Interim Report 2017

Rabobank

Rabobank

Contents

General note for readers

Pages 1 to 51 of this interim report are unaudited or have not been subject to a review. The independent external auditor has issued a review report on the interim financial information on pages 52 to 72. The interim financial information and the notes to the interim financial information are part of the interim report. The publications on the Rabobank website to which reference is made in this interim report do not form part of the interim report.

Key figures

Key figures						
Amounts in millions of euros	*30-06-2017 2017-I*	*31-12-2016 2016*	*30-06-2016 2016-I*	*31-12-2015 2015*	*30-06-2015 2015-I*	*31-12-2014 2014*
Financial position and solvency						
Equity	40,314	40,524	40,759	41,197	41,319	38,788
Common equity tier 1 capital	31,080	29,618	27,932	28,754	28,669	28,714
Tier 1 capital	37,481	37,079	35,070	35,052	34,997	33,874
Total capital	52,926	52,873	49,192	49,455	46,542	45,139
Risk-weighted assets	207,589	211,226	209,136	213,092	216,708	211,870
Profit and loss account						
Income	5,938	12,805	5,900	13,014	6,927	12,889
Operating expenses	3,755	8,594	4,276	8,145	3,833	8,055
Regulatory levies	258	483	246	344	121	488
Impairment losses on goodwill and investments in associates	-	700	-	623	600	32
Loan impairment charges	-67	310	148	1,033	356	2,633
Taxation	476	694	233	655	495	-161
Net profit	1,516	2,024	997	2,214	1,522	1,842
Ratios						
Common equity tier 1 ratio	15.0%	14.0%	13.4%	13.5%	13.2%	13.6%
Fully loaded common equity tier 1 ratio	14.7%	13.5%	12.4%	12.0%	11.8%	11.8%
Tier 1 ratio	18.1%	17.6%	16.8%	16.4%	16.1%	16.0%
Total capital ratio	25.5%	25.0%	23.5%	23.2%	21.5%	21.3%
Equity capital ratio	16.2%	15.0%	14.9%	14.7%	14.5%	14.4%
Leverage ratio	5.8%	5.5%	5.1%	5.1%	5.1%	4.9%
Loan-to-deposit ratio	1.22	1.22	1.24	1.25	1.32	1.32
Return on tier 1 capital	8.2%	5.8%	5.7%	6.5%	9.0%	5.2%
ROIC	7.8%	5.2%	5.4%	6.0%	8.3%	-
Cost/income ratio including regulatory levies	67.6%	70.9%	76.6%	65.2%	57.1%	66.3%
Net profit growth[1]	52.1%	-8.6%	-34.5%	20.2%	40.9%	-8%
Return on assets	0.46%	0.30%	0.29%	0.33%	0.45%	0.28%
Ratings						
Standard & Poor's	A+	A+	A+	A+	A+	A+
Moody's Investors Service	Aa2	Aa2	Aa2	Aa2	Aa2	Aa2
Fitch Ratings	AA-	AA-	AA-	AA-	AA-	AA-
DBRS	AA	AA	AA	AA	AA (high)	AA (high)
Volume of services						
Total assets	623,197	662,593	686,593	678,827	674,734	691,278
Private sector loan portfolio	417,796	424,551	427,348	433,927	434,252	429,731
Deposits from customers	343,180	347,712	342,940	345,884	328,159	336,409
Wholesale funding	170,977	188,862	201,051	203,218	212,124	216,529

1 Compared to the result for the comparative period in the previous year.

Key figures						
Amounts in millions of euros	*30-06-2017 2017-I*	*31-12-2016 2016*	*30-06-2016 2016-I*	*31-12-2015 2015*	*30-06-2015 2015-I*	*31-12-2014 2014*
Retail customers						
Net Promotor Score (NPS Recommendation)	52	41	37	33	24	17
Customer Effort Score (CES Day-to-day banking)	66	67	67	64	65	68
Customer Advocacy Score (CAS Recommendation)	83%	79%	78%	76%	71%	61%
Private Banking customers						
Net Promotor Score (NPS Recommendation)	45	46	43	37	32	29
Customer Effort Score (CES Day-to-day banking)	65	70	69	64	66	68
Customer Advocacy Score (CAS Recommendation)	83%	84%	82%	81%	74%	70%
Businesses						
Net Promotor Score (NPS Recommendation)	38	36	34	21	18	10
Customer Effort Score (CES Day-to-day banking)	50	55	51	43	49	52
Customer Advocacy Score (CAS Recommendation)	69%	71%	68%	62%	60%	53%
Nearby						
Members (x 1,000)	1,924	1,927	1,932	1,945	1,953	1,959
Availability of internet payments & savings[1]	99.8%	99.7%	99.8%	99.8%	99.8%	98.9%
Availability of mobile banking[1]	99.8%	99.7%	99.8%	99.8%	99.8%	99.0%
Foreign places of business	383	382	393	403	428	440
Offices	450	475	488	506	520	547
Market shares (in the Netherlands)						
Mortgages	21%	21%	20%	20%	22%	22%
Savings	34%	34%	35%	35%	35%	36%
Personnel						
Number of employees (internal in FTEs)	38,614	40,029	44,315	45,658	46,728	48,254
Number of employees (external in FTEs)	6,084	5,538	5,788	6,355	5,861	5,728
Number of employees (total in FTEs)	44,698	45,567	50,103	52,013	52,589	53,982

1 Average availability measured over 12 months.

Developments first half of 2017

Transition progress tangible across the bank

In 2016 we started the implementation of the Strategic Framework 2016-2020, which describes how we want to achieve our ambitions in the coming years. This strategy provides a sharpened focus on improving customer service and realising a fundamental improvement in financial performance across Rabobank in order to safeguard our future success and secure our foundations as a cooperative bank. In the first half of 2017, Rabobank continued the transition and we are well on track to achieving the objectives described in the Strategic Framework. At the same time, we are aware that we need to maintain momentum in a rapidly changing environment. The recently announced change in the top structure aims to support this combined focus on digital transformation and strong customer orientation.

Banking for the Netherlands and Banking for Food describe how we want to shape our mission as a customer-focused cooperative with the aim of having a positive and lasting impact on the country and the global food supply.

Banking for food

We are a global leader in the food & agri sector. Our agricultural roots have helped to achieve this position, and we will continue to make a significant and lasting contribution to the global food & agri sector. We are increasing our commercial effectiveness by fine-tuning our customer focus, further integrating our chain approach, unlocking our knowledge and creating more innovative opportunities. With Banking for Food we want to play a prominent role in the public debate on the broad issue of food. We connect producers with consumers, and farmers with citizens. Since Rabobank is the market leader in the agriculture sector in the Netherlands, Banking for the Netherlands and Banking for Food are closely intertwined. Our knowledge and our network in the leading international Dutch food & agri sector are the roots of Rabobank.

Banking for the Netherlands

We feel a strong connection with our customers and members and, consequently, with the future of the Netherlands. If our customers do well, Rabobank does well. As a cooperative bank, we can differentiate ourselves by providing a targeted contribution to the challenges our customers and members in the Netherlands face in the years ahead. In this way, we wish to contribute to sustainable welfare and prosperity in the Netherlands. With Banking for the Netherlands, we want to strengthen the Netherlands of the future from three perspectives:

1. Improving the earnings capacity of the Netherlands by focusing on the growth themes of mobility, vitality, food & agri, raw materials, water and housing, by encouraging entrepreneurship and by supporting sustainable innovation.
2. Supporting the optimum life course for Dutch households by helping customers make confident financial choices in an increasingly complex and dynamic world.
3. Strengthening the living environment of local communities through the use of cooperative dividends and our local participation agenda. Our local presence allows us to respond to important regional issues.

Introduction new top management structure

In a world of constant and rapid change, organisations and individuals need to be agile and capable of changing with and ahead of the times. In June we announced that the Rabobank Supervisory Board has decided to introduce a new top management structure. On 1 September 2017, responsibility for the day-to-day management of Rabobank will transfer from the Executive Board to a Managing Board of ten members led by the current chairman of the Executive Board. The formation of a Managing Board will bring a flatter structure, increased focus on the digital transition, increased focus on empowering our people and representation of more customer segments at the highest executive management level. This should result in an acceleration of Rabobank's transition.

Implementation agenda

The Strategic Framework 2016-2020 has been further detailed in an Implementation Agenda which outlines the dimensions of the thematic areas that reflect our ambition of achieving significant transformation: Complete customer focus, Rock-solid bank, Meaningful cooperative and Empowered employees. The highlights of the first half of 2017 are discussed in the following section.

Strategic Framework 2016-2020: Implementation Agenda

1. Complete customer focus

Customer satisfaction continues to rise

Satisfied customers remain Rabobank's top priority, and the positive trend seen in customer satisfaction continues, as demonstrated by the Net Promotor Scores (NPS) for our advisers. Compared with the end of 2016, the majority of our NPSs have increased. This is an expression of the intense efforts of our people and the innovation we have provided to our customer service.

Customer service 24/7

Customer feedback and ongoing insights into customer needs are pivotal to remaining in touch with our client base. In the Netherlands, we have combined all our customer care activities to improve the overall customer service. Rabobank's customer service is available 24/7 by phone, webchat and social media.

Blockchain initiatives

We are working together with our clients towards strategic partnerships to rethink current practices in trade and commodity finance and to test and make use of the ample possibilities blockchain technology offers. Rabobank has partnered with seven European banks to create a blockchain solution, the Digital Trade Chain, for cross-border transactions for SME clients. This is the first true blockchain application going live with an anticipated launch date this fall. Beyond this, Rabobank has experimented with more than twenty use-cases for blockchain, where Rabobank combined concrete client needs with the new technological possibilities of blockchain. Rabobank is innovating with the use of new technologies on a wide scale (AgTech, FoodTech, FinTech, blockchain, artificial intelligence, big data, smart chips, Internet of Things (IoT) to open up new possibilities in customer service in smart farming, smart trading, smart logistics, smart processing and smart consuming, and not to forget smart banking.

Rabobank wins most innovative traditional bank award for FinTech

The Dutch FinTech Awards recognise the accomplishments of innovative companies in the financial sector. A jury of experts, stakeholders and investors from the FinTech industry unanimously named Rabobank the winner of the Dutch FinTech Awards 2017 this April in the category 'Incumbent Banks' (traditional banks). In the world of FinTech, innovation focuses less on disruption and more on 'fintegration': integrating technology in the financial sector. Collaboration helps banks and start-ups to develop new propositions and solutions based on the latest technologies.

FoodBytes! and Terra

Rabobank's innovation activities in 2017 have continued to strengthen our global network of food & agri innovators, who all are eager to help us accomplish our Banking for Food mission. In the first half of the year we held three FoodBytes! – in San Francisco, the Netherlands, and New York City (the latter was our 9th FoodBytes! event since 2015). FoodBytes aims to find the most innovative concepts in food & agri and pair them with the capital needed to bring them to market. More than 500 start-ups from 30 countries submitted applications, and over 1,000 innovators, companies and thought leaders attended.

We also launched the first cohort of our F&A Accelerator in April 2017, Terra. By connecting the top corporate brands and the top start-ups, Terra aims to bring the execution power of the big players closer to the speed and ideas of the newcomers, to the benefit of both parties.

Digital products connect customers, businesses and information

Rabobank keeps on capitalising on digital innovation. We have improved existing products and launched a number of new ones this year to simplify the way customers do business with us.

- It's 'Bye bye bookkeeping and hello Tellow', as Rabobank introduces a new fully automated bookkeeping app to help entrepreneurs ensure their accounts are always up-to-date. Tellow revolutionises bookkeeping by simplifying stand-alone, recurring bookkeeping tasks, sending notifications about actionable tasks that entrepreneurs can execute in the app.
- The Rabo & Co platform brings entrepreneurs with a financing need together with individuals looking for alternative investment opportunities.
- iDIN represents a new proposition for online verification of customer identity, signing in and archiving. The Rabo Scanner or token can now be used to log in securely on the websites and portals of online organisations and services (e.g. the Dutch Tax Authority).
- The 'Bricks & Bytes' report covers innovations in the real estate world in cooperation with other parties in the market and research agencies. This is an initiative by Rabo Real Estate, who also published the 'Transformation Atlas for the Netherlands' and set up various partnerships in the field of innovation, circularity and blockchain.
- Payment request (Rabobank betaalverzoek) allows customers to use the Rabobank app to forward a request for payment by using Whatsapp.
- The Rabo Subsidiewijzer offers clients the possibility to see which grant options are available to them for innovation, investments, education and international cooperation.
- App store ratings of the Rabo Banking App rose from two to three stars after improvements were implemented within the app: online account sales, loans and mortgages and the option of carrying out transactions without the Rabo Scanner.

2. Rock-solid bank

Checking in on our financial targets

The Strategic Framework 2016-2020 provides targets and direction for Rabobank for the coming years. Rabobank has set financial targets for itself in order to remain a rock-solid bank and we are preparing for forthcoming regulations such as Basel IV, MREL and IFRS 9. The table below presents our ambitions and the actuals as at 30 June 2017.

Summary targets Strategic Framework 2016-2020

Amounts in billions of euros		*Ambition 2020*	*30-06-2017*	*31-12-2016*
Capital	CET1 ratio	>14%	15.0%	14.0%
	Total capital ratio	>25%	25.5%	25.0%
Profitability	ROIC	>8%	7.8%	5.2%
	Cost/income ratio (regulatory levies included)	53%-54%	67.6%	70.9%
Funding and liquidity	Wholesale funding	<150	171	189

Important strides made in meeting capital ambitions

Rabobank has set targets for its capital ratios in order to comply with stricter regulatory requirements (i.e. the gradual implementation and phase-in of CRD IV/CRR) and to improve its capital position under the new regulatory framework.

Building on last year's progress, Rabobank has taken further steps to strengthen its capital ratios. The fully loaded common equity tier 1 (CET1) ratio – the CET1 capital as a percentage of the risk-weighted assets[1] – was 14.7% (13.5%[2]) as per 30 June 2017. The transitional CET1 ratio also showed an increase and improved to 15.0% compared to year-end 2016 (14.0%). This increase means we have already hit the target set for 2020, which we deem prudent pending the uncertainty around Basel IV. The CET1 ratio growth was positively influenced by the EUR 1.6 billion Rabobank Certificate issue proceeds in January 2017, adding 80 basis points to the CET1 ratio. The total capital ratio – the qualifying capital as a percentage of risk-weighted assets – amounted to 25.5% (25.0%). With further improvement of profitability and reduction of risk-weighted assets, we aim for a continuous improvement of the capital ratios over the coming period. In the first six months of 2017, risk-weighted assets decreased by EUR 3.6 billion to EUR 207.6 billion.

Rabobank continues to monitor the developments of the reforms to Basel III regulations (also known as Basel IV) carefully and has taken note of the amendments to the proposals as first introduced in December 2014, with timelines now pushed further into the future. The proposals potentially imply a substantial increase in the risk-weighting of assets. Rabobank endorses the broad direction of the Basel Committee for

1 For each asset, the bank uses models to determine the risk weight depending on the risk profile of the asset. The higher the risk weight, the more equity the bank has to hold for the asset in question.
2 On pages 6 to 51 the amounts in brackets ( ) are the comparative figures. Balance sheet items are compared with the position at year-end 2016. Items in the statement of income are compared with the first half of 2016.

Banking Supervision to strengthen banks' capital buffers, but is not supportive of the Basel IV proposals to constrain the use of internal model approaches. Anchoring of proposed output floors to a revised Standardised Approach implies limited reflection of the underlying risk in the solvency requirement.

The final outcome of the new Basel regulations will ultimately impact the size of the reduction in risk-weighted assets. We are preparing ourselves by building an infrastructure for the pass-through and sale of assets, and for taking parts of the mortgage and corporate loan portfolios off-balance. In July, the risk-weighted assets were relieved by approximately EUR 1 billion following the transfer of the risk on a part of the corporate loan portfolio to a third party. Furthermore, a more flexible and reduced balance sheet can be achieved by making decisions about the sectors which we serve.

Performance improvement results in ROIC of 7.8%

In order to make future growth possible for Rabobank, we have set ambitious targets with regard to continuous performance improvement. Several important steps have already been taken in order to further increase our effectiveness and efficiency. Over the first half of 2017, the ROIC[1] amounted to 7.8% (5.4%). Further improving performance with regard to both cost and income remains a priority for meeting our ambitions. The cost/income ratio including regulatory levies improved to 67.6% (76.6%) over the first six months of 2017.

Several exceptional items impact these figures. In calculating the underlying cost/income ratio adjustments were made for fair value items, restructuring costs, the provision for the interest rate derivatives framework taken in the first half of 2016 and for the deconsolidation of Athlon following the sale of this subsidiary in December 2016. In the first half of 2017, the underlying cost/income ratio, including regulatory levies, stood at 63.9% compared to 63.0% in the first half of 2016.

The bank is undergoing a major transition necessary to achieving the targeted performance improvement in the coming years. The continued execution of the performance improvement programme Performance Now during the first six months of 2017 resulted in a further reduction of staff costs.

1 The return on invested capital (ROIC) is calculated by dividing the annualised net profit realised after non-controlling interests by the core capital (actual tier 1 capital plus the goodwill in the balance sheet at the end of the reporting period) minus deductions for non-controlling interests in Rabobank's equity.

Further optimisation of the funding and liquidity composition

Rabobank aims to reduce its structural wholesale funding usage. Doing so will make the bank less sensitive to potential future financial market instability. In line with the guidance given by the Strategic Framework 2016-2020, we were able to reduce our wholesale funding to EUR 171 (189) billion and our total assets decreased to EUR 623 (663) billion as at 30 June 2017. The decrease in the balance sheet can be explained by a lower value of derivatives caused by an increase in long-term interest rates and a modest decline in the lending book. The commercial real estate portfolio was further reduced and at the local Rabobanks early repayments on residential mortgage loans contributed to the decrease. On the liabilities side, derivatives decreased as well. Furthermore, in line with the target of the financial framework wholesale funding was decreased by EUR 18.2 billion to EUR 170.6 billion, excluding the TLTRO which increased from EUR 2.0 billion to EUR 5.0 billion in the first half of 2017.

Rabobank successfully issued its first covered bonds in May 2017, raising EUR 2.5 billion. Over the coming years, we aim to issue EUR 25 billion in covered bonds, which would further diversify and optimise Rabobank's funding composition.

Rabobank's credit ratings reflect continuing stability

During the first half of 2017, Rabobank's credit ratings and outlook remained unchanged. Rabobank maintained its credit ratings assigned by S&P ('A+'), Moody's ('Aa2'), Fitch ('AA-') and DBRS ('AA'). The Outlook is 'Stable' with all rating agencies apart from Moody's which revised its outlook from 'Stable' to 'Negative' in November 2016. All agencies view Rabobank's leading position in the Dutch banking sector and in food & agri internationally as important rating drivers, in addition to the large buffer of equity and subordinated debt which offers protection to non-subordinated bond holders.

Remaining a rock-solid bank is one of the cornerstones of Rabobank's strategy, and improvements in creditworthiness lead to high ratings. This is desirable because a high rating enables Rabobank to attract funding under more favourable conditions in the capital markets.

Read more on Rabobank's credit ratings here.

Capital strategy aimed at financial solidity

Rabobank's financial solidity is anchored in strong capital and liquidity buffers. These buffers are vital prerequisites to maintaining a high credit rating and good access to professional funding in the capital markets. While Rabobank does not seek to maximise profit, healthy profit growth is important for ensuring continuity and financial soundness. Rabobank's capital buffer consists of retained earnings, Rabobank Certificates, additional tier 1 capital and tier 2 capital. The appropriation of net profit after deduction of the payments on Rabobank Certificates and hybrid capital instruments and on payments for other non-controlling interests increases retained earnings.

New issues will shore up tier 2 capital, and this will lead to an increase of the total capital ratio. Furthermore, Rabobank has responded to the tighter regulation in force since 2014 (i.e. the gradual implementation and phase-in of CRD IV/CRR) by issuing new types of instruments that fully qualify as additional tier 1 capital. Rabobank's capital strategy is designed to achieve high capital ratios in anticipation of the possible consequences of Basel IV and the minimum requirement for own funds and eligible liabilities (MREL) obligations. The new impairment calculations that will be effective per 1 January 2018 by adopting IFRS 9 are expected to have limited impact on CET1 ratio.

3. Meaningful cooperative

Next to its economic objectives, Rabobank has a broader social goal and mission to contribute to the sustainable development of local communities in the Netherlands and feeding the world more sustainably. By focusing on our two strategic pillars (i.e. Banking for Food and Banking for the Netherlands), we are working with our customers and business partners towards a successful and meaningful cooperative Rabobank.

One of the key aspects of these pillars is the Sustainably Successful Together (SST) programme which describes our ambitions regarding our contribution to sustainable development until 2020.

Read more

In 2017, Rabobank received recognition for its efforts in sustainable development with two awards: Environmental Finance's 'Green Bond Award for Bond of the year – Bank' and a 'Diamond' award for its active diversity policy. January 2016 brought fundamental changes to Rabobank's governance. Rabobank Nederland and all local Rabobanks merged into one cooperative bank.

Strengthening knowledge-sharing and creating vibrant networks

Rabobank creates valuable knowledge to share with relevant parties, which we believe benefits society as a whole. Approximately 500 members of Local Supervisory Bodies and approximately 3,500 members of Local Members' Councils play a vital role in building and maintaining relationships between local Rabobanks on the one hand and numerous – social – networks and organisations on the other. Internationally, we also express our cooperative identity through our food & agri knowledge, and the client advisory boards and client councils in all our regions. We try to proactively help clients on these boards connect with each other and support knowledge-sharing and networking between them.

Global Farmers Master Class brings farmer clients together

Rabobank's 6th Global Farmers Master Class (GFMC) was held 17-23 June 2017 in the Netherlands. Participants in the 2017 series of the GFMC gave it an overall rating of 4.94 (out of 5, in overall content). Leading farmer clients of Rabobank from around the world have gathered at the GFMC since 2012 to discuss the role of the rural entrepreneur in global food security. The event addresses strategic opportunities and challenges faced by farmers, such as succession planning, farm returns and profitability, sustainability, innovation, and cooperation throughout the chain.

The GFMC provides farmers a platform to interact and exchange knowledge with experts from business, research and government, as well as their peers from different parts of the world. Nearly 200 rural clients have attended previous series of the GFMC; the previous event took place in Australia/New Zealand in November 2016.

Sustainable development in the Netherlands and abroad

We wish to focus on contributing to sustainable development in the Netherlands and abroad: improving national earnings capacity, supporting optimum life courses for Dutch households and strengthening the living environment of local communities. In 2017 we prioritised the areas in which Rabobank wants to be influential in order to strengthen the Netherlands. We are committed to helping clients and their communities achieve sustainability by providing tailored financial services and access to knowledge and networks. We have started diverse initiatives, from the impact of the circular economy to energy-saving and sustainable housing. With these initiatives, Rabobank is connecting important topics in society over the coming years with concrete banking propositions.

New Banking for Food Inspiration Centre

The Banking for Food Inspiration Centre was launched to inspire and support the business in its implementation of the Banking for Food strategy. The inspiration centre will work closely with the business to connect stakeholders throughout the food chain, from farm to fork, in both the Netherlands and abroad.

100 circular action plans with entrepreneurs in 2017
Rabobank, KPMG and CSR Netherlands have combined forces to stimulate circular action plans in the business sector. This partnership is helping entrepreneurs to convert from a linear to a circular business model. First launched in the Amsterdam Metropolitan Region, the partnership will expand to include the Arnhem-Nijmegen and the South-Holland-South regions.

Read more on objective of realising 100 circular action plans with entrepreneurs this year.

Rabobank and Bleeve introduce concept for home energy-saving measures
A lower energy bill, more comfort and a house worth more. A sustainable home offers homeowners many advantages, but the road to solar panels and additional insulation is often viewed as long and complicated.

Read more on how Rabobank and Bleeve are collaborating to help Rabobank customers take energy-saving measures.

Successful Impact Loan for sustainable frontrunners
In November 2015, Rabobank introduced a loan with an interest rate discount from the EIB for sustainable frontrunners in the Dutch SME sector. These frontrunners are businesses that actively and innovatively increase the sustainability of their operations. Entrepreneurs from various sectors have taken advantage of the impact loan, which comes at a substantial discount. Strongly represented sectors include agriculture and horticulture, transport, and hospitality and recreation. So far 126 frontrunners have received an impact loan for sustainable investments.

Read more on the expansion of the Rabo Impact Loan.

Promotion of social support and innovations

Rabobank Foundation
Rabobank Foundation was set up over forty years ago by the local Rabobanks. To this day they are still closely involved in Rabobank Foundation's work. Local Rabobanks reinvest around 3 to 4 % of their net profits back in society (in the form of cooperative dividend). On average around 0.5 percent of their net profits is invested in providing funds for Rabobank Foundation. Rabobank Foundation is an independent foundation and its results are not included in the consolidated figures of Rabobank. Rabobank Foundation's mission is to invest in people's self-sufficiency. In the Netherlands, they focus on social entrepreneurship, employability and financial self-sufficiency. Abroad we support small-scale farmers and their cooperatives.

Jacques Diouf Award (FAO)
Rabobank Foundation has become the first corporation to be recognised by the Food and Agriculture Organization of the United Nations (FAO) for their unfaltering technical and financial support to rural producer cooperatives and agribusinesses that have outgrown eligibility for donations and microcredit, but are not yet eligible for standard bank loans.

Rabo Development transferring African shareholdings to Arise
Rabo Development has begun the process of transferring its African bank investments to Arise. Launched in early 2017, Arise is an African investment company which aims to boost prosperity and contribute to economic growth in Sub-Saharan Africa by increasing financial inclusion and employment, strengthening rural development and alleviating poverty. Arise provides much-needed financial expertise and long-term capital to sustainable, locally owned providers of financial services. Arise is backed by three cornerstone investors (Rabobank, Norfund and FMO).

Rabo Food & Agri Innovation Fund
Rabo Food & Agri Innovation Fund was launched in May 2017 and invests in innovative companies across the food & agri value chain. These investments are in line with our Banking for Food strategy and are aimed at leveraging our food & agri expertise to companies and supporting them through mentoring and networks.

4. Empowered employees

The changes that Rabobank is undergoing have a significant impact on our employees. After all, they are not only shaping the transition by implementing improvement initiatives, but they also continue to feel the consequences of these changes in their work environment. Many people have left the bank. At the same time, we are also feeling the influence of trends like globalisation and hyperconnectivity, as well as demographic developments and the rapid advance of artificial intelligence and robotics. These changes are affecting the way we work.

These developments demand agility from our organisation and our employees. Rabobank wants its culture to reflect this agility and maneuverability by encouraging each other to strive for continuous improvement and to learn from best practices and challenges. In order to create awareness amongst staff members with regard to the future of (their) work, ample attention is being paid to this theme by means of presentations, group-wide discussions on our internal social medium Yammer as well as a recent event on this theme in Utrecht.

Improving performance through GROW!

Thanks to our positive, short-cycle performance approach, GROW!, launched early this year, every employee is now in a position to reflect on his or her personal performance and health. This approach rests on continuous dialogue about the employee's own contribution and qualities, focusing primarily on his or her competencies and talents. We have organised GROW! Experiences for management, and all staff members have had the opportunity to follow workshops as well as online trainings on GROW!.

