2018
Interim Report

Progress on All Our Strategic Objectives

Chairman's Foreword

We can look back on a good first half of 2018. Thanks to the efforts of our employees, Rabobank posted a net profit of EUR 1,698 million – 12% more than the result in the first half of 2017. We have concentrated our efforts on making our customer service better and our cooperative bank more robust. Innovation and sustainability are our top priorities. Customers are rewarding our efforts with higher customer satisfaction scores, which is a great compliment.

This result was underpinned by favorable economic conditions, which contributed to low impairment charges on financial assets. Income remained stable and costs fell, which helped to improve the cost/income ratio. Loans and deposits from customers increased. Underlying profit before tax came out 2% higher, adjusted for the impact of restructuring costs and fair value items. Rabobank's capital base is strong: the fully loaded core tier 1 ratio rose once again and now stands at 15.8%. The return on invested capital was 8.8%, exceeding the targeted 8.0%.

We are dedicating great vigor to putting our mission of 'Growing a better world together' into practice. We have great aspirations in the sustainability field for the Netherlands and the rest of the world and we are well on track to achieving this ambition. Given our market position, the Food & Agri sector and the real estate market in the Netherlands are our key focus areas for sustainability. In June, Sustainalytics named Rabobank an Industry Leader. In the latest Sustainable Brand Index, Rabobank was ranked third in the financial services sector and received the highest score of the three Dutch systemic banks.

As Rabobank we aim to be close to our customers so we can provide a 9+ customer experience, both physically and digitally. The ever-increasing digitalization of the world requires that we optimally align our local Rabobank organization.

In June 2018 the General Member Council approved the new operating model for local Rabobanks in the Netherlands. This model will safeguard our local presence with 90 local Rabobanks with hundreds of physical touch points supported by specialist teams at 14 locations of these 90 local Rabobanks. The local Rabobanks remain responsible for the day-to-day service for our private customers, Private Banking and corporate customers and the larger corporate clients. They involve the regional specialist teams for specialized knowledge. The new model ensures our presence at the heart of local society, which is necessary to maintain a recognizable societal impact and optimization of our digital and physical services.

Rabobank has reached the halfway point of its Strategic Framework for 2016-2020. The main objectives are providing excellent customer focus, improving our financial results and delivering on our mission. We made valuable progress on most of our strategic objectives. We expect economic growth to continue in 2018 and into 2019. The interest rate environment is not expected to change anytime soon and the geopolitical situation remains unpredictable. Digitalization and innovation will accelerate even further and will require additional investments, increasing the challenge to realize the improvements we envisage for our cost/income ratio. We are also facing increasing regulation and legislation. Against this backdrop, we will continue to implement our strategy, with our mission of 'Growing a better world together' as our compass. Our employees make the difference. They are the people bringing about the bank's transition and we very much appreciate their efforts.

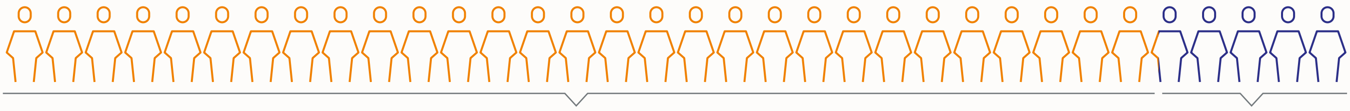
Wiebe Draijer, Chairman of the Managing Board

Rabobank at a Glance

Mission

Growing a better world together

More than 8.4 million customers



7.3 million **Dutch customers***

1.1 million **international customers****

The Netherlands

101 local Rabobanks

Domestic Retail Banking

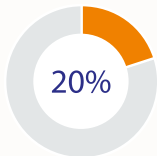
420
offices

1.9
million members

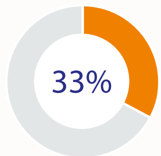
6.5
million private customers

0.8
million corporate customers

Market shares



Dutch private mortgages
€ 191.8 billion



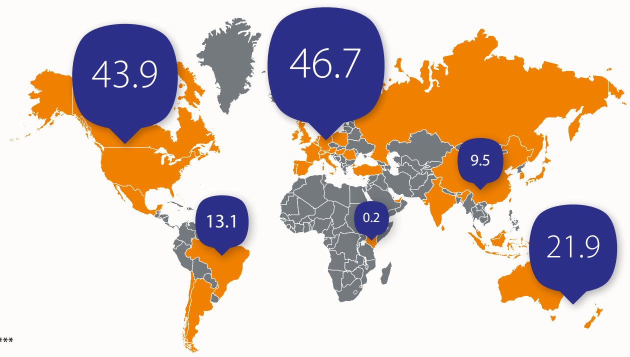
Private savings
€ 120.1 billion

€ 59.2 billion lending to Trade, Industry, and Services

€ 26.6 billion lending to Food & Agri

International

38 countries



WRR & DLL loan portfolio per region in € billion ***/****

Loan portfolio

€ 63.3 billion private sector lending to Food & Agri***

€ 40.9 billion private sector lending to Trade, Industry, and Services***

€ 29.0 billion private sector lending to Leasing****

Example value chain

Farm inputs ▶ Farming ▶ Manufacturing/processing ▶ Trade ▶ Distribution ▶ Retail ▶ Food service

* Local Rabobanks and Obvion ** Wholesale, Rural & Retail *** WRR the Netherlands included **** DLL portfolio (incl. the Netherlands)

Management Report

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Key Figures

Key Figures						
Amounts in millions of euros	*06-30-2018 2018-I*	*12-31-2017 2017*	*06-30-2017 2017-I*	*12-31-2016 2016*	*06-30-2016 2016-I*	*12-31-2015 2015*
Non-Financial Key Figures						
Net Promotor Score Private customers in the Netherlands[1]	56	53	52	36	37	33
Net Promotor Score Private Banking customers in the Netherlands	60	50	45	41	43	37
Net Promotor Score Corporate customers in the Netherlands	52	43	38	30	34	21
% Online onboarding private customers	50.1%	-	-	-	-	-
Number of users mobile banking (in millions)	3.7	3.5	-	3.1	-	-
RepTrak Pulse Score[2]	70.8	69.5	70.7	-	-	-
Member loyaltyscore	47%	-	-	-	-	-
Diversity: % Females in Managing Board	40.0%	40.0%	14.3%	14.3%	0.0%	0.0%
Diversity: % Females in first level below Managing Board	33.0%	28.9%	-	-	-	-
Diversity: % Females employed[3]	52.4%	50.9%	-	51.7%	-	51.8%
Employee engagement scan	60	60	-	-	-	-
Key Financial Figures						
Common equity tier 1 ratio (fully loaded)	15.8%	15.5%	14.7%	13.5%	12.4%	12.0%
Common equity tier 1 capital (transitional)	15.8%	15.8%	15.0%	14.0%	13.4%	13.5%
Total Capital Ratio (transitional)	26.1%	26.2%	25.5%	25.0%	23.5%	23.2%
Leverage ratio (transitional)	6.0%	6.0%	5.8%	5.5%	5.1%	5.1%
Risk-weighted assets	199,348	198,269	207,589	211,226	209,136	213,092
Wholesale funding	163,774	160,407	170,977	188,862	201,051	203,218
Cost/income ratio including regulatory levies	64.6%	71.3%	67.6%	70.9%	76.6%	65.2%
Underlying cost/income ratio including regulatory levies	62.9%	65.3%	63.9%	64.8%	63.0%	64.6%
ROIC	8.8%	6.9%	7.8%	5.2%	5.4%	6.0%
Return on equity	8.5%	6.7%	-	4.9%	-	5.5%
Return on assets	0.6%	0.4%	0.5%	0.3%	0.3%	0.3%
Other financial figures						
Profit and loss account						
Income	6,029	12,001	5,938	12,805	5,900	13,014
Operating expenses	3,611	8,054	3,755	8,594	4,276	8,145
Impairment charges on financial assets	(37)	(190)	(67)	310	148	1,033
Net profit	1,698	2,674	1,516	2,024	997	2,214
Financial position and solvency						
Total assets	607,845	602,991	623,197	662,593	686,593	678,827
Private sector loan portfolio	415,732	410,964	417,796	424,551	427,348	433,927
Deposits from customers	346,617	340,682	343,180	347,712	342,940	345,884
Equity	40,514	39,610	40,314	40,524	40,759	41,197
Loan-to-Deposit ratio	1.20	1.21	1.22	1.22	1.24	1.25
Ratings						
Standard & Poor's	A+	A+	A+	A+	A+	A+
Moody's Investors Service	Aa3	Aa2	Aa2	Aa2	Aa2	Aa2
Fitch Ratings	AA-	AA-	AA-	AA-	AA-	AA-
DBRS	AA	AA	AA	AA	AA	AA
Market shares (in the Netherlands)						
Mortgages	20%	22%	21%	21%	20%	20%
Savings	33%	34%	34%	34%	35%	35%
About Rabobank						
Local Rabobanks	101	102	103	103	105	106
Members (x 1,000)	1,921	1,916	1,924	1,927	1,932	1,945

Amounts in millions of euros	*06-30-2018 2018-I*	*12-31-2017 2017*	*06-30-2017 2017-I*	*12-31-2016 2016*	*06-30-2016 2016-I*	*12-31-2015 2015*
Foreign places of business	390	389	383	382	393	403
Availability of internet payments & savings	99.8%	99.9%	99.8%	99.7%	99.8%	99.8%
Availability of mobile banking	99.8%	99.9%	99.8%	99.7%	99.8%	99.8%
Personnel data						
Number of employees (total in FTEs)	43,623	43,729	44,698	45,567	50,103	52,013
Staff costs	2,127	4,472	2,136	4,680	2,264	4,787
Absenteeism	4.4%	4.0%	3.6%	3.6%	3.6%	3.7%
Training expenses (in EUR per FTE)	976	1,841	807	1,945	844	1,734

1 The 2016 NPS figures have been restated due to a clarification regarding the scope. In addition, The NPS figures have been measured for a 12 month period instead of solely measuring the fourth quarter, as was conducted in 2016.

2 Reputation as defined and measured by the Reputation Institute as an amotional bond that quantifies esteem, admiration, feeling and trust.

3 Percentage only refers to the Netherlands.

Rabobank's Strategic Pillars

Innovative services

VISTA hypotheken
A specialized mortgage label that is distributed through intermediairy channels.

surepay
SurePay delivers a variety of account-based **verification services** that helps to prevent payment fraud and misdirection.

we.trade
Blockchain trade finance **platform** that makes **cross-border commerce** easier for European SMEs.

Easytrade
Facilitates simple digital currency hedging.

mOOvement

FoodBytes! by Rabobank

TERRA by Rabobank + RocketSpace

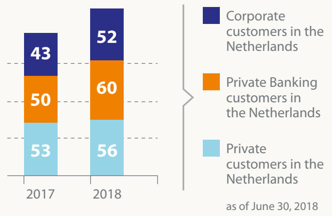
We aim to be a leading bank in which current and future requirements can be fully satisfied through good advice, products, digital convenience and innovative services.

Online

350 million — IBAN Name Checks

85 — features in app

KPI (NPS)



In H1 2018, we started 3 new programs, based on our mission Growing a better world together:

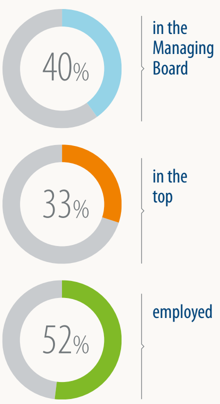
- Enhancing Dutch consumers financial health
- Stimulate healthy entrepreneurial growth
- Kickstart Waste, a global program to reduce food waste

Excellent customer focus

Gender diversity

Percentage of women ...

In recognition of its **efforts in labor market disadvantage**, Rabobank received a C Talents Award.



