2015

Annual Financial Report

Financial Statements in accordance with
German Commercial Code (HGB) of
Landwirtschaftliche Rentenbank
as of December 31, 2015

rentenbank

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Combined Management Report

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Introduction

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). As the parent company of the Rentenbank Group, Rentenbank has combined the management report pursuant to Section 298 of the German Commercial Code (Handelsgesetzbuch – HGB) in accordance with Section 315 (3) in conjunction with Section 298 (2) HGB with the Group management report pursuant to Section 315a (1) in conjunction with Section 315 HGB. The disclosures provided in the combined management report are in line with the requirements of IFRS 7.

The difference between the Group and Rentenbank is negligible, given the minor significance of the consolidated subsidiaries LR Beteiligungsgesellschaft mbH (LRB), Frankfurt am Main, and DSV Silo- und Verwaltungsgesellschaft mbH (DSV), Frankfurt am Main. Therefore, the information provided in the combined management report generally applies to both the Group and Rentenbank. In the section on results of operations, financial position and net assets, the disclosures required under HGB relating specifically to Rentenbank are included at the end of the respective section.

General information on the Group

Group structure

Rentenbank is a public law institution, with its registered office in Frankfurt am Main. It has 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 the subsidiaries are strictly limited. Rentenbank has issued a comfort letter to LRB. The subsidiaries are funded exclusively by the Group.

Promotional mandate

According to Rentenbank's Governing Law, the Group's mandate is to promote agriculture and rural areas. The Group's business activities are aligned with this promotional mandate. Rentenbank's Governing Law and its statutes primarily define the framework for the Group's risk structure.

As a promotional bank for agribusiness and rural areas, Rentenbank provides funds for a variety of agriculture-related investments. Rentenbank grants special promotional loans for projects in Germany via local banks (on-lending procedure) in a competitively neutral way. The range of products is geared towards enterprises operating in agriculture, forestry, viticulture, and horticulture, as well as in aquaculture, including fisheries. Rentenbank also provides funds for projects in the food industry and the associated upstream and downstream industries. We also promote investments in renewable energy and rural infrastructure.

Management system

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

- Optimize the implementation of the promotional mandate and continually develop the promotional business,
- Provide promotional benefit from own funds,
- Generate an adequate operating result,
- Low risk tolerance.

The first three objectives are integrated into business operations using key performance indicators. The indicators are defined in more detail in this section. The report on expected developments and the section on the results of operations include information on targets and target achievement. The low risk tolerance is reflected in the risk appetite framework and the associated conservative limits which are described in the risk report.

Segments

The strategic objectives are presented in separate segments. The segments break down as follows:

- Promotional Business

The segment Promotional Business comprises the promotional lending business, the securitized promotional business as well as the long-term funding of the Group. The promotional lending business involves granting special promotional loans and standard promotional loans (e.g. in the form of promissory notes). The counterparties in the promotional business are almost exclusively banks and public-sector institutions. The securitized promotional business comprises investments in securities. They serve to ensure Rentenbank's liquidity and to satisfy regulatory requirements on liquidity management. The Group does not hold securities or receivables with structured credit risks, such as ABSs (asset backed securities) or CDOs (collateralized debt obligations).

- Capital Investment

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

- Treasury Management

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

Key performance indicators

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

The financial key performance indicators reflect operating activities based on financial reporting under HGB. The financial key performance indicators include:

- Operating result before provision for loan losses and valuation

The business activities of Rentenbank are not primarily aimed at generating profits, but are guided by business principles. This involves operating with sufficient profitability to ensure the Group's long-term ability to carry out promotional tasks. In light of increasing regulatory requirements, the operating result is used to establish an appropriate capital base through the retention of profits. Profitability and stable earnings are also a prerequisite for carrying out the promotional activities without having to rely on government subsidies. In order to raise funds at favorable conditions, Rentenbank uses its high credit quality as a public law institution, combined with its capital market strategy. In addition, the promotional activities benefit from income generated from the securitized promotional business and standard promotional business as well as from highly cost-efficient processes within the Group.

- Cost-income ratio

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

- Promotional performance

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

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

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

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

Economic report

Macroeconomic and bank-specific environment

International interest rate and monetary policy

Overall, international interest rate and monetary policy remained highly expansionary in 2015 although central bank policy in the United States increasingly diverged from that in the eurozone towards the year end.

In 2015, the European Central Bank (ECB) kept the interest rate on the main refinancing operations unchanged at 0.05%. In light of potential deflation, the ECB announced an expanded asset purchase program in January. These purchases began in March, including bonds issued by euro area governments, inter alia. The volume of the combined monthly purchases under the program was determined to amount to EUR 60 billion, intended to be carried out until at least September 2016. Since inflation was lower than expected as well as to support the recovery of the eurozone economy, the ECB eased its monetary policy further in December. It cut the interest rate on the deposit facility from –0.20% to –0.30% and extended its asset purchase program until at least March 2017.

In contrast to the ECB, the US Federal Reserve started to slightly reverse its accommodative monetary policy in 2015. In December 2015, it raised the target range of the federal funds rate to between 0.25% and 0.50%. Since the end of 2008, the rates have ranged between 0.00% and 0.25%.

Diverging monetary policy on both sides of the Atlantic as well as substantially higher economic growth in the United States resulted in a further depreciation of the euro against the US dollar. At year end 2015, the ECB set the reference rate for the USD/EUR exchange rate at 1.09, which was around 10% lower than the rate of 1.21 at year end 2014.

Development of long-term interest rates

The yields for 10-year government bonds ended the year at 0.63%, only slightly above the level at year end 2014 (0.54%). However, long-term interest rates were very volatile between those dates. Due to the ECB's asset purchase program, announced in January and effective from March, long-term yields gradually declined during the first quarter. By mid-April, the yield for 10-year government bonds fell to a historical low of 0.05%, while the yield for shorter maturities was negative throughout this period. Nevertheless, yields subsequently increased significantly within a few weeks. By mid-June, the yields for 10-year government bonds reached an annual high of 1.06%, but fell again towards the end of 2015.

Development of the German agricultural sector

The demand for our promotional loans largely depends on the volume of investments by the German agricultural sector in the segments relevant to our business. From 2010 to 2014, economic sentiment was very positive. A favorable regulatory and market environment, the benign economic conditions and the low interest rate level triggered an increase in agricultural investments and strong demand for our promotional loans. However, business sentiment has deteriorated since mid-2014 due to falling agricultural commodity prices. The prices for the most important agricultural products – grain, milk and pork – have declined considerably since then. Therefore, investments in dairy cattle barns and pigsties have decreased.

Business development

As expected, market conditions in the agricultural sector deteriorated, while the utilization of our special promotional loans increased. The demand for promotional loans was even higher than we predicted for 2015. Farmers continued to invest in various projects planned and started in previous years, despite the more challenging economic climate. In the second half of 2015, many agricultural enterprises experienced cash-flow difficulties, in particular due to the falling producer prices. Accordingly, demand for our liquidity assistance loans rose, gaining momentum through the federal liquidity assistance program at the end of November.

The pace of investment in the Renewable Energy promotional line is determined by the German Renewable Energy Sources Act (EEG). Due to the reform of the EEG in 2014, the number of new commitments in both the biogas and the photovoltaic segments continued to decline. Compared to the record set in the prior year, new wind energy installations and the demand for financing in the wind energy sector also declined slightly in 2015. The notional amounts of new promotional business were as follows:

	2015		2014	
	EUR billion	%	EUR billion	%
Special promotional loans	7 .8	57.4	6.9	61.1
Securitized promotional business	3.2	23.5	2.4	21.2
Standard promotional loans	2.6	19.1	2.0	17.7
Total	**13.6**	**100.0**	**11.3**	**100.0**

In the year under review, new promotional business totaled EUR 13.6 billion (2014: EUR 11.3 billion), thus exceeding the volume of the previous year (the amounts in brackets correspond to the amounts as of December 31, 2014). This was especially due to an increase in the special promotional business. The total volume of special promotional loans amounted to EUR 7.8 billion (2014: EUR 6.9 billion), thus significantly exceeding the planned target. The portfolio of special promotional loans increased by EUR 3.3 billion or 9.0% to EUR 40.0 billion (2014: EUR 36.7 billion). The recognized amount for the securitized promotional business fell by EUR 1.9 billion to EUR 19.8 billion. The balance decreased since the volume of new business was more than offset by redemptions.

Rentenbank raised the necessary funds again on favorable terms as financial investors preferred safe investments. In the reporting year, Rentenbank raised a total of EUR 13.0 billion (2014: EUR 10.9 billion) in funding in the domestic and international capital markets. As the volume of our new promotional business was far in excess of our expectations, the funding volume in 2015 was also higher than initially planned. The following instruments were used for debt issuance in the capital markets:

	2015		2014	
	EUR billion	%	EUR billion	%
Euro Medium Term Notes (EMTN)	7.3	56.1	7.3	67.0
Global bonds	3.0	23.1	1.7	15.6
AUD Medium Term Notes (MTN)	2.2	16.9	1.5	13.8
International loans/promissory notes	0.4	3.1	0.2	1.8
Domestic capital market instruments	0.1	0.8	0.2	1.8
Total	**13.0**	**100.0**	**10.9**	**100.0**

Net assets, financial position and results of operations

Group's results of operations

	Jan. 1 to Dec. 31, 2015 EUR million	Jan. 1 to Dec. 31, 2014 EUR million	Change in EUR million
1) Income statement			
Net interest income before allowance for credit losses/promotional contribution	331.0	324.8	6.2
Allowance for credit losses/promotional contribution	18.6	15.3	3.3
Administrative expenses	65.0	59.3	5.7
Net other income/expense	-9.2	-6.3	-2.9
Operating result	**238.2**	**243.9**	**-5.7**
Net gains/losses from fair value and hedge accounting	204.9	-183.5	388.4
Group's net income	**443.1**	**60.4**	**382.7**
2) Other comprehensive income			
Result from available-for-sale instruments	-56.5	92.5	-149.0
Actuarial gains/losses from pension obligations	5.7	-26.5	32.2
3) Group's total comprehensive income	**392.3**	**126.4**	**265.9**

Operating result

The operating result for the fiscal year 2015 decreased by EUR 5.7 million to EUR 238.2 million, down 2.3% on 2014 (EUR 243.9 million). The increase in net interest income did not fully offset the increased expenses for the allowance for credit losses/promotional contribution, and the higher administrative expenses.

The operating result did not decline by 10% as planned, which was due to two factors. Firstly, total margins declined less than expected, while new business strongly increased at the same time. Secondly, the increase in administrative expenses was considerably lower than planned. These factors are explained in more detail below.

Interest income, including income from equity holdings, amounted to EUR 3,734.4 million (2014: EUR 3,532.3 million). After deducting interest expenses of EUR 3,403.4 million (2014: EUR 3,207.5 million), net interest income amounted to EUR 331.0 million (2014: EUR 324.8 million). This unexpected increase of EUR 6.2 million or 1.9% is attributable to the strong growth in new business generated early in the reporting year which was significantly above the planned target. For further details, please refer to the section on the operating result by segment.

Expenses for the allowance for credit losses/promotional contribution rose by EUR 3.3 million or 21.6% to EUR 18.6 million. This was mainly due to an increase in promotional contribution of EUR 2.5 million, amounting to EUR 14.8 million (2014: EUR 12.3 million). Furthermore, additions to specific and portfolio valuation allowances increased by a total of EUR 0.8 million to EUR 3.8 million (2014: EUR 3.0 million), slightly up on 2014.

The promotional contribution comprises the interest rate reduction for the special promotional loans granted by Rentenbank. A promotional expense is recognized when it is incurred which is then amortized through profit or loss over the remaining time to maturity. The expense for the additions to the promotional contribution climbed by EUR 6.8 million to EUR 82.1 million (2014: EUR 75.3 million), while income from the utilization of the promotional contribution rose by EUR 4.3 million to EUR 67.3 million (2014: EUR 63.0 million).

In accordance with IFRS, impairments resulting from payment defaults are only recognized for losses already incurred. Since the Group extends loans almost exclusively via other banks, credit risks are identified in a timely manner. In the case of syndicated loans extended to companies, the Group is informed of relevant matters by the other syndicate lenders without delay. Based on a model of expected credit losses, a portfolio valuation allowance is recognized for loans and advances as well as for securities measured at (amortized) cost to account for any residual risk of not having identified losses already incurred. In the current fiscal year, a specific valuation allowance of EUR 2.2 million (2014: EUR 0.0 million) was recognized, while expenses from the portfolio valuation allowance fell by EUR 1.4 million compared with 2014, amounting to EUR 1.6 million in the fiscal year 2015 (2014: EUR 3.0 million).

Administrative expenses rose by 9.6% to EUR 65.0 million in the fiscal year 2015 (2014: EUR 59.3 million). Of this amount, personnel expenses accounted for EUR 33.8 million (2014: EUR 34.4 million), a decrease of EUR 0.6 million compared to 2014.

Amortization of intangible assets and depreciation of property and equipment and investment property increased to EUR 6.2 million (2014: EUR 5.7 million). This was mainly due to the amortization of expenses for projects related to the implementation of new IT systems which had been capitalized previously.

Other administrative expenses rose by EUR 5.8 million or 30.2% to EUR 25.0 million (2014: EUR 19.2 million). This was mainly attributable to IT expenses which increased by EUR 2.7 million to EUR 12.4 million (2014: EUR 9.7 million), charges from the cost allocation in relation to the new ECB supervision in the amount of EUR 1.0 million as well as the payment of the bank levy of EUR 1.1 million. Nevertheless, total administrative expenses increased less than expected as especially the conservatively estimated fees and levies were significantly lower.

Net other income/expense declined by EUR 2.9 million or 46.0% to EUR -9.2 million (2014: EUR -6.3 million). In particular, this resulted from the capital increase of Rehwinkel Foundation of EUR 2.0 million as well as from the net result from taxes.

Operating result by segment

	Promotional Business		**Capital Investment**		**Treasury Management**		**Total**	
Jan. 1 to Dec. 31	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
	EUR million	EUR million	EUR million	EUR million	EUR million	EUR million	EUR million	EUR million
Net interest income before allowance for credit losses/promotional contribution	190.5	192.5	116.7	114.2	23.8	18.1	331.0	324.8
Allowance for credit losses/promotional contribution	18.6	15.3	0.0	0.0	0.0	0.0	18.6	15.3
Administrative expenses	49.1	45.0	9.4	8.6	6.5	5.7	65.0	59.3
Net other income/expense	-9.0	-6.3	0.0	0.0	-0.2	0.0	-9.2	-6.3
Operating result	**113.8**	**125.9**	**107.3**	**105.6**	**17.1**	**12.4**	**238.2**	**243.9**

The operating result of the Promotional Business segment fell to a total of EUR 113.8 million (2014: EUR 125.9 million). The considerable increase in demand for our special promotional loans led to higher recognized expenses for the interest rate reduction. Allowance for credit losses/promotional contribution increased to EUR 18.6 million (2014: EUR 15.3 million). Due to the high volume of new business in the promotional lines, which was particularly pronounced during the first weeks of 2015, as well as due to a high volume of maturing loans only towards the end of 2015, the income-relevant average portfolio balance could be increased compared to planning. Net interest income before the allowance for credit losses/promotional contribution of the Promotional Business segment declined less than planned and amounted to EUR 190.5 million (2014: EUR 192.5 million). Administrative expenses in the Promotional Business segment, including depreciation and amortization, rose by EUR 4.1 million to EUR 49.1 million.

Interest income from the Capital Investment segment increased as expected to EUR 116.7 million, representing an increase of EUR 2.5 million on 2014. Compared with higher yielding assets, the lower interest rates for new investments had, however, negative effects due to the prevailing low interest rate environment. Nevertheless, this effect was more than offset by the higher portfolio volume from the retention of profits, resulting in a slight increase in the segment's total interest income. Overall, the segment's operating result rose slightly to EUR 107.3 million (2014: EUR 105.6 million).

In the year under review, net interest income in the Treasury Management segment was again characterized by an increase in margins due to declining short-term funding costs.

Although we had assumed a slight decline in the segment in our planning, we were able to increase net interest income by 31.5% to EUR 23.8 million compared with 2014. This was due to increasing margins in connection with a larger portfolio. Accordingly, the segment's operating result rose to EUR 17.1 million (2014: EUR 12.4 million).

Net gains/losses from fair value and hedge accounting

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

For hedged items in a hedging relationship, only fair value changes attributable to changes in the deposit/swap curve (changes in the hedged risk) are taken into account. With respect to the remaining financial instruments measured at fair value, changes in all market parameters, such as credit spreads, are included in their measurement.

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. Net gains/losses from fair value and hedge accounting are largely dominated by measurement gains from widening credit spreads for own issues and by positive measurement effects in relation to measurement losses recognized in prior years. It increased considerably to EUR 204.9 million as of the reporting date (2014: EUR -183.5 million).

