Interim Report 2016

Rabobank Group

Rabobank

Contents

General note for readers

Pages 1 to 56 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 57 to 76. 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	*30-06-2016 2016-I*	*31-12-2015 2015*	*30-06-2015 2015-I*	*31-12-2014 2014*	*30-06-2014 2014-I*
Financial position and solvency					
Equity	40,759	41,197	41,319	38,871	39,421
Common equity tier 1 capital	27,932	28,754	28,669	28,714	27,189
Tier 1 capital	35,070	35,052	34,997	33,874	32,249
Qualifying capital	49,192	49,455	46,542	45,139	42,614
Risk-weighted assets	209,136	213,092	216,708	211,870	216,181
Profit and loss account					
Income	5,803	13,014	6,927	12,889	6,398
Operating expenses	4,276	8,145	3,833	8,055	3,946
Contribution to resolution fund and resolution levy	181	172	121	321	214
Contribution to DGS	65	-	-	-	-
Bank tax and levy	-	172	-	167	-
Impairment losses on goodwill	-	623	600	32	-
Loan impairment charges	148	1,033	356	2,633	1,188
Income tax	209	655	495	(161)	(30)
Net profit	924	2,214	1,522	1,842	1,080
Ratios					
Common equity tier 1 ratio	13.4%	13.5%	13.2%	13.6%	12.6%
Fully loaded common equity tier 1 ratio	12.4%	12.0%	11.8%	11.8%	10.8%
Tier 1 ratio	16.8%	16.4%	16.1%	16.0%	14.9%
Total capital ratio	23.5%	23.2%	21.5%	21.3%	19.7%
Equity capital ratio	14.9%	14.7%	14.5%	14.4%	15.7%
Leverage ratio	5.1%	5.1%	5.1%	4.9%	4.6%
Loan-to-deposit ratio	1.24	1.25	1.32	1.32	1.36
Return on tier 1 capital	5.3%	6.5%	9.0%	5.2%	6.2%
ROIC	5.0%	6.0%	8.3%	-	-
Cost/income ratio excluding regulatory levies	73.7%	62.6%	55.3%	62.5%	61.7%
Cost/income ratio including regulatory levies	77.9%	65.2%	57.1%	66.3%	65.0%
Net profit growth[1]	-39.3%	20.2%	40.9%	-8.2%	-2.7%
Return on assets	0.28%	0.33%	0.45%	0.28%	0.32%
Ratings					
Standard & Poor’s	A+	A+	A+	A+	AA-
Moody’s Investors Service	Aa2	Aa2	Aa2	Aa2	Aa2
Fitch Ratings	AA-	AA-	AA-	AA-	AA-
DBRS	AA	AA	AA (high)	AA (high)	AA (high)
Volume of services					
Total assets[2]	686,593	670,263	674,734	681,086	679,106
Private sector loan portfolio[2]	427,348	426,047	434,252	429,731	433,155
Due to customers[2]	342,940	337,593	328,159	326,288	323,196
Wholesale funding	201,051	203,202	212,124	216,481	221,147

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

2 Rabobank has changed its accounting policy for the netting of cash pooling arrangements due to an agenda decision of the IFRS Interpretations Committee in March 2016. This change in accounting policy is accounted for retrospectively in the consolidated interim financial statements 2016 by reversing the netting that took place in 2015. In 2016 the netting procedures have been adjusted resulting in the netting of cash pools per June 2016. On page 2 to 56 of this report the comparable cash pool balances in total assets, loans and advances to customers and due to customers in 2015 are still presented on a net basis in order to provide consistent information with the netted balances per June 2016.

Key figures					
Amounts in millions of euros	*30-06-2016 2016-I*	*31-12-2015 2015*	*30-06-2015 2015-I*	*31-12-2014 2014*	*30-06-2014 2014-I*
Retail customers					
Net Promotor Score (NPS Recommendation)[1]	37	33	24	17	19
Customer Effort Score (CES Day-to-day banking)[2]	67	64	65	68	68
Customer Advocacy Score (CAS Recommendation)[3]	78%	76%	71%	61%	61%
Private banking customers					
Net Promotor Score (NPS Recommendation)[1]	43	37	32	29	24
Customer Effort Score (CES Day-to-day banking)[2]	69	64	66	68	65
Customer Advocacy Score (CAS Recommendation)[3]	82%	81%	74%	70%	65%
Business customers					
Net Promotor Score (NPS Recommendation)[1]	34	21	18	10	11
Customer Effort Score (CES Day-to-day banking)[2]	51	43	49	52	49
Customer Advocacy Score (CAS Recommendation)[3]	68%	62%	60%	53%	53%
Nearby					
Local Rabobanks	105	106	108	113	123
Branches	488	506	520	547	591
ATMs	2,192	2,206	2,236	2,305	2,352
Members (x 1,000)	1,932	1,945	1,953	1,959	1,954
Availability of internet payments & savings[4]	99.8%	99.8%	99.8%	98.9%	-
Availability of mobile banking[4]	99.8%	99.8%	99.8%	99.0%	-
Foreign places of business	393	403	428	440	766
Market shares (in the Netherlands)					
Mortgages	20%	20%	22%	22%	20%
Savings	35%	35%	35%	36%	37%
Trade, industry and services (TIS)	41%	42%	41%	39%	42%
Personnel					
Number of employees (internal and external in FTEs)	49,971	51,859	52,589	53,982	55,055

1 NPS: this shows how customers responded to the question: ‘Would you recommend us?’

2 CES: we use this to measure how customers experience their contact with the bank.

3 CAS: an indicator showing the extent to which we operate in the customer’s interest.

4 Average availability measured over 12 months.

Developments first half of 2016

Rabobank is in the midst of a fundamental transformation. In the first half of 2016 Rabobank took the first steps towards an integrated and coherent implementation of the Strategic Framework 2016-2020. Although much remains to be done and significant change always comes at a cost, we are successfully moving with focus towards achieving our core strategic objectives of excellent customer focus, balance sheet reduction and improving financial performance.

In the Netherlands our goal is to become the most customer-oriented bank in the country. We also aim to realise a sharp increase in customer satisfaction outside the Netherlands as well. After all, customer-orientation is the basis of our strength and distinctiveness given our cooperative heritage and convictions. We will also strengthen our capital position through more flexible utilisation of the balance sheet, for instance, by selling on loans to investors, and further intensifying our focus on core activities. This doesn't mean that we will grant fewer mortgages and business loans. On the contrary, our customer focus and improved local market operations will actually enable us to help customers even better by making optimal use of our knowledge and networks. In addition to a fundamental shift towards the customer and a far-reaching balance sheet reduction, there must be a structural and substantial improvement in performance.

Initiatives and trends in the first six months of the year demonstrate Rabobank's commitment to becoming the most customer-oriented cooperative bank for our members and customers in the Netherlands and worldwide. Even in uncertain times, the positive trend in customer satisfaction in 2015 as a whole continued to edge up across the board in the first half of 2016, bringing us closer to our goals.

In January 2016 the new governance model came into effect and has already proved its worth in enhancing the cooperative identity of Rabobank. We worked on a number of projects in the first half of the year to engage employees and customers in our ambition to make a sustainable contribution to welfare and prosperity in the Netherlands and to help resolve the global food issue. We are already reaping the rewards of these first projects and will continue to emphasise the importance of being a meaningful cooperative under the new governance model.

While these first steps have been crucial in managing the major transition the bank is undergoing to improve performance and increase efficiency, implementing the necessary changes inevitably entails painful consequences for our staff. Human Resources has initiated a number of projects to manage the transition smoothly and make strategic HR improvements.

The Strategic Framework 2016-2020 has been further detailed in an Implementation Agenda which outlines the dimensions of the thematic areas for achieving significant transformation: Complete Customer focus, Empowered employees, Rock-solid bank and Meaningful cooperative. The highlights for the first half of 2016 are given on the next few pages.

Strategic Framework 2016-2020: Implementation Agenda

Complete Customer focus

Customer satisfaction continues to rise

Satisfied customers are our top priority. The only way to achieve and maintain customer satisfaction is to put the customer's best interests first. We strive to provide our customers excellent service both online and offline, by always being nearby when they need us, and by acting as their financial linking pin. Our customer satisfaction scores for both wholesale and retail customers have increased significantly compared with 2015. The positive trend in customer satisfaction in 2015 as a whole continued to edge up across the board in the first half of 2016.

Customer feedback and ongoing insights into their needs are the starting point for all our product offerings. This continual feedback helps us to fulfil our strategic targets to be a customer-oriented cooperative bank with strong online and offline services for retail and wholesale customers.

More and better online options bring rewards

The Rabo Banking App is seeing continual improvements. Based on customer feedback, we added new functions in the past few months, improved its speed and changed its design. The Rabo Investment App received high marks by both consumers and experts in the Internet Broker Survey conducted by IEX Netprofiler in 2016. Our investment website (www.rabobank.nl/beleggen) also scored well.

Rabobank does not just sit back and watch how the world around the bank innovates, but takes the lead itself. That's the idea behind the Moonshot campaign: a quest for the most radical technological ideas of Rabobank employees around the world. The Moonshot Demo Day held in early April showed how employees' ideas will be able to help customers worldwide in the future. Last year's winning teams, GRPPY and Fync, were in attendance on the day to present their elaborated ideas. GRPPY is an app that enables consumers to keep track of and offset expenses using a virtual group kitty. Fync is an application for self-employed professionals and start-ups that integrates bank and accounting data into a single mobile application. Rabobank customers will be able to use Fync later this year, while GRPPY was introduced in mid-April.

We have adapted our payment packages to better respond to changing customer requirements. An online help tool now enables all customers to easily identify the package that best matches their payment requirements and from 1 April 2016 onwards we have reduced the charges for the most widely used payment package in the Netherlands, the Rabo Direct Package. We have also fine-tuned the starters' benefit package to better suit our customers' needs.

Ikgastarten.nl, more than 150,000 visitors per month, is the online community for start-ups and was the runner-up for the best B2B marketing award in early April 2016.

New initiatives launched in alternative sources of finance

In May 2016, Rabobank launched a pilot known as Rabo & Co in which SMEs borrow money from high net worth customers of the bank. This form of peer-to-peer lending supplements existing forms of financing such as regular bank credit and crowdfunding. For more information see Rabo & Co. We also help customers and promote economic development by offering financing solutions and by sharing knowledge and networks. For instance, our Meet and Grow events we enable clients looking for funding to connect with other parties interested in funding them.

Mortgage campaign offers 'mortgage within one week' and interest rate averaging

In May 2016, Rabobank launched the campaign 'mortgage within one week', which offers a rapid decision on residential mortgage applications. A variable income need not be an impediment to securing a mortgage within a week, even for self-employed persons. As of 1 July 2016, we are offering interest rate averaging for customers with an existing mortgage, in addition to the option of refinancing the loan with penalty interest.

Experiments bring us closer to customers

With a view to being and remaining nearby as advisers online and physically, we have been experimenting with various types of physical presence this year. We aim to increase the number of physical contact points to the symbolic number of 1,001, with each bank implementing this in line with local considerations and customers' requirements, for instance, consulting a mortgage adviser in a furniture store or exchanging views on a business plan in an entrepreneurs' café.

Rock-solid bank

Update in realisation of financial targets

The table below presents the ambitions of the Strategic Framework 2016-2020 and the actuals as at 30 June 2016. These targets are set in the context of a more flexible and reduced balance sheet.

Summary targets financial framework 2016-2020

Amounts in billions of euros		*Ambition 2020*	*30-06-2016*
Capital	Common equity tier 1 ratio	>14%	13.4%
	Total capital ratio	>25%	23.5%
Profitability	ROIC	>8%	5.0%
	Cost/income ratio (regulatory levies included)	53%-54%	77.9%
Funding and liquidity	Wholesale funding	<150	201

Capital

The fully loaded common equity tier 1 ratio – the common equity tier 1 capital as a percentage of the risk-weighted assets[1] – amounted to 12.4% (12.0%[2]) on 30 June 2016, an increase of 40 basis points. The transitional common equity tier 1 ratio was slightly lower at 13.4% (13.5%). The further phasing-in of CRD IV on 1 January 2016 had a negative impact of 40 basis points. This was more or less offset by inclusion of the interim profit 2016 minus dividend payments in common equity tier 1 capital, taking into account, for regulatory capital calculation purposes, the reversal of fair value adjustments of issued debt instruments related to changes in Rabobank's own credit spread included in the interim profit 2016. The total capital ratio – the qualifying capital related to the risk-weighted assets – amounted to 23.5% (23.2%). Higher profitability combined with a reduction of risk-weighted assets will lead to an improvement of the capital ratios in the coming years. Rabobank reached an agreement to sell its mobility solutions entity Athlon Car Lease International B.V. including all its subsidiaries. A Sale and Purchase Agreement was signed by both parties on 30 June 2016. The sale transaction is expected to be completed by the end of 2016, once all required approvals and consents have been obtained from the necessary regulatory authorities and other relevant bodies. As a result of the transaction, Rabobank's common equity tier 1 ratio is expected to improve by approximately 40 basis points. This impact had not yet been included in the capital ratios at 30 June 2016.

Profitability

The return on invested capital (ROIC) amounted to 5.0% (8.3%) in the first half of 2016. The ROIC is calculated by dividing the 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. The cost/income ratio including regulatory levies was 77.9% (57.1%). Both figures are distorted by several exceptional items, including provisioning for restructuring costs, provisioning for adopting the SME interest rate derivatives recovery framework in July 2016, volatile fair value items recognised in other results. If we correct for these exceptional items, the underlying cost/income ratio including regulatory levies slightly improved to 62.7% compared to the full-year 2015 (63.5%), but was higher than in the first half of 2015 (60.8%), for reasons including the contribution to the new DGS scheme. If we exclude the regulatory levies, the underlying cost/income ratio stood at 58.7% compared to 58.9% in the first six months of the previous year (60.8% for 2015). The continued successful execution of Vision 2016, the Mars programmes and Performance Now is needed to achieve the targeted performance improvement in the coming years.

Funding and liquidity

Wholesale funding amounted to EUR 201 (203) billion and total assets increased to EUR 687 (670) billion as at 30 June 2016. An increase of the balance sheet does not appear to be in line with the stated balance sheet reduction in the Strategic Framework 2016-2020. This increase can be largely explained by the low interest environment, which resulted in an increase of the value of derivatives and the hedge-accounting adjustment on Rabobank's loan portfolio.

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 56 the amounts in brackets ( ) are the comparative figures. Balance sheet items are compared with the position at year-end 2015. Items in the statement of income are compared with the first half of 2015.

Total assets

The BIS proposals of December 2014 (also known as 'Basel IV') are one of the drivers of the Strategic Framework 2016-2020. The initial BIS proposals implied a substantial increase in risk-weighted assets. In order to achieve our target of a common equity tier 1 ratio of at least 14% in 2020, a balance sheet and risk-weighted asset reducing strategy has been presented in the Strategic Framework. Rabobank continues to monitor the developments of new BIS regulations carefully and has taken note of substantial changes in the introduction of these proposals compared to December 2014, with timelines pushed further into the future. The final outcome of the new BIS rules will ultimately impact the size of the required balance sheet reduction, without changing Rabobank's other financial targets set for 2020. Rabobank is committed to a common equity tier 1 ratio of at least 14% in 2020.

A more flexible and reduced balance sheet will be achieved by the pass-through and sale of assets, taking parts of the mortgage and corporate loans portfolios off-balance and by making choices in the sectors which we serve.
In the first months of 2016 Rabobank executed several transactions to shrink its balance sheet. In March 2016, Rabobank sold a share of its mortgage portfolio worth EUR 1 billion to the insurance company VIVAT Verzekeringen and in July a share of EUR 500 million was sold to insurance company Delta Lloyd. Also in July, FGH Bank sold a portion of a portfolio of real estate loans and Obvion sold part of a portfolio of Dutch residential mortgages. In addition, Obvion reduced its balance sheet by securitising EUR 1 billion of its mortgage portfolio.
On 30 June 2016 DLL signed a purchase agreement with Daimler Financial Services with the intention to sell Athlon Car Lease, which will reduce the balance sheet by approximately EUR 4 billion in the second half of 2016. The regulatory capital in the real estate segment declined in the first half of 2016 as a result of the sale of their investment in the building 'De Rotterdam'. Balance sheet reduction will lead to lower risk-weighted assets, which will contribute to achieving the bank's capital targets.

Rabobank's credit ratings

During the first half of 2016 Rabobank's credit ratings and Outlook remained unchanged. The bank maintained its credit ratings, assigned by S&P ('A+'), Moody's ('Aa2'), Fitch ('AA-') and DBRS ('AA'), all with a 'Stable Outlook'. Rabobank has a large buffer of equity and subordinated debt, offering protection to non-subordinated bond holders, which is regarded an important rating driver by all the rating agencies.

The rating agencies view Rabobank's new governance structure, which came into effect on 1 January 2016, as a positive change because it allows the bank to reduce costs and inefficiencies while also increasing transparency.

Read more on Rabobank's credit ratings on Rabobank.com.

Capital strategy

Strong capital and liquidity buffers are key determinants of financial solidity. These buffers are vital prerequisites to maintaining a high credit rating and good access to professional funding in the capital markets. 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 payments to other non-controlling interests increases the share of retained earnings. While Rabobank does not seek to maximise profit, healthy profit growth is important for ensuring continuity and financial soundness. 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 expected consequences of Basel IV and the minimum requirement for own funds and eligible liabilities (MREL) obligations.

Empowered employees

Transition impacts all staff

By communicating with staff regularly on developments, Rabobank's senior staff is involved in managing the impact on staff of the major transition the bank is undergoing in order to improve performance and increase efficiency. This transition affects staff who are leaving the bank and those who are staying to implement the transition through to 2020. Vitality and motivation of the remaining staff are measured regularly as they form the basis of resilient employees. The bank encourages staff to be aware of ways in which to monitor and improve vitality, also in times of transition.

The Mobility Centre supports employees in finding a new job or starting their own business. Rabobank's Collective Labour Agreement (CLA) will expire at the end of this year. In order to provide employees clarity about how they will be supported if they are made redundant after 31 December 2016 and about the terms of severance that will apply, negotiations with trade unions on a new Social Plan in the new CLA were initiated at an early stage.

In accordance with the new governance structure of Rabobank as of 1 January 2016, a new employee participation structure was implemented on 1 July 2016, resulting in the Works Council Rabobank.

Empowered employees working well together are key to achieving the goals of Rabobank and to offering our customers excellent customer service. In the first half of 2016, there was a continued focus on projects contributing to strategic HR improvements, such as the development of the new global risk learning module, the redesign of performance management, talent and management development, diversity and an organisational culture change.

Risk learning module rolled out

In May 2016 Rabobank launched Rabobank Right, a new mandatory training to teach staff about non-financial risks and to increase risk awareness. The majority of the staff members in the Netherlands have completed the Introductory and Risk Awareness module. For more information, see the Risk section of this report.

Performance management being redesigned

We are redesigning our performance management process because the current lengthy process no longer addresses the needs of Rabobank and its staff. Feedback from colleagues and a continual, short-cycle dialogue with a positive yet critical and motivational basis are now being integrated into the performance management cycle.

New talent development programme underway

In March 2016, we kicked off the new international trainee programme for those designated as 'talent' for the future. It concentrates on rotation, assignments within various parts of the organisation, targeted career guidance and placement at the end of the first year of traineeship. The next group starts in September 2016 and includes trainees from our operations in Asia, London and New York.

Diversity initiatives for a better bank

We are convinced that diversity contributes to a better bank, both for our customers and for our employees. In the first half of 2016, we registered a slight increase in the proportion of women in senior management positions, from 18% to 19%. In addition, eight local Rabobanks and two central units agreed to pilot a long-term approach promoting cultural diversity. On 1 January 2016, half of our local Rabobanks employed one or more employees with a labour disability.

Culture process focuses on potential

We continued to embed the culture transition process in the organisation. In June 2016, the forum on Rock-solid bank and Empowered Employees was completed. This focused on ensuring that managers work from their own strengths so that they can help staff achieve their potential and put their expertise to work in the best interest of customers.

Meaningful cooperative

As of January 2016, the new governance structure has been implemented to enhance the cooperative identity of Rabobank. Based on external and internal dialogues, last year Rabobank formulated its domestic and international strategic pillars labelled 'Banking for the Netherlands' and 'Banking for Food', respectively. The Dutch cornerstone of the Strategic Framework 2016-2020 consists of three key themes: improving the national earnings capacity, stimulating an optimum life course for households and strengthening the living environment in communities. In all of these areas, Rabobank intends to support the liveability of the Netherlands in the broadest sense of the word. This approach reflects Rabobank's enduring commitment to the founding principles of the first credit cooperative in 1895, namely local self-organisation and orientation as well as contributing to the sustainable development of local communities.

The establishment of these central themes and the mapping of the associated issues and challenges determine the agenda for the dialogue between local member councils and supervisory bodies on the one hand, and Rabobank representatives on the other, for the next couple of years.

Many of the changes now underway at Rabobank reaffirm the cooperative and customer-oriented foundations on which the bank is built. We worked on a number of projects in the first half of the year to engage employees and customers in our ambition to make a sustainable contribution to welfare and prosperity in the Netherlands and to help resolve the global food issue.

Invested in local communities

We encourage staff to be active and visible in local communities and to participate in relevant local networks. A pilot project started in June 2016 to increase prosperity and welfare in the Netherlands under the title 'Invested in local communities' ('Aandeel in de buurt'). The website www.aandeelindebuurt.nl is an online platform to enable crowdfunding (financing) and crowdsourcing (knowledge network) of local initiatives with the help of Rabobank.

Examples of the projects are available on the website.

Guide for setting up cooperatives

In line with our belief that cooperative organisations contribute to a more sustainable society, we developed a step-by-step guide for how to set up a cooperative. The guide will be distributed by local Rabobanks to initiatives that are considering setting up a cooperative. The guide is accompanied by a workshop for local Rabobank staff. Recently Rabobank also held an introductory course for cooperative entrepreneurship with NCR (the Dutch representing body for cooperatives). In this way, Rabobank cooperative experts are helping organisations to establish viable and sustainable new cooperatives by offering them financial services and access to knowledge and networks.

Supporting customer sustainability efforts

In 2015, the European Investment Bank (EIB) and Rabobank introduced an impact loan for SMEs and midcaps in the Netherlands to help make their businesses more sustainable. In the first half of 2016, 47 companies took out an impact loan and the first tranche of EUR 50 million has been fully utilised. In June 2016, Rabobank received a second tranche of EUR 100 million EIB funds for new impact loans.

We encourage private homeowners to take energy-saving measures which improve the level of comfort, lower monthly energy bills and often increase the property value. In 2016, we developed an online house scan to help homeowners explore their energy-saving options.

Award for sustainability at work

In June 2016, Rabobank won the Lean & Green Award for Personal Mobility for its commitment to encourage sustainable mobility for employees and to reduce the CO_2 emissions per FTE by at least 20% in a five year time period.

Rabobank improves sustainability score

Rabobank improved its score in the sustainability ranking of RobecoSAM. In the global ranking list of RobecoSAM, Rabobank rose from 12th to 5th in the banks category with a score of 87 out of 100.

Sustainable food and agri supply chains

Rabobank's Client Councils network in Australia and New Zealand brings together primary producers to develop initiatives which improve the sustainability of agriculture, food supply and the rural communities in which they live and work. One initiative undertaken this year was the Farm Experience Program (FX), which promotes agriculture as an exciting career choice. FX gives city teenagers the opportunity to spend a week on a farm, living with a farming family and learning about food production. The participants also learn about the career options available in rural areas.

Read more on FX on Rabobank.com.

Global Farmers Master Class

Since its inception in 2012, Rabobank's successful Global Farmers Master Class concept has brought together some 170 leading farmers from all over the world. They connect, share and develop knowledge to rise to the challenge of feeding over 9 billion people in 2050. Last June, at the request of previous participants, Rabobank organised a Master Class specifically aimed at investigating ways to unlock Africa's food and agri potential to help guarantee a food-secure future.

