Landwirtschaftliche Rentenbank Group

Disclosure Report pursuant to Section 26a KWG as of December 31, 2013

rentenbank

Table of contents

1. Disclosure pursuant to Section 26a German Banking Act (Kreditwesengesetz, KWG) 3

2. Scope of application (Section 323 SolvV) 3

3. Risk management (Section 322 SolvV) 4

3.1 Organization of risk management process 5
3.1.1 Risk management 5

3.2 Risk categories – Material individual risks 7
3.2.1 Credit risk 7
3.2.2 Market price risks 11
3.2.3 Liquidity risks 13
3.2.4 Operational risks 14
3.2.5 Regulatory and reputational risks 15

4. Own funds (Sections 324, 325, 330 and 331 SolvV) 16

4.1 Own funds structure 16

4.2 Adequacy of own funds 17
4.2.1 Capital requirements for credit risks and for equity holdings 19
4.2.2 Capital requirements for market risks 19
4.2.3 Capital requirements for operational risks 19
4.2.4 Capital requirements and capital ratios 20

5. Credit risks (Sections 326 to 329 and 336 SolvV) 20

5.1 Gross lending volumes by exposure classes 21

5.2 Gross lending volumes by exposure classes and regions 21

5.3 Gross lending volumes by exposure classes and sectors 21

5.4 Gross lending volumes by exposure classes and maturities 22

5.5 Allowance for credit losses 22

5.6 Exposure amounts with risk weights prescribed by regulatory authorities 24

5.7 Derivative credit risk exposures and netting positions 24

5.8 Credit risk mitigation techniques 25

6. Market price risk (Section 333 SolvV) 26

7. Equity holdings (Section 332 SolvV) 27

7.1 Equity holdings in the banking book 27

7.2 Carrying amounts for equity holdings 28

7.3 Realized and unrealized gains/losses from equity holdings 28

1. Disclosure pursuant to Section 26a German Banking Act (Kreditwesengesetz, KWG)

The Regulation governing the capital adequacy of institutions, groups of institutions and financial holding groups (German Solvency Regulation – SolvV) of December 14, 2006 was published in the Federal Law Gazette (Volume 2006, Part I No. 61, p. 2926 et seq.) on December 20, 2006 and came into force on January 1, 2007.The Solvency Regulation transposes European minimum equity capital requirements stipulated in the Banking Directive (2006/48/EC) and the Capital Adequacy Directive (2006/49/EC) and the corresponding equivalent requirements of the Basel Capital Accord ('Basel II') into national law.

Pursuant to Section 26a KWG, financial institutions must publish, on a regular basis, qualitative and quantitative information about equity, capital adequacy as well as risks assumed and risk management procedures followed, and must have in place formal procedures and rules to fulfill their disclosure requirements within the context of implementing Chapter 5 ('Disclosure by credit institutions') of Directive 2006/48/EC relating to the taking up and pursuit of the business of credit institutions. Further details regarding disclosure in terms of content and procedures are governed by Part 5 of the Solvency Regulation due to the close connection with capital requirements, with Chapter 1 containing general provisions regarding the scope of application, Chapter 2 describing general requirements regarding the information to be disclosed, and Chapter 3 including qualifying requirements for the use of particular instruments or methodologies.

Rentenbank has published its disclosure report since December 31, 2008 on an annual basis in accordance with Section 26a KWG. It complies with its disclosure obligations within the scope of this report. Individual aspects of the disclosures are also included in the combined management report and the consolidated financial statements. The structure of the disclosure report is based on the order of the paragraphs of Section 5 (Disclosure) of the Solvency Regulation. Disclosure obligations that are not listed are not applicable to Rentenbank.

Rentenbank is the controlling company of the group of institutions within the meaning of Section 10a (1) Sentence 1 KWG. The disclosures are made on a group-level.

