**
Liabilities to customers	136.4	12.3	0.0	44.0	0.0	0.0	0.0	**192.7**
Securitized liabilities	26,427.8	1,243.2	1,723.0	2,168.8	729.1	8,686.4	4,242.0	**45,220.3**
Subordinated liabilities	22.7	0.0	82.8	457.7	0.0	0.0	0.0	**563.2**
Negative fair values of derivative financial instruments	1,536.6	331.3	49.7	135.8	221.1	59.0	0.0	**2,333.5**
Total liabilities	**28,187.9**	**1,586.8**	**1,855.5**	**2,806.3**	**950.2**	**8,745.4**	**4,242.0**	**48,374.1**
Net currency position	0.1	0.0	0.0	0.0	0.0	0.0	0.0	**0.1**

Liquidity risks

Definition

Liquidity risk describes the risk of not being able to meet current or future payment obligations without restrictions or of being unable to raise the required funds under the expected terms and conditions.

Market liquidity risk specifically defines the risk that assets may not be sold respectively liquidated instantaneously without putting prices under pressure i.e. causing a loss.

Controlling and monitoring

The liquidity risks resulting from Rentenbank's open cash balances are limited by an amount which is defined by the Board of Managing Directors and based on the funding opportunities available to Rentenbank. The Finance division monitors liquidity risks daily and reports the results to the Board of Managing Directors and the Treasury division.

Instruments available for managing the short-term liquidity position are interbank funds, collateralized money market funding, ECP placements, and open-market transactions with the Deutsche Bundesbank. In addition, Rentenbank may purchase securities for liquidity management purposes and may borrow funds with terms of up to two years via the Euro Medium Term Note (EMTN) program, loans, global bonds, and traditional instruments.

In order to limit short-term liquidity risks, the liquidity requirements must not exceed the freely available funding potential for a period of up to two years. In accordance with MaRisk, the Group holds sufficient, sustainable highly liquid liquidity reserves to be able to meet any short-term funding requirements of at least one week and to cover any additionally required funding shortfalls from stress scenarios if needed.

For the purpose of calculating medium and long-term liquidity, expected cash inflows and outflows for the coming 15 years are grouped together and carried forward in quarterly buckets. The negative cumulative cash flows may not exceed the limit set by the Board of Managing Directors.

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

Under the risk-bearing capacity concept, liquidity risks are not covered through risk covering potential, since the Group has sufficient cash funds, and its triple A ratings, amongst other factors, enable it to obtain any additionally required cash funds on the interbank markets or, in case of market disruptions, from Eurex Clearing AG (collateralized money market funding) and from Deutsche Bundesbank (collateralized loans or so-called Pfandkredite, and collateral assignment in accordance with the KEV procedure Krediteinreichungsverfahren).

Stress scenarios

Stress scenarios are intended to examine the effects of unexpected events on Rentenbank’s liquidity position. The main liquidity scenarios are an integral part of the internal control model and are calculated and monitored on a monthly basis. The scenario analyses take into account price declines of securities, simultaneous drawdowns of all irrevocable credit commitments, defaults by major borrowers and calls of cash collateral from collateralization agreements due to an increase in the negative fair values of derivative portfolios or a decrease in the positive fair values of derivative portfolios. A scenario mix is used to simulate the cumulative occurrence of stress scenarios. Stress tests are also performed on an ad hoc basis in the event of risk-relevant events.

Liquidity ratios pursuant to the Liquidity Regulation

Pursuant to regulatory requirements (German Liquidity Regulation, Liquiditätsverordnung), cash balances and payment obligations are determined for the various payment-effective on-balance and off-balance transactions on a daily basis. These are weighted according to regulatory requirements and a ratio is calculated. Moreover, these indicators are also calculated for future reporting dates based upon extrapolation. In the 2013 reporting year, the monthly reported liquidity ratio for the period up to 30 days was between 2.36 and 3.98 (2012: 2.70 and 4.82, respectively) and thus significantly above the 1.0 ratio defined by regulatory requirements.

Reporting

The Board of Managing Directors is provided daily with a short-term liquidity projection and monthly with the liquidity risk report, which include information about the medium and long-term liquidity as well as the results of the scenario analyses and the calculation of the liquidity buffer pursuant to MaRisk. The Accounting and Audit Committee and from January 1, 2014 the Risk Committee of the Board of Supervisory Directors are informed on quarterly basis.

Current risk situation

Due to its triple A ratings, short-term funding opportunities are available to Rentenbank on the money and capital markets. If a market disruption occurs, liquidity may be raised in the amount of the freely available funding potential. This has always covered the Bank’s liquidity requirements for a period of up to two years.

The limit for medium- and long-term liquidity requirements was not exceeded in fiscal 2013 and 2012.

Stress scenarios

Rentenbank also performs scenario analyses for liquidity risks. In these analyses, the liquidity requirements resulting from all scenarios are added to already known cash flows in order to examine the effects on Rentenbank’s solvency. As in the prior year, the results of the scenario analyses demonstrated that as of the balance sheet date, the Group would have been able to meet its payment obligations at all times without restrictions.

Operational risks

Definition

Operational risk refers to risks arising from malfunctioning or defective systems or processes, human failure or external events. Operational risk primarily includes legal risks, risks from money laundering and terrorism financing or other criminal acts, risks from outsourcing, operating risks, and event or environmental risks, but does not comprise entrepreneurial risks such as business risks, regulatory risks or reputational risks.

Organization

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

Legal risks from business transactions are reduced by the Group, as far as possible, by using standardized contracts. In this connection, the legal department is consulted at an early stage.

Based on a hazard analysis pursuant to Section 25c KWG, risks from money laundering, terrorism financing and other criminal acts which may endanger the Group's assets are identified and actions to optimize the organization of risk prevention in these areas are established. The Group analyzes compliance with regard to general and bank-specific requirements for an effective organization to prevent fraud within fraud-relevant areas.

Risks from outsourcing are generally recorded under operational risks. A distinction is made between significant and insignificant outsourcing based on a standardized risk analysis. Significant outsourcing is specifically incorporated in risk management and risk monitoring by means of decentralized outsourcing controlling, i.e. there are specific requirements for material outsourcings, in particular with respect to the outsourcing contract, the intervals of the risk analysis and reporting.

Operating risks as well as event or environmental risks are identified on a group-wide basis and managed and monitored based on aspects of relevance.

The Group has appointed an IT security officer and has implemented an IT security program. The IT officer monitors the confidentiality, availability and integrity of information processing and storage systems. He or she is involved in all IT incidents.

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

Quantification of operational risk

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

All incidents occurring in the Group are systematically collected and analyzed in an incident reporting database. All current incidents and near-incidents are recorded on a decentralized basis by the relevant operational risk officers. The analysis and aggregation of incidents as well as the methodological development of the instruments used are part of risk controlling.

Workshops are held at least annually, during which significant potential operational risk scenarios within all material business processes are identified, based on a company-wide process map for the self-assessments. Then, risk events are identified, assessed with respect to amount and frequency of incidents and reduced, if applicable, by additional preventive measures.

Risk indicators for contingent losses have been developed for all material risk types in order to be able to react early to changes in the Group‛s risk profile. This permits appropriate measures to be taken in order to address the risk.

Limitation and reporting

The limit for operational risks is determined using the modified regulatory basis indicator approach. Reports are prepared on a quarterly basis and submitted to the Board of Managing Directors, the Accounting and Audit Committee, the Risk Committee of the Board of Supervisory Directors (since January 1, 2014) and senior management.

