Annual Report 2018

Germany's development agency
for agribusiness and rural areas

rentenbank

Key figures

Balance sheet in EUR billion	2018	2017
Total assets	90.2	90.8
Loans and advances to banks	60.1	60.5
Loans and advances to customers	6.5	6.9
Bonds and other fixed-income securities	16.5	15.9
Liabilities to banks	2.5	2.7
Securitized liabilities	76.6	76.9
Equity reported on the balance sheet	4.5	4.4

Income statement in EUR million	2018	2017
Net interest income	295.1	305.6
Administrative expenses	71.8	69.3
Operating profit before provision for loan losses and valuation	**207.1**	**223.8**
Provision for loan losses and valuation	144.1	162.8
Net income	63.0	61.0
Distributable profit	**15.8**	**15.3**
Cost-income ratio (%)	30.5	27.6
Employees (year end)	304	285

Capital ratios (%)	2018	2017
Common Equity Tier 1 capital ratio	29.7	27.8
Tier 1 capital ratio	29.7	27.8
Total capital ratio	31.2	29.7

Rating

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

Annual Report 2018

Contents

The English edition of the Annual Report 2018 is an abridged version of the German edition which was published in April 2019.

Company Profile – Landwirtschaftliche Rentenbank

Landwirtschaftliche Rentenbank is Germany's development agency for agribusiness and rural areas. Our range of products is geared towards businesses in the agricultural, horticultural, viticultural and forestry sectors. We also provide funds for manufacturers of agricultural input materials as well as commercial enterprises and service providers working closely with agribusiness. In addition, we finance projects in the food industry and the associated upstream and downstream industries, across the entire value chain of food production. We also promote civic engagement and public investments in rural areas. We place a strong emphasis on expanding renewable energy and promoting innovation.

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

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

Rentenbank was established in 1949 as a central funding institution with a statutory promotional mandate. The bank's capital base was provided by the German agricultural and forestry sectors between 1949 and 1958. Rentenbank is a public law institution and has its registered office in Frankfurt am Main. Due to the institutional liability of the Federal Republic of Germany, Rentenbank's obligations are backed by the Federal Republic.

Currently, Rentenbank is subject to banking supervision by the European Central Bank (ECB), supported by the national competent authorities, the Federal Financial Supervisory Authority (BaFin) and the Bundesbank. It is to be expected that supervision of the legally independent promotional banks in Germany and therefore Rentenbank will solely be carried out by BaFin and Deutsche Bundesbank in 2019.

Legal supervision is exercised by the Federal Ministry of Food and Agriculture (BMEL) acting in concert with the Federal Ministry of Finance (BMF). Rentenbank is a member of the Association of German Public Banks (*Bundesverband Öffentlicher Banken Deutschlands e. V., VÖB*), Berlin, and the European Association of Public Banks (EAPB).

Foreword from the Management Board

Digitalization has already been labelled 'Industry 4.0' or the fourth industrial revolution even before it has actually occurred. It therefore differs from the three previous industrial revolutions, the beginning, end and impact of which only became clear in retrospect.

Irrespective of its historical significance, however, it is already obvious that digitalization – whose effects are becoming increasingly noticeable to everyone – represents a paradigm shift for our economy and for society.

In agribusiness and banking, the growing use of digital technologies offers challenges and opportunities in equal measure. But what does that mean for these two sectors? First and foremost: investment. And trial and error, too. It also means that embracing innovation and change requires us to show courage and a sense of proportion.

Supporting and encouraging the digital revolution in agribusiness and in rural areas is an important part of Rentenbank's work. We focus our efforts on promoting innovation, in particular start-ups that are developing new, tech-based business ideas that can play a vital role in driving innovation in agriculture.

The financial sector also needs to tackle the digitalization challenge. However, the digital transformation also creates opportunities for us as a promotional bank to simplify and, where appropriate, expand our business operations. Digitalization enables us to move closer to our end borrowers. We are working closely with our business partners – the local banks – to adapt our common interfaces to their requirements and thus for the benefit of our mutual customers in the agribusiness.

Dr. Horst Reinhardt

Hans Bernhardt

Dietmar Ilg

Dr. Horst Reinhardt

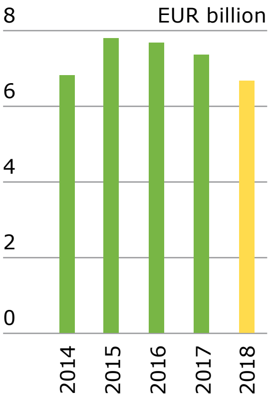
Hans Bernhardt

Dietmar Ilg

Fiscal year 2018 in review

Promotional activities for agribusiness and rural areas

New business in special promotional loans



Special promotional loans for agribusiness and rural areas take center stage in our promotional activities. We also provide funding in the form of registered bonds, promissory notes, and securities to banks, savings banks, and public-sector entities that have a link to rural areas. In 2018, our new promotional business totaled EUR 10.3 billion (2017: EUR 11.9 billion). As expected, this was lower than the previous year's figure.

Special promotional loans: sound level of new business

Our special promotional loan business is divided into five promotional lines. Through these loans, we support companies and entrepreneurs along the entire agribusiness value chain as well as the renewable energies industry and rural areas.

In 2018, demand for our special promotional loans decreased by 10.0 % to EUR 6.7 billion (2017: EUR 7.4 billion). However, the number of special promotional loan commitments rose by 6.5 % to 20,579 (2017: 19,328). The individual promotional lines presented a mixed picture with regard to the demand situation. In our Agriculture promotional line, total funding dropped slightly. We registered a marked fall in demand in our Renewable Energies promotional line. By contrast, demand for our special promotional loans increased in the Agribusiness and Rural Development promotional lines.

New business in special promotional loans

(EUR million)	**2018**	**2017**
Agriculture	2,117	2,211
of which: at particularly low interest rates	*952*	*932*
Aquaculture and Fisheries	10	15
Agribusiness	1,173	1,054
Renewable Energy	1,425	2,358
Rural Development	1,969	1,797
Total*	**6,694**	**7,436**

*Totals may include differences due to rounding.

Slight reduction in the Agriculture promotional line

In 2018, we committed EUR 2.1 billion (2017: EUR 2.2 billion) within our Agriculture promotional line. This represented a year-on-year decrease of 4.3 % in the volume of promotional loans. Of the total volume, almost half (EUR 1.0 billion; 2017: EUR 0.9 billion) was granted at particularly low interest rates. These very favorable terms are available to young farmers and to applicants investing in particularly sustainable projects. We also grant our liquidity assistance loans at particularly low interest rates.

Increase in demand for liquidity assistance loans

The year under review was the hottest, sunniest, and driest year in Germany since records began. Some regions experienced heavy storms, often accompanied by hail and torrential rain. However, most regions suffered from a shortage of precipitation. From February to November, Germany experienced ten very dry months one after the other. These extreme weather conditions led to significant crop losses in the agricultural sector. Against this background, we opened our Liquidity Assistance programme at the end of June 2018 for companies in agriculture, horticulture, and viticulture that were experiencing losses due to drought or adverse weather.

Overall, we disbursed 318 liquidity assistance loans with a total volume of EUR 30.8 million (2017: 102 loans with a total volume of EUR 11.2 million). Of these, 149 loans with a total volume of EUR 16.0 million were requested by drought-affected companies.

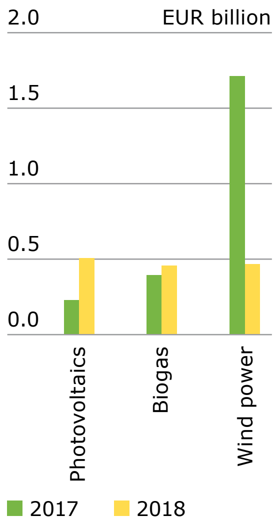
Greater demand within the Agribusiness promotional line

In 2018, we committed EUR 1.2 billion (2017: EUR 1.1 billion) in our Agribusiness promotional line. This represented a year-on-year increase of 11.2 % in the volume of lending. Of this total, EUR 618.7 million (2017: EUR 519.9 million) was accounted for by funding for machinery. We funded buildings with a total lending volume of EUR 343.0 million (2017: EUR 282.6 million).

Renewable Energies promotional line: sharp fall in funding for wind turbines

New business declined significantly in our Renewable Energies promotional line during the year under review. The volume of promotional loans disbursed fell by 39.6 % to EUR 1.4 billion (2017: EUR 2.4 billion). Investment in the generation of renewable energy is heavily influenced by political factors. In 2017, the volume of spending had been strongly influenced by transitional rules on wind power investment. Since the new German Renewable Energy Sources Act (EEG) came into effect on January 1, 2017, the feed-in tariffs have been determined by auction. They have decreased as a result, making investment in wind turbines less attractive. At EUR 446.5 million (2017: EUR 1.7 billion), our volume of new business was down by 74.1 %. Of this total, we disbursed EUR 294.2 million (2017: EUR 627.9 million) to community wind farms in which local citizens and farmers have a financial involvement. These models are gaining acceptance among the general population due to the possibility of community involvement and due to the fact that the value created remains in the region.

New business in Renewable Energy



The volume of new loans for biogas plants increased significantly year on year, reaching EUR 462.2 million (2017: EUR 395.5 million). Plant operators are focusing on converting existing plants to a flexible mode of generating electricity. By contrast, the construction of new biogas plants is stagnating at a low level.

We registered substantial growth in funding for photovoltaics projects, with new business climbing by 125.3% to EUR 506.5 million (2017: EUR 224.8 million). Falling module prices have greatly enhanced the appeal of solar power generation in recent years.

EUR 1.8 billion to promote sustainability-related projects

We support sustainability-related projects by offering particularly low-interest loans. Such projects include investment in animal welfare and in environmental and consumer protection. Through our Sustainability programme and our Environmental and Consumer Protection programme, we promote activities aimed at improving animal welfare, reducing emissions, and increasing energy efficiency. Under these programmes, we also support the direct and regional marketing of agricultural products, organic farming, and animal husbandry that is focused on animal welfare.

In 2018, we provided total funding of EUR 396.5 million (2017: EUR 306.9 million) for investment in animal welfare and in environmental and consumer protection. This included EUR 81.9 million (2017: EUR 73.7 million) for investment in organic farming. Besides renewable energies, we pledged the substantial sum of EUR 114.0 million (2017: EUR 101.7 million) to animal husbandry. Together with renewable energies (EUR 1.4 billion), we therefore supported sustainability-oriented projects by providing a total of EUR 1.8 billion (2017: EUR 2.7 billion).

Rise in new business within the Rural Development promotional line

New business in the Rural Development promotional line went up by 9.6 % to EUR 2.0 billion in the year under review (2017: EUR 1.8 billion). Within this line, we promote rural development through our Rural Infrastructure and Rural Living programmes.

The Rural Infrastructure programme is targeted at local governments in rural areas, helping them with the funding of infrastructure projects. These include the construction of local government buildings and educational institutions, water supply and sewage disposal, and the construction of roads and paths. The volume of lending under this programme declined by 4.2 % to EUR 179.5 million (2017: EUR 187.5 million).

We also promote rural development through global funding agreements with the promotional banks of the German federal states. This complements our activities aimed at supporting agriculture. In 2018, we disbursed global loans totaling EUR 1.6 billion (2017: EUR 1.5 billion).

Our Rural Living programme supports investment in rural tourism, the improvement of infrastructure in rural areas, and the generation of income from non-agricultural business with the aim of diversifying agricultural enterprises. Overall, demand increased to EUR 171.5 million in the Rural Living programme (2017: EUR 152.4 million).

Promoting innovation

Support for research and development

Innovation and technological advancement are vital to the sustainable development of agriculture and to ensuring that it is well equipped to face future challenges. That is why we are particularly committed to promoting such activities and why we support applied research projects involving partners from trade and industry. Through our programmes, we provide assistance at every step of the innovation process, from development to implementation in practice to the dissemination of particularly innovative products or processes.

To promote innovation in agriculture, forestry, viticulture, horticulture, fisheries, and aquaculture, we make funding available from the German federal government's Special Purpose Fund at Landwirtschaftliche Rentenbank (*Zweckvermögen*) and from our Research on Agricultural Innovation programme.

In 2018, the volume of promotional loans for innovations increased significantly year on year. Grants provided by Rentenbank for newly approved projects totaled EUR 19.5 million (2017: EUR 10.0 million). Of this sum, grants of EUR 16.7 million (2017: EUR 8.6 million) were awarded from the Special Purpose Fund. We made further funds totaling EUR 2.7 million (2017: EUR 1.4 million) available under the Research on Agricultural Innovation programme. In 2018, Rentenbank also approved additional funds of EUR 1.4 million (2017: EUR 0.7 million) for ongoing projects from previous years.

Appropriation of profits

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

Special Purpose Fund promotes innovation

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

Promotional Fund focuses on research and training

In the year under review, the Promotional Fund had a total of EUR 7.8 million available to support individual projects as well as institutions operating in the agricultural sector and rural areas. Apart from agriculture-related research projects, the focus lies on practice-oriented pilot projects, training programmes, and events. For a number of years, the fund has also supported rural youth work, activities for senior citizens living in rural communities, as well as the German Rural Women's Association (*LandFrauenverband*).

Sustainability

Sustainability is an integral part of our promotional mandate

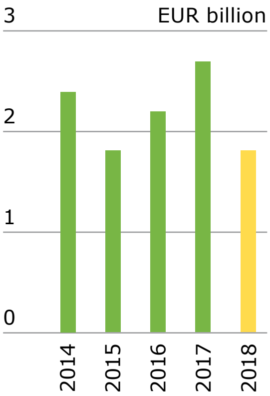
Agriculture, forestry, and fisheries make use of around 81 % of the total area of Germany. All three of these sectors work with and in nature. Consequently, they not only have an influence on the environment but are also directly affected by any changes to it.

Due to these interdependencies and the unique characteristics of soil as a production factor, farmers, foresters, and fishermen have always been mindful of the long-term impact of their actions. In fact, the concept of 'sustainability' in the sense of the perpetual use of a natural resource was coined within German forestry.

As a 'green' sector, agriculture is expected to help achieve the sustainability and climate targets that have been set. It is playing its part in various ways, including generating renewable energy and further reducing direct emissions from livestock and fertilizers. These efforts are making a significant contribution to global climate protection. The protection and promotion of biodiversity on agricultural and forestry land is also strengthening environmental and economic sustainability.

Favorable terms for sustainable investment

New commitments for sustainable projects



Rentenbank has always attached great importance to corporate social responsibility and the protection of the environment. Core aspects of environmental sustainability have been explicitly enshrined in Rentenbank's statutory promotional mandate since 2002.

This particular importance is reflected in our promotional activities. As a rule, we support projects in sustainable agriculture by offering particularly low-interest loans. Such projects include investment in animal welfare, environmental and consumer protection, and renewable resources. We finance investment that helps to lower emissions and reduce energy consumption in the agricultural sector at particularly low interest rates, as well as investment in the regional production and marketing of agricultural products. We especially focus on promoting investment in organic farming.

The Renewable Energy promotional line is another key area in our efforts to support sustainable investment. Our Rural Energy programme concentrates on investment in generating, storing, and distributing renewable energy. The programme is also aimed at investment where energy is recovered from renewable resources, from manure produced on farms, and from wood waste in forestry operations.

Promoting innovation: focus on sustainability

Innovation plays a key role in ensuring that agriculture evolves to cope with the challenges of the future. It enables the responsible use of resources and secures companies' competitiveness despite the increased expectations from society, with regard to animal welfare and environmental and consumer protection for instance. That is why we provide assistance at every step of the innovation process, from development to implementation in practice to the dissemination of particularly innovative and sustainable processes.

The innovative projects that we fund through our programmes aimed at promoting innovation include the use of digital technologies to protect and use resources efficiently, improve animal husbandry, and increase biodiversity.

Commitment to climate protection and species conservation through eco-friendly forestry

We also initiate measures that make a significant contribution to sustainability and are closely allied to agribusiness and rural areas. In 2016, Rentenbank and the German Institute for Federal Real Estate (*Bundesanstalt für Immobilienaufgaben, BImA*) signed a master agreement governing the long-term eco-friendly management of 550 hectares of forest in the Wetterau region of Hesse. In line with particularly strict environmental principles, the German Federal Forest Department in Schwarzenborn has been managing the forested areas and been providing expert advice on related activities since January 2017.

Sustainability: a key element of our human resources policy

Work-life balance, together with professional, methodological, and personal development, as well as executive development are of great importance to Rentenbank. The health of our employees is of high priority for us. As well as working to ensure a safer and less stressful workplace, we take preventive action to protect the health of our employees.

Commitment to the arts and society

As a public law institution, we believe that our responsibilities extend beyond our statutory promotional mandate and we are therefore committed to contributing to the common good. We see Rentenbank as a good corporate citizen that supports cultural institutions, particularly in the local area, as well as selected projects at the bank's headquarters in Frankfurt am Main. The organizations that we regularly support include the Frankfurt Opera House, the Schirn Art Gallery, the Städel Museum, the English Theatre, and the Städelschule state academy of fine arts. We encourage young talented artists at the Städelschule by awarding an annual group prize. As well as these regular commitments, we also give our backing to institutions such as the Frankfurt School of Finance & Management. And in the 2018 winter semester, we began supporting a student at the Frankfurt University of Music and Performing Arts with a one-year Scholarship for Germany (*Deutschlandstipendium*).