In accordance with the principle of materiality set out in Section 320 (1) SolvV, it was determined within the framework of the definition of materiality that the disclosures do not include subsidiaries which account for less than 1% in the Group's total assets or the Group's net income, respectively, and whose risk situation is negligible for the Group given their business approach. In addition to Rentenbank, the disclosures also include the consolidated subsidiaries.

2. Scope of application (Section 323 SolvV)

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

The consolidated financial statements of Rentenbank for fiscal year 2013 include Rentenbank as the Group's parent company as well as its two subsidiaries, LR Beteiligungsgesellschaft mbH, Frankfurt/Main, (LRB) and DSV Silo- und Verwaltungsgesellschaft mbH, Frankfurt/Main, (DSV). The subsidiaries were included by way of full consolidation. There are no differences between the scope of consolidation under IFRS and the regulatory scope of consolidation.

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

The following companies are fully consolidated:

Description	Name	**Regulatory / IFRS**
Banks	Landwirtschaftliche Rentenbank, Frankfurt/Main	**X / X**
Finance companies	LR Beteiligungsgesellschaft mbH, Frankfurt/Main	**X / X**
	DSV Silo- und Verwaltungsgesellschaft mbH, Frankfurt/Main	**X / X**

The business activity of LR Beteiligungsgesellschaft mbH (LRB) is the administration of equity holdings and possibly new investments made as part of the promotional mandate. The business activities of DSV Silo- und Verwaltungsgesellschaft mbH encompass the settlement of pension obligations and the administration of financial investments and short-term cash deposits.

In accordance with the principle of materiality, two companies (Getreide-Import-Gesellschaft mbH, Frankfurt/Main, and Deutsche Bauernsiedlung – Deutsche Gesellschaft für Landentwicklung (DGL) GmbH, Frankfurt/Main) were not included in the consolidated financial statements due to their minor significance for the assessment of the Group’s financial position, cash flows, and profit or loss. The interests held in these companies are reported in ‘Financial investments.’

As a result of the small percentage of interests held in subscribed capital, the other companies were not required to be consolidated (neither under regulatory provisions nor under IFRS).A detailed list of unconsolidated companies, which are shown as equity holdings in the consolidated financial statements, is shown in Section 7.1, together with subscribed capital and the share of ownership.

3. Risk management (Section 322 SolvV)

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. Rentenbank has issued a comfort letter to LR Beteiligungsgesellschaft mbH. Subsidiaries are funded exclusively within the Group. Office furniture and equipment as well as equipment to be used by employees are provided by Rentenbank.

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

The Group pursues the following objectives within the context of its business strategy:

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

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

- Promotional Business

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

- Capital Investment

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

- Treasury Management

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

3.1 Organization of risk management process

3.1.1 Risk management

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

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

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

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

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

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

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

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

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

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

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

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

3.2 Risk categories – Material individual risks

The Group's material risks are credit, market price, liquidity, and operational risks as well as regulatory and reputational risk.

Appropriate precautions have been taken for risks that are not classified as material, i.e. that are of minor significance for the Group. The precautionary measures are generally documented in operational and organizational instructions.

3.2.1 Credit risk

Definition

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

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

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

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

Furthermore, any transactions may be carried out that are directly connected with fulfilling its tasks, taking into account Rentenbank's Governing Law and its statutes. This also includes the purchase of receivables and securities as well as transactions within the framework of the Group's treasury management and risk management.

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

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

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

Rentenbank's Board of Managing Directors deliberates on the credit risk strategy on an annual basis and presents this strategy to the Credit Committee of the Board of Supervisory Directors (since January 1, 2014; Credit Committee until the end of 2013). Credit risk monitoring and controlling are conducted on the basis of uniform principles and do not depend on the type of business from which these risks result. The Financial Institutions division drafts a bank-wide credit risk strategy and is responsible for its implementation. It also manages credit risks. In addition, its responsibilities also include analyzing credit risks, establishing internal rating categories, preparing credit approvals, issuing the back office function vote, and the ongoing monitoring of credit risks. The Treasury department generally represents the front office (or market unit) within the loan business workflow.

