2016

Annual Financial Report

Financial Statements in accordance with
German Commercial Code (HGB) of
Landwirtschaftliche Rentenbank
as of December 31, 2016

rentenbank

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Combined Management Report

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Introduction

The combined management report consists of the voluntary[1] group management report of Landwirtschaftliche Rentenbank (Group in accordance with IFRS) and the management report of Landwirtschaftliche Rentenbank (Rentenbank in accordance with HGB). As the parent company of the Rentenbank Group, Rentenbank has combined the management report pursuant to Section 298 of the German Commercial Code (Handelsgesetzbuch – HGB) in accordance with Section 315 (1) in conjunction with Section 298 (2) HGB with the voluntary group management report. The provisions set out in Section 315a (1) in conjunction with Section 315 HGB were applied in full. This combined management report includes disclosures in accordance with IFRS 7.

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

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

General information on the Group

Group structure

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

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

Promotional mandate

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

[1] 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 a group management report in accordance with the German Commercial Code. Consequently, pursuant to Section 315a HGB, Rentenbank is not required to prepare a group management report in accordance with IFRS. Therefore, the group management report of Rentenbank is prepared on a voluntary basis.

risk structure.

As a promotional bank for agribusiness and rural areas, Rentenbank provides funds for a variety of agriculture-related investments. In accordance with its competitive neutrality, Rentenbank extends special promotional loans for projects in Germany via local banks (on-lending procedure). The range of products is geared towards enterprises operating in agriculture, forestry, viticulture, and horticulture, as well as in aquaculture, including fisheries. Rentenbank also provides funds for projects in the food industry as well as in the agricultural upstream and downstream sectors. We also finance investments in renewable energy and rural infrastructure.

Management system

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

- Implementing the promotional mandate in the best possible way and continually developing the promotional business,
- Providing promotional benefit from own funds,
- Generating an adequate operating profit based on a prudent risk policy.

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

Segments

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

- Promotional Business
- Capital Investment
- Treasury Management

The Promotional Business segment comprises the promotional lending business, the securitized promotional business as well as the long-term funding of the Group. As part of its promotional lending business, Rentenbank grants special promotional loans and standard promotional loans (e.g. in the form of promissory notes). The counterparties in the promotional business are almost exclusively banks and public sector institutions. The securitized promotional business comprises investments in securities with the aim of ensuring Rentenbank's liquidity and generating income. The latter enables the bank to deliver promotional performance, to cover administrative expenses, and to strengthen its capital base. The Group does not hold securities or receivables with structured credit risks, such as ABSs (asset-backed securities) or CDOs (collateralized debt obligations).

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

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

Key performance indicators

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

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

- Operating profit before provision for loan losses and valuation

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

- Cost-income ratio

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

- Promotional performance

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

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

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

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

Economic report

Macroeconomic and bank-specific environment

International interest rate and monetary policy

While the US Federal Reserve (Fed) once again slightly reversed its accommodative monetary policy in late 2016, the European Central Bank (ECB) continued to ease its monetary policy in the course of 2016. Accordingly, the international monetary and interest rate policy as a whole remained highly expansionary.

In March, the ECB expanded its monthly purchases under the asset purchase program from EUR 20 billion to EUR 80 billion. It cut the interest rate on the deposit facility from -0.30% to -0.40%, while the interest rate on the main refinancing operations was decreased from 0.05% to 0.0%. In December, the ECB announced that it would continue its purchases at the current monthly pace until the end of March 2017 and then reduce the monthly volume to EUR 60 billion until the end of December 2017, or beyond, if necessary.

In contrast to the ECB, the Fed continued to tighten its monetary policy slightly. In December, it raised the federal funds rate to a target range of 0.50% and 0.75%.

Diverging monetary policy on both sides of the Atlantic as well as the expectation of higher economic growth in the United States, driven by fiscal policy following the election of Donald Trump as US President, resulted in a further depreciation of the euro against the US dollar towards the year-end. At the end of 2016, the ECB set the reference rate for the USD/EUR exchange rate at 1.05, which was around 3% lower than the rate of 1.09 at year-end 2015.

Movements in long-term interest rates

The yields on Germany’s 10-year government bonds closed the year 2016 at 0.19%, below the level at year-end 2015 (0.64%). However, there were strong fluctuations between those dates. Due to the ECB’s expanded asset purchase program, long-term yields declined almost continuously in the first half of the year. As a result of the uncertainty surrounding the outcome of the Brexit vote, the 10-year German Bund yield fell into negative territory for a short period for the first time in mid-June. After the announcement of the EU referendum result on June 24, yields dropped below zero once again, sinking to a record low of -0.20% on July 6. However, against a backdrop of slightly rising inflation rates and expected further price increases driven by base effects from changes in oil prices, yields recovered as from October. This was supported by the Fed’s somewhat tighter monetary policy and the discussion about a possible gradual wind-down of the ECB’s asset purchase program.

Development of the German agricultural sector

The demand for Rentenbank's promotional loans is largely driven by investment activity in German agribusiness. Due to the persistently declining agricultural commodity prices, economic sentiment in the agricultural sector has deteriorated since mid-2014. This dampened investment activity, resulting in a lower volume of investments in dairy cattle barns and pigsties in particular. Producer prices started to recover partially in the second half of 2016, indicating a turnaround.

Business development

The effects of the adverse market conditions in agriculture were particularly pronounced in the Agriculture promotional line. The challenging economic situation led some agricultural enterprises to cancel investments or to postpone them to future business years. Initially, low producer prices left many agricultural businesses struggling with liquidity constraints before taking an upward turn in the second half of 2016. Consequently, demand for liquidity assistance loans declined in the course of the year.

The weaker demand for new loans in the Agriculture promotional line was largely offset by buoyant demand in other promotional lines. New business was up in the Agribusiness, Rural Development, and Renewable Energy promotional lines.

The investment momentum in the Renewable Energy promotional line depends largely on the German Renewable Energy Sources Act (EEG). The demand for loans for photovoltaic installations stabilized at a subdued level in the fiscal year 2016. Prior to the entry into force of the revised EEG on January 1, 2017, the focus was on wind turbine financing. Slowing demand for loans in the agricultural sector was largely offset by the strong growth in wind energy financing.

Overall, the demand for special promotional loans decreased only marginally. The notional amounts of new promotional business are as follows:

	2016		**2015**	
	EUR billion	%	EUR billion	%
Special promotional loans	7.7	61.6	7.8	57.4
Securitized promotional business	2.5	20.0	3.2	23.5
Standard promotional loans	2.3	18.4	2.6	19.1
Total	**12.5**	**100.0**	**13.6**	**100.0**

In the year under review, new promotional business totaled EUR 12.5 billion (2015: EUR 13.6 billion). It was thus slightly down year-on-year (the amounts in brackets correspond to the amounts as of December 31, 2015), but significantly above plan (EUR 10.5 billion).

Rentenbank raised the necessary funds again at favorable terms as financial investors preferred safe investments. In the reporting year, Rentenbank raised a total of EUR 12.7 billion

(2015: EUR 13.0 billion) in funding in the domestic and international capital markets. Thus, the funding volume in 2016 was higher than initially planned. The following instruments were used for debt issuance in the capital markets:

	2016		2015	
	EUR billion	%	EUR billion	%
Euro Medium Term Notes (EMTN)	9.0	70.9	7.3	56.1
Global bonds	2.8	22.0	3.0	23.1
AUD Medium Term Notes (MTN)	0.5	3.9	2.2	16.9
International loans/promissory notes	0.0	0.0	0.4	3.1
Domestic capital market instruments	0.4	3.2	0.1	0.8
Total	**12.7**	**100.0**	**13.0**	**100.0**

Results of operations, financial position and net assets

Results of operations

Group's results of operations

	Jan. 1 to Dec. 31, 2016	Jan. 1 to Dec. 31, 2015	Change in
	EUR million	EUR million	EUR million
1) Income statement			
Net interest income before allowance for credit losses/promotional contribution	333.4	331.0	2.4
Allowance for credit losses/promotional contribution	20.6	18.6	2.0
Administrative expenses	67.3	65.0	2.3
Net other income/expenses	-6.4	-9.2	2.8
Operating profit	**239.1**	**238.2**	**0.9**
Net gains/losses from fair value and hedge accounting	-235.0	204.9	-439.9
Group's net income	**4.1**	**443.1**	**-439.0**
2) Other comprehensive income			
Net gains/losses on available-for-sale instruments	11.4	-56.5	67.9
Actuarial gains/losses on pension obligations	-7.6	5.7	-13.3
3) Group's total comprehensive income	**7.9**	**392.3**	**-384.4**

Operating profit

The operating profit for the fiscal year 2016 amounted to EUR 239.1 million, slightly exceeding the prior-year figure of EUR 238.2 million. The increased expenses for the allowance for credit losses/promotional contribution, as well as the higher administrative expenses were more than offset by the increase in net interest income and the improvement in net other income/expenses.

The operating profit did not decline by 25% as planned, which was due to two factors. Firstly, overall margins in the Promotional Business and Treasury Management segments were considerably higher compared to the forecast and the corresponding projected figures. Secondly, the increase in administrative expenses was significantly lower than anticipated. These factors are explained in more detail below.

Interest income, including income from participations, amounted to EUR 3,567.3 million (2015: EUR 3,734.4 million). After deducting interest expenses of EUR 3,233.9 million (2015: EUR 3,403.4 million), net interest income amounted to EUR 333.4 million (2015: EUR 331.0 million). This unexpected increase is primarily attributable to higher margins in the Treasury Management segment, which were significantly above target. For further details, please refer to the section on the operating profit by segment.

Expenses for the allowance for credit losses/promotional contribution rose by EUR 2.0 million or 10.8% to EUR 20.6 million. This was mainly due to an increase in the promotional contribution by EUR 4.3 million to EUR 19.1 million (2015: EUR 14.8 million). It was offset by a decline in expenses for the allowance for credit losses by EUR 2.3 million compared with the prior year.

The promotional contribution comprises the interest rate reduction for the special promotional loans granted by Rentenbank. A promotional expense is recognized when it is incurred, which is then amortized through profit or loss over the remaining time to maturity. The expense for the additions to the promotional contribution climbed by EUR 7.2 million to EUR 89.3 million (2015: EUR 82.1 million), while income from the utilization of the promotional contribution rose by EUR 2.9 million to EUR 70.2 million (2015: EUR 67.3 million).

In accordance with IFRS, impairments resulting from payment defaults are only determined for losses already incurred. Since the Group generally extends loans to other banks, credit risks are identified in a timely manner. Based on a model of expected credit losses, a portfolio valuation allowance is recognized for loans and advances as well as for securities measured at (amortized) cost to account for any residual risk of not having identified losses already incurred. In the current fiscal year, the specific valuation allowance of EUR 2.2 million recognized in the previous year was reversed since the impaired exposure reached maturity and was fully repaid. This resulted in income of EUR 2.2 million. The expenses for the portfolio valuation allowance rose by EUR 2.1 compared to 2015, amounting to EUR 3.7 million in the fiscal year 2016 (2015: EUR 1.6 million).

Administrative expenses rose by 3.5% to EUR 67.3 million in the fiscal year 2016 (2015: EUR 65.0 million). Of this amount, personnel expenses accounted for EUR 34.5 million (2015: EUR

33.8 million), an increase of EUR 0.7 million compared to 2015.

Amortization of intangible assets and depreciation of property and equipment and investment property increased to EUR 7.0 million (2015: EUR 6.2 million). This was mainly due to the amortization of expenses for projects related to the implementation of new IT systems that had been capitalized previously.

Other administrative expenses rose by EUR 0.8 million or 3.2% to EUR 25.8 million (2015: EUR 25.0 million). This was mainly attributable to expenses for audits and contributions that increased by EUR 0.7 million to EUR 4.2 million (2015: EUR 3.5 million).

Net other income/expenses improved by EUR 2.8 million or 30.4% to EUR -6.4 million (2015: EUR -9.2 million). This was positively affected by the fact that the effects from the capital increase of Rehwinkel Foundation, which had reduced profit, no longer applied. Lower tax expenses also had a favorable impact.

Operating profit by segment

	Promotional Business		**Capital Investment**		**Treasury Management**		**Total**	
Jan. 1 to Dec. 31	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
	EUR million	EUR million	EUR million	EUR million	EUR million	EUR million	EUR million	EUR million
Net interest income before allowance for credit losses/promotional contribution	172.8	190.5	118.8	116.7	41.8	23.8	333.4	331.0
Allowance for credit losses/promotional contribution	20.6	18.6	0.0	0.0	0.0	0.0	20.6	18.6
Administrative expenses	51.5	49.1	9.8	9.4	6.0	6.5	67.3	65.0
Net other income/expenses	-5.3	-9.0	-1.0	0.0	-0.1	-0.2	-6.4	-9.2
Operating profit	**95.4**	**113.8**	**108.0**	**107.3**	**35.7**	**17.1**	**239.1**	**238.2**

The operating profit of the Promotional Business segment decreased in line with expectations, amounting to EUR 95.4 million (2015: EUR 113.8 million). Due to the high volume of new commitments in the Promotional Business, which was particularly pronounced during the first months of 2016, the income-relevant average portfolio balance was increased compared to planning. In addition, the overall new business margin generated was well above our initial projections. In the Promotional Business segment, net interest income before the allowance for credit losses/promotional contribution declined less than expected and amounted to EUR 172.8 million (2015: EUR 190.5 million). The prior year's figure included the DZ BANK dividend of EUR 6.1 million. As from 2016, the dividend is reported in the Capital Investment segment due to the intragroup reclassification. The continued high demand for our special promotional loans led to higher expenses for the interest rate reduction. Therefore, the allowance for credit losses/promotional contribution increased to EUR 20.6 million (2015: EUR 18.6 million). Administrative expenses in the Promotional Business segment, including depreciation and amortization, rose by EUR 2.4 million to EUR 51.5 million.

Interest income from the Capital Investment segment rose as expected to EUR 118.8 million, representing a year-on-year increase of EUR 2.1 million. However, the low interest environment led to low returns on new investments, which had a negative impact compared with higher-yielding maturing assets. This effect was nonetheless more than offset by the higher portfolio volume from the retention of profits as well as by the first-time recognition of the DZ BANK dividend in this segment (previously recognized in the Promotional Business segment), resulting in a slight increase in the segment's total interest income. Overall, the segment's operating profit rose marginally to EUR 108.0 million (2015: EUR 107.3 million).