Current risk situation

The risk value for operational risk in standard scenarios amounted to € 29.7 million as of the reporting date (2012: € 31.5 million). Under the stress scenario, the risk exposure determined as of the reporting date amounted to € 59.4 million (2012: € 63.1 million).

In fiscal year 2013, one significant incident (valued at more than € 5 thousand) was entered into the incident reporting database with a loss of € 27 thousand. In the previous year, there were four significant single losses with an initially expected net loss of € 97 thousand, which was reduced to € 4 thousand during fiscal year 2013.

All risk indicators were below the defined thresholds as of the reporting date.

Regulatory and reputational risks

Definition

Regulatory risk describes the risk that a change in the regulatory environment could have a negative impact on the Group’s business operations or operating result. Additionally, there is the risk, that we fulfill the regular requirements insufficiently.

Reputational risks describe perils from the damage to the Group’s reputation that could have negative economic effects. Among other things, they may pose a threat to the funding opportunities of Rentenbank. However, adequate funding opportunities exist in general due to the triple A ratings. The major factors for the triple A ratings are Rentenbank's legal promotional mandate and the associated state guarantee.

Controlling and monitoring

Regulatory and reputational risks may negatively affect new business and therefore have a negative impact on margins. They are recognized in the various scenarios used for purposes of income planning. In addition to monthly target/actual comparisons in the income statement, the results from the self-assessments that have been conducted and the entries in the incident reporting database are taken into account.

Reporting

The Administrative Committee established by the Board of Supervisory Directors discusses Rentenbank's income planning. The Board of Managing Directors as well as the Accounting and Audit Committee and, since January 1, 2014, the Risk Committee of the Board of Supervisory Directors are informed on a quarterly basis whether significant incidents have occurred or material risks were identified in the self-assessments.

Current risk situation

As may be seen from the figures in the revenue plan, these risks are seen as manageable as no scenario endangers risk-bearing capacity.

No loss incurring events related to regulatory or reputational risks occurred during the reporting period.

Risk-bearing capacity – going concern approach

For purposes of calculating the risk-bearing capacity, various risk scenarios are used to compare the total sum of the capital charges resulting from the Group’s credit, market price, and operational risks with a portion of the risk covering potential. Liquidity, reputational and regulatory risks are not included, in accordance with the risk-bearing capacity concept. Due to their peculiar nature, they are not included because they cannot be successfully limited through risk covering potential. Instead, these risk types are taken into consideration within the framework of relevant risk management and controlling processes.

The risk-bearing capacity concept is based on the going concern approach. An observation period of one year is determined.

The going concern approach assumes that business operations of the company will be continued. After deducting regulatory capital requirements of currently 4% (Tier 1 capital ratio) and 8% (total capital ratio) as of December 31, 2013 and the regulatory adjustment items related to risk covering potential, sufficient capital components must be available to cover the risks from the stress scenarios, which are defined using conservative parameters (probability of occurrence of 99%).

<u>Risk covering potential</u>

The risk covering potential is used to cover expected and unexpected losses. The risk covering potential is derived from figures included in the consolidated financial statements in accordance with IFRS. Risk covering potential 1 is used to cover risks from standard scenarios, while risk covering potential 2 covers risks from the stress scenarios.

The risk covering potential can be broken down as follows as of the balance sheet date:

	Dec. 31, 2013	Dec. 31, 2012
	€ million	€ million
Available operating result	240.0	240.0
Retained earnings (pro rata)	74.0	74.0
Risk covering potential 1	**314.0**	**314.0**
Retained earnings (pro rata)	1,854.0	1,978.8
Own credit risk	0.0	- 16.8
Revaluation reserve	46.5	- 179.6
Undisclosed liabilities from securities	- 6.1	- 8.1
Risk covering potential 2	**2,208.4**	**2,088.3**
Retained earnings (pro rata)	1,071.5	500.0
Subscribed capital	135.0	135.0
Subordinated liabilities	-	924.4
Risk covering potential 3	**3,414.9**	**3,647.7**

The operating result available in the amount of € 240 million (2012: € 240 million) can be derived from the planned result under IFRS. Subordinated liabilities are no longer included in risk covering potential since December 31, 2013.

The allocation of the risk covering potential 1 to the risk types credit risk, market price risk, and operational risk was as follows:

	Dec. 31, 2013		Dec. 31, 2012	
	€ million	%	€ million	%
Credit risk	260.0	82.8	260.0	82.8
Market price risk	19.0	6.1	19.0	6.1
Operational risk	35.0	11.1	35.0	11.1
Overall risk exposure	**314.0**	**100.0**	**314.0**	**100.0**
Risk covering potential 1	**314.0**	**100.0**	**314.0**	**100.0**

Risk covering potential 2 is used as a global limit and not allocated to the individual risk types.

Risk scenarios

The calculation of the potential utilization of the risk covering potential is based on the analysis of standard and stress scenarios. In this context, the Group determines risk exposures for credit, market price and operational risks in accordance with the predefined scenarios.

Standard scenarios

In the standard scenarios, potential market price fluctuations, potential losses and the occurrence of significant operational incidents are assumed. The resulting change of the risk exposures is compared with risk covering potential 1. The potential loss from the standard scenarios should not exceed the available operating result plus a portion of retained earnings (risk covering potential 1). The probability of occurrence assumed for the standard scenarios for credit, market price and operational risks is 95%. The risks are monitored on a daily basis.

The risk exposures of the individual risk types as well as the utilization of the risk covering potential are presented in the following table:

	Standard scenarios			
	Dec. 31, 2013		**Dec. 31, 2012**	
	€ million	%	€ million	%
Credit risk	70.4	66.9	89.0	69.9
Market price risk	5.2	4.9	6.7	5.3
Operational risk	29.7	28.2	31.5	24.8
Overall risk exposure	**105.3**	**100.0**	**127.2**	**100.0**
Risk covering potential 1	**314.0**		**314.0**	
Utilization		**33.5**		**40.5**

In order to take sector-related concentration risks into account, a lump sum risk buffer of € 50 million is included in the scenarios for credit risk. The decrease in the amount taken into account for credit risk compared to the previous year is attributable to amounts maturing in the lower rating categories and the credit rating improvements of single business partners from the banking sector.

Stress scenarios

The stress scenarios are used to analyze the effects of exceptional variations of parameters. As regards credit risk, we assume full utilization of all internally granted limits, deteriorations in the credit quality of our counterparties, higher country-specific probabilities of default as well as higher loss given default percentages within the overall loan portfolio under the stress scenario.

The stress scenarios for market price risks include a parallel shift of the yield curves, a widening of the EONIA deposit spreads, a change of the cost for swaps of flows of interest payments between different interest bases in the same currency, and a change in the cost for swaps of payment flows between various currencies as well as a change in credit spreads.

As regards operational risk, we assume an amount of incidents that is twice as high under the stress scenario as under the standard scenario.

A probability of occurrence of 99% is assumed.

The risk exposures from the individual risk types (credit risk, market price risk, and operational risk) are aggregated and compared with the risk covering potential 2. Correlation effects are taken into account when aggregating individual risks within the market price risk, in particular in the case of spread risks.

Risk exposures for the individual risk types as well as the calculated utilization of risk covering potential are presented in the following table:

	Stress scenarios			
	Dec. 31, 2013		**Dec. 31, 2012**	
	€ million	%	€ million	%
Credit risk	176.6	34.2	242.0	36.5
Market price risk	7.7	1.5	8.1	1.2
Market price risk (spread risk)	272.4	52.8	349.5	52.8
Operational risk	59.4	11.5	63.1	9.5
Overall risk exposure	**516.1**	**100.0**	**662.7**	**100.0**
Risk covering potential 2	**2,208.4**		**2,088.3**	
Utilization		**23.4**		**31.7**

Going concern approach

After deducting regulatory capital requirements and adjustment items related to risk covering potential, sufficient capital must be available to cover the risks from stress scenarios. This capital is commensurate to the risk covering potential 2.