In accordance with the MaRisk, certain tasks have to be performed outside of the front office. The so-called back office functions are performed by the divisions Promotional Business, Financial Institutions and Collateral & Equity Investments. The departments issue the independent second vote for lending decisions, process new business entered into and assess collateral. They are also responsible for intensified loan management as well as for the management of non-performing loans. Any necessary measures are agreed in cooperation with the Board of Managing Directors. The member of the Board of Managing Directors responsible for the back office function is responsible for the process.

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

Credit assessment

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

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

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

Quantification of credit risk

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

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

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

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

Limitation and reporting

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

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

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

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

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

At the end of each quarter, the Financial Institutions division (back office organizational unit) prepares a credit risk report for the Board of Managing Directors and the Risk Committee (since January 1, 2014; previously the Credit Committee until the end of 2013) established by the Board of Supervisory Directors based on the MaRisk guidelines.

3.2.2 Market price risks

Definition

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

Organization

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

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

Quantification of market price risks

Interest rate risks

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

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

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

Spread risks

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

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

Foreign currency risks

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

There was no material risk to be identified for any currency.

Standard scenarios

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

Stress scenarios

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

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

A probability of occurrence of 99% is assumed.

<u>Limitation and reporting</u>

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

<u>Back testing</u>

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

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

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

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

3.2.3 Liquidity risks

Definition

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

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

Controlling and monitoring

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

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

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

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

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

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

Stress scenarios

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

Liquidity ratio pursuant to the Liquidity Regulation

Pursuant to regulatory requirements (German Liquidity Regulation, Liquiditätsverordnung), cash balances and payment obligations are determined for the various payment-effective on balance and off-balance transactions on a daily basis. These are weighted according to regulatory requirements and a ratio is calculated. Moreover, these indicators are also calculated for future reporting dates based upon extrapolation.

Reporting

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

3.2.4 Operational risks

Definition

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

Organization

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

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

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

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

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

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

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

Quantification of operational risk

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

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

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

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

Limitation and reporting

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

3.2.5 Regulatory and reputational risks

Definition

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

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

Controlling and monitoring

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

Reporting

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

4. Own funds (Sections 324, 325, 330 and 331 SolvV)

4.1 Own funds structure

The Group’s regulatory capital was determined pursuant to the provisions of Sections 10 and 10a of the German Banking Act (Kreditwesengesetz, KWG). Pursuant to the option set out in Section 10a (7), we did not use the IFRS consolidated financial statements as the basis. The amount of the Group's regulatory capital was determined in accordance with Section 64h (4) KWG using the aggregation method, on the basis of the HGB financial statements of the Group companies. Accordingly, there are differences in the amounts reported for the following items between both the IFRS consolidated financial statements and the HGB financial statements. Under the aggregation method, regulatory capital of the companies included in the consolidated financial statements is not consolidated, but aggregated, while the carrying amounts of the equity holdings are deducted. Own funds comprise Tier 1 capital and Tier 2 capital (liable capital).

The Group issued a notification to Deutsche Bundesbank and BaFin about the exemption of the reporting requirements in relation to solvency and large exposures pursuant to Sections 10, 13 and 13a KWG on single-entity level – in accordance with the waiver requirements set out in Section 2a (6) KWG – from September 30, 2013.

The composition of the Group's aggregated own funds as of December 31, 2013 on the basis of the HGB values is shown in the following table:

	Dec. 31, 2013 € million	Dec. 31, 2012 € million
- Subscribed capital	176	176
- Disclosed reserves	920	882
- Fund for general banking risks	2,175	1,884
- Intangible assets	- 18	- 15
- Loss carryforward	- 13	- 13
Tier 1 capital	**3,240**	**2,914**
- Subordinated liabilities	623	765
- Other components	100	79
Tier 2 capital	**723**	**844**
Own funds, total	**3,963**	**3,758**
Own funds used for large exposure limit (*Großkreditgrenze*) in the aggregate book (*Gesamtbuch*)	**3,963**	**3,758**

Subscribed capital of € 176 million consists of basic capital of Rentenbank in the amount of € 135 million, which was provided by the agricultural and forestry sector of the Federal Republic of Germany between 1949 and 1958. An amount of € 886 million (2012: € 848 million) of disclosed reserves totaling € 920 million (2012: € 882 million) is attributable to the principal (Hauptrücklage) and guarantee reserves (Garantierücklage), which are recognized pursuant to Section 2 (3) sentence 2 of Rentenbank's Governing Law.