In the year under review, net interest income in the Treasury Management segment was characterized by a continued increase in margins due to low short-term funding costs. Thus, it was well above the planned target. The segment's operating profit rose significantly to EUR 35.7 million (2015: EUR 17.1 million).

Net gains/losses from fair value and hedge accounting

All derivatives and certain non-derivative financial instruments are measured at fair value. Changes in fair value are recorded as unrealized gains or losses in net gains/losses from fair value and hedge accounting. Any gains or losses realized from a premature sale or repurchase of financial instruments measured at fair value are also reported in net gains/losses from fair value and hedge accounting.

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

Changes in interest rates and exchange rates do not have significant measurement effects due to maturity-matched refinancing and hedging through derivatives.

Net gains/losses from fair value and hedge accounting fell significantly to EUR -235.0 million (2015: measurement gains of EUR 204.9 million). They are largely dominated by measurement losses from the decline in credit spreads for own issues. Net gains/losses from fair value and hedge accounting also include a realized gain of EUR 5.0 million from the repurchase of an own issue.

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

Group's net income

Taking into account the net losses from fair value and hedge accounting of EUR 235.0 million (2015: measurement gains of EUR 204.9 million), the Group's net income declined by EUR 439.0 million to EUR 4.1 million (2015: EUR 443.1 million).

Other comprehensive income

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

The fair value changes largely attributable to changes in credit spreads related to the securities in the available-for-sale category are recognized in other comprehensive income. As part of hedge accounting, the changes in the fair value of these securities attributable to fluctuations in the deposit/swap curve are reported in net gains/losses from fair value and hedge accounting.

The credit spreads for securities decreased compared with the prior year. The resulting increase in market values led to measurement gains of EUR 11.4 million (2015: measurement losses of EUR 56.4 million).

Actuarial gains and losses from the measurement of pension obligations are caused by differences between the expected and actual actuarial assumptions of the prior period and by changes in expectations of future events. In the fiscal year 2016, actuarial losses reported in the financial statements amounted to EUR 7.6 million (2015: gains of EUR 5.7 million). These losses are mainly based on a lower discount rate, which in turn led to higher pension provisions.

Group's total comprehensive income

The Group's total comprehensive income for the period ending December 31, 2016 amounted to EUR 7.9 million (2015: EUR 392.3 million), representing a sharp decline of EUR 384.4 million compared with the prior year. This is mainly attributable to the decrease of EUR 439.9 million in net gains/losses from fair value and hedge accounting.

Reconciliation to distributable profit

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

In accordance with Section 2 (3) sentence 2 of Rentenbank's Governing Law, the guarantee reserve may not exceed 5% of the notional amount of the covered bonds outstanding at any given time. As the volume of covered bonds declined, an amount of EUR 21.6 million (2015: EUR 23.1 million) was withdrawn from the guarantee reserve and transferred to the principal reserve.

By analogy with the annual financial statements prepared under HGB, Rentenbank plans to withdraw an additional amount of EUR 54.9 million from retained earnings, subject to approval by the relevant corporate bodies. Of this amount, EUR 44.2 million will be transferred to the principal reserve. The Group's distributable profit remaining after the allocation to reserves amounts to EUR 14.8 million (2015: EUR 14.3 million).

Results of operations of Rentenbank

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

	Jan. 1 to Dec. 31, 2016 EUR million	**Jan. 1 to Dec. 31, 2015** EUR million	**Change in** EUR million
Net interest income 1)	318.7	311.9	6.8
of which expenses for interest rate reduction for special promotional loans	82.9	77.2	5.7
Special payout LRB	0.0	49.8	-49.8
Net fee and commission income	-2.1	-2.2	0.1
Administrative expenses	61.1	59.8	1.3
Other operating income/expenses	-0.1	-16.4	16.3
Income taxes	1.0	0.0	1.0
Operating profit before provision for loan losses 2)	**254.4**	**233.5**	**20.9**
Operating profit before provision for loan losses and valuation	254.4	283.3	-28.9
Provision for loan losses and measurement	195.4	226.3	-30.9
Net income	**59.0**	**57.0**	**2.0**

1) Net interest income, including income from participations
2) Prior year's figure adjusted for special payout LRB

The operating profit before provision for loan losses and valuation (HGB) increased by 9% year-on-year to EUR 254.4 million (2015: EUR 233.5 million). The prior-year figure was adjusted for the one-off effect due to the special payout from the subsidiary LRB in the amount of EUR 49.8 million, which was recognized in the income statement.

Contrary to our initial expectation of a declining trend, the operating profit showed a marked improvement due to the strong increase in net interest income in the Treasury Management segment, and as a result of the extraordinary effects reflected in other operating income/expenses. Other operating income/expenses improved substantially from EUR -16.4 million in the previous year to EUR -0.1 million. Other operating income increased by approximately EUR 5 million due to additional income from the repurchase of an own issue upon the request of an investor. Moreover, other operating expenses declined by approximately EUR 10 million as a result of the change in the discount rate used for pension provisions under HGB, which was resolved by the legislator.

However, in contrast to the operating profit under HGB, the extraordinary effects described above did not have an impact on the operating profit under IFRS, nor did the first-time receipt of the DZ BANK dividend in the operating profit under HGB have an impact on the consolidated profit under IFRS. Therefore, the overall increase in the operating profit under HGB was substantially above the increase in the operating profit under IFRS.

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

The provision for loan losses and measurement primarily comprises specific and general valuation allowances under HGB and the additions to the fund for general banking risks. General valuation allowances rose by EUR 2.4 million to EUR 18.6 million (2015: EUR 16.2 million). A specific valuation allowance recognized in the prior year in the amount of EUR 2.0 million was reversed through profit or loss in its full amount since the liability was repaid at the maturity date. The fund for general banking risks (Section 340g HGB) was increased by EUR 195.7 million (2015: EUR 279.2 million).

The overall increase in net income amounted to EUR 2.0 million, resulting in net income of EUR 59.0 million (2015: EUR 57.0 million). Of this amount, EUR 44.2 million (2015: EUR 42.7 million) was transferred to the principal reserve. Distributable profit after the allocation to reserves amounts to EUR 14.8 million (2015: EUR 14.3 million) which will be used to promote agriculture and rural areas.

Financial key performance indicators

The operating profit before provision for loan losses and valuation amounted to EUR 254.4 million (2015: EUR 233.5 million, adjusted for the special payout). The development was far more positive than expected. In our planning, we had initially assumed a decline in the operating profit by up to 25%. On the one hand, net interest income was significantly higher than expected, since the new business margins generated in the Promotional Business segment and, above all, in the Treasury Management segment were considerably above plan. On the other hand, the increase in administrative expenses was lower than expected since IT and project expenses were lower than planned. In addition, personnel expenses were substantially below plan since additions to pension provisions declined and additional vacant posts were filled on a step-by-step basis. Moreover, the planning for 2016 included a conservative estimate due to the unclear structure and amount of the bank levy. Other operating income/expenses improved ahead of expectations owing to the positive one-off effects (see the section on the results of operations of Rentenbank).

The positive effects that contributed to the operating profit were also reflected in the cost-income ratio, one of our key performance indicators. As a result, the cost-income ratio improved far in excess of our expectations. In particular, the positive one-off effects in the operating profit resulted in a decrease in expenses to EUR 71.4 million (2015: EUR 80.7 million), while income increased slightly to EUR 325.8 million (2015: EUR 314.2 million). This led to an improvement in the cost-income ratio from 25.7% (prior-year figure adjusted for the special payout) to 21.9%. Compared with peers, our cost-income ratio thus remains at a very moderate level.

Promotional performance, a further key performance indicator, comprises the interest rate reduction for the special promotional loans, inter alia. In the year under review, we used EUR 66.4 million of our own income (2015: EUR 63.6 million) in nominal terms for this purpose. In addition, we provided grants of EUR 3.0 million for our Research on Agricultural Innovation program. The promotional performance, including the distributable profit of EUR 14.8 million intended for distribution, rose to EUR 84.2 million. Accordingly, and consistent with expectations, it exceeded the prior year's figure of EUR 82.9 million.

Financial position

Capital structure

Capital structure of the Group

	Dec. 31, 2016 EUR million	**Dec. 31, 2015** EUR million	**Change in** EUR million
Liabilities			
Liabilities to banks	2 448.5	2 829.3	-380.8
Liabilities to customers	4 189.0	4 408.3	-219.3
Securitized liabilities	73 831.8	71 544.9	2 286.9
Subordinated liabilities	740.7	729.4	11.3
Equity			
Subscribed capital	135.0	135.0	0.0
Retained earnings	3 464.2	3 474.9	-10.7
Revaluation reserve	65.5	61.7	3.8
Distributable profit	14.8	14.3	0.5

Liabilities

Liabilities to banks decreased by 13.5% to EUR 2.4 billion (2015: EUR 2.8 billion), which was largely attributable to the repayment of term deposits and global bonds. Liabilities to customers decreased by EUR 0.2 billion or 5.0% to EUR 4.2 billion (2015: EUR 4.4 billion), mainly due to maturing registered bonds.

Securitized liabilities rose by EUR 2.3 billion or 3.2% to EUR 73.8 billion (2015: EUR 71.5 billion). The Medium Term Note (MTN) programs remained our main refinancing instruments, amounting to EUR 51.8 billion (2015: EUR 51.8 billion). The carrying amount of global bonds amounted to EUR 16.0 billion (2015: EUR 16.2 billion) as of year-end 2016. The carrying amount of Euro Commercial Paper (ECP) increased by EUR 2.4 billion to EUR 5.9 billion (2015: EUR 3.5 billion).

Subordinated liabilities remained at the prior-year level of EUR 0.7 billion (2015: EUR 0.7 billion).

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

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

	Maturities					
	up to 1 year		1 to 5 years		more than 5 years	
	Dec. 31, 2016 EUR million	**Dec. 31, 2015** EUR million	**Dec. 31, 2016** EUR million	**Dec. 31, 2015** EUR million	**Dec. 31, 2016** EUR million	**Dec. 31, 2015** EUR million
Fixed interest rate						
EUR	1 725.3	3 294.1	11 711.2	8 858.0	6 645.6	7 570.0
USD	3 801.6	4 255.5	11 086.7	10 147.6	6 618.0	6 773.7
AUD	1 262.9	786.0	4 793.6	4 460.6	3 587.7	4 515.0
JPY	21.1	0.0	300.3	246.2	205.1	369.7
CHF	606.9	390.4	198.4	763.4	57.0	113.0
NOK	7.4	286.0	564.1	499.2	0.0	0.0
GBP	974.6	836.6	1 572.6	1 616.6	0.0	0.0
Other	1 117.8	436.5	2 118.2	2 732.1	621.9	658.7
Zero coupon						
EUR	33.3	37.8	11.1	44.3	1 400.7	972.2
USD	5 662.6	3 005.4	0.0	0.0	0.0	0.0
AUD	239.0	154.0	0.0	0.0	0.0	0.0
GBP	0.0	103.5	0.0	0.0	0.0	0.0
Other	0.0	251.4	0.0	0.0	0.0	0.0
Variable interest						
EUR	1 476.9	1 539.0	5 393.7	4 854.3	19.9	1 808.6
USD	957.5	1 928.3	5 136.8	3 071.2	64.7	570.9
AUD	0.9	421.7	274.2	269.5	0.0	0.0
JPY	0.0	11.6	156.6	35.8	151.5	262.8
NOK	205.1	0.0	245.5	224.4	0.0	0.0
GBP	1.3	0.0	0.0	0.0	0.0	0.0
Other	104.8	152.4	75.9	183.9	0.0	0.0
Total	18 199.0	17 890.2	43 638.9	38 007.1	19 372.1	23 614.6

Equity

The appropriation of the Group's distributable profit from the prior year in the amount of EUR 14.3 million was higher than the Group's total comprehensive income of EUR 7.9 million. This reduced equity by a total of EUR 6.4 million to EUR 3,679.5 million (2015: EUR 3,685.9 million).

Capital structure of Rentenbank

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

	Dec. 31, 2016 EUR million	**Dec. 31, 2015** EUR million	**Change in** EUR million
Liabilities			
Liabilities to banks	3 053.6	3 461.7	-408.1
Liabilities to customers	3 766.6	3 963.3	-196.7
Securitized liabilities	69 982.0	67 304.9	2 677.1
Subordinated liabilities	615.1	608.4	6.7
Equity (including fund for general banking risks)			
Subscribed capital	135.0	135.0	0.0
Retained earnings	1 053.8	1 009.5	44.3
Distributable profit	14.8	14.3	0.5
Fund for general banking risks	3 106.9	3 911.2	195.7

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

The fund for general banking risks was increased by EUR 0.2 billion to EUR 3.1 billion (2015: EUR 2.9 billion). This resulted in an increase in equity of EUR 0.2 billion compared to 2015.

Capital expenditure

In the past years, Rentenbank has invested heavily in the modernization of its IT application systems. Investments focused particularly on the integrated front-to-back system (Murex) and the rating platform. One of our current important projects is the introduction of SAP as the future financial accounting system. In addition, we increased the degree of digitalization of customer and business partner interfaces (extranet). We also invested in systems and processes for the purpose of implementing new regulatory requirements.

The aforementioned project activities are reflected in the current administrative expenses as well as in changes in intangible assets. In the year under review, additions to cost amounted to EUR 4.3 million (2015: EUR 4.6 million).