Global Farmers.com

One initiative that resulted directly from the very first Global Farmers Master Class is the online platform Global Farmers. It is a unique global digital community for and by farmers, developed, facilitated and moderated by Rabobank, where farmers and growers from all over the world can connect with each other and consult Rabobank experts.

Startup Fest/F&A Next

Under the umbrella of its founder partnership of Europe's most premier innovation festival, Startup Fest, Rabobank co-organised F&A Next. F&A Next is the first ever European platform for investors, start-ups and scale-ups in the food and agri sector.

Rabobank Foundation

Rabobank Foundation is the social fund of Rabobank; it has been active for over 40 years in offering people a better outlook by making them self-sufficient. In the Netherlands, the Foundation finance programs are concerned with employability, financial self-reliance and sport. Abroad, Rabobank Foundation supports small-scale farmers and their cooperatives by giving them access to finance, know-how and networks. At the end of June 2016, Rabobank Foundation was supporting a total of 260 projects outside of the Netherlands with approximately 200 project partners. Rabobank Foundation chiefly supports producers organisations and savings and credit cooperatives across 22 countries. Of the local Rabobanks, 57 are involved in an 'adoption project' abroad, meaning they support Rabobank Foundation's project partner with a financial donation and/or expertise. In the Netherlands, the Rabobank Foundation was supporting 47 projects during the first half year of 2016. 55 local Rabobanks have joined a Rabobank Foundation project in the Netherlands.

Read more on our website about Rabobank Foundation.

Rabo Development

Today, around two billion adults worldwide are financially excluded, especially in rural areas. The agricultural sector, which in many developing parts of the world accounts for a large part of the economy, is often underserved by banks. As a leading global food and agri bank, Rabobank is determined to contribute to overcoming challenges and seizing opportunities. Together with our clients, partners and colleagues worldwide, we want to contribute to food security. This is embodied in our 'Banking for Food' strategy. Rabo Development has nine strategic partnerships with banks in East Africa and Latin America in which it holds a minority equity stake. These partnerships are based on that common ambition to improve financial inclusion and food and agri sector development, especially in rural areas. Rabo Development aims to support its partner banks in their growth, innovation and financial position with capital and Rabobank expertise, among others.

Read on our website more about Rabo Development.

Arise

On 4 August 2016 Rabobank, Norfund and FMO announced that they have entered into a partnership to reaffirm their long-term commitment to Africa's future development, growth potential and the local financial sector. The new company, to be named Arise, will start with a presence in over 20 countries, USD 660 million in assets and is anticipated to grow to USD 1 billion. Arise will take and manage minority stakes in African FSPs.

More information about Arise on Rabobank.com.

Performance

Rabobank Group

Rabobank Group booked net profit of EUR 924 million

In the first six months of 2016 the Dutch economy continued the growth which started in 2014. Both exports and household spending rose and, with the Dutch economy expected to grow by 1.75% in 2016, businesses were increasingly willing to invest in expansion. Growth in other economies also picked up, albeit at a slower pace. The private sector loan portfolio grew by EUR 1.3 billion to EUR 427.3 billion. The growth of the loan portfolio was tempered by the sale of part of the residential mortgage portfolio worth EUR 1 billion held previously at the local Rabobanks. Also, Rabobank's exposure to commercial real estate was further lowered. Amounts due to customers increased by EUR 5.3 billion to EUR 342.9 billion. Private savings declined slightly.

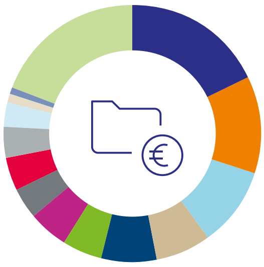
Generally, our customers fared well in the first half of 2016, which reflected positively on Rabobank's loan impairment charges. The economic upturn had a definite impact on loan impairment charges, which decreased by a further EUR 208 million from the already low level in the first half of 2015. Loan impairment charges amounted to EUR 148 million or 7 basis points of the average loan portfolio. The long-term average was 36 basis points.

The net profit of Rabobank Group in the first half of 2016 was EUR 924 million, a decrease of EUR 598 million on the same period last year. The decrease in net profit is the result of, among others, higher administrative expenses due to the additional provision for adopting the SME interest rate derivatives recovery framework and due to higher restructuring costs. Other income was mainly lower due to volatile fair value items (the results on hedge accounting and structured notes). In the first half of 2015, an impairment on goodwill with regard to RNA in the United States lowered net profit by EUR 600 million. Furthermore, the increase in the contribution to the resolution fund and our inaugural contribution to the Deposit Guarantee Scheme (DGS) affected net profit negatively.

The underlying operating profit before tax was EUR 2,123 million, a decrease of EUR 54 million on the same period last year. In calculating this underlying profit a correction was made for the provision for interest rate derivatives, restructuring costs, hedge accounting and structured notes, and the goodwill impairment for RNA.

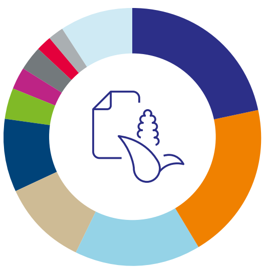
The ROIC amounted to 5.0%. Qualifying capital was strengthened by retained earnings and the issue of additional tier 1 capital. The common equity tier 1 ratio amounted to 13.4% and the capital ratio rose to 23.5%. The liquidity buffer, measured by High Quality Liquid Assets (HQLA), stood at EUR 98 billion.

Loan portfolio TIS by industry
mid 2016



Lessors of real estate	18%
Finance and insurance, except banks	12%
Wholesale	10%
Professional, scientific and technical services	7%
Manufacturing	7%
Transport and warehousing	5%
Health care	5%
Activities related to real estate	4%
Construction	4%
Retail non-food	4%
Utilities	3%
Information and communications	1%
Art, recreation	1%
Other	18%

Loan portfolio food and agri by industry
mid 2016



Dairy	22%
Grain and oil seeds	20%
Animal protein	16%
Fruit and vegetables	11%
Farm inputs	9%
Food retail and food service	4%
Beverages	3%
Sugar	3%
Flowers	2%
Various crops	2%
Other	8%

Limited growth in private sector loan portfolio

Early repayments on residential mortgage loans contributed to a decrease of the loan portfolio of the local Rabobanks and the loan portfolio at real estate financier FGH Bank was also reduced. The loan portfolio of Wholesale, Rural & Retail (WRR) grew, due to, among others, growth in the rural banking portfolio. The private sector loan portfolio also increased as result of a strong asset growth at the Trade & Commodity Finance business unit. At DLL, our leasing subsidiary, the loan portfolio increased on the back of better economic conditions. In aggregate, the private sector loan portfolio at Group level increased by EUR 1.3 billion to EUR 427.3 (426.0) billion in the first half of 2016.

Loan portfolio		
in billions of euros	*30-06-2016*	*31-12-2015*
Total loans and advances to customers	**463.7**	**458.5**
of which to governments clients	4.0	3.4
Reserve repurchase transactions and securities borrowings	21.5	20.1
Interest rate hedges (hedge accounting)	10.9	9.0
Private sector loan portfolio	**427.3**	**426.0**

The breakdown of the loan portfolio was: 73% in the Netherlands, 10% in North America, 3% in Latin America, 7% in Europe (outside the Netherlands), 5% in Australia and New Zealand and 2% in other countries.

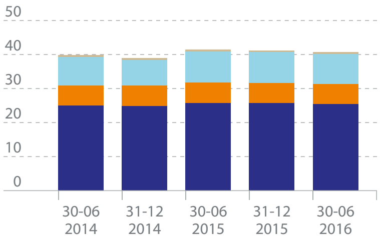
Loan portfolio by sector		
in billions of euros	*30-06-2016*	*31-12-2015*
Volume of loans to private individuals	204.3	207.9
Volume of loans to trade, industry and services	124.7	120.3
of which in the Netherlands	89.7	87.3
of which in other countries	35.0	33.0
Volume of loans to food and agri	98.2	97.8
of which in the Netherlands	36.4	35.1
of which in other countries	61.8	62.7
Private sector loan portfolio	**427.3**	**426.0**

The loan portfolio consisted of 48% of loans to private individuals, 29% of loans to trade, industry and services (TIS) and 23% of loans to the food and agri sector. The following figures represent the breakdown of the TIS and food and agri portfolios by industry.

Increase in amounts due to customers

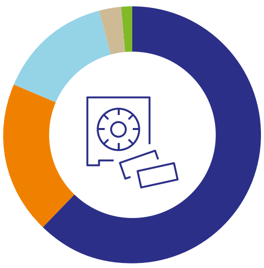
In the first half of 2016, amounts due to customers at Rabobank Group stood at EUR 342.9 (337.6) billion. Amounts due to customers in domestic retail banking increased by EUR 7.0 billion to EUR 219.4 (212.4) billion; at WRR amounts due to customers fell by EUR 1.5 billion to 122.9 (124.4) billion. Private savings constitute the most important component of amounts due to customers. Among others, extra repayments on mortgage loans affected private savings, which decreased by EUR 1.1 billion to EUR 139.4 (140.5) billion.

Equity
in billions of euros



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

Composition of equity
mid 2016, in billions of euros



Retained earnings and reserves	25.4
Capital Securities	7.8
Rabobank Certificates	5.9
Trust Preferred Securities	1.1
Other non-controlling interests	0.5

Amounts due to customers		
in billions of euros	*30-06-2016*	*31-12-2015*
Total amounts due to customers	**342.9**	**337.6**
Private savings	**139.4**	**140.5**
Domestic retail banking	118.6	117.0
Wholesale banking and international rural and retail banking	20.8	23.5
Other amounts due to customers	**203.5**	**197.1**
Domestic retail banking	100.7	95.4
Wholesale banking and international rural and retail banking	102.1	100.9
Other group entities	0.7	0.8

Decrease of equity

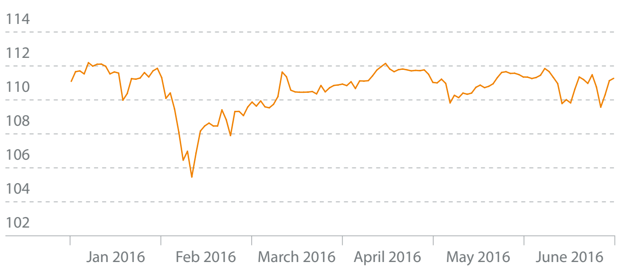
Rabobank Group's equity decreased by EUR 0.4 billion to EUR 40.8 (41.2) billion in the first half of 2016. In April equity increased as a result of a EUR 1.25 billion additional tier 1 issue. Equity decreased by 1.8 billion in May because 2 billion US dollar Capital Securities which were redeemed on 27 July 2016 have been classified as wholesale funding since the call notification. The reserve capacity – the amount of net profit that can be added to capital – amounted to EUR 0.3 billion at 30 June 2016. Rabobank Group's equity consisted of 62% (62%) retained earnings and reserves, 15% (15%) Rabobank Certificates, 22% (22%) hybrid capital and subordinated capital instruments and 1% (1%) other non-controlling interests.

Development of equity	
in millions of euros	
Equity at the end of December 2015	**41,197**
Comprehensive income	839
Payments on certificates and hybrid capital	-658
Issue of additional tier 1 capital	1,250
Call of Capital Securities	-1,797
Other	-72
Equity at the end of June 2016	**40,759**

Rabobank Certificates

Rabobank Certificates are listed on Euronext Amsterdam. In the first half of 2016, the closing price fluctuated between 105.48% (lowest price on 11 February 2016 – connected to the turmoil in China at that time) and 112.22% (highest price on 8 January 2016). The price on 30 June 2016 was 111.30% (31 December 2015: 111.58%).

Rabobank Certificates



Negative interest rate on ECB deposit facility

In March 2016, the Governing Council of the European Central Bank (ECB) decided to further decrease the interest rate on its deposit facility. The monetary policymakers in the eurozone reduced the rate that had been effective since 9 December 2015 by a further 0.1 percentage point, taking the interest rate to -0.40%. The negative deposit rate implies that banks have to pay interest if they hold surplus funds overnight at the ECB.

The negative deposit interest rate also causes negative rates for Eonia and Euribor. Since the interest rates on some Rabobank products are linked to Eonia and Euribor, some customer groups do not receive any interest and instead have to pay interest on the credit balances they hold at the bank. These groups consist of a relatively small number of clients – primarily financial institutions and large corporate organisations – that hold surplus funds at Rabobank for a short period.

Additional provision for interest rate derivatives recovery framework

Approximately 9,000 of Rabobank's 800,000 SME customers had one or more interest rate derivatives in place between 1 April 2011 and 1 April 2014. During 2014 and 2015, these interest rate derivatives were subject to a reassessment process. The reassessment on a case by case basis was close to being finalised in December 2015, in accordance with an agreement with the Netherlands Authority for the Financial Markets (AFM). In December 2015, however, Rabobank and others received notice that, according to the AFM, the interest rate derivatives reassessment conducted by Rabobank had been insufficient and that the AFM had identified flaws in its own scrutiny of reassessments. In the first two months of 2016, Rabobank consulted with the AFM in order to reach an appropriate solution. In March 2016, the Minister of Finance in the Netherlands appointed an independent committee (the Dutch Derivatives Committee), which published its advice and uniform Recovery Framework on 5 July 2016. Rabobank's decision to adopt the Recovery Framework, which was announced on 7 July 2016, resulted in Rabobank taking an additional provision of EUR 514 million in the other administrative expenses of its 2016 interim figures for this issue. The decision was informed by Rabobank's wish to take responsibility and work towards a rapid solution for its customers, and by its awareness of the extent of public support for the framework.

More information can be found on Rabobank.com.

In the first half of 2016, publicity surrounding interest rate derivatives sold to SMEs during 2011 and 2014 and restructuring plans were perceived as negative, which had a downward impact on our reputation score. Among Rabobank clients, a more modest recovery has taken place since February 2016. Usually, our own clients rate Rabobank's reputation significantly higher than the general public does. The most positive reputation drivers for Rabobank are the financial performance, products and services. The awareness of Rabobank being a cooperative remained high, at a score of 76%.

***Bank reputation in the Netherlands*[1]**

	First half 2016	*Annual average 2015*	*Annual average 2014*
Rabobank as a cooperative			
Familiarity with Rabobank as a cooperative	76%	79%	78%
Positive valuation of Rabobank as a cooperative	47%	49%	52%
Rabobank image			
Reliable	No. 1: 33%	No. 1: 33%	No. 1: 33%
Lead on number 2	3 percentage points	5 percentage points	5 percentage points
Bank preference			
Rabobank Preference	No. 1: 46%	No. 1: 46%	No. 1: 48%
Lead on number 2	2 percentage points	2 percentage points	4 percentage points

Development of capital ratios

The Capital Requirements Regulation (CRR) and the Capital Requirements Directive IV (CRD IV) collectively form the European conversion of the Basel capital and liquidity agreement of 2010 (Basel III). These regulations have applied to Rabobank since 1 January 2014. The regulations will be phased in over a number of years. The fully loaded common equity tier 1-ratio is the common equity tier 1 (CET1) ratio, assuming that CRD IV has already been fully phased in. The fully loaded common equity tier 1 ratio reached 12.4% (12.0%) at 30 June 2016. The actual (or transitional) CET1 ratio as of 30 June 2016 was 13.4% (13.5%). This ratio was at a somewhat lower level than at year-end 2015 due to the phasing in of CRD IV. The latter entails that various adjustments are to be made to regulatory capital on 1 January of each year during the transition period.

1 Figures are based on a survey by research agency No Ties. Every year, over 7,500 people in the Netherlands are interviewed about the reputation of the country's various banks. They are asked which reputation indicators they associate most strongly with which banks (multiple answers are possible). This results in scores for the banks on each of the various reputation indicators.

The leverage ratio is the tier 1 capital divided by balance sheet positions and off-balance-sheet liabilities and is calculated based on the definitions in CRR/CRD IV. At 30 June 2016, the fully loaded leverage ratio stood at 4.1% (3.9%). The actual (or transitional) leverage ratio at 30 June 2016 stood at 5.1% (5.1%). The actual leverage ratio is well above the minimum leverage ratio of 3% according to the Basel III guidelines.

Capital ratios			
Amounts in millions of euros	*30-06-2016*	*01-01-2016*	*31-12-2015*
Retained earnings	25,258	25,482	25,482
Expected dividends	-38	-126	-126
Rabobank Certificates	5,949	5,949	5,949
Non-controlling interests	23	23	23
Reserves	129	224	224
Deductions	-5,160	-5,668	-5,539
Transition guidance	1,771	1,884	2,741
Common equity tier 1 capital	**27,932**	**27,768**	**28,754**
CRD IV compliant instruments	2,726	1,488	1,488
Grandfathered instruments	5,462	5,462	6,373
Non-controlling interests	5	5	5
Deductions	-66	-76	-76
Transition guidance	-990	-1,017	-1,492
Total additional tier 1 capital	7,137	5,862	6,298
Tier 1 capital	**35,070**	**33,629**	**35,052**
Subordinated debts	14,588	15,078	15,078
Non-controlling interests	7	6	6
Deductions	-81	-85	-85
Transition guidance	-392	-420	-596
Qualifying capital	**49,192**	**48,208**	**49,455**
Risk-weighted assets	**209,136**	**212,768**	**213,092**
Common equity tier 1 ratio (transitional)	13.4%	13.1%	13.5%
Common equity tier 1 ratio (fully loaded)	12.4%	12.0%	12.0%
Tier 1 ratio	16.8%	15.8%	16.4%
Total capital ratio	23.5%	22.7%	23.2%
Equity capital ratio	14.9%	14.8%	14.7%

The CRR has a number of CET1 deductible items, such as deferred tax assets and the internal ratings-based (IRB) shortfall (this is the difference between the IRB expected loss and the actual level of credit provisions), which are gradually being introduced over the 2014 to 2018 period.

In the first half of 2016, the CET1 ratio decreased by 0.1 percentage points to 13.4% (13.5%) due to a decrease of CET1 capital. In early 2016, the reduction in CET1 capital was due mainly to the phasing-in of adjustments in the CET1 capital. This is shown in the 01-01-2016 column in the table above. The profit for the first half year of 2016 minus payments on capital instruments was added to the CET1 capital.

The additional tier 1 instruments issued by Rabobank prior to 2014 do not meet the CRR conditions. In line with the regulations, these instruments will gradually cease to qualify as capital instruments. In April 2016, Rabobank issued EUR 1.25 billion of additional tier 1 instruments, which meet the CRR conditions. The total capital ratio rose by 0.3 percentage points to 23.5% (23.2%). This is excluding the USD 1.5 billion issue of tier 2 instruments in July 2016. On a pro-forma basis the latter adds 0.6 percentage points to the total capital ratio.

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

Rabobank wishes to mitigate the risk of bail-in of creditors and depositors as far as possible by holding a large buffer of equity and subordinated loans that will be called upon first. Only thereafter will non-subordinated creditors, whose claims are not covered by collateral, have to contribute to losses if the bank gets into difficulties. Rabobank defines the bail-in buffer more closely as retained earnings, other reserves, Rabobank Certificates, hybrid and subordinated debt instruments and other debt instruments, the so-called Senior Contingent Notes. Negative FX effects contributed to a decrease of the bail-in buffer from EUR 57.4 billion to EUR 56.6 billion. This corresponds to approximately 27% (27%) of the risk-weighted assets. In July 2016, the USD 1.5 billion issue of tier 2 instruments contributed positively to the bail-in buffer.

Bail-in buffer		
Amounts in billions of euros	*30-06-2016*	*31-12-2015*
Retained earnings and other reserves	25.4	25.6
Rabobank Certificates	5.9	5.9
Hybrid capital instruments	8.9	9.1
Subordinated liabilities	15.2	15.5
Senior Contingent Notes	1.2	1.3
Bail-in buffer	**56.6**	**57.4**
Risk-weighted assets	209.1	213.1
Bail-in buffer / risk-weighted assets	27.1%	26.9%

Regulatory capital, the external capital requirement, decreased

Mid-2016 regulatory capital (or external capital requirement) of Rabobank Group amounted to EUR 16.7 (17.0) billion, of which 86% related to credit and transfer risk, 12% to operational risk and 2% to market risk. Regulatory capital decreased by EUR 0.3 billion, mainly due to a reduction in the capital required for credit risk. Credit risk mainly decreased to the reduction of real estate exposures and various relative small movements.

Rabobank Group 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 the Standardised Approach is applied to portfolios with relatively limited exposure and to a few smaller portfolios outside the Netherlands that are unsuitable for the Advanced IRB approach. Operational risk is measured using an internal model that is based on the Advanced Measurement Approach and is approved by the supervisor. Regarding market risk, 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.

Economic capital, the internal capital requirement, decreased

In addition to regulatory capital, Rabobank Group uses an internal capital requirement based on an economic capital framework. The main difference between this and the regulatory capital is that our calculation of the economic capital takes account of all the tangible risks for which Rabobank has to hold capital. Rabobank also assumes a higher confidence level (99.99%) than is used for regulatory capital (99.90%).
A broad spectrum of risks is measured consistently to gain an understanding of these risks and to enable a rational balance of risk against return. A series of models has been developed to assess the risks incurred by Rabobank Group. These include credit, transfer, operational, business, interest rate and market risks. Market risk breaks down into trading book, private equity, currency, real estate and residual value risks.

Economic capital by business segments

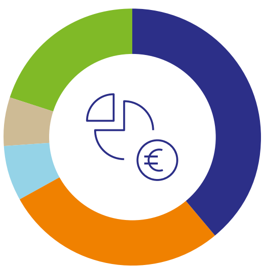
Amounts in billions of euros	*Economic capital*	
	2016-I	*31-12-2015*
Domestic retail banking	9.7	10.1
Wholesale banking and international rural and retail banking	7.8	7.7
Leasing	2.1	2.0
Real estate	1.2	1.4
Other	5.6	5.5
Rabobank Group	**26.4**	**26.7**

The economic capital decreased to EUR 26.4 (26.7) billion compared to year-end 2015. The developments in the economic capital for credit risk, market risk and operational risk are in line with the developments in the regulatory capital.

Qualifying capital increased

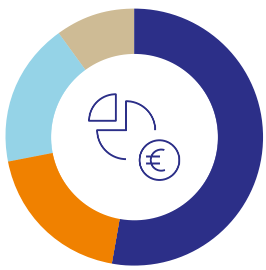
The available qualifying capital of EUR 49.2 (49.5) billion that the bank retains to absorb potential losses was well above the level of the total external (regulatory) and internal (economic) capital requirements. This sizeable buffer underlines the financial solidity of Rabobank Group.