As of December 31, 2013, the subordinated liabilities amounted to € 623 million (2012: € 765 million) on the basis of the values according to the German Commercial Code. The associated interest rates amount to up to 5.0% for maturities until April 21, 2036. The subordinated liabilities are structured as promissory note loans, loan agreements and bearer securities issued in the form of global certificates. All subordinated liabilities met the requirements for inclusion as liable capital pursuant to Section 10 (5a) Sentence 2 KWG and do not provide for early repayment or conversion. The capping limit (50% of core capital) was not broken as of the reporting date.

The loss carryforwards as reported under HGB are attributable to the subsidiary DSV and result from impairment losses in previous years.

4.2 Adequacy of own funds

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

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

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

The risk covering potential is derived from figures included in the consolidated financial statements in accordance with IFRS.

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

The risk covering potential 1 amounted to € 314 million (2012: € 314 million), which included the available operating result in the amount of € 240 million (2012: € 240 million).The available operating result can be derived from the plan result under IFRS. An amount of € 74 million (2012: € 74 million) of retained earnings was allocated to risk covering potential 1.Subordinated liabilities have no longer been included in risk covering potential since December 31, 2013.

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

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

Risk covering potential 2 is used as a global limit and not allocated to the individual risk types. As of the reporting date, it amounted to € 2,208 million (2012: € 2,088 million).

Risk-bearing capacity is monitored using the gone concern approach as an additional management item. Creditor protection is the primary focus under the gone concern approach. Therefore, all undisclosed reserves and liabilities are taken into account in the risk covering potential. Therefore the risk covering potential must be sufficient to cover the effects from the more conservative stress scenarios. Gone Concern and/or worst-case scenarios are simulated for credit, market price and operational risks with a probability of occurrence of 99.99%.The scenarios are quantified using strict risk measures and parameters based on rare loss events. The potential default calculated under the worst-case or liquidation scenarios, as applicable, should not exceed risk covering potential. This management unit primarily serves to observe and critically reflect results.

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

The effects of an economic downturn on risk-bearing capacity are assessed as well.

4.2.1 Capital requirements for credit risks and for equity holdings

The Credit Risk Standardized Approach (CRSA) is used for all exposure classes to determine the regulatory capital requirements for credit risks.

Specific risk weightings, as prescribed by the German regulatory authority, apply for capital requirements for credit risk. The risk weight for the exposure classes 'Central governments' and 'Corporates' depends on the external rating. The risk weight of the 'Institutions' class depends on the external rating of the country of domicile.

The following table shows the capital requirements from the credit risk under CRSA by exposure class as of December 31, 2013 compared to the previous year:

	Dec. 31, 2013 € million	Dec. 31, 2012 € million
- Central governments	8	14
- Financial institutions	720	802
- Corporates	4	8
- Equity holdings	14	14
- Covered bonds issued by financial institutions	171	186
- Other items	33	2
Capital requirements for credit risks	**950**	**1,026**

4.2.2 Capital requirements for market risks

In order to determine the capital requirements for foreign currency risks, we calculate the total currency exposure, which amounted to € 0.4 million as of December 31, 2013 (2012: € 0.3 million), based on the standardized approach.

There are no commodity, trading book or other market risk exposures. Rentenbank does not use its own risk models.

4.2.3 Capital requirements for operational risks

In the year under review, the exposure to operational risks was determined for regulatory purposes using the basic indicator approach in accordance with Sections 270 and 271 SolvV. Capital requirements for operational risk amounted to € 134 million as of December 31, 2013 (2012: € 41 million).