Rentenbank is a non-trading book institution and follows a buy-and-hold strategy. Therefore, measurement gains or losses are only of a temporary nature if no counterparty default occurs. The accumulated measurement gains or losses are reduced to zero at the latest when the relevant transactions become due. Irrespective of this, the measurement results reported in the consolidated statement of comprehensive income pursuant to IFRS are the basis for calculating regulatory capital and the risk-bearing capacity. In the case of regulatory own funds, prudential filters are applied to compensate for the losses arising from the measurement of own issues at fair value.

Group's net income

Taking into account the positive net gains/losses from fair value and hedge accounting of EUR 204.9 million (2014: EUR -183.5 million), the Group's net income increased by EUR 382.7 million to EUR 443.1 million (2014: EUR 60.4 million).

Other comprehensive income

Other comprehensive income reflects changes in the revaluation reserve. It includes 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 in other comprehensive income. As part of hedge accounting, the changes in the fair value of these securities attributable to fluctuations in the deposit/swap curve are reported in net gains/losses from fair value and hedge accounting. In addition, other comprehensive income includes the amortization of measurement results from securities that were reclassified to the held-to-maturity category in 2008, measured on the basis of their fair value at that date.

The credit spreads for securities increased compared to the prior year. The resulting decline in market values led to measurement losses of EUR 56.4 million (2014: measurement gains of EUR 92.3 million). The amortization of securities reclassified from the available-for-sale category to the held-to-maturity category resulted in expenses of EUR 0.1 million (2014: income of EUR 0.2 million).

Actuarial gains and losses from the measurement of pension obligations are caused by differences between the expected and actual actuarial assumptions of the prior period and from changes in expectations of future events. In fiscal 2015, actuarial gains reported in the financial statements amounted to EUR 5.7 million (2014: losses of EUR 26.5 million). These gains are mainly based on the higher discount rate which, in turn, led to lower pension provisions.

Group's total comprehensive income

The Group's total comprehensive income for the period ending December 31, 2015 amounted to EUR 392.3 million (2014: EUR 126.4 million), representing a significant decline of EUR 265.9 million compared with 2014. This is mainly attributable to an increase in net gains/losses from fair value and hedge accounting by EUR 388.4 million. The reduced other comprehensive income in connection with the measurement of available-for-sale instruments was more than offset by this increase.

Reconciliation to distributable profit

Pursuant to Rentenbank's Governing Law, net income reported under HGB is transferred to a guarantee reserve and a principal reserve, while the remaining amount is distributed. The amount of the distribution is shown as distributable profit. These items are shown as equity components under IFRS for information purposes. The remaining difference to the Group's net income is transferred to retained earnings.

In accordance with Section 2 (3) sentence 2 of Rentenbank's Governing Law, the guarantee reserve may not exceed 5% of the notional amount of the covered bonds outstanding at any given time. As the volume of covered bonds declined, an amount of EUR 23.1 million (2014: EUR 21.6 million) was withdrawn from the guarantee reserve and transferred to the principal reserve.

By analogy with the annual financial statements prepared under HGB, Rentenbank plans to transfer an additional amount of EUR 42.8 million (2014: EUR 41.2 million) from Group's net income to the principal reserve, subject to approval by the relevant corporate bodies. In addition, the bank intends to transfer an amount of EUR 386.0 million to other retained earnings. The distributable profit remaining after the transfer to reserves amounts to EUR 14.3 million (2014: EUR 13.8 million).

Results of operations of Rentenbank

The results of operations in accordance with the annual financial statements prepared under HGB, as presented in the following table, were satisfactory:

	Jan. 1 to Dec. 31, 2015	**Jan. 1 to Dec. 31, 2014**	**Change in**
	EUR million	EUR million	EUR million
Net interest income	311.9	311.0	0.9
thereof expenses for interest rate reduction for special promotional loans	77.2	72.3	4.9
Special payout LRB	49.8	0.0	49.8
Net fee and commission income	-2.2	-1.6	-0.6
Administrative expenses	59.8	56.6	3.2
Other operating result	-16.4	-10.1	-6.3
Operating result before provision for loan losses and measurement	**283.3**	**242.7**	**40.6**
Provision for loan losses and measurement	226.3	187.7	38.6
Net income	**57.0**	**55.0**	**2.0**

The operating result before provision for loan losses and measurement rose considerably over the prior year. The increase was attributable to a positive one-time effect of EUR 49.8 million. This involves a special payout by our subsidiary LRB in the course of a restructuring of an existing equity holding. In accordance with the classification of items set out in the German Credit Institutions Accounting Regulation (RechKredV), the special payout is recognized in the income statement within current income from equity holdings. Adjusted for the aforementioned one-time effect, the operating result before provision for loan losses and measurement would have amounted to EUR 233.5 million and would have been below the prior-year figure of EUR 242.7 million, as expected. This roughly corresponds to the slightly declining operating result under IFRS. However, in contrast to HGB, the aforementioned positive one-time effect is eliminated on consolidation and, accordingly, does not have an impact on the Group's total comprehensive income.

Otherwise, the development of the operating result before provision for loan losses and valuation (HGB) in structural terms corresponds to the development of the operating result under IFRS, except for the recognition and reversal of specific and general valuation allowances. Therefore, we refer to the general disclosures on the Group's results of operations.

The provision for loan losses and measurement primarily comprises specific and general valuation allowances under HGB and the additions to the fund for general banking risks. General valuation allowances rose by EUR 2.3 million to EUR 16.2 million (2014: EUR 13.9 million), while specific valuation allowances fell slightly to EUR 0.6 million. In the context of the aforementioned restructuring of an existing equity holding within the Group, a reversal of an impairment loss of EUR 49.6 million was recognized for the carrying amount of our subsidiary LRB. The fund for general banking risks (Section 340g HGB) was increased by EUR 279.2 million (2014: EUR 194.7 million).

The overall increase of net income amounted to EUR 2.0 million, resulting in net income of EUR 57.0 million (2014: EUR 55.0 million), of which an amount of EUR 42.7 million (2014: EUR 41.2 million) was transferred to the principal reserve. Distributable profit after the transfer to reserves amounts to EUR 14.3 million (2014: EUR 13.8 million) which will be used to promote agriculture and rural areas.

Financial key performance indicators

The operating result before provision for loan losses and measurement, adjusted for the aforementioned special payout, amounted to EUR 233.5 million (2014: EUR 242.7 million). Its volume decreased as expected, yet to a lesser extent than planned. On the one hand, net interest income did not decrease as much as expected since the volume of new promotional business volume and its margins were above plan. On the other hand, the increase in administrative expenses was lower than expected since IT expenses came in below expectations and some of the planned project activities were postponed to subsequent years. In addition, personnel expenses were below plan since additions to pension provisions declined and additional vacant posts were filled on a step-by-step basis. Moreover, the planning for 2015 included a conservative estimate due to the unclear structure and amount of the bank levy to be paid for the first time.

The developments described for the operating result also influenced the cost-income ratio, one of our key performance indicators. While expenses, in aggregate, increased to EUR 80.7 million (2014: EUR 70.7 million), adjusted income remained flat at EUR 314.2 million (2014: EUR 313.4 million). This resulted in an increase in the cost-income ratio from 22.6% to 25.7%, after adjusting for the special payout. However, the increase was lower than anticipated. Compared with peers, our cost-income ratio is still on a moderate level.

Promotional performance, a further key performance indicator, comprises the interest rate reduction of the special promotional loans from own income, inter alia. This amounted to EUR 63.6 million (2014: EUR 73.9 million) in nominal terms. In addition, as in the previous year, Rentenbank provided grants of EUR 3.0 million to its Research on Agricultural Innovation program. Rentenbank contributed EUR 2.0 million to the capital of Rehwinkel Foundation. The promotional performance, including the distributable profit of EUR 14.3 million intended for distribution, amounted to EUR 82.9 million (2014: EUR 90.7 million). As expected, the promotional performance was below the prior-year level. However, it exhibits the efficiency of our promotional activities since our special promotional loans reached a record high at the same time.

Financial position

Capital structure

Capital structure of the Group

	Dec. 31, 2015 EUR million	**Dec. 31, 2014** EUR million	**Change in** EUR million
Liabilities			
Liabilities to banks	2,829.3	2,184.7	644.6
Liabilities to customers	4,408.3	4,954.7	- 546.4
Securitized liabilities	71,544.9	69,178.8	2,366.1
Subordinated liabilities	729.4	691.8	37.6
Equity			
Subscribed capital	135.0	135.0	0.0
Retained earnings	3,474.9	3,046.1	428.8
Revaluation reserve	61.7	112.5	- 50.8
Distributable profit	14.3	13.8	0.5

Liabilities

Liabilities to banks increased by 29.5% to EUR 2.8 billion (2014: EUR 2.2 billion), which was largely attributable to short-term borrowings and global bonds. Liabilities to customers decreased by EUR 0.5 billion or 11.0% to EUR 4.4 billion (2014: EUR 4.9 billion), mainly due to maturing registered bonds.

Securitized liabilities rose by EUR 2.4 billion or 3.4% to EUR 71.5 billion (2014: EUR 69.2 billion). The Medium Term Note (MTN) programs remained our main refinancing instruments, amounting to EUR 51.8 billion (2014: EUR 49.3 billion). The carrying amount of the global bonds amounted to EUR 16.2 billion (2014: EUR 13.8 billion) as of year end. The carrying amount of Euro Commercial Paper (ECP) declined by EUR 2.4 billion to EUR 3.5 billion (2014: EUR 5.9 billion).

Subordinated liabilities remained at the prior-year level of EUR 0.7 billion (2014: EUR 0.7 billion).

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

The following table presents a breakdown of liabilities by maturity, currency and interest rate structure based on the IFRS carrying amounts:

	up to 1 year		1 to 5 years		more than 5 years	
	Dec. 31, 2015 EUR million	**Dec. 31, 2014** EUR million	**Dec. 31, 2015** EUR million	**Dec. 31, 2014** EUR million	**Dec. 31, 2015** EUR million	**Dec. 31, 2014** EUR million
Fixed interest rate						
EUR million	3,294.1	2,250.7	8,858.0	9,154.6	7,570.0	7,680.3
USD	4,255.5	3,021.9	10,147.6	12,003.6	6,773.7	2,412.1
AUD	786.0	1,041.0	4,460.6	3,418.5	4,515.0	4,421.4
JPY	0.0	35.9	246.2	209.4	369.7	253.2
CHF	390.4	297.1	763.4	1,055.3	113.0	101.6
NOK	286.0	405.4	499.2	719.8	0.0	123.5
GBP	836.6	0.0	1,616.6	1,670.1	0.0	14.8
Other	436.5	31.1	2,732,1	2,651,5	658.7	623.5
Zero coupon						
EUR million	37.8	419.9	44.3	78.7	972.2	921.9
USD	3,005.4	4,122.7	0.0	0.0	0.0	42.5
AUD	154.0	673.8	0.0	0.0	0.0	0.0
GBP	103.5	510.1	0.0	0.0	0.0	0.0
Other	251.4	217.7	0.0	0.0	0.0	0.0
Variable interest						
EUR million	1,539.0	1,863.3	4,854.3	4,905.4	1,808.6	3,213.3
USD	1,928.3	428.6	3,071.2	4,081.9	570.9	123.4
AUD	421.7	0.0	269.5	695.7	0.0	0.0
JPY	11.6	20.7	35.8	44.1	262.8	349.4
NOK	0.0	0.0	224.4	239.1	0.0	0.0
Other	152.4	127.6	183.9	333.9	0.0	0.0
Total	17,890.2	15,467.5	38,007.1	41,261.6	23,614.6	20,280.9

Equity

The increase in the Group's net income more than offset the reported measurement loss in the revaluation reserve. Accordingly, equity rose by a total of EUR 378.5 million to 3,685.9 million (2014: EUR 3,307.4 million).

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, 2015 EUR million	**Dec. 31, 2014** EUR million	**Change in** EUR million
Liabilities			
Liabilities to banks	3,461.7	2,806.6	655.1
Liabilities to customers	3,963.3	4,264.8	- 301.5
Securitized liabilities	67,304.9	65,843.8	1,461.1
Subordinated liabilities	608.4	599.2	9.2
Equity (including fund for general banking risks)			
Subscribed capital	135.0	135.0	0.0
Retained earnings	1,009.5	966.8	42.7
Distributable profit	14.3	13.8	0.5
Fund for general banking risks	2,911.2	2,632.0	279.2

Changes in liabilities under HGB and IFRS were similar in structural terms. The difference between the Group and Rentenbank results from the measurement at fair value and from hedge accounting required under IFRS. We therefore refer to the presentation of liabilities in the Group's capital structure.

The fund for general banking risks was increased by EUR 0.3 billion to EUR 2.9 billion (2014: EUR 2.6 billion). This resulted in an increase in equity by EUR 0.3 billion compared to 2014.

Capital expenditure

In the past years, Rentenbank heavily invested in the modernization of its application systems. Investments focused particularly on the development of the treasury system, risk management and limit system, the regulatory reporting software and the rating platform. In addition, we made further progress in the digitalization of customer and business partner interfaces (extranet). We also invested in systems and processes for the purpose of implementing new regulatory requirements. In the meantime, the preparations for the introduction of a new financial accounting system have started.

The aforementioned project activities are reflected in the current administrative expenses as well as in the changes in intangible assets. In the year under review, additions to the cost amounted to EUR 4.6 million (2014: EUR 2.3 million).

Liquidity

The liquidity analysis reflects the contractual redemption amounts:

Dec. 31, 2015	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
	EUR million	EUR million	EUR million	EUR million
Liabilities to banks	325.9	340.4	880.0	1,190.0
Liabilities to customers	246.5	337.4	766.1	3,277.6
Securitized liabilities	8,868.0	8,054.3	35,125.2	18,160.3
Negative fair values of derivative financial instruments	179.0	56.0	918.0	517.0
Subordinated liabilities	7.7	17.8	134.8	507.0
Total	**9,627.1**	**8,805.9**	**37,824.1**	**23,651.9**

Dec. 31, 2014	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
	EUR million	EUR million	EUR million	EUR million
Liabilities to banks	4.6	373.5	940.0	785.0
Liabilities to customers	170.8	201.1	1,306.5	3,414.6
Securitized liabilities	8,012.8	7,164.9	37,325.8	14,725.4
Negative fair values of derivative financial instruments	61.0	40.0	547.0	523.0
Subordinated liabilities	7.1	16.5	123.7	481.0
Total	**8,256.3**	**7,796.0**	**40,243.0**	**19,929.0**

The Group has sufficient cash funds and is able to meet its payment obligations at all times without restrictions.

Net assets

Net assets of the Group

	Dec. 31, 2015 EUR million	Dec. 31, 2014 EUR million	Change in EUR million
Loans and advances to banks	55,457.2	51,407.6	4,049.6
Loans and advances to customers	6,380.9	5,530.3	850.6
Financial assets	19,912.2	21,701.2	-1,789.0
Positive fair values of derivative financial instruments	7,238.9	5,958.4	1,280.5
Negative fair values of derivative financial instruments	7,152.9	6,810.6	342.3

Rentenbank generally extends its loans via banks in a competitively neutral way. Within the net assets, this is reflected in loans and advances to banks. As of December 31, 2015, they amounted to EUR 55.5 billion (2014: EUR 51.4 billion), accounting for 59.4% (2014: 57.9%) of total assets.

Loans and advances to customers mainly comprise promissory notes of German federal states. Overall, they increased by EUR 0.9 billion to EUR 6.4 billion (2014: EUR 5.5 billion).

Financial assets, which consist almost exclusively of bank bonds, decreased by EUR 1.8 billion to EUR 19.9 billion (2014: EUR 21.7 billion) as redemptions exceeded new business.

The positive fair values of derivative financial instruments increased by EUR 1.3 billion to EUR 7.2 billion (2014: EUR 5.9 billion), while the negative fair values rose by EUR 0.3 billion to EUR 7.2 billion (2014: EUR 6.8 billion). Derivatives are exclusively entered into to hedge existing or expected market risks. Collateral agreements were concluded with all derivative counterparties. The bank does not enter into credit default swaps (CDSs).

Net assets of Rentenbank

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

	Dec. 31, 2015	Dec. 31, 2014	Change in
	EUR million	EUR million	EUR million
Loans and advances to banks	55,682.4	51,459.3	4,223.1
Loans and advances to customers	5,304.4	4,938.6	365.8
Bonds and other fixed-income securities	18,302.1	20,171.5	-1,869.4

Changes in the net assets under HGB and IFRS were similar in structural terms. The difference between the Group and Rentenbank results from the measurement at fair value and from hedge accounting required under IFRS. Therefore, we refer to the disclosures on the Group's net assets.

At year end, the securities portfolio included bank bonds classified as fixed assets in a notional amount of EUR 18.2 billion (2014: EUR 20.0 billion). As in the previous year, no securities were held in the liquidity reserve. .