Liquidity

The Group's liquidity analysis presents the contractual redemption amounts:

Dec. 31, 2016

	up to 3 months	more than 3 months to 1 year	more than 1 year to 5 years	more than 5 years or unspecified maturity
	EUR million	EUR million	EUR million	EUR million
Liabilities to banks	240.0	334.6	1 065.0	680.0
Liabilities to customers	135.9	65.9	760.0	3 633.1
Securitized liabilities	8 473.8	8 802.2	35 340.0	20 293.1
Negative fair values of derivative financial instruments	239.0	244.0	608.0	143.0
Subordinated liabilities	41.4	17.6	331.6	323.6
Total	**9 130.1**	**9 464.3**	**38 104.6**	**25 072.8**

Dec. 31, 2015

	up to 3 months	more than 3 months to 1 year	more than 1 year to 5 years	more than 5 years or unspecified maturity
	EUR million	EUR million	EUR million	EUR million
Liabilities to banks	325.9	340.4	880.0	1 190.0
Liabilities to customers	246.5	337.4	766.1	3 277.6
Securitized liabilities	8 868.0	8 054.3	35 125.2	18 160.3
Negative fair values of derivative financial instruments	179.0	56.0	918.0	517.0
Subordinated liabilities	7.7	17.8	134.8	507.0
Total	**9 627.1**	**8 805.9**	**37 824.1**	**23 651.9**

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

Net assets

Net assets of the Group

	Dec. 31, 2016 EUR million	Dec. 31, 2015 EUR million	Change in EUR million
Loans and advances to banks	57 511.0	55 457.2	2 053.8
Loans and advances to customers	7 496.8	6 380.9	1 115.9
Financial investments	19 254.6	19 912.2	-657.6
Positive fair values of derivative financial instruments	6 549.5	7 238.9	-689.4
Negative fair values of derivative financial instruments	7 333.1	7 152.9	180.2

In accordance with its competitive neutrality, Rentenbank generally extends loans via other banks. Within net assets, this is reflected in loans and advances to banks. As of December 31, 2016, they amounted to EUR 57.5 billion (2015: EUR 55.5 billion), accounting for 60.5% (2015: 59.4%) of total assets.

Loans and advances to customers mainly comprise promissory notes to German federal states. Overall, they increased by EUR 1.1 billion to EUR 7.5 billion (2015: EUR 6.4 billion).

Financial investments, which consist almost exclusively of bank bonds, decreased by EUR 0.7 billion to EUR 19.3 billion (2015: EUR 19.9 billion) as redemptions exceeded new business.

The positive fair values of derivative financial instruments decreased by EUR 0.7 billion to EUR 6.5 billion (2015: EUR 7.2 billion), while the negative fair values rose by EUR 0.2 billion to EUR 7.3 billion (2015: EUR 7.2 billion). The Group uses derivatives exclusively to hedge existing or expected market risks. Collateral agreements were concluded with all derivative counterparties. Rentenbank does not enter into credit default swaps (CDSs).

Net assets of Rentenbank

Rentenbank's net assets in the financial statements under HGB were as follows:

	Dec. 31, 2016 EUR million	Dec. 31, 2015 EUR million	Change in EUR million
Loans and advances to banks	57 793.8	55 682.4	2 111.4
Loans and advances to customers	6 048.2	5 304.4	743.8
Bonds and other fixed-income securities	17 764.6	18 302.1	-537.5

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

At year-end 2016, the securities portfolio included bank bonds classified as fixed assets in a notional amount of EUR 17.4 billion (2015: EUR 18.2 billion). As in the previous year, no securities were held in the liquidity reserve.

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

Non-financial key performance indicators

Corporate citizenship

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

Employees

The number of employees grew in the year under review. At year-end 2016, Rentenbank had 282 (2015: 269) employees (excluding trainees, interns, employees on parental leave, and members of the Board of Managing Directors). The average length of service was approximately eleven years. The ratio of male and female employees was almost on par, with 55% of the employees being male and 45% being female. 81% of part-time employees were women.

Compliance with legal and regulatory requirements

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

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

Report on events after the reporting date

There were no significant events after the end of fiscal year 2016.

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 affected by both the interest rate trend and the situation in the agricultural markets and the agricultural sector.

At the beginning of 2017, economic conditions are largely stable in the major industrialized countries. However, the outlook is clouded by several factors of political uncertainty, such as the future policy of the US government, the implications of Brexit, the continued strained geopolitical situation, as well as the uncertain outcome of various elections in Europe.

While the prospects of further interest rate increases and potentially more expansionary fiscal policy in the United States tend to increase interest rates, an associated appreciation of the US dollar could result in protectionist measures and could trigger a global wave of currency depreciation. This, accompanied by the continued accommodative monetary policy of the ECB along with geopolitical uncertainty, would lead to declining yields instead. Since inflation rates have already picked up significantly in both the United States and Europe due to oil price-related base effects– a trend that is likely to persist in the medium term – Rentenbank expects a slight increase in interest rates for the current year.

Within the framework of Agrar, a barometer of agricultural business sentiment, approximately 1,800 farmers are interviewed regarding their plans for capital expenditures in the next six months. According to the survey conducted in December 2016, German farmers plan to invest a total of EUR 3.6 billion in the first half of 2017. This volume exceeds the prior-year level of EUR 3.3 billion, highlighting the fact that farmers have a more optimistic outlook for the next two to three years. As a result of rising milk and meat prices, especially dairy cattle farms and granivore farms perceive an improvement in their current economic situation.

The Food and Agriculture Organization of the United Nations (FAO) expects in its projection until 2025 that global agricultural commodity prices will initially remain constant. On the one hand, this is due to the decelerated growth of the global economy. On the other hand, the FAO anticipates that the global supply and demand for agricultural commodities will equally increase. Animal product prices are expected to rise, providing a positive outlook for granivore farms. Accordingly, the export opportunities for the German agribusiness will improve. The use of renewable commodities for fuel generation should remain flat for the time being, driven by relatively low oil prices. In addition, the FAO expects stronger price fluctuations in the agricultural markets, which could be triggered by the possible lift of the Russian embargo, severe weather conditions, and fluctuations in the oil price, among others.

New business in the Renewable Energy promotional line depends largely on the Renewable Energy Sources Act (EEG), which was amended in 2016. The key aspect of the revised EEG is that as from 2017, the level of funding will no longer be fixed by law but will rather be determined on the market by auction. Due to the competitive auctions, wind farms are expected to receive a smaller rate of funding. This could have long-term effects on new business in the Renewable Energy promotional line. However, we expect to finance wind turbine projects in 2017 that were approved prior to the revision of the EEG. Therefore, we believe that the business performance in 2017 in this promotional line will be similar to that of the previous year.

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

Forecast of business development

Comprehensive annual plans and multi-year plans with a 5-year time horizon are prepared in order to project Rentenbank’s future results of operations, financial position and net assets. These plans comprise planning for Rentenbank's new business, portfolio, equity, income and costs. In addition, planning includes regulatory indicators relevant for management purposes as well as a projection of the development of the risk-bearing capacity. In the following, the projections refer to the planning period of 2017.

Projections: operating profit

The following disclosures relate to the planned figures of Rentenbank under HGB.

Within the framework of our current planning, we assume that the new business volume in the Promotional Business segment will be below the prior-year level while redemptions will increase at the same time. Due to the expanded asset purchase program of the ECB, we expect slimmer lending/funding margins. Overall, this should lead to a significant decrease in net interest income for the Promotional Business segment.

Special promotional loans will remain the focus of the lending business. However, after the record high of 2015 and a similar level achieved in the year under review, we expect that the new business volume will decrease in 2017, 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 of total assets will continue to increase.

In the year under review, the portfolio of securities as well as standard promotional loans declined by approximately 3%. The portfolio is also expected to decrease somewhat in 2017.

Within the Capital Investment segment, we expect that interest income will be slightly down on

2016. This is mainly driven by the low return on new business owing to the low interest rate environment. This effect cannot be fully offset by the higher portfolio volume from the retention of profits, resulting in a slight decrease in the segment's total interest income.

In 2017, net interest income of the Treasury Management segment is likely to be significantly below the high prior-year level as we anticipate declining margins.

Net interest income of the three segments is expected to decline significantly in 2017.

Cost planning for 2017 in particular takes into account the necessary long-term investments in Rentenbank's infrastructure as well as the necessary adjustments to comply with additional regulatory requirements. This includes investments in the development of Murex, the introduction of the new financial accounting system, the relocation of the data center, as well as the upgrade of other hardware and software currently in use. Despite our rigorous cost management, the numerous changes in the regulatory framework and the accounting standards are expected to incur considerably higher administrative expenses in 2017 (2016: EUR 61.1 million). This particularly applies to personnel expenses.

Against a backdrop of the development of income and expenses, we expect the operating profit for 2017 to decline overall by around 25% (operating profit before provision for loan losses and valuation under HGB in 2015: EUR 254.4 million). Compared over the long term, this key performance indicator would nevertheless be at a satisfying level.

Despite declining results, we expect to be able to keep our promotional performance (2016: EUR 84.2 million) at an appropriate level, and anticipate an increase of 5% to 10% in 2017 for this key performance indicator.

Due to falling income combined with the simultaneous increase (driven by investment activities) in administrative expenses, the cost-income ratio is expected to increase considerably (2016: 21.9%). Nevertheless, the ratio will remain at a satisfying level.

Overall, the Board of Managing Directors expects a significant decrease in the operating profit before provision for loan losses and valuation (operating profit under HGB) for 2017, driven by declining interest income and higher administrative expenses.

Projections: consolidated profit under IFRS

For 2017, we expect an equally sharp decline in the operating profit under IFRS (2016: EUR 239.1 million) as in the operating profit before provision for loan losses and valuation under HGB, since changes in the operating profit under IFRS and HGB are similar in structural terms.

Net measurement gains/losses can only be projected on the basis of very uncertain assumptions due to the high volatility of the market parameters and the buy-and-hold strategy. Currently, we anticipate net measurement gains for 2017 to be in the double-digit million range.

Overall, the Board of Managing Directors expects the Group's total comprehensive income under IFRS for the fiscal year 2017 to increase from the 2016 level of EUR 7.9 million. The expected improvement in net measurement gains/losses (2016: EUR -235.0 million) should more than offset the decrease in the operating profit driven by declining interest income and higher administrative expenses.

Opportunities and risks

In comparison to the planned targets for 2017, 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, which would have an impact on new business volume and margins in the lending and funding businesses. A deterioration in the economic environment would result in new business volume being lower than planned. However, Rentenbank's history has shown that challenging situations may also offer opportunities, attributable to the bank’s superior credit ratings and its solid capital base. These opportunities may arise in the form of attractive funding opportunities and high margins in the securitized and standard promotional businesses. However, higher margins also reflect higher risks in some cases, which could have a negative impact on earnings since general valuation allowances have to be increased.

The prevailing low-interest environment, primarily due to the ECB’s monetary policy, supports the demand of the agricultural sector for special promotional loans. However, low interest rates also weigh on the earnings in the Capital Investment segment and have an impact on the margins in the Promotional Business segment. Further measures introduced by the ECB within the scope of the expanded asset purchase program could lead to an additional charge on earnings due to falling asset yields and margins. A change in the low interest 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 of interest rate changes as well as on the respective segment and the selected time horizon.

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

Depending on the changes in market parameters, measurement losses may arise in the case of a widening of the lending/funding margins in the market. If the margins tighten, this may result in measurement gains.

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

Further information on risks is included in the risk report.

Development in the current year

Net interest income before the allowance for credit losses/promotional contribution of all three segments was slightly above both the prior-year figure and the pro-rata projected figure. Net gains/losses from fair value and hedge accounting developed favorably, above all due to effects from reversals driven by residual maturities. On the basis of new business and the results achieved in the current fiscal year, the Board of Managing Directors is confident that the planned volumes in the promotional business and the planned operating profit will be achieved for the fiscal year 2017.

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

Risk report

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

Organization of risk management

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

As part of a risk inventory, the Group analyzes which risks may have a significant impact on its assets, capital resources, results of operations, or liquidity situation. This represents the basis for the Group's risk profile. In addition, material risks are identified early using indicators based on quantitative and qualitative risk characteristics, as well as self-assessments. Further procedures include the New Product Process (NPP), ICS key controls, and daily monitoring activities. Concentration effects are given appropriate consideration.

The risks resulting from business activities are identified, limited, and managed using a risk management system (RMS). Based on the risk-bearing capacity concept, the RMS was established specifically for this purpose. In this context, the Board of Managing Directors has defined a risk strategy, aligned with the overall business strategy, and the associated sub-strategies.

These are reviewed at least annually and adjusted, if necessary, by the Board of Managing Directors. In addition, the strategies are discussed with the Risk Committee established by the Board of Supervisory Directors.

The implementation, management and monitoring of limits, which are in line with Rentenbank's risk-bearing capacity, are an integral part of the RMS.

The risk-bearing capacity concept aims to ensure that the risk coverage potential is sufficient to cover all material risks. It comprises the going concern approach and the gone concern approach with a one-year time horizon. The primary management instrument is the going concern approach. The objective is to sustainably generate a stable and adequate operating profit, while concurrently complying with the regulatory requirements. Under the going concern approach, risks are measured based on a standard scenario and a stress scenario at a confidence level of 95% and 99%. The confidence level represents the probability that the projected losses will not be exceeded.

The management objective of the gone concern approach is to protect lenders (creditor protection). Under this approach, risks are measured using an even higher confidence level of 99.9%.

Rentenbank is an institution supervised by the ECB and is subject to the Supervisory Review and Evaluation Process (SREP).

Rentenbank has established a recovery plan pursuant to the German Recovery and Resolution Act (Sanierungs- und Abwicklungsgesetz – SAG), which is updated at least annually. The key elements of the recovery plan are the defined recovery indicators and their thresholds, as well as the recovery options and the governance and recovery process. The recovery indicators are part of risk reporting and allow Rentenbank to identify crisis situations at an early stage so that mitigating actions can be taken.

Under the Risk Appetite Framework (RAF), Rentenbank defines the framework and guidelines for risk appetite, which are described in the business and risk strategy as well as in the related sub-strategies. The risk appetite is reflected in the established risk limits as well as in the early warning indicators.

As part of the planning process, risk scenarios are also used to evaluate future net assets, financial position, and results of operations. Deviations between the target and actual performance are analyzed in an internal monthly report. The capital plan is defined on the basis of a 10-year time horizon. The risk-bearing capacity and the associated key metrics are planned using a 5-year projection.

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

Based on the risk management and controlling processes, the risk manual of the Board of Managing Directors provides a comprehensive overview of all risks in the Group. Risk management functions are primarily performed by the Treasury and Promotional Business divisions (front office functions according to MaRisk) within defined limits. The member of the Board of Managing Directors who is responsible for the back office function is also responsible for the Risk Controlling function. The Finance division, including its Risk Controlling function, and the Financial Institutions division, together with its Credit Risk function, report to this Board member. In the Finance division, the Risk Controlling function is accountable for the regular monitoring of the limits approved by the Board of Managing Directors, as well as for the reporting on market risks, liquidity risks, operational risks, regulatory and reputational risks, and risk-bearing capacity. Risk reporting is based on the level of risk and regulatory requirements. The Financial Institutions division monitors the limits defined for credit risks and is responsible for reporting on credit risks, taking into account risk aspects and regulatory requirements.