Economic capital by group entity
mid 2016



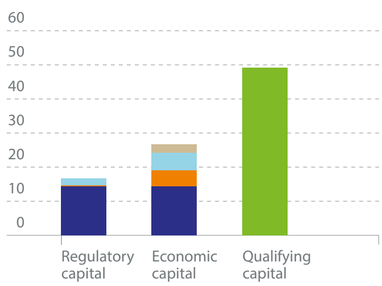
■	Domestic retail banking	37%
■	Wholesale banking and international rural and retail banking	30%
■	Leasing	8%
■	Real estate	4%
■	Other	21%

Economic capital by risk category
mid 2016



■	Credit and transfer risk	54%
■	Operational and business risk	19%
■	Interest rate and market risk	17%
■	Other risks	10%

Capital requirements
mid 2016, in billions of euros



Other risks
Operational and business risk
Interest rate and market risk
Credit and transfer risk

Financial results of Rabobank Group

Results			
Amounts in millions of euros	*30-06-2016*	*30-06-2015*	*Change*
Net interest income	4,375	4,482	-2%
Net fee and commission income	982	962	2%
Other income	446	1,483	-70%
Total income	**5,803**	**6,927**	**-16%**
Staff costs	2,264	2,407	-6%
Other administrative expenses	1,803	1,214	49%
Depreciation	209	212	-1%
Total operating expenses	**4,276**	**3,834**	**12%**
Gross result	**1,527**	**3,093**	**-51%**
Impairment losses on goodwill	-	600	-
Loan impairment charges	148	356	-58%
Contribution to resolution fund	181	121	50%
Contribution to DGS	65	-	-
Operating profit before tax	**1,133**	**2,017**	**-44%**
Income tax	209	495	-58%
Net profit	**924**	**1,522**	**-39%**
Loan impairment charges (in basis points)	7	16	-56%
Ratios			
Cost/income ratio exclusive regulatory levies	73.7%	55.3%	
Cost/income ratio inclusive regulatory levies	77.9%	57.1%	
Return on tier 1 capital	5.3%	9.0%	
ROIC	5.0%	8.3%	
Balance sheet (amounts in billions of euros)	*30-06-2016*	*31-12-2015*	
Total assets	686.6	670.3	2%
Private sector loan portfolio	427.3	426.0	0%
Due to customers	342.9	337.6	2%
Capital requirements (amounts in billions of euros)			
Regulatory capital	16.7	17.0	-2%
Economic capital	26.4	26.7	-1%
Qualifying capital	49.2	49.5	-1%
Capital ratios			
Total capital ratio	23.5%	23.2%	
Tier 1 ratio	16.8%	16.4%	
Common equity tier 1 ratio	13.4%	13.5%	
Fully loaded common equity tier 1 ratio	12.4%	12.0%	
Common equity tier 1 ratio local Rabobank Group	16.4%	16.0%	
Number of internal employees (in FTEs)	44,201	45,658	-3%
Number of external employees (in FTEs)	5,770	6,201	-7%

Notes to the financial results of Rabobank Group

Net profit EUR 924 million

The net profit of Rabobank Group decreased by 39% in the first half of 2016 to EUR 924 (1,522) million. The decrease in net profit is, among others, the result of higher administrative expenses due to the additional provision for adopting the SME interest rate derivatives recovery framework and due to higher restructuring costs. Other income was mainly lower due to volatile fair value items (the results on hedge accounting and structured notes). In the first half of 2015, an impairment on goodwill with regard to RNA in the United States lowered net profit by EUR 600 million. Furthermore, the increase in the contribution to the resolution fund and our inaugural contribution to the DGS affected net profit by EUR 93 million. Rabobank Group retained EUR 270 million of its net profit to bolster its capital. Tax amounted to EUR 209 (495) million, with the effective tax burden amounting to 18% (25%). In the first half of 2015 the tax burden was relatively high as result of the goodwill impairment for RNA.

Income down 16%

Net interest income down 2%

Total income of Rabobank Group decreased by 16% in the first half of 2016 to EUR 5,803 (6,927) million. Net interest income decreased to EUR 4,375 (4,482) million. For domestic retail banking a lower net interest income was caused by a lower average loan portfolio at local Rabobanks, and lower margins on payment accounts compared to the same period last year. At wholesale banking and international rural and retail banking, net interest income decreased in the first half of 2016, impacted by lower results within the treasury area. Net interest income at DLL was stable and at FGH Bank the decrease in the loan portfolio resulted in lower net interest income in the real estate segment.

Net fee and commission income up 2%

Net fee and commission income increased by 2% to EUR 982 (962) million in the first half of 2016. At the local Rabobanks, commission on payment services increased. At WRR, net fee and commission income increased in line with the strategy of more fee generating business and as result of growth of the loan portfolio. Also at DLL, the growth of the loan portfolio resulted in higher net fee and commission income. The rise was tempered by the fall in net fee and commission income from the real estate segment, where the demerger of Fondsenbeheer Nederland in the first half of 2015 pushed up net fee and commission income.

Other income down 70%

Other income decreased by 70% to EUR 446 (1,483) million in the first half of 2016 due to a number of factors. The gross result due to imperfections and restrictions in the application of hedge accounting and the gross result on structured notes decreased by EUR 752 million compared to the same period last year. Hedge accounting can be applied under IFRS in order to mitigate P&L volatility in the consolidated statement of income. The P&L volatility is caused by valuation and classification differences between available-for-sale assets measured at fair value, loans granted and issued debt measured at amortised cost on the one hand, and related hedging derivatives measured at fair value through profit and loss on the other. IFRS does not allow the designation of hedge accounting relationships for all types of economic hedges. As a result of these imperfections and restrictions in the application of hedge accounting, even when the risk is economically fully hedged, the P&L volatility cannot be completely prevented by applying hedge accounting. Structured notes are issued notes with optionality and/or other embedded derivatives which are mainly linked to interest rates, inflation and equity, or have a callable feature and are issued in a wide range of currencies. The primary objective is to raise long-term funding under favourable conditions compared to the larger public bond issues. This is possible as structured notes are sold to investors and structured at their request ('reverse enquiry'). Furthermore, issuance of structured notes diversifies Rabobank's funding profile and allows for issuing with non-standard terms.

Because of the embedded derivatives, fair value accounting is applied to these notes. Under IFRS the fair value must include the impact of changes in the own credit risk. Although all structured elements are fully hedged, movements in Rabobank's own credit spread can still lead to a profit or loss. Credit spreads are a function of the perceived creditworthiness of Rabobank, but also of sector-specific events, home country events and the broader macro-economic outlook, so can be rather volatile. Furthermore, issuance below secondary market levels can lead to first day profits, reflecting the comparative funding advantage. Despite significant first day gains on several newly issued notes, a net loss was reported for structured notes in the first half of 2016 which was mostly driven by a steep drop in interest rates[1] spurred by Brexit and a tightening of Rabobank's own credit spread. This stood in contrast to the first half of 2015, driven by the Greek turmoil, when a widening of the credit spreads resulted in a net gain.

Furthermore, at WRR other income had been particularly high in the first half of 2015 as result of positive revaluations in the private equity portfolio and the sale of most of Rabobank's interest in Agricultural Bank of China. Other income at WRR decreased to regular levels in the first half of 2016. The decrease was only partly offset by the increase in other income at the local Rabobanks due to the sale of a part of their mortgage portfolio. Finally, the results from our participation in Achmea deteriorated in the first half of 2016 due to extreme weather events and higher healthcare expenses.

Operating expenses up 12%

Staff costs down 6%

In the first half of 2016 total operating expenses increased by 12% to EUR 4,276 (3,834) million, in particular due to an increase in other administrative expenses. The total number of employees (including external hires) at Rabobank Group decreased by 1,888 FTEs to 49,971 (51,859) FTEs. The largest reduction in staff numbers was at the local Rabobanks. In addition, fringe benefits were sobered. These developments caused staff costs to fall by 6% to EUR 2,264 (2,407) million.

Other administrative expenses up 49%

Other administrative expenses increased by 49% to EUR 1,803 (1,214) million in the first half of 2016. Restructuring costs amounted to EUR 190 (26) million in the first half of 2016. These were incurred mostly for redundancies at local Rabobanks, Rabobank Nederland and, to a lesser extent, FGH Bank. Furthermore, an additional provision of EUR 514 (0) million was made in the first half of 2016 after Rabobank adopted the SME interest rate derivatives recovery framework. These movements were only partly levelled out by a provision release for legal claims at WRR.

Depreciation down 1%

As a result of lower depreciation on intangible assets, depreciation fell by 1% to EUR 209 (212) million.

Loan impairment charges at 7 basis points

With EUR 148 (356) million in the first half of 2016, the loan impairment charges were lower than in the previous two six-month periods (second and first half of 2015), with improvements primarily in wholesale and international retail banking, in domestic retail banking and in the real estate segment. The main reason for this is that the economic recovery has resulted in fewer new defaults. Other factors contributing to this positive development include the recovery of existing defaults, foreclosures at better than anticipated collateral values as well as adequate existing allowances. Relative to the average private sector loan portfolio, loan impairment charges amounted to 7 (16) basis points with a long-term average (2006-2015) of 36 basis points.

Disclosures required under Section 5:25d of the Dutch Financial Supervision Act

In addition to listing key events that occurred in the first half of 2016 and their impact on the interim financial information, this interim report also describes the principal risks and uncertainties affecting the second half of 2016. No significant events or transactions occurred during the first half of 2016, other than those disclosed in this report. Details of Rabobank's expectations for the six months ahead are given in the section 'Principal risks and uncertainties in the six months ahead'.

Principal risks and uncertainties in the six months ahead

In the second half of 2016 there are a number of risks and uncertainties for Rabobank Group that may have a material effect on its earnings, capital position and/or liquidity position. Rabobank expects its customers to continue to make extra repayments on their mortgage loans as a result of the low interest environment. A slight contraction of lending at the local Rabobanks is therefore expected during the remainder of this year. Also, due to the additional mortgage loan repayments and spending of the holiday allowances received in May, a limited decrease in amounts due to customers is expected for the second half of this year.

As in the first half of 2016, the low interest rate environment will require extra attention in the second half of 2016. For a bank in general, a low interest rate environment is challenging for profitability. Non-interest bearing liabilities and liabilities with zero or very low interest rates (such as equity and current account balances) are less profitable when interest rates are low. In the first half of 2016 interest rates became increasingly negative, both at the short and the longer end of the curve. In addition, an environment of low interest rates 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. The introduction of interest rate averaging ('rentemiddeling') as a new option for our mortgage

1 Sensitivity to interest rates predominantly lies in callable notes. Decreasing interest makes it more likely that the call option will be exercised, decreasing the expected life of the note. Given an upward sloping credit spread curve, a shorter-than-expected life corresponds with a lower point on the credit curve, negatively impacting P&L.

lenders will have a negative effect on our interest income in the second half of 2016. The amount will depend on the number of clients that make use of this option.

In line with previous years, the bank tax will involve an additional expense in the fourth quarter. The amount of the bank tax is expected to be in line with the 2015 charge. In the second half of 2016, expenses related to the Deposit Guarantee Scheme are expected to be in line with those in the first half.

Rabobank intends to minimise the volatility in its income statement by using the option of IAS 39 hedge accounting to mirror the economic reality of the fact that most of Rabobanks interest rate and FX risks are largely mitigated. Application of the IFRS option will limit the volatility to a large extent, but ineffectiveness cannot be ruled out completely. Another volatile factor stems from the fair value accounting for structured notes, which depend on the development of Rabobanks' own credit spreads as well as the interest rate.

On the back of the economic upturn, loan impairment charges were relatively low in the first six months of 2016. Rabobank expects a sustainable improvement of the quality of its loan portfolio and a reduction of loan impairment charges compared with full-year 2015. However, an economic downturn in the Netherlands could lead to a substantial increase in loan impairment charges. Furthermore, margins are subject to pressure from increasing capital requirements and are leading to lower returns on equity in the banking sector. Long-term measures are being taken to manage operating costs and to improve net profit.

Rabobank is involved in a number of legal and arbitration proceedings, as listed in the notes to the primary financial statements. Any of these proceedings may lead to additional costs in the remainder of 2016. Whether and when these proceedings might lead to additional costs remains uncertain.

Other risks relate to far-reaching geopolitical situations, such as those in Syria and Turkey. Although Rabobanks direct exposure to clients in the UK is limited, Brexit could have an indirect negative effect on the Dutch economy. Developments in financial markets and their consequences on the real economy could impact Rabobank Group's results. Rabobank is expecting economic growth of 1.75% in the Netherlands and growth in the global economy in 2016. Should the economy nonetheless contract, commodity prices change significantly, and/or sentiment on the stock exchanges deteriorate, it could affect lending, the valuation of (illiquid) assets and the potential for raising customer deposits, issuing debt paper or raising or redeeming hybrid capital. An economic downturn could lead to a substantial decline in net interest income and increased write-downs of (illiquid) assets.

Domestic retail banking

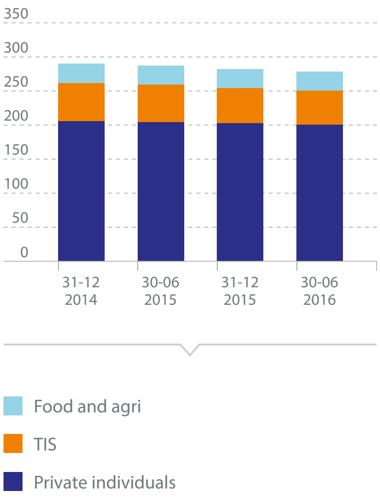
Strong underlying profit

In the first half of 2016, both exports and household spending rose. With the Dutch economy expected to grow by 1.75% in 2016, businesses were increasingly willing to invest in expansion. However, Rabobank's domestic loan portfolio shrank by 1% to EUR 278.5 billion due to the sale of a part of the mortgage portfolio and the relatively high level of extra repayments on mortgages. Amounts due to customers rose by 3% to EUR 219.4 billion.
The Dutch housing market showed strong sales and prices kept rising. The market share of Rabobank and Obvion in the Dutch residential mortgage market was 19.7%. The market share in lending to the trade, industry and services (TIS) sectors fell from 42% to 41%, while the market share in the private saving markets was somewhat down to 34.5%.
Loan impairment charges landed at EUR 8 million, reflecting the economic upturn. Allowances previously taken for defaulted loans proved to be sufficient. Also, the number of newly defaulted loans was limited. At 1 basis point of average lending, the loan impairment charges were far below the long-term average of 23 basis points.
The net profit of the domestic retail banking division decreased to EUR 502 million compared to EUR 941 million in the same period last year. This decrease was attributable to higher operating expenses in particular due to an addition to the provision for the SME interest rate derivatives recovery framework of EUR 514 million and to a EUR 19 million higher contribution to the resolution fund and our inaugural EUR 55 million contribution to the Deposit Guarantee Scheme. Staff costs decreased by EUR 83 million as a result of the strong reduction of 2,061 FTEs in the first half of 2016.
The underlying operating profit before tax of the domestic retail banking division, corrected for the additional provision following Rabobank adopting the SME interest rate derivatives recovery framework and for the provision for restructuring costs, increased by EUR 11 million to EUR 1,301 (1,290) million compared to the same period last year.

Domestic retail banking

In the Netherlands, Rabobank is a leading player in the residential mortgage loans, savings, payments, investment and insurance markets. It is also an important financial services provider for the SME segment, the food and agri industry, and the corporate segment. Mid-2016 the local Rabobanks had 488 branches and 2,192 ATMs. They offer a comprehensive range of financial services to approximately 6.5 million private customers and approximately 800,000 business clients in the Netherlands. Domestic retail banking also includes mortgage lender Obvion and savings bank Roparco. The domestic retail banking business employs 22,280 FTEs (including externals).

Loan portfolio by sector
in billions of euros



Loan portfolio shrank by 1%

Faced with tightened European regulations, corresponding funding targets and the desire to continue meeting the requirements for higher capital ratios, Rabobank aims to reduce its balance sheet and make it more flexible. Rabobank's residential mortgage loan portfolio is a substantial element of the balance sheet. If the bank were to keep all residential mortgage loans on its own balance sheet, it would have to tie up extra capital to meet the expected capital requirements. Instead of tying up extra capital in this way, the bank sees more benefit in transferring the portfolio to institutional investors such as pension funds and insurers. This is why in March 2016, Rabobank sold a share of its mortgage loan portfolio worth EUR 1 billion to insurance company VIVAT Verzekeringen. Read more about this sale here. On 30 June 2016, the total value of Rabobank's residential mortgage loan portfolio was EUR 199.4 (201.5) billion.

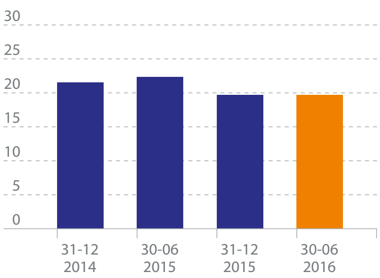
The sale of a part of the mortgage loan portfolio resulted in a decline of the loan portfolio of Rabobank's domestic retail banking business. At the same time, extra repayments on mortgage loans remained high. In the first half of 2016, extra repayments – all payments on top of the mandatory repayments – totalled approximately EUR 6.6 (5.5) billion at local Rabobanks. As a result, the loan portfolio of the domestic retail banking business fell by 1% to EUR 278.5 (281.8) billion.

Lending to private individuals (consisting almost entirely of residential mortgage loans) fell by EUR 2.6 billion to EUR 200.1 (202.7) billion. Loans to the TIS sectors fell by 1% to EUR 50.6 (51.0) billion, and loans to the food and agri sector went down 1% to EUR 27.8 (28.2) billion.

Residential mortgage loans

The housing market

Share of mortgage market
in %



The recovery of the Dutch housing market continued in the first half of 2016. The number of residential property transactions rose compared to the same period last year, as well as the existing House Price index. Nevertheless, there are significant regional differences. The number of transactions and prices initially rose most rapidly in the more urban provinces of North Holland, South Holland and Utrecht. But other regions are catching up, a clear indication of a sustained recovery throughout the Netherlands. The positive development is mainly the result of high consumer confidence, historically low mortgage loan rates and economic recovery. The problems of having negative equity in houses and the tightening of lending criteria have tempered market growth.

Market share

The share of Rabobank Group in the Dutch mortgage loan market amounted to 19.7% (19.7%) of new mortgage production in the first half of 2016 (source: Dutch Land Registry Office (Kadaster)). The market share of the local Rabobanks rose to 16.6% (15.5%) and the market share of Obvion fell to 3.1% (4.2%), respectively. In recent years, insurers and pension funds have increased their market share in new mortgage loans.

Mortgage loan portfolio

Rabobank's Dutch residential mortgage loan portfolio contracted by 1% to EUR 199.4 (201.5) billion in the first half of 2016. The decline was caused by (early) repayments and the sale of a part of the mortgage loan portfolio worth EUR 1 billion. As long as savings rates remain low, households will tend to repay part of their mortgage loans ahead of schedule.

The quality of Rabobank's residential mortgage loan portfolio is improving as a result of the recovery of the Dutch economy and the growing confidence in the housing market. Mid-2016 National Mortgage Guarantee (Nationale Hypotheek Garantie, or NHG) financing remained stable at 21.4% (21.4%) of the mortgage loan portfolio. Customers with 100% interest-only loans declined to 23.6% (23.9%) of the portfolio. The weighted average indexed loan-to-value (LTV) of the mortgage loan portfolio improved to 71% (73%), mainly due to an increase in the average price of existing private houses. Approximately 10% (13%) of the mortgage portfolio, excluding NHG financing, has an LTV in excess of 100%.

Affordability as a starting point for mortgage loan advice

The starting point of our advice is the affordability of the mortgage loan. During the tenor of the loan, Rabobank regularly checks whether the mortgage loan is still suitable given the customer's personal situation. Nevertheless, sometimes customers can no longer meet their payment obligations. In the event of (potential) arrears, Rabobank actively starts a dialogue with the customer at an early stage in order to find a solution. In most cases, the customer and the bank reach a sustainable solution.

Read more on Rabobank.com about customers in financial difficulties.

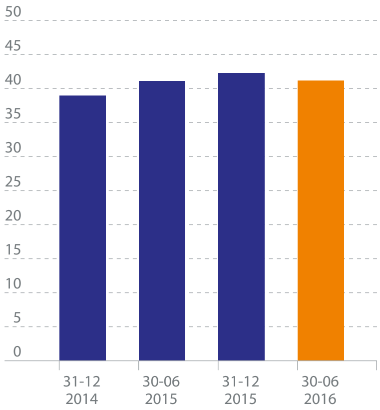
Loan impairment charges and write-offs

Loan impairment charges in connection with residential mortgage loans amounted to 13 million (4 basis points) in the first half of 2016, which was considerably lower than in the same period last year. For the most part, this was due to non-recurring adjustments[1] in 2015, which had an upward effect on the loan impairment charges. Improved asset quality also contributed to this favourable development as shown by the positive development of the more than 90 days arrears ratio.

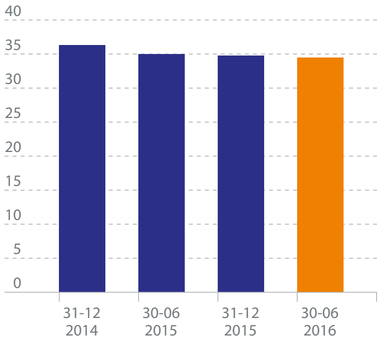
Residential mortgage loans		
Amounts in millions of euros	*30-06-2016*	*31-12-2015*
Mortgage loan portfolio	199,420	201,498
Weighted average LTV	71%	73%
Non-performing loans (amount)	1,930	1,837
Non-performing loans (in % of total mortgage loan portfolio)	0.97%	0.91%
More than 90 days arrears	0.53%	0.57%
Share NHG portfolio	21.4%	21.4%
Share customers with fully interest-only mortgage	23.6%	23.9%
Loan impairment allowances	275	319
Coverage ratio based on non-performing loans	14%	17%
	2016-I	*2015-I*
Loan impairment charges	13	200
Loan impairment charges (in basis points, excluding non-recurring effects)	4.3	5.9
Write-offs	70	82

1 Two non-recurring adjustments affected the loan impairment charges and the allowances for residential mortgage loans in 2015. Rabobank developed a new capital model for residential mortgage loans; this model is also used to define the level of allowances. In addition, Rabobank decided to cease allocating loan impairment charges on residential mortgage loans granted to entrepreneurs to business lending. As of 2015, these have been fully accounted for as part of the private individuals' mortgage loan portfolio. These changes resulted in EUR 161 million of additional loan impairment charges in 2015.

Market share in TIS
in %



Market share for savings
in %



Interest rate averaging for mortgage customers

Customers who want to change their interest rate contracts early will be able to apply interest rate averaging from 1 July 2016 onwards. To that end, the current interest rate and the remaining term of the customer's current interest rate contract are averaged with the prevailing fixed-interest rate and the tenor of the fixing they select. This service is intended mainly for customers who do not have sufficient funds to pay penalty interest on the refinancing of their loan in a single payment.

Read more on Rabobank.com about interest rate averaging.

Trade, industry and services

Rabobank Group's market share of lending to the TIS sectors amounted to 41% (42%) in the first half of 2016 (measured by Rabobank's own surveys). Domestic retail banking loans to these sectors declined by 1% to EUR 50.6 (51.0) billion in the first half of 2016. The reduction of the commercial real estate loan portfolio contributed to this decline. See the Risk management section for further explanation of the developments in this portfolio.

Food and agri

Domestic retail banking loans to the food and agri sector amounted to EUR 27.8 (28.2) billion at the end of the first half of 2016. 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 and 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 acquired sector knowledge.

Amounts due to customers increased by 3%

The private savings market in the Netherlands grew by 3% to EUR 346.7 (336.2) billion in the first half of 2016. Rabobank Group's market share was 34.5% (34.8%) – source Statistics Netherlands (Centraal Bureau voor de Statistiek). Local Rabobanks had a share of 33.7% (34.0%) and our savings bank subsidiary Roparco 0.8% (0.8%). Amounts due to customers in domestic retail banking rose by 3% to EUR 219.4 (212.4) billion. These consist mainly of private savings. On the one hand, private savings increased due the fact that many customers deposited their holiday allowances (received in May) with Rabobank. On the other hand, additional mortgage loan repayments reduced private savings. All in all, private savings increased by EUR 1.6 billion to EUR 118.6 (117.0) billion. Furthermore, the amount due to customers rose as a result of an increase in current accounts held by business clients.

Insurance

Rabobank offers its 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 offers a wide range of non-life, healthcare and life insurance policies for both private clients and businesses. Interpolis is Rabobank's preferred supplier for the retail market. The number of insurance customers fell and the total insurance provisions were down EUR 4 million to EUR 139 (143) million in the first half year of 2016.