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

Non-financial key performance indicators

Corporate citizenship

As a public law institution with a promotional mandate, Rentenbank has a particular responsibility to be an active corporate citizen. It mainly supports local cultural institutions and selected projects in Frankfurt am Main, the location of its registered office. Grants are provided on a regular basis to Oper Frankfurt, Schirn Kunsthalle, Städel Museum, the English Theatre and the Städelschule (State Academy of Fine Arts), inter alia. In the case of the Städelschule, Rentenbank supports young talented artists by awarding a group prize as part of the annual 'Rundgang'. Rentenbank also supports various projects of churches, associations, and societies with regular donations at Christmas.

Employees

The number of employees grew in the year under review. At year end 2015, Rentenbank employed 269 (2014: 265) employees. Taking into account trainees and interns, the total number of employees was 272 (2014: 269), of which 217 (2014: 223) were full-time employees. These figures include neither employees on parental leave nor the members of the Board of Managing Directors. The average seniority was approximately eleven years. The ratio of men and women was almost on par, with 53% of the employees being male and 47% being female. 89% of the part-time employees were women.

Compliance with legal and regulatory requirements

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

Regulatory requirements regarding own funds, liquidity, total assets, and risk-weighted assets have strategic relevance. Comprehensive compliance with all existing regulatory provisions is a top priority. Within the Group, the Regulatory Matters working group, which also comprises the Compliance desk, ensures that new regulatory requirements are identified at an early stage within the Group and that their implementation is managed and monitored.

Report on events after the balance sheet date

There were no events of material importance after the end of the fiscal year 2015.

Report on expected developments and opportunities

Development of business and underlying conditions

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

These are mainly influenced by the monetary policy of the central banks, the changes in 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 and the situation in the agricultural markets.

At the beginning of 2016, the ECB confirmed its intention to keep the key interest rate at a low level for an indefinite period of time (forward guidance). In view of the increased risks to the further economic development and the sharp decline in oil prices, the ECB also announced that it would implement further monetary easing in the course of the year to counteract deflation in the eurozone. Against this backdrop, we expect money market rates to remain low and a flat interest-rate curve during the year.

As a result of the sharp decline in oil prices, the eurozone economy should stage a moderate recovery as price pressures remain low. Due to an expected more dynamic economic development in the United States and further possible interest rate increases introduced by the US Federal Reserve (Fed), Rentenbank expects the euro to remain weak against the US dollar.

According to Agrar, an indicator of the agricultural business sentiment, farmers plan to invest a total of EUR 3.3 billion in the first half of 2016. For the second consecutive year, this figure showed a decline, amounting to EUR 6.3 billion 2014 and to EUR 4.7 billion in 2015.

The current economic situation is assessed with greater pessimism than in the prior year in all types of businesses. The sentiment indicator has fallen to its lowest level since 2010. Above all, dairy cattle farmers and processing enterprises assess the situation to be substantially worse than in the prior year so that investments in livestock housing should decline further by a considerable degree. In the Agriculture promotional line, we expect demand for investment loans to decrease. In contrast, the liquidity assistance loans and working capital financings should remain at a high level as the economic situation remains challenging.

Irrespective of the good supply of agricultural products in the years 2014 and 2015 as well as the subdued demand from emerging markets, fundamentals indicate a stabilization of agricultural prices. The Food and Agriculture Organization of the United Nations (FAO) expects in its projection until 2024 that the international price levels for agricultural commodities will remain above the level before the price increase from 2007 to 2008.

New business in the Renewable Energy promotional line depends largely on the Renewable Energy Sources Act (EEG). The Act was amended in mid-2014, causing the demand for photovoltaic installations and biogas plants to decline. A further amendment of the EEG is planned for 2016. In this context, the system for promoting renewable energy is planned to be switched from fixed feed-in tariffs to a tender model with a limited total volume. Details as to the structure are not known yet.

Based on its conservative risk business policy, its triple-A ratings, its status as a German government agency and the associated excellent access to funding, Rentenbank anticipates that it will continue to fulfill its promotional mandate successfully.

Forecast of business development

Comprehensive annual plans and multi-year plans for an observation period of five years are prepared in order to project Rentenbank’s future results of operations, financial position and net assets. These plans comprise planning for Rentenbank's new business, portfolio, equity, income and costs. In addition, the planning includes regulatory indicators relevant for control as well as a projection of the development of the risk-bearing capacity. In the following, the projections refer to the planning period of 2016.

Within the framework of our current planning, we assume that new business volume in the Promotional Business segment will be significantly below the level of the previous fiscal year. Due to the prevailing low interest rate environment and the expanded asset purchase program of the ECB, we expect a further decline in lending/funding margins. Overall, this should lead to significantly decreasing net interest income for the Promotional Business segment.

Special promotional loans will likely remain in the focus of the lending business. However, after the record volume achieved in the year under review, we expect that new business volume in 2016 will fall considerably due to various changes in our end borrowers' investment activities. Nevertheless, we expect that both the amount of special promotional loans as well as their percentage share in total assets will continue to rise.

In 2015, the portfolio of securities as well as standard promotional loans saw a significant decline of 8% due to higher redemptions. The portfolio is expected to decline somewhat also in 2016.

We expect that interest income within the Capital Investment segment in 2016 will be slightly above the prior-year level. While the lower interest rates for new investments due to the low interest rate environment compared with higher yielding assets currently have negative effects, this effect can be more than offset by the higher portfolio volume from the retention of profits so that the segment's interest income will rise slightly in total.

In 2016, net interest income of the Treasury Management segment is likely to be below the prior-year level as we anticipate declining margins.

Net interest income of the three segments is expected to decline significantly in the fiscal year 2016.

Cost planning for 2016 in particular takes into account the necessary long-term investments for Rentenbank's infrastructure as well as the necessary adjustments to fulfill additional regulatory requirements. This includes investments for the further development of the trading, risk management, settlement and limit 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 numerous changes in the regulatory framework and the accounting standards will continue to result in a significant increase in administrative expenses in the next year (2015: EUR 59.8 million), despite our rigorous cost management. This particularly applies to personnel expenses as new positions need to be created. Since the bank levy will be calculated from 2016 at a European level, the actual amount currently is uncertain. Therefore, we used conservative assumptions in our planning.

Against the backdrop of the development of income and costs, we expect the operating result to decline by around 25% for 2016 (2015: EUR 233.5 million). This key performance indicator would still be at a historically satisfying level.

Despite declining results, we expect to be able to keep the promotional performance (2015: EUR 82.9 million) at an appropriate level, and anticipate an increase by up to 10% in the next year for this key performance indicator.

Due to falling income coupled with the simultaneous increase (due to investment activities) in administrative expenses, the cost income ratio is expected to increase considerably (2015: 25.7%). Nevertheless, the ratio will be at a satisfying level in comparison with other promotional banks.

The measurement result can only be projected on the basis of very uncertain assumptions due to the high volatility of the market parameters and the buy-and-hold strategy. Currently, we anticipate the measurement result to be negative in 2016.

Overall, for the fiscal year 2016, the Board of Managing Directors expects lower total comprehensive income, driven by declining operating income, higher administrative expenses and a negative measurement result.

Opportunities and risks

In comparison to the forecast results for 2016, additional opportunities and risks may occur for our business development due to changes in the business environment.

For example, the financial market crisis may intensify again, in particular due to increasing risks for the further economic development, which may have an impact on new business volume and margins in the lending and funding businesses. A deterioration in the economic environment would result in new business volume lower than planned. However, the financial market crisis has shown up to now that challenging situations may also offer opportunities, attributable to Rentenbank's superior credit ratings and its solid capital base. These opportunities may arise in the form of attractive funding opportunities as well as high margins in the securitized and standard promotional businesses.

The prevailing low-interest environment, primarily due to the ECB’s monetary policy, influences the demand of the agricultural sector for special promotional loans, but it also weighs on the result in the Capital Investment and Treasury Management segments and has an impact on the margins in the Promotional Business segment. Further measures introduced by the ECB within the scope of the expanded asset purchase program could lead to an additional charge on earnings due to falling asset yields and margins. A change in the low interest environment, e.g. in the wake of a strong rate hike, would be associated with both risks and opportunities for Rentenbank due to the aforementioned factors. The possible specific consequences depend on the extent and the speed of interest rate changes as well as from the respective segment and the selected observation period.

In the meantime, negative interest rates have emerged in some of the segments of the money and capital markets. This may lead to additional risks, but may also involve opportunities due to economic, legal or technical frameworks and restrictions.

Administrative expenses may be subject to additional burdens resulting from further regulatory requirements which are not yet known. This would have an impact on IT and personnel expenses. Apart from the investments already planned, further improvements to the IT and building infrastructure may become necessary. In the course of the European-wide harmonization of the bank levy, uncertainties still surround the actual amount in the fiscal year 2016.

Depending on the changes in market parameters, measurement losses may arise in the case of a widening of the lending/funding margins in the market. If the margins tighten, this may result in measurement gains. In addition, there are various scenarios which may present opportunities or pose risks.

Despite Rentenbank's risk-averse new business policy, it cannot be ruled out that additional information regarding the financial position of our business partners, and thus adversely affecting their credit quality, will be identified during the course of the current fiscal year. 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.

Development in the current year

The net interest income of all three segments was slightly above the pro-rata projected figure. Net gains/losses from fair value and hedge accounting are negative, mainly due to fair value changes owing to credit spread changes regarding own issues in foreign currencies. Based on new business and 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 the fiscal year 2016.

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 disclosures made in the risk report primarily relate to the Group. Essential bank-specific aspects of Rentenbank are presented separately.

Organization of risk management

The Board of Managing Directors determines the Group's sustainable business strategy on the basis of the company’s mission derived from the relevant legislation. Rentenbank's business strategy is primarily defined by its promotional mandate and the measures taken to fulfill the mandate. In addition, targets and the measures to achieve them are set for the segments.

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. In addition to the risk inventory, the Group's material risks are identified using risk indicators which are based on quantitative and qualitative risk characteristics and used for the purpose of early risk identification. Further procedures include self-assessments, the New Product Process (NPP), the ICS key controls as well as the daily monitoring activities. The risks are reviewed for any concentration effects.

The risks resulting from business activities are identified, limited and managed using a risk management system (RMS). Based on the risk-bearing capacity concept, the RMS was established specifically for this purpose. In this context, the Board of Managing Directors has defined a risk strategy, aligned with the overall business strategy, and the associated sub-strategies. These are reviewed at least annually and adjusted, if necessary, by the Board of Managing Directors. In addition, the strategies are discussed with the Risk Committee established by the Board of Supervisory Directors.

The implementation, management and monitoring of limits, which are in line with Rentenbank’s risk-bearing capacity, are an integral part of the RMS. 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 Group is an institution supervised by the ECB and is therefore subject to the Supervisory Review and Evaluation Process (SREP).

Rentenbank has established a recovery plan pursuant to the German Recovery and Resolution Act (Sanierungs- und Abwicklungsgesetz – SAG) and expanded its governance structure and risk management accordingly. The determined recovery indicators and their thresholds as well as the related phases of the governance and recovery process are key elements of the recovery plan. The recovery indicators allow Rentenbank to identify crisis situations at an early stage, so that mitigating actions can be taken.

Under the Risk Appetite Framework (RAF), Rentenbank defines the framework and guidelines for risk appetite which are presented centrally in the business and risk strategy as well as in the related sub-strategies.

As part of the planning process, potential risk scenarios are used to evaluate future net assets, financial position, and results of operations. Deviations between the target and actual performance are analyzed in an internal monthly report. The capital plan is defined on the basis of a time horizon of ten years. The risk-bearing capacity is planned using a 5-year projection.

The introduction of new products, business types, sales channels or new markets requires an NPP. Within the scope of the NPP, the organizational units involved analyze the risk level, the processes and the main consequences for risk management. If business processes, IT systems or structures change materially, the proposed changes are analyzed with respect to control procedures and control intensity, assessing the impact of these adjustment processes.

Based on the risk management and controlling processes, the risk manual of the Board of Managing Directors provides a comprehensive overview of all risks in the Group. Risk management functions are primarily performed by the Treasury and Promotional Business divisions (front office units according to the MaRisk) as well as the Collateral & Equity Holdings division (venture capital fund and equity holdings) within defined limits. Within the scope of the venture capital fund, the Group may invest in equity instruments. These only include company shares, silent participations, and all types of mezzanine capital, such as subordinated loans. Both members of the Board of Managing Directors who are responsible for the back office function are also responsible for the risk controlling function. The Finance division, including its Risk Controlling unit, and the Financial Institutions division, comprising its Credit Risk unit, report to these Board members. Both divisions are responsible for establishing the limit system. In the Finance division, the Risk Controlling unit is accountable for the regular monitoring of the limits approved by the Board of Managing Directors as well as for the reporting on market risks, liquidity risks, operational risks, regulatory and reputational risks as well as risk-bearing capacity. Risk reporting is based on the level of risk 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 non-compliance with material regulatory requirements may result in fines and penalties, claims for damages, and/or the nullity of contracts. This may put the assets of Rentenbank at risk. Rentenbank's compliance function, a part of the Internal Control System (ICS) and in collaboration with the organizational units, attempts to avoid risks that may arise from non-compliance with the relevant legislation.

The Board of Managing Directors as well as the Audit Committee and the Risk Committee, which are both established by the Board of Supervisory Directors, are informed of 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. The Board of Supervisory Directors is immediately informed of the material risk aspects by the Board of Managing Directors.

The Internal Audit department of Rentenbank is active at the group level, performing the function of a Group Audit department. It reviews and assesses the appropriateness of activities and processes as well as the appropriateness and effectiveness of the RMS and ICS on a risk-based and process-independent basis.

The Group Audit department reports directly to the Board of Managing Directors and carries out its duties independently and on its own initiative. The Board of Managing Directors may issue instructions to perform additional reviews. The members of the Audit Committee as well as the chairmen of the Board of Supervisory Directors and of the Risk Committee may request information directly from the head of Internal Audit.

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

Credit risk

Definition

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

Issuer, counterparty, and original country risk refer to the potential loss due to defaults or deteriorations in the credit quality of business partners (i.e. counterparties, issuers, countries), taking into account the valuation of collateral. Derivative country risk results from the general economic and political situation in the debtor’s country of incorporation.

Derivative country risks are divided into transfer risks and redenomination risks. Transfer risk refers to the inability of a solvent foreign borrower to make interest and principal payments when they are due as a result of economic or political instability. Redenomination risk refers to the risk of converting the notional value of a receivable into another currency. In the case of a conversion into a weaker currency based on a fixed exchange rate, this may be equivalent to a partial disappropriation of the creditors.

Structural risks (e.g. cluster or concentration risks) result from the concentration of the lending business in regions, sectors or on borrowers. Collateral risk arises from the lack of recoverability of loan collateral during the loan term or from an incorrect valuation of collateral. 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 agriculture and rural areas are primarily granted to banks in the Federal Republic of Germany or in another EU country as well as Norway. A further prerequisite is that the banks are engaged in business activities with companies operating in the agricultural sector or in the associated upstream or downstream industries or in rural development. In addition, standard promotional business may also be conducted with the German federal states. The special promotional loans are limited to Germany as an investment location. Accordingly, Rentenbank’s lending business is mostly limited to the refinancing of banks and institutions or credit institutions as defined in Article 4 CRR as well as other interbank transactions. The credit risk of the end borrower is borne by the end borrower's local bank.

Furthermore, all transactions directly related to the fulfillment of the bank’s tasks may be carried out within the limits of Rentenbank's Governing Law and its statutes. This also includes the purchase of receivables and securities as well as transactions within the framework of the Group's treasury management and risk management.

Rentenbank is only exposed to company risks as part of the direct loan business. In 2015, no transactions were entered into with companies in this business segment or in the syndicated loan business.

Depending on the type of the transaction, the divisions Promotional Business or Treasury are responsible for new business in promotional lending. The Promotional Business division extends all special promotional loans. The Treasury division is responsible for the purchase of securities, promissory notes and registered bonds as well as for the direct loan business as part of the standard promotional business. It is also accountable for new business in the money market and for derivatives. Derivatives are only used as hedging instruments for existing or expected market risks. Furthermore, they are only entered into with counterparties with collateral agreements.

Organization

The Treasury and Promotional Business divisions, front office units according to the MaRisk, are actively involved in the operations of the standard promotional business and securitized promotional business (Treasury) as well as special promotional loans (Promotional Business). In accordance with the MaRisk, certain tasks are to be performed separately from the front office. These tasks (i.e. back office functions) are performed by the Financial Institutions and Collateral & Equity Holdings divisions, while the securitized promotional business is conducted by the Operations Financial Markets department. The Financial Institutions division has an independent second vote and processes new standard promotional loans. The Collateral & Equity Holdings division evaluates the collateral and administers payment instructions. Both divisions are also responsible for the intensified monitoring and management of non-performing loans. Any necessary measures are taken in consultation with the Board of Managing Directors. The members of the Board of Managing Directors responsible for the back office function are responsible for the process.