It is our people who define who we are as Rabobank. Our employees help our customers achieve their ambitions.

Empowered employees

HR Fundamentals

Number of employees

worldwide as of June 30, 2018

43,623 FTE

December 31, 2017 = 43,729

intermediair — op elk in je carrière

Rabobank, one of the favorite employers in the Netherlands.

Engagement scan 60

Financial capital

40.5 billion	346.6 billion	163.8 billion
Equity	**Deposits from customers**	**Wholesale funding**

Net profit

1,698
EUR million

+12%

June 30, 2017 = 1,516 EUR million

Ambitions 2020

Financial framework 2016-2020

- Fully loaded CET1 ratio: >14%
- Capital Total ratio: >25%
- Profitability ROIC: >8%
- Cost/income ratio including regulatory levies: 53-54%
- Funding and liquidity Wholesale funding: €150

Results 2018

as of June 30, 2018

- Fully loaded CET1 ratio: 15.8%
- Capital Total ratio: 26.1%
- Profitability ROIC: 8.8%
- Cost/income ratio including regulatory levies: 64.6%
- Funding and liquidity Wholesale funding: €163.8

Ratings

S&P Global A+	FitchRatings AA-
Moody's Aa3	DBRS AA

Rock-solid bank

Remaining a rock-solid bank is a cornerstone of Rabobank's strategy. We strive to do the right things well, with everyone taking ownership and remaining conscious of the risks.

Partnerships sustainable development goals

- **Sustainalytics:** Score of 86 and Industry Leader
- **Sustainable Brand Index:** Rated 3rd domestic bank (highest domestic systemic bank)

Meaningful cooperative

Rabobank is committed to making a difference as a cooperative customer-driven bank, championing customer issues like food, self-reliance, and the growth of entrepreneurs.

Strategies

Banking for food

KICKSTART FOOD
Facilitate sufficient sustainably produced and healthy food for the world's growing population

Kickstart Earth
Kickstart Waste
Kickstart Stability
Kickstart Nutrition

Banking for the Netherlands

Kickstart Self-suffiency
Kickstart Living environment
Kickstart Entrepreneurship

SUSTAINABLE DEVELOPMENT GOALS

47%
Member engagement score

Client photo

We measure the sustainability performance of our clients with an exposure over EUR 1 million in a client photo ranking them from A-D.

Frontrunner clients Wholesale (A-level)	Frontrunner clients local Rabobanks (A-level)
22%	6%

Community funds and donations

We allocated our net profit for future investments in local community initiatives in the Netherlands.

45
EUR million

70.8%
RepTrak Score
Reputation management

Developments First Half of 2018

Our progress on our strategic priorities

The execution of our strategic agenda furthered progress on our objectives. The upward trend in customer satisfaction has continued, we introduced innovative services and we made valuable progress on our financial targets. However, there is always room for further improvement.

Excellent Customer Focus

Rabobank is driving an ambitious customer agenda. In our Wholesale business, more clients chose to do business with us this first half year and we arranged a number of landmark deals, for example we were one of the mandated lead arrangers in the largest transaction in South America in the paper and pulp sector. Our Wholesale, Rural and Retail loan portfolio increased by EUR 4.7 billion to EUR 106.2 billion[1]. In line with our Banking for Food strategy, 60% of this is invested in Food & Agri. We accelerated our pace by giving our customers in the Netherlands new digital features for the app and website. We kick-started three major programs inspired by our mission, "Growing a better world together".

In March we launched Kickstart Waste, a global program that encourages clients to reduce food loss and waste throughout the food chain. In June we started a program to enhance Dutch consumers' financial health, and another one in July to stimulate healthy entrepreneurial growth in the Netherlands. We also chose a new operating model for our local Rabobanks in the Netherlands (Bankieren 3.0) . The implementation of this model will lay the foundation for safeguarding our local presence through roughly 250 local market teams, run by 90 local Rabobanks with hundreds physical touch points, and supported by specialist teams at 14 locations. By doing this, we focus on what matters most to us: meeting customer demands.

Positive trend in customer satisfaction

The upward trend in customer satisfaction in the Netherlands has continued, with an average NPS score of 56 for private customers, an increase of +4 from June 2017. Among corporate customers in the Netherlands, the NPS rose from 38 to 52, and among Private Banking customers, from 45 to 60. We are very proud that Rabobank was named the "most client-friendly bank of the Netherlands" in April by an independent consumer panel at the CustomerFirst Awards.

We have a solid base of digital clients and a distinctive improvement in digital sales and servicing: 59% of our private customers and 81% of our corporate customers are now actively using our digital channels. Over 50% of our new retail customers onboard digitally and there are over 85 features available in the mobile app.

Innovating for customers

We delivered new innovations for our clients. Rabobank Surepay's IBAN Name Check successfully processed 350 million name checks, significantly reducing unintended payments. In June, Surepay was also incorporated in the ING and Volksbank banking apps and Rabobank Surepay recently entered into a cooperation agreement with FRISS, a company which specializes in preventing and detecting fraud in the insurance industry. Using the Friss software platform, insurers can add the IBAN Name Check as an extra verification step. The internal start-up EasyTrade, which facilitates simple digital currency hedging, expanded internationally.

We actively invest in start-ups and scale-ups that fit our innovaton focus and strategy. In June, We.Trade was launched: an innovative trade solution using blockchain technology developed by Rabobank and 8 other large European banks. We help our clients innovate by being active in 138 national and international ecosystems. We are a partner of YES!Delft, the #1 tech incubator in Europe, and through participating in RoboValley, we are introducing robotics to Dutch companies. This half year, Rabobank launched VISTA Hypotheken, a new specialized mortgage label that is distributed through intermediary channels. We also launched the Rabo Green Construction Depot

1 For more information on the development of the loan portfolio see the chapter 'Our Perfomance'

(Rabo Groendepot) to facilitate investments in sustainability measures for private homes.

In the food and agri (F&A) sector, our recently launched F&A Innovation Fund made its first two equity investments: in New Zealand's Biolumic and Vence in the United States. Another internal innovation, mOOvement, focuses on digital cattle management and is preparing for testing at Australian Farms in the second half of 2018. We continue to support our clients on their innovation journeys, for example, through FoodBytes!, our pitch program for food start-ups. FoodBytes! has already held 12 events on 3 continents, with 1,300 applications from eager start-ups from more than 30 countries. In cooperation with Wageningen University, Rabobank ran the 3rd edition of "F&A Next" in May 2018, bringing together investors and start-ups in the food and agtech space from around the world. Our global accelerator program, Terra, has now hosted two cohorts for a total of 32 food and agtech start-ups.

We are committed to staying close to our customers, whether they choose to use our digital channels or our physical touchpoints. More and more customer interaction is moving to digital channels, but we are perfectly equipped to offer them excellent advice via our local footprint as well. The bank's transformation has been underway for a while, and a new momentum is spreading throughout the organization after the decision to adopt a new operating model in the Netherlands. In each stage of adapting to meet our customers' expectations, careful attention is given to risk mitigation to ensure flawless customers service throughout the entire transition.

We worked hard to meet the deadlines for the European General Data Protection Regulation (GDPR) in May 2018. For example, to meet the requirements of this regulation we implemented a genuine innovation – pseudonymizing client data – in our testing activities. To provide customers digital convenience at a consistently high service level, we simplified the bank's systems. Cybersecurity is high on our management agenda, because of its continuously changing nature and demands. Our overall system availability is high (June 2018: 99%), and keeping our digital banking environment stable and safe for our customers is very important to us. That is why Rabobank actively participates with the Dutch government, industry, and the scientific community in a cybersecurity committee dedicated to ensuring the digital security of the Netherlands.

Meaningful Cooperative

Being a meaningful cooperative is the essence of what Rabobank stands for. We are committed to making a difference as a cooperative, customer-driven bank, in the Netherlands and around the world, by championing customer issues that have a major social impact, like food, self-reliance, and the growth of Dutch entrepreneurs.

Involved members and communities

We asked our members how they want to engage with us or give substance to their membership. In this survey, in which 9,000 of our members participated, 47% of them said that they feel involved with Rabobank. The results of this survey will help us to improve our vision on membership and initiate activities that help to make the benefits of membership more manifest.

Making a concrete, socially responsible contribution

All local Rabobanks in the Netherlands have drawn up their own Plan for Society with the aim of making their contribution to our mission of "Growing a better world together" more specific and practical. In 2017 local Rabobanks allocated EUR 45 million for future investments in the local community. The initiatives vary from investing in making local associations more sustainable to installing LED lighting, from projects in schools ("Bank voor de klas") to "Perspectief Groningen 2025." In this latter example, four local Rabobanks in the Groningen region are partnering with public-private initiatives to add financial and management support to activities that strengthen the regional economy and society for the long term.

Building a better and more sustainable world

As a meaningful cooperative, we believe that caring for our customers' needs today goes hand-in-hand with caring for society's needs tomorrow. That is why it is our goal to be the most sustainable bank in the Netherlands. In its June 2018 ranking, Sustainalytics gave Rabobank a score of 86 on our Environment, Social, and Governance (ESG) performance, earning us the title of "Leader" in the financial sector.

The most recent edition of the Sustainable Brand Index for the Netherlands ranked Rabobank as leader among the three Dutch systemic banks and 3rd in the financial services industry. While we are proud of our achievements to date, we cannot afford to rest on our laurels. Climate change is a growing risk for our clients and the communities in which we live and work. With our lending portfolio, we are in an ideal position to dedicate specific attention to the challenges facing the Trade, Industry, Services, and real estate sectors in the Netherlands, and the global Food & Agri sector. In addition, we recognize and support the need to transition to a circular economy in these and other sectors.

For the real estate sectors, there is a need to rapidly improve the energy efficiency of homes and office buildings. The Dutch government has set ambitious targets for both sectors. In the first half of 2018, Rabobank has worked with the government and other stakeholders on the “Sector Table for the Built Environment” in the Dutch National Climate Agreement (presented in July) to come up with a workable road-map to achieving these goals.

Rabobank's real estate portfolio has been analyzed by a specialized agency to ascertain the energy labels. The conclusion was that 55% of utility buildings have a "C" energy label or higher, the minimum requirement by 2023 according to Dutch legislation, or 30% including rental property. We are working with our clients to ensure that they meet the 2023 requirement in time. All Rabobank facilities in the Netherlands will have a "C" label by 2020 and we aim for an “A” label by 2027. In April, we launched a partnership with an energy broker to help our clients transition to sustainable energy suppliers. In June, we introduced the Green Construction Depot to give retail clients more incentive to invest in energy-saving measures for their homes.

According to the Food and Agriculture Organization of the United Nations, ensuring that a growing global population has enough food to meet their nutritional needs is one of the greatest long-term challenges facing the Food & Agri sector. At the same time, agriculture and related activities are a major contributor to greenhouse gas emissions, which need to be drastically reduced if we are to meet the Paris Climate Agreement targets.

Rabobank uses its proprietary sustainability scan, the client photo, to gain insight into our customers' sustainability approach and achievements. 22% of our Wholesale clients have A-levels (sustainable frontrunners); at local Rabobanks this figure is 6%. these figures increased slightly compared to the end of 2017. In addition, in March we launched our Kickstart Waste campaign to help our employees, clients, and suppliers reduce food waste and food loss.

In the coming half year, we expect to feel continued pressure from NGOs on topics such as palm oil, animal welfare, and biodiversity. Our clients are likely to feel it too. We recognize the importance of these issues and have clear sustainability policies to ensure a transparent and consistent approach in our global activities. We are also proactively developing solutions and improvements through our partnerships with other stakeholders like UN Environment and the World Wildlife Fund (WWF).