Development budget

Starting in 2017, Rabobank employees in the Netherlands receive a development budget of EUR 1,500 which they can invest in their own personal and professional development. This budget facilitates the employability of staff, and its application is their own responsibility.

Diversity and inclusion to drive continuous improvement

Diversity and inclusion are crucial to Rabobank. Organisations acquire more agility as the staff pool becomes more diverse, because different opinions, skills and insights lead to more creativity, innovation and better performance. In addition, diversity reflects the customer base Rabobank serves. This means embracing gender diversity, as well as diversity in cultural background, worldview, age, expertise and work experience. In 2017 Rabobank continued its great progress with regard to diversity. Focus points for the diversity policy in 2017 include establishing a Global Diversity & Inclusion Policy in collaboration with an international workgroup, promoting the in- and outflow of multicultural talents so that we can serve all customers optimally, and filling 30 to 40 jobs in the Netherlands for people with an occupational disability.

Diamond for active diversity policy

Thanks to the diversity results in 2016, Rabobank won a 'Diamond', an award for organisations that have signed the Dutch Charter to achieve diversity in the (sub) top of the organisation and that have performed well on establishing greater male/female diversity. With 25% women in top management positions and 30% women on the Supervisory Board, Rabobank is setting a good example of how to approach gender diversity.

Gauging organisational health through engagement scan

A new employee engagement scan was made available in June for monitoring the employee experience and to improve it on a short-cycle basis. This scan is the leading tool for Rabobank worldwide to monitor employees' experience regarding their work. It will be used in addition to the major annual study into organisational health in October. The new scan provides insight into employee engagement as well as the health of the organisation. We will use this scan to monitor the progress on employee engagement on a quarterly basis.

Social plan to help redundant employees find new jobs

A new Collective Labour Agreement and Social Plan came into effect in 2017. The purpose of the Social Plan is to carefully guide employees whose jobs are disappearing to other work within or outside the bank. Within this context, a so-called Exchange Centre has been set up with an external party to enable employees who are being made redundant to find new employment through a labour-market value scan.

Nurturing vitality

RaboVitality is a bank-wide initiative geared towards increasing the physical and mental vitality of employees. This helps employees to better serve the bank's customers. Between now and July 2018, the RaboVitality scrum team will focus on informing, inspiring and activating employees to bring their vitality to a higher level.

Inno Days: Rabobank employees get hands-on with innovation

End of May 2017, saw the second series of Rabobank Inno days, bringing together over 600 staff for Moonshot pitches, stories from Rabo start-ups, keynotes and a wide variety of workshops. The event allowed staff to learn more about innovation in an accessible manner, to build their networks and to be inspired.
Day one of the event was dedicated to the Moonshot Demo Day, the pinnacle of the Moonshot Campaign's acceleration programme. The three winners of the third edition of Moonshot – FarmBit, speedO and mOOvement – pitched their refined ideas to a panel of professionals and a general audience.
Day two was all about inspiration, networking and experiencing innovation through hands-on sessions. No less than 24 workshops provided opportunies for hands-on learning about topics like blockchain, customer-centric thinking, pitching and the IoT.

Performance

Rabobank

Rabobank booked net profit of EUR 1,516 million

As a result of positive economic developments, the Dutch economy is expected to continue to grow in 2017 by 2.2%. The first half of 2017 supports this expectation, especially thanks to the dropping unemployment rate, a strong increase in household spending and investments in housing. These favourable economic developments reflected positively on Rabobank. Loan impairment charges showed a further decrease, falling by EUR 215 million to minus EUR 67 million, or minus 3 basis points of the average loan portfolio (the long-term average is 36 basis points). Reduced loan impairment charges had a positive impact on Rabobank's net profit, which increased by EUR 519 million to EUR 1,516 million.

Rabobank's private sector loan portfolio decreased by EUR 6.8 billion to EUR 417.8 billion mainly because of currency impacts (EUR 5.0 billion). The decrease, excluding currency impacts, can be explained by the further reduction in non-strategic commercial real estate lending and by further increases in mortage repayments stimulated by low interest rates on savings. Despite this decrease, our market share with regard to residential mortgage loans in the Netherlands remained stable at 20.5% in the first half of 2017. Private savings increased by EUR 3.2 billion to EUR 145.4 billion.

Rabobank's underlying operating profit before tax was EUR 2,276 (2,041) million, an increase of EUR 235 million compared to the first half of 2016. In calculating the underlying profit, corrections were made for fair value items, restructuring costs, the provision for the interest rate derivatives framework taken in the first half of 2016 and for the deconsolidation of Athlon following the sale of this subsidiary in December 2016. The return on invested capital (ROIC) amounted to 7.8% (5.4%).

Decrease in private sector loan portfolio

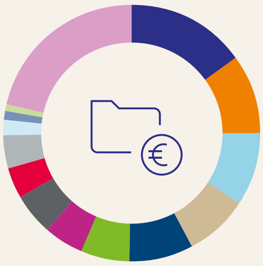
The weakening of the US dollar was the main driver for currency effects to have a downward impact on the lending book expressed in euros (EUR 5.0 billion). The remainder of the decrease in the loan portfolio of EUR 1.8 billion is caused by early repayments on residential mortgage loans in the local Rabobanks' private sector loan portfolio. In the first six months of 2017 customers' extra mortgage repayments – all payments on top of the mandatory repayments – totalled approximately EUR 8.3 (6.6) billion at local Rabobanks. At the same time, the non-strategic commercial real estate portfolio was further reduced. Excluding currency effects the loan portfolio of WRR was more or less stable and the portfolio of Rabobank's leasing subsidiary DLL increased modestly.

Loan portfolio

In billions of euros	*30-06-2017*	*31-12-2016*
Total loans and advances to customers	**441.0**	**452.8**
of which to government clients	2.5	3.3
Reverse repurchase transactions and securities borrowings	13.8	16.3
Interest rate hedges (hedge accounting)	6.9	8.6
Private sector loan portfolio	**417.8**	**424.6**

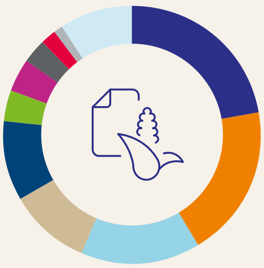
The geographical breakdown of the loan portfolio as at 30 June 2017 was as follows: 72% in the Netherlands, 11% in North America, 3% in Latin America, 7% in Europe (outside the Netherlands), 5% in Australia and New Zealand and 2% in Asia.

Loan portfolio TIS by industry
mid-2017



Lessors of real estate	15%
Finance and insurance, except banks	10%
Wholesale	9%
Manufacturing	8%
Professional, scientific and technical services	8%
Activities related to real estate	6%
Transport and warehousing	5%
Health care and social assistance	5%
Construction	4%
Retail non-food	4%
Utilities	2%
Information and communication	1%
Art, entertainment and leisure	1%
Other TIS	21%

Loan portfolio food & agri by industry
mid-2017



Dairy	22%
Grain and oilseeds	19%
Animal protein	15%
Farm inputs	10%
Fruit and vegetables	10%
Food retail	4%
Beverages	4%
Sugar	3%
Flowers	3%
Miscellaneous crop farming	1%
Other	9%

Loan portfolio by sector		
In billions of euros	*30-06-2017*	*31-12-2016*
Volume of loans to private individuals	199.7	201.2
Volume of loans to trade, industry and services	117.9	121.3
of which in the Netherlands	83.2	84.6
of which in other countries	34.7	36.7
Volume of loans to food & agri	100.2	102.0
of which in the Netherlands	37.3	37.5
of which in other countries	62.9	64.5
Private sector loan portfolio	**417.8**	**424.6**

48% of the loan portfolio was lent to private individuals, 28% to trade, industry & services (TIS), and 24% to food & agri. The following figures represent the breakdown of the TIS and food & agri portfolios by industry.

Increase in private savings

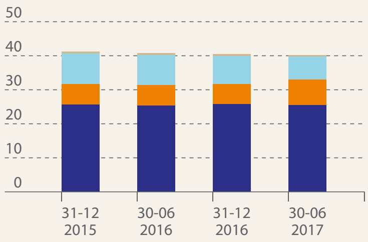
Total deposits from customers decreased by 1% to EUR 343.2 (347.7) billion. Deposits from customers in domestic retail banking increased to EUR 226.5 (223.3) billion. The holiday pay had a temporary upward effect, while the low interest rate on savings stimulated extra repayments on mortgage loans. Mainly due to lower balances from corporate customers, which are by nature more volatile than private savings, and due to currency effects, deposits from customers at WRR fell by EUR 7.6 billion to EUR 116.1 (123.7) billion. On balance, private savings increased by EUR 3.2 billion to EUR 145.4 (142.2) billion.

Deposits from customers		
In billions of euros	*30-06-2017*	*31-12-2016*
Private savings	**145.4**	**142.2**
Domestic retail banking	118.7	116.2
Wholesale, Rural & Retail	26.7	26.0
Other deposits from customers	**197.8**	**205.5**
Domestic retail banking	107.8	107.1
Wholesale, Rural & Retail	89.4	97.7
Other group entities	0.6	0.7
Total deposits from customers	**343.2**	**347.7**

Development of equity

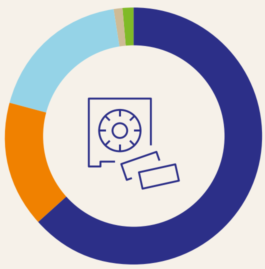
In the first half of 2017, Rabobank Group's equity decreased marginally to EUR 40,314 (40,524) million. The development was positively influenced by the EUR 1.6 billion Rabobank Certificates issue proceeds in January 2017. Retained earnings (after deduction of payments on Rabobank Certificates and hybrid capital instruments) of EUR 0.9 billion also had an upward impact on equity, while the redemption of Capital Securities and the appreciation of the euro both had a negative effect on equity. The impact of the appreciation of the euro on equity (minus EUR 0.7 billion) relates to the revaluation of structural foreign exchange positions that are deliberately taken to hedge the capital ratios against the adverse effect of exchange rate movements. As risk-weighted exposures were also affected by the appreciation of the euro, exchange rate movements only have a very limited impact on capital ratios. Rabobank Group's equity consisted of 63% (64%) retained earnings and reserves, 19% (15%) Rabobank Certificates, 17% (20%) hybrid capital and subordinated capital instruments, and 1% (1%) other non-controlling interests.

Equity
in billions of euros



- Other non-controlling interests
- Hybrid capital
- Rabobank Certificates
- Retained earnings and reserves

Breakdown of equity
mid-2017, in billions of euros



Retained earnings and reserves	25.5
Capital Securities	6.4
Rabobank Certificates	7.4
Trust Preferred Securities	0.4
Other non-controlling interests	0.5

Development of equity	
In millions of euros	
Equity at the end of December 2016	**40,524**
Comprehensive income and including FX impact	653
Issuance of Rabobank Certificates	1,620
Payments on Rabobank Certificates and hybrid capital	-609
Redemption of Capital Securities	-1,797
Other	-77
Equity at the end of June 2017	**40,314**

Developments in SME interest rate derivatives recovery framework

On 19 December 2016, the Dutch Derivatives Committee presented the final interest rate derivatives recovery framework. This framework defines the way banks should conduct the reassessment of interest rate derivatives files for SME clients. Independent external reviewers monitor whether the proper application of the recovery framework is assured. Last year, Rabobank announced its decision to join the Dutch Derivatives Committee recovery framework. In addition to our wish to take responsibility and help finding a fitting solution to the derivatives recovery, our decision was also informed by wide public support for the framework.

After committing to participating in the recovery framework on 7 July 2016, we made an additional provision of EUR 514 million in our interim figures 2016. On 31 December 2016, the total provision for the SME interest rate derivatives recovery framework amounted to EUR 665 million. The main uncertainties in the calculations of the provision stem from assumptions regarding the scoping of clients. The calculations for technical recovery are based on a portfolio approach instead of individual contract calculations.

The scoping process started in February 2017 followed by the reassessment of the interest rate derivatives contracts in scope. This assessment clarifies whether clients are eligible for compensation and which recovery actions are needed. Once this assessment has been verified by an independent external reviewer, clients will be informed as from the second half of 2017.

Financial results of Rabobank

Results			
In millions of euros	*30-06-2017*	*30-06-2016*	*Change*
Net interest income	4,454	4,375	2%
Net fee and commission income	988	982	1%
Other results	496	543	-9%
Total income	**5,938**	**5,900**	**1%**
Staff costs	2,136	2,264	-6%
Other administrative expenses	1,418	1,803	-21%
Depreciation	201	209	-4%
Total operating expenses	**3,755**	**4,276**	**-12%**
Gross result	**2,183**	**1,624**	**34%**
Loan impairment charges	-67	148	-145%
Regulatory levies	258	246	5%
Operating profit before tax	**1,992**	**1,230**	**62%**
Income tax	476	233	104%
Net profit	**1,516**	**997**	**52%**
Loan impairment charges (in basis points)	-3	7	
Ratios			
Cost/income ratio excluding regulatory levies	63.2%	72.5%	
Cost/income ratio including regulatory levies	67.6%	76.6%	
Return on tier 1 capital	8.2%	5.3%	
ROIC	7.8%	5.4%	
Balance sheet (in EUR billion)	*30-6-2017*	*31-12-2016*	
Total assets	623.2	662.6	-6%
Private sector loan portfolio	417.8	424.6	-2%
Deposits from customers	343.2	347.7	-1%
Number of internal employees (in FTEs)	38,614	40,029	-4%
Number of external employees (in FTEs)	6,084	5,538	10%
Total number of employees (in FTEs)	44,698	45,567	-2%

Notes to the financial results of Rabobank

Net profit landed at EUR 1,516 million

Net profit of Rabobank amounted to EUR 1,516 (997) million in the first half of 2017. Despite the current low interest environment, total income was resilient and landed just above last year's level. The decrease in the number of employees and lower restructuring costs had a positive impact on the gross result, whereas in the first half of 2016 the gross result was negatively impacted by the provision for the interest rate derivatives recovery framework. The loan impairment charges decreased to minus EUR 67 (148) million in the first half of 2017, positively influencing net profit.

Net profit in the first half of 2016 was adjusted by EUR 73 million to EUR 997 million due to a change in fair value of issued debt instruments that is attributable to changes in own credit spread. As a result of the early adoption of this part of the International Financial Reporting Standard 9 (IFRS 9) retrospectively as from 1 January 2016, the negative effect over the first half of 2016 of EUR 73 million was accounted for in other comprehensive income in equity.

Rabobank attuned the set-up and internal reporting of the business segments as of 1 April 2017. More information on this can be found in the 'Notes to the interim report' under the header 'Business segments'.

Underlying performance improvement as planned

The underlying performance improvement is in line with the direction set by the Strategic Framework 2016-2020, as illustrated by the development of the underlying operating profit before tax. The underlying operating profit before tax was EUR 2,276 million, an increase of EUR 235 million compared to the first half of 2016. In calculating this underlying profit, corrections were made for fair value items, restructuring costs, the provision for the interest rate derivatives framework and for the deconsolidation of Athlon following the sale of this subsidiary in December 2016.

Development of underlying operating profit before tax			
In millions of euros		*2017-I*	*2016-I*
Total income		**5,938**	**5,900**
Adjustments on income	Fair value items	186	190
	Regular income Athlon	-	-166
Underlying income		**6,124**	**5,924**
Operating expenses		**3,755**	**4,276**
Adjustments on expenses	Restructuring	-98	-190
	Derivatives framework	-	-514
	Regular expenses Athlon	-	-83
Underlying expenses		**3,657**	**3,489**
Regulatory levies		258	246
Loan impairment charges		-67	148
Operating profit before tax		**1,992**	**1,230**
Total adjustments		**-284**	**-811**
Underlying profit before tax		**2,276**	**2,041**

Rabobank Group retained EUR 903 (343) million of its net profit to bolster capital in the first half of 2017. Tax amounted to EUR 476 (233) million, which translates into an effective tax rate of 24% (19%). This increase is related to lower tax deductible payments on hybrid capital.

Total income increased by 1%

Net interest income up 2%

Net interest income totalled EUR 4,454 (4,375) million. As in 2016, repricing of the loan book contributed positively to the net interest margin. At the same time, lending at the local Rabobanks decreased due to extra mortgage repayments. Extra mortgage repayments led to a moderate decrease in the outstanding lending volumes. An increased volume of early interest rate revisions in our mortgage books will have a downward effect on net interest income. At WRR, net interest income increased in the first half of 2017 as well as for DLL on the back of higher lending volumes. The low interest rate environment still negatively impacted the income from treasury activities related to maintaining the liquidity buffers. The average net interest margin, calculated by dividing the average net interest income of the preceding 12 months by the average balance sheet total in the corresponding period, increased from 1.29% in 2016 to 1.33% in the first half of 2017. This was the result of stable net interest income combined with a lower balance sheet total. Higher long-term interest rates lowered the value of the derivatives on the balance sheet. Along with a somewhat lower lending book and lower liquid assets, this decreased the balance sheet total.

Net fee and commission income up 1%

Net fee and commission income increased to EUR 988 (982) million in the first half of 2017. At the local Rabobanks, net fee and commission on payment accounts increased. At WRR, net fee and commission income decreased. In the first half of 2016, net fee and commission income of WRR Markets reflected high activity levels with more transactions than in the first half of 2017. Net fee and commission income at DLL remained stable. Driven by higher performance fees at Bouwfonds IM, net fee and commission income also went up in the real estate segment.

Other results down 9%

In the first half of 2017, other results decreased to EUR 496 (543) million. This decrease can be attributed to the de-consolidation of Athlon. Income from operational lease contracts from Athlon contributed to other results during the first six months of 2016. The negative impact of hedge accounting in the first half of 2017 was lower than it was in the first half of 2016, but this decline was more or less offset by lower results on structured notes. On balance, the gross result on structured notes and hedge accounting increased by EUR 4 million from a loss of EUR 190 million in the first half of 2016 to a loss of EUR 186 million in 2017. The result on structured notes in the first half of 2016 was adjusted up-wards for comparison reasons by EUR 97 million due to the early adoption of a part of IFRS 9. Other results were positively influenced by EUR 57 million due to higher (regular) results on our investment in Achmea

Operating expenses decreased 12%

Staff costs down 6%

In the first half of 2017, total number of employees (including external hires) at Rabobank decreased by 869 FTEs to 44,698 (45,567) FTEs mainly as a result of the large restructuring programme Performance Now in the Netherlands. Most of the planned FTE reduction in 2017 will be realised in the second half of the year. The largest reduction in staff in the first half of 2017 was at the local Rabobanks. Overall staff costs decreased to EUR 2,136 (2,264) million. The decrease in staff costs was moderated by the release of a provision connected to the sobering of fringe benefits in the first half of 2016. Rabobank also acts as a guarantor for the realisation of a target pension accrual of 2% during the period 2014-2020 up to a maximum amount of EUR 200 million. The costs for this pension guarantee increased in the first half of 2017 to EUR 82 (15) million. The maximum of EUR 200 million will almost be reached in the second half of 2017.

Other administrative expenses decreased 21%

Other administrative expenses decreased to EUR 1,418 (1,803) million. In the first half of 2016, other administrative expenses were relatively high as a result of the provision for adopting the SME interest rate derivative framework (EUR 514 million). Also higher restructuring costs in the first half of 2016 (EUR 190 million versus EUR 98 million in the first half of 2017) contributed to the decrease in other administrative expenses. This decrease was somewhat tempered by the release of a provision for legal claims in the first half of 2016.

Depreciation down 4%

As a result of lower depreciation on intangible assets, depreciation decreased to EUR 201 (209) million.

Loan impairment charges at minus 3 basis points

At minus EUR 67 million, loan impairment charges in the first half of 2017 were significantly lower than in the first half of 2016 (EUR 148 million positive), with improvements in nearly all business segments. This is mainly due to the ongoing favourable economic conditions in our domestic market, leading to limited additions and high releases of existing allowances, particularly in the domestic retail banking business and in real estate. Relative to the average private sector loan portfolio, loan impairment charges amounted to minus 3 (7) basis points; this is exceptionally low and substantially below the long-term average (period 2007-2016) of 36 basis points.

On 30 June 2017, non-performing loans (using the EBA definition) amounted to EUR 18,247 (18,530) million. If the loan impairment allowance of EUR 6,902 (7,542) million is related to the non-performing loans, it represents a coverage ratio of 37.8% (40.7%). The coverage ratio reflects among other things the value of collateral securing the loans in question. On 30 June 2017, non-performing loans as a percentage of the private sector loan portfolio remained stable at 4.4% (4.4%). The decrease in the loan impairment allowance is among others, the result of substantial write-offs for an amount of EUR 614 (706) million.

Principal risks and uncertainties in the six months ahead

In addition to describing key events that occurred in the first half of 2017 and their impact on the interim financial information, this interim report also describes the principal risks and uncertainties affecting the second half of 2017 in line with the disclosures required under Section 5:25d of the Dutch Financial Supervision Act. No significant events or transactions occurred during the first half of 2017, other than those disclosed in this report.

In the second half of 2017, there are a number of risks and uncertainties for Rabobank that may have a material effect on its earnings, capital position and/or liquidity position. For example, Rabobank expects that its customers will continue making extra repayments on their mortgage loans as a result of the low interest rate environment. Additional mortgage loan repayments and spending of the holiday allowances received in May are likely to result in a limited decrease in deposits from customers during the second half of this year.

Low interest rates

The low interest rates create a challenging environment with regard to the profitability of Rabobank, so continued diligence and scrutiny are required in the second half of 2017. Non-interest bearing liabilities and liabilities with either zero or very low interest rates (such as equity and current account balances) are less profitable when interest rates are low. In addition, a low interest rate environment is often accompanied by a flattening of the curve, causing banks to make less profit on the transformation of short-term liabilities to longer-term assets. In the reporting period, the volume of early interest rate revisions in our mortgage book remained high. These early revisions include interest rate averaging, which we began offering to our clients as from the second half of 2016.

Minimising volatility

Rabobank limits the volatility in its income statement due to accounting asmmetry by using the option of IAS 39 to apply hedge accounting. This is done in order to refelect economic reality of interest rate and FX risks in its financial statements. However, hedge accounting ineffectiveness cannot be ruled out.

Loan impairment charges

On the back of the economic upturn, loan impairment charges were exceptionally low in the first six months of 2017. Rabobank expects a sustainable improvement of the quality of its loan portfolio and perseverance of a relatively low level of loan impairment charges in the second half of 2017. However, an economic downturn in the Netherlands could trigger a substantial increase in loan impairment charges. The expected further increase of capital requirements in the banking sector will lead to lower returns on equity. Rabobank continually monitors these developments closely in order to take adequate long-term measures to manage operating costs and achieve net profit improvement.

Legal

Rabobank is involved in a number of legal and arbitration proceedings, as listed in the notes to the financial statements. Any of these proceedings could lead to additional costs in the remainder of 2017.

Housing market

Rabobank expects house prices to hit a new peak in the second half of 2017 with an expected rise of at least 6.5% in 2017. Even so, prices are still on average lower than in 2008 (before the crisis). Mortgage rates are expected to remain at their current low levels until the end of the year, seeing only a modest increase in 2018. More loans will be underwritten as the number of sales rises. Because Rabobank also expects that the amount of newly granted mortgage loans will exceed extra repayments, the outstanding amount of mortgage debt is forecasted to rise.

Geopolitical developments

Geopolitical developments pose downside risks. The situation with regard to North Korea is a reason for concern. Also, if the protectionist stance of the United States, which now appears somewhat softened, actually poses a threat to the global economy, it could impact Rabobank's results. Rabobank expects the Dutch economy to grow by 2.2% in 2017, and the global economy by 3.2%.

However, if geopolitical events lead to a contraction in the economy, or if commodity prices change significantly, and/or sentiment on the stock exchanges deteriorates, lending and the valuation of (illiquid) assets could be affected, along with the potential for raising customer deposits, issuing debt instruments or raising or redeeming hybrid capital. An economic downturn could also bring about a substantial decline in net interest income and increased write-downs of (illiquid) assets.

Domestic retail banking

Ongoing economic recovery resulted in strong underlying profit

Net profit of the domestic retail banking division almost doubled in the first half of 2017 to EUR 1,047 million compared to EUR 550 million in the first half of 2016. This increase can mainly be attributed to lower operating expenses and loan impairment charges. Corrected for restructuring costs and the addition in the first half of 2016 to the provision for the SME interest rate derivatives recovery framework, the domestic retail banking division's underlying operating profit before tax increased by EUR 78 million to EUR 1,443 (1,365) million compared to the first half of 2016.

The growth of the Dutch economy amounted to 2.2% in 2016, and this positive trend continued in the first half of 2017. Growth is expected to remain at 2.2% in 2017, mostly driven by a rise in exports and increasing household consumption and investments in housing. Rabobank's domestic loan portfolio shrank 1% to EUR 279.7 billion due to continued high levels of extra repayments on customers' existing mortgages. Deposits from customers increased during the first half of 2017 by EUR 3.2 billion to EUR 226.5 billion.

House prices and the number of transactions in the first half of 2017 showed the strongest increase in years thanks to favourable economic developments and low interest rates. The combined market share of Rabobank and Obvion in the Dutch residential mortgage market remained stable at 20.5%. The market share in the private savings market amounted to 33.7%.

In the first half of 2017, staff costs for employees at the local Rabobanks decreased compared to the same period last year from EUR 991 million to EUR 734 million. This decrease was caused by a further staff reduction of 2,230 internal FTEs following the continued execution of the Performance Now restructuring programme, which supports our ambition of enhancing effectiveness and efficiency within the organisation. At the same time, we aim to further increase our customer focus. Other administrative expenses also decreased as these were inflated in the first half of 2016 by the addition to the provision for the SME interest rate derivatives recovery framework.

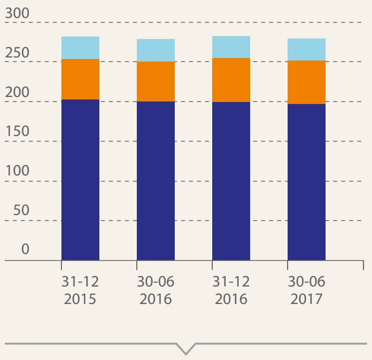
Reflecting the current economic sentiment, loan impairment charges decreased to minus EUR 156 million. Allowances previously taken for defaulted loans proved more than sufficient and newly defaulted loans were limited. The loan impairment charges represent minus 11 basis point of average lending, which is far below the long-term average of 23 basis points.

Profile of the domestic retail banking segment

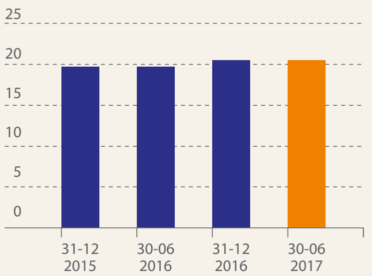
In the Netherlands, Rabobank is a leading player in providing loans in the residential mortgage market, as well as in the savings, payments, investment and insurance markets. It is also an important financial services provider for the SME segment, the food & agri sector, and the corporate segment.

Mid-2017, the local Rabobanks had 450 (475) offices and 2,051 (2,141) ATMs. They offer a comprehensive range of financial services to approximately 6.4 (6.5) million private customers and approximately 755,000 (760,000) business clients in the Netherlands.