The Financial Institutions division formulates a group-wide credit risk strategy and is responsible for its implementation. The credit risk strategy is approved annually by the Board of Managing Directors and discussed with the Risk Committee of the Board of Supervisory Directors. In addition, the Financial Institutions division analyzes credit and country risks, inter alia. Business partners and types of transactions are allocated using Rentenbank's own rating categories. In addition, this division prepares proposals for and has the second vote in credit decisions according to the MaRisk. It also monitors credit risks on an ongoing basis.

Credit risks are managed, monitored, and reported for individual transactions at the borrower level as well as at the level of the group of related customers, at the country level and the level of the total loan portfolio. The Financial Institutions division is also responsible for the methodological development, quality assurance, and monitoring of the procedures used to identify, assess and quantify credit risk. The functional and organizational separation of the Financial Institutions and Collateral & Equity Holdings divisions from the Treasury and Promotional Business divisions ensures independent risk assessment and monitoring. Within the framework of the overall loan portfolio management, the loan portfolio is subdivided by various characteristics. Similar transactions are clustered into product groups.

Credit assessment

The credit ratings are determined in accordance with the bank's internal risk rating system. They are a key instrument for managing credit risks and the relevant internal limits.

The Financial Institutions division (back office unit according to the MaRisk) is responsible for determining the credit ratings in terms of the bank's internal risk rating system. This involves allocating individual business partners or types of transactions to one of twenty rating categories. The ten best rating categories AAA to BBB- are assigned to business partners who are subject to low credit risk (Investment Grade). The seven further rating categories (BB+ to C) denote latent or increased latent risks and the final three rating categories (DDD to D) are reserved for non-performing loans or exposures in default.

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

Quantification of credit risk

We measure credit default risks using statistical methods and classify them according to Rentenbank's rating system. Historical default rates as published by rating agencies are used to determine the expected loss. The Group does not have statistically significant historical data of its own due to the very small number of defaults or credit events in the past decades. In order to assess credit risks, the Group uses a standard scenario to determine the potential annual loss with regard to the loan exposure. The standard scenario is complemented by stress scenarios. These assume a deterioration in credit quality, lower recovery rates, and an increased probability of default. On the basis of these assumptions, the potential annual loss is estimated based on full utilization of the established internal limits. In line with its business model defined by Rentenbank's Governing Law and its statutes, the Group focuses on interbank business. This results in a material concentration risk. A lump-sum amount (risk buffer) is set aside for the sectoral concentration risk.

In accordance with the risk-bearing capacity concept defined in the risk manual, credit risks are assigned a certain amount of the risk covering potential. The established internal limits are monitored daily to ensure compliance with this amount at all times.

In addition to the stress scenarios, which primarily take into account country-specific effects that need to be backed by the risk covering potential, a further risk scenario determines the risk exposure amount for the gone concern approach. The methodology is based on the Gordy model (so-called One-Factor Model). Moreover, additional worst-case scenarios reflect concentration risks in the credit portfolio. These worst-case scenarios are included in neither of the two risk management approaches (i.e. the going concern approach and the gone concern approach). They are therefore not covered by the risk covering potential. In this context, the main aim is to critically evaluate the results and, if necessary, to determine the related measures, such as reducing internal limits or increasing monitoring intensity. Further stress scenarios can be used on an ad hoc basis to examine the effects of current developments on the risk covering potential.

Limitation and reporting

Risk limitation ensures that the risks assumed are in line with the business strategy, the risk strategy defined in the risk manual, and the Group's risk-bearing capacity. Within this context, limits are set both at the borrower level and at the level of a group of related customers as well as at the level of the overall loan portfolio.

A maximum limit for all credit risk limits as well as an upper limit for unsecured facilities are determined by the Board of Managing Directors. They thus represent upper limits for the granting of credit risk limits. The appropriateness of both upper limits is reviewed with respect to the risk-bearing capacity, taking into account risk buffers. In addition, country-specific credit and transfer limits have been established.

A limit system manages the level and the structure of all credit risks. Limits are defined for all borrowers, issuers, and counterparties and, if applicable, subdivided by product and maturity. Rentenbank's risk rating system forms the basis for decisions on establishing limits. In addition, a maximum limit has been set for each group of related customers. The utilization of the limits is determined according to the individual types of business transactions. Furthermore, a certain minimum credit quality is required for certain types of business or limits.

All limits are monitored daily by the relevant back office unit. For money market and promotional loan transactions as well as for equity holdings, the utilization of the limits is measured using 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, on the basis of the positive fair values of derivative portfolios, taking into account collateral received, if any. Limit reserves are used as a buffer for credit risk resulting from market price fluctuations. The member of the Board of Managing Directors responsible for this back office unit receives a daily report on the risk-related limits and their utilization. The Board of Managing Directors is notified immediately if the limits are exceeded.

Rentenbank has entered into collateral agreements with all counterparties of derivative transactions. These agreements provide for cash collateral denominated exclusively in euros to secure the positive fair values from derivatives in excess of the contractual allowance amounts and minimum transfer amounts. The cash collateral reduces the utilization of limits and thus credit risks.

At the end of each quarter, the Financial Institutions division (back office unit) reports the current credit risk development within the context of the overall risk report based on the MaRisk guidelines to the Board of Managing Directors and the Risk Committee established by the Board of Supervisory Directors.

Current risk situation

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

Maximum exposure to credit risk pursuant to IFRS 7:

	Dec. 31, 2015	**Dec. 31, 2014**	**Change in**
	EUR million	EUR million	EUR million
Loans and advances to banks	55,457.2	51,407.6	4,049.6
Loans and advances to customers	6,380.9	5,530.3	850.6
Fair value changes of hedged items in a portfolio hedge	1,298.8	1,600.7	- 301.9
Positive fair values of derivative financial instruments	7,238.9	5,958.4	1,280.5
Financial assets	19,912.2	21,701.2	-1,789.0
Irrevocable loan commitments	841.7	195.3	646.4
Total	**91,129.7**	**86,393.5**	**4,736.2**

The Group has received collateral in the form of assignments of receivables, guarantor liability as well as state guarantees for the majority of the risk exposures presented. The remaining risk positions mostly include covered bonds, such as German Pfandbriefe.

As regards the positive fair values of derivative financial instruments, the disclosed maximum exposure to credit risk of EUR 7,238.9 million (2014: EUR 5,958.4 million) represents the carrying amounts in the balance sheet at an individual contract level. In contrast, the risk-related economic collateralization is used for risk mitigation at the counterparty level. For transactions in derivative financial instruments, Rentenbank has concluded collateral agreements with all counterparties on the basis of master agreements with netting provisions. In accordance with IFRS 7, the maximum credit risk exposure to derivative financial instruments amounted to EUR 185.3 million as of

December 31, 2015 (2014: EUR 316.6 million), taking into account netting agreements and cash collateral.

Exposure to credit risk by rating category:

Dec. 31, 2015

	AAA EUR million	AA EUR million	A EUR million	BBB EUR million	BB-B EUR million	CCC-C EUR million	DDD-D EUR million
Loans and advances to banks	16,327.4	2,172.3	28,309.1	8,635.2	0.0	13.2	0.0
Loans and advances to customers	6,378.3	0.0	0.0	0.0	0.0	0.0	2.6
Fair value changes of hedged items in a portfolio hedge	334.4	10.3	653.4	300.7	0.0	0.0	0.0
Positive fair values of derivative financial instruments	6.0	619.3	4,627.7	1,897.5	88.4	0.0	0.0
Financial assets	12,479.9	3,224.8	2,974.9	1,088.6	144.0	0.0	0.0
Irrevocable loan commitments	120.0	6.9	408.3	306.5	0.0	0.0	0.0
Total	**35,646.0**	**6,033.6**	**36,973.4**	**12,228.5**	**232.4**	**13.2**	**2.6**

Dec. 31, 2014

	AAA	AA	A	BBB	BB-B	CCC-C	D
	EUR million	EUR million	EUR million	EUR million	EUR million	EUR million	EUR million
Loans and advances to banks	13,231.9	5,105.4	28,779.1	4,275.5	15.7	0.0	0.0
Loans and advances to customers	5,508.6	0.0	13.0	8.3	0.0	0.0	0.4
Fair value changes of hedged items in a portfolio hedge	364.2	90.1	939.1	207.3	0.0	0.0	0.0
Positive fair values of derivative financial instruments	7.3	2,447.7	3,163.4	340.0	0.0	0.0	0.0
Financial assets	11,251.2	5,794.4	2,420.5	1,882.0	353.1	0.0	0.0
Irrevocable loan commitments	195.3	0.0	0.0	0.0	0.0	0.0	0.0
Total	**30,558.5**	**13,437.6**	**35,315.1**	**6,713.1**	**368.8**	**0.0**	**0.4**

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

Risk concentration by country:

Dec. 31, 2015

	Germany		Europe (excl. Germany)		OECD countries (excl. EU)	
	EUR million	%	EUR million	%	EUR million	%
Loans and advances to banks	53,903.6	59.2	1,297.8	1.4	255.8	0.3
Loans and advances to customers	6,350.9	7.0	30.0	0.0	0.0	0.0
Fair value changes of hedged items in a portfolio hedge	1,292.6	1.4	6.2	0.0	0.0	0.0
Positive fair values of derivative financial instruments	1,491.5	1.6	5,747.4	6.3	0.0	0.0
Financial assets	3,869.5	4.3	14,369.1	15.8	1,673.6	1.8
Irrevocable loan commitments	835.4	0.9	0.0	0.0	6.3	0.0
Total	**67,743.5**	**74.4**	**21,450.5**	**23.5**	**1,935.7**	**2.1**

Dec. 31, 2014

	Germany		Europe (excl. Germany)		OECD countries (excl. EU)	
	EUR million	%	EUR million	%	EUR million	%
Loans and advances to banks	49,526.0	57.4	1,881.5	2.2	0.1	0.0
Loans and advances to customers	5,500.3	6.4	30.0	0.0	0.0	0.0
Fair value changes of hedged items in a portfolio hedge	1,595.3	1.8	5.4	0.0	0.0	0.0
Positive fair values of derivative financial instruments	1,301.0	1.5	4,338.2	5.0	319.2	0.4
Financial assets	5,798.7	6.7	15,400.6	17.8	501.9	0.6
Irrevocable loan commitments	195.3	0.2	0.0	0.0	0.0	0.0
Total	**63,916.6**	**74.0**	**21,655.7**	**25.0**	**821.2**	**1.0**

Risk concentration by group of counterparty:

Dec. 31, 2015

	Private-sector banks /other banks		Foreign banks		Public-sector banks	
	EUR million	%	EUR million	%	EUR million	%
Loans and advances to banks	8,650.4	9.5	1,553.6	1.7	32,790.1	36.0
Loans and advances to customers	1.7	0.0	0.0	0.0	0.0	0.0
Fair value changes of hedged items in a portfolio hedge	228.9	0.3	6.2	0.0	625.4	0.7
Positive fair values of derivative financial instruments	1,078.2	1.2	4,982.4	5.5	244.3	0.3
Financial assets	2,672.1	2.9	14,461.8	15.9	616.7	0.7
Irrevocable loan commitments	220.8	0.2	6.3	0.0	316.5	0.3
Total	**12,852.1**	**14.1**	**21,010.3**	**23.1**	**34,593.0**	**38.0**

	Cooperative banks		Non-banks	
	EUR million	%	EUR million	%
Loans and advances to banks	12,463.1	13.7	0.0	0.0
Loans and advances to customers	0.0	0.0	6,379.2	7.0
Fair value changes of hedged items in a portfolio hedge	438.3	0.5	0.0	0.0
Positive fair values of derivative financial instruments	168.4	0.2	765.6	0.8
Financial assets	130.9	0.1	2,030.7	2.2
Irrevocable loan commitments	298.1	0.3	0.0	0.0
Total	**13,498.8**	**14.8**	**9,175.5**	**10.0**

Dec. 31, 2014

	Private-sector banks/ other banks		Foreign banks		Public-sector banks	
	EUR million	%	EUR million	%	EUR million	%
Loans and advances to banks	7,075.5	8.2	1,881.6	2.2	31,232.6	36.2
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	285.6	0.3	5.4	0.0	748.6	0.9
Positive fair values of derivative financial instruments	863.8	1.0	3,901.5	4.5	228.6	0.3
Financial assets	2,488.0	2.9	14,259.2	16.5	2,599.6	3.0
Irrevocable loan commitments	0.0	0.0	0.0	0.0	195.1	0.2
Total	**10,712.9**	**12.4**	**20,047.7**	**23.2**	**35,004.5**	**40.6**

	Cooperative banks		Non-banks	
	EUR million	%	EUR million	%
Loans and advances to banks	11,217.9	13.0	0.0	0.0
Loans and advances to customers	0.0	0.0	5,530.3	6.4
Fair value changes of hedged items in a portfolio hedge	561.1	0.6	0.0	0.0
Positive fair values of derivative financial instruments	207.4	0.2	757.1	0.9
Financial assets	117.4	0.1	2,237.0	2.6
Irrevocable loan commitments	0.0	0.0	0.2	0.0
Total	**12,103.8**	**13.9**	**8,524.6**	**9.9**

Carrying amounts in the peripheral eurozone countries:

Dec. 31, 2015

	Italy EUR million	Portugal EUR million	Spain EUR million	Total EUR million
Government bonds	319.6	79.9	93.2	492.7
Bonds and promissory notes of banks	448.4	94.2	1,381.8	1,924.4
Positive fair values of derivative financial instruments			4.7	4.7
Gross exposure	**768.0**	**174.1**	**1,479.7**	**2,421.8**
Collateral	377.6	94.2	1,381.7	1,853.5
Net exposure	**390.4**	**79.9**	**98.0**	**568.3**

Dec. 31, 2014

	Italy EUR million	Portugal EUR million	Spain EUR million	Total EUR million
Government bonds	307.9	130.5	93.9	532.3
Bonds and promissory notes of banks	751.3	169.2	1,885.1	2,805.6
Positive fair values of derivative financial instruments			2.2	2.2
Gross exposure	**1,059.2**	**299.7**	**1,981.2**	**3,340.1**
Collateral	528.2	169.2	1,887.3	2,584.7
Net exposure	**531.0**	**130.5**	**93.9**	**755.4**

The peripheral eurozone countries are monitored closely due to their strained economic and fiscal situation.

There are no available credit limits or irrevocable loan commitments with counterparties located in the peripheral eurozone countries and there were no transactions of this type in 2015. The increase in the carrying amounts is exclusively attributable to fair value changes. Until further notice, only derivatives that are backed by cash collateral may be concluded with counterparties from Italy and Spain.

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

	Government bonds		Bonds and promissory notes of banks	
	Dec. 31, 2015 EUR million	Dec. 31, 2014 EUR million	Dec. 31, 2015 EUR million	Dec. 31, 2014 EUR million
Available for sale	308.0	299.7	1,823.4	2,484.5
Held to maturity	144.1	195.2	0.0	117.5
Loans and receivables	0.0	0.0	0.0	20.7
Designated as at fair value	40.6	37.4	101.0	182.9
Total	**492.7**	**532.3**	**1,924.4**	**2,805.6**

Allowances for credit losses

In the case of exposures at risk of default, allowances for credit losses are recognized at the level of individual exposures. 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 is described in more detail in Note 9 to the consolidated financial statements.

At the level of the annual financial statements of Rentenbank, a specific valuation allowance was reduced from EUR 5.0 million to EUR 2.4 million. This valuation allowance is not recognized at the group level as the related exposure is measured at fair value through profit or loss in the consolidated financial statements. In the year under review, another specific valuation allowance was recorded on loans and advances, amounting to EUR 2.0 million under HGB and to EUR 2.2 million under IFRS. Accordingly, as of December 31, 2015, there were two specific valuation allowances of EUR 4.4 million related to Rentenbank and one specific valuation allowance of EUR 2.2 million related to the Group.

The Group recognized a portfolio valuation allowance of EUR 16.3 million (2014: EUR 14.7 million) based on an expected loss model. The method is described in Note 9 to the consolidated financial statements. Rentenbank recognized a general valuation allowance of EUR 16.2 million (2014: EUR 13.9 million) in its annual financial statements.

Standard scenarios

The basis of the calculations for measuring potential loss under the standard scenario is the annual potential loss related to the amount of utilization, taking into account 1-year probabilities of default. As of December 31, 2015, the cumulative potential loss amounted to EUR 67.7 million (2014: EUR 61.8 million), including a lump-sum amount of EUR 50 million (risk buffer) for sectoral concentration risks in the banking sector. The increase over the previous year is attributable to the credit deterioration of individual exposures as well as to more conservative model assumptions. In the fiscal year 2015, the average potential loss, calculated on a monthly basis, amounted to EUR 64.7 million (2014: EUR 62.7 million). In relation to the risk covering potential allocated to credit risks as of the reporting date, the average potential utilization was 24.9% (2014: 24.1%). The maximum utilization amounted to EUR 67.7 million (2014: EUR 70.8 million). It was thus below the limit of EUR 260 million approved by the Board of Managing Directors for the standard scenario. The lowest utilization during the reporting year amounted to EUR 63.3 million (2014: EUR 61.7 million).