Reducing the consumption of resources in internal banking operations

Rentenbank is a service provider and as part of its day-to-day banking operations, it also helps to conserve resources and to use energy and raw materials economically. As part of our own efforts to protect the environment, we are currently planning the complete modernization, expansion, and energy-efficient refurbishment of the Bank's building, which is subject to a preservation order. The project continues to take shape and, in December 2018, the preliminary planning application was approved. Despite the particular challenges associated with renovating a building of historical interest, we will place special emphasis on energy efficiency and on reducing the consumption of resources.

Funding of Rentenbank

Strong influence of the ECB's purchase programmes

Our triple-A credit ratings and the special regulatory treatment of our obligations due to the guarantee of the Federal Republic of Germany enabled us to maintain our excellent market access in all maturities.

Our funding costs, measured in terms of the margin against 6-month Euribor, slightly improved year-on-year. The funds were mostly raised in euros. The particularly favorable funding conditions resulting from the ECB's asset purchase programmes played a major role in this. In the primary market, our euro issues were initially placed in full with other investors. However, the high secondary market purchases under the Public Sector Purchase Programme (PSPP) had a sustained positive impact on credit spreads. In the short-term funding segment, we continued to raise funds at very attractive negative rates under our Euro Commercial Paper (ECP) Programme.

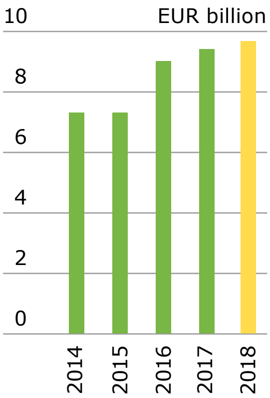
Medium and long-term issuance volume slightly down on 2017

We raised EUR 11.3 billion (2017: EUR 12.4 billion) with maturities of more than two years in the capital markets. The breakdown by funding instrument is shown in the table below.

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

	EUR billion		Share (%)	
	2018	**2017**	**2018**	**2017**
EMTN	9.7	9.4	85.6	76.1
Global bonds	1.1	1.1	9.7	8.7
AUD MTN	0.5	1.2	4.7	9.9
International loans	0.0	0.5	0.0	4.1
Domestic capital market instruments	0.0	0.2	0.0	1.2
Total	**11.3**	**12.4**	**100.0**	**100.0**

EMTN issues
(medium and long-term)



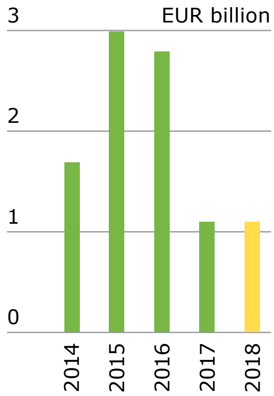
High importance of the EMTN Programme

Our EUR 60 billion Euro Medium Term Note (EMTN) Programme is our most important funding instrument. Its utilization reached EUR 51.4 billion at year end 2018 (December 31, 2017: EUR 44.3 billion). The EMTN Programme allows us to issue securities denominated in various currencies with different sizes, maturities, and structures using standard documentation. In the year under review, we used this programme to obtain primarily medium and long-term funding. The volume of issues with maturities of more than two years amounted to EUR 9.7 billion (2017: EUR 9.4 billion), including two benchmark issues of EUR 3.0 billion in total as well as US dollar-denominated transactions equivalent to EUR 1.7 billion. In addition, we placed bonds denominated in five other currencies under this programme. In 2018, we issued three notes of EUR 1.9 billion in total which we allocated to the short-term segment because of their maturity structure.

Successful US dollar-denominated global bond

Global bonds, registered with the US stock market regulator Securities and Exchange Commission (SEC), play an important role in our funding activities. The registration under Schedule B provides us with access to the US market. Only foreign governments and their political subdivisions are eligible to register securities under Schedule B which underlines our positioning as an agency in the international capital markets. In 2018, we issued a 5-year global bond with a volume of USD 1.25 billion.

Issues of global bonds



Lower issuance volume in the Kangaroo market

Under our Australian Dollar Medium Term Note (AUD MTN) Programme, we issued a total of AUD 0.8 billion of bonds and notes in 2018, equivalent to EUR 0.5 billion (2017: EUR 1.2 billion). At year end 2018, Rentenbank was the fourth largest foreign issuer in this market segment with the volume of notes outstanding amounting to AUD 12.7 billion. The Kangaroo market remains an essential pillar of our funding.

Utilization of the ECP Programme almost at the previous year's level

Issuances under our EUR 20 billion ECP Programme continue to play a key part in our short-term funding. They comprise bearer notes with maturities of less than one year, generally issued at a discount (i.e. without a coupon). The euro played virtually no role as an issuance currency in light of significantly negative yields. However, we were able to place our currency-hedged, debt instruments, which were predominantly US dollar-denominated at a particularly low cost. The average programme utilization in 2018 was EUR 7.6 billion (2017: EUR 7.8 billion). At year end 2018, the programme utilization was EUR 5.4 billion (2017: EUR 11.2 billion).

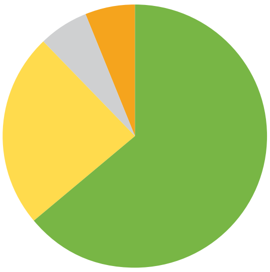
Zero risk-weighting for Rentenbank bonds and notes

Under the Credit Risk Standardized Approach provided for in the CRR, banks in Germany and other EU countries do not have to hold capital against claims on Rentenbank. Due to the explicit guarantee of the Federal Republic of Germany, corresponding rules also apply in many non-EU countries. By virtue of the regulatory requirements for banks, the zero risk-weighting for our issuances has proven to be particularly advantageous.

Banks remain the leading group of investors

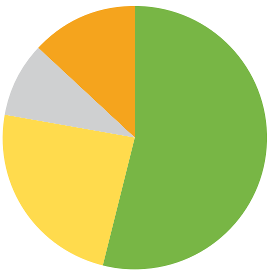
In the year under review, 39 % (2017: 39 %) of our medium and long-term funding volume was placed with banks. This group of investors is looking for zero-risk-weighted securities, characterized by outstanding credit quality and attractive spreads which are also recognized as liquid assets. This allows banks to reduce their costs in terms of capital, risk and liquidity. In addition, central banks and other official institutions play an important role in our funding. In 2018, their share of total funding decreased to 29 % (2017: 34 %). The proportion of asset managers remained almost flat at 14 % (2017: 13%). The share of insurance companies, corporations, and pension funds increased to 18 % (2017: 14 %).

Medium and long-term issues 2018 – breakdown by region



- Europe 64 %
- Asia 24 %
- America 6 %
- Other 6 %

Medium and long-term issues 2018 – breakdown by currency



- EUR 54 %
- USD 24 %
- GBP 9 %
- Other 13 %

Compared to 2017, the share of German investors decreased to 17 % (2017: 23 %), while 47 % of our bonds and notes was placed with other European investors (2017: 38 %). Asian demand decreased to 24 % (2017: 30 %), whereas the share of investors from the Americas slightly increased to 6 % (2017: 5 %). Of the remaining issuance volume, New Zealand and Australia accounted for 1 % (2017: 3 %), while the Middle East and Africa represented 5 % (2017: 1 %).

The euro as the main issuance currency

In 2018, our medium and long-term funding was raised in eight currencies. The most important issuing currency was the euro, which at 54 % (2017: 57 %) contributed slightly less to the funds raised than in the previous year. It was followed by USD, whose share of total issuance increased to 24 % (2017: 19 %). GBP ranked third with a share of 9 % (2017: 7 %). The remaining 13 % was divided between the Australian dollar, the Hong Kong dollar, the New Zealand dollar, the Norwegian krone and the Swedish krona.

Rentenbank issues recognized as liquid assets …

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

… and as repo-eligible assets

Our listed euro-denominated issues fulfill the requirements of the European System of Central Banks (ESCB) for eligible tier one assets. Our bonds and notes fall under liquidity category II. Only securities issued by central banks and central governments are allocated to liquidity category I. Liquidity category II includes, inter alia, securities issued by supranational institutions and issuers classified as agencies. Furthermore, our Kangaroo bonds and Kauri bonds are repo-eligible with the Reserve Bank of Australia and the Reserve Bank of New Zealand, respectively. Our issues also enjoy a privileged status in private repo markets. For example, Eurex Clearing AG accepts our issues as collateral for the GC Pooling ECB Basket.

Rentenbank bonds included in key bond indices

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

Money market business

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

Equity trading

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

Consistently conservative liquidity risk management

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

During 2018, we complied with all liquidity limits. Neither individual nor cumulative shortages were identified in the calculation of monthly liquidity scenarios. Throughout 2018, we held eligible liquid assets well in excess of the regulatory minimum coverage level for the Liquidity Coverage Ratio (LCR). By virtue of our largely maturity-matched funding, the bank also exceeded the proposed minimum Net Stable Funding Ratio (NSFR) requirement. We also meet all the requirements specified in the fifth amendment to the German Minimum Requirements for Risk Management (MaRisk).

Market risk hedged by derivatives

In 2018, Rentenbank entered into swaps with a value of EUR 24.2 billion (2017: EUR 24.3 billion) to hedge interest rate and currency risk. Of the total amount, EUR 16.7 billion (2017: EUR 18.1 billion) related to interest rate swaps, while EUR 7.5 billion (2017: EUR 6.2 billion) represented cross-currency swaps or cross-currency basis swaps. We also hedged our foreign currency-denominated ECP issues with currency swaps (FX swaps).

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

Rentenbank remains a non-trading book institution

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

Corporate Governance

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

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

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

Management and control of the bank by the Management and Supervisory Boards

The Management Board and the Supervisory Board work closely together for the benefit of the bank by applying the principles of sound management. The Management Board regularly reports (at least quarterly) to the Supervisory Board on the course of business, including all relevant matters regarding the bank's planning, risk situation, risk management, compliance with the regulatory requirements, and its financial position. In addition, the Management Board maintains regular contact with the Chairman of the Supervisory Board and his deputy and consults with them on matters relating to management and strategy. Furthermore, the Supervisory Board has also determined a non-exhaustive list of events and criteria that trigger the obligation to immediately notify the Supervisory Board, its Chairman, and the Chairpersons of the Committees.

In the reporting year, the Management Board informed the Supervisory Board about all matters relating to the bank's planning, risk situation, risk management, compliance with regulatory requirements, business performance, and financial position.

Management Board

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

The allocation of responsibilities to the members of the Management Board is laid down in a schedule of responsibilities. The appointment of Dietmar Ilg as a member of the Management Board on May 1, 2018 has changed the responsibilities so that the areas of responsibility of the members of the Management Board of Rentenbank are as follows:

- Dr. Horst Reinhardt, Chairman of the Management Board: Promotional Business, Treasury, Legal & Human Resources, as well as Public Relations and Economics
- Hans Bernhardt: Finance, IT Organization, and Facility Management
- Dietmar Ilg: Credit, Risk Controlling, and Operations Financial Markets

Supervisory Board

The Supervisory Board supervises and advises the Management Board in its management of Rentenbank in accordance with the Governing Law of Landwirtschaftliche Rentenbank, the bank's statutes, and the rules of procedure of the Supervisory Board. It appoints the members of the Management Board and decides on the formal approval of their actions. The Supervisory Board may issue general or specific instructions to the Management Board.

In accordance with Rentenbank's Governing Law, the Supervisory Board comprises 18 members. The Chairman of the Supervisory Board is elected by the board from the members appointed by the German Farmers' Association (Deutscher Bauernverband, DBV). In the year under review, Joachim Rukwied, President of the DBV, served as Chairman of the Supervisory Board. During the fiscal year 2018, there were six women on the Supervisory Board.

In the reporting year no members of the Supervisory Board attended fewer than half of the board meetings.

At its autumn meeting on November 23, 2018, the Supervisory Board decided to separate the areas of responsibility of the Administrative Committee and to transfer them to a newly formed Nomination Committee and a newly formed Remuneration Committee.

Legal supervision

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

Efficiency review of the Supervisory Board

In accordance with Section 25d (11) sentence 2 No. 3 and 4 of the German Banking Act (KWG), the Supervisory Board annually assesses the structure, size, composition, and performance of the Management Board and the Supervisory Board, as well as the knowledge, capabilities, and experience of the individual board members as well as of the respective boards collectively. In accordance with Section 9 (4) No. 2 (c) and (d) of the rules of procedure of the Supervisory Board (previous version), the Administrative Committee supports the Supervisory Board in the assessment by preparing a questionnaire at its autumn meeting. Pursuant to Section 9 (3) No. 2 (c) and (d) of the Rules of Procedure of the Administrative Committee in the version dated November 23, 2018, this task will in future be performed by the Nomination Committee.

The Supervisory Board comprised 18 members, of whom 17 members took part in the evaluation. The participation level thus was 94 %. The outcomes of the efficiency review as well as possible options for improvement were discussed by the Supervisory Board at its meeting on March 21, 2018.

Avoiding conflicts of interest

The members of the Management Board and the Supervisory Board must perform their duties in the best interests of Rentenbank. They are required to disclose any potential conflicts of interests arising in connection with their business activities to the Chairman of the Supervisory Board or to the members of the Supervisory Board. No conflicts of interest involving members of the Management Board or the Supervisory Board arose during the reporting year.

Remuneration arrangements for the Management and Supervisory Board members

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

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

The remuneration of the members of the Supervisory Board is determined by a decision of the General Meeting, taking into account the members' responsibilities and the scope of their activities as well as Rentenbank's economic situation. The decision requires the consent of the legal supervisory authority.

The individual remuneration of the members of the Management Board and the Supervisory Board is disclosed in the notes to the financial statements on pages 71 and 72.

Transparency and information

Transparency and information are of particular importance to Rentenbank. The bank follows the principle of equal treatment of investors and other interested parties regarding information exchange. All relevant information published by Rentenbank is also available on the bank's website at www.rentenbank.de. In addition to the annual financial statements, all of

Rentenbank's press releases and ad hoc announcements, together with the declaration of conformity with the PCGK, can be found on our website.

Financial reporting and auditing

Rentenbank has prepared its annual financial statements for the fiscal year 2018 in accordance with the provisions of the German Commercial Code (HGB) applicable to large corporations as well as with the relevant provisions of the German Regulation on the Accounting of Banks and Financial Services Institutions (*Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute, RechKredV*). The Supervisory Board appoints the external auditor, issues the audit mandate, and agrees the external auditor's fee. The Audit Committee, established by the Supervisory Board, verifies that the external auditor is independent.

Declaration of conformity by the Management Board and the Supervisory Board

In the fiscal year 2018, Landwirtschaftliche Rentenbank has complied with the recommendations of the PCGK, as amended on June 30, 2009, with the following exceptions:

- As the remuneration of each member of the Management Board and the Supervisory Board is disclosed by name in Rentenbank's Annual Report in a generally comprehensible way (notes to the financial statements, pages 71 and 72), these disclosures are not included in the Corporate Governance Report.
- In accordance with Section 4 (2) of the rules of procedure of the Management Board, the allocation of responsibilities to its members can be defined in a schedule of responsibilities – in derogation of clause 4.2.2 of the PCGK – without the approval of the Supervisory Board. This is to ensure the flexibility required to make necessary changes.
- In exceptional cases, the committees not only prepare the decisions of the Supervisory Board but also – in derogation of clause 5.1.8 of the PCGK – make final decisions. This is done for reasons of practicality and efficiency.

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

Landwirtschaftliche Rentenbank
March 2019

The Management Board
The Supervisory Board

Management Report

Contents

General information about Rentenbank

Promotional mandate

Rentenbank is a promotional bank operating on Federal level. According to its Governing Law, Rentenbank has a mandate to promote agriculture and the associated upstream and downstream industries as well as rural areas. The bank's business activities are aligned with this promotional mandate. The business model is primarily defined by the framework set out in Rentenbank's Governing Law and bank's statutes.

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

Management system

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

- Provision of self-supporting promotional activity,
- whose sustainability is secured through appropriate net interest income in line with a prudent risk policy,
- with the possibility of adjusting the promotional activity at any time to account for changed requirements.

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

Segments

Rentenbank's financing activities, based on its Governing Law, break down into three segments:

- Promotional Business
- Capital Investment
- Treasury Management

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

In addition, the bank fulfills its promotional mandate by acting as a funding partner to banks with business activities in the agricultural sector and rural areas as well as to domestic local authorities related to rural areas. The bank provides funding via various forms of instruments (loans, registered bonds, promissory notes and securities). To a certain extent, these transactions also contribute in part to our compliance with the regulatory liquidity requirements. Rentenbank manages the business volume as well as the risk structure.

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

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

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

Key performance indicators

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

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

- Operating profit before provision for loan losses and valuation

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

- Cost-income ratio

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

- Promotional contribution

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

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 toward 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 net assets, financial position, and results of operations as well as in the section on outlook and opportunities. The non-financial key performance indicators are described in more detail in the corresponding section.

Ownership structure

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

All material risks of the subsidiaries are concentrated within and managed centrally by Rentenbank. The bank's direct and indirect subsidiaries are:

- LR Beteiligungsgesellschaft mbH (LRB)
- DSV Silo- und Verwaltungsgesellschaft mbH (DSV)
- Getreide-Import-Gesellschaft mbH (GIG)

The business activities of the subsidiaries are strictly limited. Rentenbank has issued a letter of comfort to LRB. The subsidiaries are funded exclusively by Rentenbank.

Public Corporate Governance Code

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

Economic report

Macroeconomic and bank-specific environment

International interest rate and monetary policy

The US Federal Reserve continued to tighten its previously accommodative monetary policy stance in 2018 by raising the federal funds rate by 25 bps in March, June, September and December to a range of 2.25 % to 2.50 %.