Loan portfolio by sector
In billions of euros



Share of mortgage market
in %



The domestic retail banking business employs 15,461 (17,877) people (in FTEs in total – including mortgage lender Obvion, which is a Rabobank subsidiary), of which 14,245 internal and 1,215 external employees. Obvion employs 524 (559) people in FTE terms.

Loan portfolio decreased by 1%

The low interest rate on savings encourages customers to make extra repayments on their loans. In the first six months of 2017, customers' extra mortgage repayments – all payments on top of the mandatory repayments, including repayment of the full mortgage – totalled approximately EUR 8.3 (6.6) billion at local Rabobanks. On 30 June 2017, the total volume of Rabobank's residential mortgage loan portfolio was EUR 194.5 (195.9) billion. The loan portfolio of Obvion, valued at EUR 27.9 (28.0) billion, is part of this residential mortgage loan portfolio. The total domestic retail banking loan portfolio fell by EUR 2.7 billion to EUR 279.7 (282.4) billion.

Loan portfolio by sector

In billions of euros	*30-06-2017*	*31-12-2016*
Volume of loans to private individuals	196.9	199.1
Volume of loans to TIS	55.2	55.5
Volume of loans to food & agri	27.5	27.8
Total private sector loan portfolio	**279.7**	**282.4**

The integration of FGH Bank within Rabobank started in November 2016. In the first half of 2017, part of the loan portfolio of FGH Bank was integrated into the domestic retail banking segment. Also, Financial Solutions was transferred from leasing to the domestic retail banking segment. At 31 December 2016 the loan portfolio of Financial Solutions totalled EUR 4.1 billion. For a like-for-like comparison we have restated the private sector loan portfolio for these two transfers at 31 December 2016 by EUR 6.6 billion to EUR 282.4 billion from EUR 275.8 billion.

Housing market characterised by high confidence and low interest rates

The housing market

The growth in the Dutch housing market continued unabated in the first half of 2017, as both the House Price Index and the number of residential property transactions rose compared to the same period in 2016. High consumer confidence, low interest rates and favourable economic conditions contribute to these developments. Mortgage interest rates are expected to remain low for the time being.

Market share

Rabobank's share of the Dutch mortgage market remained stable at 20.5% (20.5%) of new mortgage production in the first half of 2017 (source: Dutch Land Registry Office (Kadaster)). The market share of the local Rabobanks rose to 17.5% (17.3%), whereas the market share of Obvion decreased to 3.0% (3.2%).

Mortgage loan portfolio

The quality of Rabobank's residential mortgage loan portfolio remained very high as a result of the recovery of the Dutch economy and growing confidence in the housing market. In the first six months of 2017, financing backed by the National Mortgage Guarantee (Nationale Hypotheek Garantie, NHG) remained relatively stable at 20,5% of the mortgage loan portfolio. Customers with 100% interest-only loans declined to 22.6% (23.1%) of the portfolio. The weighted average indexed loan-to-value (LTV) of the mortgage loan portfolio is 71% per 30 June 2017.

Loan impairment charges and write-offs mortgage loan portfolio

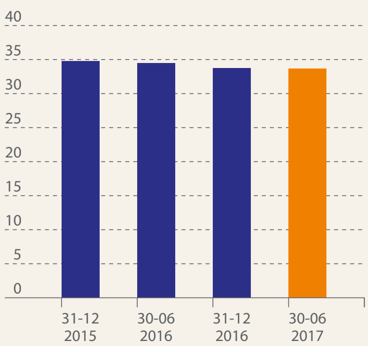
Loan impairment charges in connection with residential mortgage loans amounted to EUR 10 million (1.0 basis points) in the first half of 2017, which is considerably low and in line with the same period last year. Improved asset quality also contributed to this favourable development, as shown by the positive development of the non-performing loans ratio.

Residential mortgage loans		
Amounts in millions of euros	*30-06-2017*	*31-12-2016*
Mortgage portfolio	194,483	195,909
Weighted average LTV	71%[1]	69%
Non-performing loans (amount)	1,293	1,526
Non-performing loans (in % of total mortgage loan portfolio)	0.67%	0.78%
More-than-90-days arrears	0.41%	0.48%
Share NHG portfolio	20.5%	20.6%
Share customers with fully interest-only mortgage	22.6%	23.1%
Loan impairment allowances	196	227
Coverage ratio based on non-performing loans	15%	15%
Loan impairment charges	10	9
Loan impairment charges (in basis points, including non-recurring effects)	1.0	0.5
Write-offs	49	119

Trade, industry and services

Domestic retail banking loans to the TIS sector decreased slighly to EUR 55.2 (55.5) billion in the first half of 2017.

Market share savings
in %



Food & agri

Domestic retail banking loans to the food & agri sector amounted to EUR 27.5 (27.8) billion at 30 June 2017. This sector accounts for 10% (10%) of the total loan portfolio of the domestic retail banking business. Rabobank has had a stable market share in the Dutch food & agri sector of around 85% for decades and is indisputably the most important financier in this sector. Rabobank has acquired this position as a result of its agricultural roots and years of accumulated sector knowledge.

Deposits from customers increased by EUR 3.2 billion

The private savings market in the Netherlands grew 3% to EUR 349.2 (338.6) billion in the first half of 2017. Rabobank Group's market share was 33.7% (33.8%), of which local Rabobanks accounted for 32.8% (32.8%) and savings bank Roparco for 0.8% (0.8%)[2]. Deposits from customers – mainly from private savings – rose 1% to EUR 226.5 (223.3) billion. Private savings for domestic retail banking increased EUR 2.5 billion to EUR 118.7 (116.2) billion partly due to the temporary upward effect of the holiday pay, while the low interest rate on savings stimulated extra repayments on mortgage loans. Other deposits from customers rose due to an increase in current accounts.

Insurance

Rabobank offers retail and business customers a complete range of advisory services and product solutions, including insurance. For insurance products, Achmea (via its Interpolis brand) is Rabobank's most important strategic partner and supplier. Interpolis is Rabobank's preferred supplier for the retail market and offers a wide range of non-life, healthcare and life insurance policies for both private clients and businesses. In the first half of 2017, the number of insurance customers decreased by 1%. The number of insurance contracts remained unchanged compared to December 2016. Due to the increase of insurance premiums of insurance suppliers, the total insurance income increased by 3% to EUR 141 (136) million.

1 As a result of a change in the method for determining the current indexed LTV, the current LTV is not comparable to the LTV at year-end 2016.
2 Source: Statistics Netherlands (Centraal Bureau voor de Statistiek).

Type of insurance product		
Number of policies	*30-06-2017*	*31-12-2016*
Alles in één Polis	1,210,000	1,218,000
ZekerVanJeZaak and Bedrijven Compact Polis	180,000	181,000
ZorgActief	230,000	218,000

Strong increase in assets under management

In the first half of 2017, assets under management increased to EUR 41.4 billion, compared to EUR 39.3 billion year-end 2016. Almost half of this positive development is the result of high cash inflows, mainly from Private Banking customers, and the other half comes from positive investment returns. On the back of global economic growth, most stock markets had a good first half year and shares brought, on average, positive returns for clients. The average return on bonds was slightly negative in the first half of 2017.

Financial results of domestic retail banking

Results			
In millions of euros	*30-06-2017*	*30-06-2016*	*Change*
Net interest income	2,759	2,910	-5%
Net fee and commission income	700	669	5%
Other results	44	47	-6%
Total income	**3,503**	**3,626**	**-3%**
Staff costs	734	991	-26%
Other administrative expenses	1,349	1,687	-20%
Depreciation	47	55	-15%
Total operating expenses	**2,130**	**2,733**	**-22%**
Gross result	**1,373**	**893**	**54%**
Loan impairment charges	-156	12	-1400%
Regulatory levies	135	139	-3%
Operating profit before tax	**1,394**	**742**	**88%**
Income tax	347	192	81%
Net profit	**1,047**	**550**	**90%**
Loan impairment charges (in basis points)	-11	1	
Ratios			
Cost/income ratio excluding regulatory levies	60.8%	75.4%	
Cost/income ratio including regulatory levies	64.7%	79.2%	
Balance sheet (in EUR billion)	*30-06-2017*	*31-12-2016*	
External assets	286.6	289.1	-1%
Private sector loan portfolio	279.7	282.4	-1%
Deposits from customers	226.5	223.3	1%
Number of internal employees (in FTEs)	14,245	16,475	-14%
Number of external employees (in FTEs)	1,215	1,402	-13%
Total number of employees (in FTEs)	15,461	17,877	-14%

Notes to financial results

Underlying profit before tax increased by 6%

Development of underlying operating profit before tax			
In millions of euros		*2017-I*	*2016-I*
Total income		**3,503**	**3,626**
Operating expenses		**2,130**	**2,733**
Adjustments on expenses	Restructuring	-49	-109
	Derivatives Framework	-	-514
Underlying expenses		**2,081**	**2,110**
Regulatory levies		135	139
Loan impairment charges		-156	12
Operating profit before tax		**1,394**	**742**
Total adjustments		**-49**	**-623**
Underlying profit before tax		**1,443**	**1,365**

Underlying performance improved

The underlying performance of domestic retail banking improved in the first half of 2017, as illustrated by the development of the underlying operating profit before tax, which was EUR 1,443 million. This is an increase of EUR 78 million compared to the first half of 2016. In calculating this underlying profit before tax, a correction was made for restructuring costs and the addition in the first half of 2016 to the provision for the SME interest rate derivatives recovery framework. The decrease in the loan impairment charges by EUR 168 million also contributed to the net profit improvement.

Income decreased 3%

The total income of Rabobank's domestic retail banking business decreased to EUR 3,503 (3,626) million in the first half of 2017. As in 2016, we observed a positive impact from loan repricing. At the same time, the volume of early interest rate revisions in our mortgage book remained high. These early revisions include interest rate averaging, which we began offering to our clients as from the second half of 2016. Combined with the decrease in lending volumes due to early repayments, net interest income was pressured and decreased to EUR 2,759 (2,910) million. Higher commission on payment accounts contributed to an increase in net fee and commission income to EUR 700 (669) million. In the first half of 2016, the sale of mortgages to institutional investors had an upward effect on other results, which explains the EUR 3 million decrease in other results to EUR 44 million in the first half of 2017.

Operating expenses decreased by 22%

Total operating expenses for domestic retail banking decreased to EUR 2,130 (2,733) million. Staff costs fell to EUR 734 (991) million as the virtualisation and centralisation of services impacted the size of the workforce. The number of internal and external employees in the segment decreased to 15,461 (17,877) FTEs in the first half of 2017. Part of this decrease is the result of the movement of employees from local Rabobanks to the central organisation in order to realise economies of scale. Other administrative expenses decreased to EUR 1,349 (1,687) million, mainly because other administrative expenses in the first half of 2016 were inflated by the provision for adopting the SME interest rate derivatives recovery framework. Lower restructuring costs also contributed to a decrease in other administrative expenses. As a result of lower depreciation on intangible fixed assets, depreciation decreased to EUR 47 (55) million.

Loan impairment charges at historically low level

The limited number of newly defaulted loans and high releases on the loan impairment allowances are mainly the result of the favourable conditions of the Dutch economy. The loan impairment charges decreased to minus EUR 156 (12) million during the first six months of 2017. This translates to minus 11 (1) basis points of the average loan portfolio – far below the long-term average of 23 basis points. Releases have been realised mainly in the sectors that have previously experienced a downturn: transport and commercial real estate.

Wholesale, Rural & Retail

Increased income resulted in performance improvement

In the first half of 2017, the Wholesale, Rural & Retail (WRR) segment realised a net profit of EUR 494 million compared to EUR 459 million in the first half of 2016. Higher income was the main driver of this strong performance. This increase can be explained by, among other things, stable commercial interest margins and higher results from Financial Markets activities.

The loan portfolio of WRR decreased to EUR 104.3 billion on 30 June 2017. The volume of lending to the food & agri sector decreased slightly to EUR 63.0 billion, contributing 60% to the total loan portfolio of the WRR segment. Deposits from customers decreased by 6% to EUR 116.1 billion mainly due to lower balances from corporate customers, which are by nature more volatile than private savings, and due to currency effects.

Loan impairment charges remained low in most regions. The continued upturn of the global economy resulted in a decline in the loan impairment charges from EUR 117 million to EUR 105 million. This corresponds to 20 basis point of the average loan portfolio and is well below the long-term average of 57 basis points.

WRR activities

WRR has an international network of branches with offices and subsidiaries in various countries.

> For a complete overview of our business banking services, click here. Rabobank also operates RaboDirect internet savings banks.

The wholesale banking division serves the largest domestic and international companies (corporates, financial institutions, traders and private equity). We service all sectors in the Netherlands, which supports the 'Banking for the Netherlands' strategy. Outside the Netherlands, we focus on the food & agri and trade-related sectors.

Rural and retail banking is focused on offering financial solutions for the specific needs of leading farmers and their communities in a selected number of key food & agri countries.

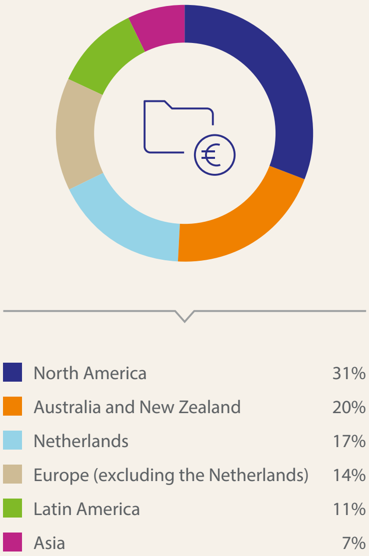
Internationally, Rabobank services food & agri clients, ranging from growers to the industrial sector, through its global network of branches. The combination of in-depth knowledge and a worldwide network positions us as the leading food & agri bank in the world. We service the entire food value chain, with dedicated specialists per sector. We advise our clients and prospects in these sectors by offering them finance, knowledge and our network. Rabobank is active in the main food-producing countries, such as the United States, Australia, New Zealand, Brazil and Chile, and the main food-consuming countries.

> Our vision on global food security and Rabobank's role in helping to establish it is described in our 'Banking for Food' strategy, which can be found here.

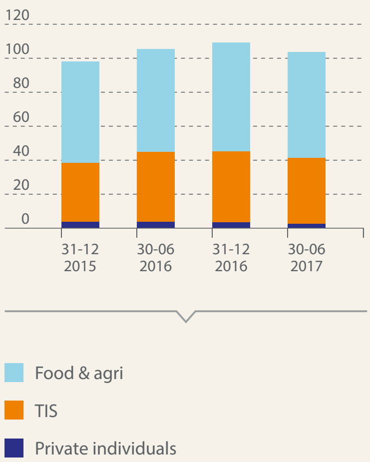
In addition, the wholesale banking division facilitates the international activities of mid-corporate Dutch customers in cooperation with the local Rabobanks. Rabo International Business Network desks – spread over five continents – specifically focus on this support. Our International Business Network gives clients access to a worldwide network of potential partners and clients.

> For more information about the International Business Network, click here.

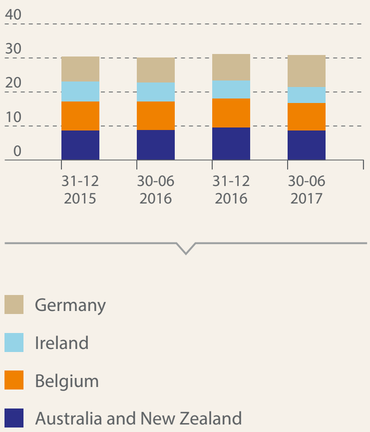
Loan portfolio by region
mid-2017



Loan portfolio by sector
In billions of euros



Distribution of private savings of Rabo Direct
In billions of euros



Excluding currency effects, WRR loan portfolio remained stable

In the first half of 2017, WRR's total loan portfolio decreased by 3% to EUR 104.3 (108.1) billion, largely linked to the depreciation of the US dollar. Currency effects had a downward effect on the loan portfolio of approximately EUR 4 billion. The volume of lending provided to the food & agri sector decreased slightly to EUR 63.0 (63.9) billion and accounted for 60% (59%) of the total loan portfolio of WRR. Loans to the trade, industry and services (TIS) sectors declined to EUR 39.1 (41.7) billion. Lending to private individuals landed at EUR 2.3 (2.4) billion.

The integration of FGH Bank within Rabobank started in November 2016. In the first half of 2017, part of the loan portfolio of FGH Bank was integrated into the WRR segment. For a like-for-like comparison we have restated the private sector loan portfolio at 31 December 2016 by EUR 2.9 billion to EUR 108.1 billion from EUR 105.2 billion.

Dutch and international wholesale

Lending to the largest Dutch companies remained stable in the first half of 2017 at EUR 17.2 (17.2) billion, supporting our Banking for the Netherlands strategy. Of WRR's loan portfolio, EUR 48.5 (51.3) billion was granted to wholesale clients outside of the Netherlands.

International rural and retail banking

The loan portfolio to rural and retail clients amounted to EUR 38.6 (39.6) billion on 30 June 2017. Excluding currency impacts (EUR 2.1 billion), the loan portfolio to rural and retail client increased by EUR 1.1 billion. In the main markets for rural banking, the loan portfolio totalled EUR 11.1 (10.3) billion in Australia, EUR 6.5 (6.5) billion in New Zealand, EUR 7.4 (7.5) billion in the United States, EUR 2.7 (2.9) billion in Brazil and EUR 0.9 (1.0) billion in Chile on 30 June 2017.

Rabobank operates international retail banking activities through subsidiaries in two countries: in the United States, Rabobank is active through Rabobank N.A. (RNA) and in Indonesia, through Rabobank Indonesia. RNA's portfolio decreased to EUR 8.4 (9.6) billion.

Deposits from customers decreased by 6%

Deposits from customers from WRR decreased to EUR 116.1 (123.7) billion at 30 June 2017. Mainly due to lower balances from corporate customers, which are by nature more volatile than private savings, and due to currency effects, deposits from customers from WRR decreased to EUR 116.1 (123.7) billion at 30 June 2017. Monthly fluctuations in corporate deposits of a few billion euro are not uncommon and can be the result of a few large institutional clients entrusting or withdrawing part of their funds. Deposits from customers include private savings from online bank RaboDirect as well as other deposits from customers. RaboDirect is Rabobank's online bank active in Belgium, Germany, Ireland, Australia and New Zealand. Private savings entrusted by customers to RaboDirect are used for funding the international rural and retail banking business and other divisions of Rabobank Group. The savings balances of RaboDirect showed a modest decrease to EUR 30.8 (31.1) billion in the first half of 2017. The savings from RaboDirect activities represented 21% (22%) of the total private savings held at Rabobank. The number of customers banking with these internet savings banks grew to approximately 937,000 (923,000).

Financial results of Wholesale, Rural & Retail

Results			
In millions of euros	*30-06-2017*	*30-06-2016*	*Change*
Net interest income	1,173	1,106	6%
Net fee and commission income	240	318	-25%
Other results	445	345	29%
Total income	**1,858**	**1,769**	**5%**
Staff costs	517	554	-7%
Other administrative expenses	429	334	28%
Depreciation	32	45	-29%
Total operating expenses	**978**	**933**	**5%**
Gross result	**879**	**836**	**5%**
Loan impairment charges	105	117	-10%
Regulatory levies	90	81	11%
Operating profit before tax	**685**	**638**	**7%**
Income tax	191	179	6%
Net profit	**494**	**459**	**8%**
Loan impairment charges (in basis points)	20	23	
Ratios			
Cost/income ratio excluding regulatory levies	52.6%	52.7%	
Cost/income ratio including regulatory levies	57.5%	57.3%	
Balance sheet (in EUR billion)	*30-06-2017*	*31-12-2016*	
External assets	140.1	155.7	-8%
Private sector loan portfolio	104.3	108.1	-3%
Deposits from customers	116.1	123.7	-6%
Number of internal employees (in FTEs)	7,144	7,094	1%
Number of external employees (in FTEs)	430	339	27%
Total number of employees (in FTEs)	7,574	7,433	2%

Notes to the financial results

Total income increased by 5%

WRR total income increased to EUR 1,858 (1,769) million in the first half of 2017. A robust increase in income is mainly being seen in Europe. At WRR, underlying commercial interest margins stabilised and net interest income increased to EUR 1,173 (1,106) million. Net fee and commission income decreased to EUR 240 (318) million. In the first half of 2016, net fee and commission income of Markets reflected the high levels of activity in that period with more transactions than in the first half of 2017. The reclassification of parts of net fee and commission income to net interest income in 2017 also contributed to the decrease. The Financial Markets activities showed a sharp increase in trading results following improved market conditions compared to the first half of 2016 and consequently other results increased to EUR 445 (345) million.

Operating expenses increased by 5%

Operating expenses at WRR increased to EUR 978 (933) million in the first six months of 2017. Due to the centralisation of IT services in the second half of 2016, staff was moved from WRR to the central organisation. This resulted in lower staff costs and higher recharges from the central organisation and consequently higher other operating expenses. Staff costs fell to EUR 517 (554) million, a 7% decrease compared to the same period last year. Other administrative expenses increased to EUR 429 (334) million. The release of a provision for legal issues lowered other administrative expenses in the first half of 2016 and is the main reason for this increase. IT costs were also somewhat higher. Depreciation was down to EUR 32 (45) million.

Loan impairment charges down by 10%

WRR loan impairment charges decreased to EUR 105 (117) million in the first half of 2017, of which the majority can be attributed to Wholesale. Compared to the same period last year, and despite the overall decrease, loan impairment charges increased in the United States and the Netherlands. However, Dutch loan impairment charges remained below the long-term average on the back of positive economic developments. The United States portfolio exhibited an increase in loan impairment charges in several sectors, but remains well diversified. Total loan impairment charges equalled 20 (23) basis points of the average loan portfolio, well below the long-term average of 57 basis points.

Leasing

Stable performance in the first half of 2017

Rabobank's leasing arm, DLL, fulfils an important role in Rabobank's overall product portfolio. DLL focuses its resources, investments and innovation on the core business of vendor finance. DLL realised a strong performance in the first half of 2017. The leasing segment booked a net profit of EUR 176 million, a decrease of EUR 70 million compared to the same period last year, which is primarily the result of the sale of Athlon. In December 2016 DLL sold its mobility solutions entity, Athlon Car Lease International B.V., including all subsidiaries. In the first six months of 2016 Athlon still contributed to the results of the leasing segment. If we exclude the Athlon results from the interim figures 2016, DLL's net interest income increased in the first half of 2017, while staff costs increased only slightly. Continuous worldwide economic growth had a positive impact on the results of DLL in the first six months of 2017. Loan impairment charges remained at a low level and were in line with the first half of 2016. At EUR 41 million or 26 basis points of the average portfolio, loan impairment charges are well below the long-term average of 60 basis points.

In the first six months of 2017 the lease portfolio decreased by 1% to EUR 30.3 billion, fully caused by currency fluctuations. Excluding these currency effects, the portfolio increased by 4%. The share of food & agriin the lease portfolio amounted to 39%.

DLL

DLL is a global vendor finance company with more than EUR 30 billion in assets. Founded in 1969 and headquartered in Eindhoven, the Netherlands, DLL provides asset-based financial solutions in the Agriculture, Food, Healthcare, Clean technology, Construction, Transportation, Industrial and Office technology industries. DLL partners with equipment manufacturers, dealers and distributors in more than thirty countries to support their distribution channels and help grow their businesses. DLL combines customer focus with deep industry knowledge to deliver sustainable solutions for the complete asset life cycle, including commercial finance, retail finance and used equipment finance. DLL is a wholly owned subsidiary of Rabobank. As of June 2017, DLL employed 4,484 FTEs (including external staff).

As implied by its brand promise 'See what counts', DLL believes in establishing genuine customer partnerships built on personal trust, not just on numbers. DLL looks beyond quick fixes to deliver sustainable solutions and seeks to become an integral part of the overall business strategy and financial plans of its partners. DLL strives to manage multi-year relationships and developing a strategy that will help partners grow their market share and profitability over the long term, efficiently and sustainably.

Most notable was the sale of the international car leasing business, Athlon Car Lease International B.V. (hereafter, Athlon) and its subsidiaries to Mercedes-Benz Financial Services Nederland B.V., part of Daimler group. This was also the right step for DLL, as it allowed it to focus the vast majority of its resources, investments and innovation on its core business of vendor finance. It was also the right step for Athlon, safeguarding its future success through expanded international coverage, a wider range of products and the ability to provide more value to its customers.

In April 2017, DLL transferred its Financial Solutions activities to Rabobank. Financial Solutions includes leasing and consumer finance products offered to Rabobank customers in the Netherlands. Migrating DLL's non-vendor finance activities to Rabobank brings about synergies that can deliver more value to the customers that make use of these products. Additionally, it allows DLL to focus all of its resources on its vendor finance business. The migration to Rabobank was completed in April 2017 after the necessary regulatory approvals were secured.

Customer satisfaction and loyalty

Following a Net Promoter Score (NPS) of 34 for 2016, an interim measurement conducted by DLL in April 2017 showed a slight increase in customer loyalty in the first six months of 2017. With an NPS of 36, DLL again surpassed comparable industry benchmarks; the average NPS of a financial solutions provider is 8. Satisfaction levels are also in line with the 2016 measurement. The vast majority of customers surveyed indicated that they were 'satisfied' or 'very satisfied' with DLL's products and services.

Constantly adapting to changing global markets

After the sale of Athlon and the transfer of Financial Solutions to Rabobank, DLL is fully dedicated to vendor finance. This means DLL provides asset-based financing programmes to manufacturers, distributors, dealers and resellers (collectively referred to as 'vendor partners') at their respective points of sale. DLL's vendor partners are constantly working to develop the most competitive propositions with the most impact for their customers. To help them achieve their goals, DLL offers end-to-end financial solutions covering the full technical lifecycle of their equipment. These solutions are applicable to both new and pre-owned assets and can be customised to better conform with and support the vendor partner's sales objectives, processes and distribution channels.

DLL's vendor finance business model is built on more than 45 years of experience and focuses on establishing and maintaining long-term alliances in several specialist industries. The company can also help customers get a foothold and grow market share in emerging markets. DLL continually optimises its vendor finance business model to adapt to changes in the economic and regulatory environment. The ability to deliver such global solutions has helped DLL successfully establish new partnerships across its dedicated industries with many leading manufacturers.

The largest industry markets for vendor finance within DLL are food and agriculture, followed by construction, transportation & industrial, and office technology.

More information about DLL's industry expertise can be found here.

DLL's forward-looking approach

DLL is committed to providing comprehensive solutions that help its vendor partners successfully navigate their challenging markets. DLL believes three trends will likely alter the way vendor partners do business and change their expectations of financial solutions providers: servitisation, the IoT and the circular economy. The company feels it is its responsibility to dive into these new worlds, adapt its business model where needed, and share knowledge with partners and the industry to make sure it consolidates its value proposition.

Improving the customer journey

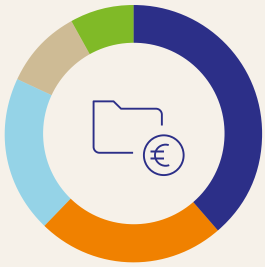
DLL is committed to taking advantage of the latest digital technologies to support its partners with customised financial solutions and services to speed up and simplify processes and delivery to the benefit of the customer journey. During the first half of 2017, DLL stimulated adoption of the DLL Express Finance app (allowing for quick and reliable communication between customers and account managers) in North America, across multiple business lines. The European Vendor Finance app has been enhanced with additional functionalities such as online credit scoring and online document generation and was rolled out to the UK and Germany. DLL also launched an API (Application Programming Interface) platform to support seamless integration of its leasing solutions into the processes and systems of its vendor partners. The first full partner integration project was executed in Europe in the first half of 2017.