After fulfilling the regulatory prescribed minimum capital ratios of currently 4% (Tier 1 capital ratio) and 8% (total capital ratios), the risk covering potential 2 available as of the reporting date was sufficient to cover risk exposures under the stress scenarios. This also applies to the internal early warning threshold of 14% for the Tier 1 capital ratio, as determined by Rentenbank.

Under the 3-year-planning assumptions of December 31, 2013, there is sufficient capital available to also cover the stress scenarios under the going concern approach after meeting the regulatory capital ratios.

Risk-bearing capacity – going concern approach

Risk-bearing capacity is monitored using the gone concern approach as an additional management item.

Creditor protection is the primary focus under the gone concern approach. Therefore, all undisclosed reserves and liabilities are taken into account in the risk covering potential. Therefore the risk covering potential must be sufficient to cover the effects from the more conservative stress scenarios. Gone Concern and/or worst-case scenarios are simulated for credit, market price and operational risks with a probability of occurrence of 99.99%. The scenarios are quantified using strict risk measures and parameters based on rare loss events.

The worst-case scenarios for credit default risks evaluate risk concentrations in the lending business based on region, industry segments or counterparties. Market price risks are determined based on the higher probability of occurrence of 99.99% using the same assumptions as under the stress scenarios. As regards operational risk, we assume a number of incidents that is four times as high under the gone concern scenario as under the standard scenario.

The maximum risk covering potential utilized for risk cover purposes is determined in order to cover risks from the worst-case or gone concern scenarios, as applicable, with risk covering potential. Unplanned or unrealized profits (available operating result) are not taken into account. By contrast, undisclosed reserves and undisclosed liabilities are included in full.

The potential loss calculated under the worst-case or gone concern scenarios, as applicable, should not exceed risk covering potential. This management item primarily serves to observe and critically reflect results.

Risk-bearing capacity was maintained at all times during 2013 and 2012 under the gone concern approach.

Inverse stress tests and economic downturn

Credit, market price, liquidity, and operational risks were also subjected to an inverse stress test. The starting point is a maximum loss to be borne, derived from the Group's risk covering potential. The scenarios assumed have a low probability of occurrence.

The effects of an economic downturn on risk-bearing capacity are assessed as well. The Group’s risk-bearing capacity likewise was not at risk under this scenario during 2013 and 2012.

Regulatory own funds

The Group's regulatory own funds as of December 31, 2013, amount to € 3,962.5 million (2012: € 3,758.4 million) before the approval of appropriation of net income. The Group notified to Deutsche Bundesbank and BaFin about the exemption of the solvency and large exposures reporting requirements pursuant to Sections 10, 13 and 13a KWG on single-entity level – in accordance with the waiver requirements set out in Section 2a (6) KWG – from September 30, 2013. On the reporting date, the total capital ratio calculated in accordance with Section 10 (1) KWG on the basis of the German Solvency Regulation stood at 29.3% (2012: 28.2%) and the core capital ratio at 23.9% (2012: 21.8%) exceeded the legal minimum requirements to a considerable extent.

Financial reporting process

The financial reporting process comprises all activities from account allocation and processing of transactions to preparation of the required annual and consolidated financial statements.

The objective of the accounting-related ICS/RMS is to ensure compliance with financial reporting standards and regulations as well as adherence of financial reporting to generally accepted accounting principles.

The consolidated financial statements of Rentenbank are prepared in accordance with all International Financial Reporting Standards (IFRS) required to be applied in the EU for the reporting period and the additional requirements of German commercial law under Section 315a (1) of the German Commercial Code (Handelsgesetzbuch, HGB). Rentenbank prepares its financial statements in accordance with the HGB and the German Accounting Directive for Banks

(Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute, RechKredV).

These regulations are documented in manuals and procedural instructions. The Finance division monitors these on a regular basis and adjusts them, if necessary, to take into account any changes in legal and regulatory requirements. The involvement of the Finance division in the New Product Process ensures that new products are represented in the financial reporting system.

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

There is a clear separation of functions of the units primarily involved in the financial reporting process. Accounting for money market business, loans, securities, and liabilities is made in separate sub-ledgers in different organizational units. The data from the sub-ledgers are transmitted to the general ledgers 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.

Fair value measurement is performed daily on an automated basis using external market prices or accepted valuation models.

The annual financial statements of the subsidiaries are reconciled to IFRS, taking into account group-wide accounting policies, and are included in the consolidated financial statements. Consolidation of equity capital, liabilities as well as income and expenses are based on the principle of dual control.

Rentenbank uses internally developed financial accounting software. The granting of authorizations for necessary tasks only, is intended to protect the financial reporting process against unauthorized access. Plausibility checks are conducted to avoid errors. In addition, the principle of dual control, standardized reconciliation routines as well as comparison of plan data and actual figures 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.

Process-independent reviews performed by the Internal Audit department are conducted regularly to assess whether the accounting-related ICS/RMS is working 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 by the Board of Managing Directors about current business developments. In addition, information about extraordinary events is provided in a timely manner.

Balance sheet as of December 31, 2013

Assets

		€ million	€ million	€ million	Dec. 31, 2012 € million
1.	Cash and balances with central banks				
	a) Cash on hand		0.1		0.2
	b) Balances with central banks		32.4		204.2
	of which:			32.5	204.4
	with Deutsche Bundesbank € 32.4 million (2012: € 204.2 million)				
2.	Loans and advances to banks				
	a) Payable on demand		304.4		808.4
	b) Other loans and advances		49 738.1		50 407.2
				50 042.5	51 215.6
3.	Loans and advances to customers				
	of which:				
	Secured by charges on real estate € -.- million (2012: € -.- million)				
	Loans to local authorities € 5 218.2 million (2012: € 4 251.6 million)			5 451.3	4 560.9
4.	Bonds and other fixed-income securities				
	a) Bonds				
	aa) Public-sector issuers	1 317.8			1 345.7
	of which:				
	Securities eligible as collateral with				
	Deutsche Bundesbank € 1 216.4 million (2012: € 1 226.9 million)				
	ab) Other issuers	18 550.9	19 868.7		20 047.0
	of which:				
	Securities eligible as collateral with				
	Deutsche Bundesbank € 17 406.5 million (2012: € 19 036.7 million)				
	b) Own debt securities		433.2		633.6
	Nominal amount € 456.3 million (2012: € 700.7 million)			20 301.9	22 026.3
5.	Shares and other variable-income securities			0.2	0.2
6.	Equity holdings				
	of which:				
	in banks € -.- million (2012: € -.- million)				
	in financial services institutions € -.- million (2012: € -.- million)			4.2	4.2
7.	Investments in affiliated companies				
	of which:				
	in banks € -.- million (2012: € -.- million)				
	in financial services institutions € -.- million (2012: € -.- million)			0.0	0.0
8.	Trust assets				
	of which:				
	Trustee loans € 106.7 million (2012: € 104.5 million)			106.7	104.5
9.	Intangible assets				
	a) Purchased concessions, industrial property rights				
	and similar rights and assets, including licenses to such rights and assets			15.2	14.1
10.	Property and equipment			16.4	17.1
11.	Other assets			1 712.0	1 034.1
12.	Prepaid expenses				
	a) From issuance activity and lending business		408.0		3.9
	b) Other		160.1		3.2
				568.1	5.1
Total assets				78 251.0	79 186.5