4.2.4 Capital requirements and capital ratios

The Group's overall capital requirements were as follows as of December 31, 2013 compared to the previous year:

	Dec. 31, 2013 € million	Dec. 31, 2012 € million
Risk-weighted assets (CRSA)	11,877	12,827
Capital requirements		
- Credit risk	950	1,026
- Market risk	0	0
- Operational risk	134	41

The following overview shows the total capital and core capital ratios for the Group and Rentenbank as of December 31, 2013 compared to the previous year:

	Dec. 31, 2013 in %	Dec. 31, 2012 in %
Total capital ratio		
Landwirtschaftliche Rentenbank (Group)	29.3	28.2
Landwirtschaftliche Rentenbank (Institution)	31.3	27.5
Tier 1 capital ratio		
Landwirtschaftliche Rentenbank (Group)	23.9	21.9
Landwirtschaftliche Rentenbank (Institution)	25.6	21.3

5. Credit risks (Sections 326 to 329 and 336 SolvV)

The following tables present the credit risk exposures as of December 31, 2013, separately by region, sectors, and maturities, without taking credit risk mitigation techniques into account. Loans include outstanding commitments and other off-balance sheet items from the lending business.

The figures presented relate to the gross carrying amount in accordance with IFRS 7.B9, which corresponds to the carrying amount of the relevant balance sheet item in the IFRS consolidated financial statements. Contingent liabilities were reported at nominal amounts.

5.1 Gross lending volumes by exposure classes

Gross lending volumes in € million	Loans	Financial investments	Derivative financial instruments
Total	56,125	20,894	3,236

5.2 Gross lending volumes by exposure classes and regions

	Loans		Financial investments		Derivative financial instruments	
	€ million	%	€ million	%	€ million	%
Gross lending volume						
Germany	53,901	96.0	5,360	25.7	770	23.8
Europe	2,224	4.0	15,476	74.0	2,196	67.9
OECD countries (excl. EU)	0	0.0	58	0.3	270	8.3
Total	**56,125**	**100.0**	**20,894**	**100.0**	**3,236**	**100.0**

5.3 Gross lending volumes by exposure classes and sectors

	Loans		Financial investments		Derivative financial instruments	
	€ million	%	€ million	%	€ million	%
Private-sector banks/other banks	7,386	13.2	1,687	8.1	419	12.9
Foreign banks	2,225	4.0	14,667	70.2	2,084	64.4
Public-sector banks	30,616	54.5	2,943	14.1	181	5.6
Cooperative banks	10,327	18.4	164	0.8	169	5.2
Central banks	0	0.0				
Non-banks	5,571	9.9	1,433	6.9	383	11.8
Total	**56,125**	**100.0**	**20,894**	**100.0**	**3,236**	**100.0**

5.4 Gross lending volumes by exposure classes and maturities

	Loans		Financial investments		Derivative financial instruments	
	€ million	%	€ million	%	€ million	%
< 1 year	6,391	11.4	3,249	15.6	743	22.9
1 year to 5 years	18,790	33.5	12,433	59.5	1,641	50.7
> 5 years to unspecified maturity	30,829	55.0	5,212	24.9	852	26.3
Total	**56,010**	**100.0**	**20,894**	**100.0**	**3,236**	**100.0**

5.5 Allowance for credit losses

As of each balance sheet date, Rentenbank evaluates whether there is any objective evidence that interest and principal payments may not be made in the full amount as agreed. This assessed using the following criteria:

- Internal credit ranking as 'non-investment grade'
- Non-performing, deferred or restructured exposures
- Significant downgrade of the business partner's credit quality
- Significant downgrade of the credit quality of the business partner's country of domicile

The assessment of the materiality aspect of a downgrade and the criteria for the credit ranking are subject to judgment. The criteria for monitoring credit risks and for credit ranking are set out in detail in the combined management report.

A separate impairment review is not performed for financial assets of the 'designated as at fair value' category as these securities are measured at fair value, and accordingly any impairment losses are already taken into account in the fair value and recognized in profit or loss.