To help the Dutch small and medium enterprise (SME) customers transition to more sustainable business models, we ran a Circular Economy Challenge program in the first half of 2018. Our local Rabobanks worked with clients to create more than 100 plans to introduce circular practices into their businesses. In July, Rabobank introduced a set of Circular Economy financing guidelines in cooperation with other Dutch banks.

We also continued to provide Sustainable Revolving Credit Facilities (RCF) this past half-year. These syndicated loans embed environmental and social criteria in the credit arrangements. For example, Rabobank has been appointed the Documentation Agent and Sustainability Coordinator for the Sustainable RCF for the first company in the Dutch construction sector to link sustainability performance to its banking credit facility.

Earning stakeholder trust

Rabobank wants to preserve the trust that our stakeholders place in the bank. We believe that earning trust begins by truly listening to the needs and concerns of all stakeholders, showing our commitment to our cooperative principles. Trust from stakeholders is reflected in our reputation, which was stable and strong in the first half of 2018.

The Reptrak Monitor tracks 23 key performance indicators grouped around seven reputation dimensions found to be the most effective in securing stakeholder support: products and services innovation, workplace, governance, citizenship, and company performance. With the strongest reputation of the three Dutch systemic banks in the Netherlands, we are on course to reach our Reptrak Reputation Score targets in these seven dimensions and the Reptrak Pulse Score by the end of 2018. Each of these dimensions has several attributes. Rabobank selected five of these attributes as the most relevant Reputation KPIs and continues to set increasingly ambitious targets. With the 12-month moving average score of 63.9 Rabobank is on track for its June target (63.9) for the attribute "Fair in the way it does business", an important driver for Rabobank's overall reputation. We are slightly below some June targets. We scored 64.8 on the attribute "Good value for money" (target 65.2), and 66.7 for "Meets customer needs" (target 66.8), 65.5 for "Positive influence on society" (target 66.0), and 69.0 (on a target of 70.0) for "Clear vision for its future".

Empowered Employees

Our people define who we are as Rabobank. Our employees help our customers achieve their ambitions. They help Rabobank realize its goals. We are most successful by continously developing ourselves and reinforcing each other.

Enhancing flexibility

Various trends influence how we work at Rabobank. We track these trends to ensure that our organization responds in a timely way to, among others, economic, social, and technological changes. Our structure and ways of working are key to this response. For instance, the roll-out of what we call the FOCUS working method (Agile, Lean, DevOps) enables us to organize and steer our work in flexible teams on a short-cyclical basis so we can better respond to client needs. We encourage employees to develop their talents and to put their skills to use where they can have the greatest impact. We have chosen three themes as our core focus: Leadership, Talent, and Culture.

Leadership

In the first half of 2018, a series of workshops further introduced managers to the Rabobank leadership model, which outlines four leadership traits: "personal, one Rabobank, team, and community leadership". In personal leadership, we expect our employees to further develop their craftmanship, vitality, and adaptivity. In spring 2018, we organized a two-day leadership event for approximately 800 employees to inspire and encourage formal and informal leaders to enhance and cultivate their skills in leadership and innovation.

Talent

We are developing a new learning management system and technology to find, select, and utilize talent more effectively throughout the bank. Continuous dialogue based on appreciative inquiry techniques helps managers motivate their employees to think about their development, behavior, and their own input toward Rabobank's mission. By using the GROW! model we can focus much more on personal employee growth. To this end, employees in various departments have become GROW! ambassadors, actively helping their colleagues with positive feedback techniques and advice on encouraging open conversations.

Rabobank employees in the Netherlands receive an annual personal development budget of EUR 1,500 to help them nurture their personal and professional development. In the first half of 2018, 22% of employees used the personal development budget option and/or signed up for a workshop at least once. Many of our employees saved up their budget. We will continue to encourage our employees to make the most of the personal development budget.

Culture

In the past few years, we have developed a focused approach toward aligning culture and conduct. This “Performance & Health” approach is designed to enhance coherence with our transition to becoming "One Rabobank" (i.e. merging our Dutch and International infrastructure and creating One Rabobank culture). In 2017, we implemented the engagement scan globally to provide short-cyclical measurement of employee engagement and organizational health. Employee motivation and commitment has remained stable since the fourth quarter of 2017. Because we continue to be in transition, employee motivation has been flagged as a transition risk. Motivated employees who are committed to the bank's mission are essential to our company, so it is important to continuously track trends in employee motivation.

Rabobank as an employer

Our requirements for our employees are constantly changing. We are finding it increasingly difficult to find the right candidates for certain vacancies, like data scientists, quants, and IT specialists. We are confident that a new recruiting approach will make it easier to fill these crucial positions that contribute to the bank's top priorities.

We consider it important to be an attractive employer, so we are pleased that readers of Intermediair, a management publication aimed at graduates and professionals, selected Rabobank as 4th most attractive employer in the IT sector and the most favorite employer in the Netherlands.

Diversity & inclusion

Rabobank firmly believes that diversity improves performance and increases the level of creativity and innovation within the bank. Employees who represent different customer groups are better equipped to pinpoint those groups' needs. To create greater diversity, we aspire an inclusive culture, in which everyone can be themselves. We want to foster a culture of mutual respect among our employees so that they feel valued and accepted. The theme of inclusivity will be embedded in the leadership programs, in the Rabobank leadership profile, and in the GROW! system.

The percentage of women in top management positions is 40.0% at Managing Board level and 33.0% at senior management level. In the first half of 2018, Rabobank also took on 30 people with a labor market disadvantage. In recognition of its efforts in this field, Rabobank received a C Talents Award.

Employability

We maintain a keen focus on employability. The GROW! dialogues are a valuable tool both for promoting the behavior we want to see. They also empower employees, including those who might lose their job or have to change positions. The “Samenwerkt!” Mobility Center supports employees whose jobs are becoming redundant in several ways: finding training courses, advising on the best use of the personal development budget, updating skills when applying for a job – in or outside the bank – and networking. Figures over the first half of 2018 show that 63% of the employees we had to let go who had applied for a job had succeeded and 73% of the employees who had wanted to start their own business were succesfull within six months of being made redundant. In the second half of 2018, "Samenwerkt!" will further customize its service provision to meet individual employee needs.

Rock-Solid Bank

Being a rock-solid bank is a cornerstone of Rabobank's strategy. We strive to do the right things extraordinary well, with everyone taking ownership and remaining conscious of the risks.

Valuable progress on our financial targets despite challenges ahead

Rabobank's Strategic Framework 2016-2020 formulates several key targets for the next years. Keeping track of these targets and frequently reassessing the direction in which we are heading will ensure that we remain a rock-solid bank. Consequently, we are well positioned to absorb the impact of forthcoming regulations, such as the reform of Basel III (also known as Basel IV) and the minimum requirement for own funds and eligible liabilities (MREL). The table below presents our ambitions and the actual performance on our financial targets as at June 30, 2018.

Summary targets financial framework 2016-2020

Amounts in billions of euros		*Ambition 2020*	*06-30-2018*	*12-31-2017*	*06-30-2017*
Capital	Fully loaded CET1 ratio	>14%	15.8%	15.5%	14.7%
	Total capital ratio	>25%	26.1%	26.2%	25.5%
Profitability	ROIC	>8%	8.8%	6.9%	7.8%
	Cost/income ratio (regulatory levies included)	53%-54%	64.6%	71.3%	67.6%
Funding and liquidity	Wholesale funding	~150	164	160	171

Further improvement of our capital position

To comply with stricter regulatory requirements while still improving our capital position, we have defined a clear ambition for our capital ratios. In the first half of 2018, Rabobank's capital ratios grew stronger. Our fully loaded common equity tier 1 (CET1) ratio, that is, our CET1 capital as a percentage of our risk-weighted assets,[1] assuming the CRD IV/CRR regulation fully applies, stands at 15.8% (2017: 15.5%) on June 30, 2018. Our transitional CET1 ratio remained stable at 15.8% almost equaling the fully loaded CET1 ratio since the beginning of 2018. At this level, we have already exceeded our 2020 target, which we deem prudent given the final proposals published by the Basel Committee last December with regard to new capital requirements for banks.

Adding part of net profit to retained earnings led to a further increase of our CET1 capital and ultimately resulted in a positive impact of 0.6 percentage points on our CET1 ratio. This effect was partly pressured by the negative impact (14 basis points) of the adoption of the IFRS 9 accounting standard on January 1, 2018.

Our total capital ratio – our qualifying capital as a percentage of risk-weighted assets – amounted to 26.1% (2017: 26.2%) on a transitional basis. The same factors that strengthened our CET1 ratio also influenced our total capital ratio, which was then partly offset by the call of 2 tier 1 capital instruments and an on average shorter remaining maturity for tier 2 instruments. Stricter regulatory requirements will gradually cause certain capital elements to cease to qualify as tier 1 capital. We also called a non-qualifying tier 1 instrument.

In anticipation of Basel IV, we will continue to strengthen our capital ratios over the coming period. In the first half of 2018, our risk-weighted assets increased slightly to EUR 199.3 (2017: 198.3) billion. Based on pro-forma calculations and balance sheet composition at year-end 2017, we expect the impact of the Basel proposals to lead to an approximate 30%-35% increase in risk-weighted assets on a fully loaded basis. This indication is based on our current interpretation of the proposals (including credit risk, operational risk, market risk, CVA, and the aggregated output floor) and the choices we anticipate in connection to the Basel proposals. The estimate excludes any technical, data-quality, and strategic (balance sheet) management actions that could mitigate the ultimate impact. The Committee's latest proposals must still be reviewed and approved by the EU and then be enacted into Dutch law and regulations. For more information about the development of our capital ratios, click here.

Improving efficiency requires continuous attention

Rabobank's targets for performance improvement will enable future growth. We have already taken several steps to enhance our effectiveness and efficiency, contributing to an ROIC[2] of 8.8% (2017: 7.8%) over the first half of 2018. Our cost/income ratio, including regulatory levies, improved with 3% point to 64.6% in the first half of 2018 (2017: 67.6%). Several exceptional items affected our cost/income ratio in the first six months of 2018 and last year. In calculating the underlying cost/income ratio,

1 The bank uses models for each asset to determine the risk weight depending on the asset's risk profile. The higher the risk weight, the more capital the bank has to hold for the asset in question.

2 The ROIC is calculated by dividing the net profit realized 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.

adjustments were made for these items (please see Notes to the financial results of Rabobank for a specification). On June 30, 2018, the underlying cost/income ratio, including regulatory levies, improved to 62.9% (2017: 63.9%).

In the first half of 2018, we made further progress on transforming Rabobank's operations, which is crucial if we are to meet our performance improvement targets in the coming years. Part of this transition is implementing our ongoing performance improvement program "Performance Now!" The recently approved initiative with regard to a new operating model in the Netherlands is another important facet of the transition laying the foundation for the next step in becoming a more effective and efficient bank. In the first half of 2018, Performance Now! contributed to a further decrease in total staffing levels of 106 FTEs, bringing us down to 43,623 FTEs and subsequently lowering staff costs. With regard to this FTE reduction, we note on the one hand an increased employee base in WRR (279 FTEs as the result of temporary hires for several projects) and Leasing (258 FTEs). On the other hand, the staff levels at Domestic retail banking decreased by 774 FTEs following our restructuring efforts.

Improvement of our cost/income ratios will remain a priority over the coming years. Reaching our target in 2020, however, will be challenging in the persisting low interest rate environment and because of the acceleration of investments for our digital agenda and our (data) infrastructure.

Balance sheet optimization remains a focus point

Rabobank aims to reduce its use of wholesale funding so the bank can become less dependent on the financial markets. We are doing this by optimizing the balance sheet structure. Our total assets increased to EUR 608 (2017: EUR 603) billion as at June 30, 2018. The increase of the balance sheet total is completely due to an increase in loans and advances to customers. We actively managed down our non-strategic commercial real estate loan portfolio by selling part of the FGH Bank loan portfolio (worth EUR 1.3 billion) to RNHB (announced on March 13, 2018).