Stress scenarios

In the first stress scenario, the potential loss is calculated based on the full utilization of all prescribed limits, taking into account 1-year probabilities of default. As of December 31, 2015, the potential loss under this stress scenario amounted to EUR 81.0 million (2014: EUR 71.5 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 lower recovery ratios for potential losses of collateralized transactions. The stress scenario simulating the highest risk exposure is included in the calculation of the risk covering potential, as part of determining the risk bearing capacity. As of the reporting date, the maximum potential loss calculated under the above stress scenarios was EUR 145.5 million (2014: EUR 126.5 million). The increase over the prior year is – by analogy with the standard scenario – attributable to the credit deterioration of individual exposures in the lower rating categories as well as more conservative model assumptions.

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

Market risk

Definition

Market risks comprise 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 the changes in the given market parameters.

The Group makes a distinction between market risks in the form of interest rate risks and IFRS valuation risks.

Interest rate risks stem to a small extent from open fixed-interest positions. The major influencing factors are market rates as well as the amounts and terms of open positions. The risk is recognized in the operating result when the open positions are closed.

IFRS valuation risks arise in connection with hedged items recognized at fair value under IFRS and the associated hedges. The potential risks resulting from fair value measurement under IFRS are included in net gains/losses from fair value and hedge accounting. The market risk from IFRS measurement is realized if the buy-and-hold strategy is breached or a business partner defaults. Cash collateral has to be taken into account if a counterparty to a derivative defaults. Irrespective of this, these measurement results are also reflected in the consolidated statement of comprehensive income, in the risk-bearing capacity calculation and in the regulatory own funds. In the case of regulatory own funds, prudential filters are applied to compensate for the losses arising from the measurement of own issues at fair value.Open currency positions result, to a very limited extent, from fractional amounts related to settlements in foreign currencies. Changes in exchange rates result in minor measurement effects when translating present values of foreign currency balances into the euro.

Organization

Rentenbank does not have a trading book pursuant to Article 4(1) No. 85 and 86 CRR.

The objective of risk management is the qualitative and quantitative identification, assessment, control, and monitoring of market risks. The Treasury division also manages the interest rate risk. The Risk Controlling unit of the Finance division quantifies market risks, monitors limits, and prepares the reports. The Operations Financial Markets department and the Financial Institutions division control the market conformity of the transactions concluded.

Quantification of market risks

Interest rate risks

Interest rate risks are largely reduced at the group-level by hedging balance sheet items with derivatives. Derivatives are entered into on the basis of micro or macro relationships. The effectiveness of micro hedges is monitored daily using valuation units established for the hedging relationships. These economic micro or macro relationships are recognized in accordance with IFRS as hedging relationships accounted for in the balance sheet.

Gains or losses from maturity transformation are realized from money market transactions and, to a lesser extent, from the promotional lending business. Generating income by taking interest rate risks is not a part of Rentenbank's business strategy.

Gains or losses from maturity transformation result only from short-term open positions as some individual transactions in the promotional business are not instantly hedged due to their low volumes.

To monitor interest rate risks, the Group determines daily the present value sensitivity of all transactions that are subject to interest rate risks and are carried out in the Promotional Business and Treasury Management segments. At the group level, all interest-sensitive positions are analyzed quarterly using a model based on present values. Banks are required to determine regularly the impact of sudden and unexpected interest rate changes on their open positions in the banking book as well as to report these to the German regulatory authority. The quarterly analysis of interest rate changes examines as of a specific date, whether a negative change in the present value exceeds 20% of total own funds. The present value is calculated on the basis of scenario analyses, including all financial instruments across segments. However, this measurement does not take into account equity as a permanently available item.

Interest rate risks from open positions are measured on the basis of sensitivities. They may not exceed the risk limits determined by the Board of Managing Directors. Compliance with the limits is monitored daily and reported to the Board of Managing Directors.

IFRS valuation risks

Changes in market parameters in the case of cross-currency basis swap spreads, basis swap spreads, credit spreads, currency exchange rates as well as other prices impact the valuation of financial instruments. Balance sheet items are hedged against interest rate and currency risks using corresponding hedges. In order to recognize economic hedging relationships, the allocation of the hedged items denominated in foreign currencies is based on the fair value option. This involves measuring both the hedging instruments and the hedged items at fair value. The results of a measurement based on the aforementioned market parameters exhibit significant volatility, even if there is an economically perfect hedging relationship.

The potential effects of IFRS valuation risks on the measurement result are simulated in scenario analyses. They are taken into account in the risk covering potential as part of the risk-bearing capacity analysis.

Standard scenarios

Potential market price fluctuations are assumed in the standard scenario. In the case of the money market business and lending business portfolios, the present value sensitivity of each open, interest-sensitive transaction is calculated daily, assuming a parallel shift in the interest rate curve. The result is compared with the relevant limits. The calculation is based on the assumption that the predicted value changes will not be exceeded with a probability of 95%.

Stress scenarios

In order to estimate risks arising from extraordinary market developments, additional scenarios for interest rate changes are calculated for the money market business and lending business portfolios on a regular and an ad hoc basis. Similarly to the standard scenario, the monthly stress scenario assumes a parallel shift in the interest rate curve.

To determine IFRS valuation risks, the calculations assume an increase in the basis swap spreads, the currency exchange rates, and in other prices as well as a reduction of cross currency basis swap spreads and credit spreads. Correlation effects, arising from the aggregation of different types of risk, are taken into account.

The predicted risk values will not be exceeded with a probability of 99%.

Risk buffer

A risk buffer is determined for the standard scenarios and stress scenarios to account for model risks. This also includes the yield risk from open cross-currency basis swaps.

Limitation and reporting

The risk covering potential and, accordingly, the risk limit allocated to market risk in the standard scenario amounts to EUR 19 million (2014: EUR 13 million). The risk buffer is EUR 7.0 million (2014: EUR 0.0 million). Interest rate risks from open positions may not exceed the defined risk limits. Compliance with the limits is monitored daily and reported to the Board of Managing Directors. The Audit Committee and the Risk Committee of the Board of Supervisory Directors are informed quarterly of the outcomes of the risk analyses.

Back testing

The methods used to assess market risks and the market parameters underlying the standard and stress scenarios are validated at least annually.

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

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

Current risk situation

The assumptions and market parameters of the standard and stress scenarios were validated and adjusted during the 2015 fiscal year. The adjustments of the standard and stress scenarios are described in the following.

Standard scenarios

As of December 31, 2015, market risk in the money market business and lending business segments was EUR 10.4 million (2014: EUR 1.6 million) in the case of a parallel shift in the interest rate curve by 40 basis points (bps) (a non-parallel shift by 20 bps (overnight rates), 20 bps (6 months), 20 bps (12 months) and a straight-line increase by 40 bps (15 years)). This equals a utilization of the risk limit of 54.7% (2014: 12.3%). The average limit utilization in the fiscal year 2015 was EUR 3.2 million (2014: EUR 1.2 million) or 20.4% (2014: 6.5%). The maximum risk for the reporting year amounted to EUR 10.5 million (2014: EUR 5.2 million), while the lowest utilization was EUR 0.0 million (2014: EUR 0.02 million). No limits were exceeded in 2014 and 2015. Due to the adjustment of the standard scenario as part of the model validation in 2015, the risk limit also increased by EUR 6 million to EUR 19 million (2014: EUR 13 million). The newly introduced risk buffer amounted to EUR 7.0 million.

Stress scenarios

In the case of stress scenarios, interest rate risk is calculated for the money market business and lending business portfolios. A parallel shift in the interest rate curve by 60 bps is assumed for each portfolio (a non-parallel shift in the interest rate curve by 30 bps (overnight rates), 30 bps (6 months), 30 bps (12 months) and a straight-line increase by 60 bps (15 years). As of the reporting date, the risk exposure amounted to EUR 15.4 million (2014: EUR 2.5 million).

The costs for interest rate basis swaps with different maturities and denominated in the same currency amounted to EUR 215.7 million (2014: EUR 199.8 million) based on a parallel increase in the basis swap spreads by 10 bps (2014: 11 bps) and a widening of OIS IBOR spreads by 79 bps (2014: 75 bps).

A decrease of the cross-currency basis swap spread by 109 bps (2014: increase by 124 bps) is assumed in relation to the costs for interest rate basis swaps with the same maturity and denominated in different currencies. This resulted in a sensitivity of EUR -1,336.0 million (2014: EUR 1,209.3 million).

The credit spreads are based on a debtor's credit (structural credit quality), collateralization of products and market-specific parameters (e.g. liquidity, spreads of government bonds, arbitrage opportunities). In order to measure sensitivity within the relevant rating category, the stress scenario for the lending business assumes a parallel shift of 89 bps (increase by 102 bps) and the stress scenario for the funding business a parallel shift of 118 bps (increase by 109 bps). The risk exposure was EUR 1,508.7 million (2014: EUR -1,013.6 million).

The potential measurement loss in the case of an increase in the swaption volatilities by 118 bps (2014: 9 bps) amounted to EUR 12.3 million (2014: EUR 1.7 million) and in the case of an increase in cap/floor volatilities by 237 bps (2014: 49 bps) to EUR 0.6 million (2014: EUR 1.6 million).

The risk exposure to the translation of foreign currency positions into the euro assuming an exchange rate change by 44% (2014: absolute change of 104 bps) amounted to EUR 97.9 million (2014: EUR 1.7 million).

We increased the risk buffer to EUR 14.5 million (2014: EUR 6.0 million).

Interest rate risk at the level of the entire bank

In accordance with the BaFin Circular 11/2011 (BA), sudden and unexpected interest rate changes were simulated using a parallel shift of +(-)200 bps. As of the reporting date, the risk exposure in the case of rising interest rates amounted to EUR 417.0 million (2014: EUR 415.1 million). The ratio based on regulatory own funds amounted to 11.4% (2014: 12.0%). At no point during 2015 or 2014 did the ratio exceed the reporting threshold of 20%.

Foreign currency risks

No material risk was identified for any currency in 2015 or 2014. The following table presents a breakdown of the notional amounts by foreign currency:

Dec. 31, 2015

Notional amounts in EUR million	USD	AUD	GBP	NZD	CHF	CAD	NOK	Other	**Total**
Assets									
Loans and advances to banks	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.1**
Loans and advances to customers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Financial assets	688.9	50.3	2,272.5	0.0	765.2	224.2	0.0	223.3	**4,224.4**
Positive fair values of derivative financial instruments	30,187.3	9,949.2	2,536.1	2,235.8	1,190.4	838.2	958.0	1,985.9	**49,880.9**
Total assets	**30,876.3**	**9,999.5**	**4,808.6**	**2,235.8**	**1,955.6**	**1,062.4**	**958.0**	**2,209.2**	**54,105.4**
Liabilities									
Liabilities to banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Liabilities to customers	96.4	0.0	13.6	13.2	0.0	0.0	0.0	38.1	**161.3**
Securitized liabilities	29,820.7	9,949.2	2,521.9	2,222.6	1,190.6	838.2	958.0	1,642.0	**49,143.2**
Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	381.5	**381.5**
Negative fair values of derivative financial instruments	959.1	50.3	2,273.1	0.0	765.0	224.2	0.0	147.6	**4,419.3**
Total liabilities	**30,876.2**	**9,999.5**	**4,808.6**	**2,235.8**	**1,955.6**	**1,062.4**	**958.0**	**2,209.2**	**54,105.3**
Net currency position	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.1**

Dec. 31, 2014

Notional amounts in EUR million	USD	AUD	GBP	NZD	CHF	CAD	NOK	Other	**Total**
Assets									
Loans and advances to banks	0.1	0.0	0.0	0.0	49.9	0.0	0.0	0.0	**50.0**
Loans and advances to customers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Financial assets	707.1	50.6	1,410.0	0.0	47.4	241.0	0.0	194.5	**2,650.6**
Positive fair values of derivative financial instruments	26,264.3	9,450.7	2,159.8	1,694.7	1,363.9	880.3	1,410.1	2,069.8	**45,293.6**
Total assets	**26,971.5**	**9,501.3**	**3,569.8**	**1,694.7**	**1,461.2**	**1,121.3**	**1,410.1**	**2,264.3**	**47,994.2**
Liabilities									
Liabilities to banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Liabilities to customers	111.2	0.0	12.8	0.0	0.0	0.0	0.0	34.4	**158.4**
Securitized liabilities	25,976.3	9,450.7	2,147.0	1,694.7	1,363.9	880.3	1,410.1	1,759.9	**44,682.9**
Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	344.3	**344.3**
Negative fair values of derivative financial instruments	883.9	50.6	1,410.0	0.0	97.3	241.0	0.0	125.7	**2,808.5**
Total liabilities	**26,971.4**	**9,501.3**	**3,569.8**	**1,694.7**	**1,461.2**	**1,121.3**	**1,410.1**	**2,264.3**	**47,994.1**
Net currency position	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.1**

Liquidity risk

Definition

Liquidity risk refers to the risk that the Group is not able to meet its current or future payment obligations without restrictions or that the Group is unable to raise the required funds on the expected terms and conditions.

Market liquidity risk is defined by the Group as the risk that assets may not be able to be sold instantaneously or that they can only be sold at loss. Market liquidity risk may have a negative effect on liquidity risk.

Controlling and monitoring

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

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

In order to limit short-term liquidity risks of up to one month, the calculatory liquidity requirement may not exceed the amount of liquid assets pursuant to the Liquidity Coverage Ratio (LCR). For terms of one month to two years, the calculatory liquidity requirement is limited to the freely available funding potential. In accordance with the MaRisk, the Group maintains liquidity reserves that are sufficient, sustainable, and highly liquid to meet the short-term funding needs of at least one week and to cover any additional liquidity needs arising from the stress scenarios. In addition, for the purpose of calculating medium and long-term liquidity, expected cash inflows and outflows over the next 2 to 15 years are aggregated into quarterly segments and carried forward. The cumulative cash flows may not exceed the negative limit set by the Board of Managing Directors.

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

Under the risk-bearing capacity concept, liquidity risks are not covered by the risk covering potential, but by counterbalancing capacity or liquid assets. This is due to the fact that the Group has sufficient cash funds. Furthermore, Rentenbank’s triple-A ratings, inter alia, enable it to raise additional funds in the interbank markets. In case of market disruptions, cash funds are also obtained from Eurex Clearing AG (collateralized money market funds in the form of securities repurchase agreements) and from the Deutsche Bundesbank (in the form of securities pledge and credit claims as eligible collateral in accordance with the KEV (Krediteinreichungsverfahren) procedure).

Special aspect: Rentenbank as issuer of LCR-qualifying bonds

In accordance with the LCR, the bonds issued by Rentenbank are classified as liquid assets in the EU. Our bonds also qualify as highly liquid assets in other jurisdictions, such as the United States and Canada. This offers us additional options for action in case of urgent liquidity needs.

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. They are calculated and monitored monthly. 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 collateral agreements, resulting from an increase in the negative fair values or a decrease in the positive fair values of the 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 if risk-related events occur.

Liquidity ratios pursuant to the Liquidity Regulation

Pursuant to the German Liquidity Regulation (Liquiditätsverordnung), cash balances and payment obligations are determined daily for the various cash-related on-balance sheet and off-balance sheet transactions. These are weighted according to regulatory requirements and a ratio is calculated. Moreover, these ratios are also calculated and extrapolated for future reporting. In the 2015 reporting year, the monthly reported liquidity ratio for the period of up to 30 days was between 2.40 and 3.65 (2014: 2.71 and 4.38, respectively), thus significantly exceeding the 1.0 ratio defined by regulatory requirements.

Liquidity ratios pursuant to the CRR

The liquidity ratios LCR and NSFR (Net Stable Funding Ratio) are used to limit liquidity risk. The objective is to enable banks to remain liquid even during periods of stress by holding a liquidity buffer and maintaining stable funding. Since October 2015, the minimum LCR requirement (i.e. the ratio of high-quality liquid assets to total net cash outflows) has been 0.6. The required ratio will increase annually until it reaches 1.0 in 2018. The NSFR is still in the observation period. The ratio measures the available amount of stable funding relative to the required amount of stable funding and is required to be over 100%. The decision on implementing the NSFR in the year 2018 will be made at a later date. The minimum ratio of the LCR and the currently expected minimum ratio of NSFR were complied with in the reporting year 2015.

Reporting

The Board of Managing Directors is provided with a daily report on the short-term liquidity projection and with a monthly liquidity risk report on the medium and long-term liquidity. The latter also includes the results of the scenario analyses, the liquidity ratios LCR and NSFR, and the calculation of the liquidity buffer pursuant to the MaRisk. The Audit Committee and the Risk Committee of the Board of Supervisory Directors are informed on a quarterly basis.

Current risk situation

In general, Rentenbank attempts to ensure that its lending business is funded with matching maturities. Thus, liquidity risks are kept at a low level. The triple-A ratings and the status as a government agency enable Rentenbank to obtain short-term funding in the money and capital markets. In addition, the bank holds liquid assets. In case of market disruptions, funds 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 the fiscal years 2015 and 2014.