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

The Board of Managing Directors, as well as the Audit Committee and the Risk Committee, which are both established by the Board of Supervisory Directors, are informed of the risk situation at least quarterly. If material risk-relevant information or transactions become known, and in the case of non-compliance with MaRisk, the Board of Managing Directors, Internal Audit department and, if necessary, the heads of divisions or departments concerned must be notified immediately. The Board of Supervisory Directors is immediately informed of the material risk aspects by the Board of Managing Directors.

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

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

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

Risk reporting is embedded in the management information system and is based on the regulatory requirements as well as the information requirements of the recipients. The Board of Managing Directors and the Board of Supervisory Directors are informed of the Group's overall risk situation in a quarterly risk report. In addition, the Board of Managing Directors receives daily and monthly reports on credit, market, and liquidity risks.

Credit risk

Definition

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

Issuer, counterparty, and original country risk refer to losses due to defaults or deteriorations in the credit quality of business partners (i.e. counterparties, issuers, countries), taking into account the valuation of collateral. Derivative country risk results from the general economic and political situation in the debtor's country of incorporation. Derivative country risks are divided into country transfer risks and redenomination risks. Country transfer risk refers to the inability of a solvent foreign borrower to make interest and principal payments when they are due as a result of economic or political instability. Redenomination risk refers to the risk of converting the notional value of a receivable into another currency. In the case of a conversion into a weaker currency based on a fixed exchange rate, this may be equivalent to a partial disappropriation of the creditors.

Structural risks (e.g. cluster or concentration risks) result from the concentration of the lending business in regions, sectors or on borrowers. Collateral risk arises from the lack of recoverability of loan collateral during the loan term or from an incorrect valuation of collateral. Participation risk is the risk of losses incurred due to a negative performance within the portfolio of participations.

The scope of the Group's business activities is largely defined by Rentenbank's Governing Law and its statutes. Accordingly, loans for the promotion of agriculture and rural areas are primarily granted to banks in the Federal Republic of Germany, in another EU country or in Norway. A further prerequisite is that the banks are engaged in business activities with companies operating in the agricultural sector or in the associated upstream or downstream industries or in rural development. In addition, standard promotional business may also be conducted with the German federal states. The special promotional loans are limited to Germany as an investment location. Accordingly, Rentenbank's lending business is mostly limited to the refinancing of banks and institutions or credit institutions as defined in Article 4 CRR as well as to other interbank transactions. The credit risk of the end borrower is borne by the end borrower's local bank.

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

Rentenbank is only exposed to company risks as part of the direct loan business. No agreements were entered into in 2016. In accordance with its credit risk strategy, Rentenbank has not conducted any syndicated loan business for several years now.

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

Organization

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

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

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

Credit assessment

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

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

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

Quantification of credit risk

Credit default risks are measured using statistical methods and are classified according to Rentenbank's rating system. Historical default rates as published by rating agencies are used to determine expected losses since Rentenbank has no statistically significant historical data of its own due to the very low number of defaults or credit events in the past decades.
In order to assess credit risks, the Group uses a standard scenario to determine the expected annual loss with regard to the loan exposure. The standard scenario is complemented by stress scenarios. These assume a deterioration in credit quality, lower recovery rates, and an increased probability of default. On the basis of these assumptions, the Group estimates the expected annual loss based on full utilization of the established internal limits.

In line with its business model defined by Rentenbank’s Governing Law and its statutes, the Group focuses on interbank business. This results in a sectoral concentration risk. A lump-sum amount (risk buffer) is set aside for this risk.

In accordance with the risk-bearing capacity concept defined in the risk manual, credit risks in the standard scenario are assigned a certain amount of risk coverage potential 1. The established internal limits are monitored daily to ensure compliance with this amount at all times.

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

Limitation and reporting

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

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

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

All limits are monitored daily by the relevant back office function. For money market and promotional loan transactions, securitized promotional business as well as for participations, the utilization of the limits is measured using the relevant carrying amounts. For derivatives, the level of utilization of the limits is measured on the basis of the positive fair values of derivative portfolios, taking into account collateral received, if any, and, in the case of negative fair values of derivative portfolios, taking into account cash collateral received. Limit reserves are used as a buffer for credit risk resulting from fluctuations in valuations. The member of the Board of Managing Directors responsible for this back office function receives a daily report on the risk-related limits and their utilization. The Board of Managing Directors is notified immediately if the limits are exceeded.

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

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

Current risk situation

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

Maximum exposure to credit risk pursuant to IFRS 7:

	Dec. 31, 2016 EUR million	**Dec. 31, 2015** EUR million	**Change in** EUR million
Loans and advances to banks	57 511.0	55 457.2	2 053.8
Loans and advances to customers	7 496.8	6 380.9	1 115.9
Fair value changes of hedged items in a portfolio hedge	1 258.6	1 298.8	-40.2
Positive fair values of derivative financial instruments	6 549.5	7 238.9	-689.4
Financial investments	19 254.6	19 912.2	-657.6
Irrevocable loan commitments	990.0	841.7	148.3
Total	**93 060.5**	**91 129.7**	**1 930.8**

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

As regards the positive fair values of derivative financial instruments, the disclosed maximum exposure to credit risk of EUR 6,549.5 million (2015: EUR 7,238.9 million) represents the carrying amounts in the balance sheet at an individual contract level. In contrast, the risk-related economic collateralization is used for risk mitigation at the counterparty level. For transactions in derivative financial instruments, Rentenbank has concluded collateral agreements with all counterparties on the basis of master agreements with netting provisions. In accordance with IFRS 7, the maximum credit risk exposure to derivative financial instruments amounted to EUR 13.6 million as of December 31, 2016 (2015: EUR 185.3 million), taking into account netting agreements and cash collateral.

Exposure to credit risk by rating category:

Dec. 31, 2016

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

Dec. 31, 2015

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

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

Risk concentration by country:

Dec. 31, 2016

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

Dec. 31, 2015

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

Risk concentration by group of counterparty:

Dec. 31, 2016

	Private sector banks/ other banks		Foreign banks		Public sector banks	
	EUR million	%	EUR million	%	EUR million	%
Loans and advances to banks	10 049.7	10.8	1 548.3	1.7	32 572.9	35.0
Loans and advances to customers	1.5	0.0	0.0	0.0	0.0	0.0
Fair value changes of hedged items in a portfolio hedge	227.9	0.2	7.7	0.0	620.3	0.7
Positive fair values of derivative financial instruments	1 085.1	1.2	4 849.7	5.2	210.6	0.2
Financial investments	2 554.3	2.7	14 347.5	15.4	735.6	0.8
Irrevocable loan commitments	143.9	0.2	0.1	0.0	493.8	0.5
Total	**14 062.4**	**15.1**	**20 753.3**	**22.3**	**34 633.2**	**37.2**

	Cooperative banks		Central banks		Non-banks	
	EUR million	%	EUR million	%	EUR million	%
Loans and advances to banks	12 840.1	13.8	500.0	0.5	0.0	0.0
Loans and advances to customers	0.0	0.0	0.0	0.0	7 495.3	8.1
Fair value changes of hedged items in a portfolio hedge	402.7	0.5	0.0	0.0	0.0	0.0
Positive fair values of derivative financial instruments	133.3	0.1	0.0	0.0	270.8	0.3
Financial investments	131.9	0.1	0.0	0.0	1 485.3	1.6
Irrevocable loan commitments	352.2	0.4	0.0	0.0	0.0	0.0
Total	**13 860.2**	**14.9**	**500.0**	**0.5**	**9 251.4**	**10.0**

Dec. 31, 2015

	Private sector banks/ other banks		Foreign banks		Public sector banks	
	EUR million	%	EUR million	%	EUR million	%
Loans and advances to banks	8 650,4	9,5	1 553,6	1,7	32 790,1	36,0
Loans and advances to customers	1,7	0,0	0,0	0,0	0,0	0,0
Fair value changes of hedged items in a portfolio hedge	228,9	0,3	6,2	0,0	625,4	0,7
Positive fair values of derivative financial instruments	1 078,2	1,2	4 982,4	5,5	244,3	0,3
Financial investments	2 672,1	2,9	14 461,8	15,9	616,7	0,7
Irrevocable loan commitments	220,8	0,2	6,3	0,0	316,5	0,3
Total	**12 852,1**	**14,1**	**21 010,3**	**23,1**	**34 593,0**	**38,0**

	Cooperative banks		Non-banks	
	EUR million	%	EUR million	%
Loans and advances to banks	12 463,1	13,7	0,0	0,0
Loans and advances to customers	0,0	0,0	6 379,2	7,0
Fair value changes of hedged items in a portfolio hedge	438,3	0,5	0,0	0,0
Positive fair values of derivative financial instruments	168,4	0,2	765,6	0,8
Financial investments	130,9	0,1	2 030,7	2,2
Irrevocable loan commitments	298,1	0,3	0,0	0,0
Total	**13 498,8**	**14,8**	**9 175,5**	**10,0**

Carrying amounts in the peripheral eurozone countries:

Dec. 31, 2016

	Italy EUR million	Portugal EUR million	Spain EUR million	Total EUR million
Government bonds	318.9	78.9	92.6	490.4
Bonds and promissory notes of banks	124.3	20.9	641.1	786.3
Positive fair values of derivative financial instruments			0.0	0.0
Gross exposure	**443.2**	**99.8**	**733.7**	**1 276.7**
Collateral	124.3	20.9	641.1	786.3
Net exposure	**318.9**	**78.9**	**92.6**	**490.4**

Dec. 31, 2015

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

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

There are no available credit limits with counterparties located in the peripheral eurozone countries. Until further notice, only derivatives that are backed by cash collateral may be concluded with counterparties from Italy and Spain.

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

	Government bonds		Bonds and promissory notes of banks	
	Dec. 31, 2016 EUR million	Dec. 31, 2015 EUR million	Dec. 31, 2016 EUR million	Dec. 31, 2015 EUR million
Available for sale	305.2	308.0	705.1	1 823.4
Held to maturity	143.2	144.1	0.0	0.0
Loans and receivables	0.0	0.0	0.0	0.0
Designated as at fair value	42.0	40.6	81.2	101.0
Total	**490.4**	**492.7**	**786.3**	**1 924.4**

Allowances for credit losses

In the case of exposures at risk of default, allowances for credit losses are recognized at the level of individual exposures. In this context, impairments resulting from payment defaults are only determined for losses already incurred. The impairment is determined based on the difference between the carrying amount and the present value of the expected cash flows. The method is described in more detail in Note 9 to the consolidated financial statements.

At the level of the annual financial statements of Rentenbank, a specific valuation allowance of EUR 2.4 million was reversed since the exposure was terminated before maturity. This valuation allowance had not been recognized at Group level as the related exposure was measured at fair value through profit or loss in the consolidated financial statements. In the year under review, another specific valuation allowance on loans and advances, amounting to EUR 2.0 million under HGB and to EUR 2.2 million under IFRS, was reversed upon maturity of the exposure and its full repayment. Accordingly, there were no specific valuation allowances at bank or Group level.

The Group recognized a portfolio valuation allowance of EUR 20.0 million (2015: EUR 16.3 million) for latent risks based on an expected loss model. The method is described in Note 9 to the consolidated financial statements. Rentenbank recognized a general valuation allowance of EUR 18.6 million (2015: EUR 16.2 million) in its annual financial statements.

Standard scenarios

The basis of the calculations for measuring expected losses under the standard scenario is the expected loss related to the amount of utilization, taking into account 1-year probabilities of default. As of December 31, 2016, the cumulative expected loss amounted to EUR 65.5 million (2015: EUR 67.7 million), including a lump-sum amount of EUR 50 million (risk buffer) for sectoral concentration risks in the banking sector.

The year-on-year decline is attributable to redemptions as well as credit enhancements of individual exposures. In the fiscal year 2016, the average expected loss, calculated on a monthly basis, amounted to EUR 66.4 million (2015: EUR 64.7 million). In relation to the risk coverage potential allocated to credit risks as of the reporting date, the average potential utilization was 25.6% (2015: 24.9%). The maximum utilization amounted to EUR 67.8 million (2015: EUR 67.7 million). It was thus below the limit of EUR 260.0 million approved by the Board of Managing Directors for the standard scenario. The lowest utilization during the reporting year was EUR 65.5 million (2015: EUR 63.3 million).

Stress scenarios

Under the first stress scenario, the expected loss is calculated based on full utilization of all prescribed limits, taking into account 1-year probabilities of default. As of December 31, 2016, the expected loss under this stress scenario amounted to EUR 79.0 million (2015: EUR 81.0 million). Under two further scenarios, we simulate an increase in default probabilities by a country-specific factor (at least twice as high), deterioration of credit quality (by at least two notches), and lower recovery ratios for potential losses of collateralized transactions. The stress scenario simulating the highest risk exposure is included in the calculation of the risk coverage potential, as part of determining the risk-bearing capacity. As of the reporting date, the maximum expected loss calculated under the stress scenarios described above was EUR 123.0 million (2015: EUR 145.5 million). The year-on-year decrease is – by analogy with the standard scenario – attributable to redemptions as well as credit enhancements of individual exposures in the lower rating categories.

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

Market risk

Definition

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

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

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

Open currency positions result, to a very limited extent, from fractional amounts related to settlements in foreign currencies. The measurement of hedged item and hedging instrument at fair value results in different market values in foreign currencies. The translation of foreign currency position into the euro leads to corresponding net measurement gains/losses. There is also a corresponding valuation risk related to future changes in exchange rates.

Further market risks, such as equity risk and commodity risk, are not relevant due to Rentenbank's business model.

The Group takes into account the different effects of market risks on financial reporting and classifies market risks that result from items accounted for at fair value as IFRS valuation risks.

The IFRS valuation risk is realized if the buy-and-hold strategy is breached or if a business partner defaults and the collateral is insufficient.

IFRS valuation risks are reflected mainly in net gains/losses from fair value and hedge accounting, thus affecting equity and regulatory own funds. However, in the case of regulatory own funds, prudential filters are applied to offset the net measurement gains/losses on own issues.