Excluding currency effects increase in lease portfolio

The lease portfolio decreased slightly to EUR 30.3 (30.5) billion. Excluding currency effects, more notably the depreciation of the US dollar versus the euro, the portfolio would have increased by 4%. Year-on-year the portfolio increased by 8%, excluding the effects of the sale of Athlon. DLL supports Rabobank's Banking for Food and Banking for the Netherlands strategies by supporting manufacturers, distributors and end-user customers within the food and agri sector, both internationally and within the Netherlands. In the first half of 2017, the Food and Agriculture business lines of DLL decreased slightly to EUR 11.7 (11.8) billion and now represents 39% (39%) of the DLL portfolio.

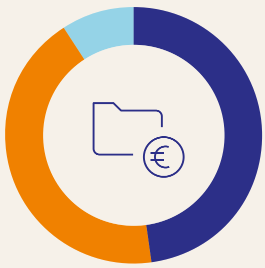
As of April 2017, the portfolio of DLL's Financial Solutions division was transferred to Rabobank's domestic retail banking business segment. For a like-for-like comparison, the lease portfolio at 31 December 2016 was adjusted by EUR 4.4 billion and restated to EUR 30.5 billion from EUR 34.9 billion.

Lease portfolio by division
mid-2017



Food & agri	39%
Construction, transportation and industrial	24%
Office technology	19%
Healthcare and clean technology	10%
Other	8%

Lease portfolio by region
mid-2017



America	48%
Europe	43%
Asia/Pacific	9%

Financial results of leasing

Results			
In millions of euros	*30-6-2017*	*30-6-2016*	*Change*
Net interest income	514	457	12%
Net fee and commission income	32	36	-11%
Other results	120	314	-62%
Total income	**666**	**807**	**-17%**
Staff costs	244	294	-17%
Other administrative expenses	107	104	3%
Depreciation	14	15	-7%
Total operating expenses	**365**	**413**	**-12%**
Gross result	**301**	**394**	**-24%**
Loan impairment charges	41	41	0%
Regulatory levies	11	11	0%
Operating profit before tax	**249**	**342**	**-27%**
Income tax	73	96	-24%
Net profit	**176**	**246**	**-28%**
Loan impairment charges (in basis points)	26	27	
Ratios			
Cost/income ratio excluding regulatory levies	54.8%	51.2%	
Cost/income ratio including regulatory levies	56.5%	52.5%	
Balance sheet (in EUR billion)	*30-6-2017*	*31-12-2016*	
Lease portfolio	30.3	30.5	-1%
Number of internal employees (in FTEs)	4,164	4,062	3%
Number of external employees (in FTEs)	320	305	5%
Total number of employees (in FTEs)	4,484	4,367	3%

Notes to the financial results

Development of underlying operating profit before tax			
In millions of euros		*2017-I*	*2016-I*
Total income		**666**	**807**
Adjustments on income	Regular income Athlon	-	-166
Underlying income		**666**	**641**
Operating expenses		**365**	**413**
Adjustments on expenses	Restructuring	5	3
	Regular expenses Athlon	-	-83
Underlying expenses		**370**	**333**
Regulatory levies		11	11
Loan impairment charges		41	41
Operating profit before tax		**249**	**342**
Total adjustments		**5**	**86**
Underlying profit before tax		**244**	**256**

Income down 17%

Total income from the leasing segment decreased to EUR 666 (807) million in the first half of 2017. This decrease can be attributed to the sale of Athlon in December 2016. Athlon was still contributing to the income of the leasing segment in the first six months of 2016. On a like-for-like basis, total income increased by EUR 25 million to EUR 666 (641) million. Net fee and commission income decreased to EUR 32 (36) million. Other results mainly consisted of sales results on end-of-lease assets. In the first half of 2016, the income from operational lease contracts from Athlon was accounted for in other results. Consequently, the other results decreased to EUR 120 (314) million.

Operating expenses down 12%

Total operating expenses in the leasing segment decreased to EUR 365 (413) million. Excluding the 2016 figures for the results of Athlon and restructuring expenses, the operating expenses increased by EUR 37 million to EUR 370 million. Staff costs increased in line with the higher number of employees. Other administrative expenses increased in line with the administrative finalisation of the Athlon sale and the transfer of Financial Solutions to Rabobank. Depreciation amounted to EUR 14 (15) million.

Loan impairment charges stable

Loan impairment charges for the leasing segment remained stable at EUR 41 (41) million in the first six months of 2017, corresponding with 26 (27) basis points of the average loan portfolio, well below the long-term average of 60 basis points. As DLL's lease portfolio is spread over more than 30 countries and 7 industries, the credit risk associated with this portfolio is well diversified. In the first half of 2017, there were no new significant individual default cases.

Real estate

Strong results from upturn in Dutch housing market

The real estate segment comprises two subsidiaries, Rabo Real Estate Group and FGH Bank. Rabo Real Estate Group principally consisted of area developer BPD and real estate investment manager Bouwfonds Investment Management (Bouwfonds IM) as at 30 June 2017. In the first six months of 2017, the group benefitted from the favourable development of the Dutch housing market. The number of transactions and pre-sold houses increased by 11% to 8,334 compared to the same period last year, while at the same time house prices rose by approximately 7%. Similar to last year, there was a shortage in supply of residential units for sale and a relatively low volume of newly built houses. In the first half of 2017, the number of registered transactions of new residential units at BPD was high, but slightly decreased to 3,777 in the first half of 2017. Bouwfonds IM initiated several new funds in the first six months of 2017. The assets under management remained stable at EUR 5.9 billion.

In line with the Rabobank real estate strategy, the knowledge of specialised real estate financier FGH Bank has been maintained in our new real estate finance organisation, Rabo Real Estate Finance, launched in 2016. This will ensure continuation of the specialised real estate finance service offering whilst the FGH Bank loan portfolio is reduced.

Lower income mainly as a result of the decreased non-strategic loan portfolio of FGH Bank over the same period of last year was partly compensated by lower operating expenses. A positive development was that loan impairment charges fell by EUR 32 million to minus EUR 43 million. This corresponds with minus 97 basis points of the average loan portfolio and is well below the long-term average of 89 basis points.

Net profit of the real estate segment decreased by EUR 8 million to EUR 88 million in the first half of 2017. FGH Bank contributed EUR 56 million to the profit of the real estate segment, while Rabo Real Estate Group accounted for EUR 32 million.

Real estate profile

Rabobank's real estate activities are carried out by Rabo Real Estate Group, FGH Bank and Rabo Real Estate Finance. The real estate segment results consist of the results of the former two. The results of Rabo Real Estate Finance are partly reported within the domestic retail banking segment and partly within the WRR segment.

BPD

Responsible for developing residential real estate areas, BPD focuses on integral residential areas, small-scale multifunctional projects and public facilities. BPD strives for managed growth in economically strong regions via a local presence in the Netherlands, France and Germany. It aims for a market ROIC within an appropriate risk profile. BPD is market leader in the Netherlands and Germany. The organisation operates under the name BPD Marignan in France and BPD Immobilienentwicklung in Germany. Rabobank is committed to residential development activities, and from 1 July 2017 BPD is positioned as a direct subsidiary of Rabobank, ensuring even closer alignment with the bank's activities and a continuous stable platform to build its future business on.

Bouwfonds IM

As the real asset investment management division of Rabo Real Estate Group, Bouwfonds IM delivers sustainable value by investing capital raised from its clients in real assets through investment funds and by actively managing these assets. The business unit Agri was sold to the investors of the Rabo Farm fund on 1 July 2017. Going forward, Bouwfonds IM will focus specifically on investment products in four sectors: commercial real estate, residential real estate, parking garages and communication infrastructure.

Rabo Real Estate Finance and FGH Bank

Rabo Real Estate Finance combines the real estate knowledge and expertise of FGH Bank and Rabobank in one new real estate finance organisation. Rabobank's mission is to sustainably support (local) communities and to play a meaningful role in society. Therefore, knowledge of real estate and the real estate market in combination with experience with financing real estate is crucial. The ambition of Rabo Real Estate Finance is to be a key player in the real estate financing market.

Rabo Real Estate Finance serves as a partner and facilitates real estate clients in conducting business in future-proof real estate and in realising healthy returns. Thanks to its banking knowledge, a broad offering of products and services, and a vast network throughout the Netherlands, Rabo Real Estate Finance positions Rabobank as a powerful player in the Dutch market for real estate. This way, we can provide real estate clients the most suitable financing solutions for development, construction, conversion, ex-rental sales and real estate investments. In line with Rabo Real Estate Finance strategy, FGH Bank clients are being transferred to Rabo Real Estate Finance.

Residential property transactions by country
mid-2017

The Netherlands	56%
France	26%
Germany	18%

Residential real estate developments

The growth of the Dutch housing market continued in the first half of 2017. The number of transactions remained high and is still growing, while average house prices are still on course to hit a new peak. Significant regional differences include a shortage of owner-occupied homes for sale in certain parts of the Netherlands, mainly the most densely populated conurbation, the Randstad, while in other parts of the country the upturn just recently started. High confidence in the housing market as a result of economic growth, rising incomes and persistently low interest rates has played a significant role in these developments.

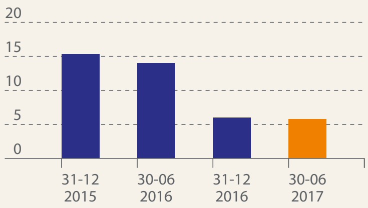
Continued high number of transactions by BPD

In the first half of 2017, BPD continued to show a high number in transactions of new residential units, although these numbers slightly decreased compared to last year. In the Netherlands, BPD's number of residential unit transactions declined by 6% to 2,107 (2,245). The housing market in Germany reflects the economic upturn with the number of transactions rising to 673 (642). In France, the number of transactions decreased to 991 (1,187). Including 6 transactions in other countries, the total number of transactions realised by BPD in the first six months of 2017 decreased to 3,777 (4,084).

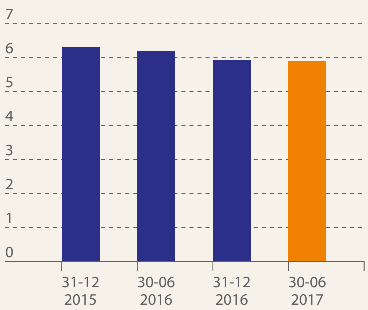
Assets under management remained stable

Bouwfonds IM made several real estate acquisitions on behalf of the various funds in the first half of 2017. The Bouwfonds European Real Estate Parking Fund III invested a total amount of EUR 250 million in 17 car parks in several cities across Germany, France, the UK, Spain and the Netherlands and also raised the full amount of equity of EUR 200 million for its fourth institutional car park fund. The second Bouwfonds Communication Infrastructure Fund, which targets assets in Germany, was launched and the business unit Residential is planning new funds to expand activities in both

Loan portfolio segment real estate
In billions of euros



Assets under management Bouwfonds IM
In billions of euros



the European residential markets as well as in the student housing sector. Total assets under management remained stable at EUR 5.9 (5.9) billion.

Loan portfolio remained stable

The loan portfolio of the real estate segment, mainly that of FGH Bank, remained relatively stable at EUR 5.8 (6.0) billion. In November 2016, the integration of parts of the FGH Bank loan portfolio into Rabo Real Estate Finance started. This process continued in 2017 resulting in a further decrease of the loan portfolio. The comparative 31 December 2016 figure has been adjusted for this transfer.

Financial results of real estate

Results			
In millions of euros	*30-06-2017*	*30-06-2016*	*Change*
Net interest income	72	106	-32%
Net fee and commission income	35	6	483%
Other results	125	178	-30%
Total income	**232**	**290**	**-20%**
Staff costs	93	98	-5%
Other administrative expenses	59	70	-16%
Depreciation	3	3	0%
Total operating expenses	**155**	**171**	**-9%**
Gross result	**77**	**119**	**-35%**
Loan impairment charges	-43	-11	291%
Regulatory levies	4	4	0%
Operating profit before tax	116	126	-8%
Income tax	28	30	-7%
Net profit	**88**	**96**	**-8%**
Loan impairment charges (in basis points)	-97	-25	
Ratios			
Cost/income ratio excluding regulatory levies	66.8%	59.0%	
Cost/income ratio including regulatory levies	68.5%	60.3%	
Balance sheet (in EUR billion)	*30-06-2017*	*31-12-2016*	
Loan portfolio	5.8	6.0	-3%
Assets under management	5.9	5.9	0%
Number of internal employees (in FTEs)	1,149	1,065	8%
Number of external employees (in FTEs)	130	300	-57%
Total number of employees (in FTEs)	1,279	1,365	-6%

Notes to financial results

Total income decreased by 20%

In the first half of 2017, total income of the real estate segment decreased to EUR 232 (290) million. Corrected for integration of parts of the loan portfolio of FGH Bank within Rabobank, the average loan portfolio of FGH Bank decreased compared to the first half of 2016. Consequently, net interest income fell to EUR 72 (106) million. Net fee and commission income increased to EUR 35 (6) million due to higher performance fees at Bouwfonds IM. In 2016, other results were positively influenced by the sale of 'De Rotterdam' building and consequently other results decreased in the first six months of 2017 to EUR 125 (178) million.

Operating expenses decreased by 9%

Total operating expenses in the real estate segment decreased to EUR 155 (171) million in the first half of 2017. Staff costs decreased slightly by EUR 5 million to EUR 93 (98) million. The increased commercial activity led to a small increase in the number of employees at Rabo Real Estate Group and the number of employees at FGH Bank decreased in line with the integration into Rabobank. In the first half of 2016, the relatively high restructuring provision for redundant employees at FGH Bank had an upward effect on other administrative expenses. As a result, the other administrative expenses decreased to EUR 59 (70) million in the first half of 2017. Depreciation remained stable at EUR 3 (3) million.

Loan impairment charges remain negative

Favourable economic developments in the Netherlands had a positive impact on the loan impairment charges in the real estate segment. Over the first half of 2017, the loan impairment charges amounted to minus EUR 43 (minus 11) million, which entails a release of loan impairment allowances. Loan impairment charges amounted to minus 97 (minus 25) basis points of average lending. The long-term average is 89 basis points.

Strengthening capital ratios

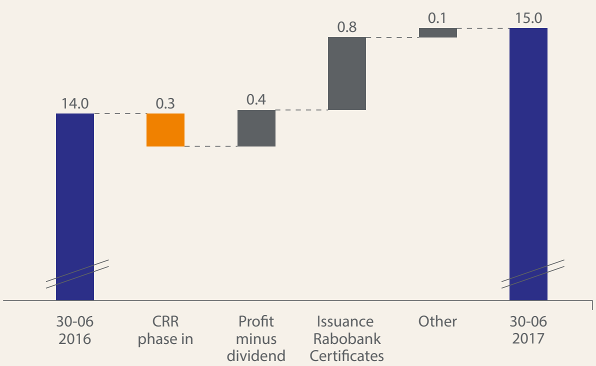
Further improvement of capital ratios

Rabobank has set capital ratio targets to remain a rock-solid bank. One factor we bear in mind when setting these targets is the expected impact of new regulations. Our current objective as stated in the Strategic Framework is to maintain the common equity tier 1 (CET1) ratio at a minimum of 14% and to achieve a total capital ratio of at least 25% by the end of 2020.

We have already made great strides in increasing our capital ratios. In the first half of 2017, the CET1 ratio (the CET1 capital as a percentage of risk-weighted assets) increased by 1.0 percentage points to 15.0% and the fully loaded CET1 ratio increased by 1.2 percentage points to 14.7%. The total capital ratio – the qualifying capital related to the risk-weighted assets – improved by 0.5 percentage points to 25.5%.

Capital ratios benefited from the issuance of Rabobank Certificates in January 2017, from the retained net profit posted in the first half of 2017 (after payments on capital instruments and Rabobank Certificates) and from balance sheet reduction measures. In contrast, the transitional CET1 ratio was adversely impacted by the phased introduction of Capital Requirements Regulations (CRR). The CET1 ratio gained 80 basis points from the issuance of Rabobank Certificates and 40 basis points from the inclusion of the interim 2017 net profit (after deduction of payments on Rabobank Certificates and hybrid capital instruments). These developments more than offset the phasing-in effect of the CRR on 1 January 2017, which caused a reduction of 0.3 percentage points in the CET1 ratio.

Development of the CET1 ratio
in %



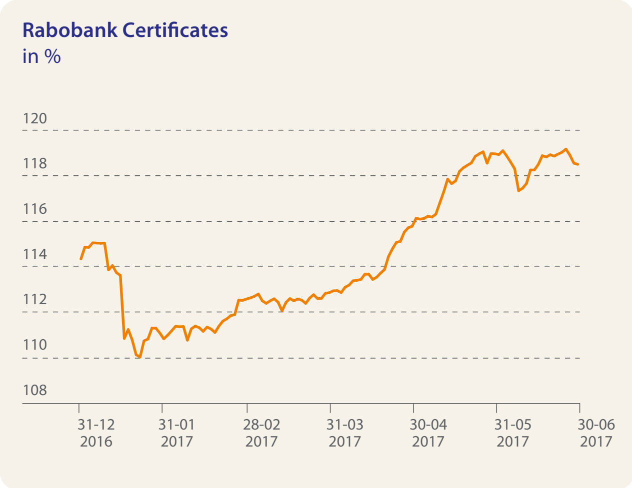
The same factors that strengthened the CET1 ratio also improved the total capital ratio, as did the tier 2 issue of USD 500 million in April 2017. However, this total capital ratio improvement was partly offset by the FX impact on the tier 2 instruments and by a lower additional tier 1 capital as a part of the set of additional tier 1 instruments which will gradually cease to qualify as regulatory capital.

Rabobank Certificates

Rabobank Certificates are deeply subordinated instruments which qualify as common equity tier 1 capital. They are listed on Euronext Amsterdam. In the first half of 2017, the closing price fluctuated between 110.03% (lowest price on 23 January 2017 – connected to the offering of new Rabobank Certificates at that time) and 119.17% (highest price on 27 June 2017). The price on 30 June 2017 was 118.50%.

Offering of new Rabobank Certificates

In January 2017, Rabobank announced the offering of Rabobank Certificates. The nominal issued amount was EUR 1.5 billion. As the issue price was above par, an amount of EUR 1.6 billion was raised. Rabobank issued 60 million new Rabobank Certificates, each of which was priced at 108% of the nominal value of EUR 25. As a result, the issue proceeds amounted to EUR 1.6 billion. After the issuance, a total nominal amount of approximately EUR 7.4 billion in Rabobank Certificates was outstanding. Thanks to the issuance, Rabobank has met its targeted CET1 ratio of at least 14% ahead of schedule.



Development of capital ratios in more detail

The CRR and CRD IV regulations collectively set out how the Basel capital and liquidity agreement of 2010 (Basel III) is adopted in Europe. These regulations have applied to Rabobank since 1 January 2014 and will be phased in over a number of years. Rabobank continues to monitor the developments of new Basel regulations carefully and has taken note of amendments to the proposals and changes in the implementation of these proposals as first introduced in December 2014, with timelines now pushed further into the future.

When we refer to the fully loaded CET1 ratio we mean the CET1 ratio that would apply if the CRR/CRD IV were already fully phased in. The fully loaded CET1 ratio reached 14.7% (13.5%) at 30 June 2017. The actual (or transitional) CET1 ratio at 30 June 2017 was 15.0% (14.0%). The rise in this ratio was due mainly to the issuance of Rabobank Certificates in January 2017 and the retention of the 2017 net profit (after deduction of payments on Rabobank Certificates and hybrid capital instruments). This increase was offset by the phasing-in of CRR/CRD IV, which require that various adjustments must be made to the CET1 capital calculation on 1 January of each year during the transition period.

The leverage ratio (tier 1 capital divided by balance sheet positions and off-balance-sheet liabilities) is calculated based on the definitions provided in CRR/CRD IV. At 30 June 2017, the fully loaded leverage ratio stood at 5.1% (4.6%). The actual (or transitional) leverage ratio at 30 June 2017 was 5.8% (5.5%). The actual leverage ratio is well above the minimum leverage ratio of 3% required by the Basel III guidelines and above the minimum leverage ratio of 4% as incorporated in Dutch legislation from 2018.

Capital ratios

In millions of euros	*30-06-2017*	*01-01-2017*	*31-12-2016*
Retained earnings	26,275	25,709	25,709
Expected distributions	-36	-60	-60
Rabobank Certificates	7,446	5,948	5,948
Non-controlling interests	26	25	25
Reserves	-732	112	112
Deductions	-2,474	-3,302	-3,302
Transition guidance	574	605	1,186
Common equity tier 1 capital	**31,080**	**29,037**	**29,618**
CRD IV compliant instruments	2,724	2,728	2,728
Grandfathered instruments	4,079	4,552	5,462
Non-controlling interests	6	5	5
Deductions	-95	-91	-91
Transition guidance	-312	-321	-643
Total additional tier 1 capital	6,402	6,873	7,461
Tier 1 capital	**37,481**	**35,910**	**37,079**
Subordinated debt qualifying as tier 2 capital	15,445	16,094	16,094
Non-controlling interests	7	7	7
Deductions	-51	-99	-99
Transition guidance	-96	-104	-208
Qualifying capital	**52,926**	**51,808**	**52,873**
Risk-weighted assets	**207,589**	**211,226**	**211,226**
Common equity tier 1 ratio (transitional)	15.0%	13.7%	14.0%
Common equity tier 1 ratio (fully loaded)	14.7%	13.5%	13.5%
Tier 1 ratio	18.1%	17.0%	17.6%
Total capital ratio	25.5%	24.5%	25.0%
Equity capital ratio	16.2%	15.0%	15.0%
Common equity tier 1 ratio of Coöperatieve Rabobank U.A. solo (local Rabobank Group)	15.6%	-	16.4%

The CRR has a number of CET1 deductible items, such as deferred tax assets and the internal ratings-based (IRB) shortfall (i.e. the difference between the IRB expected loss and the actual level of loan impairment allowances), which are gradually being introduced over the 2014 – 2018 period. Rabobank changed the risk weighting of its equity exposures in group entities by applying the more common IRB simple risk weight approach of article 155 CRR as a result of which its solo CET1 ratio decreased to 15.6%.

The additional tier 1 instruments issued by Rabobank prior to 2014 do not meet the CRR conditions. These instruments will therefore gradually cease to qualify as regulatory capital instruments. In 2017, a 50% haircut was applied to these grandfathered instruments. In June 2017, Rabobank redeemed USD 2 billion of additional tier 1 Capital Securities which do not meet the CRR conditions. In April 2017, Rabobank issued a tier 2 capital instrument of USD 0.5 billion. The total capital ratio rose by 0.5 percentage points to 25.5% (25.0%).

Preliminary estimation of IFRS 9 impact

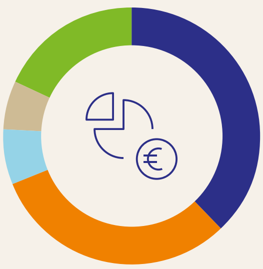
New IFRS 9 impairment calculations will lead to higher loan loss allowances as from January 1, 2018. Instead of incurred loss, expected loss must be recognised. We are still in the preparation phase to determine the exact addition to the loan loss allowances. Within the regulatory capital calculations the higher loan loss allowance will be partly compensated by the shortfall. Based on our preliminary estimation and taking into account the current economic environment, we do not expect that the negative impact on the fully loaded CET1 ratio will be more than 15 basis points.

Bail-in and minimum requirement for own funds and eligible liabilities (MREL)

Because Rabobank wishes to mitigate the bail-in risk for senior unsecured creditors and depositors as much as possible, it holds a large buffer of equity and subordinated loans that will be called upon first in the event of a bail-in. Only after the buffer has been used will non-subordinated creditors, whose claims are not covered by collateral, have to contribute to any losses if the bank gets into difficulties. Rabobank defines the bail-in buffer as retained earnings, other reserves, Rabobank Certificates, hybrid and subordinated debt instruments, and other debt instruments with a write-down feature, the so-called Senior Contingent Notes. In the first half of 2017, FX effects had a limited negative impact on the bail-in buffer which decreased from EUR 58.0 billion to EUR 57.4 billion. This corresponds to approximately 28% (28%) of the risk-weighted assets.

Bail-in buffer		
Amounts in billions of euros	*30-06-2017*	*31-12-2016*
Retained earnings and other reserves	25.5	25.8
Rabobank Certificates	7.4	5.9
Hybrid capital instruments	6.8	8.2
Subordinated liabilities	16.5	16.9
Senior Contingent Notes	1.2	1.2
Bail-in buffer	**57.4**	**58.0**
Risk-weighted assets	207.6	211.2
Bail-in buffer/risk-weighted assets	27.6%	27.5%

Regulatory Capital Plus by business segment
mid-2017



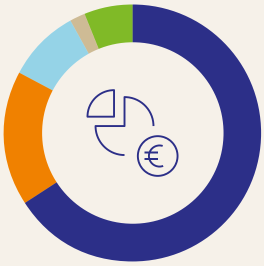
Domestic retail banking	38%
Wholesale, Rural & Retail	31%
Leasing	7%
Real estate	6%
Other	18%

Regulatory capital

Regulatory capital is the external capital requirement and represents the minimum amount of capital which CRR and CRD IV require Rabobank to hold. Mid-year 2017, the regulatory capital of Rabobank amounted to EUR 16.6 (16.9) billion, of which 85% related to credit and transfer risk (EUR 14.2 billion), 12% to operational risk (EUR 2.0 billion) and 3% to market risk (EUR 0.4 billion). The EUR 0.3 billion decrease in regulatory capital was due mainly to a reduction in the capital required for operational risk (minus EUR 0.2 billion) due to improved data quality of operational events. The Regulatory Capital requirement for credit risk decreased (minus EUR 0.1 billion) mainly caused by reduced exposures, increased asset quality and various other relatively small movements. The Regulatory Capital requirement for market risk is in line with the Regulatory Capital Requirement as per year-end 2016.

Rabobank calculates its regulatory capital for credit risk for virtually its entire loan portfolio based on the Advanced IRB approach approved by the prudential supervisor. In consultation with the supervisor, Rabobank applies the Standardised Approach to portfolios with relatively limited exposure and to some smaller portfolios outside

Regulatory Capital Plus by risk type
mid-2017



Credit and transfer risk	66%
Operational risk	17%
Interest rate risk	9%
Market risk	2%
Other risk	6%

the Netherlands that are unsuitable for the Advanced IRB approach. Operational risk is measured using an internal model (approved by the supervisor) that is based on the Advanced Measurement Approach. For its market risk exposure, Rabobank has obtained permission from the supervisor to calculate the general and specific position risk using its own internal Value at Risk (VaR) models, based on the CRR.