On the liabilities side, deposits from customers and debt securities in issue increased. Our wholesale funding increased by EUR 3.4 billion to EUR 163.8 billion, excluding the TLTRO take-up, which remained stable at EUR 5.0 billion. For a large part, we have already realized our total 2018 funding needs by the bonds we issued in the first half of the year. Over the coming years, we aim to issue up to EUR 25 billion in covered bonds in order to further diversify and optimize our funding composition.

Rabobank announced on March 28, 2018 that it will share the risk on part of its Dutch SME loan portfolio with the European Investment Fund (EIF) and the European Investment Bank (EIB). As a result of this transaction, risk-weighted assets decreased by EUR 1.2 billion, which helps to optimize the use of our capital. BPD Europe BV announced the negotiation of the sale of its French subsidiary BPD Marignan on August 1, 2018. We expect the sale to be completed before the end of 2018.

Solidity of Rabobank reflected in credit ratings

During the first half of 2018, Rabobank's credit ratings with S&P ("A+"), Fitch ("AA-"), and DBRS ("AA") remained unchanged; we also maintained our Outlook with these rating agencies: "Stable" with both Fitch and DBRS, and "Positive" with S&P. Moody's revised our credit rating to Aa3 from Aa2 in March 2018. Simultaneously, they changed our Outlook from "Negative" to "Stable".

All the rating agencies view Rabobank's leading position in the Dutch banking sector and the international Food & Agri sector as important ratings drivers. Our large buffer of equity and subordinated debt, which offers protection to non-subordinated bondholders, also plays an important role in our ratings.

Rabobank remains one of the highest rated commercial banks worldwide. Read more on Rabobank's credit ratings here.

Valuable Progress on Financial Targets, with Cost Efficiency Remaining a Point of Attention

Bas Brouwers

Chief Financial Officer

With the first six months of 2018 behind us, we are roughly at the halfway point in our Strategic Framework 2016-2020. In line with our strategic ambitions, also we further improved our performance and optimized our balance sheet in the first half of 2018.

Our profitability is developing positively due to a solid top line, a reduced cost base and is again supported by exceptionally low credit losses. Our sharper focus on growth opportunities for key client sectors, combined with the favorable economic climate, led to an increase in our private sector loan portfolio, despite a slight decrease in our mortgage portfolio. The completion of the sale of our non-strategic commercial real estate portfolio in the Netherlands also contributed to our results and is in line with the execution of our strategic objectives.

This allows us to retain more profit and make further capital growth possible. I am pleased to report that Rabobank is well positioned to absorb the impact of forthcoming regulations, such as the reform of Basel III and the minimum requirement for own funds and eligible liabilities (MREL). By taking proactive measures, we are sufficiently prepared to remain the rock-solid bank that Rabobank already is.

Over all, we are making progress in achieving our capital and funding strategy. For a large part, we fulfilled our funding needs through the bonds we issued in the first half of 2018. In the second half of 2018 we intend to start issuing senior non-preferred bonds to further optimize our buffers and prepare for future MREL requirements.

By making optimum use of the options available, we intend to maintain this momentum moving forward.

There is still room for improvement, however, specifically the further reduction of our cost/income ratio which remains a challenge, also because of the persistent low interest rate environment. While we successfully reduced our costs by 4% in the first half of 2018, a further reduction of our cost base is one of our key targets. At the same time the digitalization of the financial services industry is progressing quickly, and we are accelerating investments in our digital and data infrastructure. Despite the continued focus on cost reduction we will not slow down the execution of our digitalization agenda.

Bas Brouwers, Chief Financial Officer

Our Performance

Rabobank

The Dutch economy is still growing, but at a slower pace than last year. Increasing employment, growth of real wages, high consumer confidence and rising house prices are driving the further increase in consumption. This is reflected in the impairment charges on financial assets which were again negative, meaning that releases of provisions taken in earlier years for problem loans exceeded new additions to the loan impairment allowance. The release (EUR 37 million) was lower than in the first half of 2017 (EUR 67 million)[1]. This equates to a net release of 2 basis points of the average loan portfolio, versus a long-term average of a charge of 34 basis points. Higher income, the continued downward trend in operating expenses and the lower US corporation tax rate had a positive impact on Rabobank's net profit, which increased by EUR 182 million to EUR 1,698 million.

Rabobank's private sector loan portfolio increased by EUR 7.6 billion to EUR 415.7 billion due to increases at WRR and DLL. At the same time we finalized the reduction of the Dutch part of our non-strategic commercial real estate lending with the sale of a part of the loan portfolio of FGH Bank. Deposits from customers landed at EUR 346.6 billion, an increase by EUR 3.4 billion in the first six months of 2018. This increase is partly attributable to growth in private savings by EUR 0.7 billion amounting to EUR 143.1 billion on June 30, 2018.

Rabobank was able to match its strong underlying performance realized in the first half of 2017. The underlying operating profit before tax improved to EUR 2,326 (2017: 2,276) million. In calculating the underlying profit, corrections were made for fair value items and restructuring costs. The decrease in staff costs had a positive impact on the cost/income ratio. This resulted in an improvement of the underlying cost/income ratio, including regulatory levies which landed at 62.9% (2017: 63.9%). The return on invested capital (ROIC) amounted to 8.8% (2017: 7.8%).

Private sector loan portfolio increased by EUR 7.6 billion

After a few years of a slightly declining trend in private sector lending, Rabobank's total private sector loan portfolio[2] increased compared to January 1, 2018, by EUR 7.6 billion to EUR 415.7 billion. Only a negligible part of this increase in the first half of 2018 was caused by FX fluctuations. On January 1, 2018, as a result of reclassifications due to the implementation of IFRS 9 lending decreased by EUR 2.9 billion to EUR 408.1 billion compared to EUR 411.0 billion at December 31, 2017. At Domestic Retail Banking (DRB) the mortgage portfolio decreased slightly caused by the high level of repayments. The total private sector loan portfolio of the DRB segment remained stable at EUR 279.9 billion. WRR's loan portfolio increased by EUR 6.3 billion and the portfolio of Rabobank's leasing subsidiary DLL increased by EUR 1.9 billion in the first half of 2018. The combined commercial real estate loan exposure over all segments is actively

1 Impairment charges on financial assets (new line item under IFRS 9; as of January 1, 2018) have been compared with loan impairment charges (old line item under IAS 39; up until December 31, 2017). Although not a perfect like-for-like comparison, we think it is a good proxy and adds value for the reader. For more information about IFRS 9, see the notes to the interim financial information.

2 The figures in this paragraph include the IFRS 9 impact as of January 1, 2018

being managed down and amounted to EUR 22.0 (2017: 22.9) billion at June 30, 2018.

Loan portfolio			
in billions of euros	*06-30-2018*	*01-01-2018*	*12-31-2017*
Total loans and advances to customers	**439.3**	**429.4**	**432.6**
Of which to government clients	2.5	2.3	2.3
Reverse repurchase transactions and securities borrowings	15.2	12.9	12.9
Interest rate hedges (hedge accounting)	5.9	6.1	6.4
Private sector loan portfolio	**415.7**	**408.1**	**411.0**
Domestic Retail Banking	279.9	279.9	280.0
Whosale, Rural & Retail	106.2	99.9	101.5
Leasing	29.0	27.1	27.2
Real estate	0.3	0.7	1.8
Other	0.3	0.4	0.4

The decrease in lending due to the implementation of IFRS 9 was mainly caused by two reclassifications. At Real Estate (FGH Bank: EUR 1.2 billion) and WRR (ACC Loan Management: EUR 1.1 billion) the portfolio decreased due to the fact that a large part of the loans were reclassified to financial assets mandatorily at fair value.

The geographical split of the loan portfolio as at June 30, 2018 was as follows: 72% in the Netherlands, 11% in North America, 7% in Europe (outside the Netherlands), 5% in Australia and New Zealand, 3% in Latin America, and 2% in Asia.

Loan portfolio by sector				
in billions of euros	*06-30-2018*		*12-31-2017*	
Volume of loans to private individuals	196.8	47%	198.0	48%
Volume of loans to TIS	119.0	29%	115.2	28%
of which in the Netherlands	*82.0*		*81.2*	
of which in other countries	*37.0*		*34.0*	
Volume of loans to Food & Agri	100.0	24%	97.8	24%
of which in the Netherlands	*37.2*		*36.9*	
of which in other countries	*62.8*		*60.9*	
Private sector loan portfolio	**415.7**	100%	**411.0**	100%

Increase in private savings

Total deposits from customers increased to EUR 346.6 (2017: 340.7) billion, partly caused by the reclassification of deposits from customers at January 1, 2018 (EUR 2.5 billion) as the result of the implementation of IFRS 9 (for more information see 'Notes to the Interim Financial Information'). The remainder of the increase was mainly due to an increase of deposits of private individuals at Domestic Retail Banking partly caused by seasonal fluctuations. Deposits from customers in Domestic Retail Banking increased to EUR 235.1 (2017: 228.8) billion. Deposits from customers in other segments remained stable at EUR 111.5 (2017: 111.9) billion. Private savings at Domestic Retail Banking increased by EUR 3.1 billion to EUR 120.1 billion, while the increase in total private savings was tempered by a EUR 3 billion decrease of savings at RaboDirect in Ireland caused by the withdrawal from the Irish retail market starting from May 16, 2018. On balance, total private savings increased by EUR 0.7 billion to EUR 143.1 billion.

Deposits from customers		
in billions of euros	*06-30-2018*	*12-31-2017*
Private savings	**143.1**	**142.4**
Domestic Retail Banking	120.1	117.0
Other segments	23.0	25.4
Other deposits from customers	**203.5**	**198.3**
Domestic Retail Banking	115.0	111.8
Other segments	88.5	86.4
Total deposits from customers	**346.6**	**340.7**

Rabobank's Financial Results

Results			
in millions of euros	*06-30-2018*	*06-30-2017*	*Change*
Net interest income	4,274	4,454	-4%
Net fee and commission income	981	988	-1%
Other results	774	496	56%
Total income	**6,029**	**5,938**	**2%**
Staff costs	2,127	2,206	-4%
Other administrative expenses	1,304	1,348	-3%
Depreciation	180	201	-10%
Total operating expenses	**3,611**	**3,755**	**-4%**
Gross result	**2,418**	**2,183**	**11%**
Impairment charges on financial assets	(37)	(67)	-45%
Regulatory levies	284	258	10%
Operating profit before tax	**2,171**	**1,992**	**9%**
Income tax	473	476	-1%
Net profit	**1,698**	**1,516**	**12%**
Impairment charges on financial assets (in basis points)	(2)	(3)	
Ratios			
Cost/income ratio including regulatory levies	64.6%	67.6%	
Return on tier 1 capital	9.1%	7.2%	
ROIC	8.8%	7.8%	
Balance sheet (in EUR billion)	*06-30-2018*	*12-31-2017*	
Total assets	607.8	603.0	1%
Private sector loan portfolio	415.7	411.0	1%
Deposits from customers	346.6	340.7	2%
Number of internal employees (in FTEs)	36,890	37,089	-1%
Number of external employees(in FTEs)	6,733	6,640	1%
Total number of employees(in FTEs)	43,623	43,729	0%

Notes to Rabobank's financial results

Net profit increased to EUR 1,698 million

Higher income, lower costs and the lower U.S. corporation tax rate had a positive impact on net profit compared to the same period last year. As the average staff level fell further in the first half of the year, the resulting lower staff costs were especially beneficial. Net profit was also boosted by lower restructuring costs and an improved result on fair value items in the first six months of 2018. Despite the continuing historical low level of impairment charges the release (EUR 37 million) was somewhat lower than in the first half of 2017 (EUR 67 million), tempering the increase in net profit, which amounted to EUR 1,698 (2017: 1,516) million.