IFRS valuation risks are given appropriate consideration in the risk-bearing capacity calculation, especially due to their impact on regulatory own funds.

Organization

Rentenbank does not have a trading book pursuant to Article 4(1) points (85) and (86) CRR.

The objectives of market risk management are the qualitative and quantitative identification, assessment, monitoring, and management of market risks. These tasks are performed by the Risk Controlling and Risk Management functions.

The Risk Controlling function quantifies market risks, monitors operating limits and risks as part of the risk-bearing capacity concept, and prepares risk reports. It reports to the member of the Board of Managing Directors who is responsible for the back office function.

The Treasury division manages market risks.

The Operations Financial Markets department and the Financial Institutions division monitor the market conformity of concluded transactions.

Quantification of market risks

Interest rate risks

The Group limits its exposure to interest rate risk to the extent possible, especially through the use of derivatives. Derivatives are entered into on the basis of micro or macro relationships. The effectiveness of micro hedges is monitored daily using valuation units established for the hedging relationships. These economic micro or macro relationships are recognized in accordance with IFRS as hedging relationships accounted for in the balance sheet.

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

Gains or losses from maturity transformation result from short-term open positions as not all of the special promotional loans are instantly hedged due to their low volumes.

To quantify and monitor interest rate risks, the Group determines daily the corresponding present value sensitivity of all interest rate-sensitive transactions carried out in the Promotional Business and Treasury Management segments.

At Group level, a similar analysis is conducted quarterly. In accordance with regulatory requirements, Rentenbank is required to determine and report the impact of sudden and unexpected interest rate changes on its open positions in the banking book on a quarterly basis. The analysis examines whether the negative change in the present value exceeds 20% of total own funds. In accordance with regulatory provisions, equity is not taken into account in this assessment.

Interest rate risks may not exceed the risk limits determined by resolution of the Board of Managing Directors. Compliance with the limits is monitored daily and reported to the Board of Managing Directors.

IFRS valuation risks

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

The potential effects of IFRS valuation risks with regard to management objectives are taken into account in the risk coverage potential as part of the risk-bearing capacity analysis.

Standard scenarios

Under the standard scenario, the present value sensitivities of all open interest rate-sensitive transactions in the money market business and lending business portfolios are calculated daily, assuming a parallel shift in the interest rate curve. The results are compared with the relevant limits. The calculation is based on the assumption that the predicted value changes will not be exceeded with a probability of 95%. IFRS valuation risks are not taken into account in the standard scenario since this management approach focuses on the risk of unexpected losses in relation to the operating profit under both HGB and IFRS.

Stress scenarios

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

To determine IFRS valuation risks, the calculations assume an increase in the basis swap spreads, the exchange rates, and in other prices as well as a reduction of cross-currency basis swap spreads and credit spreads. When aggregating individual risks, risk-mitigating correlation effects are only taken into account if they arise between cross-currency basis swap spreads and credit spreads.

Under the stress scenario, the predicted risk values will not be exceeded with a probability of 99%.

Risk buffer

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

Limitation and reporting

Under the standard scenario, the risk coverage potential allocated to market risk amounted to EUR 19 million (2015: EUR 19 million).

Compliance with limits is monitored daily and is reported to the Board of Managing Directors. The Audit Committee and the Risk Committee of the Board of Supervisory Directors are informed quarterly of the outcomes of the risk analyses.

Backtesting

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

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

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

Current risk situation

The assumptions and market parameters of the standard and stress scenarios were validated during the fiscal year 2016. The risk exposures of and adjustments to the standard and stress scenarios are described in the following.

Standard scenarios

As of December 31, 2016, market risk in the money market business and lending business segments was EUR 2.0 million (2015: EUR 10.4 million) in the case of a parallel shift in the interest rate curve of 40 basis points (bps). This equals a 10.5% utilization of the risk limit (2015: 54.7%). The average limit utilization in the fiscal year 2016 was EUR 2.3 million (2015: EUR 3.2 million) or 12.1% (2015: 20.4%). The maximum risk for the reporting year amounted to EUR 10.4 million (2015: EUR 10.5 million), while the lowest utilization was EUR

0.0 million (2015: EUR 0.0 million). No limits were exceeded in 2015 and 2016.

The risk buffer was increased to EUR 14.4 million (2015: EUR 7.0 million) during validation.

Stress scenarios

The stress scenarios assume a parallel shift of 60 bps (2015: 60 bps) in the interest rate curves. As of the reporting date, the risk exposure amounted to EUR 3.1 million (2015: EUR 15.4 million).

The costs for interest rate basis swaps with different maturities and denominated in the same currency amounted to EUR 231.6 million (2015: EUR 215.7 million) based on a parallel increase in the basis swap spreads by 11 bps (2015: 10 bps) and a widening of OIS IBOR spreads by 75 bps (2015: 79 bps).

A decrease in the cross-currency basis swap spread by 111 bps (2015: 109 bps) is assumed in relation to the costs for interest rate basis swaps with the same maturity and denominated in different currencies. This resulted in a sensitivity of EUR -1,681.0 million (2015: EUR -1,336.3 million).

The credit spreads are based on a debtor's credit rating (structural credit quality), collateralization of products, and market-specific parameters (market liquidity in particular), among others. To measure sensitivity under the stress scenario, a parallel shift of -80 bps (-89 bps) and a parallel shift -108 bps (118 bps) are assumed for the lending and funding businesses, respectively. The risk exposure was EUR 1,867.9 million (2015: EUR 1,508.7 million).

The potential valuation loss in the case of an increase in the swaption volatilities by 118 bps (2015: 118 bps) amounted to EUR 14.7 million (2015: EUR 12.3 million) and in the case of an increase in cap/floor volatilities by 237 bps (2015: 237 bps) to EUR 2.0 million (2015: EUR 0.6 million).

The risk exposure to the translation of foreign currency positions into the euro assuming an exchange rate change of 35% (2015: 44%) amounted to EUR 69.5 million (2015: EUR 97.9 million).

The risk buffer amounted to EUR 24.5 million (2015: EUR 14.5 million).

Interest rate risks in the banking book

In accordance with BaFin Circular 11/2011 (BA), sudden and unexpected interest rate changes were simulated using a parallel shift of +(-)200 bps. As of the reporting date, the risk exposure in the case of rising interest rates amounted to EUR 418.3 million (2015: EUR 417.0 million). The ratio based on regulatory own funds amounted to 10.8% (2015: 11.4%). At no point during 2016 or 2015 did the ratio exceed the reporting threshold of 20%.

Foreign currency risks

No material risk was identified for any currency in 2016 or 2015. The following table presents a breakdown of the notional amounts by foreign currency:

Dec. 31, 2016

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

Dec. 31, 2015

Notional amounts in EUR million	USD	AUD	GBP	NZD	CHF	NOK	JPY	Other	**Total**
Assets									
Loans and advances to banks	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.1**
Loans and advances to customers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Financial investments	688.9	50.3	2 272.5	0.0	765.2	0.0	216.4	231.1	**4 224.4**
Positive fair values of derivative financial instruments	30 187.3	9 949.2	2 536.1	2 235.8	1 190.4	958.0	704.2	2 119.9	**49 880.9**
Total assets	**30 876.3**	**9 999.5**	**4 808.6**	**2 235.8**	**1 955.6**	**958.0**	**920.6**	**2 351.0**	**54 105.4**
Liabilities									
Liabilities to banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Liabilities to customers	96.4	0.0	13.6	13.2	0.0	0.0	38.1	0.0	**161.3**
Securitized liabilities	29 820.7	9 949.2	2 521.9	2 222.6	1 190.6	958.0	360.9	2 119.3	**49 143.2**
Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	0.0	381.5	0.0	**381.5**
Negative fair values of derivative financial instruments	959.1	50.3	2 273.1	0.0	765.0	0.0	140.1	231.7	**4 419.3**
Total liabilities	**30 876.2**	**9 999.5**	**4 808.6**	**2 235.8**	**1 955.6**	**958.0**	**920.6**	**2 351.0**	**54 105.3**
Net currency position (assets)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.1**
Net currency position (liabilities)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**

Liquidity risk

Definition

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

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

Controlling and monitoring

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

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

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

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

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

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

Under the risk-bearing capacity concept, liquidity risks are not covered by the risk coverage potential, but by counterbalancing capacity or liquid assets. Rentenbank’s triple-A ratings and the guarantee of the Federal Republic of Germany enable the Group to raise additional funds in the interbank markets at all times. Cash funds are also obtained from Eurex Clearing AG (collateralized money market funds in the form of securities repurchase agreements) and from the Deutsche Bundesbank (in the form of pledged securities and credit claims as eligible collateral in accordance with the KEV (Krediteinreichungsverfahren) procedure).

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

Stress scenarios

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

Liquidity ratios pursuant to the Liquidity Regulation

Pursuant to the German Liquidity Regulation (Liquiditätsverordnung), cash balances and payment obligations are determined daily for the various cash-related on-balance sheet and off-balance sheet transactions. These are weighted according to regulatory requirements and a ratio is calculated. Moreover, these ratios are also calculated and extrapolated for future reporting. In the 2016 reporting year, the monthly reported liquidity ratio for the period of up to 30 days was between 2.59 and 4.04 (2015: 2.40 and 3.65, respectively), thus significantly exceeding the 1.0 ratio defined by regulatory requirements.

Liquidity ratios pursuant to the CRR

The regulatory liquidity ratios LCR and NSFR (Net Stable Funding Ratio) serve to limit short-term as well as medium and long-term liquidity risks. The objective is to enable banks to remain liquid even during periods of stress by holding a liquidity buffer and maintaining stable funding. In 2016, the minimum LCR requirement (i.e. the ratio of high-quality liquid assets to total net cash outflows under stress scenarios) was 0.7. The required ratio will increase until it reaches 1.0 in 2018. The minimum requirement for the NSFR (i.e. the ratio of the amount of available stable funding relative to the amount of required stable funding) is 1.0. The introduction is planned for 2019 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 year 2016.

Reporting

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

Current risk situation

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

Operational risk

Definition

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

Controlling and monitoring

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

Legal risk is managed and monitored by the Legal & Human Resources division. It informs the Board of Managing Directors of the current or potential legal disputes both on an ad-hoc basis as well as in semi-annual reports. Legal risks from business transactions are largely reduced by the Group 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 are identified on the basis of a hazard analysis in accordance with Section 25h KWG. As these may put the Group’s assets at risk, organizational measures are defined to optimize risk prevention. For this purpose, the Group also analyzes whether general and bank-specific requirements for an effective organization are complied with.

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

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

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

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

Quantification of operational risk

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

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 the business processes that are significant for Rentenbank's business model. This also involves defining subsequent measures (e.g. regarding fraud prevention).

Limitation and reporting

The limit for operational risks is derived using the modified regulatory basis indicator approach. Reports are prepared on a quarterly basis.

Current risk situation

The risk value for operational risk in the standard scenario amounted to EUR 23.6 million as of the reporting date (2015: EUR 24.6 million). Under the stress scenario, the risk exposure amounted to EUR 47.3 million (2015: EUR 49.2 million) as of the reporting date.

In the fiscal year 2016, four significant incidents (valued at more than EUR 5 thousand) were entered into the loss event database with a potential net loss of EUR 231 thousand. Four significant single losses resulting from operational risks had been incurred in the prior year.

Regulatory and reputational risks

Definition

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

Reputational risks refer to the risk of negative economic effects resulting from damage to the Group’s reputation.

Controlling and monitoring

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

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

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

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

Limitation and reporting

Under the standard scenario, the risk limit allocated to regulatory and reputational risks amounts to EUR 24.0 million (2015: EUR 23.0 million). Reports are prepared on a quarterly basis.

Current risk situation

As of the reporting date, the risk value determined for regulatory and reputational risks amounted to EUR 23.4 million (2015: EUR 22.2 million) in the standard scenario and to EUR 46.8 million (2015: EUR 44.5 million) in the stress scenario.

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

Risk-bearing capacity – going concern approach

The going concern approach assumes that an entity will continue in operation for the foreseeable future. It also monitors the achievement of the management objectives "Generating a stable adequate operating profit (operating profit under HGB)" and "Complying with regulatory requirements". This involves comparing credit risks, market risks, and operational risks arising from the standard and stress scenarios, as well as the Group's regulatory and reputational risks, with an amount of the risk coverage potential.

After deducting regulatory capital requirements, taking into account prudential filters, sufficient regulatory own funds must be available to cover the risks from conservative stress scenarios. Regulatory own funds were determined using a total capital ratio of 13.91%, in accordance with the warning threshold defined in the recovery plan. In 2015, Rentenbank determined regulatory own funds on the basis of the warning threshold of 12.0% of the Common Equity Tier 1 capital ratio (CET1 ratio).

Risk coverage potential

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

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

	Dec. 31, 2016 EUR million	**Dec. 31, 2015** EUR million
Available operating profit	151.4	187.8
Retained earnings (pro rata)	201.0	156.2
Risk coverage potential 1	**352.4**	**344.0**
Retained earnings (pro rata)	1 263.5	1 118.9
Own credit risk and DVA	-0.1	-0.1
Revaluation reserve	65.4	61.6
Undisclosed liabilities from securities	-3.3	-3.7
Risk coverage potential 2	**1 677.9**	**1 520.7**
Retained earnings (pro rata)	2 000.0	2 200.0
Subscribed capital (capital stock)	135.0	135.0
Risk coverage potential 3	**3 812.9**	**3 855.7**

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

	Allocated risk coverage potential			
	Dec. 31, 2016		**Dec. 31, 2015**	
	EUR million	%	EUR million	%
Credit risk	260.0	73.8	260.0	75.6
Market risk	33.4	9.5	26.0	7.5
Operational risk	35.0	9.9	35.0	10.2
Regulatory and reputational risk	24.0	6.8	23.0	6.7
Total risk exposure	**352.4**	**100.0**	**344.0**	**100.0**
Risk coverage potential 1	**352.4**	**100.0**	**344.0**	**100.0**

Risk coverage potential 2 is used as an overall limit and is not allocated to the individual risk types.

Risk scenarios

A distinction is made between standard and stress scenarios.