Balance sheet as of December 31, 2013

Liabilities and equity

	€ million	€ million	€ million	Dec. 31, 2012 € million
1. Liabilities to banks				
a) Payable on demand		0.0		1.0
b) With an agreed maturity or period of notice		6 272.1		3 597.5
			6 272.1	3 598.5
2. Liabilities to customers				
a) Other liabilities				
aa) Payable on demand		64.2		69.3
ab) With an agreed maturity or period of notice		4 666.1		5 179.8
			4 730.3	5 249.1
3. Securitized liabilities				
a) Debt securities issued			61 433.8	62 151.4
4. Trust liabilities				
of which:				
Trustee loans € 106.7 million (2012: € 104.5 million)			106.7	104.5
5. Other liabilities			533.8	3 683.2
6. Deferred items				
a) From issuance activity and lending business		159.0		0.9
b) Other		486.6		29.4
			645.6	30.3
7. Provisions				
a) Provisions for pensions and similar obligations		92.1		86.4
b) Other provisions		327.8		312.8
			419.9	399.2
8. Subordinated liabilities			597.7	717.5
9. Fund for general banking risks			2 437.3	2 219.2
10. Equity				
a) Subscribed capital		135.0		135.0
b) Retained earnings				
ba) Principal reserve pursuant to Section 2 (2) of Rentenbank's Governing Law	769.9			
Transfers from guarantee reserve	48.5			
Transfers from net income for the year	39.7	858.1		769.9
bb) Guarantee reserve pursuant to Section 2 (3) of Rentenbank's Governing Law	115.9			
Appropriations pursuant to Section 2 (3) of Rentenbank's Governing Law	48.5	67.4		115.9
c) Distributable profit		13.3		12.8
			1 073.8	1 033.6
Total liabilities and equity			78 251.0	79 186.5
1. Contingent liabilities				
a) Liabilities from guarantees and indemnity agreements			2.0	2.7
2. Other commitments				
a) Irrevocable loan commitments			1 828.2	1 238.9

Income statement for the period from January 1 to December 31, 2013

Expenses

				2012
	€ million	€ million	€ million	€ million
1. Interest expense			3 428.3	2 406.5
2. Fee and commission expenses			1.9	2.4
3. Administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	22.2			20.5
ab) Social security contributions and expenses for				
pensions and other employee benefits	7.6			5.1
of which:		29.8		25.6
Pension expenses € 4.8 million (2012: € 2.4 million)				
b) Other administrative expenses		18.9		17,1
			48.7	42.7
4. Depreciation, amortization and write-downs of intangible assets and property and equipment			4.5	2.0
5. Other operating expenses			13.4	7.8
6. Additions to the fund for general banking risks			218.1	291.0
7. Amortization and write-downs of equity holdings, investments in affiliated companies and securities classified as fixed assets			0.0	0.0
8. Taxes on income			0.0	0.0
9. Other taxes not disclosed under item 5			0.1	0.1
10. Net income for the year			53.0	51.0
Total expenses			3 768.0	2 803.5
1. Net income for the year			53.0	51.0
2. Transfers from retained earnings				
from guarantee reserve pursuant to Section 2 (3) of Rentenbank's Governing Law			48.5	21.8
3. Transfers to retained earnings				
to principal reserve pursuant to Section 2 (2) of Rentenbank's Governing Law				
from guarantee reserve			48.5	21.8
from net income for the year			39.7	38.2
4. Distributable profit			13.3	12.8

Income statement for the period from January 1 to December 31, 2013

Income

			2012
	€ million	€ million	€ million
1. Interest income from			
a) Lending and money market transactions	3 148.7		2 055.5
b) Fixed-income securities and debt register claims	591.9		703.1
		3 740.6	2 758.6
2. Current income from			
a) Equity holdings		0.4	0.8
3. Fee and commission income		0.2	0.3
4. Income from the reversal of write-downs on loans and advances and certain securities, and from the reversal of provisions in the lending business		15.2	27.4
5. Income from the reversal of write-downs on equity holdings, investments in affiliated companies and securities classified as fixed assets		7.2	10.9
6. Other operating income		4.4	5.5
Total income		3 768.0	2 803.5

Notes to the annual financial statements for the 2013 fiscal year

Accounting policies

The annual financial statements of Landwirtschaftliche Rentenbank (hereinafter referred to as "Rentenbank") have been prepared in accordance with the legal provisions of the German Commercial Code (Handelsgesetzbuch, HGB) and the German Accounting Directive for Banks (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 the Accounting Directive for Banks.

Assets and liabilities are measured pursuant to the provisions of Sections 252 et seq. of the HGB, taking into account the bank-specific requirements set out in Sections 340 et seq. of the HGB. Loans and advances are recognized at their nominal amount, while liabilities are recognized at the settlement amount.
Premiums and discounts from loans, advances and liabilities and one-off payments from swaps (upfront payments) are reported as either prepaid expenses or deferred items, as appropriate, and amortized pro rata temporis over the relevant term. Zero bonds are measured at their issue price amount plus accrued interest based on the issue yield.

Any identifiable risks 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 of the HGB. Rentenbank applies an expected loss approach based on internal ratings for purposes of determining general valuation allowances.

Fixed-income securities, which are allocated to fixed assets, are carried at amortized cost less permanent impairment. Shares as well as bonds and other fixed-income securities, to the extent allocated to the liquidity reserve, are measured at the lower of cost or market (Section 253 (4) of the HGB in conjunction with Section 253 (5) of the HGB). Rentenbank does not maintain a trading book pursuant to Section 1a (1) of the German Banking Act (Kreditwesengesetz, KWG) (Section 1 (35) KWG, as amended, in conjunction with Article 4 (1) No. 86 of Regulation (EU) No. 575/2013). Equity holdings and investments in affiliated companies are recognized at their acquisition costs, less any write-downs, if applicable.

In accordance with applicable commercial law principles, property and equipment as well as intangible assets are carried at cost less any depreciation and amortization over the expected useful life.

Provisions are recognized as liabilities at the settlement amount determined based on prudent business judgment, 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. The discount rates used are the average market interest rates for the past seven fiscal years corresponding to the remaining term of the provisions, as determined and published by the German central bank (Deutsche Bundesbank) pursuant to the German Regulation on the Discounting of Provisions (Rückstellungsabzinsungsverordnung). Provisions for deferred compensation benefits are discounted pursuant to Section 253 (2) sentence 2 of the HGB using an average market interest rate, which is determined based on an assumed remaining term of 15 years.

Pension provisions are measured based on generally accepted actuarial principles, using the projected unit credit (PUC) method. The provision amount determined under the PUC method is defined as the actuarial present value of the pension obligations which has been earned by the employees as of the relevant date due to their periods of service in the past, based on the pension benefit formula and the vesting provisions. The 2005 G mortality tables by Prof. Dr. Klaus Heubeck, including the full adjustment in 2011, were used as the biometric calculation parameters.

The following parameters were used as the basis for the calculation as of December 31, 2013:

• Interest rate pursuant to Section 253 (2) sentence 2 of the HGB	4.90% p.a.
• Career trend	1.00% p.a.
• Growth in creditable compensation	2.25% p.a.
• Pension increase (range of adjustments)	1.0–2.25% p.a.
• Employee turnover	average 2.00% p.a.
• Development of contribution ceiling	2.5% p.a.

Provisions for special promotional loans cover the promotional contribution for the whole term or until the repricing date. The provisions recorded prior to the BilMoG adjustment for the promotional contribution related to the special promotional loans are maintained by reference to the election in accordance with Section 67 (1) sentence 2 Introductory Act to the Commercial Code (Einführungsgesetz zum Handelsgesetzbuch, EGHGB).