Type of assurance		
Number of policies	*30-06-2016*	*31-12-2015*
Alles in één Polis (insurance coverage for private individuals)	1,233,000	1,330,000
ZekerVanJeZaak & Bedrijven Compact Polissen (insurance coverage for businesses)	202,000	204,000
ZorgActief (healthcare insurance)	219,000	218,000

Financial results of domestic retail banking

Results			
Amounts in millions of euros	*30-06-2016*	*30-06-2015*	*Change*
Net interest income	2,807	2,827	-1%
Net fee and commission income	688	681	1%
Other income	47	9	-
Total income	**3,542**	**3,517**	**1%**
Staff costs	980	1,063	-8%
Other administrative expenses	1,684	1,064	58%
Depreciation	55	59	-7%
Total operating expenses	**2,719**	**2,186**	**24%**
Gross result	**823**	**1,331**	**-38%**
Loan impairment charges	8	-6	-
Contribution to resolution fund	82	63	30%
Contribution to DGS	55	-	-
Operating profit before tax	**678**	**1,274**	**-47%**
Income tax	176	333	-47%
Net profit	**502**	**941**	**-47%**
Loan impairment charges (in basis points)	1	-	-
Ratios			
Cost/income ratio exclusive regulatory levies	76.8%	62.2%	
Cost/income ratio inclusive regulatory levies	80.6%	63.9%	
Balance sheet (amounts in billions of euros)	*30-06-2016*	*31-12-2015*	
Total assets	321.7	325.1	-1%
Private sector loan portfolio	278.5	281.8	-1%
Due to customers	219.4	212.4	3%
Capital requirements (amounts in billions of euros)			
Regulatory capital	6.4	6.7	-4%
Economic capital	9.7	10.1	-4%
Number of internal employees (in FTEs)	20,654	22,176	-7%
Number of external employees (in FTEs)	1,626	2,165	-25%

Notes to financial results

Income increased by 1%

Total income from the domestic retail banking business was up 1% in the first half of 2016 at EUR 3,542 (3,517) million, mainly due to an increase in other income. Lending was down and, in line with this development, net interest income decreased by 1% to EUR 2,807 (2,827) million. The interest margin on payment accounts decreased compared to the same period last year. Many clients refinanced their mortgage loans due to the historically low interest rates, allowing them to take out a new loan at a lower interest rate. This pressure on interest income was partly offset by higher income from penalty interest received in connection with the early repayment on mortgage loans. Net fee and commission income was up by 1% to EUR 688 (681) due to higher commission and fees on new mortgage loans and payments. Other income increased by EUR 38 million to EUR 47 (9) million, mainly due to the sale of EUR 1 billion of the local Rabobank's mortgage portfolio in March which resulted in a gain.

Operating expenses up by 24%

Total operating expenses of the domestic retail banking business were up 24% in the first half of 2016, increasing to EUR 2,719 (2,186) million. The virtualisation of services impacted the size of the workforce. The number of internal and external employees in the domestic retail banking division decreased by 8% in the first half of 2016 to 22,280 (24,341) FTEs. As a result of these developments, staff costs fell by EUR 83 million to EUR 980 (1,063) million. Other administrative expenses rose by EUR 620 million to EUR 1,684 (1,064) million. This increase was mainly the result of the additional provision of EUR 514 million in the interim results following Rabobank adopting the SME interest rate derivatives recovery framework in July 2016. Furthermore, the provisioning for restructuring costs increased compared to the same period in 2015. As a result of lower depreciation on intangible fixed assets, depreciation was down 7% to EUR 55 (59) million.

Loan impairment charges remained low

The further recovery of the economy was clearly reflected in the loan impairment charges in the domestic retail banking business in the first half of 2016. In the Netherlands, the number of newly defaulted loans was limited. The allowances for loans, for which a provision had already been taken, also proved to be sufficient. At EUR 8 (-6) million, loan impairment charges were very low. This translates into 1 (0) basis points of the average loan portfolio. The loan impairment charges were far below the long-term average of 23 basis points.

Regulatory capital decreased by 5%

In calculating the regulatory capital (the external capital requirement), we use internal rating and risk models to estimate the risks associated with loans to private individuals and businesses. In the first half of 2016, the regulatory capital for the domestic retail banking business decreased to EUR 6.4 (6.7) billion, due to a decline in lending. The economic capital (the internal capital requirement) amounted to EUR 9.7 (10.1) billion.

Wholesale banking and international rural and retail banking

Within the segment wholesale banking and international rural and retail banking, the results of Wholesale, Rural & Retail and Treasury Rabobank Group are presented together.

Net profit improves due to stable business performance and lower impairments

In the first half of 2016, net profit of the wholesale banking and international rural and retail banking division arrived at EUR 387 million, an increase of EUR 677 million compared to the same period in 2015. In the first half of 2015, an impairment on goodwill with regard to RNA in the United States lowered net profit by EUR 600 million. The decline in interest rates resulted in lower net interest income. Other income also decreased. This was compensated by an increase in net fee and commission income and by a decrease in operating expenses. The drop in loan impairment charges also positively contributed to the net result. The loan portfolio of wholesale banking and international rural and retail banking was further aligned with the food and agri strategy in the first half of 2016. The loan portfolio rose by EUR 5.3 billion to EUR 104.1 billion, with a food and agri share of 58%. Amounts due to customers fell slightly by 1% to EUR 122.9 billion due to the withdrawal of short-term deposits by institutional customers, which is a common phenomenon at the beginning of the year. The recovery of the global economy contributed to a decline of the loan impairment charges by EUR 156 million to EUR 117 million. At 23 basis points of the average loan portfolio the loan impairment charges were considerably below the long-term average of 59 basis points. A contribution of EUR 80 million to the resolution fund reduced operating profit before tax. This contribution was EUR 37 million higher than in the same period last year.

Profile Dutch and international wholesale banking and international rural and retail banking

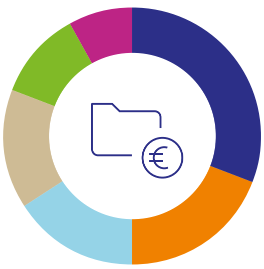
Wholesale, Rural & Retail (WRR) has an international network of branches with offices in various countries. For a complete overview of our business banking services, click here. Rabobank also operates RaboDirect internet savings banks.

The wholesale banking division serves the largest domestic and international companies (Corporates, Financial Institutions, Traders and Private Equity). All sectors in the Netherlands are being serviced, contributing to the 'Banking for the Netherlands' strategy, while outside the Netherlands we focus on the food and agri and trade-related sectors.

Internationally, Rabobank services food and 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 and agri bank in the world. We service the entire food value chain, with 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. Our vision on global food security and the role of Rabobank as described in our 'Banking for Food' strategy can be found on Rabobank.com. Rural banking focuses on the financing of primary agribusinesses around the world.

At Rabobank Food & Agribusiness Research and Advisory we have a global team of analysts who continuously accumulate knowledge about major food and agri sectors, issues and trends. This knowledge is used within the bank and shared with clients and stakeholders.

Loan portfolio by region
mid 2016



North America	31%
Australia and New Zealand	19%
Europe (excluding the Netherlands)	16%
The Netherlands	15%
Latin America	11%
Asia	8%

In addition, the wholesale banking division facilitates the international activities of Mid-Corporate Dutch customers in cooperation with the local Rabobanks. Rabobank's International Desks – spread over five continents – which specifically focus on this international support.

Within the segment wholesale banking and international rural and retail banking, the results of WRR and Treasury Rabobank Group are presented together.

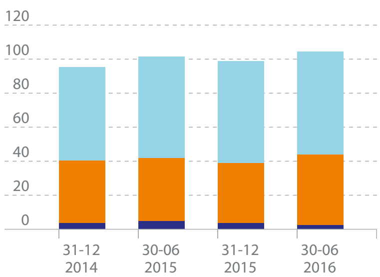
WRR loan portfolio grew by 5%

In the first six months of 2016 the total loan portfolio of WRR increased by 5% to EUR 104.1 (98.8) billion. Total loans to the trade, industry and services (TIS) sector rose to EUR 41.2 (35.4) billion. In line with our food and agri strategy, the volume of lending provided to the food and agri sector rose to EUR 60.4 (59.9) billion. On 30 June 2016 lending to the food and agri sector accounted for 58% (61%) of the total loan portfolio of this business segment. Lending to private individuals remained very modest at EUR 2.5 (3.5) billion.

Dutch and international wholesale

Lending to Dutch companies increased in the first half of 2016 by 13% to EUR 16.0 (14.2) billion in line with the Banking for the Netherlands strategy. The remaining part of the loan portfolio, EUR 50.1 (47.0) billion, was granted to wholesale clients outside of the Netherlands.

Loan portfolio by sector
in billions of euros

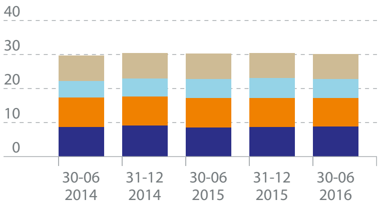


- Food and agri
- TIS
- Private individuals

International rural and retail banking

The loan portfolio to rural and retail clients amounted to EUR 38.0 (37.6) billion. In the main markets for rural banking the loan portfolio at 30 June 2016 amounted to EUR 10.6 (9.8) billion in Australia, EUR 6.3 (6.1) billion in New Zealand, EUR 7.0 (6.9) billion in the United States, EUR 2.5 (2.5) billion in Brazil and EUR 1.1 (1.2) billion in Chile.

Distribution of private savings of RaboDirect
in billions of euros



Germany
Ireland
Belgium
Australia and New Zealand

Rabobank operates international retail banking activities through subsidiaries in three countries: in the United States, Rabobank is active through Rabobank N.A. (RNA); in Ireland, through ACC Loan Management, and in Indonesia, through Rabobank Indonesia. RNA's portfolio decreased by EUR 0.5 billion to EUR 8.7 (9.2) billion. ACC Loan Management is being phased down and on 30 June 2016 the loan portfolio of ACC Loan Management amounted to EUR 1.3 (1.4) billion. With effect from 1 March 2016 Capita Asset Services took over the day-to-day management of all ACC Loan Management customer accounts and loan facilities. This was accompanied by a transfer of personnel from ACC Loan Management to Capita Asset Services. This contributed to the decrease in the number of employees at WRR.

Amounts due to customers decreased by 1%

Amounts due to customers from WRR amounted to EUR 122.9 (124.4) billion on 30 June 2016. This includes private savings from online bank RaboDirect as well as other amounts due to customers. RaboDirect is Rabobank's online bank and is 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 for other divisions of Rabobank Group.

At year-end 2015 Rabobank had a large inflow of institutional money; a significant amount of these deposits were withdrawn at the beginning of 2016. Consequently, amounts due to customers decreased. The savings balances of RaboDirect, which are part of the total amount due to customers, remained more or less stable at around EUR 30.1 (30.5) billion in the first half of 2016. The savings from RaboDirect activities represented 22% (22%) of the private savings held at Group level. The number of customers of these internet savings banks grew to 911,000 (900,000).

Other developments

Worldwide: Rabobank invests in a strategic partnership with Kepler Cheuvreux

In 2016, Rabobank and Kepler Cheuvreux announced that they have entered into a strategic partnership that enhances Rabobank's equity chain offering in the Benelux region, Europe and the US. The investment in this partnership ensures our clients can benefit from better equity chain and brokerage services as well as from greater scale and scope.

More information about this partnership can be found on Rabobank.com.

Financial results of wholesale banking and international rural and retail banking

Results			
Amounts in millions of euros	*30-06-2016*	*30-06-2015*	*Change*
Net interest income	996	1,083	-8%
Net fee and commission income	295	273	8%
Other income	461	543	-15%
Total income	**1,752**	**1,899**	**-8%**
Staff costs	569	559	2%
Other administrative expenses	402	543	-26%
Depreciation	46	50	-8%
Total operating expenses	**1,017**	**1,152**	**-12%**
Gross result	**735**	**747**	**-2%**
Impairment losses on goodwill	-	600	-
Loan impairment charges	117	273	-57%
Contribution to resolution fund	80	43	86%
Operating profit before tax	**538**	**-169**	**-**
Income tax	151	121	25%
Net profit	**387**	**-290**	**-**
Loan impairment charges (in basis points)	23	54	-57%
Ratios			
Cost/income ratio exclusive regulatory levies	58.0%	60.7%	
Cost/income ratio inclusive regulatory levies	62.6%	62.9%	
Balance sheet (amounts in billions of euros)	*30-06-2016*	*31-12-2015*	
Total assets	475.7	489.2	-3%
Private sector loan portfolio	104.1	98.8	5%
Due to customers	122.9	124.4	-1%
Capital requirements (amounts in billions of euros)			
Regulatory capital	6.4	6.4	0%
Economic capital	7.8	7.7	1%
Number of internal employees (in FTEs)	8,505	8,785	-3%
Number of external employees (in FTEs)	748	794	-6%

Notes to the financial results

Total income fell by 8%

In the first half of 2016, total income of WRR fell by 8% to EUR 1,752 (1,899) million. Net interest income fell by 8% to EUR 996 (1,083) million due to lower results within the treasury area, partly caused by lower rate environment. In line with the strategy of more fee-generating business and as result of growth of the loan portfolio net fee and commission income increased by 8% to EUR 295 (273) million. In the first half of 2015 other income had been particularly high as result of positive revaluations in the private equity portfolio and the sale of most of Rabobank's interest in the Agricultural Bank of China. Other income reverted to more normal levels in the first half of 2016, falling by 15% to EUR 461 (543) million.

Operating expenses fell by 12%

In the first half of 2016 operating expenses at WRR fell by 12% to EUR 1,017 (1,152) million. Regular yearly salary adjustments resulted in a modest increase in staff costs of 2% to EUR 569 (559) million. Other administrative expenses were down by 26% to EUR 402 (543) million mainly due to the release of a provision for legal issues and due to cost-saving initiatives related to the performance improvement programme Solve, Optimise, Grow & Innovate. As a result of lower depreciation on software developed in-house, depreciation was down by 8% to EUR 46 (50) million.

Impairment losses on goodwill

In the first half of 2015 an impairment on goodwill with regard to RNA in the United States lowered the operating profit before taxation by EUR 600 million. The business outlook combined with the closings of some divisions and stricter capital requirements triggered the impairment by that time.

Loan impairment charges down by 57%

Loan impairment charges of wholesale banking and international rural and retail banking dropped in the first half of 2016 by EUR 156 million to EUR 117 (273) million. The additional allowances that had to be made were especially limited in the wholesale banking division in the Netherlands, where the loan impairment charges decreased to EUR -8 (89) million. In the Netherlands the loan impairment charges moved below the long-term average, after a number of years at relatively high levels. Loan impairment charges at ACC Loan Management came down to EUR 2 (31) million. The total loan impairment charges accounted for 23 (54) basis points of the average loan portfolio, well below the long-term average of 59 basis points.

Regulatory capital unchanged

The regulatory capital (the external capital requirement) for WRR was unchanged in the first half of 2016 at EUR 6.4 (6.4) billion. The economic capital (the internal capital requirement) amounted to EUR 7.8 (7.7) billion.

Leasing

Favourable results and growth in activities

Within Rabobank Group, DLL is the specialist in the field of leasing. DLL can look back on a satisfying first half of 2016. Net fee and commission income grew in line with activity growth and other income also developed positively. Staff costs increased slightly, in line with the growth of the number of employees.
DLL and its clients benefited from the further economic recovery in the Netherlands and from growth in the global economy, albeit at a more gradual pace. Loan impairment charges were lower than in the same period last year. At EUR 44 million or 26 basis points of the average loan portfolio, the loan impairment charges continued to trend significantly below the long-term average of 62 basis points. On 30 June 2016, DLL signed a sale and purchase agreement with the intention to sell its car-leasing entity Athlon Car Lease to Mercedes Benz Financial Services. After completion of the sale, DLL will continue to fulfil an important role in the product portfolio of Rabobank and will also focus on the Global Vendor Finance core business.
In the first half of the year, the leasing segment booked a net profit of EUR 284 million, an increase of EUR 37 million compared to the same period in 2015. Overall activity growth resulted in an increase in total income. Because of the intention to sell Athlon, car lease is excluded from the lease portfolio, which fell by 8% to EUR 33.0 billion. Food and agri's share in the lease portfolio amounted to 35%.

DLL

DLL's Vendor Finance business model has been built upon more than 40 years of experience, acquired by working with market-leading global equipment manufacturers and their distribution partners. DLL supports them in selling more products to their end customers by offering them leasing and finance solutions.
In addition, DLL is active in 11 European countries through its subsidiary Athlon, which will be sold to Mercedes Benz Financial Services. As of 30 June 2016, DLL employed 5,968 FTEs (including externals).

Worldwide activities

The core of DLL's international activities is vendor finance, which supports manufacturers and distributors in marketing their products and services by means of various financing programmes. Vendor finance focuses on establishing and maintaining long-term alliances in several specialist industries. DLL offers financing options that support customers' sales objectives, processes and distribution channels and enrich their value proposition. Market and customer knowledge are crucial in this respect. The largest market for vendor finance within DLL is food and agri, followed by construction, transportation & industrial, and office technology.

More information about the industry expertise of DLL can be found on their website.

Expansion of digital services

One of the strategic focus areas for DLL going forward is digital services. DLL wants to support its partners with customised financial solutions and also wants to speed up and simplify its processes and delivery. In the first half of 2016, DLL USA introduced the mobile app 'DLL Express Finance' in all industries in which it operates. The app allows for quick and reliable communication between customers and account managers. In the coming year, DLL will launch similar apps for Europe and Asia-Pacific and is expected to continue making significant investments in this area.

Activities in Europe

Vendor Finance in Europe is an integral part of the global value proposition. DLL supports core partners in their mature markets and helps them get a foothold and grow market share in emerging markets. The ability to deliver these types of global solutions has helped DLL Group successfully establish new partnerships with a number of leading manufacturers.

In addition to vendor finance, DLL is also still involved in the area of mobility in Europe through its subsidiary Athlon, an international provider of operational vehicle leasing and mobility solutions. Athlon's primary objective is to support the mobility of its customers by offering innovative, sustainable and cost-efficient solutions. These solutions vary from the leasing and renting of cars to fleet management and mobility advice.

Sale of Athlon to Mercedes Benz Financial Services

On 30 June 2016, DLL signed a purchase agreement with Mercedes Benz Financial Services with the intention to sell all of its shares in Athlon Car Lease. The sale transaction is expected to be completed before the end of 2016 after obtaining the required approvals and consents from regulatory authorities. The consideration to be paid by Mercedes for the shares amounts to EUR 1.1 billion. The common equity tier 1 ratio of Rabobank is expected to improve by approximately 40 basis points as a result of the sale.

More information can be found on Rabobank.com.

Activities in the Netherlands

Vendor finance

In the Netherlands, DLL offers vendor finance with a focus on the food and agri sector and the healthcare industry. DLL also offers vendor finance in the Netherlands in the sectors clean technology, construction, transportation, industrial and office technology.

Leasing

DLL is the market leader for leasing in the Netherlands. It offers leasing products directly to customers of the local Rabobanks and other Rabobank divisions in the Netherlands. The online market for leasing products is growing and since June 2016 DLL has responded to this trend by introducing the online portal www.leasit.nl. The portal offers leasing products directly to the market and is mainly used by SME customers. Leasing options are also available via Rabobank's own online channel.

More information about leasing can be found on their website.

Factoring

Factoring is also part of the Dutch financing product range. Factoring is a solution for companies that temporarily or continually need extra working capital. This may be the result of fast growth, seasonal fluctuations or the need for additional cash flow. This option allows clients to free up extra working capital in their accounts receivable portfolios. With these solutions, DLL supports Rabobank in the development of a customised financing mix for companies in every stage of their life cycle.

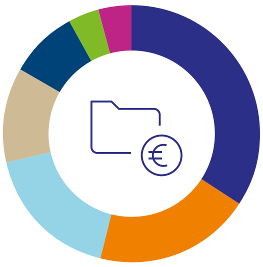
More information about factoring can be found on their website.

EUR 200 million available from the European Investment Bank

In July 2016, DLL received EUR 200 million from the European Investment Bank (EIB). These funds are intended for companies in the SME sector and for wholesale clients who want to invest in their company. With this facility, the EIB supports the recovery of business in the Netherlands and in the rest of Europe. Companies can profit from a discount on the interest rate. This is the third time DLL has received funds from the EIB to support businesses since 2014.

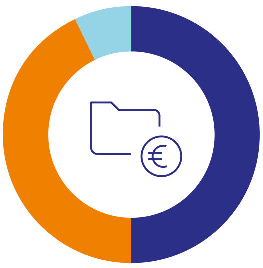
More information can be found on Rabobank.com.

Lease portfolio by division
mid 2016, in %



Food and agri	34%
Construction, transportation and industrial	19%
Office technology	18%
Financial institutions	12%
Healthcare and clean technology	9%
Consumer finance	4%
Vendor finance operations	4%

Lease portfolio by region
mid 2016, in %



Europe	50%
America	43%
Asia/Pacific	7%

Consumer finance

As a specialist consumer credit competence centre, DLL is responsible for marketing support, credit assessment and the approval of personal loans and credit for local Rabobanks. In the consumer finance market in the Netherlands, DLL operates through the Rabobank brands and Freo, an online provider of consumer credit and stands for diligent, beneficial and fair lending. In 2016, Freo received 5 stars from MoneyView, the maximum product appreciation for its product 'Doorlopend Krediet' (revolving credit) in the categories Price and Product. The total consumer loan portfolio on 30 June 2016 totalled EUR 1.4 (1.4) billion.

Lease portfolio fell by 8%

In the first half of 2016, DLL's lease portfolio fell by 8% to EUR 33.0 (35.7) billion. As result of the intention to sell Athlon, the car lease portfolio is excluded from the total lease portfolio. If car lease were included, the lease portfolio would have grown by 4% to EUR 37.2 billion. The DLL private sector loan portfolio (financial leases only) amounted to EUR 30.3 (29.7) billion. Food and agri is an important part of the total lease portfolio, as is the Dutch lease portfolio. The food and agri share in the lease portfolio totalled EUR 11.4 (11.1) billion, which represents 35% (31%). As result of the intention to sell Athlon, the lease portfolio in the Netherlands decreased to EUR 5.3 (6.6) billion, representing 16% (18%) of the total lease portfolio.

Financial results of leasing

Results			
Amounts in millions of euros	*30-06-2016*	*30-06-2015*	*Change*
Net interest income	536	536	0%
Net fee and commission income	41	27	52%
Other income	314	279	13%
Total income	**891**	**842**	**6%**
Staff costs	299	280	7%
Other administrative expenses	129	128	1%
Depreciation	15	21	-29%
Total operating expenses	**443**	**429**	**3%**
Gross result	**448**	**413**	**8%**
Loan impairment charges	44	48	-8%
Contribution to resolution fund	11	8	38%
Operating profit before tax	**393**	**357**	**10%**
Income tax	109	110	-1%
Net profit	**284**	**247**	**15%**
Loan impairment charges (in basis points)	26	28	-7%
Ratios			
Cost/income ratio exclusive regulatory levies	49.7%	51.0%	
Cost/income ratio inclusive regulatory levies	50.9%	51.9%	
Balance sheet (amounts in billions of euros)	*30-06-2016*	*31-12-2015*	
Lease portfolio	33.0	35.7	-8%
Capital requirements (amounts in billions of euros)			
Regulatory capital	1.8	1.7	6%
Economic capital	2.1	2.0	5%
Number of internal employees (in FTEs)	5,513	5,402	2%
Number of external employees (in FTEs)	455	422	8%

Notes to financial results

Income up 6%

Total income from the leasing segment rose 6% to EUR 891 (842) million in the first half of 2016. Net interest income was stable at EUR 536 (536) million. Net fee and commission income rose by EUR 14 million to EUR 41 (27) million as a result of the higher activity level. Other income consisted mainly of the result from sales of end-of-lease assets and income from operational lease contracts. In the first half of 2016 a one-off gain was booked in other income due to higher-than-expected residual values of cars. Consequently, other income rose by 13% to EUR 314 (279) million.