Standard scenarios

The standard scenarios assume credit defaults, potential changes in market prices as well as the occurrence of significant operational, regulatory and reputational damages.

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

	Standard scenarios			
	Dec. 31, 2016		**Dec. 31, 2015**	
	EUR million	%	EUR million	%
Credit risk	65.5	50.8	67.7	51.3
Market risk	16.4	12.7	17.4	13.2
Operational risk	23.6	18.3	24.6	18.7
Regulatory and reputational risk	23.4	18.2	22.2	16.8
Total risk exposure	**128.9**	**100.0**	**131.9**	**100.0**
Risk coverage potential 1	**352.4**		**344.0**	
Utilization		**36.6**		**38.3**

A lump sum amount of EUR 50 million (risk buffer) is included in the credit risk scenarios to account for sectoral concentration risks.

The warning indicator (risk appetite) of 80% of risk coverage potential 1 was not exceeded in 2016 and 2015.

Stress scenarios

For credit risk within the total loan portfolio, we assume full utilization of all internal counterparty limits, deteriorations in the credit quality of our counterparties, higher country-specific probabilities of default as well as higher loss given default rates within the overall loan portfolio.

The stress scenarios for market risks include a parallel shift in the yield curves, spreads, volatilities, and exchange rates.

For operational risks and regulatory and reputational risks, we assume a number of incidents that is twice as high under the stress scenario as under the standard scenario.

The following tables present the risk exposures as well as the utilization of the risk coverage potential:

	Stress scenarios			
	Dec. 31, 2016		**Dec. 31, 2015**	
	EUR million	%	EUR million	%
Credit risk	123.0	16.4	145.5	18.9
Market risk	532.3	71.0	529.1	68.9
Operational risk	47.3	6.3	49.2	6.4
Regulatory and reputational risk	46.8	6.2	44.5	5.8
Total risk exposure	**749.4**	**99.9**	**768.3**	**100.0**
Risk coverage potential 2	**1 677.9**		**1 520.7**	
Utilization		**44.7**		**50.5**

	Stress scenarios			
	Dec. 31, 2016		**Dec. 31, 2015**	
	EUR million	%	EUR million	%
Market risk (interest rate risks)	**3.1**	**0.6**	**15.4**	**2.9**
Market risk (IFRS valuation risks)	**504.7**	**94.8**	**499.2**	**94.4**
Of which cross-currency basis swap spreads	*-1 681.0*		*-1 336.0*	
Of which basis swap spreads	*231.6*		*215.7*	
Of which credit spreads	*1 867.9*		*1 508.7*	
Of which cap/floor volatilities	*2.0*		*0.6*	
Of which swaption volatilities	*14.7*		*12.3*	
Of which currency translation	*69.5*		*97.9*	
Market risk (risk buffer)	**24.5**	**4.6**	**14.5**	**2.7**

The warning indicator of 80% of risk coverage potential 2 (risk appetite) was not exceeded in 2016 and 2015.

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

Under the 5-year planning report of December 31, 2016, there is also sufficient capital available to cover the stress scenarios under the going concern approach after complying with the regulatory capital requirements.

Risk-bearing capacity – gone concern approach

As an additional risk management approach, risk-bearing capacity is analyzed using the gone concern approach. Under this approach, the Group focuses on creditor protection. Therefore, all hidden reserves and liabilities are taken into account in the risk coverage potential. Unplanned or unrealized profits (available operating profit) are not taken into account. Under the gone concern approach, the remaining amount of the risk coverage potential must be sufficient to cover the effects arising from the more conservative stress scenarios. Gone concern scenarios are simulated for credit, market, operational risks, and regulatory and reputational risks using a probability of 99.9%.

Gone concern scenarios for credit risk and market risks are determined using the same assumptions as in the stress scenarios, but based on the higher probability of 99.9%. Under the gone concern approach, risks from all positions are analyzed irrespective of their accounting. As regards operational risk as well as regulatory and reputational risk, we assume a risk exposure that is four times higher than under the standard scenario.

Apart from creditor protection, this risk management approach also serves to observe and critically evaluate the results. This did not result in any adjustments to the going concern approach. Under the gone concern approach, the risk-bearing capacity was maintained at all times during 2016 and 2015.

Inverse stress tests and economic downturn

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

The effects of an economic downturn are also assessed. The Group’s risk-bearing capacity was not at risk under this scenario during 2016 and 2015.

Under the recovery plan, Rentenbank has developed various stress scenarios that are tailored to the bank's risk profile and could each trigger a near-default situation if no recovery measures were initiated. This involved analyzing scenarios that develop quickly and gradually as well as idiosyncratic, market-wide, and combined scenarios. A near-default situation occurs if at least one recovery indicator has exceeded or fallen below its threshold and Rentenbank is still in a position to act independently. The stress scenarios were analyzed according to their development over time and were quantified using all of the defined recovery indicators.

Regulatory capital ratios

The Group applies the waiver provision by virtue of Article 7(3) CRR on an individual basis in accordance with Article 6(1) CRR. Eligible own funds and risk-weighted assets are presented in accordance with IFRS. Both the total capital ratio of 25.7% (2015: 23.2%) and the Tier 1 capital ratio of 23.2% (2015: 20.2%) were above regulatory requirements, as well as above the minimum requirements set by the ECB.

Financial reporting process

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

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

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

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

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

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

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

The annual financial statements of the subsidiaries included in the consolidated financial statements are reconciled to IFRS, taking into account group-wide accounting policies, and are included in Rentenbank's consolidated financial statements by way of full consolidation. The entire process, including consolidation measures, is subject to the principle of dual control as well as to mandatory plausibility and consistency checks.

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

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

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

BALANCE SHEET AS OF DECEMBER 31, 2016

Assets

		EUR million	EUR million	EUR million	Dec. 31, 2015 EUR million
1.	**Cash and balances with central banks**				
	a) Cash on hand		0.2		0.1
	b) Balances with central banks		6.5		21.1
	of which:			6.7	21.2
	with Deutsche Bundesbank EUR 6.5 million (2015: EUR 21.1 million)				
2.	**Loans and advances to banks**				
	a) Payable on demand		874.8		2.4
	b) Other loans and receivables		56 919.0		55 680.0
				57 793.8	55 682.4
3.	**Loans and advances to customers**				
	of which:				
	Secured by mortgages EUR -.- million (2015: EUR -.- million)				
	Municipal loans EUR 6 003.4 million (2015: EUR 5 205.2 million)			6 048.2	5 304.4
4.	**Bonds and other fixed-income securities**				
	a) Bonds				
	aa) Public sector issuers	1 299.0			1 131.7
	of which:				
	Securities eligible as collateral with Deutsche Bundesbank				
	EUR 1 175.4 million (2015: EUR 1 014.3 million)				
	ab) Other issuers	16 240.7	17 539.7		16 889.9
	of which:				
	Securities eligible as collateral with Deutsche Bundesbank				
	EUR 13 064.8 million (2015: EUR 14 326.5 million)				
	b) Own debt securities		224.9		280.5
	Nominal amount EUR 300.3 million (2015: EUR 361.5 million)			17 764.6	18 302.1
5.	**Shares and other variable-yield securities**			0.1	0.1
6.	**Participations**				
	of which:				
	in banks EUR 321.9 million (2015: EUR 321.9 million)				
	in financial services institutions EUR -.- million (2015: EUR -.- million)			326.2	326.2
7.	**Investments in affiliated companies**				
	of which:				
	in banks EUR -.- million (2015: EUR -.- million)				
	in financial services institutions EUR -.- million (2015: EUR -.- million)			49.6	49.6
8.	**Assets held in trust**				
	of which:				
	Loans held in trust EUR 113.0 million (2015: EUR 113.4 million)			113.0	113.4
9.	**Intangible assets**				
	a) Purchased concessions, industrial property rights and similar rights			11.4	12.6
10.	**Property and equipment**			14.8	15.7
11.	**Other assets**			2 918.6	2 955.1
12.	**Prepaid expenses**				
	a) From issuing and lending business		945.8		881.7
	b) Other		259.1		191.2
				1 204.9	1 072.9
Total assets				**86 251.9**	**83 855.7**

BALANCE SHEET AS OF DECEMBER 31, 2016

Liabilities and equity

					Dec. 31, 2015
		EUR million	EUR million	EUR million	EUR million
1.	**Liabilities to banks**				
	a) Payable on demand		6.4		0.1
	b) With agreed term or notice period		3 047.2		3 461.6
				3 053.6	3 461.7
2.	**Liabilities to customers**				
	a) Other liabilities				
	aa) Payable on demand		190.6		208.0
	ab) With agreed term or notice period		3 576.0		3 755.3
				3 766.6	3 963.3
3.	**Securitized liabilities**				
	a) Debt securities issued			69 982.0	67 304.9
4.	**Liabilities held in trust**				
	of which:				
	Loans held in trust EUR 113.0 million (2015: EUR 113.4 million)			113.0	113.4
5.	**Other liabilities**			2 628.3	2 762.7
6.	**Deferred items**				
	a) From issuing and lending business		258.3		190.5
	b) Other		1 056.3		922.9
				1 314.6	1 113.4
7.	**Provisions**				
	a) Provisions for pensions and similar obligations		105.6		108.4
	b) Other provisions		362.6		349.5
				468.2	457.9
8.	**Subordinated liabilities**			615.1	608.4
9.	**Fund for general banking risks**			3 106.9	2 911.2
10.	**Equity**				
	a) Subscribed capital		135.0		135.0
	b) Retained earnings				
	ba) Principal reserve pursuant to Section 2 (2) of Rentenbank's Governing Law	986.9			
	Transfers from guarantee reserve	21.6			
	Transfers from net income	44.2	1 052.7		986.8
	bb) Guarantee reserve pursuant to Section 2 (3) of Rentenbank's Governing Law	22.7			
	Releases pursuant to Section 2 (3) of Rentenbank's Governing Law	21.6	1.1		22.7
	c) Distributable profit		14.8		14.3
				1 203.6	1 158.8
Total liabilities and equity				**86 251.9**	**83 855.7**
1.	**Contingent liabilities**				
	a) Liabilities from guarantees and indemnity agreements			1.0	1.3
2.	**Other commitments**				
	a) Irrevocable loan commitments			990.0	866.5

Income Statement for the period from January 1 to December 31, 2016

Expenses

				2015
	EUR million	EUR million	EUR million	EUR million
1. Interest expenses			3 329,2	3 495,0
2. Fee and commission expenses			2,3	2,4
3. Administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	24,7			24,1
ab) Social security contributions and expenses for				
pensions and other employee benefits	3,7			4,7
of which:		28,4		28,8
for pensions EUR 0.4 million (2015: EUR 1.6)				
b) Other administrative expenses		25,7		24,9
			54,1	53,7
4. Depreciation, amortization and write-downs of intangible assets and property and equipment			7,0	6,1
5. Other operating expenses			9,1	20,8
6. Additions to the fund for general banking risks			195,7	279,2
7. Write-downs of and allowances on loans and advances and certain securities as well as additions to loan loss provisions			0,4	0,0
8. Taxes on income			1,0	0,0
9. Other taxes not included in item 5			0,1	0,1
10. Net income			59,0	57,0
Total expenses			3 657,9	3 914,3
1. Net income			59,0	57,0
2. Withdrawals from retained earnings				
from guarantee reserve pursuant to Section 2 (3) of Rentenbank's Governing Law			21,6	23,1
3. Allocations to retained earnings				
to principal reserve pursuant to Sectuion 2 (2) of Rentenbank's Governing Law				
from guarantee reserve			21,6	23,1
from net income			44,2	42,7
4. Distributable profit			14,8	14,3

Income Statement for the period from January 1 to December 31, 2016

Income

			2015
	EUR million	EUR million	EUR million
1. Interest income from			
a) Lending and money market transactions	3 171,9		3 250,9
b) Fixed-income securities and debt register claims	469,0		555,5
		3 640,9	3 806,4
2. Current income from			
a) Shares and other variable-yield securities	0,0		0,0
b) Participations	6,9		50,3
		6,9	50,3
3. Fee and commission income		0,2	0,2
4. Income from reversals of write-downs of loans and advances and certain securities and from reversals of loan loss provisions		0,0	1,3
5. Income from reversals of write-downs of participations, investments in affiliated companies and securities held as fixed assets		0,7	51,6
6. Other operating income		9,2	4,5
Total income		3 657,9	3 914,3

Notes to the financial statements for the fiscal year 2016

Accounting policies

The annual financial statements of Landwirtschaftliche Rentenbank, with its registered office in Frankfurt am Main and registered with the district court (*Amtsgericht*) in Frankfurt am Main under commercial register number HRA 30636 (hereinafter referred to as 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.

Assets are measured pursuant to the provisions of Sections 252 et seq. HGB, taking into account the supplementary provisions for credit institutions set out in Sections 340 et seq. HGB. Loans and advances are recognized at the nominal amount pursuant to Section 340e (2) HGB. Premiums and discounts from loans and advances as well as one-time payments from swaps (upfront payments) are reported as either prepaid expenses or deferred income. In accordance with Section 11 RechKredV, pro-rata interest is reported in the corresponding balance sheet item within loans and advances.

Any identifiable risks are taken into account through the recognition of specific valuation allowances or provisions. Latent (credit) risks are taken into account through the fund for general banking risks reported in the balance sheet as well as by recognizing general valuation allowances and contingency reserves pursuant to Section 340f HGB. Rentenbank uses an expected loss approach based on internal ratings for determining general valuation allowances.

Fixed-income securities held as fixed assets are carried at amortized cost less any permanent impairment. 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). 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.

Participations and investments in affiliated companies are carried at cost less any write-downs. Reversals of write-downs are recognized if the conditions giving rise to the impairment no longer apply.

Assets held in trust are reported pursuant to Section 6 RechKredV and, owing to their relation to liabilities held in trust, are recognized at the nominal amount.

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

Other assets are recognized at the nominal amount; write-downs are made as required.

Prepaid expenses are reported pursuant to Section 250 (1) HGB and are amortized pro rata temporis over the relevant term.

Liabilities are recognized at the settlement amount pursuant to Section 253 (1) sentence 2 HGB. Premiums and discounts from liabilities as well as one-time payments from swaps (up-front payments) are reported as either prepaid expenses or deferred income. Zero bonds are measured at their issue price plus pro-rata interest based on the issue yield. In accordance with Section 11 RechKredV, pro-rata interest is reported in the corresponding balance sheet item within liabilities.