A periodic (income statement) approach was used for the calculation of the amount required to be recognized as a provision within the context of the impairment test (verlustfreie Bewertung) of the banking book. The banking book comprises all interest-bearing transactions of the bank and is managed on a consistant basis.

For calculation purposes, future gains or losses in the banking book were determined by income contributed by closed and open interest rate positions. The future cash flows are discounted on the basis of generally recognized money market and capital market rates corresponding to the respective period. The risk costs were computed on the basis of future

expected losses and the pro rata share of administrative expenses for portfolio management was recognized based on internal analyses.
There was no need for provisions as of December 31, 2013 on the basis of this calculation.

Valuation units within the meaning of Section 254 of the HGB are only established to hedge currency risks. Rentenbank uses currency swaps and cross-currency interest rate swaps to hedge such currency risks. Currency risks are hedged using valuation units.

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

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

Rentenbank prepares consolidated financial statements in accordance with IFRS, as adopted by the EU. These consolidated financial statements include LR Beteiligungsgesellschaft mbH, Frankfurt/Main, and DSV Silo- und Verwaltungsgesellschaft mbH, Frankfurt/Main, pursuant to Section 315a of the HGB.

Notes to the balance sheet

The disclosures and explanations on individual balance sheet items are presented in the order in which they appear in the balance sheet. Differences to the amounts presented in the balance sheet result from the exclusion of accrued interest.

Assets		Dec. 31, 2013 € million	Dec. 31, 2012 € million
Item 2:	Loans and advances to banks		
	Sub-item "b) Other loans and advances," classified by remaining time to maturity:		
	• up to 3 months	2 917	5 748
	• more than 3 months to 1 year	3 446	4 152
	• more than 1 year to 5 years	23 459	20 135
	• more than 5 years	18 968	19 246
Item 3:	Loans and advances to customers		
	This item includes:		
	• Loans and advances to affiliated companies	144	153
	This item can be broken down by remaining time to maturity as follows:		
	• up to 3 months	651	9
	• more than 3 months to 1 year	1 260	325
	• more than 1 year to 5 years	1 793	3 221
	• more than 5 years	1 585	816
	There are no loans and advances to customers with an indefinite term within the meaning of Section 9 (3) No. 1 of the RechKredV.		
Item 4:	Bonds and other fixed-income securities		
	All of these are marketable securities and can be broken down as follows:		
	• Listed securities	19 582	21 268
	• Unlisted securities	403	406
	Securities at a carrying amount of €19 985 million (2012: €21 674 million) were classified as fixed assets. They are not measured at the lower of cost or market pursuant to HGB (strenges Niederstwertprinzip). Since these securities are anticipated to be held over the long term, no write-downs to fair value are recorded in case of an impairment that is expected to be of a temporary nature. 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. The carrying amount of securities carried at values above their fair values amounted to €1 439 million. The fair value of these securities is €1 422 million. Exchange or market prices were used to determine fair value. Accordingly, the unrecognized write-downs amount to €17 million (2012: €54 million). There was no permanent impairment to be taken into account for the securities held as fixed assets (2012: €-.- million).		

Assets		Dec. 31, 2013 € million	Dec. 31, 2012 € million
Item 4:	Bonds and other fixed-income securities maturing in the year following the balance sheet date can be broken down as follows:		
	• from public-sector issuers	**50**	**103**
	• from other issuers	**2 863**	**3 527**
Item 5:	All of the shares and other variable-income securities held are marketable and listed.		
Item 6 and 7:	The balance sheet items "equity holdings" and "investments in affiliated companies" do not include marketable securities.		
Item 8:	Trust assets		
	This item includes:		
	• Special purpose fund of the German government held at Rentenbank	**106**	**102**
	• Loans and advances to banks	**1**	**2**
Item 9:	Intangible assets		
	This item includes:		
	• Purchased software and licenses acquired for a consideration	**15**	**14**
Item 10:	Property and equipment		
	This item includes:		
	• Owner-occupied land and buildings, flats	**0**	**0**
	• Land and buildings used by third parties	**15**	**16**
	• Operating and office equipment	**1**	**1**
Item 11:	Other assets		
	This item includes:		
	Cash collateral provided for derivatives	**1 711**	**1 034**
Item 12:	Prepaid expenses		
	Unlike in the previous year, premiums and discounts of hedged items as well as one-off payments from swaps (upfront payments) are reported on a single transaction level.		
	This item includes:		
	• Differences pursuant to Section 340e (2) of the HGB	**184**	**0**
	• Differences pursuant to Section 250 (3) of the HGB	**224**	**4**
	• Upfront payments from derivative transactions	**159**	**0**

Fixed assets schedule

Fixed assets € million	Cost	Additions	Disposals	Write-ups	Accumulated depreciation, Amortization and write-downs	Carrying amount Dec. 31, 2013	Carrying amount Dec. 31, 2012	Amortization, depreciation, write-downs 2013
Intangible assets	**16**	**4**	**-**	**-**	**5**	**15**	**14**	**3**
Property and equipment	**32**	**1**	**1**	**-**	**16**	**16**	**17**	**1**
Securities classified as fixed assets	**21 687**	**2 167**	**3 860**	**4**	**13**	**19 985**	**21 674**	**-**
Equity holdings	**4**	**-**	**-**	**-**	**0**	**4**	**4**	**-**
Investments in affiliated companies	**27**	**-**	**-**	**-**	**27**	**0**	**0**	**-**

Liabilities		Dec. 31, 2013 € million	Dec. 31, 2012 € million
Item 1:	Liabilities to banks		
	Sub-item "b) With an agreed maturity or period of notice," classified by remaining time to maturity:		
	• up to 3 months	**3 254**	**279**
	• more than 3 months to 1 year	**549**	**290**
	• more than 1 year to 5 years	**1 327**	**1 771**
	• more than 5 years	**370**	**460**
	Total amount excluding accrued interest	**5 500**	**2 800**
	Thereof secured by assets in accordance with Section 13 (2) and Section 18 (1) No. 1 of Rentenbank's Governing Law	**422**	**770**
Item 2:	Liabilities to customers		
	This item includes:		
	• Liabilities to equity holdings	**0**	**0**
	• Liabilities to affiliated companies	**3**	**11**
	Sub-item "b) With an agreed maturity or period of notice," classified by remaining time to maturity:		
	• up to 3 months	**345**	**210**
	• more than 3 months to 1 year	**211**	**459**
	• more than 1 year to 5 years	**907**	**1 045**
	• more than 5 years	**3 067**	**3 312**
	Total amount excluding accrued interest	**4 530**	**5 026**
	Thereof secured by assets in accordance with Section 13 (2) and Section 18 (1) No. 1 of Rentenbank's Governing Law	**926**	**1 501**
Item 3:	Securitized liabilities		
	a) Debt securities issued		
	Classification by remaining time to maturity:		
	• up to 1 year	**9 967**	**14 645**
	• more than 1 year to 5 years	**37 295**	**33 711**
	• more than 5 years	**13 543**	**12 979**
	Total amount excluding accrued interest	**60 805**	**61 335**
	Thereof secured by assets in accordance with Section 13 (2) and Section 18 (1) No. 1 of Rentenbank's Governing Law	**0**	**2**

Liabilities		Dec. 31, 2013 € million	Dec. 31, 2012 € million
Item 4:	Trust liabilities		
	This item includes:		
	• Liabilities from the special purpose fund of the German government held at Rentenbank	**106**	**102**
	• Liabilities to customers	**1**	**2**
Item 5:	Other liabilities		
	This item includes:		
	• Cash collateral received for derivatives	**525**	**3 670**
	Classification by remaining time to maturity:		
	• up to 1 year	**525**	**3 670**
Item 6:	Deferred items		
	Unlike in the previous year, premiums and discounts of hedged items as well as one-off payments from swaps (upfront payments) are reported on a single transaction level.		
	This item includes:		
	• Differences pursuant to Section 340e (2) of the HGB	**3**	**1**
	• Differences pursuant to Section 250 (2) of the HGB	**156**	**0**
	• Upfront payments from derivative transactions	**461**	**0**
Item 8:	Subordinated liabilities		
	Classification by remaining time to maturity:		
	• up to 1 year	**-**	**103**
	• more than 1 year to 5 years	**59**	**26**
	• more than 5 years	**539**	**589**
	Total	**598**	**718**

The subordinated liabilities are structured as promissory note loans, loan agreements, and bearer securities issued in the form of global certificates. The net expense for subordinated liabilities in the amount of €598 million (2012: €718 million) after hedging totals €1 million (2012: €8 million). The terms and conditions of all subordinated liabilities fulfill the requirements of Section 10 (5a) of the German Banking Act and do not provide for early repayment or conversion.