Underlying performance improved further

Our underlying performance improved in the first half of 2018 as illustrated by the development of the underlying operating profit before tax, which increased by EUR 50 million to EUR 2,326 million. In calculating this underlying profit, we have made corrections for fair value items[1] and restructuring costs. In the first half of 2018, the underlying cost/income ratio – including regulatory levies – improved to 62.9% (2017: 63.9%).

Development of underlying operating profit before tax

Amounts in millions of euros		*06-30-2018*	*06-30-2017*
Income		**6,029**	**5,938**
Adjustments on income	*Fair value items*	*133*	*186*
Underlying income		**6,162**	***6,124***
Operating expenses		**3,611**	**3,755**
Adjustments on expenses	*Restructuring*	*22*	*98*
Underlying expenses		**3,589**	***3,657***
Regulatory levies		284	258
Impairment charges on financial assets		(37)	(67)
Operating profit before tax		**2,171**	**1,992**
Total adjustments		155	284
Underlying profit before tax		**2,326**	**2,276**

Rabobank retained EUR 1,142 (2017: 903) million of its net profit to bolster capital in the first six months of 2018. Tax amounted to EUR 473 (2017: 476) million, an effective tax rate of 22% (2017: 24%). This decrease was mainly caused by the lower U.S. corporation tax rate.

Income increased by 2%

Net interest income down 4%

Net interest income totalled EUR 4,274 (2017: 4,454) million. This decrease of 4% was the result of the continued low interest rate environment, specifically affecting margins on savings and current accounts as well as the expenses incurred by Treasury for managing liquidity buffers. New business margins on mortgages and SME lending had a positive effect on net interest income. The average net interest margin, calculated by dividing the net interest income by the average balance sheet total over the last 12 months, increased from 1.33% in the first half of 2017 to 1.41% in the same period this year. This increase was the combined result of a decrease of both net interest income as well as the average balance sheet total.

Net fee and commission income stable

In the first half of 2018, net fee and commission income remained stable at EUR 981 (2017: 988) million. Net fee and commission income in the real estate segment decreased by 69% following the downscaling of activities by Bouwfonds IM. Increases in our core business compensate for this decrease though. At local Rabobanks, net fee and commission income on payment accounts increased. At WRR, net fee and commission income decreased slightly where Mergers and Acquisitions performed stronger than in the first half of 2017, while other business lines showed smaller movements linked to regular volatility of the fee income. Net fee and commission income at DLL increased by 69%. This is the result of the understatement of this figures in the first half of 2017 by an one-off adjustment of fee recognition. Excluding this effect, fee and commission income was up 18%, driven by higher fees earned on syndicated financial leases in the U.S.

Other results up 56%

The increase in other results to EUR 774 (2017: 496) million can be partly attributed to the negative result on hedge accounting, which was smaller than the loss on hedge accounting and structured notes in the first half of 2017. On balance, the gross result on fair value items improved from a loss of EUR 186 million in the first six months of 2017 to a loss of EUR 133 million in the same period this year. Other results of the real estate segment more than doubled due to a book gain on FGH Bank's sale of the final part of its non-core CRE loan portfolio and BPD's improved performance. At DLL, other results went up by 28%, mainly as a

1 As of January 2018, fair value items only consist of hedge accounting, including the results from non-qualifying hedges, and non-derivative asymmetry. With the introduction of IFRS 9, Rabobank applies bifurcation to the embedded derivatives in callable structured notes to eliminate the volatility due to own credit spread in the total comprehensive income. All results on fair value items are adjusted in "Other results." Up until 2017, fair value items consisted of results on hedge accounting and structured notes.

result of the reversal of an impairment taken at year-end 2017 due to a portfolio optimization.

Operating expenses decreased by 4%

Staff costs down 4%

In the first half of 2018, the total number of employees (including external hires) at Rabobank decreased by 106 FTEs to 43,623 (2017: 43,729) FTEs mainly because of the large restructuring program in the Netherlands. The largest reduction in staff in the first half of 2018 was realized at local Rabobanks. A substantial part of this decrease can be attributed to the transfer of staff to the central organization. At WRR and DLL, staff levels increased as expected. At WRR more (temporary) staff came onboard for the execution of several projects. Overall staff costs decreased by 4% to EUR 2,127 (2017: 2,206) million, which was tempered by an increase in costs for temporary staff. The costs associated with the 2% pension accrual guarantee given to the pension fund covering 2014-2020 decreased to EUR 6 (2017: 82) million in the first half of 2018. This accounts for a large part of the decrease in staff costs. This guarantee has a maximum amount of EUR 217 million, of which EUR 202 million has already been used in 2018.

Other administrative expenses decreased by 3%

Total other administrative expenses decreased to EUR 1,304 (2017: 1,348) million in the first half of 2018. Significant lower restructuring costs (EUR 22 million versus EUR 98 million in 2017) helped reduce other administrative expenses. Conversely, project expenses for the SME derivatives recovery framework had an upward effect on other administrative expenses in the first half of 2018.

Depreciation down 10%

Depreciation decreased to EUR 180 (2017: 201) million as a result of our restructuring efforts and consequential closing down of offices in the Netherlands.

Impairment charges on financial assets at minus 2 basis points

In the first six months of 2018 impairment charges on financial assets were again negative. The net release (EUR 37 million) was lower than in the first half of 2017 (EUR 67 million). We again saw favorable developments in nearly all business segments, especially WRR, whose net impairment charges decreased to zero. Relative to the average private sector loan portfolio, impairment charges on financial assets amounted to minus 2 (2017: minus 5) basis points, which is substantially below the long-term average (period 2008-2017) of 34 basis points.

On January 1, 2018 the non-performing loans showed a one-off increase of EUR 1.9 billion to EUR 20.2 billion (2017: 18.3 million) due to the application of a more prudent 'Definition of Default' to our sizable mortgage and SME portfolio. This change is in line with new guidelines issued by EBA, which banks across Europe have to implement by January 1, 2021. On June 30, 2018, non-performing loans decreased to EUR 18.8 million. Next to underlying improvements due to the favorable economic climate, the sale of part of the FGH Bank portfolio also brought non-performing loans down. All in all, as per June 30, 2018 the NPL ratio (non-performing loans as a percentage of the loan portfolio) stabilized at 3.5% (2017: 3.5%). The related NPL coverage ratio (impairment allowances, excluding IBNR (IAS 39) and Stage 1 + 2 (IFRS 9) allowances as a percentage of non-performing loans) decreased to 23% (2017: 27%). This was mainly the result from the sale of non-core CRE loans, which were highly provisioned and a one-off increase in the level of non-performing loans in our mortgage portfolio as a result of the application of the EBA 'Definition of Default'.

Developments in the balance sheet

Balance sheet

In billions of euros	*06-30-2018*	*01-01-2018*	*12-31-2017*
Cash and cash equivalents	67.5	66.9	66.9
Loans and advances to customers	439.3	429.4	432.6
Financial assets	31.7	34.7	31.6
Loans and advances to banks	25.8	26.9	27.3
Derivatives	24.7	25.5	25.5
Other assets	18.8	19.1	19.1
Total assets	**607.8**	**602.5**	**603.0**
Deposits from customers	346.6	343.2	340.7
Debt securities in issue	140.8	137.0	134.4
Deposits from banks	19.9	18.9	18.9
Derivatives	26.5	28.6	28.1
Financial liabilities	8.1	8.3	14.4
Other liabilities	25.4	27.0	26.9
Total liabilities	**567.3**	**563.0**	**563.4**
Equity	40.5	39.6	39.6
Total liabilities and equity	**607.8**	**602.5**	**603.0**

Assets

In the first half of 2018, the balance sheet total increased by EUR 4.8 billion to EUR 607.8 billion, entirely as a result of an increase in loans and advances to customers (increase of EUR 6.7 billion). The private sector loan portfolio grew EUR 4.7 billion to EUR 415.7 billion as at June 30, 2018.

Liabilities

On the liabilities side, Rabobank's position in debt securities in issue increased by EUR 6.4 billion. Combined with the growth in deposits from customers (an increase of EUR 5.9 billion) partly resulting from seasonal fluctuations, total liabilities increased by EUR 3.9 billion to EUR 567.3 billion.

Equity
The adoption of IFRS 9 and IFRS 15 had a positive impact of EUR 15 million in the opening balance of 2018. In the first six months of 2018, Rabobank's equity increased to EUR 40.5 (2017: 39.6) billion mainly due to retained earnings of EUR 1.1 (2017: 0.9) billion.

To limit the impact of foreign currency fluctuations, Rabobank hedges its CET1 ratio instead of its absolute amount of equity. As a consequence, the effect of currency fluctuations on Rabobank's capital ratios was limited. This hedge resulted in an additional EUR 0.1 billion in equity during the first half of 2018. Rabobank Group's equity at June 30, 2018 consisted of 65% (2017: 64%) retained earnings and reserves, 18% (2017: 19%) Rabobank Certificates, 15% (2017: 16%) hybrid capital and subordinated capital instruments, and 1% (2017: 1%) other non-controlling interests.

Development of equity

in millions of euros	
Equity at the end of December 2017	**39,610**
Change in accounting policy IFRS 9	(26)
Change in accounting policy IFRS 15	41
Restated balance on January 1, 2018	**39,625**
Comprehensive income	1,734
Payments on Rabobank Certificates and hybrid capital	(540)
Redemption of Capital Securities	(346)
Other	41
Equity at the end of June 2018	**40,514**

Wholesale funding
Rabobank is actively reducing its use of wholesale funding. Doing so will make the bank less sensitive to potential future financial market instability. In the first half of 2018, however, the amount of wholesale funding increased by EUR 3.4 billion to EUR 163.8 billion, partly as a result of FX rate developments and our pre-funding efforts already covering a large part of our 2018 funding needs. Short- and long-term issued debt securities are the main source of wholesale funding.

Significant risks and uncertainties

Rabobank's risk management activities are an integral part of strategy design and execution. New strategic initiatives may open exciting opportunities, but the expected rewards must be balanced against the related risks. Rabobank keeps track of external developments and closely monitors how (future) risks might impact the realization of our strategic objectives. We perform regular top-down and bottom-up structural risk assessments to identify various types of risks, and conduct specific stress tests to calculate the impact of adverse scenarios. An integrated overview of these risks, changes to them, and any measures being taken to address them is discussed periodically in risk committee which are globally present and in meetings of the Managing Board and Supervisory Board.

In addition to listing key events that occurred in the first half of 2018 and their impact on the interim financial information, this interim report also describes the principal risks and uncertainties affecting the second half of 2018 in line with the disclosures required under Section 5:25d of the Dutch Financial Supervision Act. No significant events or transactions occurred during the first half of 2018, other than those disclosed in this report.

Market conditions
The low interest rate environment persist despite the gradual winding down of extraordinary monetary policy. Customer behavior is rapidly changing and digital innovation is increasing competition from new entrants.

Execution capacity
Achieving the desired results in a complex environment with legacy systems and challenging change management for projects requires a variety of skills. This places considerable pressure on limited resources during the overhaul of our IT landscape and our data quality improvement project.

Culture and conduct
Although, public trust in the financial sector is turning, it remains fragile. Our employees are expected to adhere to Rabobank's values and to comply with regulations. But following legislation to the letter of the law is no longer sufficient: historical facts are judged by today's standards. Therefore, we need to anticipate on developments and be aware of our responsibility as market leader in specific portfolios. Rational/financial approaches should not exclude intuition, and must be complemented by regular attention to subtler signs. Furthermore, we want to have a culture that is equipped to respond to those signs. The rapidly changing environment means that we always want to be mindful of the risks of misconduct. To this end, we have implemented several measures to mitigate the conduct risks we have experienced in the last couple of years. While we will do everything we can to mitigate misconduct risks, it is impossible to rule them out simply due to the size of our organization, the complexity of the rules and regulations, and the changing expectations within society.