Liabilities held in trust are reported pursuant to Section 6 RechKredV and, owing to their relation to assets held in trust, are recognized at the settlement amount.

Deferred income is reported pursuant to Section 250 (2) HGB and is amortized pro rata temporis over the relevant term.

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. In 2015 or prior to the amendment to Section 253 HGB through the German Act on the Implementation of the Mortgage Credit Directive and for the Amendment of Commercial Law Provisions (*Gesetz zur Umsetzung der Wohnimmobilienkreditrichtlinie und zur Änderung handelsrechtlicher Vorschriften*) of March 11, 2016, provisions for pension obligations were discounted at the average interest rate for the past seven years. From 2016, the discount rates used are the average market interest rates for the past ten fiscal years, as determined and published monthly by the Deutsche Bundesbank in accordance with the German Regulation on the Discounting of Provisions (*Rückstellungsabzinsungsverordnung*), which correspond to the remaining term of the provisions. In accordance with 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. The discounting of provisions for pension obligations applying the average market interest rate for the past ten years instead of the past seven fiscal years in accordance with their remaining term resulted in a difference of EUR 11 million. In accordance with Section 253 (6) sentence 2 HGB, profits may only be distributed if the distributable reserves remaining after distribution, adding profit carried forward and deducting loss carried forward, at least equal the difference determined pursuant to Section 253 (6) sentence 1 HGB.

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

The following parameters were used as the basis for the calculation as of December 31, 2016:

	2016	**2015**
Discount rate pursuant to Section 253 (2) sentence 2 HGB*	4,01 % p.a.	3,89 % p.a.
Career trend	1,00 % p.a.	1,00 % p.a.
Expected rate of salary increases	2,25 % p.a.	2,25 % p.a.
Expected rate of pension increases (range of adjustments)	1,0–2,25 % p.a.	1,0–2,25 % p.a.
Employee turnover	average 2,00 % p.a.	average 2,00 % p.a.
Development of contribution ceiling	2,50 % p.a.	2,50 % p.a.

*) In 2015, provisions for pension obligations were discounted at the average interest rate for the past seven fiscal years.

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

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

These future cash flows were discounted as of the reporting date using generally recognized money market and capital market rates which correspond to the respective period. Risk costs were calculated on the basis of future expected losses and the pro rata share of administrative expenses for portfolio management was determined on the basis of internal analyses.

There was no need for provisions as of December 31, 2016 on the basis of this calculation.

Hedging relationships according to Section 254 HGB are only established to hedge currency risks. Rentenbank uses FX swaps and cross-currency swaps to hedge these risks.

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 recognized in other operating expenses.

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

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

Notes to the balance sheet

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

Assets		Dec. 31, 2016 EUR million	Dec. 31, 2015 EUR million
Item 2:	Loans and advances to banks		
	This item includes:		
	• Loans and advances to participations	4 102	-
	Sub-item "b) Other loans and receivables", breakdown by residual maturity:		
	• up to 3 months	3 988	2 249
	• more than 3 months to 1 year	6 190	7 443
	• more than 1 year to 5 years	23 052	23 687
	• more than 5 years	22 845	21 446
	Total amount (all maturities)	56 075	54 825
Item 3:	Loans and advances to customers		
	This item includes:		
	• Loans and advances to participations	-	0
	Breakdown by residual maturity:		
	• up to 3 months	15	69
	• more than 3 months to 1 year	294	291
	• more than 1 year to 5 years	1 329	1 251
	• more than 5 years	4 234	3 514
	Total amount (all maturities)	5 872	5 125
	There are no loans and advances to customers with an indefinite term as set out in Section 9 (3) No.1 RechKredV.		
Item 4:	Bonds and other fixed-income securities		
	All of these securities are marketable and classified as follows:		
	• Listed securities	17 195	17 682
	• Unlisted securities	313	329
	Securities held as fixed assets were recorded at a carrying amount of EUR 17 508 million (2015: EUR 18 011 million). They are not measured using the strict lower-of-cost-or-market rule pursuant to HGB. As Rentenbank intends to hold these securities for the foreseeable future, no write-downs to fair value are recognized if the impairment is considered temporary. In particular, write-downs are not recognized if the impairment is only temporary with respect to future financial performance and if the securities are expected to be fully repaid when due. The carrying amount of securities reported at amounts exceeding their fair value totaled EUR 745 million. The fair value of these securities was EUR 732 million, determined on the basis of market prices. Accordingly, the unrecognized write-downs amounted to EUR 13 million (2015: EUR 16 million). As in the previous year, there was no permanent impairment to be taken into account for the securities held as fixed assets.		

Assets		Dec. 31, 2016 EUR million	Dec. 31, 2015 EUR million
Item 4:	Bonds and other fixed-income securities maturing in the year following the balance sheet date can be broken down as follows:		
	• from public sector issuers	**205**	**15**
	• from other issuers	**3 007**	**3 358**
Item 5:	As in the previous year, all of the shares and other variable-yield securities held are marketable and listed.		
Items 6 and 7:	As in the previous year, the balance sheet items "Participations" and "Investments in affiliated companies" do not include marketable securities.		
Item 8:	Assets held in trust		
	This item includes:		
	• The Special Purpose Fund of the German Federal Government held at Rentenbank	**113**	**113**
	• Loans and advances to banks	**0**	**0**
Item 9:	Intangible assets		
	This item includes:		
	• Purchased software and licenses	**11**	**13**
Item 10:	Property and equipment		
	This item includes:		
	• Owner-occupied land and buildings, apartments	**0**	**0**
	• Land and buildings used by third parties	**14**	**15**
	• Operating and office equipment	**1**	**1**
Item 11:	Other assets		
	This item includes:		
	Cash collateral provided for derivatives	**2 918**	**2 930**
Item 12:	Prepaid expenses		
	This item includes:		
	• Differences pursuant to Section 340e (2) HGB	**700**	**633**
	• Differences pursuant to Section 250 (3) HGB	**246**	**249**
	• Upfront payments from derivative transactions	**257**	**190**

Statement of changes in fixed assets

Statement of changes in fixed assets						
EUR million	**Intangible assets**	**Property and equipment**		**Financial investments**		
	Software and licenses	Land and buildings	OOE*	Securities	Participations	Investments in affiliated companies
Historical cost						
Cost at January 1, 2016	**27**	**20**	**14**	**18 316**	**326**	**50**
Additions	**4**	**0**	**1**	**3 201**	**-**	**-**
Disposals	**1**	**0**	**2**	**3 740**	**-**	**-**
Reclassifications	**-**	**-**	**-**	**-**	**-**	**-**
Cost at December 31, 2016	**30**	**20**	**13**	**17 777**	**326**	**50**
Depreciation, amortization, write-downs						
Accumulated AfA at January 1, 2016**	**14**	**5**	**13**	**13**	**0**	**-**
Accumulated AfA from disposals	**0**	**0**	**2**	**-**	**-**	**-**
AfA 2016	**5**	**1**	**1**	**-**	**-**	**-**
Accumulated AfA at December 31, 2016	**19**	**6**	**12**	**13**	**0**	**-**
Reversals of write-downs	**-**	**-**	**-**	**1**	**-**	**-**
Carrying amount						
Carrying amount at December 31, 2016	**11**	**14**	**1**	**17 765**	**326**	**50**
Carrying amount in 2015	**13**	**15**	**1**	**18 302**	**326**	**50**

*) Operating and office equipment
**) Depreciation for wear and tear (*Abschreibung für Abnutzung, AfA*)

Liabilities		Dec. 31, 2016 EUR million	Dec. 31, 2015 EUR million
Item 1:	Liabilities to banks		
	Sub-item "b) With agreed term or notice period", break-down by residual maturity:		
	• up to 3 months	230	322
	• more than 3 months to 1 year	315	325
	• more than 1 year to 5 years	1 065	880
	• more than 5 years	680	1 190
	Total amount (all maturities)	2 290	2 717
	Of which covered by assets in accordance with Section 13 (2) of Rentenbank's Governing Law	-	77
Item 2:	Liabilities to customers		
	This item includes:		
	• Liabilities to participations	1	1
	• Liabilities to affiliated companies	134	134
	Sub-item "ab) With agreed term or notice period", breakdown by residual maturity:		
	• up to 3 months	53	143
	• more than 3 months to 1 year	33	293
	• more than 1 year to 5 years	816	1 421
	• more than 5 years	2 580	1 763
	Total amount (all maturities)	3 482	3 620
	Of which covered by assets in accordance with Section 13 (2) of Rentenbank's Governing Law	22	377
Item 3:	Securitized liabilities		
	a) Debt securities issued		
	Breakdown by residual maturity:		
	• up to 1 year	16 157	15 195
	• more than 1 year to 5 years	33 576	36 149
	• more than 5 years	19 752	15 407
	Total amount (all maturities)	69 485	66 751
	Of which covered by assets in accordance with Section 13 (2) of Rentenbank's Governing Law	0	0

Liabilities		Dec. 31, 2016 EUR million	Dec. 31, 2015 EUR million
Item 4:	Liabilities held in trust		
	This item includes:		
	• Liabilities from the Special Purpose Fund of the German Federal Government held at Rentenbank	113	113
	• Liabilities to customers	0	0
Item 5:	Other liabilities		
	This item includes:		
	• Cash collateral received for derivatives	2 623	2 756
	Breakdown by residual maturity:		
	• up to 3 months	2 623	2 756
Item 6:	Deferred income		
	This item includes:		
	• Differences pursuant to Section 340e (2) HGB	4	3
	• Differences pursuant to Section 250 (2) HGB	254	187
	• Upfront payments from derivative transactions	1 031	899
Item 8:	Subordinated liabilities		
	Breakdown by residual maturity:		
	• up to 1 year	33	-
	• more than 1 year to 5 years	303	134
	• more than 5 years	279	474
	Total amount (all maturities)	615	608

The subordinated liabilities are issued in the form of promissory notes, loan agreements, and bearer securities issued as global certificates. The net interest expense for subordinated liabilities of EUR 615 million (2015: EUR 608 million) after collateralization totaled EUR 1 million (2015: EUR 1 million).

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

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

1. Bond of JPY 25 billion (nominal); carrying amount: EUR 158 million; terminated with effect from April 21, 2017;
   maturity: April 21, 2036; interest rate before collateralization: 2.8 %
2. Bond of JPY 10 billion (nominal); carrying amount: EUR 62 million;
   maturity: October 28, 2019; interest rate before collateralization: 2.0 %
3. Bond of EUR 100 million (nominal); carrying amount: EUR 100 million;
   maturity: August 18, 2021; interest rate before collateralization: 1.003 %
4. Bond of EUR 100 million (nominal); carrying amount: EUR 100 million;
   maturity: August 18, 2021; interest rate before collateralization: 1.033 %

Off-balance sheet disclosures		Dec. 31, 2016 EUR million	Dec. 31, 2015 EUR million
Item 1:	Contingent liabilities		
	• Deficiency guarantees	**1**	**1**
	• Guarantee of provision of collateral	**0**	**0**
	Rentenbank entered into deficiency guarantees with respect to capital market loans granted at a reduced rate of interest. We do not expect these guarantees to be called upon. There are counter-guarantees granted by the Federal Government for capital market loans extended at a reduced rate of interest.		
Item 2:	Other commitments		
	The increase in irrevocable loan commitments by EUR 123 million to a total of EUR 990 million (December 31, 2015: EUR 867 million) is attributable to a larger number of outstanding irrevocable commitments in the special promotional business. Drawdowns on these commitments will be made primarily in 2017.		
Foreign currencies			
	The amounts of assets and liabilities denominated in foreign currency were as follows:		
	• Assets	**4 808**	**4 393**
	• Liabilities	**52 650**	**50 054**
Cover calculation			
	The outstanding liabilities requiring cover include only registered bonds.	**22**	**454**
	The following assets are designated to cover debt securities issued:		
	• Loans and advances to banks	**97**	**920**

Notes to the income statement

Income and expenses

Interest expenses are reported including negative interest of EUR 7.3 million from money market liabilities and collateral received (i.e. reducing expenses by this amount). Interest income from collateral provided as well as from lending and money market transactions is reported net of negative interest of EUR 19.6 million (i.e. reducing income by this amount). For reasons of materiality, the items in the income statement are not further broken down.
Interest expenses for the provisions for the promotional contribution related to the special promotional loans amounted to EUR 82.9 million in 2016 (2015: EUR 77.2 million). Interest income includes the pro rata temporis utilization of the corresponding provisions of EUR 83.6 million (2015: EUR 82.1 million). Interest expenses include effects of EUR 12.3 million resulting from the unwinding of the discount on these provisions (2015: EUR 14.3 million).

Disclosures on the most important items pursuant to Section 35 (1) No. 4 RechKredV	**2016 EUR million**	**2015 EUR million**
Item 5: Other operating expenses		
This item includes the following significant expense items:		
• Grants for the Research on Agricultural Innovation program	**3**	**3**
• Interest expense from the valuation of pension provisions	**2**	**13**
• Additions to provision for pending litigation	**2**	**1**
• Capital contribution to Rehwinkel Foundation	**0**	**2**
Item 6: Other operating income		
This item includes the following significant income items:		
• Income from the early repurchase of the bank's own issue	**5**	**-**
• Rental income from bank-owned housing	**2**	**2**
• Other refunds	**1**	**1**
• Other income from the reversal of provisions	**0**	**1**

In 2015, income of EUR 3 million from the repurchase of the bank's own issue was reported in the income statement within income from reversals of write-downs of loans and advances and certain securities and from reversals of loan loss provisions.
Other operating expenses include currency translation losses of EUR 33.1 thousand (2015: EUR 2.4 thousand). Other operating income includes currency translation gains of EUR 8.6 thousand (2015: EUR 10.9 thousand). These currency translation gains and losses result exclusively from the currency translation of balances on current accounts in foreign countries.
Expenses and income do not include any significant amounts relating to prior years.