In contrast, the European Central Bank (ECB) only slightly modified its expansionary monetary policy in the course of 2018. Initially, starting in October, it cut its purchases of assets under its Asset Purchase Programme (APP) by 50 % from EUR 30 billion to EUR 15 billion (net) per month and then terminated the programme in December. Since the ECB reinvested the proceeds from maturing bonds, it continued to be active on the bond market. The portfolio of assets continued to increase by an amount equal to these monthly net purchases until December and has remained stable since then. During 2018, the interest rate on the deposit facility and the interest rate on the main refinancing operations remained unchanged at – 0.40 % and 0.00 %, respectively.

The euro devalued compared to the US dollar during 2018. At the end of 2018, the ECB set the reference rate for the EUR/USD exchange rate at almost 1.15, which was around 4.5 % below the rate of 1.20 at year end 2017. The stronger dollar was primarily a result of interest rate increases by the Fed which enhanced the attractiveness of dollar investments to a considerable extent.

Movements in long-term interest rates

The yields on Germany's 10-year government bonds closed the year 2018 at 0.24 %, only roughly half as high as at the beginning of the year (0.43 %). However, in the first weeks of the year, there had been indications of an upward trend in terms of interest rates. The yield nearly doubled until February 8, almost reaching 0.81 %. This was to remain the annual high. Afterwards, yields almost continuously declined. The announced termination of the APP by the ECB resulted only temporarily in slightly higher yields. The uncertainty resulting from the Brexit negotiations, Italy's fiscal policy and the inverse interest rate curve in the USA induced a flight to safe-haven assets and, as a consequence, caused yields for 10-year government bonds to fall again from October 2018 onward.

Changes in the economic environment for our promotional business

Our promotional loans are largely used for investments from the German agribusiness sector in renewable energy and rural development. The economic situation in the agricultural sector improved during the first half of the fiscal year 2018. However, in the second half, it deteriorated due to the severe drought. This led to liquidity bottlenecks in some agricultural businesses. Exports were stable within the agribusiness. As a result, we recorded an increased demand for financings in our Agribusiness promotional line. The feed-in tariffs for renewable energy are now determined by auctions due to the revision of the Renewable Energy Sources Act (EEG) effective as of January 1, 2017. This led to a decline in the feed-in tariffs and hence has diminished the attractiveness of investments in wind turbines. The financing volume was reduced considerably in this area.

Business development

After large losses in 2014 and 2015, the earnings situation of agricultural businesses recovered in the fiscal years 2016/17 and 2017/18. In the 2017/18 fiscal year, average earnings amounted to EUR 65,200, representing an increase of 19 % over the prior-year level. Most notably, economic conditions resulted in a growing number of machinery loans. The demand for financing of buildings declined slightly year-on-year. The main reasons for this development primarily are the follow-up effects of a low price level in the previous year, legal contingencies and increased construction costs.

In contrast, we saw an increased demand for our promotional loans in German agribusiness. This was the result of stable revenue from domestic and foreign markets. According to an estimate by the German Export Association for Food and Agriproducts e. V. (GEFA), the export of agricultural products and food was only slightly below (down 1.4 %) the prior-year level.

Investments in renewable energy are predominantly influenced by the legal framework. The EEG revision as of January 1, 2017, had a notable impact during the year under review. The promotional business volume declined primarily in the wind turbine financing business. In contrast, the volume of loans for biogas plants rose year-on-year, with plant operators focusing on investments in the conversion of existing plants to flexible electricity generation. The construction of new biogas plants, however, remained at a low level. In addition, demand for the financing of photovoltaic installations rose due to lower module prices.

In the Rural Development promotional line, not only many businesses, but also municipalities use the promotional funds to make targeted investments in the financing primarily of infrastructure measures. In the year under review, in this promotional line we recorded an increase in the promotional business volume.

The nominal amounts for new promotional business are as follows:

	Jan. 1 to Dec. 31, 2018 EUR billion	Jan. 1 to Dec. 31, 2017 EUR billion	Change in EUR billion
Special promotional loans	6.7	7.4	– 0.7
Registered bonds/promissory notes	1.9	2.5	– 0.6
Securities	1.7	1.9	– 0.2
Total	**10.3**	**11.9**	**– 1.6**

In the year under review, new promotional business totaled EUR 10.3 billion (2017: EUR 11.9 billion) and was thereby below the level of the previous year.

Rentenbank raised the necessary funds again at favorable terms. In the reporting year, Rentenbank raised a nominal amount of EUR 11.3 billion (2017: EUR 12.4 billion) in medium and long-term funding in the domestic and international capital markets. The following instruments were used for medium and long-term funding:

	Jan. 1 to Dec. 31, 2018 EUR billion	Jan. 1 to Dec. 31, 2017 EUR billion	Change in EUR billion
Euro Medium Term Notes (EMTN)	9.7	9.4	0.3
Global bonds	1.1	1.1	0.0
AUD Medium Term Notes (MTN)	0.5	1.2	−0.7
International loans	0.0	0.5	−0.5
Domestic capital market instruments	0.0	0.2	−0.2
Total	**11.3**	**12.4**	**−1.1**

Results of operations, financial position, and net assets

Results of operations

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

	Jan. 1 to Dec. 31, 2018 EUR million	Jan. 1 to Dec. 31, 2017 EUR million	Change in EUR million
Net interest income [1)]	295.1	305.6	−10.5
Net fee and commission income	−1.7	−1.9	0.2
Administrative expenses	71.8	69.3	2.5
Other operating income/expenses	−13.3	−9.4	−3.9
Income taxes	1.2	1.2	0.0
Operating profit before provision for loan losses and valuation	**207.1**	**223.8**	**−16.7**
Provision for loan losses/valuation	144.1	162.8	−18.7
Net income	**63.0**	**61.0**	**2.0**

[1)] Net interest income, including income from participations

Operating profit before provision for loan losses and valuation

In 2018, the operating profit before provision for loan losses and valuation of EUR 207.1 million was, as expected, below the prior-year figure of EUR 223.8 million. However, the decline of 7.5 % was significantly smaller than planned.

Interest income, including income from participations, amounted to EUR 3,410.4 million (2017: EUR 3,485.3 million). After deducting interest expenses of EUR 3,115.3 million (2017: EUR 3,179.7 million), net interest income amounted to EUR 295.1 million (2017: EUR 305.6 million).

The administrative expenses did not increase to the extent expected and amounted to EUR 71.8 million (2017: EUR 69.3 million). The increase over the prior year was mainly driven by higher personnel expenses and operating expenses, up EUR 1.0 million and EUR 2.1 million year-on-year, respectively. In contrast, depreciation, amortization and write-downs on intangible assets as well as property and equipment declined by EUR 0.6 million, as expected.

The rise in personnel expenditure is largely attributable to an increase in the number of employees by fourteen on average (in accordance with Section 267 (5) of the German Commercial Code) as well as to collectively agreed increases in pay. In terms of other administrative expenses, the direct costs for banking supervisory authorities (ECB, BaFin) rose by EUR 0.8 million and expenses for recruitment and temporary external employees by EUR 0.7 million year-on-year. In addition, current costs for the use and maintenance of software and hardware increased by EUR 0.6 million.

Compared to the prior year, other operating income/expenses, consisting of other operating expenses and other operating income, saw a decline by EUR 3.9 million. This is primarily due to other operating expenses which were up by EUR 2.8 million as a result of higher grants for the Research on Agricultural Innovation programme as well as the increased expenses for the measurement of the pension provisions.

Operating profit/loss by segment

In segment reporting, the other income was distributed to the different segments for the first time. The previous year's figures were adapted accordingly.

	Promotional Business		Capital Investment		Treasury Management		Total	
Jan. 1 to Dec. 31	2018 EUR million	2017 EUR million	2018 EUR million	2017 EUR million	2018 EUR million	2017 EUR million	2018 EUR million	2017 EUR million
Net interest income	158.3	150.9	104.7	117.1	32.1	37.6	295.1	305.6
Net fee and commission income	−1.5	−1.7	0.0	0.0	−0.2	−0.2	−1.7	−1.9
Administrative expenses	55.5	53.6	9.8	9.4	6.5	6.3	71.8	69.3
Other operating income/expenses	−11.5	−8.7	−1.0	−0.3	−0.8	−0.4	−13.3	−9.4
Income taxes	0.0	0.0	1.2	1.2	0.0	0.0	1.2	1.2
Operating profit before provision for loan losses and valuation	**89.8**	**86.9**	**92.7**	**106.2**	**24.6**	**30.7**	**207.1**	**223.8**

The operating profit of the Promotional Business segment increased slightly, totaling EUR 89.8 million (2017: EUR 86.9 million). Net interest income amounted to EUR 158.3 million and was above the prior-year level of EUR 150.9 million. The expenses for the interest rate reduction for our special promotional loans declined by EUR 4.8 million to EUR 70.1 million.

Administrative expenses in the Promotional Business segment, including write-downs, rose by EUR 1.9 million to EUR 55.5 million. Other operating income/expenses declined by EUR 2.8 million year-on-year.

Net interest income in the Capital Investment segment declined over the previous year in line with expectations by 10.6 % to EUR 104.7 million. The additional income from new investments was not sufficient to offset the significantly lower reinvestment rates of maturing investments of own funds. Overall, the segment's operating profit decreased to EUR 92.7 million (2017: EUR 106.2 million).

At EUR 32.1 million, net interest income in the Treasury Management segment came in substantially above our expectations due to higher margins and the higher average portfolio volume. However, the high prior-year figure (EUR 37.6 million) could not be achieved. Overall, the segment's operating profit amounted to EUR 24.6 million (2017: EUR 30.7 million).

Provision for loan losses/valuation

Within the framework of provision for loan losses and valuation, a net amount of EUR 144.1 million was allocated to the contingency reserve.

Net income/distributable profit

The overall increase in net income amounted to EUR 2.0 million, resulting in net income of EUR 63.0 million (2017: EUR 61.0 million).

A total amount of EUR 47.2 million (2017: EUR 45.7 million) of net income was allocated to the principal reserve.

Distributable profit after the allocation to reserves amounted to EUR 15.8 million (2017: EUR 15.3 million), 50% of which will be transferred to both the Special Purpose Fund and the Promotional Fund.

Financial key performance indicators

As described above, the operating profit before provision for loan losses and valuation amounted to EUR 207.1 million (2017: EUR 223.8 million). This decline was expected although it was much smaller than anticipated. Net interest income decreased by 3.4 % year-on-year to EUR 295.1 million (2017: EUR 305.6 million). The increase in administrative expenses by 3.6 % to EUR 71.8 million (2017: EUR 69.3 million) was below expectations primarily due to lower-than-expected IT expenses. Personnel expenses were also significantly lower than planned because the average number of employees did not increase as expected.

The developments that affected the operating profit were also reflected in the cost-income ratio, one of our key performance indicators, whose increase was lower than anticipated. While income decreased by 3.7 % to EUR 297.8 million (2017: EUR 309.1 million), expenses climbed to EUR 90.7 million (2017: EUR 85.3 million). This led to an increase in the cost-income ratio from 27.6 % to 30.5 %. However, when compared with other German promotional banks, our cost-income ratio remains at a moderate level.

Promotional contribution, a further key performance indicator, comprises the interest rate reduction granted for our special promotional loans, inter alia. In the year under review, we used EUR 63.2 million of our own income (2017: EUR 64.0 million) in nominal terms for this purpose. This was complemented by the excellent funding terms which we obtained and passed on to borrowers and which account for the attractiveness of our special promotional loans. In addition, we provided our Research on Agricultural Innovation programme with grants of EUR 5.0 million (2017: EUR 4.0 million). The promotional contribution, including the distributable profit of EUR 15.8 million (2017: EUR 15.3 million) intended for distribution as well as other promotional contributions, increased marginally to EUR 84.2 million (2017: EUR 83.4 million). This figure is slightly below our planning assumptions, mostly due to a lower interest rate reduction for special promotional loans given the low interest rate environment.

Financial position

Capital structure

The financial position based on Rentenbank's financial statements is as follows:

	Dec. 31, 2018 EUR million	Dec. 31, 2017 EUR million	Change in EUR million
Liabilities			
Liabilities to banks	2,460.2	2,710.6	−250.4
Liabilities to customers	3,490.4	3,854.3	−363.9
Securitized liabilities	76,577.0	76,894.5	−317.5
Subordinated liabilities	374.7	405.7	−31.0
Equity (including fund for general banking risks)			
Subscribed capital	135.0	135.0	0.0
Retained earnings	1,146.7	1,099.5	47.2
Distributable profit	15.8	15.3	0.5
Fund for general banking risks	3,241.1	3,195.6	45.5

Liabilities

Liabilities to banks decreased by EUR 0.2 billion to EUR 2.5 billion (2017: EUR 2.7 billion), mainly due to maturing registered bonds and promissory notes. Liabilities to customers decreased by EUR 0.4 billion or 9.4 %, to EUR 3.5 billion (2017: EUR 3.9 billion).

Securitized liabilities declined slightly by EUR 0.3 billion or 0.4 % to EUR 76.6 billion (2017: EUR 76.9 billion). The medium term notes (MTN) programmes continued to be the major funding instruments. The MTN portfolio grew significantly to EUR 60.1 billion (2017: EUR 53.2 billion). In contrast, the portfolio of global bonds decreased to EUR 10.6 billion (2017: EUR 12.0 billion). Euro commercial paper (ECP) also declined to EUR 5.3 billion (2017: EUR 11.2 billion).

Subordinated liabilities of EUR 0.4 billion almost reached the prior-year level.

All funds required in the money and capital markets for funding purposes were raised at market rates.

Equity

Equity including the fund for general banking risks rose by a total of EUR 93.2 million to EUR 4,538.6 million (2017: EUR 4,445.4 million). From net income of EUR 63.0 million, an amount of EUR 47.2 million was allocated to retained earnings and an amount of EUR 15.8 million was recognized as distributable profit. The fund for general banking risks was increased by EUR 45.5 million.

Regulatory capital ratios

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

Rentenbank applies the waiver provision by virtue of Art. 7 (3) CRR on an individual basis in accordance with Art. 6 (1) CRR. For the Group both the total capital ratio and the Common Equity Tier 1 capital ratio of 31.2 % (2017: 29.7 %) and 29.7 % (2017: 27.8 %), respectively, were well above regulatory requirements, as well as above the minimum requirements set by the ECB.

Capital expenditure

In the past year, Rentenbank continued to heavily invest in the modernization of its IT application systems. The objective is to replace the proprietary iSeries applications largely with the Murex and SAP platforms as well as to modernize the electronic loan processing in the promotional business on a gradual basis. In terms of an integrated front-to-back system, we started to input registered bonds and promissory notes in Murex. Within the context of the SAP introduction, the connection of financial instruments was nearly fully implemented in the reporting year. Promotional business processes were optimized by introducing an electronic cover letter system.

The investments described were mainly carried out as part of project activities and reflected in both current administrative expenses as well as in the changes in intangible assets. In the year under review, acquisition costs of EUR 6.5 million in total (2017: EUR 4.1 million) were capitalized and led to corresponding additions to this line item.

Net assets

The net assets of Rentenbank‘s financial statements are as follows:

	Dec. 31, 2018 EUR million	Dec. 31, 2017 EUR million	Change in EUR million
Loans and advances to banks	60,137.6	60,532.2	– 394.6
Loans and advances to customers	6,486.3	6,883.9	– 397.6
Bonds and other fixed-income securities	16,520.0	15,870.3	649.7

Loans and advances to banks amounted to EUR 60.1 billion as at year end (2017: EUR 60.5 billion). Their share in total assets remained almost unchanged at 66.7% (2017: 66.6%); thus, loans and advances to banks continued to represent the largest share of total assets.

Loans and advances to customers mainly comprise promissory notes of the German federal states. Overall, they decreased by EUR 0.4 billion to EUR 6.5 billion (2017: EUR 6.9 billion).

The volume of bonds and other fixed-income securities grew by EUR 0.6 billion to EUR 16.5 billion (2017: EUR 15.9 billion). As in the previous year, the volume was fully allocated to fixed assets. Accordingly, no securities were held in the liquidity reserve.

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

Non-financial key performance indicators

Corporate citizenship

As a public law institution with a promotional mandate, Rentenbank has a particular responsibility to be a good corporate citizen. The bank mainly supports cultural institutions and selected charity projects in Frankfurt am Main, the location of its registered office.

Grants are provided on a regular basis to Oper Frankfurt, Schirn Kunsthalle, Städel Museum, the English Theatre, and the Städelschule (State Academy of Fine Arts), inter alia. In the case of the Städelschule, Rentenbank supports young talented artists by awarding a group prize as part of the *Rundgang*, an annual exhibition of works by students of the academy. Rentenbank also supports various charity projects of churches, associations, and societies with regular donations at Christmas.

Employees

At year end 2018, Rentenbank employed 304 (2017: 285) employees (excluding trainees, interns, employees on parental leave and members of the Management Board). The average length of service was approximately eleven years. The ratio of male to female employees was almost equal, with 54 % of the employees being men and 46 % being women. 84 % of the part-time employees were women.

Comfortable compliance with regulatory requirements

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

Outlook and opportunities

Changes in business and market conditions

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

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

Macroeconomic outlook

At the beginning of 2019, indications of a considerable slowdown in economic growth in industrialized countries increased, particularly due to the uncertainties resulting from international trade conflicts, the risk of a disorderly Brexit as well as the continuing budget deficits in some eurozone countries. However, it is most likely that none of the major economic areas will fall into a recession.