New and existing external regulations continually affect Rabobank. We make sure that employees are aware of regulatory consequences for them as individuals and as employees. In preparation for the implementation of the General Data Protection Regulation (GDPR) on May 25, 2018, the topic of privacy was high on the agenda in the first half of 2018. Our employees took an online training course to increase their awareness of this issue.

Geopolitics
Geopolitical developments can drastically change global dynamics. Negative impacts from regulatory developments such as the reform of Basel III and other emerging regulatory requirements put a strain on resources. The interpretation and implementation of new regulations is extremely important and, to a certain extent, drives strategic choices and costs.

Financial Economic Crime Risk
Rabobank recognizes that continuous efforts are required in the field of anti-money laundering (AML) and counter terrorism finance (CTF). Rabobank has launched a program to accelerate existing efforts on the implementation of a robust AML/CTF control framework with additional focus on adequate monitoring and global oversight. The program includes ongoing dialogues with our regulators and aligning our approach towards meeting the required standards.

Global Trade War and Brexit
After the U.S. introduced a 25% tariff on steel imports and a 10% tariff on aluminum for an unlimited duration for the EU, Canada, and Australia, global trade war tensions rose, but it is hard to quantify at this point yet how our clients or we will be affected. In the early stages of this trade war the impact is apparently limited, but whether it remains so will depend on the political will to contain a potential further escalation of the situation. A similar uncertainly exists as to how Brexit will impact some of our clients. The economic outlook will remain uncertain until there is a signed agreement between the British government and the EU on the terms and conditions of Brexit. We expect the UK to be one of the worst performing industrial countries in 2018. Rabobank is closely following the situation and possible impact on clients.

Data & Service disruption
Cyber threats are increasingly sophisticated and attacks are becoming more frequent, requiring new legislation and greater attention to security risks, vendor management, and continuity. The new hybrid IT bank landscape, with expanding cloud initiatives, is changing the IT department's role and posing challenges to the governance.

Sustainability
Climate change, including its effects on the food chain, can influence financial stability through, for example, insurance liabilities and the value of financial assets and real estate. New financial risks are emerging from the energy transition to a lower carbon economy. Given our Food & Agri focus, our customers are likely to be affected by these changes, and with that, we will be too.

Taxation risk
The tax treatment of transactions is not always clear and fixed; in a number of countries, prior-year tax returns often remain open and subject to tax authority approval for lengthy periods. The tax assets and liabilities reported here are based on the best available information, and where applicable, external advice. We also are subject to changing tax regulations domestically and internationally. Therefore, we could still suffer losses due to additional tax charges or other financial costs. Differences between the final outcome and the original estimates will be accounted for in the current and deferred tax assets and liabilities when reasonable certainty is obtained.

Domestic Retail Banking

Highlights

- Operating expenses at the Domestic Retail Banking segment decreased by 7% in the first half of 2018, largely boosted by lower staff costs following the 6% reduction of the workforce.
- In the first half of 2018 impairment charges on financial assets amounted to a release of EUR 27 million as the economic climate in the Netherlands remains favourable.
- Deposits from customers increased in the first half of 2018 by EUR 6.3 billion.

Financial results of Domestic Retail Banking

Results

in millions of euros	*06-30-2018*	*06-30-2017*	*Change*
Net interest income	2,783	2,781	0%
Net fee and commission income	713	700	2%
Other results	38	44	-14%
Total income	**3,534**	**3,525**	**0%**
Staff costs	600	734	-18%
Other administrative expenses	1,328	1,349	-2%
Depreciation	43	47	-9%
Total operating expenses	**1,971**	**2,130**	**-7%**
Gross result	**1,563**	**1,395**	**12%**
Impairment charges on financial assets	(27)	(156)	-83%
Regulatory levies	135	137	-1%
Operating profit before tax	**1,455**	**1,414**	**3%**
Income tax	364	353	3%
Net profit	**1,091**	**1,061**	**3%**
Impairment charges on financial assets (in basis points)	(2)	(11)	
Ratios			
Cost/income ratio including regulatory levies	59.6%	64.3%	
Balance sheet (in EUR billion)	*06-30-2018*	*12-31-2017*	
External assets	286.0	285.9	0%
Private sector loan portfolio	279.9	280.0[1]	0%
Deposits from customers	235.1	228.8	3%
Number of internal employees (in FTEs)	11,647	12,466	-7%
Number of external employees (in FTEs)	1,213	1,169	4%
Total number of employees (in FTEs)	12,860	13,635	-6%

1 As of January 1, 2018 this figure was restated to EUR 279.9 billion as the result of the implementation of IFRS 9. For more information on the impact of IFRS 9 see page 17. In the remainder of this chapter the comparative figures are based on IAS 39.

Notes to the financial results

Underlying profit before tax remained stable

Development of underlying operating profit before tax

Amounts in millions of euros		*06-30-2018*	*06-30-2017*
Income		**3,534**	**3,525**
Operating expenses		**1,971**	**2,130**
Adjustments on expenses	*Restructuring*	*(4)*	*(49)*
Underlying expenses		***1,967***	***2,081***
Regulatory levies		135	137
Impairment charges on financial assets		(27)	(156)
Operating profit before tax		**1,455**	**1,414**
Total adjustments		***4***	***49***
Underlying profit before tax		**1,459**	**1,463**

Underlying performance remained stable

The underlying performance of Domestic Retail Banking remained stable in the first half of 2018 compared to the same period last year. The underlying profit before tax amounted to EUR 1,459 million compared to EUR 1,463 million in the same period last year. In calculating this underlying profit before tax, a correction was made for restructuring costs. Total income was flat, while operating expenses decreased by EUR 159 million having an upward effect on net profit, although it was tempered by a lower release of impairment charges on financial assets of EUR 129 million.

Income remained stable

The total income of Rabobank's Domestic Retail Banking business remained stable at EUR 3,534 (2017: 3,525) million in the first half of 2018. As in 2017, we observed a positive impact in our lending book from new business margins. At the same time, the volume of early interest rate revisions in our mortgage book remained high, whereas net interest income was pressured for savings and current accounts as a result of the low interest rate environment. All in all, total net interest income of EUR 2,783 million still matched the level of 2017 (EUR 2,781 million). Higher commissions on payment accounts helped to lift net fee and commission income to EUR 713 (2017: 700) million. Other results landed at EUR 38 (2017: 44) million at June 30, 2018.

Operating expenses decreased by 7%

Total operating expenses for Domestic Retail Banking decreased to EUR 1,971 (2017: 2,130) million. Staff costs fell to EUR 600 (2017: 734) million as the digitalization and centralization of services reduced the size of the workforce. The number of internal and external employees in the segment decreased to 12,860 (2017: 13,635) FTEs at June 30, 2018, partly due to employees moving from local Rabobanks to the central organization to create economies of scale. The decrease in staff costs was further caused by lower costs associated with the pension accrual guarantee given to the pension fund which amounted to EUR 4 (2017: 60) million. Other administrative expenses went down to EUR 1,328 (2017: 1,349) million, partly because of lower restructuring costs which amounted to EUR 4 (2017: 49). The decrease in other administrative expenses was tempered by higher project expenses for the execution of the SME derivatives recovery framework and the costs related to the accelerated depreciation of authentication devices. In the remainder of 2018 the effects of the new operating model in the Netherlands will become more noticeable and it is expected that staff costs and restructuring costs will be affected. The revaluation of property for own use was somewhat higher than in the first six months of 2017 due to lower occupancy rates, amounting to EUR 10 (2017: 4) million. As a result of our restructuring activities, several offices closed down and consequently, depreciation fell to EUR 43 (2017: 47) million.

Impairment charges on financial assets remain low

The net release of Impairment charges on financial assets was lower during the first six months of 2018, but still on an exceptionally low level benefitting from the favorable economic climate. Impairment charges on financial assets amounted to minus EUR 27 (2017: minus 156) million in the first half of 2018, which translates to minus 2 (2017: minus 11) basis points of the average private sector loan portfolio – far below the long-term average of 21 basis points. Releases are mainly in the sea and coastal shipping sector and additions are seen in industry sectors. The impairment charges on financial assets on mortgages amounted to EUR minus 25 million and illustrate the strong Dutch residential real estate market with very high numbers of houses sold and strong price increases.

Loan portfolio remained relatively stable

The persisting low interest rate on savings continued to encourage clients to make extra repayments on their loans. In the first half of 2018, clients' extra mortgage repayments – all those on top of the mandatory repayments – at local Rabobanks and Obvion totalled approximately EUR 7.8 (2017: 8.2) billion. Of this amount EUR 1.3 (2017: 1.5) billion is related to partial repayments and EUR 6.5 (2017: 6.7) billion from repayments of the full mortgage, which is mainly the result of moving house. The total volume of Rabobank's residential mortgage loan portfolio on June 30, 2018 was EUR 191.8 (2017: 193.1) billion. The volume includes Obvion's loan portfolio, valued at EUR 28.2 (2017: 28.5) billion. The total Domestic Retail Banking portfolio (including business lending) decreased slightly by EUR 0.1 billion to EUR 279.9 (2017: 280.0) billion. Noticeable is the EUR 1.1 billion increase in lending to the SME business segment amounting to a portfolio of EUR 85.8 (2017: 84.7) billion.

Loan portfolio by sector

in billions of euros	*06-30-2018*	*12-31-2017*
Volume of loans to private individuals	194.1	195.4
Volume of loans to TIS	59.2	57.7
Volume of loans to Food & Agri	26.6	27.0
Total private sector loan portfolio	**279.9**	**280.0**

Mortgage loan portfolio decreased by EUR 1.3 billion

Rabobank's share of the Dutch mortgage market decreased to 19.9% (2017: 22.0%) of new mortgage production in the first six months of 2018[1]. The local Rabobanks' market share dropped to 17.2% (2017: 18.0%) and Obvion's decreased to 2.7% (2017: 4.0%). The quality of Rabobank's residential mortgage loan portfolio remained high thanks to the positive developments in the Dutch economy and the strong domestic housing market. In the first half of 2018, financing backed by the National Mortgage Guarantee (*Nationale Hypotheek Garantie*, (NHG)) remained relatively stable, at 20.0% of the mortgage loan portfolio. The weighted average indexed loan-to-value (LTV) of the mortgage loan portfolio was 67% at the end of June 2018. Net additions relating to residential mortgage loans amounted to minus EUR 25 million (minus 3 basis points) in the first half of 2018, which is lower than in the same period last year. Improved asset quality helped keep impairment charges on financial assets low.

Residential mortgage loans

Amounts in millions of euros	*06-30-2018*	*12-31-2017*
Mortgage portfolio	191,791	193,110
Weighted-average LTV	67%	69%
Non-performing loans (amount)	2,347	1,112
Non-performing loans (in % of total mortgage loan portfolio)	1.22%	0.58%
More-than-90-days arrears	0.35%	0.34%
Share NHG portfolio	20.0%	20.0%
Impairment allowances on financial assets	237	169
Coverage ratio based on non-performing loans	10%	15%
Net additions	(25)	12
Impairment charges on financial assets (in basis points, including non-recurring effects)	(3)	1
Write-offs	20	77

1 Source: Dutch Land Registry Office (Kadaster)

The non-performing loans of the mortgage portfolio are higher than at year-end 2017. This is the result of the introduction of the new EBA definition of default. With this, possible default situations are recognized earlier. Aside from this one-off increase, the underlying trend of the credit quality is positive.