Disclosures pursuant to Section 35 (3) of the RechKredV in relation to funds raised in an amount exceeding 10% each of the total amount of subordinated liabilities:

1. Bond at a nominal amount of JPY 25 billion; carrying amount: €158 million; maturity: April 21, 2036; interest rate before hedging: 2.8%
2. Bond at a nominal amount of JPY 10 billion; carrying amount: €62 million; maturity: October 28, 2019; interest rate before hedging: 2.0%
3. Bond at a nominal amount of €100 million; carrying amount: €100 million; maturity: August 18, 2021; interest rate before hedging: 1.676%
4. Bond at a nominal amount of €100 million; carrying amount: €100 million; maturity: August 18, 2021; interest rate before hedging: 1.706%

Off-balance sheet disclosures		Dec. 31, 2013 € million	Dec. 31, 2012 € million
Item 1:	Contingent liabilities		
	• Deficiency guarantees	2	3
	• Guarantee of provision of collateral	0	0
	Deficiency guarantees are accepted for capital market loans granted at a reduced rate of interest. We currently do not expect that these deficiency guarantees will be utilized. There are back-to-back guarantees granted by the government for capital market loans at a reduced rate of interest.		
Item 2:	Other commitments		
	The increase of irrevocable loan commitments by €589 million to a total of €1 828 million is attributable to an increase of commitments in the promotional loan business and the secured money market business. Drawdowns on these commitments will be made primarily in 2014.		
Assets and liabilities in foreign currencies			
	Assets and liabilities denominated in a foreign currency have been recorded in the following amounts:		
	• Assets	2 358	1 869
	• Liabilities	37 992	46 031
Computation of cover			
	The liabilities subject to cover requirements are allocated as follows:		
	• Bearer debt securities	-	2
	• Registered debt securities	1 348	2 316
	The following assets are designated to cover debt securities issued:		
	• Loans and advances to banks	4 918	6 649
	• Loans and advances to customers	556	606

Notes to the income statement

Income and expenses

Interest expenses for the recognition of provisions for the interest reduction related to special promotional loans amounted to €78.4 million in 2013 (2012: €70.6 million). Interest income includes the pro rata temporis utilization of the corresponding provisions in the amount of €75.1 million (2012: €70.8 million). Interest expenses include effects from compounding the discount of provisions in the amount of €10.2 million (2012: €7.5 million).

In the previous year, interest income and expenses from derivative hedges were recognized on a net basis for each product group. Recognizing interest income and expenses on an individual transaction basis as either interest income or interest expense, as appropriate, would have increased interest income and expense by €1.2 billion each. Interest expenses and interest income from derivatives are now recognized in the income statement for 2013 separately for each derivative contract. Prior-year comparatives were not adjusted.

In the previous year, the differences from hedged items pursuant to Section 340e (2) of the HGB and Section 250 (2) and (3) of the HGB were offset against upfront payments from derivative contracts, with no effect on the income statement. In 2013, the pro rata temporis amortization of these differences as well as the upfront payments on individual transaction level resulted in interest expenses of €166.8 million (2012: €1.0 million) as well as interest income of €163.4 million (2012: €0.1 million).

Disclosures on the most important individual items pursuant to Section 35 (1) No. 4 of the RechKredV	**2013 € million**	**2012 € million**
Item 5: Other operating expenses		
This item includes the following significant income items:		
• Capital contribution to Rehwinkel-Foundation	**3**	**2**
• Grants for the program "Research on agricultural innovation"	**3**	**0**
• Interest expense from the valuation of pension provisions	**6**	**5**
Item 6: Other operating income		
This item includes the following significant income items:		
• Rental income from Rentenbank's real estate	**2**	**2**
• Other refunds	**1**	**1**
• Other income from the reversal of provisions	**1**	**2**

Other operating expenses include currency translation losses in the amount of €6.9 thousand (2012: €13.0 thousand). Other operating income includes currency translation gains in the amount of €7.1 thousand (2012: €1.0 thousand). These currency translation gains/losses result exclusively from the currency translation of balances on payment transaction accounts in foreign countries.

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

Other disclosures

Derivative financial instruments

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

The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The valuation models are based on observable market parameters. The fair value of non-option contracts is determined on the basis of their discounted expected future cash flows (discounted cash flow method). The discounting of derivatives is based on the OIS (Overnight Interest Rate Swap) curve as well as on so-called basis swap spreads and cross-currency (CCY) basis swap spreads. They are obtained from an external market data provider, distinguished according to maturity and currency. Measurement of contracts with an option feature (option-based contracts) is based on accepted 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.

Derivative transactions – presentation of volumes –

The following table shows the derivatives not measured at market value in accordance with section 285 No. 19 of the HGB (netting and collateral agreements have not been taken into account):

€ million	Nominal amounts		Fair values positive	Fair values negative
	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2013
Interest rate risks				
Interest rate swaps	90 086	88 257	1 920	3 730
• thereof termination and conversion rights embedded in swaps	497	588	27	1
Swaptions				
• Purchases	-	-	-	-
• Sales	983	984	-	44
Other forward interest rate contracts	1	3	1	-
Total exposure to interest rate risks	91 070	89 244	1 921	3 774
Currency risks				
Cross-currency interest rate swaps	37 557	43 514	1 305	1 959
• thereof currency options embedded in swaps	55	158	5	0
• thereof termination rights embedded in swaps	14	88	0	0
Currency swaps	2 736	5 186	6	63
Total exposure to currency risks	40 293	48 700	1 311	2 022
Share price risk and other price risks				
Share index swaps	30	30	4	0
• thereof share options embedded in swaps	30	30	4	0
Total exposure to share price risk and other price risks	30	30	4	0
Interest rate, currency, share price and other price risks	131 393	137 974	3 236	5 796

Derivative transactions – breakdown by maturities –

Nominal amounts € million	Interest rate risks		Currency risks		Share price risk and other price risks	
	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012
Remaining time to maturity						
• up to 3 months	**4 717**	**3 878**	**3 351**	**10 525**	**-**	**-**
• more than 3 months to 1 year	**6 541**	**7 195**	**3 816**	**5 126**	**-**	**-**
• more than 1 year to 5 years	**50 274**	**47 764**	**27 513**	**26 651**	**30**	**30**
• more than 5 years	**29 538**	**30 407**	**5 613**	**6 398**	**-**	**-**
Total	**91 070**	**89 244**	**40 293**	**48 700**	**30**	**30**

Derivative transactions – breakdown by counterparties –

€ million	Nominal amounts		Fair values positive	Fair values negative
	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2013
Banks in OECD countries	**119 187**	**126 350**	**2 853**	**5 351**
Other counterparties in OECD countries	**12 206**	**11 624**	**383**	**445**
Total	**131 393**	**137 974**	**3 236**	**5 796**

Forward transactions, particularly those in foreign currencies, not yet settled by the balance sheet date, are entered into by the Bank to cover market price risk.