Operating expenses up 3%

In the first six months of 2016, total operating expenses in the leasing segment rose by 3% to EUR 443 (429) million. An increase in the average number of employees contributed to the rise in staff costs by EUR 19 million to EUR 299 (280) million. Staffing increased by 144 FTEs to 5,968 (5,824) FTEs. Other administrative expenses were 1% higher at EUR 129 (128) million, due in part to higher costs for regulation and supervision. Lower depreciation of intangible assets led to a decline in depreciation to EUR 15 (21) million.

Loan impairment charges down 8%

Loan impairment charges for the leasing segment decreased by 8% to EUR 44 (48) million. Expressed as basis points of the average loan portfolio, the loan impairment charges amounted to 26 (28) basis points, well below the long-term average of 62 basis points. The lease portfolio of DLL is spread over more than 35 countries and eight industries – so the risks are also widely spread. In the first half of 2016 there were no new significant individual default cases.

Regulatory capital increased

Regulatory capital (the external capital requirement) for DLL rose to EUR 1.8 (1.7) billion in the first half of 2016. The increase in the credit risk corresponds to developments in the loan portfolios and currency effects. The economic capital (the internal capital requirement) increased to EUR 2.1 (2.0) billion as a result of aforementioned developments.

Real estate

Recovery in real estate market continues

In the first half of 2016, the Dutch residential property market was characterised by rising sales and growing shortages, which caused average house prices to rise. These market conditions were beneficial for area developer BPD, which saw its number of home transactions grow by 30% to 4,084. At Bouwfonds Investment Management (Bouwfonds IM) the reduction of non-strategic activities was compensated by new fund initiatives. Consequently, the assets under management at Bouwfonds IM remained almost stable at EUR 6.2 billion.

The financing of commercial real estate remains an important activity for Rabobank and preparations to integrate FGH Bank and Rabobank into a single real estate financing centre of expertise continued in the first half of 2016. The name of the new company will be Rabo Real Estate Finance. We are working intensively to ensure a seamless migration for customers from autumn 2016 onwards.

The integration of FGH Bank into Rabobank will lead to a reduction in staff. The provision made for this reduction in the first half of 2016 raised the other administrative expenses. Net profit of the real estate segment increased by EUR 23 million to EUR 121 million. Lower loan impairment charges contributed to this increase. Loan impairment charges fell by EUR 58 million to EUR -11 million, which equals -16 basis points of the average loan portfolio. This is sharply below the long-term average of 94 basis points. The loan portfolio stood at EUR 14.1 billion.

Real estate profile

Rabo Real Estate Group and FGH Bank form part of the real estate segment. Rabo Real Estate Group consists of the BPD and Bouwfonds IM divisions. BPD is responsible for developing residential and commercial real estate and Bouwfonds IM is responsible for real asset investments. Rabo Real Estate Group is primarily active in the Netherlands, and to a much lesser extent in France and Germany. FGH Bank specialises in financing commercial real estate.

BPD

BPD develops integral residential areas, small-scale multifunctional projects and public facilities. BPD strives for a managed growth in economically strong regions via a local presence in the Netherlands, France and Germany. Furthermore, it aims for a market return on invested capital within a fitting risk profile. BPD is market leader in the Netherlands. In France, the organisation operates under the name BPD Marignan and in Germany as BPD Immobilienentwicklung.

Bouwfonds IM

Bouwfonds IM is 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. Bouwfonds IM focuses specifically on investment products in the sectors of real estate, infrastructure and natural resources. Within these categories, Bouwfonds IM focuses on five sectors: commercial real estate, residential real estate, parking garages, communication infrastructure and agriculture & farming.

FGH Bank

FGH Bank is engaged in the commercial real estate markets and the real estate investment market. In addition to financing investments in commercial real estate, FGH Bank also funds new housing, renovation and transformation projects. FGH Bank plays a prominent role for the local Rabobanks as a centre of expertise for real estate financing issues.

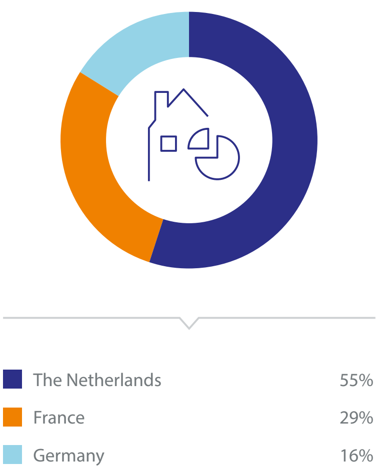
Within the real estate segment, the results of Rabo Real Estate Group and FGH Bank are presented together.

Real estate results

Sale of 'De Rotterdam'

In June 2016, Rabo Real Estate Group successfully sold the 'De Rotterdam' building in Rotterdam to a consortium of French and Korean investors. The sale is the largest single asset transaction of recent times in the Netherlands. 'De Rotterdam' was one of the remaining projects of MAB Development, which Rabo Real Estate Group has been phasing out since 2013. This transaction made a significant contribution to the results of the real estate segment.

Number of residential properties transactions by country
mid 2016



Residential real estate developments

Economic growth in the Netherlands resulted in rising purchasing power and lower unemployment in the first half of 2016. Both are favourable for consumer expenditure in the Netherlands and for the housing market. In the first half of 2016, the Dutch housing market was characterised by a relatively sharp increase in transactions and prices, supported by increased consumer confidence and very low mortgage rates. The increase in transactions, combined with a shortage in the supply of houses for sale and the relatively low volumes of new houses built, is causing growing shortages in some regions of the market. These developments pushed up house prices. For Rabobank, the increase in the number of residential transactions resulted in more mortgage loan approvals in the first half of 2016. On balance, total mortgage debt decreased slightly as many households made extra mortgage repayments. Interest rates on mortgages fell further during the first six months of the year and are expected to remain low for the rest of 2016 and in 2017.

Increase in number of transactions by BPD

The positive developments in the Dutch housing market resulted in a strong increase in BPD's sales of new houses. In the Netherlands BPD's number of residential property transactions rose by 16% to 2,245 (1,929). In France, the number of transactions also rose significantly to 1,187 (827) as a result of market improvements. The housing market in Germany remains strong with the number of transactions rising to 642 (382). Including some transactions in other countries, the total number of transactions made by BPD in the first half of 2016 was 4,084 (3,147).

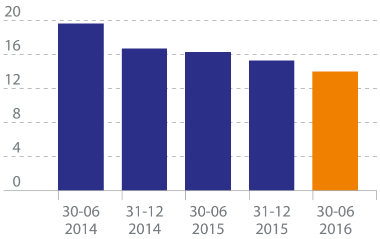
Assets under management stable

Total assets under management remained almost stable at EUR 6.2 (6.3) billion in the first half of 2016. On the one hand, several real estate acquisitions on behalf of the various funds were made in the first six months of 2016. The Bouwfonds European Real Estate Parking Fund invested a total amount of EUR 92 million in three car parks in the UK and Ireland. Bouwfonds IM also established a third Real Estate Parking Fund. On the other hand, non-strategic activities were further reduced.

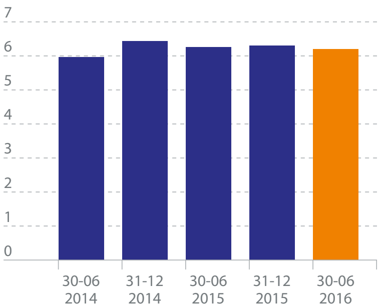
A single real estate finance company: Rabo Real Estate Finance

In 2015, it was announced that FGH Bank would be integrated into Rabobank. All the knowledge, expertise and networks in the field of commercial real estate financing within both FGH Bank and Rabobank will be consolidated. The new name of this real estate company will be Rabo Real Estate Finance. In the first half of 2016 preparations were made to begin shaping Rabo Real Estate Finance.

Loan portfolio of FGH Bank
in billions of euros



Assets under management Bouwfonds IM
in billions of euros



Rabobank's mission is to sustainably support (local) communities and to play a meaningful role in society. The financing of commercial real estate supports this mission. Therefore, knowledge of real estate and of the real estate market is crucial, as is knowledge of and experience with financing real estate. The ambition of Rabo Real Estate Finance is to remain a key player in the real estate financing market.

FGH Bank's customers will be carefully transferred to Rabo Real Estate Finance. Customer interest and satisfaction is our main priority. We strive to minimise the impact of the migration for customers, which will start in autumn 2016.

Loan portfolio

FGH Bank focuses on the financing of commercial real estate. The loan portfolio of the real estate segment, provided almost entirely by FGH Bank, further declined to EUR 14.1 (15.3) billion.

Financial results of real estate

Results			
Amounts in millions of euros	*30-06-2016*	*30-06-2015*	*Change*
Net interest income	155	180	-14%
Net fee and commission income	6	20	-70%
Other income	178	138	29%
Total income	**339**	**338**	**0%**
Staff costs	106	95	12%
Other administrative expenses	74	51	45%
Depreciation	3	3	0%
Total operating expenses	**183**	**149**	**23%**
Gross result	**156**	**189**	**-17%**
Loan impairment charges	-11	47	-
Contribution to resolution fund	7	7	0%
Operating profit before tax	**160**	**135**	**19%**
Income tax	39	37	5%
Net profit	**121**	**98**	**23%**
Loan impairment charges (in basis points)	-16	57	
Number of houses sold	4,084	3,147	30%
Cost/income ratio exclusive regulatory levies	54.0%	44.1%	
Cost/income ratio inclusive regulatory levies	56.0%	46.2%	
Balance sheet (amounts in billions of euros)	*30-06-2016*	*31-12-2015*	
Loan portfolio	14.1	15.3	-8%
Assets under management	6.2	6.3	-2%
Capital requirements (amounts in billions of euros)			
Regulatory capital	1.0	1.1	-11%
Economic capital	1.2	1.4	-15%
Number of internal employees (in FTEs)	1,316	1,358	-3%
Number of external employees (in FTEs)	309	229	35%

Notes to financial results

Income stable

In the first six months of 2016, total income of the real estate segment was stable at EUR 339 (338) million. The 8% decrease in the loan portfolio resulted in lower net interest income, which was partly offset by higher income from penalty interest received in connection with the early repayment of loans. Nevertheless, net interest income fell by 14% to EUR 155 (180) million. The reduction in the loan portfolio also influenced net fee and commission income, which dropped by EUR 14 million to EUR 6 (20) million. The sale of 'De Rotterdam' in June, in combination with the rise in the number of house sales, resulted in an increase in other income by EUR 40 million to EUR 178 (138) million.

Operating expenses increased by 23%

Total operating expenses in the real estate segment rose by 23% to EUR 183 (149) million in the first half of 2016. At FGH Bank the number of external employees increased, mainly due to the integration into Rabobank. Consequently, staff costs rose by 12% to EUR 106 (95) million. This integration will lead to a reduction of employees. The restructuring provision taken in the first half of 2016 contributed to the increase in other administrative expenses by 45% to EUR 74 (51) million. Depreciation showed no change at EUR 3 (3) million.

Loan impairment charges EUR 58 million lower

The economic recovery in the Netherlands has had a positive impact on the loan impairment charges in the real estate segment. The loan impairment charges in this segment fell by EUR 58 million to EUR -11 (47) million. The economic recovery led to an increased demand for offices and business premises, while the property investment market saw significant activity from both domestic and foreign investors. Mainly due to initiatives to convert vacant buildings, the number of vacant offices and retail premises is slightly decreasing. However, rental prices are still under pressure in areas outside core locations in large cities, and the pressure on retail property in the Netherlands will continue for the coming years. Loan impairment charges amounted to -16 (57) basis points of average lending, compared to a long-term average of 94 basis points.

Regulatory capital declines

The regulatory capital or external capital requirement for the real estate segment declined to EUR 1.0 (1.1) billion in the first half of 2016. The sale of the Rotterdam contributed to this decrease. The credit risk fell as a result of the reduction in non-core assets. The economic capital (the internal capital requirement) declined to EUR 1.2 (1.4) billion.

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.

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.

Exposure to a certain degree of risk is inherent in 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 ensure continuity in serving our customers in a sustainable way and under favourable conditions.
- Protect identity and reputation: Rabobank wants to protect the fundamental trust that its stakeholders have in the bank.
- Healthy risk-return reward: Rabobank wants to make transparent choices related to 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 fully dependent 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 supports the bank's profitability and reputation. In turn, maintaining a solid balance sheet requires adequate risk management, healthy profitability and a sound reputation.

Risk culture

Risk is everybody's business. Rabobank expects all employees to contribute to a sound risk culture focusing on long-term relationships with customers and putting their interests first. Employees are explicitly expected to deal responsibly 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 in which risks are managed. Desirable behaviour is encouraged and undesirable behaviour is corrected. An important baseline is to create an environment which is open to discussing risks and dilemmas that arise at work.

Risk appetite

The Risk Appetite Statement (RAS) is aligned with risk strategy and defines the types and levels of risk which Rabobank is willing to take in realising its business objectives. Risk appetite is defined, among other things, in terms of:

- Minimum levels for capital ratios,
- Minimum levels for liquidity ratios,
- Concentration limits for asset classes and industry sectors,
- Limits for market risk ratios, and
- Operational risk limits.

The risk appetite at Group level is an integral part of the bank's strategy. Entity-specific risk appetite statements further specify the Group risk appetite at entity level. The risk appetite is embedded across the Group within principles, policies, indicators, limits and controls. The RAS is reviewed annually by the Executive Board and is approved by the Supervisory Board.

Stress testing

Stress testing is an important risk management tool that provides a forward-looking assessment of risks and assists in the optimisation of risk capital and liquidity buffers. It enables exploration of vulnerabilities in business models while overcoming the limitations of risk models and historical data. At Rabobank, stress testing forms an essential part of the risk management framework. Stress tests are used to measure the impact of extreme yet plausible events. If the results of the stress tests so require, we take action in line with Rabobank's risk appetite.

Significant risks

Rabobank keeps track of 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 specific stress tests are conducted to calculate the impact of adverse scenarios. An integrated overview of the main risks, the changes to them and the measures taken to address them are regularly discussed in the Executive Board and Supervisory Board.

Banking is all about taking and managing risks. When we do business, explore options or take decisions, we continually assess risks. Every day Rabobank takes informed risk decisions on engaging with (new) customers, granting credit, entering into interest rate contracts and in providing other services to customers. To manage the material risks, risk and control processes are designed to ensure that the risks incurred remain within the bank's risk appetite and that risk and return are appropriately matched. These cover the regular banking risk types: credit risk, market risk, interest rate risk, liquidity risk and non-financial risks, including compliance risk. In addition, we acknowledge that we currently live in uncertain, volatile and partially adverse market circumstances that are resulting, among others, in the following risks for the bank:

- Strategic and organisational consequences of the regulatory environment. The regulatory context is structurally demanding and increasingly complex. Rabobank has established a dedicated change organisation to monitor and implement new regulatory requirements. Risk is mitigated by improved risk controls and data management, for example;
- Sustainability of the business model. The bank's business model needs to adapt quickly enough to the changing environment, impacting revenues and cost in the current portfolio and realisation of required earnings. Combined with prolonged historically low interest rate levels that have an adverse impact on Rabobank's interest income, risk is mitigated by e.g. increasing fee business, improving performance, customer focus, investing in innovation and modernisation of the IT organisation to make it more agile;
- Organisational change to improve customer focus and performance. The organisation is in transition. Many employees are leaving the bank which is likely to impact working routines and projects. Risk is mitigated by improved cooperative governance, dedication of senior management towards transition, establishing a central transition team and monitoring of the implementation agenda;
- Keep and attract talent as a bank. It is becoming increasingly challenging for banks to keep, develop and attract the talent needed to accomplish the near and longer term goals. Risk is mitigated by increasing the appeal of the bank by a clear and appealing mission with the programmes 'Banking for the Netherlands' and 'Banking for Food' and a focus on employee development;
- Negative public opinion. The banking industry and Rabobank are currently unable, mainly due to legacy issues, to satisfactorily restore the public trust. Risk is mitigated by, among others, improving culture, strengthening internal controls, prioritising and focusing on solving legacy, Rabobank's values (Week of values), an open transparent communication policy and participating in the public debate;
- Balance sheet flexibility. Current volatility in markets due to geopolitical events, economic uncertainty, central bank measures and regulatory (capital) demands have potentially adverse effects on the funding costs of Rabobank, both on savings as on wholesale funding. Risk is mitigated by improving portfolio management, further diversification of funding, and by reducing and making the balance sheet more flexible;
- Geopolitical and economic instability. Geopolitical risk continues to increase after recent developments with Brexit and Turkey. Instability remained with serious geopolitical unrest within the eurozone and in emerging markets as a result. Economic instability with low rates, debt overhang and commodity pricing is remaining. Rabobank has a well-established crisis organisation to address the issues at hand. Risk is mitigated by monitoring macro-economic and geopolitical developments, portfolio management, limits, stress testing and so on;
- IT systems and security. Deficiencies in performance, integrity and availability of IT systems caused by either our own architecture or external factors (cyber threats) are creating risks for the bank. Risk is mitigated by strengthening and improving IT risk governance, and migrating legacy infrastructure to new platforms;
- New market entrants and disruptive technologies. These lead to increased competition in areas such as payment systems and credit. Risk is mitigated by strengthening innovativeness and embracing and collaborating with Fintechs.

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. In 2015 we started an IFRS 9 project to ensure that we will be compliant in time. This will result in better and earlier recognition of (potential) losses.

TLAC

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). It is expected that the standard will apply to domestic systemically important banks (D-SIBs) as well in the near future. As Rabobank is a D-SIB we would like to adhere to the standard as much as possible. To that end, the requirements have been included in our capital strategy. Within the EU, it is also expected that the TLAC standard will be taken into account by regulators when implementing and calibrating the MREL standard (see description below), which applies to both G-SIBS and non-G-SIBS (such as Rabobank). According to the FSB, the TLAC standard is intended to ensure that failing banks 'have sufficient loss-absorbing and recapitalisation capacity available in resolution for authorities to implement an orderly resolution that minimises impacts on financial stability, maintains the continuity of critical functions and avoids exposing public funds to loss'. 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. This will be defined as at least 16% of the resolution group's risk weighted assets from 1 January 2019 and at least 18% from 1 January 2022 onwards, as well as a minimum TLAC of at least 6% of the Basel III leverage ratio denominator from 1 January 2019 and at least 6.75% from 1 January 2022 onwards. 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, there was also a need for a framework on recovery and resolution measures for banks to ensure that bank failures across the EU are managed in a way which avoids financial instability and minimises costs for taxpayers. Therefore, in April 2014 the European Parliament passed the Bank Recovery and Resolution Directive (BRRD). As of 1 January 2016 the BRRD has been transposed into and become effective in the national laws of most EU member states. The EBA describes the minimum requirement of own funds and eligible liabilities (MREL) as an 'essential complement to the bail-in mechanism, as laid down by the BRRD', which ensures that banks have sufficient loss-absorbing capacity in the event of their resolution.
The MREL requirement will be set on a case-by-case basis (bank specific). MREL requirements have not yet been defined by the Resolution Authority but are expected to be compatible with the TLAC. The expected timing for the communication on indicative MREL requirements is the end of 2016. Furthermore, the European Commission has committed to bringing forward, also by the end 2016, a combined legislative proposal reviewing MREL as well as implementing the FSB's TLAC standard in the EU.

Basel IV

The Basel Committee is currently reviewing the whole Regulatory Capital framework. This overhaul, generally referred to as 'Basel IV', is expected to result in significant reforms.
The new market risk framework was published in January 2016. At that time, the GHOS (Central Bank Governors and Heads of Supervision, the oversight body of the Basel Committee) agreed that the Basel Committee would complete its work to address the problem of excessive variability in risk-weighted assets by the end of 2016. 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.

EU-wide stress testing

The results of the 2016 EU-wide stress test were published on 29 July 2016. This stress test was conducted at the 51 largest European banks, coordinated by the EBA and does not include a pass/fail threshold. This exercise serves as a tool to assess banks' resilience under stress. The stress test results will be used as input for setting the banks' SREP requirements for 2017.
The results of the assessment are translated into an impact on the Common Equity Tier 1 (CET1) ratio. This is done under a baseline and an adverse macroeconomic scenario. The EC provided the baseline scenario, which incorporates their autumn 2015 macroeconomic forecast. The European Systemic Risk Board (ESRB) set the adverse scenario in conjunction with the ECB. Both scenarios have a three-year horizon. The adverse scenario reflects a severe economic downturn in Europe.

The EBA used a common methodology for stress-testing European banks, using level playing field assumptions. One of these assumptions is a static balance sheet as at December 2015, whereas operating expenses were floored at their 2015 level. Furthermore, the stress test did not take into account future business strategies and management actions. Consequently, it does not capture the effects of Rabobank's strategic direction, which was announced in December 2015.

The starting point in the test was Rabobank's CET1 ratio at 31 December 2015 (13.5% on a transitional basis and 12.0% on a fully loaded basis). In the baseline scenario, Rabobank maintains a strong capital buffer of 13.3% in 2018. Under the adverse scenario, the CET1 declines to 8.1% in 2018. If we correct for the negative impact of the phasing in of the CRD IV regulation (1.5%-point), Rabobank's CET1 ratio declined by 3.9%-points in the adverse scenario vis-à-vis the actual year-end 2015 figure. This is below the average drop in CET1 ratio of the Dutch banks in scope (5.5%). The stress test indicates that even under a severe economic downturn Rabobank's CET1 ratio remains well above the minimum Pillar I CET1 regulatory requirement.

The Strategic Framework 2016-2020 has a key objective to make the balance sheet more flexible, increase funding diversification and increase the capital position. This will represent further improvement of Rabobank's capacity for stress absorption.

Volcker Rule

As part of the Dodd-Frank Act, US regulators generally prohibit, subject to exceptions, banking entities and their affiliates from engaging in proprietary trading and restricted investments in hedge funds and private equity ('covered fund activities'). The bank also extends to sponsoring or having certain relationships with hedge funds and private equity; this set of measures is known as the 'Volcker Rule'. The Rabobank Group, including Achmea and partner banks, is subject to the Volcker Rule since it controls an FDIC insured bank ('Rabobank N.A.') and maintains a branch in the U.S. ('Coöperatieve Rabobank U.A., New York Branch'). Market Making, Risk-Mitigating Hedging and Trading Outside the United States (TOTUS) are examples of permitted proprietary trading activities under the Volcker Rule. As of 21 July 2015, Rabobank has an internal Volcker compliance program, including the Volcker Risk and Control Framework, reasonably designed to ensure and monitor compliance with the Volcker Rule. In March 2016, the first annual CEO attestation to the US regulator (FED) (including Rabo Securities USA, Inc. under the jurisdiction of SEC) was submitted based on the output of the Volcker Risk and Control Framework. Rabobank has continued working to identify strategies per covered fund and finalising the Risk Control Framework with respect to covered funds in 2016.

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. This means that we know and understand our clients business, strategy, needs and that we grant loans in our customers' best interests while also complying 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 in this regard.

For most of the loan portfolio Rabobank uses internal models in line with the Advanced IRB approach to calculate its regulatory capital requirements in accordance with CRR/CRD IV. The Advanced IRB approach uses the parameters Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The EAD is an estimate of the counterparty's exposure at the time of default. At 30 June 2016, the EAD of Rabobank's total Advanced IRB loan portfolio was EUR 601 (594) billion. This EAD includes the expected future use of unused credit lines. At 30 June 2016, the EAD-weighted average PD of Rabobank's total performing Advanced IRB loan portfolio was 0.92% (0.98%). 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 2016, the LGD percentage of Rabobank's total Advanced IRB portfolio was 24.9% (25.0%).