Deposits from customers increased by EUR 6.3 billion

The private savings market in the Netherlands grew 4% to EUR 353.7 (2017: 341.0) billion as at June 30, 2018. Rabobank's market share was 33.3% (2017: 33.4%)[1]. Deposits from customers rose 3% to EUR 235.1 (2017: 228.8) billion. Private savings for Domestic Retail Banking increased EUR 3.1 billion to EUR 120.1 (2017: 117.0) billion, despite the fact that extra repayments on mortgage loans were triggered by low interest rates on savings. Other deposits from customers went up by EUR 3.2 billion mainly due to an increase in current accounts partly as a result of seasonal patterns.

1 Source: Statistics Netherlands (Centraal Bureau voor de Statistiek)

Wholesale, Rural & Retail

Highlights

- The performance of WRR improved in the first half of 2018, as illustrated by the development of the operating profit before tax, which increased to EUR 784 million. This is an increase of EUR 96 million compared to the same period last year.
- Impairment charges on financial assets are with EUR 0 million at an exceptionally low level and therefore positvely influencing net result.
- The loan portfolio of the WRR segment increased by 5% to EUR 106.2 billion

Financial results of Wholesale, Rural & Retail

Results			
in millions of euros	*06-30-2018*	*06-30-2017*	*Change*
Net interest income	1,151	1,176	-2%
Net fee and commission income	233	240	-3%
Other results	453	445	2%
Total income	**1,837**	**1,861**	**-1%**
Staff costs	482	517	-7%
Other administrative expenses	451	429	5%
Depreciation	19	32	-41%
Total operating expenses	**952**	**978**	**-3%**
Gross result	**885**	**883**	**0%**
Impairment charges on financial assets	0	105	-100%
Regulatory levies	101	90	12%
Operating profit before tax	**784**	**688**	**14%**
Income tax	199	191	4%
Net profit	**585**	**497**	**18%**
Impairment charges on financial assets (in basis points)	0	20	
Ratios			
Cost/income ratio including regulatory levies	57.3%	57.4%	
Balance sheet (in EUR billion)	*06-30-2018*	*12-31-2017*	
External assets	141.3	131.9	7%
Private sector loan portfolio	106.2	101.5[1]	5%
Number of internal employees (in FTEs)	7,117	6,966	2%
Number of external employees (in FTEs)	485	357	36%
Total number of employees (in FTEs)	7,602	7,323	4%

1 As of January 1, 2018 this figure was restated to EUR 99.9 billion as the result of the implementation of IFRS 9. For more information on the impact of IFRS 9 see page 17. In the remainder of this chapter the comparative figures are based on IAS 39.

Notes to the financial results

Income decreased by 1%

WRR total income decreased to EUR 1,837 (2017: 1,861) million in the first half of 2018. Adjusted for fx effects income increased by 5%. At WRR, underlying commercial interest margins are stable whereas net interest income declined to EUR 1,151 (2017: 1,176) million. Excluding fx effects net interest income increased by 7%. Increased income is strongest in Australia, North America and the Netherlands. Net fee and commission income showed a slight decrease to EUR 233 (2017: 240) million. Mergers and acquisitions performed stronger than in the first half of 2017, where other business lines showed smaller movements linked to regular volatility of the fee income. Other results increased by EUR 8 million to EUR 453 (2017: 445) million driven by the positive revaluation of ACC Loan Management's loan portfolio.

Operating expenses decreased by 3%

Operating expenses at WRR went down to EUR 952 (2017: 978) million in the first six months of 2018. Excluding fx effects, operating expenses increased by 3%. In the first half of 2018, staffing levels at WRR increased by 279 FTEs mainly because of (temporary) staff hired for several strategic projects. Despite the increased staff level, staff costs decreased to EUR 482 (2017: 517) million, a 7% decrease compared to the first half of last year, which can be completely explained by fx effects. Other administrative expenses increased to EUR 451 (2017: 429) million, partly due to an increase in project expenses. Depreciation was down to EUR 19 (2017: 32) million.

Impairment charges on financial assets down by EUR 105 million

WRR impairment charges on financial assets decreased to EUR 0 (2017: 105) million in the first half of 2018. This drop can be explained by further improvements in macro economic conditions. Provision releases are observed across nearly all business lines and regions. Total impairment charges on financial assets went down to 0 (2017: 20) basis points of the average private sector loan portfolio, well below the long-term average of 58 basis points.

WRR loan portfolio saw 5% growth

In 2018, WRR's total loan portfolio increased by 5% to EUR 106.2 (2017: 101.5) billion. Reflecting our Banking for Food strategy, the volume of lending to the Food & Agri sector increased to EUR 63.3 (2017: 60.9) billion, accounting for 60% (2017: 60%) of WRR's total loan portfolio. Loans to the Trade, industry, and services (TIS) sectors increased to EUR 40.9 (2017: 38.4) billion. Lending to private individuals landed at EUR 2.1 (2017: 2.2) billion.

Dutch and international wholesale

WRR's wholesale portfolio totalled EUR 68.9 (2017: 64.5) billion. Lending to the largest Dutch companies increased in the first half of 2018 to EUR 18.2 (2017: 17.1) billion. Of WRR's loan portfolio, EUR 50.7 (2017: 47.4) billion was granted to wholesale clients outside of the Netherlands, a growth of EUR 3.4 billion, especially in North America.

International rural and retail banking

The loan portfolio to rural and retail clients amounted to EUR 37.3 (2017: 36.9) billion on June 30, 2018. In the main markets for rural banking, the loan portfolio totalled EUR 10.9 (2017: 10.2) billion in Australia, EUR 6.1 (2017: 6.1) billion in New Zealand, EUR 7.8 (2017: 7.1) billion in the United States, EUR 2.9 (2017: 2.9) billion in Brazil, and EUR 0.8 (2016: 0.9) billion in Chile.

Rabobank operates international retail banking activities through subsidiaries in two countries: in the U.S., Rabobank is active through Rabobank National Association (RNA) and in Indonesia, through Rabobank International Indonesia (RII). RNA's portfolio increased slightly to EUR 8.4 (2017: 8.3) billion, wherease the Indonesian portfolio only amounts to EUR 0.4 (2017: 0.3) billion.

Private savings at RaboDirect decreased by 13%

RaboDirect is Rabobank's online bank that operates in Belgium, Germany, Ireland, Australia, and New Zealand. Private savings entrusted by clients to RaboDirect are used for funding the international rural and retail banking business and other divisions of Rabobank Group. The savings balances of RaboDirect decreased to EUR 24.6 (2017: 28.3) billion at June 30, 2018, representing 17% (2017: 20%) of the total private savings held at Rabobank. The number of internet savings bank clients also decreased to approximately 865,000 (2017: 934,000). The main driver behind the reduction of private savings and number of clients with RaboDirect is our withdrawal from the Irish retail market as of May 16, 2018.

Leasing

Highlights

- DLL had a strong first half year with a net profit of EUR 230 million (an increase of 31%) and a portfolio growth of 5%.
- DLL promotes Rabobank's Banking for Food and Banking for the Netherlands strategies by supporting manufacturers, distributors and end-user within the Food & Agriculture (F&A) sector. The F&A portfolio now exceeds EUR 12 billion representing more than 35% of DLL's total portfolio.
- Geographically, Benelux showed a very strong performance over the first six months of 2018.

Financial results of Leasing

Results			
in millions of euros	*06-30-2018*	*06-30-2017*	*Change*
Net interest income	491	514	-4%
Net fee and commission income	54	32	69%
Other results	154	120	28%
Total income	**699**	**666**	**5%**
Staff costs	237	244	-3%
Other administrative expenses	121	107	13%
Depreciation	13	14	-7%
Total operating expenses	**371**	**365**	**2%**
Gross result	**328**	**301**	**9%**
Impairment charges on financial assets	35	41	-15%
Regulatory levies	14	11	27%
Operating profit before tax	**279**	**249**	**12%**
Income tax	49	73	-33%
Net profit	**230**	**176**	**31%**
Impairment charges on financial assets (in basis points)	23	26	
Ratios			
Cost/income ratio including regulatory levies	55.1%	56.5%	
Balance sheet (in EUR billion)	*06-30-2018*	*12-31-2017*	
Lease portfolio	32.2	30.8	5%
Number of internal employees (in FTEs)	4,486	4,302	4%
Number of external employees (in FTEs)	405	335	21%
Total number of employees (in FTEs)	4,891	4,637	5%

Notes to the financial results

Development of underlying operating profit before tax			
Amounts in millions of euros		*06-30-2018*	*06-30-2017*
Income		**699**	**666**
Operating expenses		**371**	**365**
Adjustments on expenses	*Restructuring*	*4*	*(5)*
Underlying expenses		***367***	***370***
Regulatory levies		14	11
Impairment charges on financial assets		35	41
Operating profit before tax		**279**	**249**
Total adjustments		*4*	*(5)*
Underlying profit before tax		**283**	**244**

Income increased

Total income from the Leasing segment increased by 5% to EUR 699 (2017: 666) million in the first half of 2018. Net interest income decreased by 4% to EUR 491 (2017: 514) million, as the result of lower margins on new business compared to the first half of 2017. Net fee and commission income increased to EUR 54 (2017: 32) million. This is the result of the understatement of this figures in the first half of 2017 by an one-off adjustment of fee recognition. Excluding this effect, fee and commission income was up 18% driven by higher fees earned on syndicated financial leases in the US. Other results mainly consisted of sales results on end-of-lease assets and increased to EUR 154 (2017: 120) million. This increase can be attributed to the release of a provision for foreign activities of DLL.

Operating expenses slightly up

Total operating expenses in the Leasing segment increased to EUR 371 (2017: 365) million. Despite the higher number of employees, staff costs fell by 3% to EUR 237 (2017: 244) million. This decrease can be partly explained by the lower costs related to pension accrual guarantee given to the pension fund. Staff levels in the Leasing segment showed an increase of 184 FTEs to 4,891 FTEs in the first half of 2018. Other administrative expenses increased mainly as the result of higher restructuring costs and amounted to EUR 121 (2017: 107) million. Depreciation remained stable and amounted to EUR 13 (2017: 14) million.

Impairment charges on financial assets decreased slightly

Impairment charges on financial assets for the Leasing segment decreased to EUR 35 (2017: 41) million in the first six months of 2018, corresponding with 23 (2017: 26) basis points of the average loan portfolio, well below the long-term average of 58 basis points. As DLL's lease portfolio is spread over more than 30 countries and 8 industries, the associated credit risk is geographically diverse and well balanced across all industry sectors. In the first half of 2018, there were no new significant individual default cases.

Income tax decreased by 33%

Income tax in the Leasing segment decreased from EUR 73 million to EUR 49 million. This lower income tax rate is the result of new tax rates in the United States, which are favorable for DLL.

Lease portfolio increases by 5%

The lease portfolio increased slightly to EUR 32.2 (2017: 30.8) billion. DLL promotes the Rabobank strategies Banking for Food and Banking for the Netherlands by supporting manufacturers, distributors, and end-user clients within the Food & Agri sector, both internationally and domestically. In the first half of 2018, DLL's Food and Agriculture share of the portfolio increased to EUR 12.2 (2017: 11.8) billion; representing 38% (2017: 38%) of the DLL portfolio.

Real Estate

Highlights

- Results of Real Estate segment in the first half of 2018 were boosted by the performance improvement at Bouwfonds Property Development (BPD) on the back of favourable developments in the housing market.
- The loan portfolio of the Real Estate segment decreased by 83% as the result of the sale of the final part of the non-strategic commercial real estate portfolio of FGH Bank.