Information pursuant to Section 285 No. 23 of the HGB on valuation units

Rentenbank uses currency swaps, cross-currency interest rate swaps and currency forward contracts to hedge currency risks. Currency hedges are presented in the balance sheet using valuation units pursuant to Section 254 of the HGB. The net hedge presentation method (Einfrierungsmethode) is used to account for the offsetting changes in value between hedged item and hedging instrument.

To measure the effectiveness of valuation units, the critical terms match/short cut method is used, where the cash flows of hedged item and hedging instrument are compared. Exchange rate fluctuations of corresponding hedged items and hedging derivatives have an opposite effect and offset each other for the period through the end of their respective maturity.

Hedged items and hedging instruments are combined in valuation units as follows as of the balance sheet date:

Balance sheet item	Carrying amount in € million		Hedged risk
	2013	2012	
Loans and advances to banks	44	44	Currency
Bonds and other fixed-income securities	1 980	1 679	Currency
Liabilities to banks	80	80	Currency
Liabilities to customers	154	175	Currency
Securitized liabilities	38 616	42 812	Currency
Subordinated liabilities	320	442	Currency

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

In fiscal year 2013, the remuneration for Rentenbank's Board of Managing Directors amounted to €1 572 thousand (2012: €1 551 thousand). The remuneration for the individual members of the Board of Managing Directors for fiscal year 2013 was set as follows:

Amounts in € thousand	Fixed remuneration	Variable remuneration	Other remuneration	Total
Hans Bernhardt	510	245	37	792
Dr. Horst Reinhardt	510	245	25	780

As of December 31, 2013, provisions for pension obligations to former members of the Board of Managing Directors and their surviving dependents totaled €14 909 thousand (2012: €14 466 thousand). Current benefit payments amounted to €1 172 thousand (2012: €1 145 thousand). As in the previous year, there were no loans granted to the members of the Board of Managing Directors or members of the Board of Supervisory Directors in fiscal year 2013. In accordance with the remuneration regulations, the Chairman of the Board of Supervisory Directors receives a basic annual remuneration of €30 thousand, his Deputy Chairman €20 thousand, and all other members of the Board of Supervisory Directors €10 thousand each. In addition, members of the Bord of Supervisory Directors working on a committee receive remuneration of €2.0 thousand and members who chair a committee €4.0 thousand.

The total remuneration for activities related to the Board of Supervisory Directors in the year under review amounted to €298 thousand (2012: €295 thousand, including VAT in each case). The following table sets out the individual remuneration (not including VAT in each case):

	Membership		Remuneration	
	2013	**2012**	**2013**	**2012**
			€ thousand	**€ thousand**
Gerd Sonnleitner (Chairman until 07.11.2013)	01.01. - 07.11.	01.01. - 31.12.	**43.4**	**44.0**
Joachim Rukwied (Chairman since 08.11.2013)	01.01. - 31.12.	29.06. - 31.12.	**16.7**	**5.6**
Ilse Aigner*	01.01. - 30.09.	01.01. - 31.12.	**16.5**	**22.0**
Dr. Hans-Peter Friedrich*	01.10. - 31.12.	-	**5.0**	**-**
Dr. Hermann Onko Aeikens	01.01. - 31.12.	01.01. - 31.12.	**10.0**	**10.0**
Dr. Helmut Born	01.01. - 30.09.	01.01. - 31.12.	**10.5**	**14.0**
Georg Fahrenschon	01.01. - 31.12.	05.07. - 31.12.	**12.0**	**5.6**
Udo Folgart	08.11. - 31.12.	-	**2.0**	**-**
Heinrich Haasis	-	01.01. - 04.07.	**-**	**7.0**
Dr. Robert Habeck	01.01. - 31.12.	14.06. - 31.12.	**10.0**	**5.4**
Dr. Werner Hildenbrand	01.01. - 31.12.	01.01. - 31.12.	**10.0**	**10.0**
Werner Hilse	01.01. - 31.12.	01.01. - 31.12.	**12.0**	**12.0**
Ulrike Höfken	01.01. - 31.12.	01.01. - 31.12.	**10.0**	**10.0**
Wolfgang Kirsch	01.01. - 31.12.	01.01. - 31.12.	**14.0**	**14.0**
Dr. Robert Kloos	01.01. - 31.12.	01.01. - 31.12.	**14.0**	**14.0**
Bernhard Krüsken	01.10. - 31.12.	-	**3.2**	**-**
Franz-Josef Möllers	-	01.01. - 28.06.	**-**	**6.0**
Klaus-Peter Müller	01.01. - 31.12.	01.01. - 31.12.	**16.0**	**16.0**
Manfred Nüssel	01.01. - 31.12.	01.01. - 31.12.	**12.0**	**12.0**
Dr. Juliane Rumpf**	-	01.01. - 13.06.	**-**	**4.6**
Harald Schaum	27.12. - 31.12.	-	**-**	**-**
Brigitte Scherb	01.01. - 31.12.	01.01. - 31.12.	**12.0**	**12.0**
Norbert Schindler	01.01. - 31.12.	01.01. - 31.12.	**12.0**	**10.6**
Dr. Klaus Stein	01.01. - 31.12.	01.01. - 31.12.	**14.0**	**14.0**
Klaus Wiesehügel	01.01. - 30.09.	01.01. - 31.12.	**9.0**	**12.0**
Total remuneration			**264.3**	**260.8**

* direct donation to Förderverein Caritas Kinderdorf Irschenberg

** or representative

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

Headcount	2013			2012		
	Male	Female	Total	Male	Female	Total
Full-time employees	132	80	212	129	81	210
Part-time employees	5	39	44	4	36	40
Total	137	119	256	133	117	250

Shareholdings pursuant to Section 285 No. 11 and Section 340a (4) No. 2 of the HGB

	Equity € million Dec. 31, 2013	Shareholding %	Result € million 2013
LR Beteiligungsgesellschaft mbH, Frankfurt/Main	58.8	100.0	+2.4
Deutsche Bauernsiedlung - Deutsche Gesellschaft für Landentwicklung (DGL) GmbH, Frankfurt/Main (in liquidation)	7.6*	25.1	-0.2*
DSV Silo- und Verwaltungsgesellschaft mbH, Frankfurt/Main	11.7	100.0	-0.3
Niedersächsische Landgesellschaft mbH, Hannover	63.2*	6.3	+4.6*

*) Dec. 31, 2012

In accordance with Section 286 (3) No. 1 of the HGB, we did not list further companies pursuant to Section 285 No. 11 of the HGB as they are of minor significance for the assessment of Rentenbank's financial position and financial performance.

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 allowing it to fulfill its obligations when due at any time.

Disclosures related to auditor's fees are included in the notes to the consolidated financial statements.

The Declaration of Compliance with the German Public Corporate Governance Code is available to the public on Rentenbank’s website.

The separate financial statements and the consolidated financial statements are available on Rentenbank's website as well as in the Federal Gazette (Bundesanzeiger) and may also be obtained at Rentenbank's registered office.