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 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 is able to meet its payment obligations at all times without restrictions.

Operational risk

Definition

Operational risks arise from failed or inadequate systems, processes, people, or external events. Operational risks include legal risks, risks from money laundering, terrorist financing or other criminal acts, risks from outsourcing, operating risks, and event or environmental risks. They do not comprise entrepreneurial risks, such as business risks, regulatory risks or reputational risks.

Organization

The Group manages operational risk by taking various measures to eliminate the cause of the risk, to control the risk, or to limit damage. These measures include organizational arrangements (e.g. separation of trading and settlement units as well as of front and back office units, principle of dual control), detailed work instructions, and qualified personnel.

Legal risk is managed and monitored by the Legal & Human Resources division. It informs the Board of Managing Directors of the current or potential legal disputes on an ad-hoc basis and as well as in semi-annual reports. The Group uses, as far as possible, standardized contracts to avoid legal risks arising from business transactions. The Legal department is involved early in decision-making and significant projects are to be carried out in collaboration with the Legal & Human Resources division. The Legal & Human Resources division is responsible for engaging and instructing external lawyers in Germany and abroad. Legal disputes are recorded immediately in the incident reporting database. They are monitored using a risk indicator for the purpose of early risk identification.

In addition, Rentenbank has established a Compliance function and a central unit for the prevention of money laundering, terrorist financing and other criminal acts. Risks arising from money laundering, terrorist financing and other criminal acts are identified on the basis of a hazard analysis in accordance with Section 25h KWG. As these may put the Group's assets at risk, organizational measures are defined to optimize risk prevention. For this purpose, the Group also analyzes whether general and bank-specific requirements for an effective organization are complied with.

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

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

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

Quantification of operational risk

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

All incidents occurring in the Group are systematically recorded in an incident reporting database and subsequently analyzed. All current incidents and near-incidents are recorded by the relevant operational risk officers on a decentralized basis. The Risk Controlling unit is accountable for the analysis and aggregation of the incidents as well as for the methodological development of the instruments used.

Rentenbank also carries out self-assessments in the form of workshops. At least annually, material operational risk scenarios are analyzed and assessed with regard to the business processes that are significant for Rentenbank's business model. Fraud prevention aspects are also examined. Identified material operational risks are reduced by additional preventive measures.

The Group has defined risk indicators for contingent losses for all material risk types. This ensures an early response to changes in the Group’s risk profile. This allows appropriate measures to be taken to manage risk.

Limitation and reporting

The limit for operational risks is derived using the modified regulatory basis indicator approach. Reports are prepared on a quarterly basis and submitted to the senior management, the Board of Managing Directors, the Audit Committee and the Risk Committee of the Board of Supervisory Directors.

Current risk situation

The risk value for operational risk in the standard scenario amounted to EUR 24.6 million as of the reporting date (2014: EUR 27.2 million). Under the stress scenario, the risk exposure amounted to EUR 49.2 million (2014: EUR 54.5 million) as of the reporting date.

In the fiscal year 2015, four significant incidents (valued at more than EUR 5 thousand) were entered into the incident reporting database with a potential net loss of EUR 1,466 thousand. In the previous year, there were three significant single losses from operational risks with a total net loss of EUR 68 thousand. This amount was reduced to EUR 35 thousand during the fiscal year 2015.

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

Regulatory and reputational risks

Definition

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

Reputational risks refer to the risk of negative economic effects from damages to the Group's reputation. Reputational risks may, inter alia, pose a threat Rentenbank's ability to fund its business.

Controlling and monitoring

Within the Group, the Regulatory Matters working group, which also comprises the Compliance desk, ensures that regulatory risks are identified and managed at an early stage.

Regulatory and reputational risks may adversely affect new business, especially funding and margins. Rentenbank's promotional mandate and the state guarantee are major factors contributing to the triple-A ratings. Therefore, regulatory and reputational risks need to be assessed against this background.

Apart from the monthly target/actual comparisons in the income statement, risks are also monitored using the entries in the incident reporting database and in the self-assessments. Potential incidents are characterized by a low probability of occurrence, but a potentially high loss amount.

Limitation and reporting

The Group determines the limit for regulatory and reputational risks on the basis of an income scenario. This involves determining and assessing the negative impact arising from certain risk scenarios. These scenarios assume, inter alia, a decline in new business volume or decreasing margins based on certain probabilities of occurrence. Reports are prepared on a quarterly basis and submitted to the senior management, the Board of Managing Directors, the Audit Committee and the Risk Committee of the Board of Supervisory Directors.

Current risk situation

As of the reporting date, the risk value determined for regulatory and reputational risks amounted to EUR 22.2 million in the standard scenarios and to EUR 44.5 million in the stress scenario.

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

Risk-bearing capacity – going concern approach

The risk-bearing capacity calculation compares the sum of the capital charges resulting from the Group's credit, market, and operational risks as well as regulatory and reputational risks with an amount of the risk covering potential.
In accordance with the risk-bearing capacity concept, liquidity risks are not included in the calculation. Instead, they are limited by the freely available funding potential and liquid assets. The risk-bearing capacity concept is based on the going concern assumption. The length of an observation period is one year.

The going concern approach assumes that an enterprise will continue in operation for the foreseeable future. After deducting regulatory capital requirements and the regulatory adjustment items related to the risk covering potential, sufficient capital components must be available to cover the risks from the stress scenarios. The stress scenarios are defined using conservative parameters (i.e. the predicted risk value will not be exceeded with a probability of 99%). Regulatory own funds were determined using a Common Equity Tier 1 ratio (CET 1 ratio) of 12.0%, based on the warning threshold defined in the recovery plan.

Risk covering potential

The risk covering potential is used to cover expected and unexpected losses. It is derived from the consolidated figures under IFRS. Risk covering potential 1 is used to cover risks from the standard scenarios, while risk covering potential 2 covers risks from the stress scenarios.

The following table provides a breakdown of the risk covering potential as of the balance sheet date:

	Dec. 31, 2015 EUR million	Dec. 31, 2014 EUR million
Available operating result	187.8	205.0
Retained earnings (pro rata)	156.2	103.0
Risk covering potential 1	**344.0**	**308.0**
Retained earnings (pro rata)	1,118.9	947.3
Own credit risk and DVA	- 0.1	0.0
Revaluation reserve	61.6	112.5
Undisclosed liabilities from securities	- 3.7	0.0
Risk covering potential 2	**1,520.7**	**1,367.8**
Retained earnings (pro rata)	2,200.0	1,995.8
Subscribed capital	135.0	135.0
Risk covering potential 3	**3,855.7**	**3,498.6**

The operating result available in the amount of EUR 188 million (2014: EUR 205 million) can be derived from the planned result under IFRS. Due to the increased regulatory requirements under the going concern approach, the Group has increased the pro-rata retained earnings in the risk covering potential 3.

The allocation of the risk covering potential 1 to the risk types credit risk, market risk, and operational risk as well as regulatory and reputational risk is presented in the following table:

	Dec. 31, 2015		**Dec. 31, 2014**	
	EUR million	%	EUR million	%
Credit risk	260.0	75.6	260.0	84.4
Market risk	26.0	7.5	13.0	4.2
Operational risk	35.0	10.2	35.0	11.4
Regulatory and reputational risk	23.0	6.7	-	-
Total risk exposure	**344.0**	**100.0**	**308.0**	**100.0**
Risk covering potential 1	**344.0**	**100.0**	**308.0**	**100.0**

In the year under review, regulatory and reputational risks were included to be backed by the risk covering potential for the first time.

The risk covering potential 2 is used as an overall 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 to credit, market and operational risks as well as to regulatory and reputational risk in accordance with the selected scenarios.

Standard scenarios

The standard scenarios assume credit defaults, potential market price changes as well as the occurrence of significant operational, regulatory and reputational damages. The resulting change of the risk exposures is compared with the 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). In the case of standard scenarios for credit, market and operational risks as well as regulatory and reputational risk, the predicted risk value will not be exceeded with a probability of 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:

	Dec. 31, 2015		**Dec. 31, 2014**	
	EUR million	%	EUR million	%
Credit risk	67.7	51.3	61.8	68.2
Market risk	17.4	13.2	1.6	1.8
Operational risk	24.6	18.7	27.2	30.0
Regulatory and reputational risk	22.2	16.8	-	-
Total risk exposure	**131.9**	**100.0**	**90.6**	**100.0**
Risk covering potential 1	**344.0**		**308.0**	
Utilization		**38.3**		**29.4**

A lump sum amount of EUR 50 million (risk buffer) is included in the credit risk scenarios to account for sectoral concentration risks. A risk buffer of EUR 7 million is held for the first time for the standard scenarios of market risks to account for model risks. This also includes the revenue risk from open cross-currency basis swaps.

The warning indicator (risk appetite) of 80% each of the risk covering potential 1 for risks under the standard scenarios was not exceeded in 2015 and 2014.

Stress scenarios

The stress scenarios are used to analyze the effects of exceptional variations in parameters. As regards credit risk within the total loan portfolio, we assume full utilization of all internal counterparty 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.

The stress scenarios for market risks include a parallel shift in the yield curve and a change in:

- the costs for interest rate basis swaps denominated in the same currency
- the costs for currency swaps denominated in different currencies
- credit spreads
- swaption volatilities
- cap/floor volatilities
- exchange rates

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

The projected risk exposure will not be exceeded with a probability of 99%.

The risk exposures from the individual risk types (credit risk, market risk, operational risk, regulatory and reputational risk) are aggregated and compared with the risk covering potential 2. In the case of market risks, correlation effects are taken into account when aggregating individual risks, in particular IFRS valuation risks.

The following tables present the calculated utilization of the risk covering potential as well as risk exposures to market risks by risk type:

	Dec. 31, 2015		**Dec. 31, 2014**	
	EUR million	%	EUR million	%
Credit risk	145.5	18.9	126.5	21.7
Market risk	529.1	68.9	403.0	69.0
Operational risk	49.2	6.4	54.5	9.3
Regulatory and reputational risk	44.5	5.8	-	-
Total risk exposure	**768.3**	**100.0**	**584.0**	**100.0**
Risk covering potential 2	**1,520.7**		**1,367.8**	
Utilization		**50.5**		**42.7**

	Stress scenarios			
	Dec. 31, 2015		**Dec. 31, 2014**	
	EUR million	%	EUR million	%
Market risk (interest rate risks)	**15.4**	**2.9**	**2.5**	**0.6**
Market risk (IFRS valuation risks)	**499.2**	**94.4**	**394.5**	**97.9**
Of which cross-currency basis swap spreads	*-1,336.0*		*1,203.3*	
Of which basis swap spreads	*215.7*		*199.8*	
Of which credit spreads	*1,508.7*		*-1,013.6*	
Of which cap/floor volatilities	*0.6*		*1.6*	
Of which swaption volatilities	*12.3*		*1.7*	
Of which currency translation	*97.9*		*1.7*	
Market risk (risk buffer)	**14.5**	**2.7**	**6.0**	**1.5**

The warning indicator of 80% of the risk covering potential 2 for risks under each of the stress scenarios was not exceeded in 2015 and 2014.

Going concern approach

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

After fulfilling the regulatory minimum capital ratios, the risk covering potential 2 available as of the reporting date was sufficient to cover risk exposures under the stress scenarios.

Under the 5-year-planning report of December 31, 2015, 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 – gone concern approach

As an additional risk management approach, risk-bearing capacity is monitored using the gone concern approach.

The gone concern approach focuses on creditor protection. Therefore, all hidden reserves and liabilities are taken into account in the risk covering potential. The remaining amount of the risk covering potential must be sufficient to cover the effects arising from the more conservative stress scenarios. Gone concern scenarios are simulated for credit, market, operational risks and regulatory and reputational risks based on a probability of 99.9%. The scenarios are quantified using strict risk measures and parameters based on rare loss events.

The gone concern scenarios for credit risk and market risks are determined using the same assumptions as in the stress scenarios, but based on the higher probability of

99.9%. As regards operational risk and regulatory and reputational risk, we assume a risk exposure that is four times higher under the gone concern scenario than under the standard scenario.

The maximum risk covering potential is determined in order to cover risks from the gone concern scenarios by the risk covering potential. Unplanned or unrealized profits (available operating result) are not taken into account. By contrast, hidden reserves and hidden liabilities are included in full.

The potential loss calculated under the gone concern scenarios should not exceed the risk covering potential. This risk management approach primarily serves to observe and critically evaluate the results. The monitoring did not result in any adjustments on the going concern approach. Under the gone concern approach, the risk-bearing capacity was maintained at all times during 2015 and 2014.

Inverse stress tests and economic downturn

Credit, market, liquidity, operational risks and regulatory and reputational risks were also subject to an inverse stress test. The starting point is the maximum loss to be borne in the amount of the risk covering potential. The assumed scenarios have a low probability of occurrence.

The effects of an economic downturn on the risk-bearing capacity are also assessed. The Group's risk-bearing capacity was not at risk under this scenario during 2015 and 2014.

Regulatory capital ratios

The Group applies the waiver provision by virtue of Article 7(3) CRR on an individual basis in accordance with Article 6(1) CRR. Eligible own funds and risk-weighted assets are presented in accordance with IFRS. Both total capital ratio and Tier 1 capital ratio of 23.2% (2014: 19.3%) and 20.2% (2014: 16.4%), respectively, were above regulatory requirements. In addition, Rentenbank complies with the minimum ratio of CET 1 pursuant to SREP.

Financial reporting process

The tasks of the financial reporting process range 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 compliance with financial reporting standards and regulations as well as adherence of financial reporting with generally accepted accounting principles.

The consolidated financial statements of Rentenbank are prepared in accordance with all IFRS required to be applied in the EU for the reporting period and the additional requirements of German commercial law under Section 315a (1) HGB, taking into account the uniform accounting policies set out in the Group Manual. Rentenbank prepares its financial statements in accordance with HGB and the German Credit Institutions Accounting Regulation (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV).

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

There is a clear separation of functions of the organizational units primarily involved in the financial reporting process. 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 transferred 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 included in the consolidated financial statements are reconciled to IFRS, taking into account group-wide accounting policies, and are included in Rentenbank's consolidated financial statements by way of full consolidation. The entire process, including consolidation measures, is subject to the principle of dual control as well as to mandatory plausibility and consistency checks.

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 without delay.

BALANCE SHEET of December 31, 2015

Assets

		EUR million	EUR million	EUR million	Dec. 31, 2014 EUR million
1.	**Cash and balances with central banks**				
	a) Cash on hand		0.1		0.1
	b) Balances with central banks		21.1		28.9
	of which:			21.2	29.0
	with Deutsche Bundesbank EUR 21.1 million (2014: EUR 28.9 million)				
2.	**Loans and advances to banks**				
	a) Payable on demand		2.4		1.0
	b) Other loans and receivables		55 680.0		51 458.3
				55 682.4	51 459.3
3.	**Loans and advances to customers**				
	of which:				
	Secured by mortgages EUR -.- million (2014: EUR -.- million)				
	Municipal loans EUR 5 205.2 million (2014: EUR 4 688.2 million)			5 304.4	4 938.6
4.	**Bonds and other fixed-income securities**				
	a) Bonds				
	aa) Public-sector issuers	1 131.7			1 277.1
	of which:				
	Securities eligible as collateral with				
	Deutsche Bundesbank EUR 1 014.3 million (2014: EUR 1 174.7 million)				
	ab) Other issuers	16 889.9	18 021.6		18 540.5
	of which:				
	Securities eligible as collateral with				
	Deutsche Bundesbank EUR 14 326.5 million (2014: EUR 17 041.5 million)				
	b) Own debt securities		280.5		353.8
	Nominal amount EUR 361.5 million (2014: EUR 415.2 million)			18 302.1	20 171.4
5.	**Equities and other non-fixed-income securities**			0.1	0.1
6.	**Equity holdings**				
	of which:				
	in banks EUR 321.9 million (2014: EUR -.- million)				
	in financial services institutions EUR -.- million (2014: EUR -.- million)			326.2	4.2
7.	**Investments in affiliated companies**				
	of which:				
	in banks EUR -.- million (2014: EUR -.- million)				
	in financial services institutions EUR -.- million (2014: EUR -.- million)			49.6	0.0
8.	**Assets held in trust**				
	of which:				
	Loans held in trust EUR 113.4 million (2014: EUR 110.7 million)			113.4	110.7
9.	**Intangible assets**				
	a) Purchased concessions, industrial property rights and similar rights			12.6	13.1
10.	**Property and equipment**			15.7	15.9
11.	**Other assets**			2 955.1	2 612.0
12.	**Prepaid expenses**				
	a) From issuing and lending business		881.7		586.1
	b) Other		191.2		173.4
				1 072.9	759.5
Total assets				**83 855.7**	**80 113.8**