Accordingly, Rentenbank expects at best a slight upward trend in terms of the interest rate level for the current year. The US Federal Reserve remains observant in terms of interest rate hikes due to the economic slowdown at the end of January 2019. Moreover, only a slight impact is likely to be felt as a result of the termination of the ECB's asset purchase programme since the ECB reinvests proceeds from maturing securities. As there is currently no expectation of inflation rising significantly in the eurozone, the ECB should not be under pressure in this respect to abandon its zero interest rate policy. As a result, a potential overall increase in yields will be limited.

Economic forecast for our promotional business

In the Agricultural Outlook 2018 – 2027, the Organization for Economic Cooperation and Development (OECD) and the Food and Agriculture Organization of the United Nations (FAO) anticipate that agricultural commodity prices will stabilize within the next decade at a low level. The reason for this is the high production volume, particularly for cereals, dairy products, meat and fish. At the same time, the growth in demand for agricultural commodities will slow down and will offer only limited potential for price increases. Longer-term forecasts, however, are always subject to uncertainty as pricing on agricultural markets is influenced by a number of factors such as weather events. Therefore, it is expected that prices will remain volatile.

Within the framework of Agrar, a barometer of the agricultural business sentiment, approximately 1,400 farmers are being surveyed about their plans for capital expenditure over the next six months, inter alia. According to the survey conducted in December 2018, German farmers plan to invest a total of EUR 4.3 billion in the first half of 2019. This volume exceeds the prior-year level of EUR 4.0 billion. Therefore, we expect new business volumes to be at least stable in the Agriculture promotional line in the fiscal year 2019.

Apart from domestic demand, exports play a major role for German agribusiness. According to the estimates published by OECD and FAO, growth in food demand will slow down before 2027. In addition, the German Export Association for Food and Agriproducts e. V.

(GEFA) expects that additional international trade restrictions will lead to a decline in exports, not only for the German agribusiness. The impending Brexit also plays a significant role for German agribusiness. The United Kingdom is the fifth most important export market for the industry. GEFA fears a decline in mutual trade as a result of the uncertain trading conditions. Due to the solid domestic market, we expect new business volumes to remain stable within our Agribusiness promotional line in 2019.

The political environment has a significant impact on investments in the generation of renewable energy. In this context, the new business volumes in 2017 were still substantially affected by the transitional arrangements for the wind power industry. Since the EEG revision effective as of January 1, 2017, the feed-in tariffs are now determined by auctions. This led to a decline in the feed-in tariffs and hence has diminished the attractiveness of investments in wind turbines. Therefore, our new business volume for wind turbine financings fell notably. The German Consolidated Energy Act (*Energiesammelgesetz*) came into effect on January 1, 2019, and provides for a one-off reduction for photovoltaic roof installations between 40 and 750 kilowatt-peak. For the year 2019, we anticipate a level of demand for wind turbine financings similar to the one achieved in 2018. In the case of financings for photovoltaic installations, we expect a deterioration of the attractiveness of investments due to one-off reductions of feed-in tariffs and therefore a decline in demand.

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

Forecast for business development

Comprehensive annual plans and multi-year plans with a 5-year time horizon are prepared in order to project Rentenbank's future results of operations, financial position, and net assets. These plans comprise planning for Rentenbank's new business, portfolio, equity, income and costs as well as stress scenarios. In addition, the planning includes regulatory indicators relevant for management purposes as well as the development of the risk-bearing capacity. The following projections refer to the planning period of 2019.

Projections: operating profit

Within the framework of our current planning, we expect our Promotional Business segment to remain roughly at the prior-year level. While the ECB has terminated its net purchases under the asset purchase programmes as outlined earlier, it will however continue to replace any maturing bonds in the individual asset purchase programmes over the long-term. Therefore, we expect lending/funding margins for new business to remain approximately at the prior-year level. However, the planned margins in new business will be below those of the redemptions in 2019. Overall, this should lead to a significant decrease in net interest income in the Promotional Business segment.

Special promotional loans will remain the focus of our lending business. After the high new business volume of EUR 6.7 billion in 2018, we expect that the new business volume will decrease somewhat in 2019, driven by various changes in our end borrowers' investment activities. Nevertheless, we expect that both the portfolio of special promotional loans as well as their share in total assets will remain almost unchanged.

The portfolio of securities as well as registered bonds and promissory notes declined in the year under review. In contrast, the portfolio is expected to increase slightly in 2019.

Within the Capital Investment segment, we expect that interest income will remain below the level of 2018. The decline is mainly driven by lower returns on new business owing to the low interest rate environment. This effect cannot be offset by the slightly higher average portfolio volume, resulting in a significant decrease in the segment's total interest income.

In 2019, net interest income of the Treasury Management segment is likely to be considerably below the high prior-year level as we anticipate declining margins.

Net interest income of the three segments is expected to decline significantly in 2019.

Cost planning for 2019, in particular, takes into account the necessary long-term investments in Rentenbank's operational infrastructure as well as the required adjustments to comply with additional regulatory requirements. This includes investments in the extension of our front-to-back system Murex (a platform that supports trading, treasury, risk and post-trade operations, ensuring consistency in data, analytics and calculations). It also includes the new SAP financial accounting system, the central data platform, as well as the upgrade of other hardware and software. Despite our rigorous cost management, numerous changes in the regulatory framework are expected to incur higher administrative expenses also in 2019 (2018: EUR 71.8 million). This particularly applies to personnel and IT expenses.

Due to the development of income and expenses, we expect the operating profit before provision for loan losses and valuation for 2019 to decline overall by more than 20 % (2018: EUR 207.1 million). Nevertheless, when compared with previous levels over the long term, this key performance indicator would be at a satisfactory level.

In our planning, we expect to keep the promotional contribution (2018: EUR 84.2 million) at an appropriate level, and anticipate that this key performance indicator will remain almost unchanged in the coming year.

Due to falling income combined with the simultaneous increase (driven by investment activities) in administrative expenses, the cost-income ratio is expected to increase considerably (2018: 30.5 %). Nevertheless, the ratio will remain at a comparatively satisfactory level.

Opportunities and risks

In comparison to the planned results for 2019, additional opportunities and risks may arise for our business development due to changes in market conditions.

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

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

Additional opportunities and risks could arise from the forthcoming Brexit. On the one hand, Brexit could lead to rising credit spreads on the capital market and hence to increased new business margins (similar to the above explanations). On the other hand, due to the significance of exports for German agribusiness, Brexit could also have a negative impact on its economic development and subsequently on this sector's willingness to invest. For example, this could result in a declining demand for our special promotional loans, which, in turn, would lead to a smaller volume of total assets as well as lower promotional contributions.

Administrative expenses may be subject to additional burdens resulting from additional regulatory requirements that are not yet known. This may lead to rising IT and personnel expenses. Additionally, further changes to the IT and building infrastructure over and above the investments already planned, may become necessary.

Our medium-term planning is based on our assumption that rather than the ECB, BaFin will be the regulatory authority responsible for us in 2019. Under this assumption, fees for the banking supervisory authority will be lower from 2020. If the expected supervisory change does not occur or if it occurs at a later date, costs could be higher than planned.

Despite Rentenbank's risk-conscious new business policy, it cannot be ruled out that the credit quality of business partners will deteriorate during the course of the year which would have a detrimental effect on the risk coverage potential within the context of the risk-bearing capacity.

Further information on risks is presented in the risk report.

Development in the current year

In January and February 2019, the anticipated development of net interest income of the three segments was below that of the previous year but slightly above the pro rata projected figure. On the basis of new business and the results achieved in the current fiscal year, the Management Board at present considers the planned volume in the promotional business and the planned operating profit to be achievable for the fiscal year 2019.

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

Risk report

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

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

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

Organization of risk management

The Management Board, which was expanded by the position of Chief Risk Officer (CRO) as of May 1, 2018, has the overall responsibility for the RMS. The CRO is responsible for the departments Risk Controlling and Operations Financial Markets as well as for the Credit division. The Management Board is regularly informed about the risk situation.

The Audit and Risk Committees, established by the Supervisory Board, are informed about the risk situation on a quarterly basis. Furthermore, the Supervisory Board is kept informed about material risk risk-related events by the Management Board and at its two regular meetings and on an ad hoc basis respectively.

In accordance with the Minimum Requirements for Risk Management (MaRisk), the bank has delegated the management of the Risk Controlling function (RCF) to the head of the Risk Controlling department. He is responsible for monitoring and communicating the risks and is involved in all important management decisions regarding risk policy. The Risk Controlling department performs all duties of the RCF. These include the preparation of the risk strategy and the regular monitoring of the limits within the risk-bearing capacity. In addition, the Risk Controlling department regularly monitors the maximum limit for all credit risk limits as well as the upper limit for unsecured facilities. It is also responsible for risk reporting, the daily valuation of the financial instruments, the risk assessment as part of the New Product Process (NPP), as well as for the preparation of the recovery plan. In accordance with the MaRisk requirements, risks are monitored and reported independently from the front office functions.

The back office functions are performed by the Credit and Collateral & Participations divisions. The Credit division has an independent second vote in credit decisions and processes transactions involving purchased promissory notes and registered bonds. It also develops the credit risk strategy in conjunction with the Risk Controlling department. The Collateral & Participations division evaluates the collateral and administers payment instructions in the special promotional loan business. It was integrated into the Credit division as of January 1, 2019. The Credit division is also responsible for the intensive monitoring and management of non-performing loans. Any necessary measures are taken in consultation with the Management Board.

As part of the loan portfolio management, the Credit division also monitors compliance with the credit risk limits. In addition, the Credit division analyzes credit and country risks, inter alia. Business partners and types of transactions are allocated using Rentenbank's own rating categories. In addition, this division prepares proposals for credit decisions according to MaRisk and monitors the aggregate lending portfolio on an ongoing basis.

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

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

The Internal Audit department reviews and assesses the appropriateness of activities and processes as well as the appropriateness and effectiveness of the RMS and the Internal Control System (ICS) on a risk-based and process-independent basis. It reports directly to Rentenbank's Management Board and carries out its duties in an independent and autonomous way. The Management Board may issue instructions to perform additional audits. The members of the Audit Committee as well as the chairmen of the Administrative and Risk Committees may request information directly from the head of Internal Audit.

In the context of MaRisk compliance, Rentenbank's compliance function, a part of the ICS, acts in collaboration with the other organizational units to avoid risks that may arise from non-compliance with the relevant legislation (compliance risk). It encourages the implementation of effective procedures to ensure compliance with the relevant legislation with corresponding mechanisms for control. It reports directly to the Management Board of Rentenbank and carries out its duties independently and autonomously. In terms of risk to assets, the risk indicators to determine materiality comprise sanction risk (imminent sanctions and fines under criminal law), other financial risk (e.g. nullity or rescission of contracts) and the reputational risk in case of non-compliance with a standard.

The Regulatory working group is primarily responsible for tracking and evaluating regulatory and other legal initiatives as well as for strengthening the compliance structure. The Regulatory working group addresses the regulatory issues identified as relevant and ensures that unambiguous responsibilities are defined for the implementation within the bank and that the issues are dealt with in a timely manner.

Business and risk strategy

The Management Board determines the bank's sustainable business strategy on the basis of the company mission derived from the relevant legislation. Rentenbank's business strategy is primarily defined by its promotional mandate and the measures taken to fulfill the mandate. Rentenbank is a non-trading book institution. The business activities of Rentenbank are not aimed at generating profits, but at fulfilling its statutory promotional mandate in a competitively neutral way.

Rentenbank provides its special promotional loans for agribusiness and rural areas via local banks on a competitively neutral basis (on-lending procedure) and has to comply with the applicable regulatory requirements at all times.

In particular, this applies to capital which can be strengthened through the retention of profits.

Rentenbank's risk strategy is derived from and is consistent with its business strategy. It comprises an overarching risk strategy as well as sub-strategies that focus on each specific type of risk.

The business and risk strategy are discussed with the Supervisory Board every year.

In the risk strategy and the Risk Appetite Statement, the Management Board defines the core framework for the bank's risk management.

Rentenbank's activities in terms of risk policy are based on the following principles:

- Rentenbank has a low risk appetite across all material risk types.
- Credit risks are only assumed within the framework of fulfilling the promotional mandate.
- Rentenbank seeks to achieve sustainably appropriate and stable earnings.
- Rentenbank does not enter into open derivatives positions. Foreign currency positions are generally closed.
- Rentenbank follows a buy-and-hold strategy and does not conduct any trading book activities.
- Rentenbank does not engage in strategic maturity transformation and only takes risks with interest rates to a limited extent.

Rentenbank's Risk Appetite Framework comprises all strategies and guidelines, methods, processes, responsibilities, controls and systems from which the bank derives, communicates and monitors its risk appetite. Apart from the minimum target values, alert thresholds and limit systems, this also includes soft factors such as appropriate compliance and an active risk culture.

Rentenbank defines risk appetite as the overall risk which it is willing to assume within the scope of the allocated risk coverage potential in order to achieve its strategic objectives. It is determined on the basis of quantitative requirements and qualitative statements. The quantitative requirements are specified mainly through the definition of limits and alert thresholds within the scope of the risk-bearing capacity. They are also set out in the requirements in relation to products and markets as well as in the funding and hedging strategy.

The credit risk strategy is influenced by the promotional mandate. Funds for the promotion of the agricultural sector and rural areas are primarily granted to banks in the Federal Republic of Germany or in another EU country. A further prerequisite is that the banks are engaged in business activities with companies in the agricultural sector or in the associated upstream or downstream industries or in rural development. Special promotional loans in which the credit risk of the end borrower is borne by the end borrower's local bank, are limited to Germany as an investment location.

In addition, the bank acquires participations and provides funding via promissory notes, or bearer securities to the German federal states. Accordingly, Rentenbank's lending business is limited to funding of banks and institutions as defined in Art. 4 CRR and of regional authorities. In accordance with the credit risk strategy, loans may be granted to companies only as part of the direct loan business with the subsidiaries of Rentenbank. No corresponding new business was transacted in 2018.

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

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

Rentenbank's risk strategy requires a prudent selection of business partners and products in all business activities. In accordance with its core competencies, Rentenbank focuses on banks and public sector borrowers. The average credit quality of the total loan portfolio, an indicator of the bank's risk profile, is supposed to be at least A+.

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

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

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

All material risks are limited within the defined risk appetite in the risk-bearing capacity calculation framework.

Risk culture

Rentenbank's risk culture is characterized by its understanding of dealing with risks in day-to-day business. It comprises all standards, attitudes and behavioral patterns of the company in relation to risk awareness, risk appetite and risk management.

Risk inventory

A risk inventory is used to obtain a structured overview of all risks that have a negative impact on Rentenbank's net assets, capital resources, results of operations, or liquidity situation. This overview also comprises risk concentrations both within and between risk types.

In addition, material risks are identified using indicators based on quantitative and qualitative risk characteristics and are determined at an early stage within self-assessments. Further procedures include the NPP, the ICS key controls, as well as the daily control and monitoring activities.

The major risk types of Rentenbank's risk profile comprise: credit risks, market risks, liquidity risks, operational risks, as well as strategic risks. In terms of market risks, Rentenbank distinguishes between interest rate risks, spread and other risks as well as CVA risks. The major risk types of strategic risks are reputational risk, regulatory risk and pension risk.

Risk-bearing capacity

Rentenbank's risk-bearing capacity is the central element of its Internal Capital Adequacy Assessment Process (ICAAP) and the basis for the operational implementation of the risk strategy. The risk-bearing capacity concept aims to comply with regulatory requirements regarding minimum own funds, to safeguard the bank's capital in the long term, and to protect creditors against losses from an economic perspective. The objective of the risk-bearing capacity concept is to ensure the continued existence of the bank (going concern) and to fulfill the promotional mandate. The risk management processes are geared towards meeting these objectives and requirements equally.

The objectives are reflected in the two perspectives of Rentenbank's risk-bearing capacity concept, which includes a normative approach and an economic approach.

Stress tests supplement the monitoring of the limits within the risk-bearing capacity. Risk concentrations are also taken into account.

Risk-bearing capacity – normative approach

The risk management objective of the normative approach is to meet all regulatory minimum capital requirements and regulations at all times, even under adverse conditions. Another goal related to this objective is to achieve appropriate and stable earnings.

Due to new regulatory requirements, the normative approach was enhanced. In doing so a significant part of the requirements was already implemented. This expansion comprises the strict alignment of the risk coverage potential to regulatory own funds as well as the determination of a base scenario (planning view) and an adverse scenario over a time horizon of three years. In the adverse scenario, the effect of a severe economic downturn on the regulatory indicators is calculated and compared to the base scenario.

The following table shows the risk coverage potential under the normative approach as of the reporting date as well as the prior-year figures. The risk coverage potential was changed from an individual institution level to group level and corresponds to regulatory own funds.

	Dec. 31, 2018 EUR million	Dec. 31, 2017 EUR million
Subscribed capital (capital stock)	163.6	135.0
Retained earnings	1,082.5	1,114.8
Fund for general banking risks	3,069.5	3,195.6
Intangible assets	−17.4	–
Tier 2 capital	214.0	–
Available operating profit	–	149.1
Hidden liabilities from securities	–	−14.1
Items eligible for inclusion as risk coverage potential	**4,512.2**	**4,580.4**

The changes in the risk coverage potential line items result primarily from the changeover of subscribed capital to group level view, the fact that available operating profit was not taken into account as well as the inclusion of tier 2 capital.