Regulatory capital by business segments

In billions of euros	*30-06-2017*	*31-12-2016*
Domestic retail banking	6.4	6.4
Wholesale, Rural & Retail	6.3	6.5
Leasing	1.4	1.7
Real estate	1.1	1.2
Other	1.4	1.1
Rabobank	**16.6**	**16.9**

On 1 January 2017, the Economic Capital framework was replaced by the Regulatory Capital Plus (RC+) framework. To reflect changing regulatory requirements and other developments in the industry, the new framework is based on regulatory capital, but will reserve additional capital for those risks where Rabobank takes a more conservative approach.

Qualifying capital increased

Our sizeable buffer underlines the financial solidity of Rabobank. The available qualifying capital of EUR 52.9 (52.9) billion that the bank retains to absorb potential losses was well above the level of the total external (regulatory) and internal capital requirements.

Risk management

Rabobank Group maintains a robust risk management framework to identify, assess, manage, monitor and report risks. It makes decisions based on a conscious and careful risk-return trade-off in line with the bank's strategy and within the formulated risk appetite.

In line with its formulated Risk Strategy, Rabobank continued to strengthen its risk and compliance frameworks and increased its pro-active management of risks in the first half of 2017. This is one way we have been supporting our clients and their interests across the globe, and further building our relationships with multiple stakeholders. Taking all of that into consideration, the overall risk profile of the organisation and our business has improved at various levels. The quality of the bank's credit portfolio improved, also evidenced by historically low impairment charges. Interest rate risk continues to be managed diligently under a challenging, historically low and persistent interest rate environment and volatile markets. Our capital and liquidity positions are strong and both can withstand substantial stresses. The dependence on wholesale funding reduced in line with strategy. Organisational changes both in business as well as in the Risk, Legal and Compliance domains have made responsibilities clearer and controls stronger across the globe. Also, more focus and understanding of conduct risk and discipline in issue management are priorities. Training and education of all staff on those matters is mandatory. Overall, Rabobank feels that the improvements made will help realise the business strategy of the organisation.

Risk strategy

Rabobank's risk strategy supports management in the realisation of the business strategy by defining boundaries within which the business can operate. Each time business opportunities are discussed and decisions are taken, risks are assessed against expected return and strategic fit. Exposure to a certain degree of risk is a normal part of banking and creates the opportunity to realise profit and value. Rabobank focuses on the following goals in its risk strategy:

- Maintain a solid balance sheet: sound balance sheet ratios are essential to ensuring continuity in serving our customers sustainably and under favourable conditions.
- Support the business in delivering excellent and appropriate customer focus to serve our clients' interests.
- Protect identity and reputation: Rabobank wants to protect the fundamental trust that its stakeholders have in the bank.
- Achieve a healthy risk-return reward: Rabobank wants to make transparent choices about where we can use capital most efficiently or apply sector/concentration risk management.
- Protect profit and profit growth: Rabobank's business strategy is closely linked to its cooperative nature, aiming to achieve strong profit generation, while simultaneously providing a high standard of service to our members, other clients and their communities.

These goals are strongly interwoven and depend entirely on maintaining sound governance and a strong risk culture throughout the organisation. The bank can deliver long-term optimum customer value if it has a solid balance sheet. This results in lower funding costs and reinforces the bank's profitability and reputation. In turn, maintaining a solid balance sheet requires adequate risk management, healthy profitability and a sound reputation.

To manage the material risks, risk and control processes are designed to ensure that the risks we take remain within the bank's risk appetite and that risk and return are appropriately matched. To guarantee effectiveness, Rabobank's Risk Management framework works according to the 'Three Lines of Defence' model. This model explains the relationship between the first line functions in Rabobank that own and manage risk (the business), the second line functions (e.g. Risk and Compliance) that oversee the risk and an independent third line function (Audit) that provides assurance on the effectiveness of the first and second lines of defence.

Risk culture

A sound corporate risk culture is the basis for good risk management. Rabobank expects all employees to contribute to a sound risk culture, focusing on long-term relationships with, and in the best interest of, our customers. Employees need to deal with risks and dilemmas, to carefully consider the interests of stakeholders, to always be honest and reliable, and to take responsibility for their actions. Each individual employee contributes to the risk profile of Rabobank and the way we manage risks. Desirable behaviour is encouraged and undesirable behaviour is corrected. An important baseline is to create an environment in which risks and dilemmas arising from our work can be discussed openly.

Risk appetite

Rabobank's risk strategy is embedded in a number of strategic risk statements directly linked to the Strategic Framework 2016-2020. This enables us to have high-level appetite towards risk in line with the four strategic themes of complete customer focus, rock-solid bank, meaningful cooperative and empowered employees. The risk statements define the boundaries of the risk appetite within which we must operate. The Risk Appetite Statement (RAS) further defines the levels and types of risk Rabobank is willing to accept in order to achieve its business objectives. The RAS articulates Rabobank's overall desired level of risk exposure, both quantitatively and qualitatively, and is used in all business activities to assess the desired risk profile against the risk-reward profile of a given activity.

Significant risks

We acknowledge that we currently face uncertain, volatile and partially adverse market circumstances that create risks for the bank. Rabobank keeps track of these external developments and closely monitors the risks that might affect the achievement of organisational objectives. Regular and structural top-down and bottom-up risk assessments are performed to identify various types of risks, and we also conduct specific stress tests to calculate the impact of adverse scenarios.

- Business model: Rabobank's earnings model needs to adapt to the changing economic and political environment and to the demands of society. Excellent customer focus helps us to manage these factors and underpins our Banking for the Netherlands and Banking for Food visions, supplemented by a strong focus on sustainability through our clients. Internally, we are improving financial performance, strengthening innovativeness, empowering employees and examining our products and services portfolio.
- Execution power: This includes challenges to improve customer focus and performance and to meet regulatory requirements. We manage execution power through closely monitoring change initiatives and facilitating the business in its first line responsibilities.
- Technology & continuity: A complex IT landscape, growing demands on continuity and increasing cyber threats are continuing challenges. We use an integrated approach and manage dependencies for our core banking transformation, front-to-back processes and systems. We closely monitor cyber threats and data privacy.
- Data management: This entails timely, sufficient and accurate data for business and regulatory purposes and availability of in-depth information for client advice, reporting and business decisions. We are unifying our steering of data management and data governance projects.
- Business conduct: Conduct issues impede public trust and may affect Rabobank. We are improving the implementation of regulations, client on boarding, customer integrity and employee awareness.
- Employees: Keep staff fully engaged during a transition period and maintain a healthy flow of key positions. Staff mobility and a change-mindset are needed, in addition to a sound culture in which risks are identified, escalated and managed proactively and in a timely manner. Our strategic HR improvements focus on the performance cycle, leadership, talent management, training and education, diversity and an adaptive way of working.
- Balance sheet: This includes funding gaps, capital availability and respective pricing. We are reducing our balance sheet through proactive portfolio management and advancing our planning and budget processes.
- External environment: This includes continuing economic instability, climate change, serious geopolitical unrest and emerging market contagion. We are monitoring macroeconomic and geopolitical developments closely and enhancing our focus on sustainability and portfolio management, including stress testing.

Managing risk

The Risk Management framework process covers the regular banking risk types: credit risk, market risk, interest rate risk, liquidity risk and operational risks (including compliance risk, tax risk and legal risk). The risk classification supports effective risk management by providing a clear definition and common understanding of risk management throughout the organisation. In addition to the main risk types, a more granular classification is used which also includes risks such as FX-translation risk and model risk.

Credit risk

Rabobank's credit acceptance policy is based on a careful assessment of customers and their ability to repay the loan that was granted (continuity perspective). As a result, the loan portfolio has an acceptable risk profile even in less-than-favourable economic circumstances. An important starting point in the acceptance policy for business loans is the 'know your customer' principle. We know and understand our clients' business, strategy and needs. We only grant loans in our customers' best interests and also comply with various regulatory, legal and bank strategic requirements. In addition, Rabobank closely monitors developments in the business sectors in which its customers operate and assesses the financial performance of its customers with this in mind.

For most of the loan portfolio, Rabobank uses internal models in line with the IRB approach to calculate its regulatory capital requirements in accordance with CRR/CRD IV. The IRB approach uses the parameters Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The following section details the loan portfolio on IRB Advanced including a small exposure on IRB Foundation with regard to PD, LGD and EAD. The EAD is an estimate of the counterparty's exposure at the time of default. At 30 June 2017, the EAD of Rabobank's IRB loan portfolio was EUR 575 (607) billion. This EAD includes the expected future use of unused credit lines. At 30 June 2017, the EAD-weighted average PD of Rabobank's performing IRB loan portfolio was 0.94% (0.99%). The PD reflects the extent to which customers are expected to be able to meet their obligations. The PD does not provide any indication as to the potential losses, because in many cases Rabobank has secured additional collateral. This additional collateral is reflected in the LGD, which also takes the possibility of restructuring or recovery into consideration. The LGD is the estimated economic loss that will result if the debtor defaults, expressed as a percentage of the EAD. At 30 June 2017, the LGD percentage of Rabobank's IRB portfolio was 24.3% (25.2%).

Loan impairment allowances and loan impairment charges

After the bank grants a loan, we conduct continued credit management and assess new financial and non-financial information. The bank ascertains whether clients comply with the agreements made and whether this is expected to continue in the future. If doubts arise, we step up credit management, monitor more frequently, and keep a closer eye on credit terms. If necessary, a loan impairment allowance is taken that is charged to the statement of income. The total loan impairment allowance consists of three components:

- The specific allowance, determined for individually assessed impaired loans,
- The collective allowance, determined for impaired loans which individually are not significant, and
- The general allowance, determined for the portion of the portfolio that is actually impaired at reporting date, but has not been identified as such (IBNR: incurred but not reported).

Loan impairment allowances and loan impairment charges

	30-06-2017			30-06-2016		
In millions of euros	*Loan impairment charges*	*Loan impairment charges in basis points*	*Allowance*	*Loan impairment charges*	*Loan impairment charges in basis points*	*Allowance*
Domestic retail banking	-156	-11	2,843	12	1	3,709
Wholesale, Rural & Retail	105	20	3,120	117	23	3,061
Leasing	41	26	252	41	27	253
Real estate	-43	-97	686	-11	-25	1,061
Other	-15	n.a.	-	-11	n.a.	-
Rabobank Group	**-67**	**-3**	**6,902**	**148**	**7**	**8,085**

In the first half of 2017, the loan impairment charges were negative and lower than in the first half of 2016. This was mainly the result of substantial releases within the domestic retail banking and real estate segments. The current very low interest environment, combined with the recovery of the Dutch economy, has been a strong support for obligors with high debt levels. This is particularly the case for clients in commercial real estate, dairy, shipping, construction and horticulture, which were hit hard during the crisis and for which high LIA were taken. The strong recovery of the Dutch economy has resulted in substantial releases of LIA in these sectors. Furthermore, the real estate market showed increasing signs of recovery due to a rising demand from tenants and investors. More recently, after the reporting date, the Dutch egg production industry has been severely impacted as a result of egg contamination with the pesticide fipronil. As Rabobank is a leading bank in this industry, also some of our clients are impacted. Rabobank is engaging with the clients in the sector to provide support where needed and will continue to closely monitor the risks.

Expressed as basis points of the average private sector loan portfolio, loan impairment charges were minus 3 basis points in the first half of the year, compared to 7 basis points in the first half of 2016. The ten-year average (period 2007-2016) for loan impairment charges is 36 basis points.

Development of loan impairment allowance

In millions of euros

Allowance 31-12-2016 (I)	*Write-off 30-06-2017 (III)*	*Net increase 30-06-2017 (IV)*	*Other 30-06-2017 (V)*	*Allowance 30-06-2017 (VI)*	*Received after write-off 30-06-2017 (VII)*	*Loan impairment charges 30-06-2017 (VIII=IV+VII)*
7,542	-614	-10	-16	6,902	-57	-67

Forbearance

Rabobank has developed a policy for monitoring its forbearance portfolio on a quarterly basis. The forbearance portfolio consists of Rabobank customers for whom measures were taken that can be regarded as concessions to debtors with (imminent) financial problems. A concession concerns one of the following actions:

- A change to the originally agreed conditions for a loan as an adequate solution for financial problems affecting the debtor ('problem loans'). These solutions or changes would not be applied if the debtor was not experiencing financial difficulties; or
- A full or partial restructuring of the funding of a problem loan which would not have been offered if the debtor was not experiencing financial difficulties.

The identification of forbearance measures for the corporate portfolio is performed based on the Loan Quality Classification framework, which distinguishes five categories: Good, OLEM (Other Loans Especially Mentioned), Substandard, Doubtful and Loss. Forbearance measures only apply to the classified portfolio, which consists of the classifications Substandard, Doubtful and Loss. If forbearance measures are applied to a debtor, the debtor will by definition be dealt with by the Financial Restructuring & Recovery department. Furthermore, items in the forbearance category must be reported for up to two years after recovery, a period referred to as the 'probation period'.

Forborne assets

									30-06-2017
In millions of euros	*Private sector loan portfolio*	*Forborne assets (gross carrying amount)*	*Performing forborne assets*	*Of which (a): instruments with modifications in the terms and conditions*	*Of which (b): refinancing*	*Non-performing forborne assets*	*Of which (a): instruments with modifications in the terms and conditions*	*Of which (b): refinancing*	*Loan loss allowance on non-performing forborne assets*
Domestic retail banking	279,663	7,059	2,687	2,618	69	4,372	4,112	260	1,260
Wholesale, Rural & Retail	104,326	4,819	1,034	567	467	3,785	2,507	1,278	1,378
Leasing	27,457	180	42	40	2	139	85	53	28
Real estate	5,847	1,684	308	286	22	1,376	1,355	21	520
Other	504	-	-	-	-	-	-	-	-
Rabobank Group	**417,796**	**13,742**	**4,070**	**3,510**	**560**	**9,672**	**8,060**	**1,612**	**3,185**

Non-performing loans

Non-performing loans		
In millions of euros	*30-06-2017*	*31-12-2016*
Domestic retail banking	8,862	8,254
Wholesale, Rural & Retail	6,875	6,774
Leasing	413	506
Real estate	2,098	2,997
Rabobank Group	**18,247**	**18,530**

Non-performing loans meet at least one of the following criteria:

- Loans in arrears by more than 90 days on a material loan commitment; or
- The debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or the number of days past due.

On 30 June 2017, the amount of non-performing loans was EUR 18,247 (18,530) million. This represents coverage of 37.8% (40.7%) if the allowance is related to the non-performing loans. On 30 June 2017, the total of non-performing loans as a percentage of the private sector loan portfolio was 4.4% (4.4%).

Developments in the real estate portfolio

The commercial real estate market showed increasing signs of recovery in the first half of 2017. This was due to both rising demand from tenants as well as a rise in investments.

Rabobank's commercial real estate portfolio in the Netherlands was historically managed by FGH Bank and the local Rabobanks. In 2015, it was announced that FGH Bank would be integrated into Rabobank, consolidating all knowledge, expertise and networks in the field of commercial real estate financing within both FGH Bank and Rabobank. In November 2016, Rabo Real Estate Finance was launched. At minus EUR 104 (19) million in the first half-year of 2017, specific loan impairment charges for Rabobank's combined domestic commercial real estate portfolio were negative, confirming the ongoing stabilisation of the quality of the portfolio.

Nearly the entire commercial real estate portfolio outside the Netherlands is provided by ACC Loan Management in Ireland. This portfolio is being gradually scaled down. Specific loan impairment charges in the first half-year were very limited.

Country risk

With respect to country risk, a distinction is made between collective debtor risk and transfer risk. Collective debtor risk is the risk that a large number of debtors in a country cannot comply with obligations due to the same reason. Transfer risk relates to the possibility of foreign governments placing restrictions on fund transfers from debtors in their own country to creditors in other countries.

Rabobank uses a country limit system to manage collective debtor risk and transfer risk. After careful review, relevant countries are given an internal country risk rating, after which general limits and transfer limits are set. The Country Limit Committee (CLC) approves Country Limits within its delegated authority; these are ratified by the Risk Management Committee (RMC) Group. All decisions exceeding the delegated approval authority of the CLC are approved by the RMC Group. The transfer limits are set at the so-called net transfer risk. This is equivalent to the total loans granted minus loans granted in local currency, guarantees, other collateral obtained to cover transfer risk and a deduction related to the reduced weighting of specific products. The limits are allocated to the business units, which are responsible for the day-to-day monitoring and reporting to the Risk Management department.

At Rabobank Group level, the country risk that we run is reported every quarter to the RMC Group and to the CLC; we monitor country risk, including sovereign risk for relevant countries, on a monthly basis. Special Basel II parameters, specifically EATE (Exposure at Transfer Event), PTE (Probability of Transfer Event) and LGTE (Loss Given Transfer Event), are used to calculate the additional capital requirement for transfer risk. These calculations are made in accordance with internal guidelines and cover all countries where transfer risk is relevant.

Market risk

Market risk entails that the bank's earnings and/or economic value may be negatively affected by changes in interest rates or market prices. Exposure to a certain degree of market risk is inherent in banking and creates the opportunity to realise profit and value. In managing and monitoring market risk, a distinction is made between the trading and banking environments.

The below table presents various types of market risk:

Paragraph	*Description*	*Most important risk indicators*	*Monitoring*
Market risk trading environment	Market Risk arising from the bank's own trading activities. Rabobank's trading activities are customer-focused or for the bank's own balance sheet management.	Value at Risk, Event Risk, interest rate delta	Daily
Interest rate risk banking environment	Interest rate risk arising from the bank's activities not related to trading. Occurs mainly within the retail banking business as a result of the difference in interest rate fixing periods between assets and liabilities and implicit options in various customer products.	Modified Duration, Basis Point Value and Earnings at Risk	Weekly/ Monthly
Currency risk banking environment	Currency risk arising from the bank's activities not related to trading. This mainly concerns translation risk resulting from capital invested in foreign operations.	Value at Risk	Monthly

A large part of the structural interest rate and currency risks arising from the banking activities are transferred through internal derivative transactions to the trading environment. Risks within the trading environment are mostly hedged in the market.

A direct link cannot be made between the items on the bank's balance sheet and the various figures for market risk. This is because the bank's balance sheet only contains transactions with third parties. The published market risk figures for the trading books are based on both transactions with third parties and transactions with internal parties in the banking environment. The same applies to the published interest and currency risk figures for the books in the banking environment.

Market risk in the trading environment

Market risk arises from the risk of losses on trading book positions affected by movements in interest rates, equities, credit spreads, currencies and commodities. These movements impact the value of the trading portfolios and could lead to losses. Risk positions acquired from clients can either be redistributed to other clients or managed through risk transformation (hedging). The trading desks also act as a market-maker for secondary markets (by providing liquidity and pricing) in interest rate derivatives and debt, including Rabobank Bonds and Rabobank Certificates.

Market risk in the trading environment is monitored daily within the market risk framework, which was put in place to measure, monitor and manage market risk in the trading books. An important part of the framework is an appropriate system of limits and trading controls. The relevant risk appetite limits are translated into limits and trading controls at book level and are monitored daily by the market risk departments.

Due to Rabobank's strategy of client risk redistribution, risk transformation (hedging) and the low secondary market activity, the real market risk exposure of the trading portfolio is well within the risk appetite boundaries. If limits are breached, remedial actions will be stipulated which decrease the chance of large actual losses. The risk position is reported to senior management and discussed in the various RMCs each month.

At consolidated level, the market risk appetite is represented by the VaR model, interest rate delta and event risk. The VaR indicates the maximum loss for a given confidence level and horizon under 'normal' market conditions, based on one year of historical market movements. Daily risk management uses a confidence level of 97.5% and a horizon of one day. Under this method, VaR is calculated on the basis of historical market movements and the positions taken. The table below presents the composition of the VaR, which is divided into a number of components. A diversification advantage is achieved in this case by the opposing positions of various books which partially cancel each other out. In the first half of 2017, the VaR fluctuated between EUR 3.4 million and EUR 4.9 million, the average being EUR 4.1 million. The VaR amounted to EUR 4.4 million on 30 June 2017, having moved little during the year with only some fluctuations that were driven by client-related deals and volatility in the financial markets.

VaR (1 day, 97.5%)							
In millions of euros	*Interest*	*Credit*	*Currencies*	*Shares*	*Commodities*	*Diversification*	*Total*
30-06-2017	3.6	0.9	0.1	-	0.2	-0.5	4.4
Average H1 2017	3.7	0.9	0.2	-	0.2	n.a.	4.1
Highest H1 2017	4.7	1.3	0.7	0.1	2.4	n.a.	4.9
Lowest H1 2017	3.4	0.6	0.0	-	0.1	n.a.	3.4
31-12-2016	4.5	0.6	0.4	-	0.2	-1.5	4.3
Average FY 2016	4.1	1.1	0.2	0.2	0.2	n.a.	4.4
Highest FY 2016	6.3	1.7	0.7	0.7	0.8	n.a.	6.9
Lowest FY 2016	3.3	0.6	0.1	-	0.1	n.a.	3.5

In addition to the VaR, there are several other key risk indicators. The interest rate delta is a measure of the change in the value of positions if there is a parallel increase in the yield curve of 1 basis point (i.e. 0.01 percentage point). The interest rate delta table below shows the sensitivity to changes in the yield curves for the major currencies. At 30 June 2017, the interest rate delta for trading books was EUR 0.8 million positive. The interest rate delta remained well within the set limit during the reporting period.

Interest rate delta	
In millions of euros	*30-06-2017*
Euro	0.6
US dollar	0.2
British pound	0.0
Other	0.0
Total	**0.8**

Rabobank uses stress-testing to complement the VaR. It is instrumental in gauging the impact of extreme, yet plausible, predefined moves in market risk factors on the P&L of individual trading and investment portfolios. These moves are reflected in scenarios which capture risk drivers such as tenor basis swap spreads, interest rates, foreign exchange, credit spreads, volatility and interest rate curve rotation. Depending on the scenario, individual risk factors or multiple risk factor categories will be stressed at the same time.

The event risk, which is measured by performing sensitivity analyses and stress tests, was EUR 102 million on 30 June 2017, well within the set limit. It fluctuated between EUR 86 million and EUR 105 million with an average of EUR 93 million. Rabobank's event risk is largely determined by the tenor basis swap position, which comes from non-client facing positions of a more strategic nature which are classified as permitted proprietary trading activities outside the United States under the Volcker Rule.

Interest rate risk in the banking environment

Rabobank regards transforming amounts and maturities of money as a major source of earnings and economic value. This exposes the bank to interest rate risk in the banking environment, the risk that the earnings and/or economic value of banking books, investment books and capital books will be adversely affected by changes in interest rates on the money and capital markets. To meet the needs of its customers, the bank also offers options and products including optionality, which are a major source of mismatch risk. Interest rate risk in the banking book at Rabobank is mainly caused by four factors:

- Maturity mismatches between loans and funds entrusted. Rabobank provides mortgages and commercial loans with long fixed-interest terms. These mortgages and loans are partly financed by customers' savings and current account balances and with funding provided by professional money market and capital market players.
- Quotation risk. The majority of homebuyers with a mortgage proposal will pay the lowest of two rates: the rate offered or the rate when the loan is drawn down.
- Prepayment risk. Customers wishing to repay or to refinance their loans early are not always required to pay an early redemption fee.
- Withdrawal risk. A large proportion of the customer credit balances in current accounts, payment accounts and savings accounts is callable on demand.

Customer behaviour is an important determininant of interest rate risk in the banking environment. It is an important differentiating factor between interest rate risk in the banking environment and interest rate risk in the trading environment. The risk that customers incur as a result of an increase in their financial obligations due to movements in interest rates does not affect the extent to which Rabobank is exposed to interest rate risk; however, it may lead to a situation in which the bank has to deal with a higher level of credit risk.

Rabobank accepts a certain degree of interest rate risk in the banking environment because this is an essential part of banking. At the same time, we endeavour to avoid material unexpected fluctuations in earnings and economic value because of movements in interest rates. Reports on the size of interest rate risk in the banking environment are submitted to the responsible asset and liability management and RMCs on a monthly basis. The asset and liability management committees are in charge of the strategic management of the interest rate risk in the banking environment, while the RMCs monitor and safeguard the size of this risk. The various treasury departments at the bank are charged with the operational management of interest rate risk in the banking environment. They carry out this task by means of, for example, hedging transactions. The triggers and timing for the initiation of a hedge depends on, among other things, interest rate developments and the expected development of the balance sheet. Business units have restricted freedom to make their own choices within the limits set.

Interest rate risk in the banking environment is not only measured and managed on the basis of end dates and interest rate reset dates in contracts; the bank's interest rate risk models also take account of customer behaviour, for example, in the early redemption of mortgages. Demand deposits, such as balances in immediately callable variable interest rate savings accounts and credit balances in payment accounts, and business current accounts, are modelled using the replicating portfolio method. This method is used to select portfolios of money and capital market instruments that most closely replicate the behaviour of the balance sheet items.

Rabobank uses three standard measures for the management of interest rate risk in the banking environment. During the first half of 2017, these measures were redeveloped and renamed.

- Modified Duration (MD),
- Basis Point Value (BPV) of equity (total and per tenor), and
- Earnings at Risk (EaR).

The MD, BPV of equity and EaR are used to control and manage the interest rate risk in the banking environment arising from changes in the level of interest rates. The BPV per tenor, which shows the change in economic value resulting from a one bp shock for individual tenors, is used to control and manage the risk of changes in the shape of the yield curve. The risk appetite of Rabobank is expressed in the MD, the total BPV of equity and the EaR.

In addition to the three standard measures for interest rate risk in the banking environment, Rabobank regularly analyses the impact of one or more macroeconomic scenarios on its earnings and economic value. The results of these analyses are important for integrated risk management purposes and are included in reports to senior management. The capital requirement for the interest rate risk in the banking book is calculated and reported to the asset and liability management committees and RMCs on a monthly basis.

As in 2016, the low interest rate environment required extra attention in the first half of 2017. For a bank in general a low interest rate environment is challenging for profitability. Non-interest bearing liabilities such as equity and current account balances are less profitable when interest rates are low. The impact will intensify if the situation continues or the yield curve shifts further down to more negative levels. Maintaining the current commercial margins and translating the impact of low interest rates on the liability side is becoming more and more important for the profitability of banks.

Risk appetite and developments in relation to MD and total BPV of equity

In order to manage interest rate risk from the perspective of economic value Rabobank uses the MD as the main standard. A lower limit of 0% was set for 2017, with an upper limit of 6%.

Modified Duration		
	30-06-2017	*31-12-2016*
Modified Duration	2.2%	1.4%

In the first half of 2017, the MD continued to be at low levels. Due to the redevelopment of interest rate risk measures the determination of interest rate risk has changed. With regard to the redevelopment of interest rate risk measures, all value measures are based on the estimation of economic value. To determine economic value, the old framework used the full contractual coupon for cashflow forecasting. Only the interest rate-related parts of the coupon are taken into account in the new framework. In this way, the pure interest rate risk position is measured and the value measures are no longer distorted by the risk in net present value changes for non-interest risk related (commercial) margins in the coupons. In addition to the MD, Rabobank uses the BPV of equity to control and manage interest rate risk from the perspective of value. In the first half of 2017, the Modified Duration and the total BPV of equity remained within the limits set.

Risk appetite and developments with regard to Earnings at Risk

In order to manage the interest rate risk from the earnings perspective, Rabobank uses the EaR as the main standard. The EaR analysis does not take into account active management intervention, but does take into account changes in customers' savings behaviour associated with interest rate developments.