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 the client complies 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 charges and loan impairment allowance									
	30-06-2016			*31-12-2015*[1]			*30-06-2015*		
in millions of euros	*Loan impairment charges*	*Loan impairment charges in basis points*	*Allowance*	*Loan impairment charges*	*Loan impairment charges in basis points*	*Allowance*	*Loan impairment charges*	*Loan impairment charges in basis points*	*Allowance*
Domestic retail banking	8	0.6	3,647	343	12	3,963	-6	-0.4	4,407
Wholesale banking and international rural and retail banking	117	23	3,004	526	53	2,962	273	54	2,909
Leasing	44	26	316	85	25	344	48	28	381
Real estate	-11	-16	1,118	90	56	1,175	47	57	1,278
Other	-10	n.a.	-	-11	n.a.	34	-6	n.a.	41
Rabobank Group	**148**	**7**	**8,085**	**1,033**	**24**	**8,478**	**356**	**16**	**9,016**

1 Please note that these numbers represent the full-year 2015 and not only 2015-II.

In the first half of 2016, the loan impairment charges were lower than in the previous two periods (full-year 2015 and first half of 2015 respectively), with improvements primarily in wholesale and international rural and retail banking, in domestic retail banking, and in the real estate segment. The main reason for this is that the economic recovery has resulted in fewer new defaults. Other factors contributing to this positive development include the recovery of existing defaults, foreclosures at better-than-anticipated collateral values as well as adequate existing allowances.

Expressed as basis points of the average private sector loan portfolio, loan impairment charges were 7 basis points in the first half of the year, compared to 16 basis points in the first half of 2015. The ten-year average (period 2006-2015) for loan impairment charges is 36 basis points.

Development of loan impairment allowance						
in millions of euros						
Allowance 31-12-2015 (I)	*Write-off 30-06-2016 (III)*	*Net increase 30-06-2016 (IV)*	*Other 30-06-2016 (V)*	*Allowance 30-06-2016 (VI)*	*Received after write-off 30-06-2016 (VII)*	*Loan impairment charges 30-06-2016 (VIII=IV+VII)*
8,478	-706	224	91	8,085	-76	148

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 which 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 had not been experiencing financial difficulties.

The identification of forbearance measures for the corporate portfolio is performed based on the current Loan Quality Classification framework, which distinguishes five categories: Good, OLEM, 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 Special Asset Management department. Furthermore, items in the forbearance category must be reported for up to two years after recovery. This period of two years is referred to as the 'probation period'.

Forborne assets at 30-06-2016

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	278,468	8,336	4,062	3,880	182	4,274	3,956	318	1,500
Wholesale banking and international rural and retail banking	104,126	4,217	1,174	700	474	3,043	2,362	681	1,190
Leasing	30,267	243	68	65	3	174	120	55	49
Real estate	14,058	1,989	58	58	-	1,931	1,875	56	689
Other	429	-	-	-	1	1	-	-	-
Rabobank Group	**427,348**	**14,785**	**5,362**	**4,703**	**660**	**9,423**	**8,313**	**1,110**	**3,428**

Non-performing loans

Non-performing loans

in millions of euros	*30-06-2016*	*31-12-2015*
Domestic retail banking	9,065	9,166
Wholesale banking and international rural and retail banking	5,460	5,644
Leasing	639	681
Real estate	3,821	4,012
Rabobank Group	**18,985**	**19,503**

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 2016, the amount of non-performing loans was EUR 18,985 (19,503) million. This represents a coverage of 42.6% (43.5%) if the allowance is related to the non-performing loans. On 30 June 2016, the total of non-performing loans as a percentage of the private sector loan portfolio was 4.4% (4.6%).

Developments in the real estate portfolio

The commercial real estate market in the Netherlands showed some signs of recovery in 2015. This continued in the first half year of 2016 to a stronger degree. Demand for offices and business premises increased further due to rising GDP and employment. The number of vacant buildings is decreasing, both for offices and retail premises, mainly due to extra initiatives to change the use of vacant buildings as well as to low levels of new developments. However, rental prices are still under pressure in areas outside core locations in large cities. Long-term trends such as demographic ageing, the 'New Way of Working' and online shopping are all important factors in this development. The pressure on retail property in the Netherlands will continue for the coming years, causing difficulties for mid-market retail chains in particular. This is in contrast to the positive demand on the investment side, in which there is significant activity from both domestic and international investors. Low interest rates and limited returns on other investment segments are stimulating investments in real estate. All real estate segments are in demand among investors.

Rabobank's commercial real estate portfolio in the Netherlands was historically managed by FGH Bank and the local Rabobanks. At the beginning of 2015, in the context of One Rabobank, a vision in which Rabobank combines its

operations to provide an optimum customer service, it was announced that FGH Bank would be integrated within Rabobank as a centre of expertise. This integration is in full swing. At EUR 19 million (EUR 43 million) in the first half of 2016, specific loan impairment charges for the combined domestic Rabobank commercial real estate portfolio remained low, confirming the ongoing stabilisation of the quality of the portfolio since 2015.
Nearly the entire commercial real estate portfolio outside the Netherlands is provided by ACC Loan Management. This portfolio is being gradually scaled down. 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 which 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, which are responsible for the day-to-day monitoring and reporting to the Risk Management department of the loans that are subject to transfer risk.
At Group level, the country risk that we run is reported every quarter to the RMC Group and to the Country Limit Committee.

The country risk that we run, including sovereign risk for relevant countries, is monitored 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 is the risk 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 the management and monitoring of market risk, a distinction is made between market risk in the trading environment and market risk in the banking environment.
The various types of market risk are:

Paragraph	*Description*	*Most important risk indicators*	*Monitoring*
Market risk trading environment	Market risk arising from customer-focused activities and market making or for the bank's balance sheet management. Client related trading activities are undertaken by the Markets department, while the Treasury department provides internal liquidity and funding for 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.	Equity at Risk, Income at Risk, Basis point sensitivity	Weekly/ Monthly
Currency risk banking environment	Currency risk arising from the bank's non-trading activities. In particular translation risk that is run on capital invested in foreign activities.	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. Within the trading environment these risks 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
Movements in markets affecting interest rates, equities, credit spreads, currencies and commodities generate market risk as they have an impact on the value of the trading portfolios. Risk positions acquired from clients can either be redistributed to other clients or managed through risk transformation (hedging). The trading desks are also acting as a market-maker for secondary markets (by providing liquidity and pricing) in interest rate derivatives and debt, including Rabobank Bonds and Rabobank Certificates.

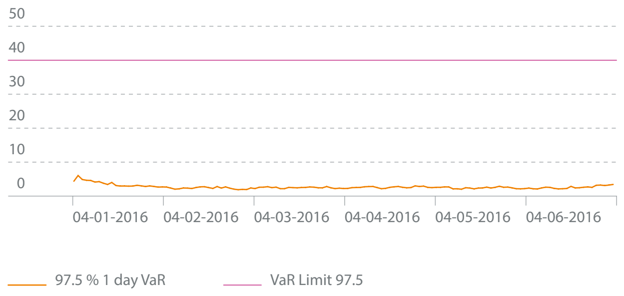
Market risk in the trading environment is monitored daily within the market risk framework, which is put in place to measure, monitor and manage market risk in the trading books. An important part of the framework is an appropriate system of limits and trading controls. The relevant risk appetite limits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

At consolidated level, the market risk appetite is represented by the Value at Risk (VaR), 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 1 day. Under this method, VaR is calculated on the basis of historical market movements and the positions taken.

In the first half of 2016, the VaR fluctuated between EUR 3.5 million and EUR 6.9 million, the average being EUR 4.2 million. This means that under normal circumstances, losses on any single day can be expected not to exceed a maximum of EUR 6.9 million, subject to a confidence level of 97.5%. The VaR amounted to EUR 4.8 million on 30 June 2016. Movements in the VaR were limited and were mostly driven by fluctuations in financial markets. The VaR remained well within the internal limit of EUR 40 million throughout the first half of the year.

Value at Risk
in millions of euros



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 2016, the interest rate delta was EUR 0.8 million negative. The interest rate delta remained well within the set limit of EUR 2.5 million during the reporting period.

Interest rate delta	
in millions of euros	*30-06-2016*
Euro	-0.26
US dollar	-0.58
British pound	-0.01
Other	0.03
Total	**-0.82**

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 also well within the set limit of EUR 200 million during the first half of 2016. It fluctuated between EUR 105 million and EUR 125 million with an average of EUR 115 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 US 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. To meet the needs of its customers, the bank also offers options and products including optionality. 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. Interest rate risk at Rabobank is caused mainly 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, customers' 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 their loans early are not required to pay an early redemption fee in all cases;
- **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 determining factor with respect to interest rate risk in the banking environment. It is actually the most 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 the bank endeavours 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 risk management committees 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 risk management committees 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, among others, hedging transactions. The triggers and timing for the initiation of a hedge depends among other things on interest rate developments and the expected development of the balance sheet. Business units have limited 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, as 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:

- Equity at Risk (EatR),
- Basis Point Value (BPV) or the delta of equity (total and per maturity), and
- Income at Risk (IatR).

The EatR, the BPV of equity and the IatR are used to control and manage the interest rate risk in the banking environment arising from changes in the level of interest rates. The delta per maturity or the delta profile is used to control and manage the risk of changes in the shape of the yield curve, which shows the yield per maturity. The risk appetite of Rabobank is expressed in the EatR, the total BPV of equity and the IatR.

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 this analysis are important for integrated risk management purposes and are included in reports to senior management. Furthermore, the calculation of the amount of capital required to compensate for the effect of unfavourable interest rate developments on the books in the banking environment takes into account both historical interest scenarios and interest scenarios based on expert opinion.

As in 2015, the low interest rate environment required extra attention in the first half of 2016. 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. In the first half of 2016 interest rates became increasingly negative, both at the short and the longer end of the curve. In addition, the current environment of low interest rates is accompanied by a flattening of the curve, causing banks to make less profit on the transformation of short-term liabilities to longer-term assets. The impact will intensify if the situation continues or the yield curve shifts further down to more negative levels. A further decline in interest rates of for example 50 basis points will lead to a (ceteris paribus) structural reduction of roughly EUR 200 million in net interest income. Therefore, 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 EatR and total BPV of equity

In order to manage interest rate risk from the perspective of economic value Rabobank uses the EatR as the main standard. For 2016, the Executive Board has set a lower limit of 0% and an upper limit of 6%.

EatR		
	30-06-2016	*31-12-2015*
EatR	1.1%	2.4%

In the first half of 2016, the EatR decreased from 2.4% to 1.1%. The decline was mainly caused by two factors: the fall in market interest rates and model adjustments regarding prepayments and on-demand savings deposits. In addition to the EatR, Rabobank uses the BPV or delta of equity to control and manage interest rate risk from the perspective of value. In the first half of 2016, the total BPV of equity remained within the limits set.

Risk appetite and developments with regard to IatR

In order to manage the interest rate risk from the earnings perspective, Rabobank uses the IatR as the main standard. The limit for this measure in 2016 is EUR 500 million. The IatR analysis does not take account of active management intervention, but does take account of changes in customers' savings behaviour associated with interest rate developments and of changes to the pricing policy for savings products.

IatR		
in millions of euros	*30-06-2016*	*31-12-2015*
Euro interest rates	Decline by 10 basis points	Decline by 2 basis points
IatR	59	19

Throughout the first half of 2016, Rabobank's net interest income was exposed to an interest rate decrease. On 30 June 2016, the IatR stood at EUR 59 million, compared to EUR 19 million at the end of 2015. This increase is due particularly to the adjustment of Rabobank's IatR methodology. The floor applied has been reduced from 0% to -0.50% and the size of the downward shocks applied has been increased to at least 10 basis points. The shock is also applied if interest rates are already negative. As of 31 December 2015, the assumed maximum decline in euro interest rates was only 2 basis points.

Currency risk in the banking environment

Currency risk is the risk that the bank's financial result and/ or economic value will be negatively affected by changes in exchange rates. Rabobank is exposed to the effect of fluctuations in exchange rates on its financial position and cash flows. Like other market risks, in the trading environment currency risk is managed on the basis of VaR limits set by the Executive Board. In the banking environment, a distinction is made between currency risk in the banking books and translation risk.

Currency risk in the banking books is the risk that arises when receivables and liabilities are not covered, as a result of which currency fluctuations 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, whereby all items in foreign currencies must be valued in euros. This makes the financial data sensitive to exchange rate fluctuations. Translation risk manifests itself in two different ways within Rabobank:

- Exchange rate fluctuations can potentially affect the value of consolidated entities of which the functional currencies are not euros;
- Exchange rate fluctuations 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.

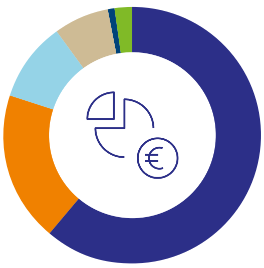
Translation risk and currency risks in the banking books are monitored and managed on the basis of a policy which serves the prime purpose of protecting the Common Equity Tier 1 ratio against the adverse effects of exchange rate volatility.

Liquidity risk

Liquidity risk is the risk that the bank will not be able to meet all of its payment and repayment obligations on time, as well as the risk that the bank will not be able to fund increases in assets at a reasonable price, if at all. 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. A comfortable liquidity position and retaining the confidence of both professional market parties and retail customers have proved to be crucial over the past few years, ensuring unimpeded access to the public money and capital markets for Rabobank.

The liquidity risk policy focuses on financing assets using stable funding, that is, funds entrusted by customers and long-term wholesale funding. Liquidity risk is managed on the basis of three pillars. The first of these sets strict limits for the maximum outgoing cash flows within the wholesale banking business. Among other things, Rabobank measures and reports on a daily basis what incoming and outgoing cash flows can be expected during the next twelve months. Limits have been set for these outgoing cash flows, including limits for each currency and each location. 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.

Currency split HQLA
mid 2016



Euro	61%
US dollar	19%
Swiss franc	10%
Pound sterling	7%
Australian dollar	1%
Other	2%

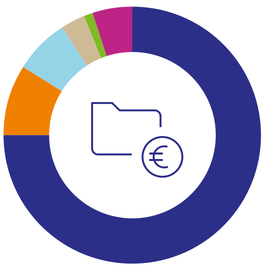
The second pillar is used to maintain a substantial high-quality buffer of liquid assets. In addition to credit balances held at central banks, these assets can be used to be pledged to central banks, in repo transactions, or to be sold directly in the market to generate liquidity immediately. The size of the liquidity buffer is attuned to the risk Rabobank is exposed to in its balance sheet. In addition Rabobank has securitised a portion of the mortgage portfolio internally, which means it can be pledged to the central bank, thereby serving as an additional liquidity buffer. Since this concerns retained securitisations, it is not reflected in the consolidated balance sheet.

The third pillar for managing liquidity risk consists of a good credit rating, high capital levels and prudent funding policies. Rabobank takes various measures to avoid becoming overly dependent on a single source of funding. These include balanced diversification of financing 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.

Total buffer composition (including retained RMBS)
mid 2016

Total holdings of Level 1 assets	67.1%
Total holdings of Level 2a assets	0.8%
Total holdings of Level 2b assets	0.3%
Central banks' eligible self-kept RMBS's	31.8%

Level 1 assets issued by sovereigns
mid 2016



The Netherlands	75%
United States	9%
United Kingdom	7%
France	3%
Germany	1%
Other	5%

Liquidity position

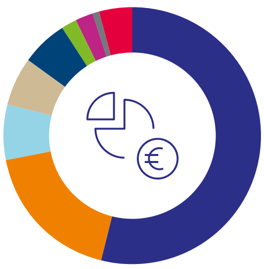
Rabobank's liquidity position remained robust in the first half of 2016. On 30 June 2016, the total liquidity buffer measured in High Quality Liquid Assets (HQLA) was EUR 98 (98) billion. Rabobank's liquidity buffer, measured in terms of the 'Liquidity Coverage Ratio' (LCR) at 127% (128%) and 'Net Stable Funding Ratio' (NSFR) at 116% (116%), remained well within current (and future) limits. Moreover, the available liquidity exceeded the minimum Dutch Central Bank (DNB) requirement by an average of 31% (23%).

HQLA liquidity buffer

in millions of euros	*30-06-2016*	*31-12-2015*
	principal/ market value	principal/ market value
Level 1 assets		
Cash and central bank reserves (after deduction of the average mandatory reserve requirement)	69,022	61,447
Assets issued or guaranteed by government agencies, central banks and multilateral development banks	27,974	33,900
Total holdings of Level 1 assets	**96,996**	**95,347**
Level 2a assets		
Assets issued or guaranteed by government agencies, central banks and multilateral development banks	958	1,553
Non-financial corporate bonds, rated AA- or better	72	128
Covered bonds, not self-issued, rated AA- or better	75	137
Total holdings of Level 2a assets	**1,105**	**1,818**
Level 2b assets		
Residential mortgage-backed securities (RMBS), rated AA or better	156	252
Non-financial corporate bonds, rated BBB- to A+	210	308
Total holdings of Level 2b assets	**367**	**560**
HQLA liquidity buffer	**98,467**	**97,724**
Central bank eligible retained RMBS	45,971	43,789
Central bank other eligible assets	7,675	6,312
Other assets and illiquid shares	3,155	3,235
Total liquidity buffer	**155,269**	**151,061**

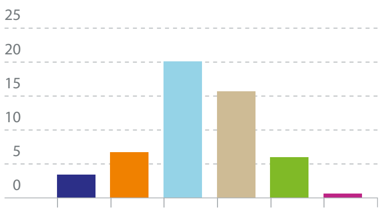
Of the HQLA buffer 70% (62%) consists of deposits at central banks, mainly held at the DNB, the Bank of England, the Swiss National Bank and the Federal Reserve Bank of New York. The most liquid category of buffer assets (Level 1 assets) constitutes approximately 99% (98%) of the HQLA buffer and 62% (63%) of the total buffer. The HQLA buffer contains unencumbered assets and is managed by the Treasury department. In addition to this HQLA buffer, a significant amount of eligible retained RMBS notes, secured by residential mortgages issued by Rabobank, are held as a buffer for liquidity purposes. The liquidity buffer totals EUR 155 (151) billion. In addition, there is a portfolio of EUR 21 (29) billion of securities lending, mainly collateralised by stocks, which can be made liquid in the short term. This portfolio has not been included in the table 'HQLA liquidity buffer'.

Unsecured long-term bonds
by currency, mid 2016



- Euro 54%
- US dollar 18%
- Australian dollar 7%
- Japanese yen 6%
- Pound sterling 6%
- Swiss franc 2%
- New Zealand dollar 2%
- Norwegian krone 1%
- Other 4%

Maturity date calendar, short-term wholesale funding
mid 2016, in billions of euros



- < 1 week
- 1 week - 1 month
- 2 - 3 months
- 4 - 6 months
- 7 - 12 months
- > 12 months

Funding mix

Access to funding		
in billions of euros	*30-06-2016*	*31-12-2015*
Total amounts due to customers	**342.9**	**337.6**
Private savings	**139.4**	**140.5**
- Domestic retail banking	118.6	117.1
- Wholesale banking and international rural and retail banking[1]	20.8	23.5
Other amounts due to customers	**203.4**	**197.1**
Domestic retail banking	100.7	95.4
- Businesses	85.0	82.1
- Private individuals	15.7	13.3
Wholesale banking and international rural and retail banking	102.0	100.9
- Domestic	53.8	50.4
- Foreign[1]	48.2	50.5
Other divisions	0.7	0.8
Wholesale funding	**201.1**	**203.1**
Short-term wholesale funding	52.2	53.1
- Of which Certificates of Deposit / Commercial Paper (CD/CP)	47.3	48.0
- Of which Asset Backed Commercial Paper (ABCP)	4.8	5.1
Long-term wholesale funding	148.9	150.0
- Of which Medium Term Notes	118.0	119.4
- Of which RMBS	15.6	14.4
- Of which subordinated debt securities	15.1	15.5
- Of which Asset-Backed Securities	0.2	0.7

1 Of the total amounts due internationally, EUR 30 (30) billion comes from International Direct Retail Banking activities.

The domestic retail banking business is, to a large extent, funded through retail deposits. For Rabobank Group as a whole, total amounts due to customers increased in the first half of 2016. This increase was mainly due to an increase in short-term deposits placed by non-bank financial institutions and corporates, while short-term deposits placed by central banks decreased. The dependency on wholesale funding decreased as a result of the increase in amounts due to customers.

In the first half of 2016, Rabobank issued EUR 11 billion of senior unsecured long-term bonds in ten 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 issued unsecured long-term bonds is approximately 5.7 years (5 years).

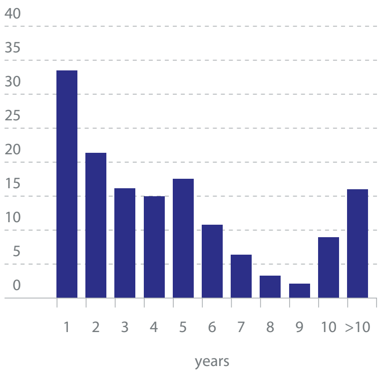
Of the total outstanding wholesale funding (excluding commercial paper and certificates of deposit) more than EUR 47 billion matures after five years or longer.

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 good creditworthiness. In the first half of 2016 the average remaining maturity of the short-term debt increased by 8 days to 98 days (90 days).

Additional contractual commitments in case of a rating downgrade

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

Maturity date calendar, long-term wholesale funding
mid 2016, in billions of euros



Potential maximum outflow 30-06-2016				
in millions of euros	*Funding*	*Derivatives*	*Other*	*Total*
Rating downgrade:				
0 notch	917	-	118	1,035
1 notch	1,254	56	764	2,074
2 notch	23	1,023	3,996	5,042
3 notch	1,597	745	172	2,514
Total in case of three notches	**3,791**	**1,824**	**5,050**	**10,665**

In the table a split has been made between funding, derivatives and other instruments. Funding instruments include fixed-term deposits, bonds, loans and professional funding with rating triggers. Two important components within the funding category presented here are funding from the European Investment Bank (EIB) and Guaranteed Investment Contracts (GIC) accounts. 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 a client. For instance, a Letter of Credit or a guarantee on behalf of a client granted by Rabobank may sometimes contain a rating trigger. This means that, under certain circumstances, the beneficiary of this guarantee may request that the guaranteed sum be paid out if the rating of Rabobank drops. In that case, Rabobank has a direct claim on the customer for whom the guarantee was provided. This initial outflow is recognised under 'Other'.

Asset encumbrance

In certain cases, assets on the bank's balance sheet are encumbered (encumbrance). 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[1]. 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.

1 The IFRS, DNB and local regulators all have their own definitions of asset encumbrance.

On 30 June 2016, EUR 57 (EUR 52) billion of the assets of Rabobank's balance sheet was encumbered. The on-balance asset encumbrance primarily comprises mortgages and other loans used to cover securitisations. Furthermore assets are encumbered for minimum reserve requirements and margining of derivatives.

Table A: Assets per 30-06-2016				
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	**57,060**		**629,533**	
Loans on demand	3,641		70,382	
Equity instruments	2	2	1,594	1,594
Debt securities	10,753	10,753	28,088	28,086
Loans and advances others than loans on demand	41,918		434,740	
Other assets	746		94,729	

Securities received in reverse repo transactions are not recognised on the balance sheet. Instead they are considered as off-balance sheet collateral received. Most of the collateral swaps and repurchase agreements that Rabobank performs are conducted using securities received in reverse repo transactions. These so-called re-used securities are therefore reported as encumbered collateral received. On 30 June 2016 the total off-balance sheet encumbrance amounted to EUR 11 (11) billion.

Table B: Collateral received per 30-06-2016

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	**10,831**	**41,396**
Loans on demand	-	389
Equity instruments	6,368	19,296
Debt securities	4,463	11,986
Loans and advances others than loans on demand	-	-
Other collateral received	-	9,725
Own debt securities issued other than own covered bonds or ABSs	**-**	**-**

The total asset encumbrance per 30 June 2016 was EUR 68 (63) billion. This included both on-balance and off-balance encumbered assets. The increase in encumbrance can mainly be explained by variations in the value of derivatives, for which additional collateral was pledged, and participation in the Targeted Long-Term Refinancing Operation (TLTRO). The median asset encumbrance, measured over the last four quarters, was 9% (8%). The median asset encumbrance, measured over the balance sheet of Rabobank, was 8% (8%).