The regulatory minimum requirements under the normative risk-bearing capacity is defined by Rentenbank as the own funds requirement according to the total capital, tier 1 capital and Common Equity Tier 1 capital ratio as well as with regard to the leverage ratio. The following table presents the regulatory indicators in the base and in the adverse scenarios.

	Base scenario			Adverse scenario		
	2019	2020	2021	2019	2020	2021
Total capital ratio in %	31.2	31.0	30.8	21.7	18.2	17.6
Tier 1 capital ratio in %	29.9	30.2	30.4	20.8	17.7	17.4
Common Equity Tier 1 capital ratio in %	29.9	30.2	30.4	20.8	17.7	17.4
Leverage ratio	5.1	5.2	5.2	5.0	5.0	4.9

The regulatory indicators are met at a comfortable level even in the adverse scenario. In order to limit losses recognized in the financial statements, risks are limited under the normative approach which might have a negative effect on the income statement under accounting in accordance with the German Commercial Code (HGB).

The following table presents the risk exposures.

	Dec. 31, 2018 EUR million	Dec. 31, 2017 EUR million
Credit risk	317.6	356.4
Market risk	48.3	45.5
thereof interest rate risks	*17.5*	*4.5*
thereof CVA risk from derivatives	*15.8*	*–*
thereof risk buffer	*15.0*	*41.0*
Operational risk	45.7	52.4
Regulatory and reputational risk	66.6	46.0
Total risk exposure	**478.2**	**500.3**

The CVA risk from derivatives is taken into account as a separate risk type and was part of the risk buffer in the previous year.

On the basis of the normative approach, 37.8 % of the available risk coverage potential was allocated to limits to curb risk. The overall utilization of the limits was 49.6 % as of the reporting date. The risk-bearing capacity under the normative approach (P&L risk management) was maintained at a comfortable level in 2018.

The most significant risk is credit risk. It is calculated using a credit portfolio model. Within the scope of this approach, spread and other market risks do not result in valuation losses that affect profit or loss under HGB accounting.

Capital plan

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

Risk-bearing capacity – economic approach

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

Under the risk coverage potential, hidden reserves and liabilities from securities and promissory notes of German federal states, including related hedging transactions, are taken into account. Unplanned or unrealized profits (available operating result) are not taken into account. Subordinated liabilities are no longer taken into account in the risk coverage potential. The risks are calculated using the economic approach while taking a confidence level of 99.9 % into account.

The risk coverage potential under the economic approach was changed from individual institution level to group level. As of the reporting date compared to the prior year, it is illustrated below.

	31.12.2018 Mio. EUR	31.12.2017 Mio. EUR
Subscribed capital (capital stock)	163.6	135.0
Retained earnings	1,131.3	1,114.8
Fund for general banking risks	3,115.0	3,195.6
Hidden liabilities/reserves*	776.5	459.8
Subordinated liabilities	–	405.7
Risk coverage potential	**5,186.4**	**5,310.9**

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

Subordinated liabilities are no longer taken into account pursuant to the new regulatory requirements in relation to the risk-bearing capacity.

Under the economic approach, risks from all positions are analyzed irrespective of their accounting. The decrease in the risk exposure amount for credit risk primarily results from the modification of the credit portfolio model. To measure credit spread risks, a Value-at-Risk (VaR) model is used based on a historical simulation. As regards operational risk as well as strategic risk, we assume a risk exposure that is two times higher than under the normative approach.

The following table shows the risk exposures under the economic approach:

	Risk exposure Dec. 31, 2018 EUR million	Risk exposure Dec. 31, 2017 EUR million
Credit risk	790.1	914.4
Market risk	1,085.6	1,290.3
Of which interest rate risks	*288.9*	*295.0*
Of which CVA risk from derivatives	*155.7*	*–*
Of which spread and other risks	*621.0*	*890.9*
Of which risk buffer	*20.0*	*104.4*
Operational risk	91.4	104.8
Strategic risk	133.2	92.0
Total risk exposure	**2,100.3**	**2,401.5**

The CVA risk from derivatives is taken into account as a separate risk type and was part of the risk buffer in the previous year.

On the basis of the economic approach, 67.7 % of the risk coverage potential was allocated to the limits to mitigate risk. The overall utilization of the limits was 40.5 % as of the reporting date. The risk-bearing capacity under the economic approach was maintained at a comfortable level in 2018.

Risk-bearing capacity – stress tests

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

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

Using an inverse stress test, Rentenbank also examines which events could lead to a situation whereby the risk-bearing capacity is no longer maintained.

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

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

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

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

ECB stress test

Rentenbank participated in the ECB’s SREP stress test in 2018. The regulatory indicators were complied with at a comfortable level also under stress assumptions.

Recovery plan

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

Credit risk

Definition

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

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

Quantification and management

The calculation of credit risk is based on the risk parameters' probability of default, loss given default, exposure at default, and the correlations between business partners.

The risk exposure values for credit risk in the risk-bearing capacity calculation are determined using a credit portfolio model. The bank also calculates a risk contribution from concentration risks. In this calculation, higher exposures with business partners are taken into account in the risk exposure at an above-average rate.

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

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

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

The exposure at default corresponds to the balance as of the reporting date plus off-balance sheet transactions of individual debtors. In the case of loans, this is the residual value of the exposure, and the current market value for securities. The exposure value of derivatives is based on the mark-to-market method, taking into account contractual netting and collateral.

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

Validation

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

Limitation and reporting

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

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

The limitation of credit risks within the context of risk-bearing capacity takes into account the characteristics of the model and the parameters as well as volatilities as of the reporting date. Risk premiums due to concentration risks are included in this limitation. Under the normative approach, the limit amounts to EUR 700 million (2017: EUR 700 million) and under the economic approach to EUR 1,400 million (2017: EUR 1,400 million).

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

Additional limits are monitored daily by the Credit division. The Management Board is notified immediately if the limits are exceeded.

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

Total loan portfolio

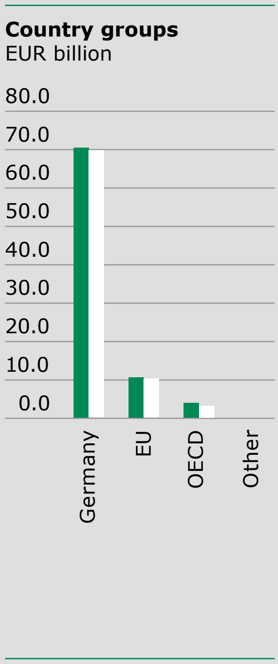
The bank has received collateral for the vast majority of its risk exposures in the form of assignments of the refinanced receivables of end borrowers, guarantor liability, and state guarantees. The remaining risk positions mostly include collateralized products such as German *Pfandbriefe*. Unsecured risk exposures mainly refer to loans and advances to banks of the joint liability schemes in Germany *(Haftungsverbünde)*.

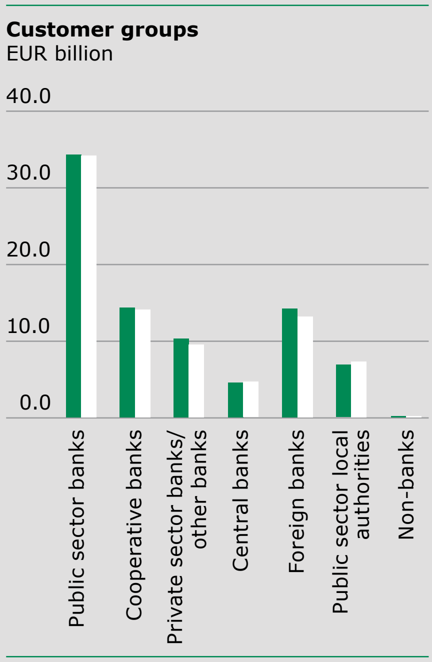
Current risk situation

The total loan portfolio of EUR 84.5 billion (2017: EUR 82.9 billion) comprises the nominal amounts of the risk exposures in euro. These include special promotional loans including the assignment of the end borrowers' receivables, the special promotional loans guaranteed by federal states of Germany, the purchased registered bonds, promissory notes and securities, the money market and derivatives transactions, participations as well as any lines of credit agreed with external bodies. However, they do not include guarantees or sureties as well as loans granted from the Special Purpose Fund of the Federal Republic. Participations include the risk exposures of Rentenbank's direct participations.

Entering into financial instruments in the derivatives business is permitted only as a hedging instrument on the basis of a netting and collateral agreement. The remaining credit risks may arise out of the short term from differences between the net market values of netting pools and the cash collateral provided or received. As of December 31, 2018, the residual credit risk amounted to EUR 30.3 million (2017: EUR 31.0 million).

The aggregation in the following three tables is based on the country of incorporation and on the level of the legally independent business partner, without taking group relationships into account. The allocation to the rating categories is based on the product rating for the respective transaction. The figures presented are based on the nominal amount. Therefore, there are deviations as regards the previous year's figures in comparison to the previous year's report (disclosure of carrying amounts).





Risk exposures in the peripheral countries:

The portfolio of securities and promissory notes of banks from the so-called peripheral countries of the eurozone declined from EUR 29.0 million to EUR 24.0 million. The exposure to Italy was terminated entirely (2017: EUR 5.0 million). The bank does not hold any government bonds of these countries.

In addition, there are repayment claims from cash collateral provided to Spanish counterparties for derivatives transactions in the amount of EUR 2.8 million.

Provision for loan losses

Specific valuation allowance

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

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

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

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

General valuation allowance

General valuation allowances are calculated using the total loan volume subject to risks pursuant to Section 19 (1) KWG, the probability of default, and the loss given default rate.

Due to the low number of defaults at Rentenbank, probabilities of default are determined using a long-term average of the 1-year probabilities of default published by the rating agencies Fitch, Moody's, and Standard & Poor's. The probabilities of default are allocated on the basis of the credit quality for the respective business partner.

The loss given default rates for specific products and types of business transactions are determined using an analytical and expert-based procedure, taking into account the respective collateralization.

Rentenbank recognized general valuation allowances of EUR 3.3 million (2017: EUR 3.6 million) for receivables, securities and irrevocable loan commitments.

Market risk

Definition

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

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

The CVA risk is the risk of a potential decline in the market value of derivative financial instruments due to a deterioration of the credit quality of the counterparty.

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

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

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

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

Quantification and management

Interest rate risks

The interest rate risks are calculated daily for the transactions of the Treasury Management segment. The calculation is based on a parallel shift in the interest rate curves, taking into account a confidence level of 99 %. In the economic approach, interest rate risks are also calculated using a parallel shift in the interest rate curve, while taking into account a confidence level of 99.9 %. Risks from negative interest rates are taken into account under both the normative approach and the economic approach. In particular, this involves taking into account the risks from variable-yield transactions with 0% floors in terms of present value and income. The interest rate risk of the Capital Investment segment, which comprises the invested capital, is included in both risk-bearing capacity approaches. The income-related interest rate risk is calculated under the normative approach, while the interest rate risk in terms of present value is determined under the economic approach. There is no modeling with a risk-reducing effect of the funding of the capital investment through available equity. Accordingly, equity is not taken into account pursuant to the regulatory calculation method.

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

Generating material income by taking interest rate risks does not constitute part of Rentenbank's business strategy. Gains or losses from maturity transformation are only realized to a small extent from money market transactions and the special promotional business. Special promotional loans are hedged on the basis of macro hedges.

Moreover, the bank calculates the interest rate risk in the banking book considering regulatory requirements. This involves examining whether the negative change of the present value exceeds 20 % of total regulatory own funds. Even the early warning threshold of 15 %

applicable from June 2019 according to the EBA guideline is already being monitored and complied with by Rentenbank under the amended regulatory requirements.

Furthermore, the bank calculates the impact of six standardized interest rate shock scenarios on the net interest income (NII) of the following twelve months. The bank's net interest income risk is highest in case of a shift in the interest rate curve by – 200 basis points (bps).

CVA risk from derivatives

The CVA risk is the risk of a potential decline in the market value of derivative financial instruments due to a deterioration of the credit quality of the counterparty. Apart from the credit risk parameters probability of default and loss given default rate, potential changes in the market value are calculated using a value-at-risk (VaR) model.

Spread and other risks

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

Risk buffer

Model inaccuracies and simplifications are given appropriate consideration by means of a risk buffer.

Limitation and reporting

A limit of EUR 151.0 million (EUR 70.0 million) has been allocated to market risk under the normative approach and EUR 1,885.0 million (EUR 1,969.4 million) under the economic approach. This limit is allocated to interest rate risk, CVA risk from derivatives, spread and other risks as well as to the risk buffers.

Compliance with the limits for interest rate risks of the Treasury Management segment is monitored daily and reported to the Management Board. CVA risk from derivatives as well as spread and other risks are monitored on a monthly basis as well as within the scope of the quarterly risk report.

Validation

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

The scenario parameters used to measure interest rate risks of the Treasury Management segment are validated daily using historical interest rate trends.

Current risk situation

Normative approach

As of December 31, 2018, the market risk exposure amounted to EUR 48.3 million (2017: EUR 45.5 million).

The interest rate risk in the money market business, in the lending business, from 0% floors and from capital investment amounted to EUR 17.5 million (2017: EUR 4.5 million) in case of a parallel shift of 100 bps (60 bps) in the interest rate curves. This corresponds to a risk limit utilization of 18.6 % (2017: 15.5 %).

The CVA risk from derivatives amounted to EUR 15.8 million (2017: EUR 15.6 million).

Interest rate risks from 0% floors and capital investment as well as the CVA risk from derivatives were included in the risk buffer in the previous year. The risk buffer is reduced to EUR 15.0 million (2017: EUR 41.0 million).

Economic approach

As of December 31, 2018, the market risk exposure amounted to EUR 1,085.6 million (2017: EUR 1,290.3 million).

A parallel shift of 135 bps in the interest rate curves was used to calculate interest rate risks. As of the reporting date, the resulting risk exposure amounted to EUR 288.9 million (2017: EUR 295.0 million).

The risk exposure for spread and other risks amounted to EUR 621.0 million (2017: EUR 890.9 million).

The risk exposure for the CVA risk amounted to EUR 155.7 million. In the previous year, this risk was taken into account in the risk buffer at a value of EUR 86.5 million.

The risk buffer amounts to EUR 20.0 million (2017: EUR 104.4 million).

Interest rate risks in the banking book

In accordance with the BaFin circular entitled 'Interest Rate Risks in the Banking Book', 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 424.6 million (2017: EUR 344.9 million). The ratio based on the regulatory own funds amounted to 9.4 % (2017: 7.7 %). At no point during 2018 or 2017 did the ratio exceed the reporting threshold of 20.0 % or the early warning indicator of 15.0 %.

Foreign currency risks

No material risk was identified for any currency in 2018 or 2017. The following table presents a breakdown of the nominal amounts by foreign currency:

Dec. 31, 2018 Nominal amounts in EUR million	**USD**	**AUD**	**GBP**	**NZD**	**SEK**	**CHF**	**JPY**	**NOK**	**Other**	**Total**
Assets										
Loans and advances to banks	0.1	0.0	0.0	0.0	0.0	26.6	0.0	0.0	0.0	**26.7**
Loans and advances to customers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Financial investments	384.6	52.8	3,016.5	0.0	104.1	714.2	258.4	14.1	200.1	**4,744.8**
Positive fair values of derivative financial instruments	29,380.5	8,319.6	3,412.5	1,889.9	845.2	87.0	451.3	537,8	1,171.1	**46,094.9**
Total assets	**29,765.2**	**8,372.4**	**6,429.0**	**1,889.9**	**949.3**	**827.8**	**709.7**	**551.9**	**1,371.2**	**50,866.4**
Liabilities										
Liabilities to banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Liabilities to customers	117.9	0.0	11.2	12.3	0.0	0.0	39.7	0.0	0.0	**181.1**
Securitized liabilities	29,190.5	8,319.0	3,404.0	1,877.6	845.2	88.7	252.7	537.8	1,171.1	**45,686.6**
Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	0.0	158.9	0.0	0.0	**158.9**
Negative fair values of derivative financial instruments	456.7	53.4	3,013.8	0.0	104.1	739.1	258.4	14.1	200.1	**4,839.7**
Total liabilities	**29,765.1**	**8,372.4**	**6,429.0**	**1,889.9**	**949.3**	**827.8**	**709.7**	**551.9**	**1,371.2**	**50,866.3**
Net currency position - (assets)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.1**

Dec. 31, 2017 Nominal amounts in EUR million	USD	AUD	GBP	NZD	SEK	CHF	JPY	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	0.0	**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	**0.0**
Financial investments	98.0	51.9	3,309.4	0.0	0.0	989.6	285.3	0.0	173.5	**4,907.7**
Positive fair values of derivative financial instruments	33,011.9	9,456.9	2,348.6	1,846.1	274.3	197.1	471.4	767.3	1,293.4	**49,667.0**
Total assets	**33,110.0**	**9,508.8**	**5,658.0**	**1,846.1**	**274.3**	**1,186.7**	**756.7**	**767.3**	**1,466.9**	**54,574.8**
Liabilities										
Liabilities to banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Liabilities to customers	112.6	0.0	11.3	12.5	0.0	0.0	37.0	0.0	0.0	**173.4**
Securitized liabilities	32,833.0	9,455.4	2,338.8	1,833.6	274.3	213.6	250.4	767.3	1,293.4	**49,259.8**
Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	0.0	185.2	0.0	0.0	**185.2**
Negative fair values of derivative financial instruments	164.3	53.4	3,307.9	0.0	0.0	973.1	284.1	0.0	173.5	**4,956.3**
Total liabilities	**33,109.9**	**9,508.8**	**5,658.0**	**1,846.1**	**274.3**	**1,186.7**	**756.7**	**767.3**	**1,466.9**	**54,574.7**
Net currency position (assets)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.1**

Liquidity risk

Definition

Rentenbank defines liquidity risk as the risk of not being in a position to meet current or future payment obligations without restriction.