Earnings at Risk		
In millions of euros	*30-06-2017*	*31-12-2016*
Euro interest rates	Decline by 25 basis points	Decline by 10 basis points
EaR	129	82

On 30 June 2017, the EaR stood at EUR 129 million, compared to EUR 82 million at the end of 2016. This increase is due particularly to the adjustment of Rabobank's EaR methodology. The floor applied has been reduced from minus 0.50% to minus 0.60% and the size of the downward shocks applied has been increased to at least 20 basis points (dependent on the minimum level of the interest rate). The shock is also applied if interest rates are already negative. As of 30 June 2017, the assumed maximum decline in euro interest rates was 25 basis points.

Currency risk in the banking environment

Currency risk entails that the bank's financial result and/or economic value will be negatively affected by changes in exchange rates. Rabobank is exposed to currency risk in the trading books, the banking books and via translation risk. Like other market risks, in the trading book environment currency risk is managed on the basis of VaR limits set by the Executive Board.

Currency risk in the banking books arises when assets and liabilities are not matched from a currency perspective. As a result, currency risk could have a negative impact on the financial results of the bank. The policy of Rabobank is to fully hedge the currency risk in the banking books.

Translation risk becomes evident when the bank's consolidated balance sheet and results are prepared. In this process the items in foreign currencies must be valued in euros. This makes the financial data sensitive to currency risk. Translation risk manifests itself in two different ways within Rabobank:

- Currency risk can potentially affect the value of consolidated entities of which the functional currencies are not euros.
- Currency risk may affect the solvency ratios of Rabobank as a result of differences in the exchange rate composition of the capital and the risk-weighted assets.

Translation risk is monitored and managed with a policy to protect the common equity tier 1 ratio of Rabobank against the adverse effects of exchange rate changes.

Liquidity risk

Liquidity risk entails that the bank will not be able to meet all of its payment obligations on time, as well as the risk that the bank will not be able to fund increases in assets at a reasonable price. This could happen if, for instance, customers or professional counterparties suddenly withdraw more funds than expected which cannot be absorbed by the bank's cash resources, by selling or pledging assets in the market or by borrowing funds from third parties. Maintaining a comfortable liquidity position and retaining the confidence of both professional market parties and retail customers have proved crucial, ensuring unimpeded access to the public money and capital markets for Rabobank.

Liquidity risk management framework

Liquidity risk is defined as a major risk type at Rabobank, which must be managed carefully. Rabobank's policy is to finance client assets using stable funding, that is, funds entrusted by customers and long-term wholesale funding. Responsibility for the day-to-day management of the liquidity position, the raising of professional funding on the money and capital markets, and the management of the structural position lies with the Treasury department.

Liquidity risk management is based on three pillars. The first sets strict limits for the maximum outgoing cash flows for different maturities within the wholesale banking business. On a daily basis, Rabobank measures and reports the incoming and outgoing cash flows expected during the next twelve months. Limits have been set for these outgoing cash flows, including limits and controls per currency. Detailed plans (the contingency funding plans) have been drawn up for contingency funding to ensure the bank is prepared for potential crisis situations. Periodic operational tests are performed on these plans. The latest test took place at the end of 2016.

The second pillar is to maintain a substantial high-quality buffer of liquid assets. Besides cash balances held at central banks, liquid securities can be used to pledge to central banks, in repo transactions or be sold directly in the market to generate liquidity immediately. The size and quality of the liquidity buffer is aligned with the risk Rabobank is exposed to resulting from its balance sheet. In addition, Rabobank has securitised a portion of the mortgage loan portfolio internally, which is pledged to the central bank, thereby serving as an additional liquidity buffer. Since this concerns a retained securitisation, it is not reflected on the consolidated balance sheet.

The third pillar for managing liquidity risk is to have a solid credit rating, high capital levels and a prudent funding policy. Rabobank takes various measures to avoid becoming overly dependent on a single source of funding. These measures include balanced diversification of funding sources with respect to maturity, currencies, investors, geography and markets, a high degree of unsecured funding (and therefore limited asset encumbrance) and an active and consistent investor relations policy.

Risk measurement

Liquidity position

Rabobank's liquidity buffer remained robust in the first half of 2017. On 30 June 2017, the total liquidity buffer measured in high-quality liquid assets (HQLA) was EUR 91 (2016: 103) billion. The decrease (in absolute terms) of the buffer is in line with a lower net cash outflow, and is mainly visible in a lower amount of cash held at central banks. The group consolidated liquidity buffer does take into account transfer or inconvertibility restrictions. The European Commission Delegated Act 'Liquidity Coverage Ratio' (DA LCR) became a regulatory requirement as of 1 October 2015. With 132% as per 30 June 2017 Rabobank complies with the minimum 100% requirement as set by the Dutch Central Bank (DNB). During the first half of 2017, Rabobank complied with the 100% requirement. The 'Net Stable Funding Ratio' (NSFR) as monitored by Basel, is 121% (2016: 119%), which is comfortably above the future requirement of 100%.

The central bank liquidity value of unencumbered retained RMBS decreased by EUR 8 billion, resulting from a slight increase in the standard ECB haircut for retained RMBS and increased TLTRO-II participation.

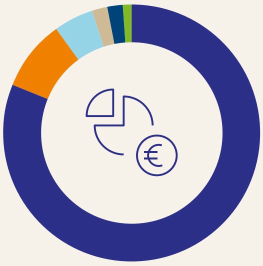
Liquidity buffer		
In millions of euros	*30-06-2017*	*31-12-2016*
	Liquidity value	*Liquidity value*
Level 1 assets		
Cash and withdrawable central bank reserves	63,083	75,399
Securities issued or guaranteed by sovereigns, central banks and multilateral development banks	23,739	26,297
Total stock of Level 1 assets	**86,822**	**101,696**
Level 2a assets		
Securities issued or guaranteed by sovereigns, central banks and multilateral development banks	1,086	755
Non-financial corporate bonds, rated AA- or better	117	61
Covered bonds, not self-issued, rated AA- or better	35	-
Total stock of Level 2a assets	**1,237**	**816**
Level 2b assets		
Residential mortgage-backed securities (RMBS), rated AA or better	-	64
Non-financial corporate bonds, rated BBB- to A+	160	128
Shares (major stock index)	2,958	-
Total stock of Level 2b assets	**3,118**	**192**
HQLA liquidity buffer	**91,178**	**102,703**
Central bank eligible retained RMBS	30,738	38,286
Total liquidity buffer	**121,916**	**140,989**

The table below provides an overview of the weighted average LCR composition. The values reported are weighted averages computed over the preceding 10 months.

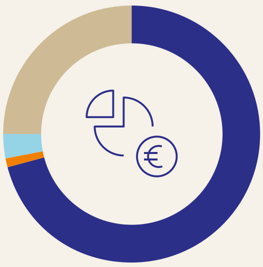
Liquidity coverage ratio		
		30-06-2017
In millions of euros	*Total unweighted value*	*Total weighted value*
High-quality liquid assets		
Total high-quality liquid assets (HQLA)		100,625
Cash outflows		
Retail deposits and deposits from small business customers, of which:	**167,920**	**13,575**
Stable deposits	104,357	5,218
Less stable deposits	61,124	7,754
Unsecured wholesale funding	**127,605**	**70,169**
Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
Non-operational deposits (all counterparties)	118,277	60,841
Unsecured debt	9,328	9,328
Secured wholesale funding		**2,224**
Additional requirements	**16,010**	**16,010**
Outflows related to derivative exposures and other collateral requirements	11,323	11,323
Outflows related to loss of funding on debt products	-	-
Credit and liquidity facilities	4,687	4,687
Other contractual funding obligations	**2,963**	**2,963**
Other contingent funding obligations	**61,754**	**3,088**
Total cash outflows		**108,028**
Cash inflows		
Secured lending (eg reverse repos)	22,041	17,287
Inflows from fully performing exposures	17,870	11,967
Other cash inflows	3,478	3,478
(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)		208
(Excess inflows from a related specialised credit institution)		-
Total cash inflows	**39,914**	**32,524**
Fully exempt inflows	-	-
Inflows Subject to 90% Cap	-	-
Inflows Subject to 75% Cap	43,090	32,524
Liquidity buffer		100,625
Total net cash outflows		**75,504**
Liquidity coverage ratio (%)		133%

Of the HQLA liquidity buffer, 69% (73%) consists of deposits at central banks, mainly held at the DNB, the Federal Reserve Bank of New York, the Swiss National Bank and the Bank of England. The most liquid category of the buffer (Level 1 assets) constitutes approximately 95% of the HQLA buffer, (and 71% of the total buffer). In addition to the HQLA buffer,

Currency split HQLA
outstanding, mid-2017



Total buffer composition (including retained RMBS)
mid-2017



a significant amount of eligible, retained unencumbered RMBS notes, secured by residential mortgages issued by Rabobank, are held as a buffer for liquidity purposes. Furthermore, Rabobank holds a portfolio of securities obtained by short-term secured financing transactions, mostly equity (EUR 25 billion) that can be liquidated. Of this portfolio, EUR 6 billion is eligible for inclusion in the HQLA liquidity buffer. The remaining EUR 19 billion is not included in the Liquidity buffer table.

Funding strategy

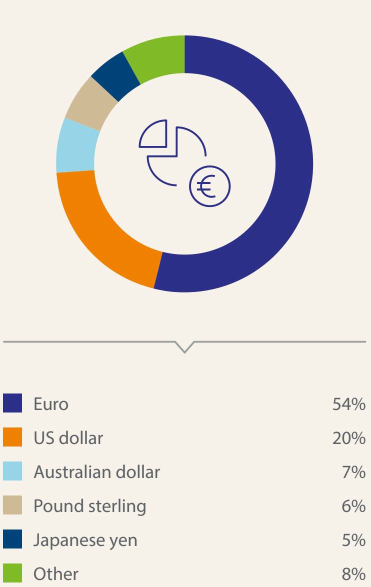
The current funding strategy strives for diversification of the funding in products, tenor, markets and currencies. As part of the Strategic Framework 2016-2020, Rabobank aims to reduce its wholesale funding in the coming years. In the first half of 2017, wholesale funding decreased from EUR 189 billion to EUR 171 billion. The table below shows the various funding sources. The domestic retail banking business is largely funded by deposits from retail customers. In the first half of 2017, funds entrusted by customers of the domestic retail banking business increased considerably, mainly due to an increase in current accounts and savings from private individuals. Funds entrusted from the domestic non-retail banking business shows a decrease from all sectors. Funds entrusted from private persons received internationally increased slightly, while all others sectors show a decrease. Along with the decrease in wholesale funding and a decrease in assets, this contributed to a reduction in the dependency on wholesale funding.

Access to funding

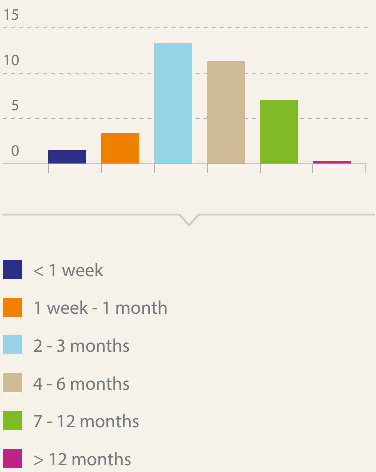
In billions of euros	*30-06-2017*	*30-12-2016*
Funds entrusted	**338.0**	**347.5**
Domestic retail banking business	226.5	223.3
of which private individuals	135.7	131.1
of which other customers	90.8	92.2
Domestic non-retail banking	46.7	52.7
International	64.8	71.5
of which private individuals	29.3	28.9
of which other customers	35.6	42.7
Interbank funding	**20.3**	**21.6**
TLTRO	**5.0**	**2.0**
Repos	**0.9**	**0.6**
Wholesale funding	**171.0**	**188.9**
Short-term debt securities	38.4	45.8
of which CD/CP	34.2	42.0
of which ABCP	4.2	3.8
Long-term wholesale funding	132.6	143.1
of which Medium Term Notes	94.7	109.2
of which RMBS and other ABS	18.9	17.1
of which covered bonds	2.5	-
of which subordinated debt securities	16.5	16.9

In the first six months of 2017, Rabobank raised EUR 10 billion of senior unsecured long-term funding in 14 different currencies. By operating on a global scale, the bank aims to avoid becoming too reliant on a single source of funding. The average maturity of the newly raised unsecured long-term funding is approximately 5 years (2016: 5.7 years). Of the total wholesale funding, more than EUR 36 billion will have matured after five years or more as per mid-2017. Rabobank is a frequent and flexible issuer of short-term debt securities and has seen a solid inflow of funds in the past years, reflecting its solid creditworthiness. The maturity of the short-term debt has increased in the past six months. Per mid-2017 the average maturity of short-term issued debt was 126 (2016: 114) days.

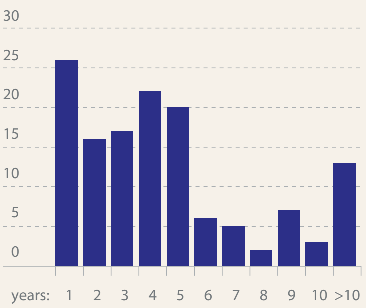
Unsecured long-term bonds
outstanding mid-2017



Remaining maturity date calendar, short-term debt securities
mid-2017, in billions of euros



Remaining maturity date calendar, long-term wholesale funding
mid-2017, in billions of euros



In May 2017 Rabobank added covered bonds to its funding mix. EUR 2.5 billion was raised through bonds covered by Dutch residential mortgages. Issuing covered bonds further diversifies and optimises Rabobank's funding composition. During the first half of 2017 Rabobank increased the participation in the Targeted Long-Term Refinancing Operation-II (TLTRO-II) from EUR 2 billion to EUR 5 billion.

Additional contractual obligations in case of a rating downgrade

In the event of a downgrade to Rabobank's credit rating, the bank could be required to provide additional collateral or be faced with an outflow of liquidity. The table below shows the potential maximum outflow if the rating of Rabobank deteriorates by one, two or three notches.

Potential maximum outflow of liquidity

				30-06-2017
In millions of euros	*Funding*	*Derivatives*	*Other*	*Total*
Rating downgrade:				
1 notch	1,245	24	222	1,491
2 notch	596	593	1,221	2,411
3 notch	1,357	1,352	268	2,975
Total for 3 notches	**3,198**	**1,969**	**1,711**	**6,878**

The table shows a split between funding, derivatives and other instruments. Funding instruments include fixed-term deposits, bonds, loans and professional funding with rating triggers. Derivative documentation can also contain rating triggers on Rabobank that could potentially result in additional liquidity risk. In some cases, a rating trigger may have been agreed on services provided to clients. For instance, a Letter of Credit or a guarantee on behalf of a client granted by Rabobank may sometimes contain a rating trigger. Under certain circumstances, the beneficiary of this guarantee may request that the guaranteed sum be paid out if the rating of Rabobank drops. This initial outflow is recognised under 'Other'. As a result Rabobank has a direct claim on the customer for whom the guarantee was provided.

Asset encumbrance

In certain cases, assets on the bank's balance sheet are encumbered. The EBA considers an asset encumbered if it has been pledged or tied-up and is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn. As such, pledged assets that are subject to any restrictions in withdrawal, such as assets that require prior approval before withdrawal or replacement by other assets, should be considered encumbered.

On 30 June 2017, EUR 59 (54) billion of the assets of Rabobank's balance sheet was encumbered. The on-balance sheet asset encumbrance primarily comprises mortgages and other loans used to cover securitisations. Assets are also encumbered for mandatory minimum reserve requirements and margining of derivative exposures.

The tables below provide an overview of the asset encumbrance position of Rabobank. The values reported are median values computed over the preceding 4 quarters. All totals are reported using the median-of-the-sums methed.

Assets

				30-06-2017
In millions of euros	*Carrying amount of encumbered assets*	*Fair value of encumbered assets*	*Carrying amount of unencumbered assets*	*Fair value of unencumbered assets*
Assets of the reporting institution	**57,083**		**603,574**	
Loans on demand	4,280		79,937	
Equity instruments	-	-	1,777	1,777
Debt securities	7,635	7,635	27,501	27,503
Loans and advances others than loans on demand	44,235		427,641	
Other assets	393		66,337	

Securities received in reverse repo transactions are not recognised on the balance sheet. For asset encumbrance reporting, these securities are considered as collateral received. Most of the collateral swaps and repurchase agreements that Rabobank performs are conducted using securities received in security finance transactions. These so-called re-used securities are therefore reported as encumbered collateral received. On 30 June 2017 the total asset encumbrance related to collateral received was EUR 12 (12) billion.

Collateral received

		30-06-2017
In millions of euros	*Fair value of encumbered collateral received or own debt securities issued*	*Fair value of collateral received or own debt securities issued available for encumbrance*
Collateral received by the reporting institution	**12,639**	**40,843**
Loans on demand	-	355
Equity instruments	7,334	23,650
Debt securities	5,305	5,213
Loans and advances others than loans on demand	-	-
Other collateral received	-	10,098
Own debt securities issued other than own covered bonds or asset-backed securities (ABSs)	**-**	**8**

The total asset encumbrance per 30 June 2017 was EUR 71 (65) billion. This includes both assets of Rabobank and asset encumbrance following encumbered collateral received. The increase in encumbrance can mainly be explained by an increase in secured funding. The median asset encumbrance, measured over the last four quarters, was 9.7% (9.3%). The median asset encumbrance, measured over the balance sheet of Rabobank, was 8.5% (8.3%).

The following table combines the previous two tables combined, along with their associated liabilities, showing that the majority of Rabobank's asset encumbrance can be associated with derivatives and funding (issued debt), which as per mid-2017 amounted to EUR 15 billion and EUR 26 billion, respectively.

Matching liabilities		
		30-06-2017
In millions of euros	*Matching liabilities, contingent liabilities or securities lent*	*Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered*
Carrying amount of selected financial liabilities	**49,606**	**51,822**
Derivatives	16,297	16,297
Repurchase agreements	1,201	1,199
Collateralised deposits other than repurchase agreements	8,680	9,934
- Of which: central banks	3,500	4,374
Debt securities issued	22,199	22,377
- Of which: ABSs issued	21,517	21,695
Other sources of encumbrance	**17,200**	**17,508**
Fair value of securities borrowed with non-cash-collateral	11,315	11,315
Other	5,782	6,092
Total sources of encumbrance	**67,312**	**69,936**

Importance of asset encumbrance for Rabobank

Rabobank has encumbered part of its loan portfolio to cover issued covered bonds and issued asset-backed securities (ABS) like residential mortgage-backed securities (RMBS) and asset-backed commercial paper (ABCP). The pool of assets that secures these transactions exceeds the value of the issued securities, meaning that the securities are overcollateralised. Rabobank has also pledged assets to fulfil mandatory minimum reserve requirements. These pledged assets cannot be freely withdrawn and are therefore considered encumbered. Furthermore, assets are encumbered for repurchase agreements and collateral swaps. These transactions are generally conducted using securities received in reverse repo transactions. As a result, the associated encumbrance generally relates to re-used collateral. Rabobank participates in TLTRO, for which assets are pledged as collateral. Finally, a large portion of Rabobank's encumbrance results from collateral posted to secure derivatives transactions, which contain credit support annexes or initial margin requirements.

Rabobank has a low level of asset encumbrance, which results from prudential balance sheet management. The evolution in the level of asset encumbrance over time is limited and is mainly driven by variation in assets pledged due to market value variations of derivatives. The assets reported under 'Other assets' in the Assets Table mainly relate to derivatives, real estate, and property and deferred tax. The majority of this positon is not available for encumbrance. Rabobank has debt securities encumbered between branches resulting from intercompany repo transactions. Given that these branches are consolidated within the same legal entity, the intragroup asset encumbrance is considered to be negligible.

Operational risk

Rabobank defines operational risk as the risk of losses incurred as a result of inadequate or dysfunctional internal processes, people and systems, or as a result of external trends and developments. Legal claim risk and conduct risk are within the scope of the operational risk management framework.

In measuring and managing operational risks, Rabobank uses the most advanced Basel II approach, the Advanced Measurement Approach. For the management of operational risks, Rabobank follows the 'three-lines-of-defence model' as prescribed by the EBA.

The bank's operational risk policy is based on the principle that the primary responsibility for managing operational risk lies with the first line and that this must be integrated into the strategic and day-to-day decision-making processes. The purpose of operational risk management is to identify, measure, mitigate and monitor various types of operational risks. The risk quantification process supports the management responsible for prioritising the actions to be undertaken and the allocation of people and resources.

The annual risk management cycle contains, among other things, a group-wide Risk Self-Assessment and scenario analyses with senior managers from the entire Rabobank Group. The Risk Self-Assessment consists of an inventory of the most important operational risks and, if risks fall outside the risk appetite, identification of mitigating measures. Risk Management coordinates the annual scenario analyses which provide insight into the group's risk profile.

Regulatory developments

This section gives an overview of regulatory developments and/or circumstances in the market that (might) have a significant impact on Rabobank.

IFRS 9

As of 1 January 2018, the current IFRS standards (IAS 39) will be replaced by IFRS 9. The changes relate to three main topics: classification and measurement of financial instruments, impairment of financial assets and hedge accounting. The impairment requirements in particular will lead to changes in the accounting for financial instruments resulting in a different calculation of loan loss allowances. Further reference to IFRS 9 in more detail is made in the chapter 'Strengthening capital ratios' in this interim report.

BCBS #239

Since the publication of BCBS #239 several initiatives are in progress to reach compliancy by the end of 2018. Key deliverables in the BCBS#239 programme are the implementation of the data management standard and tooling group-wide and the improvement of the data aggregation and reporting practices within risk and finance. Structural developments are being undertaken to improve the overall reporting capabilities through increasing the availability of granular risk, finance and markets data and the information from the global risk control framework.

Total Loss-Absorbing Capacity

The Financial Stability Board (FSB) published its final Total Loss-Absorbing Capacity (TLAC) standard in November 2015 which applies to Global Systemically Important Banks (G-SIBs). Although Rabobank is a D-SIB we assume market participants expect us to adhere to the standard as much as possible. To that end, the requirements have been included in our capital strategy. The TLAC principles and term sheet set out the minimum requirement for the instruments and liabilities that should be readily available for bail-in without resolution. The FSB monitors the technical implementation of the TLAC standard at banks and will report on this by the end of 2019.

MREL

In addition to stronger prudential CRR/CRD IV requirements, a framework on recovery and resolution measures for banks was also needed to ensure that bank failures across the European Union are managed in a way which avoids financial instability and minimises costs for taxpayers. MREL requirements have not yet been defined by the Resolution Authority but are expected to be at least compatible with the TLAC. The expected timing for the communication on indicative MREL requirements is the end of 2017/early 2018. The step-by-step implementation of these requirements is now likely to be undertaken in the course of 2017, 2018 and 2019.

Basel IV

The Basel Committee is currently reviewing the whole regulatory capital framework. If implemented, this overhaul (generally referred to as 'Basel IV'), is expected to result in significant reforms. The Basel Committee expects to finalise the reforms soon and to address the problem of excessive variability in risk-weighted assets. This programme will include the following key elements:

- Consultation on the removal of internal model approaches for certain risks (such as the removal of the Advanced Measurement Approach for operational risk) and
- Consultation on setting additional constraints on the use of internal model approaches for credit risk, in particular through the use of floors.

Targeted review of internal models

Rabobank is participating in the targeted review of internal models (TRIM) that was launched by the ECB in 2016. The objective of TRIM is to 'restore credibility, adequacy and appropriateness of approved Pillar I internal models'. The TRIM provides models for credit risk, market and counterparty credit risk. Operational Risk models are out of scope. Targeted on-sites started in 2017 and will continue in 2018-2019. Since 2016, Rabobank has answered multiple questionnaires and prepared for supervisory visits. Following this preparatory phase, on-sites have been taking place since January 2017. Rabobank has allocated appropriate resources.