BALANCE SHEET of December 31, 2015

Liabilities and equity

		EUR million	EUR million	EUR million	Dec. 31, 2014 EUR million
1.	**Liabilities to banks**				
	a) Payable on demand		0.1		1.0
	b) With agreed term or notice period		3 461.6		2 805.6
				3 461.7	2 806.6
2.	**Liabilities to customers**				
	Other liabilities				
	a) Payable on demand		208.0		69.0
	b) With agreed term or notice period		3 755.3		4 195.8
				3 963.3	4 264.8
3.	**Securitized liabilities**				
	a) Debt securities issued			67 304.9	65 843.8
4.	**Liabilities held in trust**				
	of which:				
	Loans held in trust EUR 113.4 million (2014: EUR 110.7 million)			113.4	110.7
5.	**Other liabilities**			2 762.7	1 532.2
6.	**Deferred items**				
	a) From issuing and lending business		190.5		172.5
	b) Other		922.9		600.1
				1 113.4	772.6
7.	**Provisions**				
	a) Provisions for pensions and similar obligations		108.4		99.5
	b) Other provisions		349.5		336.8
				457.9	436.3
8.	**Subordinated liabilities**			608.4	599.2
9.	**Fund for general banking risks**			2 911.2	2 632.0
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	921.0			
	Transfers from guarantee reserve	23.1			
	Transfers from net income	42.7	986.8		921.0
	bb) Guarantee reserve pursuant to Section 2 (3) of Rentenbank's Governing Law	45.8			
	Releases pursuant to Section 2 (3) of Rentenbank's Governing Law	23.1	22.7		45.8
	c) Distributable profit		14.3		13.8
				1 158.8	1 115.6
Total liabilities and equity				**83 855.7**	**80 113.8**
1.	**Contingent liabilities**				
	a) Liabilities from guarantees and indemnity agreements			1.3	1.6
2.	**Other commitments**				
	a) Irrevocable loan commitments			866.5	975.5

Income statement for the period from January 1 to December 31, 2015

Expenses

				2014
	EUR million	EUR million	EUR million	EUR million
1. Interest expenses			3 495.0	3 292.7
2. Fee and commission expenses			2.4	1.8
3. Administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	24.1			23.0
ab) Social security contributions and expenses for pensions and other employee benefits	4.7			7.0
of which:		28.8		30.0
for pensions EUR 1.6 million (2014: EUR 4.1 million)				
b) Other administrative expenses		24.9		21.0
			53.7	51.0
4. Depreciation, amortization and write-downs of intangible assets and property and equipment			6.1	5.6
5. Other operating expenses			20.8	14.0
6. Additions to the fund for general banking risks			279.2	194.7
7. Other taxes not disclosed under item 5			0.1	0.1
8. Net income			57.0	55.0
Total expenses			3 914.3	3 614.9

1. Net income	57.0	55.0
2. Releases from retained earnings from guarantee reserve pursuant to Section 2 (3) of Rentenbank's Governing Law	23.1	21.6
3. Additions to retained earnings to principal reserve pursuant to Section 2 (2) of Rentenbank's Governing Law		
from guarantee reserve	23.1	21.6
from net income	42.7	41.2
4. Distributable profit	14.3	13.8

Income statement for the period from January 1 to December 31, 2015

Income

			2014
	EUR million	EUR million	EUR million
1. Interest income from			
a) Lending and money market transactions	3 250.9		3 022.2
b) Fixed-income securities and debt register claims	555.5		581.1
		3 806.4	3 603.3
2. Current income from			
a) Equities and other non-fixed-income securities	0.0		0.0
b) Equity holdings	50.3		0.4
		50.3	0.4
3. Fee and commission income		0.2	0.2
4. Income from reversals of write-downs on loans and advances and certain securities, and from release of provisions in the lending business		1.3	4.3
5. Income from reversals of write-downs on equity holdings, investments in affiliated companies and securities classified as fixed assets		51.6	2.7
6. Other operating income		4.5	4.0
Total income		3 914.3	3 614.9

Notes to the financial statements for the fiscal year 2015

Accounting policies

The annual financial statements of Landwirtschaftliche Rentenbank, Frankfurt am Main, (hereinafter referred to as Rentenbank) have been prepared in accordance with the provisions of the German Commercial Code (*Handelsgesetzbuch, HGB*) and the German Credit Institutions Accounting Regulation (*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 Credit Institutions Accounting Regulation.

Assets and liabilities are measured pursuant to the provisions of Sections 252 et seq. HGB, taking into account the bank-specific requirements set out in Sections 340 et seq. HGB. Loans and advances are recognized at the nominal amount, while liabilities are recognized at the settlement amount.

Premiums and discounts from loans and advances and liabilities as well as one-time payments from swaps (upfront payments) are reported as either prepaid expenses or deferred income and amortized pro rata temporis over the relevant term. Zero bonds are measured at their issue price 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 HGB. Rentenbank uses an expected loss approach based on internal ratings for determining general valuation allowances.

Fixed-income securities, which are classified as fixed assets, are carried at amortized cost less any permanent impairment. Equities as well as bonds and other fixed-income securities, to the extent allocated to the liquidity reserve, are measured using the strict lower-of-cost-or-market rule (Section 253 (4) HGB in conjunction with Section 253 (5) HGB). Rentenbank does not have a trading book pursuant to Section 1 (35) of the German Banking Act (*Kreditwesengesetz, 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 carried at cost less any write-downs. Reversals of write-downs are recognized if the conditions giving rise to the impairment no longer apply.

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

Provisions are recognized as liabilities at their expected settlement amount applying the principles of prudent business judgment and taking into account future price and cost increases. Provisions with a remaining term of more than one year are discounted to the balance sheet date. The discount rates used are the average market interest rates for the past seven fiscal years, as determined and published monthly by the German Federal Bank (*Deutsche Bundesbank*) under the German Regulation on the Discounting of Provisions (*Rückstellungsabzinsungsverordnung*), corresponding to the remaining term of the provisions. In accordance with Section 253 (2) sentence 2 HGB, provisions for pension obligations are discounted using the average market interest rate for an assumed remaining term of 15 years.

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

The following parameters were used as the basis for the calculation as of December 31, 2015:

	2015	**2014**
Discount rate pursuant to Section 253 (2) sentence 2 HGB	3,89 % p.a.	4,55 % p.a.
Career trend	1,00 % p.a.	1,00 % p.a.
Expected rate of salary increases	2,25 % p.a.	2,25 % p.a.
Expected rate of pension increases (range of adjustments)	1,0–2,25 % p.a.	1,0–2,25 % p.a.
Employee turnover	average 2,00 % p.a.	average 2,00 % p.a.
Development of contribution ceiling	2,50 % p.a.	2,50 % 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 with reference to the option available under Article 67 (1) sentence 2 of the 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 loss-free valuation of the banking book.

The banking book comprises all interest-bearing transactions of the bank and is managed on a uniform basis. For calculation purposes, future gains or losses in the banking book were determined by income contributed by closed and open interest rate positions.
These future cash flows were discounted as of the reporting date using generally recognized money market and capital market rates which correspond to the respective period. Risk costs were calculated on the basis of future expected losses and the pro rata share of administrative expenses for portfolio management was determined on the basis of internal analyses.
There was no need for provisions as of December 31, 2015 on the basis of this calculation.

Hedging relationships according to Section 254 HGB are only established to hedge currency risks. Rentenbank uses currency swaps, cross-currency interest rate swaps and foreign exchange forwards to hedge these risks.

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 HGB and Section 252 (1) No. 4 HGB. In accordance with Section 277 (5) sentence 2 HGB, gains from currency translation are reported in other operating income, while losses from currency translation are recognized in other operating expenses.

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

In respect of additions to the principal reserve, the preparation of the annual financial statements for the fiscal year 2015 is subject to the approval of the Supervisory Board.

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

Notes to the balance sheet

The following notes and information are presented in the order in which the individual items appear in the balance sheet. Differences between the amounts presented below and those reported in the balance sheet result from the exclusion of accrued interest.

Assets		**Dec. 31, 2015 EUR million**	**Dec. 31, 2014 EUR million**
Item 2:	Loans and advances to banks		
	Sub-item "b) Other loans and receivables," breakdown by residual maturity:		
	• up to 3 months	**2 249**	**1 853**
	• more than 3 months to 1 year	**7 443**	**5 626**
	• more than 1 year to 5 years	**23 687**	**23 648**
	• more than 5 years	**21 446**	**19 448**
	Total amount (all maturities)	**54 825**	**50 575**
Item 3:	Loans and advances to customers		
	This item includes:		
	• Loans and advances to equity holdings	**0**	**0**
	• Loans and advances to affiliated companies	**-**	**144**
	Breakdown by residual maturity:		
	• up to 3 months	**69**	**57**
	• more than 3 months to 1 year	**291**	**791**
	• more than 1 year to 5 years	**1 251**	**1 480**
	• more than 5 years	**3 514**	**2 472**
	Total amount (all maturities)	**5 125**	**4 800**
	There are no loans and advances to customers with an indefinite term as set out in Section 9 (3) No. 1 RechKredV.		
Item 4:	Bonds and other fixed-income securities		
	All of these securities are marketable and classified as follows:		
	• Listed securities	**17 682**	**19 487**
	• Unlisted securities	**329**	**383**

Securities at a carrying amount of EUR 18 011 million (2014: EUR 19 870 million) were classified as fixed assets. They are not measured using the strict lower-of-cost-or-market rule pursuant to HGB. As Rentenbank intends to hold these securities for the foreseeable future, no write-downs to fair value are recognized if the impairment is considered temporary. In particular, write-downs are not recognized if the impairment is only temporary with respect to future financial performance and if the securities are expected to be fully repaid when due. The carrying amount of securities reported at amounts exceeding their fair value totaled EUR 1 630 million. The fair value of these securities was EUR 1 614 million, determined on the basis of market prices. Accordingly, the unrecognized write-downs amounted to EUR 16 million (2014: EUR 1 million). There was no permanent impairment to be taken into account for the securities classified as fixed assets.

Assets		Dec. 31, 2015 EUR million	Dec. 31, 2014 EUR 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	**15**	**350**
	• from other issuers	**3 358**	**4 892**
Item 5:	All of the equities and other non-fixed-income securities held are marketable and listed.		
Items 6 and 7:	The balance sheet items "Equity holdings" and "Investments in affiliated companies" do not include marketable securities.		
Item 8:	Assets held in trust		
	This item includes:		
	• The special purpose fund of the German Federal Government held at Rentenbank	**113**	**110**
	• Loans and advances to banks	**0**	**1**
Item 9:	Intangible assets		
	This item includes:		
	• Purchased software and licenses acquired for a consideration	**13**	**13**
Item 10:	Property and equipment		
	This item includes:		
	• Owner-occupied land and buildings, apartments	**0**	**0**
	• Land and buildings used by third parties	**15**	**15**
	• Operating and office equipment	**1**	**1**
Item 11:	Other assets		
	This item includes:		
	Cash collateral provided for derivatives	**2 930**	**2 564**
Item 12:	Prepaid expenses		
	This item includes:		
	• Differences pursuant to Section 340e (2) HGB	**633**	**368**
	• Differences pursuant to Section 250 (3) HGB	**249**	**218**
	• Upfront payments from derivative transactions	**190**	**172**

Fixed assets schedule

Fixed assets EUR million	Acquisition-costs	Additions	Disposals	Reversals of write-downs	Accumulated depreciation, amortization and write-downs	Carrying amount Dec. 31, 2015	Carrying amount Dec. 31, 2014	Amortization, depreciation, write-downs 2015
Intangible assets	**22**	**5**	**0**	**-**	**14**	**13**	**13**	**5**
Property and equipment	**33**	**1**	**0**	**-**	**18**	**16**	**16**	**1**
Securities classified as fixed assets	**19 883**	**3 779**	**5 349**	**2**	**13**	**18 302**	**19 870**	**-**
Equity holdings	**4**	**322**	**-**	**-**	**0**	**326**	**4**	**-**
Investments in affiliated companies*	**50**	**-**	**-**	**50**	**50**	**50**	**0**	**-**

*) In 2014, investments in affiliated companies were reported at historical cost of EUR 27 million, applying the simplification under Section 31 (6) of the 1992 version of the Introductory Act to the German Commercial Code (EGHGB).

Liabilities		Dec. 31, 2015 EUR million	Dec. 31, 2014 EUR million
Item 1:	Liabilities to banks		
	Sub-item "b) With agreed term or notice period ",		
	breakdown by residual maturity:		
	• up to 3 months	**322**	**-**
	• more than 3 months to 1 year	**325**	**360**
	• more than 1 year to 5 years	**880**	**940**
	• more than 5 years	**1 190**	**785**
	Total amount (all maturities)	**2 717**	**2 085**
	Of which covered by assets in accordance with Section		
	13 (2) of Rentenbank's Governing Law	**77**	**200**
Item 2:	Liabilities to customers		
	This item includes:		
	• Liabilities to equity holdings	**1**	**0**
	• Liabilities to affiliated companies	**134**	**3**
	Sub-item "b) With agreed term or notice period",		
	breakdown by residual maturity:		
	• up to 3 months	**143**	**80**
	• more than 3 months to 1 year	**293**	**149**
	• more than 1 year to 5 years	**1 421**	**1 309**
	• more than 5 years	**1 763**	**2 521**
	Total amount (all maturities)	**3 620**	**4 059**
	Of which covered by assets in accordance with Section		
	13 (2) of Rentenbank's Governing Law	**377**	**716**
Item 3:	Securitized liabilities		
	a) Debt securities issued		
	Breakdown by residual maturity:		
	• up to 1 year	**15 195**	**12 959**
	• more than 1 year to 5 years	**36 149**	**36 413**
	• more than 5 years	**15 407**	**15 895**
	Total amount (all maturities)	**66 751**	**65 267**
	Of which covered by assets in accordance with Section		
	13 (2) of Rentenbank's Governing Law	**0**	**0**

Liabilities		Dec. 31, 2015 EUR million	Dec. 31, 2014 EUR million
Item 4:	Liabilities held in trust		
	This item includes:		
	• Liabilities from the special purpose fund of the German Federal Government held at Rentenbank	**113**	**110**
	• Liabilities to customers	**0**	**1**
Item 5:	Other liabilities		
	This item includes:		
	• Cash collateral received for derivatives	**2 756**	**1 525**
	Breakdown by residual maturity:		
	• up to 3 months	**2 756**	**1 525**
Item 6:	Deferred items		
	This item includes:		
	• Differences pursuant to Section 340e (2) HGB	**3**	**2**
	• Differences pursuant to Section 250 (2) HGB	**187**	**170**
	• Upfront payments from derivative transactions	**899**	**578**
Item 8:	Subordinated liabilities		
	Breakdown by residual maturity:		
	• up to 1 year	**-**	**-**
	• more than 1 year to 5 years	**134**	**132**
	• more than 5 years	**474**	**467**
	Total amount (all maturities)	**608**	**599**

The subordinated liabilities are issued in the form of promissory notes, loan agreements, and bearer securities issued as global certificates. The net expense for subordinated liabilities of EUR 608 million (2014: EUR 599 million) after collateralization totaled EUR 1 million (2014: EUR 1 million).

The conditions of issue of the promissory notes fulfill the requirements of Article 63 CRR (Capital Requirements Regulation). Subordinated liabilities in the form of bearer securities issued as global certificates and in the form of loan agreements do not meet the requirements set out in points (k) and (l) of Article 63 CRR.

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

1. Bond of JPY 25 billion (nominal); carrying amount: EUR 158 million; maturity: April 21, 2036; interest rate before collateralization: 2.8 %
2. Bond of JPY 10 billion (nominal); carrying amount: EUR 62 million; maturity: October 28, 2019; interest rate before collateralization: 2.0 %
3. Bond of EUR 100 million (nominal); carrying amount: EUR 100 million; maturity: August 18, 2021; interest rate before collateralization: 1.003 %
4. Bond of EUR 100 million (nominal); carrying amount: EUR 100 million; maturity: August 18, 2021; interest rate before collateralization: 1.033 %

Off-balance sheet disclosures		Dec. 31, 2015 EUR million	Dec. 31, 2014 EUR million
Item 1:	Contingent liabilities		
	• Default guarantees	**1**	**2**
	• Guarantee of provision of collateral	**0**	**0**
	Rentenbank entered into default guarantees with respect to capital market loans granted at a reduced rate of interest. We do not expect these guarantees to be called upon. There are counter guarantees granted by the Federal Government for capital market loans extended at a reduced rate of interest.		
Item 2:	Other commitments		
	The decrease of irrevocable loan commitments by EUR 108 million to a total of EUR 867 million is attributable to a smaller number of outstanding irrevocable commitments in the special promotional loan business. Drawdowns on these commitments will be made primarily in 2016.		
Foreign currencies			
	The amounts of assets and liabilities denominated in foreign currencies were as follows:		
	• Assets	**4 393**	**3 137**
	• Liabilities	**50 054**	**45 494**
Cover calculation			
	The outstanding liabilities requiring cover include only registered bonds.	**454**	**916**
	The following assets are designated to cover debt securities issued:		
	• Loans and advances to banks	**920**	**1 278**

Notes to the income statement

Income and expenses

Interest expenses are reported net of positive interest of EUR 3.7 million from money market liabilities and collateral received (i.e. reducing expenses by this amount). Interest income from collateral provided as well as from lending and money market business is reported net of negative interest of EUR 5.5 million (i.e. reducing income by this amount). For reasons of materiality, the items in the income statement are not further broken down.