<u>Loans and advances and financial investments measured at (amortized) cost</u>

Rentenbank assesses the recoverability for significant single exposures and securities as well as for exposures of insignificant amounts on an individual basis. If there is objective evidence of impairment, the valuation allowance is determined based on the difference between the carrying amount and the present value of expected cash flows. The expected cash flows are determined based on qualified estimates which take into account the financial condition of the counterparty as well as the realization of collateral and additional supporting data, such as membership in a protection scheme or liability mechanisms provided by the government. The discount factor used for fixed-interest loans, advances and securities is the original effective interest, while the current effective interest is used for floating-rate loans, advances and securities and the current market return of a comparable financial asset for equity holdings measured at cost. The valuation allowance determined using this method is recognized in the income statement in the item 'allowance for credit losses/promotional contribution' for loans and advances and in the item ‘net result from financial investments’ for securities belonging to the ‘held to maturity’ category and for equity holdings.

In accordance with IFRS, impairments resulting from payment defaults are only determined for losses already incurred. Since the Group generally extends credit almost exclusively via other banks, any potential losses are identified in a timely manner. To account for any existing residual risk of not having identified losses already incurred, Rentenbank recognizes for the first time as of the balance sheet date a portfolio valuation allowance based on a model for the presentation of expected losses for loans and advances measured at (amortized) cost. In this context, a distinction is made between portfolios for banks, companies, and governments. The portfolios' carrying amounts are weighted using probabilities of default and recovery rates, based on ratings. Since there is no statistically relevant number of defaults within the Group, probabilities of default are determined based on external data provided by rating agencies, while recovery rates are derived from regulatory parameters. The change of the estimation regarding unidentified losses compared to the previous year resulted in the recognition of a portfolio valuation allowance in the amount of € 11.7 million, which was recorded in the income statement in the item ‘allowance for credit losses/promotional contribution.’

Financial investments of the category ‘available for sale’ that are measured at fair value

If objective evidence suggests that financial investments are impaired, such impairment is calculated as the difference between amortized cost and the current fair value. The loss calculated in this manner is recognized as an adjustment to the revaluation reserve in the net result from financial investments.

If the reasons for an impairment of debt instruments no longer apply, the impairment loss has to be reversed through profit or loss.

The item ‘allowance for credit losses/promotional contribution’ in the consolidated statement of comprehensive income primarily includes the discounted promotional expenses of the special promotional loans as well as their utilization over the remaining term. The promotional expenses represent the difference between the interest rate of the special promotional loan granted at a reduced rate of interest and the funding rate at the date of the loan commitment, plus an administrative cost rate.

The allowance for credit losses as of December 31, 2013 compared to the previous year is as follows:

	Jan. 1 to Dec. 31, 2013 € million	Jan. 1 to Dec. 31, 2012 € million	Change in € million
Expenses for additions to promotional contribution	81.6	74.9	6.7
Income from the utilization of promotional contribution	58.7	54.1	4.6
Additions to portfolio valuation allowances	11.7	0.0	11.7
Reversal of specific valuation allowances	0.1	0.0	0.1
Recoveries on loans and advances previously written off	0.0	0.1	- 0.1
Allowance for credit losses	**34.5**	**20.7**	**13.8**

Loans are extended to banks or other borrowers with top credit quality for the most part.

5.6 Exposure amounts with risk weights prescribed by regulatory authorities

In the context of the determination of the capital requirements for credit risk exposures under CRSA, Rentenbank only uses external ratings by Moody's Investors Service in the exposure classes 'Corporates,' 'Institutions' and 'Central governments.'

The risk weight for covered bonds issued by financial institutions which are included in the assets portfolio is determined in accordance with Section 32 in conjunction with Section 31 SolvV.

The following table shows the amount of the credit risk exposures before and after collateral of the regulatory risk weights applicable under CRSA as of December 31, 2013.