Interim financial information

Consolidated statement of financial position

Consolidated statement of financial position			
Amounts in millions of euros	*Note*	*30-06-2017*	*31-12-2016*[1]
Assets			
Cash and balances at central banks		71,809	84,405
Loans and advances to banks		26,184	25,444
Financial assets held for trading		2,281	2,585
Financial assets designated at fair value		1,242	1,321
Derivatives		29,856	42,372
Loans and advances to customers	6	440,971	452,807
Available-for-sale financial assets		30,455	34,580
Investments in associates and joint ventures		2,534	2,417
Goodwill and other intangible assets		1,081	1,089
Property and equipment		4,451	4,590
Investment properties		271	293
Current tax assets		224	171
Deferred tax assets		2,154	2,360
Other assets		9,461	7,878
Non-current assets held for sale		223	281
Total assets		**623,197**	**662,593**
Liabilities			
Deposits from banks		20,793	22,006
Deposits from customers		343,180	347,712
Debt securities in issue		143,588	159,342
Financial liabilities held for trading		761	739
Financial liabilities designated at fair value		14,692	16,520
Derivatives		32,911	48,024
Other liabilities		8,015	8,432
Provisions		1,588	1,546
Current tax liabilities		213	269
Deferred tax liabilities		607	618
Subordinated liabilities		16,535	16,861
Total liabilities		**582,883**	**622,069**
Equity			
Reserves and retained earnings	8	25,544	25,821
Equity instruments issued by Rabobank			
- Rabobank Certificates		7,446	5,948
- Capital Securities		6,224	7,636
		13,670	**13,584**
Non-controlling interests			
Equity instruments issued by subsidiaries			
- Capital Securities		180	185
- Trust Preferred Securities III to IV		399	409
Other non-controlling interests		521	525
		1,100	**1,119**
Total equity		**40,314**	**40,524**
Total equity and liabilities		**623,197**	**662,593**

1 Prior-year figures adjusted; see paragraph Changes in accounting principles and presentation.

Consolidated statement of income

Consolidated statement of income			
Amounts in millions of euros	*Note*	*First half-year 2017*	*First half-year 2016[1]*
Interest income	1	8,070	8,256
Interest expense	1	3,616	3,881
Net interest income	1	**4,454**	**4,375**
Fee and commission income		1,074	1,090
Fee and commission expense		86	108
Net fee and commission income		**988**	**982**
Income from other operating activities	2	879	1,446
Expenses from other operating activities	2	684	1,063
Net income from other operating activities	**2**	**195**	**383**
Income from investments in associates and joint ventures		105	64
Gains/ (losses) on financial assets and liabilities at fair value through profit or loss		100	(78)
Gains/ (losses) on available-for-sale financial assets		12	10
Other income		84	164
Income		**5,938**	**5,900**
Staff costs	3	2,136	2,264
Other administrative expenses	4	1,418	1,803
Depreciation		201	209
Operating expenses		**3,755**	**4,276**
Loan impairment charges	5	(67)	148
Regulatory levies		258	246
Operating profit before tax		**1,992**	**1,230**
Income tax		476	233
Net profit		**1,516**	**997**
Of which attributed to Rabobank		903	343
Of which attributed to holders of Rabobank Certificates		242	193
Of which attributed to Capital Securities issued by Rabobank		323	391
Of which attributed to Capital Securities issued by subsidiaries		8	8
Of which attributed to Trust Preferred Securities III to IV		11	30
Of which attributed to other non-controlling interests		29	32
Net profit for the period		**1,516**	**997**

1 Prior-year figures adjusted; see paragraph Changes in accounting principles and presentation.

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income		
Amounts in millions of euros	*First half-year 2017*	*First half-year 2016*[1]
Net profit for the period	**1,516**	**997**
Other comprehensive income transferred to profit or loss if specific conditions are met, net of tax:		
Exchange differences on translation of foreign operations	(701)	(117)
Changes in the fair value of available-for-sale financial assets	(74)	28
Cash flow hedges	20	(34)
Share of other comprehensive income of associates and joint ventures	(6)	41
Other	35	(2)
Other comprehensive income not to be transferred to profit or loss, net of tax:		
Re-measurements of post-employee benefit obligations	(3)	5
Share of other comprehensive income of associates and joint ventures	1	(6)
Fair value changes due to own credit risk on financial liabilities designated at fair value	(135)	(70)
Other comprehensive income	**(863)**	**(155)**
Total comprehensive income	**653**	**842**
Of which attributed to Rabobank	61	178
Of which attributed to holders of Rabobank Certificates	242	193
Of which attributed to Capital Securities issued by Rabobank	323	391
Of which attributed to Capital Securities issued by subsidiaries	8	8
Of which attributed to Trust Preferred Securities III to IV	11	30
Of which attributed to other non-controlling interests	8	42
Total comprehensive income	**653**	**842**

1 Prior-year figures adjusted; see paragraph Changes in accounting principles and presentation.

Consolidated statement of changes in equity

Consolidated statement of changes in equity

			Non-controlling interests		
Amounts in millions of euros	*Reserves and retained earnings*	*Equity instruments issued by Rabobank*	*Equity instruments issued by subsidiaries*	*Other*	*Total*
Balance on 1 January 2017	**25,821**	**13,584**	**594**	**525**	**40,524**
Net profit for the period	1,487	-	-	29	1,516
Other comprehensive income	(842)	-	-	(21)	(863)
Total comprehensive income	**645**			**8**	**653**
Payments on Rabobank Certificates	(242)	-	-	-	(242)
Payments on Trust Preferred Securities IV	-	-	-	-	-
Payments on Capital Securities issued by subsidiaries	(8)	-	-	-	(8)
Payments on Capital Securities issued by Rabobank	(359)	-	-	-	(359)
Redemption of Capital Securities (note 10)	(376)	(1,421)	-	-	(1,797)
Issue of Rabobank Certificates (note 9)	120	1,500	-	-	1,620
Cost of issue Rabobank Certificates	(12)	-	-	-	(12)
Other	(45)	7	(15)	(12)	(65)
Balance on 30 June 2017	**25,544**	**13,670**	**579**	**521**	**40,314**
Balance on 1 January 2016	**25,623**	**13,775**	**1,307**	**492**	**41,197**
Net profit for the period	965	-	-	32	997
Other comprehensive income	(165)	-	-	10	(155)
Total comprehensive income	**800**	**-**	**-**	**42**	**842**
Payments on Rabobank Certificates	(193)	-	-	-	(193)
Payments on Trust Preferred Securities III to IV	(18)	-	-	-	(18)
Payments on Capital Securities issued by Rabobank	(439)	-	-	-	(439)
Payments on Capital Securities issued by subsidiaries	(8)	-	-	-	(8)
Issue of Capital Securities	-	1,250	-	-	1,250
Cost of issue of Capital Securities	-	(9)	-	-	(9)
Call of Capital Securities	(360)	(1,437)	-	-	(1,797)
Other	(18)	25	(66)	(7)	(66)
Balance on 30 June 2016	**25,387**	**13,604**	**1,241**	**527**	**40,759**

Condensed consolidated statement of cash flows

Condensed consolidated statement of cash flows		
Amounts in millions of euros	*First half-year 2017*	*First half-year 2016[1]*
Operating profit before tax	1,992	1,230
Non-cash items recognised in operating profit before tax	430	1,411
Net change in assets and liabilities relating to operating activities	(13,806)	6,218
Net cash flow from operating activities	**(11,384)**	**8,859**
Net cash flow from investing activities	**14**	**135**
Net cash flow from financing activities	**(364)**	**584**
Net change in cash and balances at central banks	**(11,734)**	**9,578**
Cash and balances at central banks at 1 January	84,405	64,943
Net change in cash and balances at central banks	(11,734)	9,578
Exchange rate differences on cash and balances at central banks	(862)	(1,302)
Cash and balance at central banks at 30 June	**71,809**	**73,219**

1 Prior-year figures adjusted; see paragraph Changes in accounting principles and presentation.

Notes to the interim financial information

Corporate information

The interim financial statements of Rabobank include the financial information of Coöperatieve Rabobank U.A. and the group companies.

Basis for preparation

The interim financial statements of Rabobank have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and are presented in conformity with IAS 34 Interim Financial Reporting. Unless stated otherwise, all amounts are in millions of euros.

For the publication of its interim report, Rabobank has opted for the alternative of presenting a condensed version of its consolidated statement of cash flows. As of this half year interim financial statements, Rabobank is no longer opting for a condensed version of the income statement but is presenting the complete income statement. These interim financial statements do not include all the information and disclosures required in the Consolidated Financial Statements and should be read in conjunction with the Consolidated Financial Statements 2016 of Rabobank Group, which were prepared in accordance with the IFRS as adopted by the European Union. The accounting policies used in this interim report are consistent with those set out in the notes to the Consolidated Financial Statements 2016 of Rabobank Group and in the description of the estimates below, except for the changes in accounting policies described in the section 'Changes in accounting principles and presentation'.

Going concern

The Executive Board considers it appropriate to adopt the going concern basis of accounting in preparing these interim financial statements based on a forecast analysis.

Judgements and estimates

In preparing these interim financial statements, management applied judgement with respect to estimates and assumptions that affect the amounts reported for assets and liabilities, the reporting of contingent assets and liabilities on the date of the Consolidated Financial Statements, and the amounts reported for income and expenses during the reporting period.

The accounting principles listed below require estimates that are based on assessments and assumptions. Although management estimates are based on an assessment of current circumstances and activities on the basis of available financial data and information, the outcome may deviate from these estimates.

Loan impairment allowance

Rabobank assesses at each reporting period whether an impairment loss should be recorded in the income statement. The impairment methodology for loans and advances results in the recognition of:

- Specific allowances for individual impaired loans;
- Collective allowances for:
  - Retail exposures if it is not economically justified to recognise the loss on an individual basis;
  - Incurred but not reported losses.

The detailed approach for each category is further explained in section 2.15: 'Loans and advances to customers' and 'Loans and advances to banks' of the Consolidated Financial Statements 2016 of Rabobank. Loan impairment allowances are recognised where there is objective evidence that not all amounts due under the original terms of the contract may be recoverable. Determining an allowance requires a significant degree of judgement, based on management's evaluation of the risks in the loan portfolio, the current economic circumstances, credit losses in previous years, as well as developments in financial credits, business sectors, business concentrations and geopolitical factors. Changes in management judgement formulation and further analyses may lead to changes in the magnitude of loan impairment allowances over time. Uncertainty is inherent in determining objective evidence of reduced creditworthiness and in determining the magnitude of the recoverable amounts and these involve assessing a variety of assumptions and factors regarding the creditworthiness of borrowers, the expected future cash flows and the value of collateral.

Fair value of financial assets and liabilities

Information on the determination of the fair value of financial assets and liabilities is included in the section 'Fair value of financial assets and liabilities'.

Impairment of goodwill, other intangible assets and investments in associates and joint ventures

Goodwill and other intangible assets are assessed for impairment – at least once a year – by comparing the recoverable value to the carrying amount, while investments in associates and joint ventures are tested for impairment when specific triggers are identified. The determination of the recoverable amount in an impairment assessment of these assets requires estimates based on quoted market prices, prices of comparable businesses, present value or other valuation techniques, or a combination thereof, necessitating management to make subjective judgements and assumptions. Because these estimates and assumptions could result in significant differences to the amounts reported if underlying circumstances were to change, these estimates are considered critical. The important assumptions for determining recoverable value of goodwill are set out in section 14 and for investments in associates and joint ventures are set out in section 13 of the Consolidated Financial Statements 2016 of Rabobank.

Taxation

Estimates are used when determining the income tax charge and the related current and deferred tax assets and liabilities. Tax treatment of transactions is not always clear or certain and in a number of countries prior year tax returns often remain open and subject to tax authority approval for lengthy periods. The tax assets and liabilities reported are based on the best available information, and where applicable, on external advice. Differences between the final outcome and the estimates originally made are accounted for in the current and deferred tax assets and liabilities in the period in which reasonable certainty is obtained.

Income tax is recognised in the interim period on the basis of the best estimate of the weighted average annual rate of income tax expected for the full financial year.

Provisions

In applying IAS 37, judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. More information on judgements regarding the provision for SME derivatives and the restructuring provision is included sections 4 and 7 of the notes to the primary financial statements.

New and amended standards issued by the IASB and adopted by the European Union which do not yet apply in the current financial year

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board (IASB) published IFRS 9 Financial Instruments as the replacement for IAS 39 Financial Instruments: Recognition and Measurement. The new standard becomes effective on 1 January 2018 and is endorsed by the European Union in 2016. IFRS 9, in particular the impairment requirements, will lead to changes in the accounting for financial instruments.

Classification and measurement – Requirements

Classification and measurement of financial assets dependent on two criteria: how Rabobank manages them, and the type of contractual cash flows in these assets. Both criteria are used to determine whether the financial assets are accounted for at amortised cost, at fair value with adjustments recognised in other comprehensive income (FVOCI), or through profit or loss (FVTPL). The combination of these two criteria (business model and contractual cash flow characteristics) may result in some differences in the composition of financial assets measured at amortised cost and at fair value, as compared to IAS 39. The classification and measurement of financial liabilities under IFRS 9 remains the same as under IAS 39 with the exception of financial liabilities designated to be measured at fair value, for which gains or losses relating to Rabobank's own credit risk are to be included in other comprehensive income. In 2016 Rabobank elected to early apply only the requirements for the presentation of gains and losses on financial liabilities designated at fair value though profit or loss.

Classification and measurement – Expected impact

Rabobank currently expects the majority of the balance sheet to remain in the current measurement categories. This means that where financial assets are currently recognised at amortised cost, we expect that the majority will continue to be recognised at amortised cost under IFRS 9. The same applies to financial assets at fair value through other comprehensive income (Available-for-sale category) and financial assets at fair value through profit or loss.

Impairments – Requirements

The rules governing impairments apply to financial assets at amortised cost and financial assets at fair value through OCI, as well as to lease receivables, certain loan commitments and financial guarantees. At initial recognition, an allowance is formed for the amount of the expected credit losses from possible defaults in the coming 12 months ('12-months expected credit loss' (ECL)). If credit risk increased significantly since origination (but remains non-credit-impaired), an allowance will be required for the amount that equals the expected credit losses stemming from possible defaults during the expected lifetime of the financial asset ('Lifetime ECL'). If the financial instrument becomes credit-impaired, the allowance will remain at the Lifetime ECL. However, the interest income for these instruments will be recognised by applying the effective interest rate on the net carrying amount (including the allowance). Financial instruments become credit-impaired when one or more events have a detrimental impact on estimated future cash flows.

The ECLs on an instrument should be based on an unbiased probability-weighted amount that is determined by evaluating a range of possible and reasonable outcomes and should reflect information available on current conditions and forecasts of future economic conditions, such as gross domestic product growth, unemployment rates and interest rates.

Impairments – Differences to current IAS 39 methodology

The IAS 39 impairment methodology is based on an 'incurred loss' model, meaning that an allowance is determined when an instrument is credit-impaired, that is, when a loss event has occurred that has a detrimental impact on estimated future cash flows. This will generally align with the Lifetime ECL – Credit-Impaired category of IFRS 9. However, within the expected credit loss framework of IFRS 9 the entire portfolio of financial instruments is now subject to impairment allowance through the additions of the 12-month ECL category and the Lifetime ECL category – Non-Credit-Impaired categories, generally leading to increases in overall allowances.

Impairments – Key concepts and their implementation at Rabobank

Two fundamental drivers of the IFRS 9 impairments requirements are a) the methodology for the measurement of 12-Month and Lifetime Expected Credit Losses and b) the criteria used to determine whether a 12-month ECL, Lifetime ECL non-credit-impaired, or Lifetime ECL credit-impaired should be applied (also referred to as stage determination criteria).

a) Methodology to determine expected credit losses

In order to determine ECLs Rabobank will utilise Probability of Default (PD) x Loss Given Default (LGD) x Exposure at Default (EAD) models for the majority of the portfolio in scope. The credit risk models in place for regulatory purposes, Advanced Internal Rating Based Approach (A-IRB) models, will function as a basis for these ECL models as they are established in the current (credit) process. However, as these models contain prudential elements, such as conservatism, downturn elements and through-the-cycle estimates, an overlay will be constructed on top of these A-IRB models in order to eliminate any prudential elements and incorporate the elements required by IFRS 9, such as point-in-time estimates, lifetime parameters, etc. Subsequently, forecasts of multiple future economic conditions (macroeconomic scenarios) will be incorporated into the ECL models and probability weighted in order to determine the eventual expected credit losses. Rabobank expects to utilise three global macroeconomic scenarios, a baseline scenario, a baseline minus and a baseline plus, which will be probability weighted. The default definition utilised for accounting purposes is the same as used for regulatory purposes.

b) Stage determination criteria

In order to allocate financial instruments in scope between the categories 12-month ECL (stage 1), Lifetime ECL Non-Credit-Impaired (stage 2) and Lifetime ECL Credit-Impaired (stage 3) a framework of qualitative and quantitative factors has been developed. As the definition of credit-impaired used for IFRS 9 purposes aligns with the default definition used for regulatory purposes, the stage 3 portfolio equals the defaulted portfolio. The criteria for allocating a financial instrument to stage 3 are therefore fully aligned with the criteria for assigning a defaulted status, for example 90 days past due status, or if a debtor is likely to become unable to pay its credit obligations without liquidation of collateral by the bank. In order to allocate financial instruments between stages 1 and 2, we use criteria that are currently applied in the credit process, such as days past due status and special asset management status. Also, the quantitative criteria used are related to the probability of default (PD), where a financial instrument is allocated to stage 2 when an increase in the weighted average PD since origination exceeds a predefined threshold.

Impairments – Expected impact

With the introduction of IFRS 9, allowance levels are expected to increase due to the addition of stage 1 and stage 2 categories which apply to financial instruments that did not previously meet the criteria for having an allowance under IAS 39. This subsequently also leads to a decrease in equity (net of tax). However, the increase in allowance levels due to the addition of stages 1 and 2 is partially offset by the release of the current IAS 39 allowance for incurred but not reported (IBNR) losses, which compensates partly the overall increase. At this stage, Rabobank is still in the process of developing ECL models and calibrating financial methodologies (e.g. in relation to stage determination) and is planning to complete this process in the second half of 2017. Therefore, the full effects of these changes can only be determined reliably and definitely during the second half of 2017.

Impairments – Expected impact – Capital Planning

As IFRS Equity (including retained earnings) is the basis for determining the common equity tier 1 capital (CET1), any decrease in IFRS Equity is also expected to have a negative impact on CET1. However, for Advanced IRB banks the relationship between IFRS Equity and CET1 is affected by the current regulations on the 'IRB Expected Loss Shortfall'. This shortfall represents the difference between 1) the allowances determined for accounting purposes and 2) the allowances (or expected losses) determined under the IRB approach. Where (1) is lower than (2), a shortfall exists and an additional deduction is made from IFRS Equity in order to arrive at CET1. It should be noted that the reason for a shortfall lies largely in the conservatism applied in the IRB approach, such as the application of economic downturn factors to collateral values (also called the Loss Given Default Downturn Factor). The decrease in IFRS Equity (due to the introduction of IFRS 9) and the resulting impact that this decrease has on CET1 will be partly compensated by the corresponding decrease of the shortfall.

The EBA is currently revisiting the regulations regarding the regulatory treatment of accounting allowances, including the phase-in of a negative capital impact.

Hedge accounting – Requirements

Hedge accounting is an option IFRS offers to mitigate profit or loss volatility caused by measurement and classification differences between granted loans and issued debt measured at amortised cost, assets measured at fair value through OCI (hedged items) and related hedging derivatives measured at fair value through profit or loss (hedging derivatives). The assets and liabilities measured at amortised cost are revalued for the fair value changes due to the hedged risk. For assets measured at fair value through OCI, the fair value changes due to the hedged risk on the assets recognised in OCI are reclassified to profit or loss. In a cash flow hedge the fair value changes of the derivative are recognised in the cash flow hedge reserve (effective part only).

Hedge accounting – Differences to current IAS 39 methodology

One of the main differences between IAS 39 and IFRS 9 for non-portfolio hedge accounting is that IFRS 9 does not permit voluntary de-designation of the hedge relationship. This is not in line with our current approach of applying hedge accounting to a net dynamic risk position which requires frequent (de)designations. Furthermore, IFRS 9 replaces some of the arbitrary rules (such as 80%-125% effectiveness testing) with more principle-based requirements. IAS 39 alos lacks a specific accounting solution for hedge accounting with cross-currency swaps (currency basis) when used as hedging instruments, while IFRS 9 has this. Under IFRS 9, the currency basis spreads may be considered as costs of hedging and fair value changes caused by currency basis spread may be recognised in OCI.

Hedge accounting – Expected impact

Rabobank plans to implement IFRS 9 for non-portfolio hedge accounting to benefit from the specific treatment of currency basis in IFRS 9 per 1 January 2018. We expect to be able to designate more effective non-portfolio hedge accounting relationships with cross-currency swaps under IFRS 9 and to reduce the profit or loss volatility caused by currency basis, which will then be recognised in OCI. IFRS 9 does not offer a solution for fair value hedge accounting for a portfolio hedge of interest rate risk portfolio, so Rabobank will use the accounting policy choice IFRS 9 provides to continue to apply the IAS 39 EU carve-out for such portfolio hedge accounting.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers', which is effective for annual periods beginning on or after 1 January 2018 with early application permitted. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients. The standard does not apply to financial instruments, insurance contracts or lease contracts. Rabobank has not finalised the investigation of the impact on the financial statements and the practical expedients but the current assessment is that this new standard will not have a significant impact on profit or equity.

New standards issued by the IASB, but not yet endorsed by the European Union

IFRS 16 Leases

In January 2016, the IASB issued 'IFRS 16 Leases' with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under 'IAS 17 Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability will be measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. Rabobank is currently assessing the impact of this standard.

IFRS 17 Insurance contracts

In May 2017, the IASB issued 'IFRS 17 Insurance Contracts' with an effective date of annual periods beginning on or after 1 January 2021. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. Rabobank is currently assessing the impact of this standard.

Other amendments to IFRS

There have been minor amendments to IFRS 2, IFRS 15, IAS 7, IAS 12, IAS 40, IFRIC 22 and the Annual improvements to IFRS Standards 2014-2016 Cycle.

Although these new requirements are currently being analysed and their impact is not yet known, Rabobank does not expect the implementation of these other standards to significantly affect profit or equity.

Changes in accounting principles and presentation

Change in presentation

As disclosed in the Consolidated Financial Statements 2016, Rabobank has elected to early adopt a part of IFRS 9 with regard to the own credit adjustment included in the valuation of financial liabilities designated at fair value through profit or loss as from 1 January 2016. As a result of this early adoption, the figures of June 2016 have been changed as follows. In the Consolidated statement of income, gains/ (losses) on financial assets and liabilities at fair value through profit or loss increased by 97 and the income tax increased by 24. In the Consolidated statement of comprehensive income, -70 was recognised as fair value changes due to own credit risk on financial liabilities designated at fair value. And -3 was recognised in retained earnings.

As per the Interim financial statements 2017, Rabobank decided to disclose the revenues from other operating activities and the corresponding cost of revenue separately in the Consolidated Statement of Income to enhance transparency. The prior-year presentation has been adjusted accordingly.

As per interim financial statements 2017, Rabobank is presenting the cash flows relating to operating leases as part of the cash flows arising from operating activities as this better represents the operating activities of Rabobank group. In the past, these cash flows were disclosed within cash from investment activities. This resulted in an increase of 974 of the net cash flows from operating activities and a corresponding decrease in the net cash flows from investing activities in the comparative figures.

We also adjusted the presentation of the cashflows relating to sales and purchases of available-for-sale-assets and present those cashflows as cashflows from operating activities and not from investing activities anymore. This resulted in a decrease of net cashflows from investing activities and in increase of the net cashflows from operating activities of 1,922.

Notes to the primary financial statements

1. Net interest income

Net interest income		
In millions of euros	*First half 2017*	*First half 2016*
Cash and balances at central banks	113	106
Loans and advances to banks	141	148
Financial assets held for trading	19	26
Financial assets designated at fair value	15	14
Loans and advances to customers	7,814	8,203
Available-for-sale financial assets	392	430
Derivatives held as economic hedges	(536)	(740)
Interest income on financial liabilities with a negative interest rate	65	22
Other	47	47
Interest income	**8,070**	**8,256**
Deposits from banks	192	237
Deposits from customers	1,088	1,288
Debt securities in issue	1,557	1,766
Financial liabilities held for trading	7	6
Financial liabilities designated at fair value	244	132
Subordinated liabilities	381	348
Interest expense on financial assets with a negative interest rate	144	99
Other	3	5
Interest expense	**3,616**	**3,881**
Net interest income	**4,454**	**4,375**

2. Net income from other operating activities

Other net operating income		
In millions of euros	*First half 2017*	*First half 2016*
Income from real estate activities	531	709
Expenses from real estate activities	417	550
Net income real estate activities	**114**	**159**
Income from operational lease activities	336	725
Expenses from operational lease activities	258	510
Net income from operational lease activities	**78**	**215**
Income from investment property	12	12
Expenses from investment property	9	3
Net income from investment property	**3**	**9**
Net income from other operating activities	**195**	**383**

3. Staff costs

Staff costs		
In millions of euros	*First half 2017*	*First half 2016*
Wages and salaries	1,401	1,561
Social security contributions and insurance costs	162	192
Pension costs - defined contribution plans	289	252
Pension costs - defined benefit pension plans	1	2
Release of other post-employment provisions	(2)	(83)
Other staff costs	285	340
Staff costs	**2,136**	**2,264**

4. Other administrative expenses

Other administrative expenses		
In millions of euros	*First half 2017*	*First half 2016*
Additions and releases of provisions	216	610
IT expenses and software costs	335	321
Consultants fees	170	176
Training and travelling expenses	91	81
Publicity expenses	62	71
Result on derecognition and impairments on (in) tangible assets	17	6
Other expenses	527	538
Other administrative expenses	**1,418**	**1,803**

Other administrative expenses decreased to 1,418 (1,803). In the first half of 2016, other administrative expenses were relatively high as a result of the provision for adopting the SME interest rate derivative framework (514). Also higher restructuring costs in the first half of 2016 (190 versus 98 in the first half of 2017) contributed to the decrease in other administrative expenses. This decrease was somewhat tempered by the release of a provision for legal claims in the first half of 2016.

5. Loan impairment charges

At minus 67, loan impairment charges in the first half of 2017 were significantly lower than in the first half of 2016 (148 positive), with improvements in nearly all business segments. This is mainly due to the ongoing favourable economic conditions in our domestic market, leading to limited additions and high releases of existing allowances, particularly in the domestic retail banking business and in real estate. Relative to the average private sector loan portfolio, loan impairment charges amounted to minus 3 (7) basis points; this is exceptionally low and substantially below the long-term average (period 2007-2016) of 36 basis points.

6. Loans and advances to customers

The weakening of the US dollar was the main driver for currency effects to have a downward impact on the lending book expressed in euros (EUR 5.0 billion). The remainder of the decrease in the loan portfolio of EUR 1.8 billion is caused by early repayments on residential mortgage loans in the local Rabobanks' private sector loan portfolio. In the first six months of 2017 customers' extra mortgage repayments – all payments on top of the mandatory repayments – totalled approximately EUR 8.3 (6.6) billion at local Rabobanks. At the same time, the non-strategic commercial real estate portfolio was further reduced. Excluding currency effects the loan portfolio of WRR was more or less stable and the portfolio of Rabobank's leasing subsidiary DLL increased modestly.

Loan portfolio		
In millions of euros	*30-06-2017*	*31-12-2016*
Total loans and advances to customers	**441.0**	**452.8**
Governments clients	2.5	3.3
Reverse repurchase transactions and securities borrowings	13.8	16.3
Interest rate hedges (hedge accounting)	6.9	8.6
Private sector loan portfolio	**417.8**	**424.6**

7. Legal and arbitration proceedings

Rabobank Group is active in a legal and regulatory environment that exposes it to substantial risk of litigation. As a result, Rabobank Group is involved in legal cases, arbitrations and regulatory proceedings in the Netherlands and in other countries, including the United States. The most relevant legal and regulatory claims which could give rise to liability on the part of Rabobank Group are described below. If it appears necessary on the basis of the applicable reporting criteria, provisions are made based on current information; similar types of cases are grouped together and some cases may also consist of a number of claims. The estimated loss for each individual case (for which it is possible to make a realistic estimate) is not reported because Rabobank Group feels that information of this type could be detrimental to the outcome of individual cases.

When determining which of the claims is more likely than not (i.e., with a likelihood of over 50%) to lead to an outflow of funds, Rabobank Group takes several factors into account. These include (but are not limited to) the type of claim and the underlying facts; the procedural process and history of each case; rulings from legal and arbitration bodies; Rabobank Group's experience and that of third parties in similar cases (where known); previous settlement discussions; third-party settlements in similar cases (where known); available indemnities; and the advice and opinions of legal advisors and other experts.

The estimated potential losses and the existing provisions are based on the information available at the time and are for the main part subject to judgements and a number of different assumptions, variables and known and unknown uncertainties. These uncertainties may include the inaccuracy or incompleteness of the information available to Rabobank Group (especially in the early stages of a case). In addition, assumptions made by Rabobank Group about the future rulings of legal or other instances or the likely actions or attitudes of supervisory bodies or the parties opposing Rabobank Group may turn out to be incorrect. Furthermore, estimates of potential losses relating to the legal disputes are often impossible to process using statistical or other quantitative analysis instruments that are generally used to make judgements and estimates. They are then subject to a still greater level of uncertainly than many other areas where the group needs to make judgements and estimates.

The group of cases for which Rabobank Group determines that the risk of future outflows of funds is higher than 50% varies over time, as do the number of cases for which the bank can estimate the potential loss. In practice, the end results could turn out considerably higher or lower than the estimates of potential losses in cases where an estimate was made. Rabobank Group can also sustain losses from legal risks where the occurrence of a loss may not be probable, but is not improbable either, and for which no provisions have been recognised. For those cases where (a) the possibility of an outflow of funds is not probable but also not remote or (b) the possibility of an outflow of funds is more likely than not but the potential loss cannot be estimated, a contingent liability is shown.

Rabobank Group may settle legal cases or regulatory proceedings or investigations before any fine is imposed or liability is determined. Reasons for settling could include (i) the wish to avoid costs and/or management effort at this level, (ii) to avoid other adverse business consequences and/or (iii) pre-empt the regulatory or reputational consequences of continuing with disputes relating to liability, even if Rabobank Group believes it has good arguments in its defense. Furthermore, Rabobank Group may, for the same reasons, compensate third parties for their losses, even in situations where Rabobank Group does not believe that it is legally required to do so.