Other disclosures

Derivative financial instruments

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

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

Derivative transactions – presentation of volumes –

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

Derivative transactions in EUR million to hedge:	Notional amounts		Fair values positive	Fair values negative
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2016
Interest rate risks				
Interest rate swaps	**103 758**	**102 250**	**1 604**	**5 448**
• Of which termination and conversion rights embedded in swaps	**1 149**	**672**	**43**	**5**
Swaptions • Sales	**958**	**958**	**-**	**5**
Total exposure to interest rate risks	**104 716**	**103 208**	**1 604**	**5 453**

Derivative transactions in EUR million to hedge:	**Notional amounts**		**Fair values positive**	**Fair values negative**
	Dec. 31, 2016	**Dec. 31, 2015**	**Dec. 31, 2016**	**Dec. 31, 2016**
Currency risks				
Cross-currency swaps	**50 964**	**50 133**	**4 734**	**1 874**
• Of which currency options embedded in swaps	**49**	**46**	**10**	**-**
FX swaps	**5 896**	**3 541**	**212**	**6**
Total exposure to currency risks	**56 860**	**53 674**	**4 946**	**1 880**
Share price risk and other price risks				
Share index swaps	**-**	**30**	**-**	**-**
• Of which share options embedded in swaps	**-**	**30**	**-**	**-**
Total exposure to share price risk and other price risks	**-**	**30**	**-**	**-**
Interest rate, currency, share price and other price risks	**161 576**	**156 912**	**6 550**	**7 333**

Derivative transactions – breakdown by maturity –

Notional amounts EUR million	**Derivative transactions to hedge:**					
	Interest rate risks		**Currency risks**		**Share price risk and other price risks**	
	Dec. 31, 2016	**Dec. 31, 2015**	**Dec. 31, 2016**	**Dec. 31, 2015**	**Dec. 31, 2016**	**Dec. 31, 2015**
Residual maturity						
• up to 3 months	**4 908**	**4 981**	**8 637**	**7 671**	**-**	**-**
• more than 3 months to 1 year	**10 802**	**11 318**	**7 313**	**5 450**	**-**	**30**
• more than 1 year to 5 years	**51 132**	**51 041**	**24 692**	**25 827**	**-**	**-**
• more than 5 years	**37 874**	**35 868**	**16 218**	**14 726**	**-**	**-**
Total	**104 716**	**103 208**	**56 860**	**53 674**	**-**	**30**

Derivative transactions – breakdown by counterparty –

EUR million	Notional amounts		Fair values positive	Fair values negative
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2016
Banks in OECD countries	**150 889**	**139 144**	**6 278**	**6 692**
Other counterparties in OECD countries	**10 687**	**17 768**	**272**	**641**
Total	**161 576**	**156 912**	**6 550**	**7 333**

Forward transactions outstanding at the balance sheet date, particularly those denominated in foreign currency, are entered into by the bank to hedge fluctuations in market prices.

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

Rentenbank uses currency 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 hedging relationships, the cash flows of the hedged item are fully reflected in the hedging instrument, i.e. the derivative (perfect hedge). The bank utilizes the freeze method for offsetting value changes between the hedged item and the hedging instrument.
To measure the effectiveness of hedging relationships, the bank uses the critical terms match/short cut method which compares the cash flows of the hedged item with those of the hedging instrument. Exchange rate fluctuations of the corresponding hedged items and hedging derivatives offset each other over the remaining period to their respective maturity dates.
The following table provides an overview of the hedged items designated in hedging relationships as of the balance sheet date:

Balance sheet item	Carrying amount in EUR million		Hedged risk
	2016	2015	
Bonds and other fixed-income securities	**4 176**	**3 690**	Currency
Liabilities to customers	**136**	**136**	Currency
Securitized liabilities	**48 473**	**45 893**	Currency
Subordinated liabilities	**332**	**328**	Currency

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

In the fiscal year 2016, the total remuneration paid to the members of the Board of Managing Directors of Rentenbank in accordance with Section 285 No. 9b HGB amounted to EUR 2 282 thousand (2015: EUR 2 109 thousand). The following remuneration was determined for the individual members of the Board of Managing Directors in the fiscal year 2016:

Amounts in EUR thousand	Fixed Remuneration*	Variable remuneration**	Other remuneration	Total
Hans Bernhardt	**700**	**120**	**41**	**861**
Dr. Horst Reinhardt	**700**	**120**	**27**	**847**
Imke Ettori (until September 30, 2016)	**300**	**0**	**274**	**574**

*) As a result of the change in the remuneration system (effective as of the 2016 fiscal year), the figures Mr. Bernhardt and Dr. Reinhardt each include a fixed one-off payment totaling EUR 170 000 each.
**) A portion of 40% of the variable remuneration for the fiscal year 2015 was spread out over a period of three years and will be paid from 2017 to 2019, provided that the relevant conditions are met.

As of December 31, 2016, provisions for pension obligations to the former members of the Board of Managing Directors and their surviving dependents totaled EUR 15 017 thousand (2015: EUR 15 855 thousand). Current benefit payments amounted to EUR 1 253 thousand (2015: EUR 1 235 thousand). As in the previous year, there were no loans granted to the members of the Board of Managing Directors or the members of the Board of Supervisory Directors in the fiscal year 2016.

In accordance with the remuneration regulations, the Chairman of the Board of Supervisory Directors receives a fixed remuneration of EUR 30 thousand, his Deputy Chairman EUR 20 thousand, and all other members of the Board of Supervisory Directors EUR 10 thousand each. In addition, the members of the Supervisory Board who are members of a committee receive remuneration of EUR 2 thousand and members who chair a committee EUR 4 thousand. The total remuneration of the Board of Supervisory Directors in the year under review amounted to EUR 283 thousand (2015: EUR 293 thousand, including VAT).

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

	Membership		Remuneration	
	2016	**2015**	**2016**	**2015**
			EUR thousand	**EUR thousand**
Joachim Rukwied	01.01. - 31.12.	01.01. - 31.12.	**42.0**	**42.0**
Christian Schmidt[1]	01.01. - 31.12.	01.01. - 31.12.	**22.0**	**22.0**
Georg Fahrenschon	01.01. - 30.06.	01.01. - 31.12.	**7.0**	**14.0**
Udo Folgart	01.01. - 31.12.	01.01. - 31.12.	**14.0**	**14.0**
Dr. Robert Kloos	01.01. - 31.12.	01.01. - 31.12.	**14.0**	**14.0**
Bernhard Krüsken	01.01. - 31.12.	01.01. - 31.12.	**15.5**	**14.0**
Michael Reuther	01.01. - 31.12.	01.01. - 31.12.	**14.0**	**14.0**
Dr. Caroline Toffel	01.01. - 31.12.	01.01. - 31.12.	**14.0**	**12.3**
Werner Hilse	01.01. - 31.12.	01.01. - 31.12.	**12.0**	**12.0**
Manfred Nüssel	01.01. - 31.12.	01.01. - 31.12.	**12.0**	**12.0**
Harald Schaum	01.01. - 31.12.	01.01. - 31.12.	**12.0**	**12.0**
Brigitte Scherb	01.01. - 31.12.	01.01. - 31.12.	**12.0**	**12.0**
Konrad Weiterer	01.01. - 24.08.	01.01. - 31.12.	**6.7**	**10.0**
Dr. Marcus Pleyer	01.01. - 31.12.	21.12. - 31.12.	**14.5**	**-**
Werner Schwarz	01.01. - 31.12.	-	**10.0**	**-**
Dr. Rolf Bösinger	01.01. - 31.12.	-	**10.0**	**-**
Birgit Keller	01.01. - 31.12.	-	**10.0**	**-**
Wolfgang Reimer	01.01. - 02.05.	-	**3.3**	**-**
Peter Hauk	12.05. - 31.12.	-	**6.3**	**-**
Dr. Klaus Stein	-	01.01. - 30.11.	**-**	**16.2**
Norbert Schindler	-	01.01. - 31.12.	**-**	**12.0**
Helmut Brunner	-	01.01. - 31.12.	**-**	**10.0**
Prof. Mathias Stauch	-	01.01. - 31.12.	**-**	**10.0**
Jörg Vogelsänger	-	01.01. - 31.12.	**-**	**10.0**
Total remuneration			**251.3**	**262.5**

1) Direct donations to the foundation "Neue Synagoge Berlin - Centrum Judaicum",
"AG der Evangelischen Jugend in Deutschland e.V." and
"Förderverein BlechSchatz/Verein zur Förderung der Posaunenchorarbeit in Bayern e.V."

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

Employees	2016			2015		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Full-time employees	**141**	**80**	**221**	**135**	**83**	**218**
Part-time employees	**9**	**48**	**57**	**5**	**45**	**50**
Total	**150**	**128**	**278**	**140**	**128**	**268**

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 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

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

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

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

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

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

The preparation of the annual financial statements for the fiscal year 2016 with respect to profit appropriation is subject to the approval of the Supervisory Board. The proposal for the 2016 appropriation of net income and profit presents the following resolutions:

- Of the net income of EUR 59 000 000 reported in the income statement, EUR 44 250 000 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 14 750 000, EUR 7 375 000 is provided for the Special Purpose Fund of the German Federal Government and EUR 7 375 000 for the Promotional Fund.
- In addition, in accordance with the regulation that the guarantee reserve (*Deckungsrücklage*) may not exceed 5 % of the amount of the outstanding covered bonds pursuant to Section 2 (3) of Rentenbank's Governing Law, EUR 21 595 000 is removed from the guarantee reserve and the principal reserve is increased by the same amount.

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

In accordance with Section 340a (4) No. 1 HGB, 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)

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

BOARD OF MANAGING DIRECTORS

Dr. Horst Reinhardt (Speaker), Dipl.-Volkswirt, MBA
Hans Bernhardt, Dipl.-Kaufmann
Imke Ettori, Dipl.-Kauffrau (until September 30, 2016)

BOARD OF SUPERVISORY DIRECTORS

Chairman:

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

Deputy Chairman:

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

Representatives of the German Farmers' Association (DBV):

Bernhard Krüsken Secretary-General of the German Farmers' Association	Berlin
Udo Folgart Honorary President of the Farmers' Association of Brandenburg	Teltow/Ruhlsdorf
Werner Hilse President of the Farmers' Association of Lower Saxony	Hanover

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

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

Representative of the German Raiffeisen Association:

Manfred Nüssel
President of the
German Raiffeisen Association | Berlin

Representatives of the Food Industry:

Konrad Weiterer
President of the
Federal Association of German Agribusiness | Berlin
(until August 24, 2016)

State Ministers of Agriculture:

Baden-Württemberg:

Wolfgang Reimer
Director-General of the
Ministry of Rural Affairs and Consumer Protection | Stuttgart
(until May 2, 2016)

Peter Hauk
Minister of Rural Affairs
and Consumer Protection | Stuttgart
(since May 12, 2016)

Hamburg:

Dr. Rolf Bösinger
State Council for Economy,
Transport and Innovation — Hamburg

Thuringia:

Birgit Keller
Minister of Infrastructure and
Agriculture — Erfurt

Representative of the Trade Unions:

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

Representative of the Federal Ministry of Food and Agriculture:

Dr. Robert Kloos
State Secretary — Berlin
(until December 31, 2016)

Representative of the Federal Ministry of Finance:

Dr. Marcus Pleyer
Head of Directorate — Berlin

Representatives of credit institutions and other credit experts:

Georg Fahrenschon
President of the
German Savings Banks Association (DSGV) — Berlin
(until June 30, 2016)

Michael Reuther Member of the Board of Managing Directors of Commerzbank AG	Frankfurt am Main
Dr. Caroline Toffel Member of the Board of Managing Directors of Kieler Volksbank eG	Kiel

Frankfurt am Main, March 15, 2017

LANDWIRTSCHAFTLICHE RENTENBANK

The Board of Managing Directors

Dr. Horst Reinhardt

Hans Bernhardt

Statement of Management Responsibility

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

Frankfurt am Main, March 15, 2017

LANDWIRTSCHAFTLICHE RENTENBANK
The Board of Managing Directors

Dr. Horst Reinhardt Hans Bernhardt

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the combined management report prepared by Landwirtschaftliche Rentenbank, Frankfurt/Main, for the business year from January 1 to December 31, 2016. The maintenance of the books and records and the preparation of the annual financial statements and the combined management report in accordance with German commercial law and supplementary provisions of the Governing Law of Landwirtschaftliche Rentenbank [Gesetz über die Landwirtschaftliche Rentenbank] are the responsibility of the Company`s management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the combined management report based on our audit.

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

Our audit has not led to any reservations.

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

Frankfurt/Main, March 15, 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

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

Report of the Board of Supervisory Directors

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

The annual financial statements as well as the combined management report were prepared by the Board of Managing Directors in accordance with the provisions of the German Commercial Code *(Handelsgesetzbuch, HGB)* as of December 31, 2016 and were audited by the auditors KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, who issued an unqualified audit opinion. The voluntary consolidated financial statements as well as the combined management report as of December 31, 2016 were prepared by the Board of Managing Directors in accordance with International Financial Reporting Standards (IFRS) and the additional requirements applicable under Section 315a (1) HGB. KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, audited the voluntary consolidated financial statements as well as the combined management report and issued an unqualified audit opinion. The findings of the audit were noted with approval by the Board of Supervisory Directors.

The Board of Supervisory Directors reviewed the annual financial statements and the voluntary consolidated financial statements, including the combined management report, as well as the annual report 2016 of Landwirtschaftliche Rentenbank. The Board of Supervisory Directors adopts the bank's annual financial statements including the combined management report for the fiscal year 2016 and approves the voluntary consolidated financial statements and the combined management report for the fiscal year 2016.

In accordance with the regulation that the guarantee reserve *(Deckungsrücklage)* may not exceed 5 % of the amount of the outstanding covered bonds pursuant to Section 2 (3) of Rentenbank’s Governing Law, the Board of Supervisory Directors resolved to remove EUR 21 595 000 from the guarantee reserve and to increase the principal reserve *(Hauptrücklage)* by the same amount.

Of the net income of EUR 59 000 000 reported in the income statement, EUR 44 250 000 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 14 750 000, the Board of Supervisory Directors resolved to allocate EUR 7 375 000 to the Special Purpose Fund of the German Federal Government and EUR 7 375 000 to the Promotional Fund.

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

Berlin, April 6, 2017

THE BOARD OF SUPERVISORY DIRECTORS OF
LANDWIRTSCHAFTLICHE RENTENBANK

Joachim Rukwied
(Chairman)

Landwirtschaftliche Rentenbank
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