Risk weighting in %	**Total amount of receivable outstanding** before credit risk mitigation € million	after credit risk mitigation € million
0	20,726	21,535
10	7,455	7,455
20	44,727	43,920
50	2,935	2,986
100	994	941
CRSA, total	**76,837**	**76,837**

Due to substitution effects, exposure amounts with originally higher risk weights are reported in exposures with a risk weight of 0%. Therefore, the sum total of the exposure amounts does not change.

5.7 Derivative credit risk exposures and netting positions

Derivatives are only entered into to hedge existing or expected market price risks and only with business partners from EU or OECD countries with top credit quality.

Rentenbank has concluded collateral agreements with all counterparties with which it enters into derivative transactions. These agreements provide for cash deposits denominated exclusively in euros to secure the positive fair values from derivatives exceeding the contractually agreed allowance amounts and minimum transfer amounts, which depend on the credit quality. In return, Rentenbank undertakes to provide cash deposits denominated in euros in the case of negative fair values if these exceed the corresponding allowance and minimum transfer amounts. The interest applied to the collateral provided and accepted is the EONIA rate. Interest payments are made on a monthly basis.

As of December 31, 2013, the credit risk exposure from all derivative transactions amounted to € 1,559 million (credit equivalent value) (2012: € 5,525 million). This exposure is determined using market price-based replacement cost pursuant to Section 18 SolvV. Netting arrangements are exclusively used for derivatives. The use of netting options from standardized netting arrangements as well as netting arrangements generally accepted by regulatory authorities with all counterparties leads to a reduction of positive replacement values.

The following overview shows the positive fair values from derivative transactions as of December 31, 2013, before and after application of netting arrangements and eligible collateral in accordance with Section 326 (2) No. 1 SolvV:

	€ million
Positive replacement values before netting and collateral arrangements	**3,236**
Netting arrangements	1,677
Eligible collateral	519
Positive replacement values after netting and collateral arrangements	**1,040**

The positive fair values before netting and before collateral arrangements in the amount of € 3,236 million consist of interest rate contracts (€ 1,921 million) foreign exchange contracts of € 1,311 million, and equity/index-related contracts of € 4 million. Rentenbank does not enter into credit derivatives such as credit default swaps (CDS).

The limitation of derivative risk exposures per counterparty is conducted within the scope of the processes for the controlling and monitoring of counterparty-based credit risks.

The possibility of taking into account interdependencies/correlation effects between the risk types is not being made use of. The possibility of taking into account interdependencies/correlation effects between the risk types is not being made use of. The aggregation of the capital requirements relating to the individual risk types is conducted on the basis of a conservative correlation assumption of +1.

The allowance amounts granted to Rentenbank relating to collateral agreements are based on Rentenbank's triple A ratings and are linked to the associated state guarantee of the German government in favor of Rentenbank. The scenario involving a rating downgrade in connection with the provision of further collateral relating to collateral arrangements is regularly validated and is not substantial at the moment.

5.8 Credit risk mitigation techniques

Rentenbank uses collateral and netting arrangements in order to reduce credit risk. Netting options only exist for derivatives in the form of netting arrangements. Rentenbank generally accepts all kinds of collateral commonly accepted by banks. The institutional liability, indemnity agreements and separate cover funds, used for example with regard to Pfandbriefe (covered bonds), may also be used as collateral. The divisions Promotional Loan Business, Financial Institutions and Collateral & Equity Investments are responsible for collateral management. All collateral provided to Rentenbank is reviewed as to its intrinsic value on an annual basis per business partner and with a view to the collateral type. The collateral is managed in Rentenbank's collateral system. The actual provision of collateral is monitored closely and collateral deficits are additionally demanded. The Group conducts routine, non-event-driven reviews on a test basis in connection with the use of the special-purpose funds within the scope of the special promotional lending business based on the credit documentation of the local banks.

Only warranties, especially guarantees and indemnities, as well as financial collateral from collateral arrangements are used by Rentenbank to reduce the capital charge on the basis of the Financial Collateral Simple Method in accordance with Section 185 SolvV.