Interest expenses for the provisions for the promotional contribution related to special promotional loans amounted to EUR 77.2 million in 2015 (2014: EUR 72.3 million). Interest income includes the pro rata temporis utilization of the corresponding provisions of EUR 82.1 million (2014: EUR 79.0 million). Interest expenses include effects resulting from accrued interest on provisions of EUR 14.3 million (2014: EUR 12.6 million).

Disclosures on the most important items pursuant to Section 35 (1) No. 4 RechKredV	**2015 EUR million**	**2014 EUR million**
Item 5: Other operating expenses		
This item includes the following significant expense items:		
• Interest expense from the valuation of pension provisions	**13**	**8**
• Grants for the "Research on Agricultural Innovation" program	**3**	**3**
• Capital contribution to Rehwinkel Foundation	**2**	**-**
• Additions to provision for pending litigation	**1**	**-**
• Additions to provision for settlement costs of the holdings	**0**	**1**
Item 6: Other operating income		
This item includes the following significant income items:		
• Rental income from bank-owned housing	**2**	**2**
• Other refunds	**1**	**1**
• Other income from the reversal of provisions	**1**	**1**

Other operating expenses include currency translation losses of EUR 2.4 thousand (2014: EUR 0.6 thousand). Other operating income includes currency translation gains of EUR 10.9 thousand (2014: EUR 20.9 thousand). These currency translation gains and losses result exclusively from the currency translation of balances on current 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 risks. The volume of the transactions is capped by counterparty-specific and product-specific limits and is continuously monitored within the framework of our risk management.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The valuation models are based on observable market parameters. The fair value of contracts without option features is determined on the basis of the discounted expected future cash flows (discounted cash flow (DCF) method). The discounting of derivatives is based on the OIS (Overnight Interest Rate Swap) curve as well as on basis swap spreads and cross-currency (CCY) basis swap spreads. They are distinguished by maturity and currency, and obtained from external market data providers. Measurement of contracts with option features (option-based contracts) is based on standard option pricing models. Apart from the interest rate curves and spreads mentioned above, volatilities and correlations between observable market data are also taken into account in the calculation.

Derivative transactions – presentation of volumes –

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

EUR million	**Notional amounts**		**Fair values positive**	**Fair values negative**
	Dec. 31, 2015	**Dec. 31, 2014**	**Dec. 31, 2015**	**Dec. 31, 2015**
Interest rate risks				
Interest rate swaps	**102 250**	**94 783**	**1 919**	**5 017**
• Of which termination and conversion rights embedded in swaps	**672**	**500**	**45**	**2**
Swaptions				
• Purchases	**-**	**-**	**-**	**-**
• Sales	**958**	**963**	**-**	**9**
Other forward rate agreements	**-**	**-**	**-**	**-**
Total exposure to interest rate risks	**103 208**	**95 746**	**1 919**	**5 026**

EUR million	Notional amounts		Fair values positive	Fair values negative
	Dec. 31, 2015	**Dec. 31, 2014**	**Dec. 31, 2015**	**Dec. 31, 2015**
Currency risks				
Cross-currency interest rate swaps	**50 133**	**42 432**	**5 202**	**2 126**
• Of which currency options embedded in swaps	**46**	**48**	**9**	**0**
• Of which termination rights embedded in swaps	**-**	**7**	**-**	**-**
Currency swaps	**3 541**	**5 608**	**111**	**1**
Total exposure to currency risks	**53 674**	**48 040**	**5 313**	**2 127**
Share price risk and other price risks				
Share index swaps	**30**	**30**	**7**	**0**
• Of which share options embedded in swaps	**30**	**30**	**7**	**0**
Total exposure to share price risk and other price risks	**30**	**30**	**7**	**0**
Interest rate, currency, share price and other price risks	**156 912**	**143 816**	**7 239**	**7 153**

Derivative transactions – breakdown by maturity –

Notional amounts EUR million	Interest rate risks		Currency risks		Share price risk and other price risks	
	Dec. 31, 2015	**Dec. 31, 2014**	**Dec. 31, 2015**	**Dec. 31, 2014**	**Dec. 31, 2015**	**Dec. 31, 2014**
Residual maturity						
• up to 3 months	**4 981**	**1 955**	**7 671**	**7 773**	**-**	**-**
• more than 3 months to 1 year	**11 318**	**10 663**	**5 450**	**3 591**	**30**	**-**
• more than 1 year to 5 years	**51 041**	**52 947**	**25 827**	**27 480**	**-**	**30**
• more than 5 years	**35 868**	**30 181**	**14 726**	**9 196**	**-**	**-**
Total	**103 208**	**95 746**	**53 674**	**48 040**	**30**	**30**

Derivative transactions – breakdown by counterparty –

EUR million	Notional amounts		Fair values positive	Fair values negative
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2015
Banks in OECD countries	**139 144**	**126 844**	**6 470**	**6 296**
Other counterparties in OECD countries	**17 768**	**16 972**	**769**	**857**
Total	**156 912**	**143 816**	**7 239**	**7 153**

Forward transactions outstanding at the balance sheet date, particularly those in foreign currencies, are entered into by the bank to cover market price risk.

Information on hedging relationships pursuant to Section 285 No. 23 HGB

Rentenbank uses currency swaps, cross-currency interest rate swaps and foreign exchange forwards to hedge currency risks. Currency hedges are presented in the balance sheet using valuation units pursuant to Section 254 HGB. The bank utilizes the freeze method for offsetting value changes between the hedged item and the hedging instrument.
To measure the effectiveness of hedging relationships, the bank uses the critical terms match/short cut method which compares the cash flows of the hedged item with those of the hedging instrument. Exchange rate fluctuations of the corresponding hedged items and hedging derivatives offset each other over the remaining period to their respective maturity dates. The following table provides an overview of the hedged items designated in hedging relationships as of the balance sheet date:

Balance sheet item	Carrying amount in EUR million		Hedged risk
	Dec. 31, 2015	Dec. 31, 2014	
Loans and advances to banks	**-**	**44**	Currency
Bonds and other fixed-income securities	**3 690**	**2 442**	Currency
Liabilities to customers	**136**	**144**	Currency
Securitized liabilities	**45 893**	**43 024**	Currency
Subordinated liabilities	**328**	**320**	Currency

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

In the fiscal year 2015, the remuneration paid to the Board of Managing Directors of Rentenbank amounted to EUR 2 109 thousand (2014: EUR 1 727 thousand). The following remuneration was determined for the individual members of the Board of Managing Directors for the fiscal year 2015:

Amounts in EUR thousand	Fixed remuneration	Variable remuneration	Other remuneration	Total
Hans Bernhardt	**530**	**235**	**41**	**806**
Dr. Horst Reinhardt	**530**	**235**	**26**	**791**
Imke Ettori	**400**	**100**	**12**	**512**

As of December 31, 2015, provisions for pension obligations to the former members of the Board of Managing Directors and their surviving dependents totaled EUR 15 855 thousand (2014: EUR 15 176 thousand). Current benefit payments amounted to EUR 1 235 thousand (2014: EUR 1 207 thousand). As in the previous year, there were no loans granted to the members of the Board of Managing Directors or the members of the Board of Supervisory Directors in the fiscal year 2015.

In accordance with the remuneration regulations, the Chairman of the Board of Supervisory Directors receives a fixed remuneration of EUR 30 thousand, his Deputy Chairman EUR 20 thousand, and all other members of the Board of Supervisory Directors EUR 10 thousand each. In addition, the members of the Advisory Board who are members of a committee receive remuneration of EUR 2 thousand and members who chair a committee EUR 4 thousand. The total remuneration of the Board of Supervisory Directors in the year under review amounted to EUR 293 thousand (2014: EUR 291 thousand, including VAT). The following table shows the individual remuneration (excluding VAT):

	Membership		Remuneration	
	2015	**2014**	**2015**	**2014**
			EUR thousand	**EUR thousand**
Joachim Rukwied	01.01. - 31.12.	01.01. - 31.12.	**42.0**	**42.0**
Christian Schmidt[1]	01.01. - 31.12.	17.02. - 31.12.	**22.0**	**19.0**
Dr. Klaus Stein	01.01. - 30.11.	01.01. - 31.12.	**16.2**	**17.0**
Georg Fahrenschon	01.01. - 31.12.	01.01. - 31.12.	**14.0**	**14.0**
Udo Folgart	01.01. - 31.12.	01.01. - 31.12.	**14.0**	**12.3**
Dr. Robert Kloos	01.01. - 31.12.	01.01. - 31.12.	**14.0**	**14.0**
Bernhard Krüsken	01.01. - 31.12.	01.01. - 31.12.	**14.0**	**14.0**
Michael Reuther	01.01. - 31.12.	04.07. – 31.12.	**14.0**	**7.0**
Dr. Caroline Toffel	01.01. - 31.12.	06.11. – 31.12.	**12.3**	**2.0**
Werner Hilse	01.01. - 31.12.	01.01. - 31.12.	**12.0**	**12.0**

	Membership		Remuneration	
	2015	**2014**	**2015**	**2014**
			EUR thousand	**EUR thousand**
Manfred Nüssel	01.01. - 31.12.	01.01. - 31.12.	**12.0**	**12.0**
Harald Schaum	01.01. - 31.12.	01.01. - 31.12.	**12.0**	**11.5**
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**	**12.0**
Helmut Brunner	01.01. - 31.12.	01.01. - 31.12.	**10.0**	**10.0**
Prof. Matthias Stauch	01.01. - 31.12.	01.01. – 31.12.	**10.0**	**10.0**
Jörg Vogelsänger	01.01. - 31.12.	01.01. – 31.12.	**10.0**	**10.0**
Konrad Weiterer	01.01. - 31.12.	04.07. – 31.12.	**10.0**	**5.0**
Dr. Hans-Peter Friedrich[2]	-	01.01. – 17.02.	**-**	**2.8**
Dr. Werner Hildenbrand	-	01.01. - 04.07.	**-**	**5.0**
Wolfgang Kirsch	-	01.01. - 30.06.	**-**	**8.0**
Klaus-Peter Müller	-	01.01. – 04.07.	**-**	**7.0**
Total remuneration			**262.5**	**258.6**

1) Direct donation to Verein Cadolzburger Burgfestspiele e.V. and Verein zur Förderung der Weiterbildung im LandFrauenverband Schleswig-Holstein e.V.
2) Direct donation to Diakoniewerk Martinsberg e.V. and Evangelische Jugendsozialarbeit Bayern e.V.

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

Employees	2015			2014		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Full-time employees	**135**	**83**	**218**	**133**	**82**	**215**
Part-time employees	**5**	**45**	**50**	**6**	**39**	**45**
Total	**140**	**128**	**268**	**139**	**121**	**260**

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

	Equity EUR million Dec. 31, 2015	Share of capital in %	Result EUR million 2015
LR Beteiligungsgesellschaft mbH, Frankfurt am Main	**122.4**	**100.0**	**+113.2**
Deutsche Bauernsiedlung - Deutsche Gesellschaft für Landentwicklung (DGL) GmbH, Frankfurt am Main (currently in liquidation)	**7.2***	**25.1**	**-0.2***
DSV Silo- und Verwaltungsgesellschaft mbH, Frankfurt am Main	**11.2**	**100.0**	**-0.3**
Niedersächsische Landgesellschaft mbH, Hanover	**114.0***	**6.3**	**+49.5***

*) 31.12.2014

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

As long as Rentenbank holds 100 % of the shares in LR Beteiligungsgesellschaft mbH, Rentenbank has undertaken to provide financial resources to LR Beteiligungsgesellschaft mbH in the form of a letter of comfort, enabling LR Beteiligungsgesellshaft mbH to meet its obligations when due.

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

The Declaration of Conformity with the German Public Corporate Governance Code by the Board of Managing Directors and the Board of Supervisory Directors is available on Rentenbank's website. The annual financial statements, the consolidated financial statements and the annual report are available on Rentenbank's website as well as in the electronic Federal Gazette (Bundesanzeiger). They may also be obtained at the registered office of Rentenbank.

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

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

Management Bodies

Board of Managing Directors

Dr. Horst Reinhardt (Speaker), Dipl.-Volkswirt, MBA
Hans Bernhardt, Dipl.-Kaufmann
Imke Ettori, Dipl.-Kauffrau

Board of Supervisory Directors

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

Deputy Chairman:
Christian Schmidt, Member of the German Bundestag,
Federal Minister of Food and Agriculture, Berlin

Representatives of the German Farmers' Association (DBV):

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

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

Werner Hilse
President of the Farmers' Association of Lower Saxony, Hanover

Norbert Schindler, Member of the German Bundestag,
Honorary President of the Farmers' and Winegrowers' Association of Southern Rhineland-Palatinate, Berlin
(until December 31, 2015)

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

Werner Schwarz
President of the Farmers' Association of Schleswig-Holstein, Rendsburg
(since January 1, 2016)

Representative of the German Raiffeisen Association:

Manfred Nüssel
President of the German Raiffeisen Association, Berlin

Representative of the Food Industry:

Konrad Weiterer
President of the Federal Association
of German Agro-Traders, Berlin

State Ministers of Agriculture:

Bavaria:
Helmut Brunner, Member of the Landtag,
Minister of Food, Agriculture and Forestry,
Munich
(until December 31, 2015)

Brandenburg:
Jörg Vogelsänger
Minister of Rural Development, Environment
and Agriculture, Potsdam
(until December 31, 2015)

Bremen:
Prof. Matthias Stauch
State Council at the Senator of Justice and
Constitution, Bremen
(until December 31, 2015)

Baden-Württemberg:
Wolfgang Reimer
Director-General of the Ministry of Rural
Affairs and Consumer Protection, Stuttgart
(since January 1, 2016)

Hamburg:
Dr. Rolf Bösinger
State Council for Economy, Transport and
Innovation, Hamburg
(since January 1, 2016)

Thuringia:
Birgit Keller
Minister of Infrastructure and Agriculture,
Erfurt
(since January 1, 2016)

Representative of the Trade Unions:

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

Representative of the Federal Ministry of Food and Agriculture:

Dr. Robert Kloos
State Secretary, Berlin

Representatives of the Federal Ministry of Finance:

Dr. Klaus Stein
Head of Directorate, Berlin
(until November 30, 2015)

Dr. Marcus Pleyer
Head of Directorate, Berlin
(since December 21, 2015)

Representatives of banks or other lending experts:

Georg Fahrenschon
President of the German Savings Banks Association (DSGV), Berlin

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

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

Frankfurt am Main, March 16, 2016

LANDWIRTSCHAFTLICHE RENTENBANK
The Board of Managing Directors

Dr. Horst Reinhardt | Hans Bernhardt | Imke Ettori

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 16, 2016

LANDWIRTSCHAFTLICHE RENTENBANK
The Board of Managing Directors

Dr. Horst Reinhardt	Hans Bernhardt	Imke Ettori

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, 2015. 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 17, 2016

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

The annual financial statements as well as the combined management report were prepared by the Board of Managing Directors in accordance with the provisions of the German Commercial Code *(Handelsgesetzbuch, HGB)* as of December 31, 2015 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, 2015 were prepared by the Board of Managing Directors in accordance with International Financial Reporting Standards (IFRS) and the additional requirements applicable under Section 315a (1) of the German Commercial Code (HGB) and were audited by the auditors KPMG AG, Berlin, who issued an unqualified audit opinion. The findings of the audit were noted with approval by the Board of Supervisory Directors. The Board of Supervisory Directors reviewed the annual financial statements 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 the fiscal year 2015 and approves the consolidated financial statements and the combined management report for the fiscal year 2015.

In accordance with the regulation that the guarantee reserve *(Deckungsrücklage)* may not exceed 5 % of the amount of the outstanding covered bonds pursuant to Section 2 (3) of Rentenbank's Governing Law, the Board of Supervisory Directors resolved to remove EUR 23 110 000 from the guarantee reserve and to increase the principal reserve *(Hauptrücklage)* by the same amount.

Of the net income of EUR 57 000 000 reported in the income statement, EUR 42 750 000 is allocated to the principal reserve pursuant to Section 2 (2) of Rentenbank's Governing Law.

With respect to the remaining distributable profit of EUR 14 250 000, the Board of Supervisory Directors resolved to provide EUR 7 125 000 for the Special Purpose Fund of the German Federal Government and EUR 7 125 000 for 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 continuously monitor compliance with and the implementation of the Code. The Board of Supervisory Directors approves the Corporate Governance Report, including the Declaration of Conformity.

Berlin, April 7, 2016

THE BOARD OF SUPERVISORY DIRECTORS OF
LANDWIRTSCHAFTLICHE RENTENBANK

Joachim Rukwied
(Chairman)

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