Interest rate derivatives

Rabobank concludes interest rate derivatives, such as interest rate swaps, with Dutch business customers who wish to reduce the interest rate risk associated with variable (e.g. Euribor-indexed) loans. Such an interest rate swap protects customers from rising variable interest rates and helps businesses to keep their interest payments at an acceptable level. In March 2016, the Dutch Minister of Finance appointed an independent committee, which on 5 July 2016 published a recovery framework (the Recovery Framework) on the reassessment of Dutch SME interest rate derivatives. Rabobank announced its decision to take part in the Recovery Framework on 7 July 2016. The final version of the Recovery Framework was published by the independent committee on 19 December 2016. Implementation of the Recovery Framework is expected to be finalised no earlier than the first quarter of 2018.

Rabobank is involved in civil proceedings in the Netherlands relating to interest rate derivatives carried out with Dutch business customers. The majority of these concern individual cases. In addition, there is a collective action regarding interest rate derivatives pending before the Court of Appeal. These actions concern allegations relating to misconduct in connection with Rabobank's Euribor submissions (as described below) and / or allegations of misinforming clients with respect to interest rate derivatives. Rabobank will defend itself against all these claims.

Furthermore, there are pending complaints and proceedings against Rabobank regarding interest rate derivatives brought before Kifid (Dutch Financial Services Complaints Authority, which, in January 2015, opened a conflict resolution procedure for SME businesses with interest rate derivatives).

With respect to the (re-)assessment of the interest rate derivatives of its Dutch SME business customers, Rabobank has recognised a provision of 664. The main uncertainties in the calculations of the provision stem from assumptions regarding the scoping of clients. Furthermore, the calculations regarding technical recovery are based on a portfolio approach instead of individual contract calculations.

Fortis

In 2011, the Dutch Investors Association (VEB) issued a summons against the company formerly known as Fortis N.V. (currently trading as Ageas N.V.), the underwriters involved – including Rabobank – and the former directors of Fortis N.V. The VEB states in this summons that (i) investors were misled by the prospectus published by Fortis N.V. in connection with its rights issue in September 2007 and (ii) the impact and risks of the subprime crisis for Fortis and its liquidity position were misrepresented in the prospectus. The VEB has requested a declaratory judgement stating that the defendants acted illegitimately and must therefore be held liable for the loss allegedly suffered by investors in Fortis, which according to the VEB, amounts to approximately EUR 18 billion. Rabobank maintains the view that the aforementioned loss has not been properly substantiated. The proceedings concern a settlement of collective loss, which means that the court will only rule on the question of whether the defendants (including Rabobank) are liable.

Rabobank has been defending itself against the claim. A hearing was scheduled to start on 14 March 2016. That day, however, Ageas announced a settlement of EUR 1.2 billion with claimant organisations VEB, Deminor, Stichting FortisEffect and Stichting Investor Claims Against Fortis (SICAF) with respect to all disputes and claims relating to various events in 2007 and 2008 in respect of the former Fortis group (including the VEB claim described above).

On 23 May 2016, the parties to the settlement requested the Amsterdam Court of Appeal declare the settlement binding for all eligible Fortis shareholders (in accordance with the Dutch Law on the Collective Resolvement of Mass Damages ('Wet Collectieve Afwikkeling Massaschade')). The class action has been suspended until this specific procedure is finalised.

On 16 June 2017, the Amsterdam Court of Appeal issued an interim judgement stating that the proposed settlement agreement cannot be declared binding. The court has given the parties the opportunity to amend the settlement agreement and file it for revaluation by the court in the course of October 2017. Parties may request additional time to file the amended settlement agreement. The settlement process may have one of the two following outcomes:

(1) the Court of Appeal declares the settlement binding. Investors may choose to opt out of the settlement during an opt-out period of three to six months. After this period (and provided that the settlement is not annulled because the opt-out ratio exceeds a certain limit), distributions of payments will start. The release of Rabobank (and other underwriters) is subject to satisfaction of the compensation obligations towards the eligible Fortis shareholders. It is expected that it will take at least 18 months from the Court of Appeal judgement declaring the settlement agreement binding before the first payments will be made. Investors that choose to opt out of the settlement may still claim damages from Ageas and the defendants (including Rabobank) on an individual basis.

(2) the Court of Appeal does not declare the settlement binding for all eligible Fortis shareholders or Ageas exercises its right to annul the settlement in case the opt-out ratio exceeds a certain limit. If no settlement agreement is binding, the proceedings against the VEB described above in principle will resume as before the suspension.

Rabobank Group considers the Fortis case to be a contingent liability. No provision has been made.

Libor/Euribor

Rabobank has received a number of requests in recent years from regulators in various countries to produce documents and other information in relation to various issues, including issues related to its interest rate benchmark submissions. Rabobank is cooperating, and will continue to cooperate, with the regulators and authorities involved in these investigations. On 29 October 2013, Rabobank entered into settlement agreements with various authorities in relation to their investigations into the historical Libor and Euribor submission processes of Rabobank. Additional information is available on the bank's corporate website. All amounts payable under these settlement agreements were fully paid and accounted for by Rabobank in 2013.

Rabobank, along with a large number of other panel banks and inter-dealer brokers, has been named as a defendant in a number of putative class action suits and individual civil court cases brought before the Federal Courts in the United States. These proceedings relate to the US dollar (USD) Libor, British pound sterling (GBP) Libor, Japanese yen (JPY) Libor, Tibor (note: Rabobank was never a member of the Tibor panel) and Euribor. In 2014, an Argentine consumer protection organisation brought an alleged class action suit against Rabobank in Argentina in relation to US dollar Libor. Rabobank has also been summoned to appear before various Dutch courts in civil proceedings relating to Euribor. Furthermore, various individuals and entities (including three Dutch collective claim foundations of which one was already mentioned above in the section 'Interest rate derivatives') have made a number of allegations relating to Euribor and/or other benchmarks in letters to and legal proceedings against Rabobank and/or an Irish subsidiary.

Since the alleged class action suits and civil proceedings listed above, which have been brought before the courts in the United States or elsewhere, are intrinsically subject to uncertainties, it is difficult to predict their outcomes. Rabobank takes the stance that it has substantive and convincing legal and factual defenses against these claims. Rabobank has the intention to continue to defend itself against them.

Rabobank Group considers the Libor/Euribor case to be a contingent liability. No provision has been made.

BSA/AML

In 2015, Rabobank made a written agreement with the Federal Reserve Bank of New York and the New York State Department of Financial Services. Under this agreement, Rabobank is required to, among other things, improve the BSA/AML (Bank Secrecy Act/Anti-Money Laundering) framework for its NY branch and oversight for the United States region.

In December 2013, via Consent Order, the United States Office of the Comptroller of the Currency (OCC) commenced a civil enforcement action against Rabobank, National Association (RNA) in connection with issues related to RNA's BSA/AML compliance programme. RNA is almost entirely owned by Rabobank and engages in retail banking in California. The Consent Order and related actions are still pending. In 2014, the United States Department of Justice (DOJ) advised Rabobank that it was investigating RNA for possible violations of the Bank Secrecy Act and related regulations and statutes. RNA has provided documentation and other information in response to various DOJ requests; the DOJ has also conducted interviews of both current and former employees. The investigation is on-going.

The Financial Crimes Enforcement Network (FinCEN) of the United States Department of the Treasury served a notice of Investigation on RNA in February 2017. Rabobank understands that FinCEN is investigating essentially the same issues that are the subject of the OCC matter described above.

Both Rabobank and RNA are cooperating with all of these investigations and believe that they will come to a conclusion in 2017.

Also, a criminal complaint was filed with the Dutch Public Prosecutor (DPP) in February 2017 against Rabobank, two group entities and the persons factually in charge of these entities asking for a criminal investigation in relation to the matters related to the DOJ investigation. Rabobank understands that the DPP has received the complaint and awaits the DPP's response to it.

Rabobank Group considers the BSA/ALM case to be a contingent liability. No provision has been made.

Other cases

Rabobank Group is subject to other legal proceedings for which a provision was recognised. These cases are individually less significant in size and are therefore not further described. On top of the contingent liability cases described above for which an assessment regarding a possible outflow is not yet possible, Rabobank Group has identified a number of other, less relevant cases in terms of size as a contingent liability. Because these cases are less significant, Rabobank has chosen not to describe them in detail. The principal amount claimed for those contingent liability cases combined amounts to 58.

8. Reserves and retained earnings

The reserves and retained earnings can be broken down as follows:

Reserves and retained earnings			
In millions of euros	*30-06-2017*	*31-12-2016*	*30-06-2016*[1]
Foreign currency translation reserves	(480)	203	(208)
Revaluation reserves – Available-for-sale financial assets	494	571	581
Revaluation reserves – Held for sale	(35)	(70)	3
Revaluation reserves - Cash flow hedges	(50)	(70)	(73)
Remeasurement reserve - Pensions	(221)	(219)	(174)
Remeasurement reserve – Fair value changes due to own credit risk on financial liabilities designated at fair value	(439)	(303)	(8)
Retained earnings	26,275	25,709	25,266
Total reserves and retained earnings	**25,544**	**25,821**	**25,387**

9. Issuance of Rabobank Certificates in the first half of 2017

In January 2017 Rabobank issued Rabobank Certificates for a nominal amount of EUR 1.5 billion. Rabobank issued 60 million new Rabobank Certificates; each of these newly issued Certificates was priced at 108% of the nominal value of EUR 25.

10. Redemption of Capital Securities in the first half of 2017

Rabobank issued the USD 2,000 million Capital Securities on 9 November 2011. In accordance with the Terms and Conditions of these Capital Securities, Rabobank has redeemed the Capital Securities on the first call date, namely 29 June 2017.

1 Prior-year figures adjusted; see paragraph Changes in accounting principles and presentation.

Fair value of financial assets and liabilities

This section should be read in conjunction with section 4.9 'Fair value of financial assets and liabilities' of the Consolidated Financial Statements 2016, which provides more detail about accounting policies adopted, valuation methodologies used in calculating fair value and the valuation control framework which governs oversight of valuations. There have been no changes in the accounting policies adopted or the valuation methodologies used.

The following table shows the fair value of financial instruments, recognised at amortised cost on the basis of the valuation methods and assumptions detailed below. Fair value represents the price that would have been received for the sale of an asset or that would have been paid in order to transfer a liability in a standard transaction conducted between market participants on the valuation date. For fair value measurement, Rabobank assumes that the transaction to sell the asset or transfer the liability is conducted in the principal market for the asset or liability or in the most advantageous market if there is no principal market.

Market prices are not available for a large number of the financial assets and liabilities that Rabobank holds or issues. For these financial instruments, the fair values shown in the following table have been estimated using the present value or the results of other estimation and valuation methods, based on the market conditions on the reporting date. The values produced using these methods are highly sensitive to the underlying assumptions used for the amounts as well as for the timing of future cash flows, discount rates and possible market illiquidity.

Fair value of financial instruments carried at amortised cost in the statement of financial position

	30-06-2017		*31-12-2016*	
In millions of euros	*Carrying amount*	*Fair value*	*Carrying amount*	*Fair value*
Assets				
Cash and balances at central banks	71,809	71,809	84,405	84,405
Loans and advances to banks	26,184	26,114	25,444	25,368
Loans and advances to customers	440,971	453,127	452,807	465,278
Liabilities				
Deposits from banks	20,793	20,820	22,006	22,042
Deposits from customers	343,180	348,199	347,712	353,227
Debt securities in issue	143,588	146,991	159,342	163,622
Subordinated liabilities	16,535	18,305	16,861	18,256

The figures stated in the following table represent the best possible estimates by management on the basis of a range of methods and assumptions. If a quoted price on an active market is available, this is the best estimate of fair value. If no quoted prices on an active market are available for fixed-term securities, equity instruments, derivatives and commodity instruments, Rabobank bases the expected fair value on the present value of the future cash flows, discounted at market rates which correspond to the credit ratings and terms to maturity of the investments. A model-based price can also be used to determine fair value. Rabobank follows a policy of having all models used for valuing financial instruments validated by expert staff independent of the staff responsible for determining the fair values of the financial instruments.

In determining market values or fair values, various factors must be considered, including the time-value of money, volatility, underlying options, the credit quality of the counterparty and other factors. The valuation process is designed to systematically use market prices that are available on a periodic basis. This systematic valuation process proved its worth during the credit crisis. Modifications to assumptions may affect the fair value of financial assets and liabilities held for trading and non-trading purposes.

The following table illustrates the fair value hierarchy used in determining the fair value of financial assets and liabilities. The breakdown is as follows:

- Level 1: Quoted prices on active markets for identical assets or liabilities; an 'active market' is a market in which transactions relating to the asset or liability occur with sufficient frequency and at a sufficient volume in order to provide price information on a permanent basis.
- Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability not based on observable market data.

Rabobank determines for recurrent valuations of financial instruments at fair value when transfers between the various categories of the fair value hierarchy have occurred by reassessing the level at the end of each reporting period.

Fair value hierarchy of financial assets and liabilities carried at fair value in the statement of financial position				
In millions of euros				
On 30 June 2017	Level 1	Level 2	Level 3	Total
Assets				
Financial assets held for trading	1,768	439	74	2,281
Financial assets designated at fair value	19	704	519	1,242
Derivatives	7	29,445	404	29,856
Available-for-sale financial assets	26,390	3,546	519	30,455
Non-current assets held for sale	-	-	223	223
Liabilities				
Derivatives	4	32,519	388	32,911
Financial liabilities held for trading	761	-	-	761
Financial liabilities designated at fair value	-	14,684	8	14,692
On 31 December 2016				
Assets				
Financial assets held for trading	2,011	485	89	2,585
Financial assets designated at fair value	48	759	514	1,321
Derivatives	18	41,819	535	42,372
Available-for-sale financial assets	29,693	4,347	540	34,580
Non-current assets held for sale	-	-	281	281
Liabilities				
Derivatives	21	47,479	524	48,024
Financial liabilities held for trading	739	-	-	739
Financial liabilities designated at fair value	9	16,498	13	16,520

The next table shows movements in financial instruments which are carried at fair value in the statement of financial position and which are classified in level 3. The fair value adjustments in level 3 which are included in equity are accounted for in the revaluation reserves for available-for-sale financial assets. In the first half of 2017, there were no significant transfers between level 1 and level 2.

Financial instruments at fair value in level 3

In millions of euros	*Balance on 1 January 2017*	*Gains/ (losses) recognised in profit or loss*	*Gains/ (losses) recognised in OCI*	*Purchases*	*Sales*	*Settlements*	*Transfers to or from level 3*	*Transfers to or from non-current assets held for sale*	*Balance on 30 June 2017*
Assets									
Financial assets held for trading	89	(3)	-	-	(12)	-	-	-	74
Financial assets designated at fair value	514	4	-	84	(47)	1	-	(37)	519
Derivatives	535	56	-	-	-	(187)	-	-	404
Available-for-sale financial assets	540	(22)	2	9	(10)	-	-	-	519
Non-current assets held for sale	281	-	-	-	(84)	-	-	26	223
Liabilities									
Derivatives	524	46	-	-	-	(185)	3	-	388
Financial liabilities designated at fair value	13	-	-	-	(5)	-	-	-	8

In millions of euros	*Balance on 1 January 2016*	*Gains/ (losses) recognised in profit or loss*	*Gains/ (losses) recognised in OCI*	*Purchases*	*Sales*	*Settlements*	*Transfers to or from level 3*	*Transfers to or from non-current assets held for sale*	*Balance on 31 December 2016*
Assets									
Financial assets held for trading	126	(11)	-	3	(34)	-	5	-	89
Financial assets designated at fair value	985	(20)	-	98	(575)	-	26	-	514
Derivatives	765	420	-	-	-	(650)	-	-	535
Available-for-sale financial assets	594	18	(51)	280	(299)	(2)	-	-	540
Non-current assets held for sale	155	-	-	-	(73)	-	-	199	281
Liabilities									
Derivatives	688	527	-	-	(2)	(700)	11	-	524
Financial liabilities designated at fair value	24	(1)	-	-	(10)	-	-	-	13

The amount of gains/ (losses) recognised in the income statement for the period relating to the assets and liabilities held in level 3 until the end of the reporting period is given in the following table.

Gains/ (losses) of financial instruments in level 3 recognised in profit or loss

In millions of euros	*Instruments held at the end of the reporting period*	*Instruments no longer held at the end of the reporting period*	*Total*
On 30 June 2017			
Assets			
Financial assets held for trading	(3)	-	(3)
Financial assets designated at fair value	-	4	4
Derivatives	3	53	56
Available-for-sale financial assets	(22)	-	(22)
Liabilities			
Derivatives and other trade liabilities	(7)	53	46
Financial liabilities designated at fair value	-	-	-
On 31 December 2016			
Assets			
Financial assets held for trading	(10)	(1)	(11)
Financial assets designated at fair value	(37)	17	(20)
Derivatives	229	191	420
Available-for-sale financial assets	(1)	19	18
Liabilities			
Derivatives	238	289	527
Financial liabilities designated at fair value	(1)	-	(1)

The potential effect before taxation, if more positive reasonable assumptions are used for the valuation of the financial instruments in level 3 on the income statement, is 57 (70) and on equity 6 (7). The potential effect before taxation, if more negative reasonable assumptions are used for the valuation of financial instruments in level 3 on the income statement, while it is -57 (-70) and -6 (-7) for equity.

Level 3 of the financial assets at fair value includes private equity interests. Private equity interests amount to 476 (488). A significant unobservable input for the valuation of these interests is the multiplier which is applied to the EBITDA. The average weighted multiplier is 6.6 (6.0), with a bandwidth of -1 and +1 of the multiplier.

Related parties

In the normal course of business, Rabobank Group enters into various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Related parties of Rabobank Group include, among others, its subsidiaries, joint ventures, associates and key management personnel. Transactions between related parties include rendering or receiving services, leases, transfers under finance arrangements and provisions of guarantees or collateral. No related party transactions occurred in the first half of 2017 that have materially affected the financial position or performance of the Group during this period.

Credit related contingent liabilities

Credit related contingent liabilities represent the unused portions of funds authorised for the granting of credit in the form of loans, financial guarantees, letters of credit and other lending related financial instruments. The credit contingent liabilities are EUR 57 (63) billion. The contingent liabilities related to litigation are disclosed in section 7 Legal and arbitration proceedings.

Business segments

The business segments Rabobank uses in its reporting are defined from a management viewpoint. This means that the segments are reviewed as part of the strategic management of Rabobank and are used for the purpose of making business decisions with different risks and returns.

As part of the ongoing change of the bank following the update of our strategic objectives Rabobank changed the set-up and internal reporting of the business segments on 1 April 2017. Treasury, which was formerly part of the WRR and Treasury segment, is now reported within other group functions under 'Other'. Furthermore, in the first half of 2017 the portfolio of DLL's Financial Solutions was transferred to the business segment domestic retail banking, and a large part of the loan portfolio of FGH Bank which was previously in the real estate segment was integrated in the domestic retail banking and Wholesale, Rural & Retail segment. In line with IFRS 8, the following tables contain the segment information in the new structure. The previous period segment information is also represented in the new structure and the figures have been adjusted accordingly. This reflects Rabobank Group's organisational structure and forms the basis for internal management reporting.

Major business segments

Rabobank distinguishes five major business segments: domestic retail banking; Wholesale, Rural & Retail; leasing; real estate; and other segments. Domestic retail banking mainly encompasses the activities of the local Rabobanks, Obvion, Financial Solutions and Roparco. WRR supports the Rabobank Group in becoming the market leader in the Netherlands and focuses on the food & agri sectors at international level. This segment develops corporate banking activities on a regional basis and also controls globally operating divisions such as Markets, Acquisition Finance, Global Corporate Clients, Export Finance & Project Finance, Trade & Commodity Finance and Financial Institutions Group. The segment also actively involves International Direct Retail Banking and Rabo Private Equity. International rural and retail banking operations forms a part of the Rabobank label, with the exception of ACC Loan Management. In the leasing segment, DLL is responsible for leasing activities and offers a wide range of leasing products. Manufacturers, vendors and distributors are globally supported in their sales with products relevant to asset financing.

Real estate mainly encompasses the activities of the Rabo Real Estate Group and FGH Bank. The core activities are the development of housing, financing and asset management. In the Dutch market, Rabo Real Estate Group operates through its BPD and Bouwfonds Investment Management brands. Other segments within Rabobank include various sub-segments of which no single segment can be listed separately. This segment mainly comprises the financial results of associates (in particular Achmea B.V.), treasury and head office operations.

There are no customers who represent more than a 10% share in the total revenues of Rabobank. Transactions between the various business segments are conducted under regular commercial terms. Other than operating activities, there is no other material comprehensive income between the business segments. The financial reporting principles used for the segments are identical to those described in the 'Basis for preparation' section.

Business segments

Amounts in millions of euros	*Domestic retail banking*	*Wholesale, Rural & Retail*	*Leasing*	*Real estate*	*Other segments*	*Consolidation effects*	*Total*
For the half-year ended 30 June 2017							
Net interest income	2,759	1,173	514	72	(64)	-	4,454
Net fee and commission income	700	240	32	35	1	(20)	988
Other results	44	445	120	125	(171)	(67)	496
Total income	**3,503**	**1,858**	**666**	**232**	**(234)**	**(87)**	**5,938**
Staff costs	734	517	244	93	10	538	2,136
Other administrative expenses	1,349	429	107	59	153	(679)	1,418
Depreciation	47	32	14	3	29	76	201
Operating expenses	**2,130**	**978**	**365**	**155**	**192**	**(65)**	**3,755**
Loan impairment charges	(156)	105	41	(43)	(15)	1	(67)
Regulatory levies	135	90	11	4	18	-	258
Operating profit before tax	**1,394**	**685**	**249**	**116**	**(429)**	**(23)**	**1,992**
Income tax	347	191	73	28	(156)	(7)	476
Net profit	**1,047**	**494**	**176**	**88**	**(273)**	**(16)**	**1,516**
Cost/income ratio excluding regulatory levies (in %)[1]	60.8%	52.6%	54.8%	66.8%	n.a.	n.a.	63.2%
Cost/income ratio including regulatory levies (in %)[2]	64.7%	57.5%	56.5%	68.5%	n.a.	n.a.	67.6%
Loan impairment charges (in basis points of average private sector loan)[3]	(11)	20	26	(97)	n.a.	n.a.	(3)
External assets	286,645	140,055	31,959	9,568	154,970	n.a.	623,197
Goodwill	322	125	77	-	2	-	526
Private sector loan portfolio	279,663	104,326	27,457	5,847	503	-	417,796

Amounts in millions of euros	*Domestic retail banking*	*Wholesale, Rural & Retail*	*Leasing*	*Real estate*	*Other segments*	*Consolidation effects*	*Total*
For the half-year ended 30 June 2016[4]							
Net interest income	2,910	1,106	457	106	(204)	-	4,375
Net fee and commission income	669	318	36	6	(31)	(16)	982
Other results	47	345	314	178	(221)	(120)	543
Total income	**3,626**	**1,769**	**807**	**290**	**(456)**	**(136)**	**5,900**
Staff costs	991	554	294	98	(70)	397	2,264
Other administrative expenses	1,687	334	104	70	199	(591)	1,803
Depreciation	55	45	15	3	23	68	209
Operating expenses	**2,733**	**933**	**413**	**171**	**152**	**(126)**	**4,276**
Loan impairment charges	12	117	41	(11)	(11)	-	148
Regulatory levies	139	81	11	4	11	-	246
Operating profit before tax	**742**	**638**	**342**	**126**	**(608)**	**(10)**	**1,230**
Income tax	192	179	96	30	(262)	(2)	233
Net profit	**550**	**459**	**246**	**96**	**(346)**	**(8)**	**997**
Cost/income ratio excluding regulatory levies (in %)	75.4%	52.7%	51.2%	59.0%	n.a.	n.a.	72.5%
Cost/income ratio including regulatory levies (in %)	79.2%	57.3%	52.5%	60.3%	n.a.	n.a.	76.6%
Loan impairment charges (in basis points of average private sector loan)	1	23	27	(25)	n.a.	n.a.	7
As per 31 December 2016							
External assets	289,110	155,743	31,797	9,625	176,318	n.a.	662,593
Goodwill	322	136	77	-	2	-	537
Private sector loan portfolio	282,426	108,053	27,632	5,956	484	-	424,551

1 Operating expenses divided by income.

2 Operating expenses plus regulatory levies divided by income.

3 Annualised loan impairment charges divided by 6-month average private sector loan portfolio.

4 Prior-year figures adjusted; see paragraph Changes in accounting principles and presentation.

Events after the reporting date

Redemption Notice NZD 900,000,000
Perpetual Non-Cumulative Capital Securities

After receiving the approval from the regulator we have announced on 8 August 2017 that we will redeem the NZD 900,000,000 perpetual non-cumulative capital securities on 9 October 2017 (the first business day after the first call date).

Review report

To: The Executive Board and Supervisory Board of Coöperatieve Rabobank U.A.

Introduction

We have reviewed the accompanying condensed consolidated interim financial information, page 52 to 72, for the six-month period ended 30 June 2017 of Coöperatieve Rabobank U.A., Amsterdam, which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the condensed consolidated statement of cash flows for the period then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes. The Executive Board is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope

We conducted our review in accordance with Dutch law, including standard 2410, Review of Interim Financial Information Performed by the Independent Auditor of the company. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information for the six-month period ended 30 June 2017 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union.

Amsterdam, 16 August 2017

PricewaterhouseCoopers Accountants N.V.

P.J. van Mierlo, RA

Executive Board responsibility statement

The Executive Board of Coöperatieve Rabobank U.A. (Rabobank) hereby declares that, to the best of its knowledge:

- the interim financial information gives a true and fair view of the assets, liabilities, financial position and profit of Rabobank, and the companies included in the consolidation;
- the interim report gives a true and fair view of the state of affairs as at the reporting date, and of the course of affairs during the first six months of the year at Rabobank and its affiliated entities whose information is included in its interim financial information;
- the interim report decribes the principal risks that Rabobank faces as well as a description of the principal risks and uncertainties for the last six months of 2017 with special focus being placed, unless detrimental to the bank's vital interests, on capital expenditures and on circumstances affecting developments in income and profitability.

W. Draijer, *Chairman*
B.C. Brouwers, *CFO*
R.J. Dekker, *COO*
P.C. van Hoeken, *CRO*
B.J. Marttin, *International Rural & Retail*
H. Nagel, *Retail Netherlands*
J.L. van Nieuwenhuizen, *Wholesale*

Utrecht, 16 August 2017

Colophon

Published by
Rabobank
Communications & Corporate Affairs

Annual reporting
Rabobank has published the following documents as part of its annual reporting in 2017:

- Management Report and Corporate Governance Report 2016
- Consolidated Financial Statements 2016 Rabobank
- Company Financial Statements 2016 Rabobank
- Capital Adequacy and Risk Management Report 2016 (Pillar 3)
- Interim Report 2017

These reports are available online at www.rabobank.com/annualreports and www.rabobank.com/jaarverslagen.

Contact
Rabobank has exercised the utmost care in the preparation of this Interim Report.
If you have questions or suggestions on how we can improve our reporting, please send them by email to jaarverslagen@rabobank.nl.

Rabobank
Croeselaan 18
P.O. Box 17100
3500 HG Utrecht
The Netherlands
T: +31 (0)30 216 0000
E: jaarverslagen@rabobank.nl

Interim Report 2017 Rabobank
August 2017
www.rabobank.com/annualreports

Rabobank