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

Quantification and management

Rentenbank's open cash balances are limited by an amount defined by the Management Board on the basis of the funding opportunities available to Rentenbank. The utilization of the liquidity position and the limits is monitored on a daily basis.

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

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

Under the risk-bearing capacity concept, liquidity risks are not covered by the risk coverage potential, but by counterbalancing capacity or liquid assets. Rentenbank's triple-A ratings due to the statutory guarantee of the Federal Republic of Germany enable the bank to raise liquidity on the market at any time. In addition, any collateral held at Deutsche Bundesbank may be pledged.

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

Liquidity stress scenarios

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

Liquidity stress tests are also performed on an ad hoc basis if risk-related events occur.

Liquidity ratios pursuant to the CRR

The regulatory liquidity ratios LCR and NSFR (Net Stable Funding Ratio) are used to limit short-term as well as medium to long-term liquidity risks. The objective is to enable banks to remain liquid even during periods of stress by holding a liquidity buffer and maintaining stable funding. The LCR (i.e. the ratio of high-quality liquid assets to total net cash outflows under stress scenarios) must be at least 1.0.

The minimum requirement for the NSFR (i.e. ratio of the amount of available stable funding relative to the amount of required stable funding) is 1.0. The introduction is planned for 2021 at earliest in connection with the entry into force of CRR II.

The minimum LCR and the currently expected minimum NSFR were complied with in the reporting years 2018 and 2017.

Limitation and reporting

The liquidity requirement up to one month is limited under stress assumptions by the liquid assets pursuant to the Liquidity Coverage Ratio (LCR) or the freely available funding potential.

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

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

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

Current risk situation

As in the previous year, liquidity was secured at all times during the reporting year, even under stress assumptions. All liquidity limits and regulatory liquidity ratios were fully complied with. On average the LCR amounted to 6.29 (2017: 6.67) and the NSFR to 1.35 (2017: 1.23). The medium-term and long-term liquidity limit was never fully utilized.

Operational risk

Definition

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

Quantification and management

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

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

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

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

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

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

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

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

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

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

Limitation and reporting

The limits for operational risks of EUR 46 million (2017: EUR 55 million) and EUR 92 million (2017: EUR 110 million) for the normative approach and the economic approach, respectively, are derived from the modified regulatory basis indicator approach. Reports are prepared on a quarterly basis within the scope of the risk report.

Current risk situation

Under the normative approach, the risk value for operational risk amounted to EUR 45.7 million as of the reporting date (2017: EUR 52.4 million). Under the economic approach, the risk exposure amounted to EUR 91.4 million (2017: EUR 104.8 million) as of the reporting date.

In the fiscal year 2018, no loss events with a potential loss of more than EUR 100 thousand were recorded in the loss event database. In the previous year, a loss event was recorded with a net loss in a total amount of EUR 224 thousand; this loss was reduced by EUR 89 thousand in the fiscal year 2018.

Strategic risk

Definition

Regulatory risk, reputational risk and pension risk, as material risk types, are allocated to the strategic risks.

Regulatory risk is the risk that a change in the regulatory environment could adversely affect the bank's business activities or operating profit and that regulatory requirements are not sufficiently met. Reputational risks refer to the risk of negative economic effects from damages to the bank's reputation. Transactions that result in reputational risk for Rentenbank are not entered into. In addition to that, no business is made with shadow banks. The calculation of pension provisions is based on various assumptions (e.g. interest rate development, mortality tables). The pension risk consists of changing assumptions leading to a requirement to increase the pension provisions recognized as an expense.

Quantification and management

Regulatory and reputational risks are quantified using a corresponding scenario within the context of the medium-term planning (capital plan). To this end, regulatory and reputational risks are assumed to have monetary effects (e.g. increased funding costs or unexpected operating and personnel expenses) on the implementation of regulatory requirements. Pension risks are calculated on the basis of sensitivities and assumed parameter changes from an external actuarial opinion.

The risk exposures in the calculation of the risk-bearing capacity are derived from the scenario of the capital plan.

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

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

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

The pension provisions are calculated always on the basis of current external parameters such as interest rates, inflation and life expectancy. In this case, interest rate risks are considered within the interest-rate risks in the banking book (IRRBB).

Limitation and reporting

The risk limit determined for strategic risks amounted to EUR 67 million (2017: EUR 50 million) under the normative approach and to EUR 134 million (2017: EUR 100 million) under the economic approach. Reports are prepared on a monthly basis.

Current risk situation

As of the reporting date, the risk value determined for strategic risks amounted to EUR 66.6 million (2017: EUR 46.0 million) under the normative approach and to EUR 133.2 million (2017: EUR 92.0 million) under the economic approach.

As in the prior year, no loss events related to strategic risks occurred during the reporting period.

Financial reporting process

The purpose of the financial reporting process is to reflect account allocation and processing of transactions until the preparation of the required annual financial statements.

The objectives of the accounting-related ICS (Internal Control System)/RMS are to comply with financial reporting standards and regulations as well as to maintain proper accounting.

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

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

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

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

Apart from SAP employed as standard software for the bank's operations, Rentenbank uses internally developed financial accounting software. The granting of authorizations solely for required tasks is intended to protect the financial reporting process from unauthorized access. Plausibility checks are conducted regularly. 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 basis. These measures also ensure the correct recognition, presentation, and measurement of assets and liabilities.

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

Timely, reliable and relevant reports are provided to the responsible persons within the framework of the management information system. The Management Board regularly informs the Supervisory Board and its committees about current business developments and about extraordinary events in a timely manner.

Financial Statements

Balance Sheet of Landwirtschaftliche Rentenbank,

ASSETS

	Notes	EUR million	EUR million	EUR million	Dec. 31, 2017 EUR million
1. Cash and balances with central banks					
a) Cash on hand			0.2		0.1
b) Balances with central banks			18.2		28.3
of which:				**18.4**	28.4
with Deutsche Bundesbank					
EUR 18.2 million (2017: EUR 28.3 million)					
2. Loans and advances to banks	11				
a) Payable on demand			5,649.7		5,669.2
b) Other loans and receivables			54,487.9		54,863.0
				60,137.6	60,532.2
3. Loans and advances to customers	12				
of which: Collateralized by mortgages					
EUR –.– million (2017: EUR –.– million)					
Municipal loans					
EUR 6,433.8 million (2017: EUR 6,845.7 million)				**6,486.3**	6,883.9
4. Bonds and other fixed-income securities	13/17				
a) Bonds and notes					
aa) Public sector issuers		676.9			689.4
of which: Securities eligible as collateral					
with Deutsche Bundesbank					
EUR 547.4 million (2017: EUR 560.1 million)					
ab) Other issuers		15,815.6	16,492.5		15,153.4
of which: Securities eligible as collateral					
with Deutsche Bundesbank					
EUR 12,658.2 million (2017: EUR 12,183.6 million)					
b) Own debt securities			27.5		27.5
Nominal amount					
EUR 27.2 million (2017: EUR 28.2 million)				**16,520.0**	15,870.3
5. Shares and other variable-yield securities	14			**0.1**	0.1
6. Participations	15/17				
of which: in banks					
EUR 321.9 million (2017: EUR 321.9 million)					
in financial services institutions					
EUR –.– million (2017: EUR –.– million)				**327.2**	326.2
7. Investments in affiliated companies	15/17				
of which: in banks					
EUR –.– million (2017: EUR –.– million)					
in financial services institutions					
EUR –.– million (2017: EUR –.– million)				**49.6**	49.6
8. Assets held in trust	16				
of which: Loans held in trust					
EUR 110.1 million (2017: EUR 112.4 million)				**110.1**	112.4
9. Intangible assets	17				
a) Purchased concessions, industrial property rights and similar rights				**13.8**	10.9
10. Property and equipment	17			**14.4**	15.5
11. Other assets	18			**4,705.3**	5,359.9
12. Prepaid expenses	19				
a) From issuing and lending business			1,539.1		1,353.2
b) Other			239.2		242.6
				1,778.3	1,595.8
Total assets				**90,161.1**	90,785.2

as of December 31, 2018

LIABILITIES AND EQUITY

	Notes	EUR million	EUR million	EUR million	Dec. 31, 2017 EUR million
1. Liabilities to banks	20				
a) Payable on demand			0.7		38.3
b) With agreed term or notice period			2,459.5		2,672.3
				2,460.2	**2,710.6**
2. Liabilities to customers	21/31				
a) Other liabilities					
aa) Payable on demand			157.9		162.9
ab) With agreed term or notice period			3,332.5		3,691.4
				3,490.4	**3,854.3**
3. Securitized liabilities	22				
a) Debt securities issued				**76,577.0**	**76,894.5**
4. Liabilities held in trust	23				
of which: Loans held in trust					
EUR 110.1 million (2017: EUR 112.4 million)				**110.1**	**112.4**
5. Other liabilities	24			**305.0**	**208.8**
6. Deferred income	25				
a) From issuing and lending business			234.0		238.6
b) Other			1,594.2		1,442.6
				1,828.2	**1,681.2**
7. Provisions	26				
a) Provisions for pensions and similar obligations			118.3		111.2
b) Other provisions			358.6		361.1
				476.9	**472.3**
8. Subordinated liabilities	27			**374.7**	**405.7**
9. Fund for general banking risks				**3,241.1**	**3,195.6**
10. Equity	46				
a) Subscribed capital			135.0		135.0
b) Retained earnings					
ba) Principal reserve pursuant to Section 2 (2)					
of Rentenbank's Governing Law		1,098.5			
Allocations from guarantee reserve		0.0			
Allocations from net income		47.2	1,145.7		1,098.5
bb) Guarantee reserve pursuant to Section 2 (3)					
of Rentenbank's Governing Law		1.0			
Withdrawals pursuant to Section 2 (3)					
of Rentenbank's Governing Law		0.0	1.0		1.0
c) Distributable profit			15.8		15.3
				1,297.5	1,249.8
Total liabilities and equity				**90,161.1**	**90,785.2**
1. Contingent liabilities	29				
a) Liabilities from guarantees and indemnity agreements				**0.5**	0.9
2. Other commitments	30				
a) Irrevocable loan commitments				**716.8**	**956.3**

Income Statement of Landwirtschaftliche Rentenbank for the period from January 1 to December 31, 2018

	Notes	2018 EUR million	2018 EUR million	2018 EUR million	2017 EUR million
1. Interest income from	32				
a) Lending and money market transactions		3,096.7			3,125.4
b) Fixed-income securities and					
debt register claims		306.0			352.0
			3,402.7		3,477.4
less negative interest of EUR 41.6 million					(31.6)
2. Interest expense	33		3,115.3		3,179.7
less positive interest of EUR 1.0 million					(4.0)
				287.4	297.7
3. Current income from					
a) Shares and other variable-yield securities			0.0		0.0
b) Participations			7.7		7.9
				7.7	7.9
4. Fee and commission income			0.1		0.1
5. Fee and commission expense			1.8		2.0
				–1.7	(1.9)
6. Other operating income	34			**4.4**	5.4
7. Administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		27.4			26.0
ab) Social security contributions and expenses for					
pensions and other employee benefits		5.5			5.9
			32.9		31.9
of which: for pensions EUR 1.9 million					(2.6)
b) Other administrative expenses			33.7		31.5
				66.6	63.4
8. Depreciation, amortization and write-downs of intangible assets as well as property and equipment				**5.2**	5.9
9. Other operating expenses	35			**17.7**	14.9
10. Write-downs of and allowances for loans and advances and certain securities as well as additions to loan loss provisions				**99.6**	101.8
11. Income from reversals of write-downs of participations, investments in affiliated companies and securities held as fixed assets				**1.0**	27.8
12. Additions to the fund for general banking risks				**45.5**	88.7
13. Profit on ordinary activities				**64.2**	62.2
14. Taxes on income			1.1		1.1
15. Other taxes not included in item 'Other operating expenses'			0.1		0.1
				1.2	1.2
16. Net income				**63.0**	61.0
17. Withdrawals from retained earnings					
from guarantee reserve pursuant to Section 2 (3) of					
Rentenbank's Governing Law				**0.0**	0.1
18. Allocations to retained earnings					
to principal reserve pursuant to Section 2 (2) of					
Rentenbank's Governing Law					
from guarantee reserve				**0.0**	0.1
from net income				**47.2**	45.7
19. Distributable profit				**15.8**	15.3

Cash flow statement for the period ending December 31, 2018

EUR million	2018	2017
Net income/loss for the period	63	61
Depreciation and write-downs, allowances for and reversals of write-downs of loans and advances and fixed assets	3	7
Increase/decrease in provisions	5	4
Other non-cash expenses/income	145	224
Other adjustments (net)	– 250	– 233
Increase/decrease in loans and advances to banks	294	– 2,873
Increase/decrease in loans and advances to customers	397	– 835
Increase/decrease in other assets from operating activities	477	– 2,835
Increase/decrease in liabilities to banks	– 251	– 343
Increase/decrease in liabilities to customers	– 364	87
Increase/decrease in securitized liabilities	– 317	6,912
Increase/decrease in other liabilities from operating activities	241	– 2,071
Interest expense/interest income	– 287	– 298
Income tax expense/income	1	1
Interest and dividends received	3,617	3,655
Interest paid	– 3,080	– 3,124
Income taxes paid	– 1	– 1
Cash flows from operating activities	**693**	**– 1,662**
Proceeds from disposal of financial investments	2,134	4,338
Payments for investments in financial investments	– 2,784	– 2,443
Payments for investments in property and equipment	– 1	– 2
Payments for investments in intangible fixed assets	– 6	-4
Cash flows from investing activities	**– 657**	**1,889**
Appropriation of distributable profit pursuant to Section 9 of Rentenbank's Governing Law	– 15	– 15
Net change resulting from other financing activities	– 31	– 191
Cash flows from financing activities	**– 46**	**– 206**
Net change in cash and cash equivalents	– 10	21
Cash and cash equivalents at beginning of period	28	7
Cash and cash equivalents at end of period	**18**	**28**

The cash flow statement shows the changes in cash and cash equivalents for the fiscal years 2018 and 2017 from operating, investing, and financing activities. Cash and cash equivalents correspond to cash and balances with central banks reported in the balance sheet.

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

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

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

Statement of changes in equity as of December 31, 2018

EUR million	Subscribed capital	Principal reserve	Guarantee reserve	Distributable profit	Total 2018
Equity as of Jan. 1	135.0	1,098.5	1.0	15.3	1,249.8
Profit distribution	–	–	–	-15.3	-15.3
Net income	–	47.2	–	15.8	63.0
Allocation to/withdrawal from guarantee reserve	–	0.0	0.0	–	–
Equity as of Dec. 31	**135.0**	**1,145.7**	**1.0**	**15.8**	**1,297.5**

Statement of changes in equity as of December 31, 2017

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

Notes

Basis of accounting

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

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

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

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

Accounting policies

(1) General disclosures

Assets, liabilities and pending transactions are measured pursuant to the provisions of Sections 252 et seq. HGB, taking into account the supplementary provisions for credit institutions (Sections 340 et seq. HGB). The annual financial statements as of December 31, 2018 are generally based on the same accounting policies as were applied in the prior year's annual financial statements. Any corresponding changes are described below.

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

(2) Recognition and measurement of financial instruments

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

Loans and advances/liabilities

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

Securities

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

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

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

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

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

Participations and affiliated companies

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

Derivatives

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

Other assets/liabilities

Other assets and liabilities are recognized at the nominal amount.

(3) Provision for loan losses

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

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

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

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

Due to the low number of defaults at Rentenbank, probabilities of default are determined using a long-term average of the 1-year probabilities of default provided by the rating agencies Fitch, Moody's, and Standard & Poor's. The probabilities of default are allocated on the basis of the credit quality of the respective business partner.

The LGD rates for specific products and types of business transactions are determined using an analytical and expert-based procedure, taking into account the respective collateralization.

The use of an expert-based procedure leads to a more accurate measurement of latent default risks and, therefore, to a more precise presentation of a true and fair view of the net assets, financial position, and results of operations.

(4) Determination of the fair value for financial instruments

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

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

(5) Loss-free valuation of the banking book

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

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

These future cash flows were discounted as of the reporting date using generally recognized money market and capital market rates which correspond to the respective period. Risk costs were calculated on the basis of future expected losses and the pro rata share of administrative expenses for portfolio management was determined on the basis of internal analyses. As of December 31, 2018, there was no need for provisions on the basis of this calculation.

(6) Assets/liabilities held in trust

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

(7) Property and equipment and intangible assets

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

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

(8) Prepaid expenses/deferred income

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

(9) Provisions

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

<u>Pension provisions</u>

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

In accordance with Section 253 HGB, as amended in 2016, provisions for pension obligations are discounted using the average market interest rate for the past ten fiscal years in accordance with their remaining term (until and including 2015: average market interest rate for the past seven fiscal years). The resulting difference was EUR 16 million in 2018 (2017: EUR 14 million). In accordance with Section 253 (6) sentence 2 HGB, profits may only be distributed if the distributable reserves remaining after distribution, adding profit carried forward and deducting loss carried forward, at least equal the difference determined pursuant to Section 253 (6) sentence 1 HGB.