The previous two tables presented an overview of the total encumbered on-balance and off-balance assets. The following table presents these two tables combined, along with their associated liability. The table shows that the majority of Rabobank's asset encumbrance can be associated with derivatives and issued debt, which amounted to EUR 23 billion and EUR 22 billion, respectively.

Table C: Matching liabilities per 30-06-2016

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	**51,198**	**52,536**
Derivatives	22,525	22,525
Repurchase agreements	1,647	1,646
Collateralised deposits other than repurchase agreements	5,659	6,724
Debt securities issued	21,367	21,642
of which asset-backed securities issued	20,592	20,867
Other sources of encumbrance	**15,330**	**15,355**
Total sources of encumbrance	**66,528**	**67,892**

Importance of asset encumbrance for Rabobank

Rabobank has encumbered part of its mortgage and loan portfolio to cover 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 over collateralised. Next to that Rabobank, has 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 has participated 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 (CSA) 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 Table A mainly relate to derivatives, real estate, property and deferred tax. The majority of this positon is not available for encumbrance. Rabobank has intragroup encumbrance which results from intragroup securities finance transactions.

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.

Within Rabobank, the departments involved in the bank's primary processes constitute the 'first line of defence'. These departments are fully responsible for the day-to-day risk acceptance and integrated risk management and mitigation within the established risk appetite framework. The risk management functions within the group entities and within Risk Management combined constitute the 'second line of defence'. The risk management functions have a monitoring role with regard to risks and challenge 'the first line of defence' with respect to the manner in which it manages risks. In addition, they report on the risk profile to the management and to the Executive Board, independently from the first line. Internal audits form the ‘third line of defence’.

At Group level, the Non-Financial Risk Committee (NFRC) is responsible for formulating policy and setting the parameters. In addition, Risk Management also reports each quarter to the NFRC on changes in operational risks at Group level. A number of risk management committees have been established within the group’s entities. Their responsibilities include monitoring the operational risks (including system continuity risks and fraud risks) of the relevant entity.

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.

Interim financial information

Consolidated statement of financial position

Consolidated statement of financial position			
Amounts in millions of euros	*30-06-2016*	*31-12-2015*	*30-06-2015*
Assets			
Cash and balances at central banks	73,219	64,943	43,066
Loans and advances to banks	24,378	31,210	41,611
Financial assets held for trading	3,867	3,472	3,776
Financial assets designated at fair value	1,567	2,196	3,593
Derivatives	57,339	48,113	50,210
Loans and advances to customers	463,686	466,799	477,454
Available-for-sale financial assets	35,838	37,773	38,476
Investments in associates and joint ventures	3,567	3,672	3,776
Goodwill and other intangible assets	1,127	1,493	1,508
Property and equipment	4,512	7,765	7,363
Investment properties	334	381	440
Current tax assets	184	193	150
Deferred tax assets	2,398	2,390	2,268
Other assets	10,223	7,999	11,234
Non-current assets held for sale	4,354	155	164
Total assets	**686,593**	**678,554**	**685,089**
Liabilities			
Due to banks	21,903	19,038	20,967
Due to customers	342,940	345,884	338,514
Debt securities in issue	171,418	174,991	186,274
Derivatives and other trade liabilities	64,910	55,129	57,585
Other liabilities	7,902	8,050	8,599
Financial liabilities designated at fair value	18,523	16,991	18,035
Provisions	1,433	993	719
Current tax liabilities	263	203	131
Deferred tax liabilities	520	575	484
Subordinated liabilities	15,165	15,503	12,462
Liabilities held for sale	857	-	-
Total liabilities	**645,834**	**637,357**	**643,770**
Equity			
Reserves and retained earnings	25,387	25,623	25,676
Equity instruments issued directly			
- Rabobank Certificates	5,949	5,949	5,948
- Capital Securities	7,655	7,826	7,846
	13,604	**13,775**	**13,794**
Equity instruments issued by subsidiaries			
- Capital Securities	179	176	170
- Trust Preferred Securities III to IV	1,062	1,131	1,145
	1,241	**1,307**	**1,315**
Other non-controlling interests	527	492	534
Total equity	**40,759**	**41,197**	**41,319**
Total equity and liabilities	**686,593**	**678,554**	**685,089**

Condensed consolidated statement of income

Condensed consolidated statement of income		
Amounts in millions of euros	*First half year 2016*	*First half year 2015*
Net interest income	4,375	4,482
Net fee and commission income	982	962
Other income	446	1,483
Income	**5,803**	**6,927**
Staff costs	2,264	2,407
Other administrative expenses	1,803	1,214
Depreciation	209	212
Operating expenses	**4,276**	**3,833**
Impairment losses on goodwill	-	600
Loan impairment charges	148	356
Regulatory levies	246	121
Operating profit before tax	**1,133**	**2,017**
Income tax	209	495
Net profit	**924**	**1,522**
Of which attributed to Rabobank	270	868
Of which attributed to holders of Rabobank Certificates	193	193
Of which attributed to Capital Securities	399	393
Of which attributed to Trust Preferred Securities III to IV	30	31
Of which attributed to other non-controlling interests	32	37
Net profit for the period	**924**	**1,522**

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income		
Amounts in millions of euros	*First half year 2016*	*First half year 2015*
Net profit for the period	924	1,522
Unrealised after-tax profit in the period transferred to profit or loss if specific conditions are met:		
Foreign currency translation reserves		
Exchange rate differences	(122)	39
Revaluation reserves – Available-for-sale financial assets		
Exchange rate differences	-	(16)
Changes at associates	41	(36)
Fair value changes	65	30
Amortisation of reclassified assets	1	6
Transferred to profit or loss	(38)	9
Revaluation reserves – Held for sale		
Available-for-sale financial assets	5	-
Revaluation reserves – Associates		
Fair value changes	(2)	-
Revaluation reserves – Cash flow hedges		
Fair value changes	99	1,014
Transferred to profit or loss	(133)	(1,064)
Unrealised after-tax profit in the period not to be transferred to profit or loss:		
Remeasurement reserve – Pensions		
Changes at associates	(6)	-
Fair value changes	5	(9)
Total comprehensive income for the period recognised directly in equity	**(85)**	**(27)**
Total comprehensive income	**839**	**1,495**
Of which attributed to Rabobank	175	829
Of which attributed to holders of Rabobank Certificates	193	193
Of which attributed to Capital Securities	399	393
Of which attributed to Trust Preferred Securities III to IV	30	31
Of which attributed to other non-controlling interests	42	49
Total comprehensive income	**839**	**1,495**

Condensed statement of changes in equity

Condensed statement of changes in equity					
Amounts in millions of euros	*Reserves and retained earnings*	*Equity instruments issued directly*	*Equity instruments issued by subsidiaries*	*Other non-controlling interests*	*Total*
Balance on 1 January 2016	**25,623**	**13,775**	**1,307**	**492**	**41,197**
Total comprehensive income	759	-	38	42	839
Payments on Rabobank Certificates	(193)	-	-	-	(193)
Payments on Trust Preferred Securities III to IV	-	-	(18)	-	(18)
Payments on Capital Securities	(439)	-	(8)	-	(447)
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	(3)	25	(78)	(7)	(63)
Balance on 30 June 2016	**25,387**	**13,604**	**1,241**	**527**	**40,759**
Balance on 1 January 2015	**24,894**	**12,280**	**1,224**	**473**	**38,871**
Adjustment opening balance	(83)	-	-	-	(83)
Revised amount on 1 January 2015	**24,811**	**12,280**	**1,224**	**473**	**38,788**
Total comprehensive income	1,407	-	39	49	1,495
Payments on Rabobank Certificates	(193)	-	-	-	(193)
Payments on Trust Preferred Securities III to IV	-	-	(18)	-	(18)
Payments on Capital Securities	(420)	-	(7)	-	(427)
Rabobank Certificates issued during the period	-	17	-	-	17
Issue of Capital Securities	-	1,500	-	-	1,500
Cost of issue of Capital Securities	-	(12)	-	-	(12)
Other	71	9	77	12	169
Balance on 30 June 2015	**25,676**	**13,794**	**1,315**	**534**	**41,319**

Condensed consolidated statement of cash flows

Condensed consolidated statement of cash flows		
Amounts in millions of euros	*First half year 2016*	*First half year 2015*
Operating profit before tax from continuing operations	1,133	2,017
Non-cash items recognised in operating profit before tax	1,508	983
Net change in assets and liabilities relating to operating activities	5,270	(6,715)
Net cash flow operating activities	**7,911**	**(3,715)**
Net cash flow from investing activities	**1,083**	**701**
Net cash flow from financing activities	**584**	**870**
Net change in cash and balances at central banks	**9,578**	**(2,144)**
Cash and balances at central banks at 1 January	64,943	43,409
Net change in cash and balances at central banks	9,578	(2,144)
Foreign exchange differences on cash and balances at central banks	(1,302)	1,801
Cash and balance at central banks at 30 June	**73,219**	**43,066**

Notes to the interim financial information

Basis for preparation

The condensed consolidated interim financial information of Rabobank Group has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and is presented in conformity with IAS 34 Interim Financial Reporting. If not separately stated, all amounts are in millions of euros.
For the publication of its interim report, Rabobank Group has opted for the alternative of presenting condensed versions of its consolidated statement of financial position, its consolidated statement of income, its consolidated statement of changes in equity and its consolidated statement of cash flows.
These interim financial statements does not include all the information and disclosures required in the consolidated financial statements and should be read in conjunction with the 2015 consolidated financial statements of Rabobank Group, which were prepared in accordance with the International Financial Reporting Standards (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 2015 Consolidated financial statements of Rabobank Group, except for the changes in accounting policies described in paragraph 'Application of new standards and Other 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.

Judgements and estimates

In preparing the 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 interim financial statements, and the amounts reported for income and expenses during the reporting period.
Some accounting principles require critical estimates that are based on assessments and assumptions. Although management estimates are based on the most careful assessment of current circumstances and activities on the basis of available financial data and information, the actual results may deviate from these estimates. The following accounting principles have been identified as those principles which lead to high assessment and estimation uncertainty.

Loan impairment allowance

Loan impairment allowances are recognised if there is objective evidence that Rabobank will not be able to collect all amounts due under the original terms of the contract. Determining an allowance requires a significant degree of judgement formulation, based on the evaluation by the management of the risks in the loan portfolio, the current economic circumstances, credit losses over the previous years, as well as developments in financial credits, business sectors, business concentrations and geopolitical factors. Changes in management judgement formulation as well as further analyses may lead to changes in the magnitude of loan impairment allowance over time. Determining objective evidence for decreased creditworthiness and determining the magnitude of the recoverable amount form part of the processes that are surrounded by inherent uncertainty and which involve various assumptions and factors regarding the creditworthiness of the borrowers, 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 paragraph 'Fair value of financial assets and liabilities'.

Impairment on goodwill

Goodwill is assessed for impairment losses by comparing the recoverable value to the carrying amount. The most important assumptions for determining the recoverable value are included in Section 14 of the 2015 consolidated financial statements of Rabobank Group.

Taxation

Estimates are used when determining the income tax and the related current and deferred tax assets and liabilities. The fiscal treatment of transactions is not certain in every case and tax returns of past years sometimes still needs approval from the applicable tax authorities in various countries. The tax assets and liabilities reported are based on all known information, and where relevant, external advice. Differences between the final outcome and the estimates are reported in the current and deferred tax assets and liabilities in the period in which certainty is obtained.

The other valuation principles and critical estimates that require judgement are provisions and the consolidation of structured entities.

Consolidation principles

The interim financial information of Rabobank Group includes the financial information of Coöperatieve Rabobank U.A. and that of the group companies. Up until 31 December 2015, Rabobank Group consisted of the local Rabobanks (Members), the central cooperative (Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.) and a number of specialised subsidiaries. On 1 January 2016, the local Rabobanks and Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. entered into a legal merger. Furthermore, on 1 January 2016, the name of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. was changed into Coöperatieve Rabobank U.A. The legal merger has no impact on the consolidated figures.

Application of new reporting standards

On 1 January 2016, Rabobank adopted the following amendments and improvements:

- Improvements to International Financial Reporting Standards cycle 2010-2012 and cycle 2012-2014;
- Amendments to IAS 19 Defined benefit plans: Employee Contributions;
- Amendments to IAS 1: Disclosure initiative;
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation; and
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations.

None of the above amendments and improvements has a significant impact on the interim financial statements.

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

IFRS 9 Financial Instruments

In July 2014, the 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 expected to be endorsed by the EU in the second half of 2016. IFRS 9, in particular the impairment requirements, will lead to significant changes in the accounting for financial instruments.

Classification and measurement

Financial assets are classified and measured in two ways: how Rabobank manages them, and the type of contractual cash flows in these assets. Both are used to determine whether the financial assets are included at amortised cost, fair value with adjustments in the values thereof processed through other comprehensive income (FVOCI), or through the profit and loss account (FVTPL). In many cases, the classification and measurement will be in line with IAS 39, but may deviate with respect to embedded derivatives and equity instruments. There are almost no changes in the processing of financial liabilities with the exception of certain liabilities at fair value where the results have to be included in equity because of changes to Rabobank's own credit risk.

Impairments

The rules governing impairments apply to financial assets at amortised cost and FVOCI, as well as to lease receivables, certain lending liabilities and financial guarantees. At initial recognition, an allowance is taken for the amount of the expected credit losses from possible non-payment in the coming 12 months ('12-months expected credit loss' (ECL)). If the credit risk increases significantly, an allowance will be required to the amount of the expected credit losses from possible non-payment during the expected term of the financial asset ('ECL term'). In determining the amount of these allowances IFRS 9 is based on expected future credit losses while IAS 39 is based on credit losses incurred. In this way, the impairments will be pro-cyclical and the resulting impairment charge will tend to be more volatile. In addition, the size of the allowances will be higher because under IFRS 9, in addition to the current allowance for positions already in default, an allowance will be taken for all other financial assets equivalent to the size of the 12-month ECL or period ECL.

Hedge accounting

The hedge accounting rules envisage simplifying hedge accounting by establishing a closer link to the risk management strategy and allowing a broader range of hedging instruments and risks to be hedged. IFRS 9 does not explicitly address the subject of macro-hedge accounting; this is seen as a separate subject. In order to avoid a possible conflict between the current practice of macro-hedge accounting and new hedge-accounting rules, IFRS 9 provides the option of continuing to use the current IAS 39 conditions governing macro-hedge accounting.

Application

The rules governing classification, measurement and impairments will be applied retrospectively by amending the opening balance sheet on 1 January 2018. There is no obligation to amend the comparative figures. The outlook for the hedge-accounting conditions is that they will come into effect on 1 January 2018.

Expected impact

Rabobank has a program to implement the requirements of IFRS 9. The IFRS 9 program is a joint responsibility of the risk and finance departments in cooperation with other departments involved. With respect to the new impairment requirements during 2016 the work has continued on developing IFRS 9 models, processes, systems and controls ahead of the parallel-run in 2017. With respect to Classification and Measurement a portfolio assessment is being executed in order to determine the appropriate classification categories of the financial assets of Rabobank. Also, the impact on processes, systems and controls is being assessed. In relation to hedge accounting Rabobank currently anticipates to continue the IAS 39 hedge accounting strategies and methodology as allowed by IFRS 9.

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

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The original effective date of IFRS 15 has been delayed by one year and the standard is now 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 available. Rabobank is currently assessing the impact of this standard.

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 measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. Rabobank is currently assessing the impact of this standard.

IFRS 14 Regulatory Deferral Accounts

The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.

Other amendments to IFRS

There have been minor amendments to IAS 7 and IFRS 12.

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 have a significant impact on net profit or equity.

Other changes in accounting principles and presentation

Change in accounting principle

IAS 32 'Financial Instruments: Presentation' prescribes that a financial asset and a financial liability shall be offset when there is a simultaneous legally enforceable right to set off and an 'intention to settle on a net basis'. Rabobank has both the legally enforceable right (by contract) to set off the amounts under a notional cash pooling arrangement as well as the intention to settle on a net basis. IFRS is principle based and does not prescribe how the intention to settle on a net basis is evidenced. Rabobank applies certain practices to evidence that the requirement of 'intention to settle net' is met. In April 2016, an Agenda Rejection Notice was published by the IFRS Interpretations Committee on balance sheet offsetting of notional cash pooling products. The issue relates to the question whether certain cash pooling arrangements would meet the requirements for offsetting under IAS 32. The IFRS Interpretations Committee provided further clarification that the transfer of balances into a netting account should occur at the period end to demonstrate an intention to settle on a net basis. As a result of the Agenda Rejection Note, which is applicable from 6 April 2016, Rabobank has changed its accounting policy and therefore as a result performs physical transfers of cash balances of clients into a single netting account on a near to the period end basis to evidence the intention to settle net. This change in accounting policy is accounted for retrospectively and the netting procedures have been adjusted in 2016 resulting in the netting of cash pools per June 2016 for an amount of EUR 8,320 million. The comparable figures have been adjusted by reversing the netting that took place in 2015. The Loans and advances to customers and Due to customers have been increased by EUR 8,291 million per December 2015 and EUR 10,355 million per June 2015.

Adjustment opening balance equity 2015

As at 31 December 2015, receivables were overstated for an amount of EUR 110 million. This amount has been reported as income in years prior to 2013. In accordance with IAS 8, the opening balance of equity as per 1 January 2015 has been adjusted retrospectively from EUR 24,894 million to EUR 24,811 million. The Loans and advances to customers have been lowered by EUR 110 million and the Current tax liabilities have been decreased by EUR 27 million per June and December 2015.

Disclosures required under IAS 34.15, 15B and 16A

No significant events or transactions occurred during the first half of 2016 except for the events and transactions disclosed in this interim report. The disclosures required under IAS 34.16A are presented below:

- There are no items other than those set out in this report that affect assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence.
- Generally the estimating methodologies do not vary materially from those stated in the 2015 consolidated financial statements. Where the estimating methodologies do vary this is disclosed in the Interim report 2016.
- Rabobank made various issues, repurchases and repayments of bonds, however these are part of Rabobank's ordinary operations.
- Rabobank's interim operations are not of a seasonal or cyclical nature.
- Rabobank made payments to owners of equity instruments as set out in the condensed consolidated statement of changes in equity.
- The 'Business segments' section has been prepared in conformity with the requirements of IFRS 8.
- There have been no events after the reporting date that provide additional information regarding the actual situation at the reporting date other than those set out in this report.
- There were no changes during the interim period in obtaining or losing control of subsidiaries and long-term investments, and discontinued operations.
- The disclosures required under IFRS 13 and IFRS 7 are presented in paragraph Fair value of financial assets and liabilities.

Notes to the primary financial statements

Income

Net interest income

Interest		
Amounts in millions of euros	*30-06-2016*	*30-06-2015*
Total interest income	8,256	8,880
Total interest expense	3,881	4,398
Net interest income	**4,375**	**4,482**

Total income of Rabobank Group decreased by 16% in the first half of 2016 to EUR 5,803 (6,927) million. Net interest income decreased to EUR 4,375 (4,482) million. For domestic retail banking a lower net interest income was caused by a lower average loan portfolio at local Rabobanks, and lower margins on payment accounts compared to the same period last year. At wholesale banking and international rural and retail banking, net interest income decreased in the first half of 2016, impacted by lower results within the treasury area. Net interest income at DLL was stable and at FGH Bank the decrease in the loan portfolio resulted in lower net interest income in the real estate segment.
Income from liabilities with negative interest rates is reported as an interest income and expenses from assets with negative interest rates as an interest expense. The negative interest recorded in the first half year is insignificant.

Net fee and commission income

Fee and commission income		
Amounts in millions of euros	*30-06-2016*	*30-06-2015*
Total fee and commission income	1,090	1,051
Total fee and commission expenses	108	89
Net fee and commission income	**982**	**962**

Net fee and commission income increased by 2% to EUR 982 (962) million in the first half of 2016. At the local Rabobanks, commission on payment services increased. At WRR, net fee and commission income increased in line with strategy of more fee generating business and as result of growth of the loan portfolio. Also at DLL the growth of the loan portfolio resulted in higher net fee and commission income. The rise was tempered by the fall in net fee and commission income from the real estate segment, where the demerger of Fondsenbeheer Nederland in the first half of 2015 pushed up net fee and commission income.

Other income

Other income decreased by 70% to EUR 446 (1,483) million in the first half of 2016 due to a number of factors. The gross result due to imperfections and restrictions in the application of hedge accounting and the gross result on structured notes decreased by EUR 752 million compared to the same period last year. Hedge accounting can be applied under IFRS in order to mitigate P&L volatility in the consolidated statement of income. The P&L volatility is caused by valuation and classification differences between available-for-sale assets measured at fair value, loans granted and issued debt measured at amortised cost on the one hand, and related hedging derivatives measured at fair value through profit and loss on the other. IFRS does not allow the designation of hedge accounting relationships for all types of economic hedges. As a result of these imperfections and restrictions in the application of hedge accounting, even when the risk is economically fully hedged, the P&L volatility cannot be completely offset by applying hedge accounting. Structured notes are issued notes with optionality and/or other embedded derivatives which are mainly linked to interest rates, inflation and equity, or have a callable feature and are issued in a wide range of currencies. The primary objective is to raise long-term funding under favourable conditions compared to the larger public bond issues. This is possible as structured notes are sold to investors and structured at their request ('reverse enquiry'). Furthermore, issuance of structured notes diversifies Rabobank's funding profile and allows for issuing with non-standard terms.

Because of the embedded derivatives, fair value accounting is applied to these notes. Under IFRS the fair value must include the impact of changes in the own credit risk. Although all structured elements are fully hedged, movements in Rabobank's own credit spread can still lead to a profit or loss. Credit spreads are a function of the perceived creditworthiness of Rabobank, but also of sector-specific events, home country events and the broader macro-economic outlook, so can be rather volatile. Furthermore, issuance below secondary market levels can lead to first day profits, reflecting the comparative funding advantage. Despite significant first day gains on several newly issued notes, a net loss was reported for structured notes in the first half of 2016 which was mostly driven by a steep drop in interest rates[1] spurred by Brexit and a tightening of Rabobank's own credit spread. This stood in contrast to the first half of 2015, driven by the Greek turmoil, when a widening of the credit spreads resulted in a net gain.

Furthermore, at WRR other income had been particularly high in the first half of 2015 as result of positive revaluations in the private equity portfolio and the sale of most of Rabobank's interest in Agricultural Bank of China. Other income at WRR decreased to regular levels in the first half of 2016. The decrease was only partly offset by the increase in other income at the local Rabobanks due to the sale of a part of their mortgage portfolio. Finally, the results from our participation in Achmea deteriorated in the first half of 2016 due to extreme weather events and higher healthcare expenses.

Operating expenses

Staff costs

In the first half of 2016 total operating expenses increased by 12% to EUR 4,276 (3,834) million, in particular due to an increase in other administrative expenses. The total number of employees (including external hires) at Rabobank Group decreased by 1,888 FTEs to 49,971 (51,859) FTEs. The largest reduction in staff numbers was at the local Rabobanks.
In addition fringe benefits were sobered. These developments caused staff costs to fall by 6% to EUR 2,264 (2,407) million.

Other administrative expenses

Other administrative expenses increased by 49% to EUR 1,803 (1,214) million in the first half of 2016. Restructuring costs amounted to EUR 190 (26) million in the first half of 2016. These were incurred mostly for redundancies at local Rabobanks, Rabobank Nederland and, to a lesser extent, FGH Bank. Furthermore, an additional provision of EUR 514 (0) million was made in the first half of 2016 after Rabobank adopted the SME interest rate derivatives recovery framework. These movements were only partly levelled out by a provision release for legal claims at WRR.

Depreciation

As a result of lower depreciation on intangible assets, depreciation fell by 1% to EUR 209 (212) million.