Only European countries, the German federal government, the German federal states and local authorities are recognized as eligible providers of credit protection.

Under the CRSA, the following collateral was used as of December 31, 2013:

Portfolio € million	Financial collateral	Guarantees
Central governments	——	291
Regional governments and local authorities	——	50
Financial institutions	519	——
Corporates	——	——
Total	**519**	**341**

6. Market price risk (Section 333 SolvV)

Interest rate risks in the banking book

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

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

The quarterly analysis is conducted based on the requirements set out in Circular 11/2011 of the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) and examines the effects of changes in market rates of interest as of a specific date. The relevant exposures are allocated to maturity bands, separately for assets and liabilities. Then, a net position is determined for each maturity band. Subsequently, the respective net positions are multiplied with the weighting factor for the time band concerned - as prescribed by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) - and added up a weighted total net position. The result represents the estimated change in the present value. Pursuant to Section 24 (1) No. 14 KWG, a negative change of the present value exceeding 20% of total regulatory own funds must be notified immediately.

The present value is calculated on the basis of scenario analyses without taking into account equity components. Early repayments of loans are taken into account for the period up to contractual maturity. No further assumptions were made as to early repayment of loans. Unlimited customer deposits are not of material significance to Rentenbank and are therefore not taken into account. The calculation of the present value does not take into account items that are not subject to interest rate risks, such as 'valuation allowances,' 'equity holdings,' 'non-current assets held for sale,' 'investment property,' 'property and equipment,' 'intangible assets,' 'current income tax assets,' 'other assets,' 'provisions,' and 'other liabilities.'

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

We did not provide a breakdown by currency of the results from the abovementioned interest rate risks in the banking book as the Group generally does not enter into open currency positions. It is generally not permitted to enter into open currency positions. Open currency positions result from fractional amounts during settlement, but only to a very small extent. Exchange rate risks from foreign currency loans or issues of securities in a foreign currency are hedged through currency derivatives or offsetting transactions recognized in the balance sheet. There is no material risk to be identified for any currency.

7. Equity holdings (Section 332 SolvV)

7.1 Equity holdings in the banking book

The item 'financial investments' in the IFRS consolidated financial statements includes equity holdings, inter alia. The equity holdings are motivated by Rentenbank's promotional mandate. Promotional lending is the principal focus of the equity holdings strategy, not maximization of contributions to earnings. The strategic equity holdings are effected by acquiring equity interests. Due to the very limited business activity of its subsidiaries and the letter of comfort issued to LR Beteiligungsgesellschaft mbH, all material risks are concentrated in Rentenbank and are therefore managed by Rentenbank on a Group level.

Description	Name	Subscribed capital € million	Shareholding in %
Banks	DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt	3,160.1	3.4
Other companies	Getreide-Import-Gesellschaft mbH, Frankfurt	7.7	100
	Deutsche Bauernsiedlung - Deutsche Gesellschaft für Landentwicklung (DGL) GmbH, Frankfurt	8.7	25.1
	LAND-DATA Beteiligungs GmbH, Hannover	0.8	10.9
	LAND-DATA GmbH, Hannover	1.0	10.9
	Landgesellschaft Mecklenburg-Vorpommern mbH, Leezen	10.2	9.8
	Niedersächsische Landgesellschaft mbH, Hannover	0.8	6.3
	Landgesellschaft Sachsen-Anhalt mbH, Magdeburg	9.2	5.6
	Landgesellschaft Schleswig-Holstein mbH, Kiel	27.5	3.2

7.2 Carrying amounts for equity holdings

Equity holdings are recognized at cost as these items relate to unlisted companies and hence a reliable estimate of their fair value is not possible.

The IFRS carrying amount of unlisted companies as of December 31, 2013 amounts to € 119 million (2012: € 119 million).

7.3 Realized and unrealized gains/losses from equity holdings

No impairment losses were identified within the framework of the impairment test in accordance with IAS 39 conducted as of December 31, 2013 as there was no objective evidence of impairment.