Pension provisions are measured in accordance with actuarial principles, using the projected unit credit (PUC) method. Under the PUC method, the provision amount is defined as the actuarial present value of the pension obligations, earned by the employees in the past periods of service prior to the relevant date in accordance with the pension benefit formula and vesting provisions. The 2018 G mortality tables, developed by Prof. Dr. Klaus Heubeck, were used as the biometric calculation parameters.

The following parameters were used as the basis for the calculation as of December 31, 2018:

	2018	2017
Discount rate pursuant to Section 253 (2) sentence 2 HGB	3.21 % p.a.	3.68 % p.a.
Career trend	1.00 % p.a.	1.00 % p.a.
Expected rate of salary increases	2.25 % p.a.	2.25 % p.a.
Expected rate of pension increases (range of adjustments)	1.0 – 2.25 % p.a.	1.0 – 2.25 % p.a.
Employee turnover	average 3.50 % p.a.	average 3.50 % p.a.
Increase in Consumer Price Index (CPI)	1.75 % p.a.	1.75 % p.a.
Development of contribution ceiling	2.50 % p.a.	2.50 % p.a.

<u>Other provisions</u>

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

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

(10) Valuation units/currency translation

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

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

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

Foreign currency-denominated assets, liabilities and pending transactions were translated into euro at the mid spot rate as of December 31, 2018. For this purpose, Rentenbank uses the reference rate of the European System of Central Banks (ESCB).

Notes to the balance sheet

The reporting in the notes excludes pro rata interest, which may result in differences compared to the amounts reported in the balance sheet.

(11) Loans and advances to banks

Breakdown by residual maturity	Dec. 31, 2018 EUR million	Dec. 31, 2017 EUR million
Payable on demand	5,650	5,669
Other loans and advances		
– up to 3 months	2,035	2,155
– more than 3 months to 1 year	5,160	5,921
– more than 1 year to 5 years	23,116	22,566
– more than 5 years	23,411	23,400
Total amount	**59,372**	**59,711**

Loans and advances to companies in which participating interests are held amount to EUR 4,529 million (2017: EUR 4,517 million).

(12) Loans and advances to customers

Breakdown by residual maturity	Dec. 31, 2018 EUR million	Dec. 31, 2017 EUR million
– up to 3 months	95	97
– more than 3 months to 1 year	342	417
– more than 1 year to 5 years	1,191	1,148
– more than 5 years	4,641	5,029
Total amount	**6,269**	**6,691**

As of December 31, 2018, there are no loans and advances to customers with an indefinite term within the meaning of Section 9 (3) No. 1 RechKredV.

(13) Bonds and other fixed-income securities

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

Securities held as fixed assets are recorded at a carrying amount of EUR 16,340 million (2017: EUR 15,678 million). The carrying amount of securities totaling EUR 1,360 million exceeds the fair value of EUR 1,350 million. The fair value of these securities was determined on the basis of securities exchange or market prices. As in the prior year, there is no permanent impairment for securities held as fixed assets. Accordingly, the avoided write-downs amount to EUR 10 million (2017: EUR 14 million).

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

Disclosures on securities exchange listing and residual maturity:

Securities exchange listing	Dec. 31, 2018 EUR million	Dec. 31, 2017 EUR million
– Listed securities	16,088	15,332
– Unlisted securities	252	346
Total amount	**16,340**	**15,678**

Residual maturity of up to 1 year	Dec. 31, 2018 EUR million	Dec. 31, 2017 EUR million
from public sector issuers	21	–
from other issuers	1,606	1,917
Total amount	**1,627**	**1,917**

(14) Shares and other variable-yield securities

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

(15) Participations and investments in affiliated companies

Rentenbank holds participations in the amount of EUR 327 million (2017: EUR 326 million) and investments in affiliated companies in the amount of EUR 50 million (2017: EUR 50 million). As in the previous year, participations and investments in affiliated companies do not include marketable securities.

(16) Assets held in trust

Breakdown	Dec. 31, 2018 EUR million	Dec. 31, 2017 EUR million
Receivables from the Special Purpose Fund of the Federal Republic held at Rentenbank	110	112
Loans and advances to banks	0	0
Total amount	**110**	**112**

(17) Fixed assets

Statement of changes in fixed assets in EUR million

	Intangible assets	**Property and equipment**		**Financial investments**		
	Software and licenses	Land and buldings	OOE	Securities	Participa-tions*	Investments in affiliated companies
Historical cost						
Cost as of Jan. 1, 2018	35	20	14	15,870	327	50
Additions	6	–	1			
Disposals	–	–	1			
Transfers	–	–	–			
Net changes in financial investments**				650	–	–
Cost as of Dec. 31, 2018	41	20	14	16,520	327	50
Depreciation, amortization, write-downs						
Accumulated depreciation, amortization and write-downs as of Jan. 1, 2018	24	7	12	–	1	–
Accumulated depreciation, amortization and write-downs from disposals	–	–	0			
Depreciation, amortization and write-downs 2018	3	0	1			
Accumulated depreciation, amortization and write-downs as of Dec. 31, 2018	27	7	13	–	1	–
Reversals of write-downs	–	–	–	–	1	–
Carrying amount as of Dec. 31, 2018	**14**	**13**	**1**	**16,520**	**327**	**50**
Carrying amount as of Dec. 31, 2017	11	13	2	15,870	326	50

* In the previous year, historical cost was reported at an amount of EUR 326 million based on the relief provided for in Article 31 (6) of the Introductory Act of the German Commercial Code (*Einführungsgesetz zum Handelsgesetz-buch, EGHGB*), in the version amended in 1992.

** Net change pursuant to Section 34 (3) sentence 2 RechKredV

(18) Other assets

Breakdown	Dec. 31, 2018 EUR million	Dec. 31, 2017 EUR million
Cash collateral provided for derivatives	4,705	5,359
Total amount	**4,705**	**5,359**

(19) Prepaid expenses

Breakdown	Dec. 31, 2018 EUR million	Dec. 31, 2017 EUR million
Premium from lending business	1,182	1,056
Discount from issuing business	357	297
Upfront payments from derivative transactions	238	241
Total amount	**1,777**	**1,594**

(20) Liabilities to banks

Breakdown by residual maturity	Dec. 31, 2018 EUR million	Dec. 31, 2017 EUR million
– up to 3 months	–	–
– more than 3 months to 1 year	185	200
– more than 1 year to 5 years	855	590
– more than 5 years	785	1,190
Total amount	**1,825**	**1,980**

(21) Liabilities to customers

Breakdown by residual maturity	Dec. 31, 2018 EUR million	Dec. 31, 2017 EUR million
Other liabilities		
– up to 3 months	148	36
– more than 3 months to 1 year	342	146
– more than 1 year to 5 years	425	692
– more than 5 years	2,321	2,721
Total amount	**3,236**	**3,595**

Liabilities to customers include liabilities to affiliated companies in the amount of EUR 101 million (2017: EUR 101 million). Liabilities to companies in which participating interests are held amount to EUR 1 million (2017: EUR 1 million).

Liabilities to customers were covered by assets in accordance with Section 13 (2) of Rentenbank's Governing Law in the amount of EUR 19 million (2017: EUR 19 million).

(22) Securitized liabilities

Breakdown by residual maturity	Dec. 31, 2018 EUR million	Dec. 31, 2017 EUR million
Debt securities issued		
– up to 1 year	13,776	19,959
– more than 1 year to 5 years	37,406	31,810
– more than 5 years	24,958	24,688
Total amount	**76,140**	**76,457**

(23) Liabilities held in trust

Breakdown	Dec. 31, 2018 EUR million	Dec. 31, 2017 EUR million
Liabilities from the Special Purpose Fund of the Federal Republic held at Rentenbank	110	112
Liabilities to customers	0	0
Total amount	**110**	**112**

(24) Other liabilities

Breakdown	Dec. 31, 2018 EUR million	Dec. 31, 2017 EUR million
Cash collateral received for derivatives	300	202
Total amount	**300**	**202**

(25) Deferred income

Breakdown	Dec. 31, 2018 EUR million	Dec. 31, 2017 EUR million
Discount from lending business	3	3
Premium from issuing business	231	236
Upfront payments received from derivative transactions	1,593	1,419
Total amount	**1,827**	**1,658**

(26) Provisions

This balance sheet item includes provisions for pension obligations of EUR 118 million (2017: EUR 111 million) to employees who are contractually entitled to receive pension benefits. Other provisions consist of the following:

Other provisions	Dec. 31, 2018 EUR million	Dec. 31, 2017 EUR million
Shortfall in interest payments from special promotional loans	330	334
Promotion of Research on Agricultural Innovation	11	9
Promotion of agriculture (Promotional Fund)	4	4
Miscellaneous provisions	14	14
Total amount	**359**	**361**

(27) Subordinated liabilities

Breakdown by residual maturity	Dec. 31, 2018 EUR million	Dec. 31, 2017 EUR million
– up to 1 year	72	31
– more than 1 year to 5 years	263	335
– more than 5 years	40	40
Total amount	**375**	**406**

The subordinated liabilities are issued in the form of promissory notes (carrying amount: EUR 50 million), loan agreements (carrying amount: EUR 62 million), and bearer securities (carrying amount: EUR 263 million). The net interest expense for subordinated liabilities before hedging totals EUR 9 million (2017: EUR 11 million).

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 EUR 100 million; carrying amount:
   EUR 100 million;
   maturity: August 18, 2021;
   interest rate before collateralization: 0.62 %
2. Bond of EUR 100 million;
   carrying amount: EUR 100 million;
   maturity: August 18, 2021;
   interest rate before collateralization: 0.65 %

(28) Foreign currency assets and liabilities

As of the balance sheet date, assets denominated in foreign currency amounted to EUR 4,699 million (2017: EUR 4,431 million), and liabilities denominated in foreign currency stood at EUR 46,345 million (2017: EUR 49,970 million). Foreign currency balances were hedged almost entirely through derivatives.

(29) Contingent liabilities

The contingent liabilities of EUR 1 million (2017: EUR 1 million) generally result from deficiency guarantees. Rentenbank entered into deficiency guarantees with respect to capital market loans granted at a reduced rate of interest for which the federal government has provided counterguarantees. We do not expect these guarantees to be called upon.

(30) Other commitments

Other commitments consist of irrevocable loan commitments of EUR 717 million (2017: EUR 956 million) in the special promotional loan business.

The irrevocable loan commitments result from loan commitments where Rentenbank has made a binding commitment to its customers, thus resulting in a potential credit risk for the bank. Based on experience from previous years, Rentenbank expects that drawdowns on these irrevocable loan commitments will be made almost entirely in 2019.

(31) Cover calculation

The outstanding liabilities requiring cover include only registered bonds of EUR 19 million (2017: EUR 19 million).

An amount of EUR 41 million (2017: EUR 43 million) of loans and advances to banks is designated to cover debt securities issued.

Notes to the income statement

(32) Interest income

Interest income from cash collateral provided as well as from lending and money market transactions is reported net of negative interest of EUR 41.6 million (i.e. reducing income by this amount).

Interest income includes the pro rata utilization of the corresponding provisions of EUR 84.5 million (2017: EUR 85.1 million).

(33) Interest expense

Interest expense is reported net of positive interest of EUR 1.0 million from money market liabilities and cash collateral received (i.e. reducing expenses by this amount).

Interest expense for the provisions for the shortfalls in interest payments from special promotional loans amounted to EUR 70.1 million in 2018 (2017: EUR 74.9 million). In addition, interest expense includes effects of EUR 9.6 million from the compounding of these provisions (2017: EUR 10.4 million).

(34) Other operating income

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

Item 6: Other operating income	Dec. 31, 2018 EUR million	Dec. 31, 2017 EUR million
Rental income from residential buildings and real estate	2	2
Income from reversals of provisions	0	1
Capitalization of project work carried out by internal employees	1	1
Other refunds	1	1

Other operating income includes currency translation gains of EUR 0.9 thousand (2017: EUR 0.7 thousand). These currency translation gains result exclusively from the currency translation of balances on current accounts in foreign countries.

(35) Other operating expenses

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

Item 9: Other operating expenses	Dec. 31, 2018 EUR million	Dec. 31, 2017 EUR million
Interest expense from the valuation of pension provisions	11	9
Grants for the Research on Agricultural Innovation programme	5	4
Additions to promotional contribution	0	1
Canteen expenses	1	1
Additions to provision for pending litigation	0	0

Other operating expenses include currency translation losses of EUR 122.5 thousand (2017: EUR 7.0 thousand). These currency translation losses result exclusively from the currency translation of balances on current accounts in foreign counties.

Other disclosures

(36) Other financial commitments

In 2018, framework agreements were concluded with promotional institutions of the federal states in relation to the granting of promotional loans for the fiscal year 2019 in the amount of EUR 1,790 million (2017: EUR 100 million).

(37) Derivative financial instruments

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

Derivative transactions

The nominal amount of the derivative transactions totaled EUR 158,264 million as of December 31, 2018 (2017: EUR 159,220 million).

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

Derivatives in the banking book to hedge:	Nominal amounts		Fair values positive	Fair values negative
	Dec. 31, 2018 EUR million	Dec. 31, 2017 EUR million	Dec. 31, 2018 EUR million	Dec. 31, 2018 EUR million
Interest rate risks				
Interest rate swaps	106,645	104,115	1,052	4,618
– Of which termination and conversion rights embedded in swaps	925	1,025	36	4
Swaptions				
– Sales	797	958	–	1
Total exposure to interest rate risks	**107,442**	**105,073**	**1,052**	**4,619**
Currency risks				
Cross-currency swaps	45,494	43,192	1,456	2,390
– Of which currency options embedded in swaps	32	44	3	–
FX swaps	5,328	10,955	63	18
Total exposure to currency risks	**50,822**	**54,147**	**1,519**	**2,408**
Total exposure to interest rate and currency risks	**158,264**	**159,220**	**2,571**	**7,027**

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

Derivatives in the banking book	Nominal amounts Interest rate risks		Nominal amounts Currency risks	
	Dec. 31, 2018 EUR million	Dec. 31, 2017 EUR million	Dec. 31, 2018 EUR million	Dec. 31, 2017 EUR million
– up to 3 months	5,309	3,624	4,561	9,042
– more than 3 months to 1 year	9,745	10,729	6,191	7,724
– more than 1 year to 5 years	48,095	48,348	25,652	20,821
– more than 5 years	44,293	42,372	14,418	16,560
Total	**107,442**	**105,073**	**50,822**	**54,147**

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

Derivatives in the banking book	Nominal amounts		Fair values positive	Fair values negative
	Dec. 31, 2018 EUR million	Dec. 31, 2017 EUR million	Dec. 31, 2018 EUR million	Dec. 31, 2018 EUR million
Banks in OECD countries	143,897	147,013	2,418	6,307
Other counterparties in OECD countries	14,046	11,895	153	708
Banks in non-OECD countries	321	312	–	12
Total	**158,264**	**159,220**	**2,571**	**7,027**

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

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

Balance sheet item	Risk hedged	Carrying amount 2018 EUR million	Carrying amount 2017 EUR million
Other loans and advances to banks	Currency	26	–
Bonds and other fixed-income securities	Currency	4,621	4,388
Liabilities to customers	Currency	163	163
Securitized liabilities	Currency	46,995	51,219
Subordinated liabilities	Currency	125	156

(39) Remuneration of the Management Board and the Supervisory Board

In the fiscal year 2018, the total remuneration paid to the members of the Management Board of Rentenbank in accordance with Section 285 No. 9b HGB amounted to EUR 1,912 thousand (2017: EUR 1,817 thousand). The following remuneration was paid to the individual members of the Management Board in the fiscal year 2018:

Breakdown	Fixed remuneration EUR thousand	Variable remuneration EUR thousand	Other remuneration EUR thousand	Total EUR thousand
Hans Bernhardt	730	27	38	**795**
Dr. Horst Reinhardt	730	27	29	**786**
Dietmar Ilg*	320	–	11	**331**
Management Board, total	**1,780**	**54**	**78**	**1,912**

* Beginning of contract term: May 1, 2018

As of December 31, 2018, provisions for pension obligations to the former members of the Management Board and their surviving dependents totaled EUR 15,237 thousand (2017: EUR 14,946 thousand). Current benefit payments amounted to EUR 1,285 thousand (2017: EUR 1,258 thousand).

In accordance with the remuneration regulations, the Chairman of the Supervisory Board receives an annual basic remuneration of EUR 30 thousand, his Deputy Chairman EUR 20 thousand, and all other members of the Supervisory Board EUR 10 thousand each. In addition, the members of the Supervisory Board who are members of a committee receive remuneration of EUR 2 thousand and members who chair a committee EUR 4 thousand. The total remuneration of the Supervisory Board in the year under review amounted to EUR 301 thousand (2017: EUR 290 thousand), partly including VAT.