Loan impairment charges

With EUR 148 (356) million in the first half of 2016, the loan impairment charges were lower than in the previous two six-month periods (second and first half of 2015), with improvements primarily in wholesale and international retail banking, in domestic retail banking and in the real estate segment. The main reason for this is that the economic recovery has resulted in fewer new defaults. Other factors

1 Sensitivity to interest rates predominantly lies in callable notes. Decreasing interest makes it more likely that the call option will be exercised, decreasing the expected life of the note. Given an upward sloping credit spread curve, a shorter-than-expected life corresponds with a lower point on the credit curve, negatively impacting P&L.

contributing to this positive development include the recovery of existing defaults, foreclosures at better than anticipated collateral values as well as adequate existing allowances. Relative to the average private sector loan portfolio, loan impairment charges amounted to 7 (16) basis points with a long-term average (2006-2015) of 36 basis points.

Loans and advances to customers

Early repayments on residential mortgage loans contributed to a decrease of the loan portfolio of the local Rabobanks and the loan portfolio at real estate financier FGH Bank was also reduced. The loan portfolio of Wholesale, Rural & Retail (WRR) grew, due to, among others, growth in the rural banking portfolio. The private sector loan portfolio also increased as result of a strong asset growth at the Trade & Commodity Finance business unit. At DLL, our leasing subsidiary, the loan portfolio increased on the back of better economic conditions. In aggregate, the private sector loan portfolio at Group level increased by EUR 1.3 billion to EUR 427.3 (426.0) billion in the first half of 2016.

Loan portfolio		
in billions of euros	*30-06-2016*	*31-12-2015*
Total loans and advances to customers	**463.7**	**466.8**
Change in accounting policy	-	8.3
Governments clients	4.0	3.4
Reserve repurchase transactions and securities borrowings	21.5	20.1
Interest rate hedges (hedge accounting)	10.9	9.0
Private sector loan portfolio	**427.3**	**426.0**

In March 2016, Rabobank sold parts of its mortgage portfolio worth EUR 1.0 billion to the insurance company VIVAT Verzekeringen. In June FGH Bank sold a portion of EUR 0.2 billion of real estate loans. In July 2016 subsequent to the reporting date, EUR 0.5 billion of mortgage loans was sold to insurance company Delta Lloyd. Also in July 2016 Obvion reduced her balance sheet with EUR 1.4 billion through a sale of Dutch mortgages.

Property and equipment

In the first half of 2016, the carrying value of property and equipment decreased by EUR 3,253 million. This is mainly due to the sale of Athlon and the classification of property and equipment of Athlon as non-current assets and liabilities held for sale for an amount of EUR 3,373 million.

Non-current assets and liabilities held for sale

Sale of Athlon

Rabobank has reached an agreement to sell its mobility solutions entity Athlon Car Lease International B.V. including all its subsidiaries to Mercedes-Benz Financial Services Nederland B.V., a part of the Daimler Financial Services global network. A Sale and Purchase Agreement has been signed by both parties as of 30 June 2016.
The sale transaction is expected to be completed by the end of 2016, once all required approvals and consents have been obtained from the necessary regulatory authorities and other relevant bodies. Athlon is part of the leasing segment and the consideration for the shares amounts to EUR 1.1 billion. No write down of the carrying value is recognised in accordance with IFRS 5 as at 30 June 2016.
The following assets and liabilities, excluding intercompany assets and liabilities, are presented under non-current assets and liabilities held for sale in relation to Athlon:

Assets and liabilities Athlon	
Amounts in millions of euros	*30-06-2016*
Loans and advances	92
Property and equipment	3,373
Goodwill and other intangible assets	368
Other assets	355
Total assets	**4,188**
Due to third parties	14
Debt securities in issue	489
Other liabilities	354
Total liabilities	**857**

Other non-current assets held for sale

The other non-current assets held for sale amount to EUR 166 (155) million; they mainly comprise various types of real estate (including residential and commercial) in a variety of countries and are mainly recognised in the real estate segment. The book value is expected to be realised through sale rather than through continued operation. The real estate classified as held for sale consists mostly of unique objects.

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 case 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 fifty percent) 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 (if 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 fifty percent 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 those 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.

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 defence. Rabobank Group may also opt to settle when it considers the potential consequences of losing a case to be disproportionate to the costs of a settlement. 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. Therefore, the legal cases described in this section for which no provision was recognised are contingent liabilities.

Interest rate derivatives in the SME segment

Rabobank concludes interest rate derivatives, such as interest rate swaps, with 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.

For SME business customers who have both a loan and an interest rate derivative with Rabobank, the bank (re)assessed their interest rate derivatives positions in 2014 and 2015. If an interest rate derivative did no longer suit a customer's requirements when it entered into such a derivative, the bank and the customer set out to find a solution acceptable to the customer. Solutions varied from adjustments to the loan and/or the interest rate derivative to (partial) compensation for one or more issues related to the individual case. Each of these solutions was tailor-made, which means that all the circumstances of a case known to Rabobank, as well as knowledge of the company concerned, were considered in the assessment. The assessment was close to being finalised in December 2015 when the Netherlands Authority for the Financial Markets (AFM) identified flaws in its own scrutiny of the assessments. In March 2016, the Dutch Minister of Finance appointed an independent committee, which on 5 July 2016, published its recovery framework (the 'Recovery Framework') on the reassessment of SME interest rate derivatives. Rabobank announced its decision to take part in the Recovery Framework on 7 July 2016. Implementation of the Recovery Framework is expected to last until mid 2017.

Rabobank is involved in civil proceedings in the Netherlands relating to interest rate derivatives. The majority of these concern individual cases. In addition, there is a pending collective action regarding interest rate derivatives. These actions include allegations relating to alleged misconduct in connection with Rabobank's Euribor submissions (as described above) and allegations of mis-selling the 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 SME business customers, Rabobank has recognised a provision for the anticipated compensation amounts in accordance with the framework published on 5 July 2016 and based on a review of relevant client files.

Fortis

The Dutch Investors Association (VEB) has 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 investors were misled by the prospectus published by Ageas N.V. in connection with its rights issue in September 2007. The VEB states that the impact and risks of the subprime crisis for Fortis and its liquidity position were misrepresented in the prospectus and 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. Rabobank maintains the view that the aforementioned loss of EUR 18 billion 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 and a final 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). This settlement is to be declared binding for all eligible Fortis shareholders in accordance with the Wet Collectieve Afwikkeling Massaschade. The legal proceedings relating to the above VEB claim have been suspended until this is finalised.

On 23 May 2016, the parties to the settlement requested the Amsterdam Court of Appeal to declare the settlement binding for all eligible Fortis shareholders. In case 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 on the binding nature of the settlement 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.

If the Court of Appeal does not declare the settlement binding for all eligible Fortis shareholders or if Ageas exercises its right to annul the settlement in case the opt-out ratio exceeds a certain limit, the proceedings against the VEB described above, in principle will resume as before the suspension.

Libor/Euribor

Rabobank has received a number of requests in recent years from regulators in various countries to issue 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 global 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. Additionally, some of these settlement agreements required Rabobank to: (i) improve measures or to continue their implementation; and (ii) to cooperate on a continuous basis with ongoing investigations into the conduct of Rabobank and of its current and former employees in respect of the inappropriate conduct relating to interest rate benchmark submissions. Rabobank continues to comply with all its obligations under these settlement agreements.

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 Argentinian consumer protection organisation brought an alleged class action suit against Rabobank in Argentina in relation to USD Libor. Rabobank has also been summoned to appear before various Dutch courts in civil proceedings relating to Euribor. Furthermore, various individuals and entities (including a Dutch collective claim foundation) 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 US 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 defences against these claims. Rabobank has the intention to continue to defend itself against these claims.

BSA/AML

In 2015, Rabobank concluded 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 US region.

In December 2013, via Consent Order, the US Office of the Comptroller of the Currency commenced a civil enforcement action against Rabobank, National Association (RNA) in connection with issues related to RNA's BSA/AML compliance program. 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 US Department of Justice (DOJ) advised Rabobank that it was investigating RNA for possible violations of the Bank Secrecy Act and related regulations and statutes. As part of its ongoing investigation, the DOJ has requested documentation and other information to be submitted to it, and is conducting interviews of both current and former employees. Both Rabobank and RNA are providing their full cooperation with these investigations.

Reserves and retained earnings

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

Reserves and retained earnings			
Amounts in millions of euros	*30-06-2016*	*31-12-2015*	*30-06-2015*
Foreign currency translation reserves	(208)	(76)	(67)
Revaluation reserves – Available-for-sale financial assets	581	512	636
Revaluation reserves – Held for sale	3	-	-
Revaluation reserves – Associates	-	2	2
Revaluation reserves – Cash flow hedges	(73)	(39)	(39)
Remeasurement reserve – Pensions	(174)	(175)	(205)
Retained earnings	25,258	25,399	25,349
Total reserves and retained earnings	**25,387**	**25,623**	**25,676**

Issue of Capital Securities in the first half of 2016

Rabobank issued EUR 1,250 million of Capital Securities in the first half of 2016. The distribution is 6.625% per year and is made payable every six months in arrears as of the issue date (26 April 2016), for the first time on 29 June 2016. The Capital Securities are perpetual and first redeemable on 29 June 2021.
Capital Securities are recognised as equity, as there is no formal obligation to repay the principal or to pay the periodic dividend. These Capital Securities comply with the current rules i.e. CRD IV and CRR requirements, with regard to additional tier 1 capital. The conditions include the requirement that the securities have fully discretionary coupon payments and must absorb losses if a certain trigger is breached. In that case, the relevant amount will be debited from the principal. The debiting will occur on a pro rata basis with other (loss absorbing) additional tier 1 instruments.
This instrument has two triggers: one at Group level and the other at the level of Coöperatieve Rabobank U.A. For Rabobank Group, the trigger is at a common equity tier 1 ratio of 7%, and for the Coöperatieve Rabobank U.A., at 5.125%; this series

of Capital Securities absorbs losses from that point onwards. As of 29 June 2021, and subject to Capital Securities not being redeemed early, the distribution is set for a further five-year period, but without a step-up, based on the 5-year euro swap rate +6.697%.

Call of USD 2,000 million Capital Securities in the first half of 2016

Rabobank issued the USD 2,000 million Capital Securities on 26 January 2011. In accordance with the Terms and Conditions of the Capital Securities, Rabobank may elect to redeem the Capital Securities on the First Call Date, being 26 July 2016, subject to certain conditions, one of which is the approval of (formerly: the Dutch Central Bank (De Nederlandsche Bank N.V.), now:) the European Central Bank. Rabobank confirms that it has obtained such approval of the European Central Bank. Rabobank gave notice on 22 May 2016 that, pursuant to Condition 7(c) of the Terms and Conditions of the Capital Securities, Rabobank has elected to redeem and will redeem all of the Capital Securities at the principal amount thereof, together with any accrued and unpaid interest on 26 July 2016. Since the call notification, these Capital Securities have been classified as liabilities.

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 2015 consolidated financial statements, 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. We have included this table since not all financial instruments are recognised at fair value in the balance sheet. 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 principle market for the asset or liability – or in the most advantageous market if there is no principle market.
There are no market prices available for many of the financial assets and liabilities that Rabobank holds or issues. For financial instruments for which no market prices are available, 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. Further information on the methods and assumptions used by Rabobank to estimate the fair value of the financial instruments is disclosed in the 2015 Consolidated financial statements of Rabobank Group in note 4.9 'Fair value of financial assets and liabilities'.

Fair value of financial instruments recognised at amortised cost

	30-06-2016		*31-12-2015*	
Amounts in millions of euros	*Carrying amount*	*Fair value*	*Carrying amount*	*Fair value*
Assets				
Cash and balances at central banks	73,219	73,219	64,943	64,943
Loans and advances to banks	24,378	24,483	31,210	31,330
Loans and advances to customers	463,686	474,373	466,799	474,418
Liabilities				
Due to banks	21,903	21,833	19,038	19,077
Due to customers	342,940	348,398	345,884	350,519
Debt securities in issue	171,418	174,713	174,991	178,477
Subordinated liabilities	15,165	16,522	15,503	16,558

The figures stated above represent the best estimates by management on the basis of a range of methods and assumptions. Where a quoted market price is available, this is the best estimate of fair value. Where no quoted market prices are available for fixed-term securities, equity instruments, derivatives and commodity instruments, Rabobank derives 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. It is Rabobank's policy to have all models used for valuing financial instruments validated by expert staff who work independently of the staff who determine the fair values of the financial instruments. Various factors must be considered when determining market values or fair values. These factors include the time value of money, volatility, underlying options, warrants and derivatives, and the credit quality of the counterparty. The valuation process has been designed to make systematic use of market prices that are available on a periodic basis. Modifications to assumptions might affect the fair value of financial assets and liabilities held for trading and non-trading purposes.

The next 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 in 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: The fair value is determined using valuation techniques which rely on observable market parameters. These parameters are 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: The fair value is determined using valuation techniques that incorporate at least one material input that is not based on observable market data.

Rabobank determines for fair value measurements on a non-recurring basis when transfers between the various categories of the fair-value hierarchy occur by reassessing the level at the end of each reporting period.

Fair value hierarchy of financial assets and liabilities at fair value

Amounts in millions of euros

On 30 June 2016	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets				
Financial assets held for trading	2,641	1,127	99	3,867
Financial assets designated at fair value	16	975	576	1,567
Derivatives	23	56,719	597	57,339
Available-for-sale financial assets	31,042	4,255	541	35,838
Liabilities				
Derivatives and other trade liabilities	989	63,357	564	64,910
Financial liabilities designated at fair value	16	18,453	54	18,523
On 31 December 2015				
Assets				
Financial assets held for trading	2,385	961	126	3,472
Financial assets designated at fair value	24	1,187	985	2,196
Derivatives	39	47,309	765	48,113
Available-for-sale financial assets	33,068	4,111	594	37,773
Liabilities				
Derivatives and other trade liabilities	578	53,863	688	55,129
Financial liabilities designated at fair value	-	16,967	24	16,991

The next table shows movements in financial instruments 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 2016, there were no significant transfers between level 1 and level 2.

Financial instruments at fair value in level 3

Amounts in millions of euros	*Balance on 1 January 2016*	*Fair value changes incorporated in profit or loss*	*Fair value changes incorporated in equity*	*Purchases*	*Sales*	*Settlements*	*Transfers to or from level 3*	*Balance on 30 June 2016*
Assets								
Financial assets held for trading	126	(4)	-	1	(24)	-	-	99
Financial assets designated at fair value	985	(39)	-	62	(426)	(6)	-	576
Derivatives	765	324	-	-	-	(499)	7	597
Available-for-sale financial assets	594	(8)	(34)	1	(27)	-	15	541
Liabilities								
Derivatives and other trade liabilities	688	364	-	-	-	(495)	7	564
Financial liabilities designated at fair value	24	(34)	-	-	(7)	(2)	73	54

Amounts in millions of euros	*Balance on 1 January 2015*	*Fair value changes incorporated in profit or loss*	*Fair value changes incorporated in equity*	*Purchases*	*Sales*	*Settlements*	*Transfers to or from level 3*	*Balance on 31 December 2015*
Assets								
Financial assets held for trading	129	-	-	-	(23)	-	20	126
Financial assets designated at fair value	1,733	180	-	47	(974)	(1)	-	985
Derivatives	1,123	440	-	-	-	(833)	35	765
Available-for-sale financial assets	991	143	(52)	49	(420)	(81)	(36)	594
Liabilities								
Derivatives and other trade liabilities	1,082	470	-	-	(1)	(838)	(25)	688
Financial liabilities designated at fair value	46	2	-	-	(22)	(2)	-	24

Gains or losses of financial instruments in level 3

Amounts in millions of euros	*Recognised*	*Derecognised*	*Total*
On 30 June 2016			
Assets			
Financial assets held for trading	(4)	-	(4)
Financial assets designated at fair value	(47)	8	(39)
Derivatives	145	179	324
Available-for-sale financial assets	(8)	-	(8)
Liabilities			
Derivatives and other trade liabilities	184	180	364
Financial liabilities designated at fair value	(34)	-	(34)
On 31 December 2015			
Assets			
Financial assets held for trading	1	(1)	-
Financial assets designated at fair value	168	12	180
Derivatives	95	345	440
Available-for-sale financial assets	28	115	143
Liabilities			
Derivatives and other trade liabilities	119	351	470
Financial liabilities designated at fair value	3	(1)	2

If more positive reasonable assumptions are made for the valuation of the financial instruments in level 3 the potential effect before taxation on respectively the profit and loss account and on equity is EUR 66 (166) million and EUR 9 (50) million. If more negative reasonable assumptions are made for the valuation of the financial instruments in level 3 the potential effect before taxation on respectively the profit and loss account and on equity is EUR -66 (-167) million and EUR -9 (-50) million.
The financial assets designated at fair value classified as level 3 include private equity interests that amount to EUR 536 (430) million. A significant unobservable input for the valuation of these interests is the multiplier. The multiplier is determined at the time the interests are acquired and is applied to the EBITDA. The average weighted multiplier is 6.4 (2015: 6.9), 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 of services, leases, transfers under finance arrangements and provisions of guarantees or collateral. No related party transactions have ocurred in the first half of 2016 have materially affected the financial position or the 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.

Credit related contingent liabilities			
Amounts in millions of euros	*30-06-2016*	*31-12-2015*	*30-06-2015*
Financial guarantees	10,922	10,402	11,687
Irrevocable loan commitments	46,124	46,674	39,224
Letters of credit	4,379	4,980	6,599
Total credit related contingent liabilities	**61,425**	**62,056**	**57,510**

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.
Rabobank distinguishes five major business segments: domestic retail banking; wholesale banking and international rural and retail banking; leasing; real estate; and other segments. Domestic retail banking mainly encompasses the activities of the local Rabobanks, Obvion and Roparco. Wholesale banking and international rural and retail banking supports the Rabobank Group in becoming the market leader in the Netherlands and focuses on the food and agri sectors at international level. This segment develops corporate banking activities on a regional basis and in addition controls globally operating divisions such as Treasury Rabobank Group, 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 is 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, trading and consumer finance products in the Dutch home market. Manufacturers, vendors and distributors are globally supported in their sales with products relevant to asset financing. DLL operates in European markets with the car leasing company Athlon. 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. The other segments within Rabobank include various sub-segments of which no single segment can be listed separately. This segment mainly includes the financial results of associates (in particular Achmea B.V.) and head office operations. No customer represents more than a 10% share in the total revenues of Rabobank.
Transactions between the various business segments are conducted under regular commercial terms and under normal market conditions. Other than from operating activities, there is no other material comprehensive income between the business segments. The accounting principles used for the segments are identical to those described in the section 'Basis for preparation'.

Business segments

Amounts in millions of euros	*Domestic retail banking*	*Wholesale banking and international rural and retail banking*	*Leasing*	*Real estate*	*Other segments*	*Consolidation effects*	*Total*
For the half-year ended 30 June 2016							
Net interest income	2,807	996	536	155	(119)	-	4,375
Net fee and commission income	688	295	41	6	(8)	(40)	982
Other income	47	461	314	178	(433)	(121)	446
Total income	**3,542**	**1,752**	**891**	**339**	**(560)**	**(161)**	**5,803**
Staff costs	980	569	299	106	(87)	397	2,264
Other administrative expenses	1,684	402	129	74	129	(615)	1,803
Depreciation	55	46	15	3	22	68	209
Operating expenses	**2,719**	**1,017**	**443**	**183**	**64**	**(150)**	**4,276**
Impairment losses on goodwill	-	-	-	-	-	-	-
Loan impairment charges	8	117	44	(11)	(10)	-	148
Regulatory levies	137	80	11	7	11	-	246
Operating profit before tax	**678**	**538**	**393**	**160**	**(625)**	**(11)**	**1,133**
Income tax	176	151	109	39	(263)	(3)	209
Net profit	**502**	**387**	**284**	**121**	**(362)**	**(8)**	**924**
Total assets	321,660	475,729	41,365	18,736	124,227	(295,124)	686,593
Total liabilities	292,379	462,802	36,307	16,335	122,801	(284,790)	645,834
Impairments of tangible and intangible assets	-	-	-	-	-	-	-
Goodwill	322	129	78	1	2	-	532
Private sector loan portfolio	278,468	104,126	30,267	14,058	429	-	427,348

Amounts in millions of euros	*Domestic retail banking*	*Wholesale banking and international rural and retail banking*	*Leasing*	*Real estate*	*Other segments*	*Consolidation effects*	*Total*
For the half-year ended 30 June 2015							
Net interest income	2,827	1,083	536	180	(143)	(1)	4,482
Net fee and commission income	681	273	27	20	(7)	(32)	962
Other income	9	543	279	138	612	(98)	1,483
Total income	**3,517**	**1,899**	**842**	**338**	**462**	**(131)**	**6,927**
Staff costs	1,063	559	280	95	17	393	2,407
Other administrative expenses	1,064	543	128	51	27	(599)	1,214
Depreciation	59	50	21	3	20	59	212
Operating expenses	**2,186**	**1,152**	**429**	**149**	**64**	**(147)**	**3,833**
Impairment losses on goodwill	-	600	-	-	-	-	600
Loan impairment charges	(6)	273	48	47	(5)	(1)	356
Regulatory levies	63	43	8	7	-	-	121
Operating profit before tax	**1,274**	**(169)**	**357**	**135**	**403**	**17**	**2,017**
Income tax	333	121	110	37	(112)	6	495
Net profit	**941**	**(290)**	**247**	**98**	**515**	**11**	**1,522**
Total assets	357,429	499,285	39,609	24,071	114,228	(349,533)	685,089
Total liabilities	328,715	486,840	35,065	21,704	105,087	(333,641)	643,770
Impairments of tangible and intangible assets	-	600	-	-	8	-	608
Goodwill	322	134	457	2	-	-	915
Private sector loan portfolio	289,833	108,522	29,189	16,363	489	-	444,396

Events after the reporting date

On 27 July 2016 Rabobank signed a contract with Norfund and FMO, closing is expected in the 4th quarter of this year. On 4 August 2016 involved parties announced that they have entered into a partnership to reaffirm their long-term commitment to Africa's future development, growth potential and the local financial sector. The partners currently hold stakes in several financial service providers (FSPs) in Sub-Saharan Africa which they have agreed to pool together. The new company, to be named Arise, will start with a presence in over 20 countries and USD 660 million in assets that is anticipated to grow to USD 1 billion. Arise will take and manage minority stakes in African FSPs. The key ambition is to build strong and stable FSPs that will serve retail, SMEs, the rural sector and clients who have not previously had access to financial services.

No other events have taken place after the reporting date that provide further information on the actual situation at the reporting 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 57 to 76, for the six-month period ended 30 June 2016 of Coöperatieve Rabobank U.A., Amsterdam, which comprises the consolidated statement of financial position as at 30 June 2016, the condensed consolidated statement of income, the consolidated statement of comprehensive income, the condensed statement of changes in equity, the condensed consolidated statement of cash flows for the period then ended and the selected explanatory notes. The Executive Board is responsible for the preparation and presentation of this (condensed) 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 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 2016 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union.

Amsterdam, 15 August 2016

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 describes the principal risks that Rabobank faces as well as a description of the principal risks and uncertainties for the other six months of 2016 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, 15 August 2016

Colophon

Published by
Rabobank
Communications & Corporate Affairs

Annual reporting
Rabobank Group has published the following reporting documents in 2016:

- Annual Report 2015
- Annual Review 2015
- Consolidated Financial Statements 2015
- Financial Statements 2015
- Capital Adequacy and Risk Management Report 2015 (Pillar 3)
- Interim Report 2016

These reports are available online at www.rabobank.com/annualreports and www.rabobank.com/jaarverslagen. In the event of differences in content between the online version and the printed versions, the content of the online version shall always prevail.

Materials used
Rabobank uses environmentally friendly materials when printing this document.

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.

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Rabobank