The following table shows offices held in statutory supervisory boards of large corporations (Section 267 (3) of the HGB) by legal representatives or other employees of Rentenbank, pursuant to Section 340a (4) No. 1 of the HGB):

Hans Bernhardt	BVVG Bodenverwertungs- und -verwaltungs GmbH, Berlin (member of the Supervisory Board)
Dr. Horst Reinhardt	VR-LEASING AG, Frankfurt/Main (member of the Supervisory Board)
Lothar Kuhfahl	Niedersächsische Landgesellschaft mbH, Hannover (member of the Supervisory Board)

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

Board of Managing Directors	Dr. Horst Reinhardt (Speaker), Dipl.-Volksw., MBA Hans Bernhardt, Dipl.-Kfm.

Board of Supervisory Directors

Chairman:	Joachim Rukwied Präsident des Deutschen Bauernverbands e.V., Berlin (since 08.11.2013)
	Gerd Sonnleitner Ehrenpräsident des Deutschen Bauernverbands e.V., Berlin (until 07.11.2013)
Deputy:	Ilse Aigner, MdB Bundesministerin für Ernährung, Landwirtschaft und Verbraucherschutz, Berlin (until 30.09.2013)
	Dr. Hans-Peter Friedrich, MdB Bundesminister für Ernährung und Landwirtschaft, Berlin (01.10.2013 until 17.02.2014)
	Christian Schmidt, MdB Bundesminister für Ernährung und Landwirtschaft, Berlin (since 17.02.2014)

Representatives of the Deutscher Bauernverband e.V.:	Dr. Helmut Born Generalsekretär des Deutschen Bauernverbands e.V., Berlin (until 30.09.2013)
	Bernhard Krüsken Generalsekretär des Deutschen Bauernverbands e.V., Berlin (since 01.10.2013)
	Udo Folgart Präsident des Landesbauernverbands Brandenburg e.V., Teltow/Ruhlsdorf (since 08.11.2013)
	Werner Hilse Präsident des Landvolk Niedersachsen-Landesbauernverbands e.V., Hannover
	Brigitte Scherb Präsidentin des Deutschen LandFrauenverbands e.V., Berlin
	Norbert Schindler, MdB Präsident des Bauern- und Winzerverbands Rheinland-Pfalz Süd e.V., Berlin
Representative of the Deutscher Raiffeisenverband e.V.:	Manfred Nüssel Präsident des Deutschen Raiffeisenverbands e.V., Berlin
Representative of the Food Industry:	Dr. Werner Hildenbrand Sprecher GF Hengstenberg GmbH & Co KG Stv. Vorsitzender des Vorstands der Bundesvereinigung der Deutschen Ernährungsindustrie e.V., Berlin
State Ministers of Agriculture:	
Rhineland-Palatinate:	Ulrike Höfken Staatsministerin für Umwelt, Landwirtschaft, Ernährung, Weinbau und Forsten, Mainz (until 31.12.2013)

Saxony-Anhalt:	Dr. Hermann Onko Aeikens Minister für Landwirtschaft und Umwelt des Landes Sachsen-Anhalt, Magdeburg (until 31.12.2013)
Schleswig-Holstein:	Dr. Robert Habeck Minister für Energiewende, Landwirtschaft, Umwelt und ländliche Räume des Landes Schleswig-Holstein, Kiel (until 31.12.2013)
Bavaria	Helmut Brunner Staatsminister für Ernährung, Landwirtschaft und Forsten, München (since 01.01.2014)
Brandenburg	Jörg Vogelsänger Minister für Infrastruktur und Landwirtschaft, Potsdam (since 01.01.2014)
Bremen	Martin Günthner Senator für Wirtschaft, Arbeit und Häfen, Bremen (since 01.01.2014)
Representatives of the Trade Unions:	Klaus Wiesehügel Bundesvorsitzender der IG Bauen-Agrar-Umwelt, Frankfurt am Main (until 30.09.2013) Harald Schaum stellv. Bundesvorsitzender der IG Bauen-Agrar-Umwelt, Frankfurt am Main (since 27.12.2013)
Representative of the Federal Ministry of Food and Agriculture:	Dr. Robert Kloos Staatssekretär, Berlin
Representative of the Federal Ministry of Finance:	Dr. Klaus Stein Ministerialdirigent, Berlin

Representatives of banks or other lending experts:	Georg Fahrenschon Präsident des Deutschen Sparkassen- und Giroverbands e. V., Berlin
	Wolfgang Kirsch Vorsitzender des Vorstands der DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main
	Klaus-Peter Müller Vorsitzender des Aufsichtsrats der Commerzbank AG, Frankfurt am Main

Frankfurt am Main, March 4, 2014

LANDWIRTSCHAFTLICHE RENTENBANK
The Board of Managing Directors

Dr. Reinhardt Bernhardt

Statement of Management Responsibility

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the bank, and the management report of the bank 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 4, 2014

LANDWIRTSCHAFTLICHE RENTENBANK

The Board of Managing Directors

Dr. Reinhardt Bernhardt

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the combined management report prepared by Landwirtschaftliche Rentenbank, Frankfurt/Main, for the business year from January 1 to December 31, 2013. The maintenance of the books and records and the preparation of the annual financial statements and the combined management report in accordance with German commercial law and supplementary provisions of the Governing Law of Landwirtschaftliche Rentenbank [Gesetz über die Landwirtschaftliche Rentenbank] are the responsibility of the Company`s management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the combined management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB [Handelsgesetzbuch "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the Governing Law of Landwirtschaftliche Rentenbank [Gesetz über die Landwirtschaftliche Rentenbank] and give a true and fair view of the net assets, financial position and results of operations of Landwirtschaftliche Rentenbank, Frankfurt/Main, in accordance with [German] principles of proper accounting. The combined management report is consistent with the annual financial statements and as a whole provides a suitable view of the bank's position and suitably presents the opportunities and risks of future development.

Frankfurt/Main, March 4, 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft

Bernhard	Liebermann
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Report of the Board of Supervisory Directors

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

The annual financial statements as well as the combined management report were prepared by the Board of Managing Directors in accordance with the accounting principles of the German Commercial Code *(Handelsgesetzbuch, HGB)* as of December 31, 2013 and were audited by the auditors KPMG AG, Berlin, who issued an unqualified audit opinion. The consolidated financial statements as well as the combined management report as of December 31, 2013 were prepared by the Board of Managing Directors in accordance with the International Financial Reporting Standards (IFRS) and the additional requirements of German Commercial Code as defined in Section 315a (1) of the HGB and were audited by the auditors KPMG AG, Berlin, who issued an unqualified audit opinion. The Board of Supervisory Directors acknowledged and approved the findings of the audit.

The Board of Supervisory Directors reviewed the annual financial statements and the consolidated financial statements, including the combined management report, as well as the annual report of Landwirtschaftliche Rentenbank. The Board of Supervisory Directors adopts the bank's annual financial statements including the combined management report for fiscal year 2013 and approves the consolidated financial statements and the combined management report for fiscal year 2013.

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 € 48 510 808.63 from the guarantee reserve and to increase the principal reserve *(Hauptrücklage)* by the same amount.

From the net income for the year of € 53 000 000.- as reported in the income statement of the financial statements, € 39 750 000.- is made available for the principal reserve pursuant to Section 2 (2) of Rentenbank's Governing Law.

Furthermore, the Board of Supervisory Directors resolved from the residual distributable profit of € 13 250 000.- to provide € 6 625 000.- to the German federal government's Special Purpose Fund and € 6 625 000.- 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 as amended on June 30, 2009. The Board of Supervisory Directors will monitor its compliance and implementation constantly. The Board of Supervisory Directors approves the Corporate Governance Report including the Declaration of Conformity.

Frankfurt am Main, March 27, 2014

THE BOARD OF SUPERVISORY DIRECTORS OF
LANDWIRTSCHAFTLICHE RENTENBANK

Joachim Rukwied
(Chairman)

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