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

	Membership		Remuneration	
	2018	2017	2018 EUR thousand	2017 EUR thousand
Joachim Rukwied	Jan. 1 – Dec. 31	Jan. 1 – Dec. 31	42.0	42.0
Christian Schmidt	Jan. 1 – Mar. 13	Jan. 1 – Dec. 31	4.6[1]	22.0[2]
Udo Folgart	Jan. 1 – Dec. 31	Jan. 1 – Dec. 31	14.0	14.0
Bernhard Krüsken	Jan. 1 – Dec. 31	Jan. 1 – Dec. 31	16.0	16.0
Michael Reuther	Jan. 1 – Dec. 31	Jan. 1 – Dec. 31	14.0	14.0
Dr. Caroline Toffel	Jan. 1 – Dec. 31	Jan. 1 – Dec. 31	14.0	14.0
Werner Hilse	Jan. 1 – Dec. 31	Jan. 1 – Dec. 31	12.0	12.0
Manfred Nüssel	Jan. 1 – Dec. 31	Jan. 1 – Dec. 31	12.0	12.0
Harald Schaum	Jan. 1 – Dec. 31	Jan. 1 – Dec. 31	12.0	12.0
Brigitte Scherb	Jan. 1 – Dec. 31	Jan. 1 – Dec. 31	12.0	12.0
Dr. Marcus Pleyer	Jan. 1 – Dec. 31	Jan. 1 – Dec. 31	16.0	16.0
Werner Schwarz	Jan. 1 – Dec. 31	Jan. 1 – Dec. 31	10.0	10.0
Dr. Werner Hildenbrand	Jan. 1 – Dec. 31	Feb. 2 – Dec. 31	10.0	9.2
Dr. Hermann Onko Aeikens	Jan. 1 – Dec. 31	Mar. 20 – Dec. 31	16.0	12.4
Dr. Birgit Roos	Jan. 1 – Dec. 31	Apr. 6 – Dec. 31	12.0	9.0
Priska Hinz	Jan. 1 – Dec. 31	–	10.0	–
Dr. Till Backhaus	Jan. 1 – Dec. 31	–	10.0	–
Barbara Otte-Kinast	Jan. 1 – Dec. 31	–	10.0	–
Julia Klöckner[3]	Mar. 14 – Dec. 31	–	17.4	–
Dr. Rolf Bösinger	–	Jan. 1 – Dec. 31	–	10.0
Birgit Keller	–	Jan. 1 – Dec. 31	–	10.0
Peter Hauk	–	Jan. 1 – Dec. 31	–	10.0
Total remuneration			**264.0**	**256.6**

1) Direct donation to 'Ev.-luth. Kirchengemeinde Obernzenn/Urphertshofen'
2) Direct donations to 'Bundesverband Deutsche Tafel e.V.', 'Trägerverein Jüdisches Museum Franken e.V.' and 'Rumänienhilfe Markt Nordheim e.V.'
3) Direct donation to the foundation 'Mittelpunkt Mensch'

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

Employees	2018			2017		
	Male	Female	Total	Male	Female	Total
Full-time employees	153	81	234	149	79	228
Part-time employees	8	57	65	8	49	57
Total	**161**	**138**	**299**	**157**	**128**	**285**

Overall, Rentenbank employed 138 (2017: 128) female employees and 161 (2017: 157) male employees on average in 2018 (including full-time and part-time employees, employees on parental leave and similar, but excluding trainees and interns).

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

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

Name and nature of activities

Rentenbank as a credit institution and the subsidiary LR Beteiligungsgesellschaft mbH (LRB) as a financial institution form the regulatory group. With their registered offices in Frankfurt am Main, Germany, they do not have branch offices. Therefore, all the disclosures provided in the annual financial statements in accordance with Section 26a (1) sentence 2 KWG relate solely to Germany.

Revenue

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

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

The revenue determined using this method amounted to EUR 280.2 million in the fiscal year 2018.

The revenue of the subsidiary LRB is not presented separately due to immateriality.

Number of employees

The number of employees is stated on an average full-time equivalent basis pursuant to Section 267 (5) HGB. Rentenbank employed 299 employees on average in 2018, of whom 234 were full-time employees. The subsidiary LRB has no employees of its own.

Profit before tax and tax on profit or loss

Profit before tax for the fiscal year 2018 amounted on the basis of the regulatory group to EUR 66.0 million, tax on profit or loss amounted to EUR 1.4 million.

Public subsidies

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

Return on assets

In accordance with Section 26a (1) sentence 4 KWG, the return on assets is calculated on the basis of the regulatory group as the ratio of net income after tax of EUR 64.6 million and total assets of EUR 90.0 billion. It was 0.07% as of December 31, 2018.

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

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

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

- Niedersächsische Landgesellschaft mbH, Hanover
- Landgesellschaft Sachsen-Anhalt mbH, Magdeburg

(43) Other commitments

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

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

Rentenbank's auditors' fees are as follows:

Breakdown	2018 EUR thousand	2017 EUR thousand
Audit services*	429.0	482.2
Other certification services	78.4	66.9
Other services	300.6	232.0
Total	**808.0**	**781.1**

* Of the auditors' fees for 2018, the following amounts were attributable to the prior-year period: EUR 72.9 thousand for audit services, EUR 0.2 thousand for other certification services and EUR -16.3 thousand for other services.

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

After the end of the fiscal year, no significant events occurred that would affect the bank's income statement or balance sheet.

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

The preparation of the annual financial statements for the fiscal year 2018 with respect to profit appropriation is subject to the approval of the Supervisory Board.

The proposal for the 2018 appropriation of net income and profit presents the following resolutions:

- Of the net income of EUR 63,000,000 reported in the income statement, EUR 47,250,000 is allocated to the principal reserve *(Hauptrücklage)* pursuant to Section 2 (2) of Rentenbank's Governing Law.
- With respect to the remaining distributable profit of EUR 15,750,000, EUR 7,875,000 is provided for the Special Purpose Fund of the Federal Republic and EUR 7,875,000 for the Promotional Fund.
- In addition, in accordance with the provision that the guarantee reserve *(Deckungsrücklage)* may not exceed 5 % of the amount of the outstanding covered bonds pursuant to Section 2 (3) of Rentenbank's Governing Law, EUR 1,784.41 is removed from the guarantee reserve and the principal reserve is increased by the same amount.

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

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

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

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

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

Members of the Management Board
Members of the Supervisory Board
(in the fiscal year 2018)

Management Board

Dr. Horst Reinhardt (Chairman), Dipl.-Volkswirt, MBA
Hans Bernhardt, Dipl.-Kaufmann
Dietmar Ilg, Dipl.-Kaufmann (since May 1, 2018)

Supervisory Board

Chairman:

Joachim Rukwied
President of the German Farmers' Association, Berlin

Deputy Chairpersons:

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

Christian Schmidt, Member of the German Bundestag
Minister of Food and Agriculture, Minister of Transport and Digital Infrastructure, Berlin (until March 13, 2018)

Representatives of the German Farmers' Association:

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

Werner Hilse
The Farmers' Association of Lower Saxony, Hanover

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

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

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

Representative of the German Raiffeisen Association:

Manfred Nüssel
Honorary President of the German Raiffeisen Association, Berlin

Representative of the Food Industry:

Dr. Werner Hildenbrand
Deputy Chairman of the Federation of German Food and Drink Industries, Berlin

State Ministers of Agriculture:

Hesse:
Priska Hinz, Member of the Landtag
Minister of the Environment, Climate Protection, Agriculture and Consumer Protection Wiesbaden

Lower Saxony:
Barbara Otte-Kinast
Minister of Food, Agriculture and Consumer Protection, Hanover

Mecklenburg-Vorpommern:
Dr. Till Backhaus, Member of the Landtag
Minister of Agriculture and Environment, Schwerin

Representative of the Trade Unions:

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

Representative of the Federal Ministry of Food and Agriculture:

Dr. Hermann Onko Aeikens
State Secretary, Berlin

Representative of the Federal Ministry of Finance:

Dr. Marcus Pleyer
Head of Directorate, Berlin

Representatives of credit institutions or other credit experts:

Dr. Birgit Roos
Chief Executive Officer of the Management Board of Sparkasse Krefeld, Krefeld

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

Dr. Caroline Toffel
Member of the Management Board of Berliner Volksbank eG, Berlin

Frankfurt am Main, March 11, 2019

LANDWIRTSCHAFTLICHE RENTENBANK
The Management Board

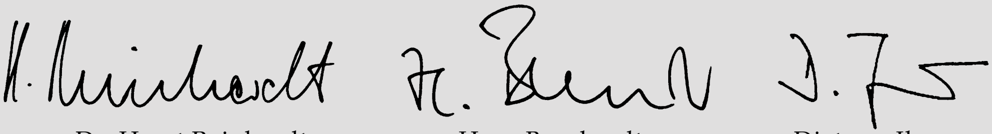
Dr. Horst Reinhardt | Hans Bernhardt | Dietmar Ilg

Responsibility Statement by the Management Board

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

Frankfurt am Main, March 11, 2019

LANDWIRTSCHAFTLICHE RENTENBANK
The Management Board



Dr. Horst Reinhardt | Hans Bernhardt | Dietmar Ilg

Reproduction of the Independent Auditor's Report

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

Independent Auditor's Report

To Landwirtschaftliche Rentenbank, Frankfurt am Main

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

Opinions

We have audited the annual financial statements of Landwirtschaftliche Rentenbank, Frankfurt am Main, which comprise the annual balance sheet as at 31 December 2018, the statement of profit and loss, the statement of cash flows and the statement of changes in equity for the financial year from 1 January to 31 December 2018, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Landwirtschaftliche Rentenbank for the financial year from 1 January to 31 December 2018.

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to banks and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2018 and of its financial performance for the financial year from 1 January to 31 December 2018 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

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

Basis for the Opinions

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

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Identification and measurement of provisions for expected losses

For further information on the risk provisioning system, please refer to Section 3 ‚Risk provisions‘ of the notes to the financial statements of Rentenbank as well as ‚Counterparty credit risk' in the risk report section of the management report.

THE FINANCIAL STATEMENT RISK

Risk provisions for receivables from banks, receivables from customers, securities and irrevocable loan commitments as at 31 December 2018 are as follows:

Landwirtschaftliche Rentenbank has recognised general provisions for inherent credit losses in credit business that amount to EUR 3.3 million. As in prior year no specific provisions for imminent credit losses were recognised.

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

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

The determination of the value-determining parameter ‚loss given default' is relevant for the examination of the general provision, as it represents the main determinant for the calculation of general provisions. We also consider the identification of specific provisions fundamentally significant, because the bank has to make proper assumptions for the purpose of credit control as to whether borrowers will meet their payment obligations in full.

OUR AUDIT APPROACH

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

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

With regard to the bank's accounting policies, we assessed whether the methods to measure the general provision are suitable to meet the requirements of German commercial law. In the course of our audit of risk management, we assessed the adequacy of methods for determining parameters for probabilities of default and loss given default during the reporting period. In this regard, especially the loss given default determined in this manner was examined for its plausibility by our credit risk experts. We also examined the establishment of controls to ensure proper calculation of the general provision. In addition, we verified the bank's calculations for determining the general provision during our audit.

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

OUR OBSERVATIONS

The probabilities of default and loss given default used after the change in methods to determine the general provision have been properly derived. Use of these parameters for general provisions and their calculation is appropriate. The controls established to identify the need to recognise specific provisions are appropriate and effective.

Other Information

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

- the remaining parts of the annual report, with the exception of the audited annual financial statements and management report and our auditor's report.

- assurance pursuant to Section 264 (2) sentence 3 HGB regarding the financial statements and assurance pursuant to Section 289 (1) sentence 5 HGB regarding the management report.

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

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

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

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

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

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

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

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by supervisory board resolution on 21 March 2018. We were engaged by the Supervisory Board on 12 September 2018. We have been the auditor of Landwirtschaftliche Rentenbank without interruption since financial year 2011.

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

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

- Project-based audit of the project to introduce SAP
- Issuing letters of comfort and other related assurance services
- Audit of the use of credit claims to collateralise central bank loans (credit claims – submission and administration)
- Sign-off report for the Single Resolution Fund (SRF) reporting form for the annual contribution (bank levy)
- Confirmation on the reporting sheet for contributions to the deposit guarantee fund of the Association of German Public Banks
- Quality assurance during the update of the recovery plan
- Quality assurance of implementing a central outsourcing management
- Quality assurance of implementing the requirements of ECB guidelines regarding ICAAP
- Quality assurance of editing the reporting sheets in the course of the EBA stress test
- Quality assurance with regard to general matters in connection with banking supervisory issues

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Andreas Dielehner.

Frankfurt am Main, 11 March 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dielehner	Müller
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Management Bodies (as of March 1, 2019)

Management Board

Dr. Horst Reinhardt (Chairman), Dipl.-Volkswirt, MBA
Hans Bernhardt, Dipl.-Kaufmann
Dietmar Ilg, Dipl.-Kaufmann

Supervisory Board

Chairman:

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

Deputy Chairwoman:

Julia Klöckner
Federal Minister of Food and Agriculture, Berlin

Representatives of the German Farmers' Association:

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

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

Werner Hilse
The Farmers' Association of Lower Saxony, Hanover

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

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

Representative of the German Raiffeisen Association:

Manfred Nüssel
Honorary President of the German Raiffeisen Association, Berlin

Representative of the Food Industry:

Dr. Werner Hildenbrand
Deputy Chairman of the Federation of German Food and Drink Industries, Berlin

State Ministers of Agriculture:

Hesse:
Priska Hinz, Member of the Landtag
Minister of the Environment, Climate Protection, Agriculture and Consumer Protection, Wiesbaden

Mecklenburg-Vorpommern:
Dr. Till Backhaus, Member of the Landtag
Minister of Agriculture and the Environment, Schwerin

Lower Saxony:
Barbara Otte-Kinast
Minister of Food, Agriculture and Consumer Protection, Hanover

Representative of the Trade Unions:

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

Representative of the Federal Ministry of Food and Agriculture:

Dr. Hermann Onko Aeikens
State Secretary, Berlin

Representative of the Federal Ministry of Finance:

Dr. Marcus Pleyer
Head of Directorate, Berlin

Representatives of credit institutions or other lending experts:

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

Dr. Birgit Roos
Chief Executiv Officer of the Management Board of Sparkasse Krefeld, Krefeld

Dr. Caroline Toffel
Member of the Management Board of Berliner Volksbank eG, Berlin

General Meeting

Appointed by the Federal State of Baden-Württemberg:

Werner Räpple
President of the Agricultural Association of Baden, Freiburg

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

Appointed by the Free State of Bavaria:

Franz Kustner
The Bavarian Farmers' Association, Hirschau

Bernhard Weiler
The Bavarian Farmers' Association, Stadtlauringen

Appointed by the Federal States of Berlin and Brandenburg:

Karsten Jennerjahn
The Farmers' Union of Brandenburg, Schrepkow

Norbert Pinnow
Managing Director of BBF Unternehmensberatung Betreuung Förderung GmbH, Oberkrämer

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

Appointed by the Free Hanseatic City of Bremen:

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

Appointed by the Free and Hanseatic City of Hamburg:

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

Appointed by the Federal State of Hesse:

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

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

Appointed by the Federal State of Mecklenburg-Vorpommern:

Detlef Kurreck
President of the Farmers' Association of Mecklenburg-Vorpommern, Neubrandenburg

Harald Nitschke
Managing Director of Raminer Agrar GmbH, Ramin

Appointed by the Federal State of Lower Saxony:

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

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

Appointed by the Federal State of North Rhine-Westphalia:

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

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

Appointed by the Federal State of Rhineland-Palatinate:

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

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

Appointed by the Federal State of Saarland:

Klaus Fontaine
The Farmers' Association Saar, Saarwellingen

Appointed by the Free State of Saxony:

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

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

Appointed by the Federal State of Saxony-Anhalt:

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

Olaf Feuerborn
President of the Farmers' Association of Saxony-Anhalt, Südliches Anhalt, OT Cosa

Appointed by the Federal State of Schleswig-Holstein:

Dietrich Pritschau
Vice President of the Farmers' Association of Schleswig-Holstein, Rendsburg

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

Appointed by the Free State of Thuringia:

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

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

Trustee

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

Deputy trustee:

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

Report from the Supervisory Board

The Supervisory Board 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 Management Board on its orderly conduct of business throughout the fiscal year.

The annual financial statements as well as the management report were prepared by the Management Board in accordance with the provisions of the German Commercial Code (*Handelsgesetzbuch, HGB*) as of December 31, 2018 and were audited by the auditors KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, who issued an unqualified audit opinion. The findings of the audit were noted with approval by the Supervisory Board.

The Supervisory Board reviewed the annual financial statements, including the management report and the 2018 annual report on Landwirtschaftliche Rentenbank. The Supervisory Board adopts the bank's annual financial statements including the management report for the fiscal year 2018.

Furthermore, 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 Supervisory Board resolved to remove EUR 1,784.41 from the guarantee reserve and to increase the principal reserve (*Hauptrücklage*) by the same amount.

Of the net income of EUR 63,000,000 reported in the income statement, EUR 47,250,000 is allocated to the principal reserve pursuant to Section 2 (2) of Rentenbank's Governing Law.

With respect to the remaining distributable profit of EUR 15,750,000, the Supervisory Board resolved to allocate EUR 7,875,000 to the Special Purpose Fund of the German Federal Government and EUR 7,875,000 to the Promotional Fund.

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

Frankfurt am Main, March 28, 2019

THE SUPERVISORY BOARD OF
LANDWIRTSCHAFTLICHE RENTENBANK

Joachim Rukwied
(Chairman)

Forward-Looking Statements

This annual report contains certain forward-looking statements that are based on current expectations, estimates, forecasts and projections of the Management Board 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.

Landwirtschaftliche Rentenbank
Hochstraße 2 / 60313 Frankfurt am Main / Germany
P.O. Box 10 14 45 / 60014 Frankfurt am Main / Germany

phone +49 (0)69 2107-0
fax +49 (0)69 2107-6444
e-mail: office@rentenbank.de
www.rentenbank.de

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