Financial results of Real Estate

Results			
in millions of euros	*06-30-2018*	*06-30-2017*	*Change*
Net interest income	2	47	-96%
Net fee and commission income	11	35	-69%
Other results	264	125	111%
Total income	**277**	**207**	**34%**
Staff costs	73	93	-22%
Other administrative expenses	50	59	-15%
Depreciation	3	3	0%
Total operating expenses	**126**	**155**	**-19%**
Gross result	**151**	**52**	**190%**
Impairment charges on financial assets	(3)	(43)	-93%
Regulatory levies	2	2	0%
Operating profit before tax	**152**	**93**	**63%**
Income tax	36	22	64%
Net profit	**116**	**71**	**63%**
BPD	*71*	*30*	*137%*
Rabo Real Estate Group	*9*	*2*	*350%*
FGH Bank	*39*	*99*	*-61%*
Other	*(4)*	*(60)*	*-93%*
Impairment charges on financial assets (in basis points)	(77)	(97)	
Ratios			
Cost/income ratio including regulatory levies	46.2%	75.8%	
Balance sheet (in EUR billion)	*06-30-2018*	*12-31-2017*	
Private sector loan portfolio	0.3	1.8*	-83%
Number of houses sold	4,549	3777	20%
Number of internal employees (in FTEs)	952	1,091	-13%
Number of external employees (in FTEs)	65	88	-26%
Total number of employees (in FTEs)	1,017	1,178	-14%

* As of January 1, 2018 this figure was restated to EUR 0.7 billion as the result of the implementation of IFRS 9. For more information on the impact of IFRS 9 see page 17. In the remainder of this chapter the comparative figures are based on IAS 39.

Notes to the financial results

Development of underlying operating profit before tax			
Amounts in millions of euros		*06-30-2018*	*06-30-2017*
Income		**277**	**207**
Operating expenses		**126**	**155**
Adjustment on expenses	*Restructuring*	4	*(4)*
Underlying expenses		***122***	***159***
Regulatory levies		2	2
Impairment charges on financial assets		(3)	(43)
Operating profit before tax		**152**	**93**
Total adjustments		(4)	*4*
Underlying profit before tax		**148**	**97**

Income increased by 34%

In the first half of 2018, the total income of the Real Estate segment increased to EUR 277 (2017: 207) million. FGH Bank's[1] loan portfolio was further integrated within Rabobank and the final part of its non core loan portfolio was sold to RNHB. Consequently, FGH Bank's loan portfolio shrank and net interest income dropped to EUR 2 (2017: 47) million. Net fee and commission income decreased to EUR 11 (2017: 35) as the activities of Bouwfonds IM are gradually phased out. The sale of a part of FGH Bank's loan portfolio to RNHB and higher results at BPD had an upward effect on other results in the real estate segment, which increased by EUR 139 million to EUR 264 (2017: 125) million.

Operating expenses down by 19%

Total operating expenses in the Real Estate segment decreased to EUR 126 (2017: 155) million in the first half of 2018. Staff costs decreased by EUR 20 million to EUR 73 (2017: 93) million following the downscaling of activities at FGH Bank and Bouwfonds IM and reflected in the 14% decrease in staff levels to 1,017 FTEs. This reduction in scale also impacted the other administrative expenses, which decreased to EUR 50 (2017: 59) million in the first six months of 2018 due to lower expenses in all divisions. Depreciation remained stable and landed at EUR 3 (2017: 3) million.

Impairment charges on financial assets remain negative

Just as in 2017, favorable economic developments in the Netherlands had a positive impact on impairment charges on

1 As from June 30, 2018 FGH Bank N.V. is legally merged with Coöperatieve Rabobank U.A.

financial assets in the real estate segment. Over the first six months of 2018, the impairment charges on financial assets amounted to minus EUR 3 (2017: minus 43) million, which entails a release of loan impairment allowances. Impairment charges on financial assets amounted to minus 77 (2017: minus 97) basis points of average lending. The long-term average is 69 basis points.

Loan portfolio decreased by 83%

The loan portfolio of the Real Estate segment decreased by EUR 1.5 billion to EUR 0.3 (2017: 1.8) billion. The decrease of the loan portfolio is largely attributable to the sale of part of the CRE portfolio of FGH Bank.

Our progress on capital ratios

Positive development of capital ratios

On June 30, 2018, our fully loaded CET1 ratio amounted to 15.8% (2017: 15.5%), which almost completely equals our transitional CET1 ratio. The increase of the fully loaded CET1 ratio was mainly due to the profits added to the retained earnings from 2018.

Our leverage ratio – that is, our tier 1 capital divided by balance sheet positions and off-balance-sheet liabilities – is calculated based on the definitions provided in the CRR/CRD IV. As at June 30, 2018 our leverage ratio was 6.0% (2017: 6.0%), which is well above the minimum leverage ratio of 3% required by the Basel III guidelines.

Our total capital ratio decreased slightly to 26.1% (2017: 26.2%). Our current capital ratios already exceed our capital targets set for 2020.

Capital ratios

Amounts in millions of euros	*06-30-2018*	*1-1-2018*	*12-31-2017*
Retained earnings	27,377	26,302	26,777
Expected dividends	(31)	(54)	(54)
Rabobank Certificates	7,440	7,440	7,440
Part of non-controlling interests treated as qualifying capital	0	26	26
Reserves	(870)	(911)	(1,401)
Deductions	(2,517)	(2,317)	(2,050)
Transition guidance	26	24	525
Common equity tier 1 capital	**31,425**	**30,510**	**31,263**
Capital securities	2,727	2,728	2,728
Grandfathered instruments	3,344	3,590	3,590
Non-controlling interests	0	6	6
Deductions	(113)	(88)	(88)
Transition guidance	0	0	(295)
Additional tier 1 capital	*5,958*	*6,236*	*5,941*
Tier 1 capital	**37,383**	**36,746**	**37,204**
Part of subordinated debt treated as qualifying capital	14,700	14,896	14,896
Non-controlling interests	0	7	7
Deductions	(88)	(89)	(89)
Transition guidance	0	0	(95)
Tier 2 capital	**14,612**	**14,814**	**14,719**
Qualifying capital	**51,995**	**51,560**	**51,923**
Risk-weighted assets	**199,348**	**198,207**	**198,269**
Common equity tier 1 ratio (transitional)	15.8%	15.4%	15.8%
Common equity tier 1 ratio (fully loaded)	15.8%	15.4%	15.5%
Tier 1 ratio	18.8%	18.5%	18.8%
Total capital ratio	26.1%	26.0%	26.2%
Equity capital ratio	17.5%	17.0%	17.3%
Common equity tier 1 ratio of Coöperatieve Rabobank U.A. solo (issuer level)	15.8%	15.4%	15.5%

IFRS 9 impact on capital

The total negative impact of the introduction of IFRS 9 on the fully loaded CET1 ratio was 14 basis points.

IFRS 9 impairment calculations have led to higher loan loss allowances as from January 1, 2018. Instead of incurred loss, expected loss is recognized. IBNR (incurred but not reported) losses are replaced by expected one year loss for Stage 1 assets and expected lifetime loss for Stage 2 assets. The impact on loan loss allowances amounted to EUR 227 million. Within the regulatory capital ratio calculations the higher loan loss allowance is compensated by the shortfall.

Under classification and measurement IFRS 9 gives new guidance around modification accounting. This alters the way Rabobank accounts for prepayment penalties and interest rate averaging in the consolidated statement of income. Another change in classification and measurement relates to some legacy, non-core credit portfolios that will probably be sold before their legal maturity and therefore receive the classification "Other". They are measured at fair value through profit or loss. On the liability side Rabobank has elected to reclassify the callable notes included in the structured funding portfolio to amortized cost. This reclassification resulted in the bifurcation of the embedded derivatives whilst the funding host contract are also measured at amortized cost. The total effect of classification and measurement IFRS 9 amounts to positive EUR 201 million.

The benefit of our MREL eligible capital buffer

Rabobank intends to mitigate the MREL eligible capital risk for our creditors and depositors as much as possible. We therefore hold a large buffer of equity and subordinated debt that will first absorb losses in the event of a bail-in. Only after this buffer has been used senior creditors, whose claims are not covered by collateral, will need to contribute in the unlikely event of a bail-in.

Rabobank has received formal notification from De Nederlandsche Bank (DNB) of its binding minimum requirement for own funds and eligible liabilities (MREL). The MREL requirement has been established to ensure that banks in the European Union have sufficient own funds and eligible liabilities to absorb losses in the case of potential bank failure. The MREL requirement is set for Rabobank Group at a consolidated level, as determined by the Single Resolution Board (SRB).

This MREL requirement is based on Rabobank's FY 2016 results. The requirement has been set at 30.96% of Rabobank's risk-weighted assets (EUR 65 billion) and consists of a loss absorption amount of 15.25%, a recapitalization amount of 11.65% and a market confidence amount of 4.06%. The 30.96% requirement includes the binding Basel I floor in the recapitalization amount and is based on BRRD I. Future MREL requirements are subject to ongoing political developments (European Trilogue) with regards to the risk reduction package proposed by the European Commission in November 2016.

As under BRRD I preferred senior is MREL eligible, Rabobank already meets its MREL requirement. As a result, no transition period is set. Over time, Rabobank intends to meet its MREL requirement with a combination of Own Funds and Non-Preferred Senior only. With MREL eligible capital of 26.5%, the additional MREL needs are manageable.

We define our MREL eligible capital buffer as qualifying capital plus the non-qualifying part of the grandfathered additional tier 1 instruments and the amortized part of tier 2 with a remaining maturity of at least one year. In 2018, FX effects had a limited negative impact on our MREL eligible capital buffer. The buffer decreased from EUR 53.2 billion to EUR 52.8 billion. This decrease corresponds to 26.5% (2017: 26.8%) of risk-weighted assets.

MREL eligible capital buffer

Amounts in billions of euros	*06-30-2018*	*12-31-2017*
Qualifying capital	52.0	51.9
Non qualifying grandfathered additional tier 1 capital	0.0	0.0
Amortized tier 2 > 1 year remaining maturity	0.8	1.3
MREL eligible capital buffer	**52.8**	**53.2**
Risk-weighted assets	199.3	198.3
MREL eligible capital buffer / risk-weighted assets	26.5%	26.8%

Risk-weighted assets

Regulatory capital, 8% of our risk-weighted assets, is our external capital requirement. It represents the minimum amount of capital which the CRR and CRD IV require Rabobank to hold. The regulatory capital of Rabobank amounted to EUR 15.9 billion (2017: EUR 15.9 billion) at June 30, 2018, of which 85% related to credit and transfer risk, 13% to operational risk and 2% to market risk. This is in line with the regulatory capital at the end of 2017.

Rabobank calculates its regulatory capital for credit risk for almost the entire loan portfolio using the advanced IRB approach approved by our supervisory authority. In consultation with DNB, Rabobank applies the standardized approach to portfolios with relatively limited exposure and to some smaller portfolios outside the Netherlands that are unsuitable for the advanced IRB approach.

We measure operational risk using an internal model, approved by DNB, that is based on the advanced measurement approach. For market risk exposure, DNB has given Rabobank permission to calculate our general and specific position risk using our own internal value-at-risk (VaR) models, based on the CRR.

Regulatory capital by business segments

Amounts in billions of euros	*06-30-2018*	*12-31-2017*
Domestic Retail Banking	6.4	6.3
Wholesale, Rural & Retail	6.2	6.0
Leasing	1.5	1.4
Real Estate	0.6	0.8
Other	1.2	1.4
Rabobank	**15.9**	**15.9**

Renewed Pillar II capital framework

The relevant rules and regulations related to the capital adequacy process of EU banks are addressed in the CRR/CRD IV comprehensive frameworks, and encompass a three-pillar approach to risk and capital management: Pillar I on minimum capital requirements of credit, market and operational risk; Pillar II on the supervisory review process (SREP) and internal capital and liquidity adequacy assessment; and Pillar III on market discipline, where banks disclose to the public their overall risk profiles.

In order to adequately assess the capital resources needed to cover the risks inherent in its current activities, Rabobank renewed its Pillar II modelling landscape. The renewed Pillar II capital framework entered into effect as of January 1, 2017 and covers all those areas where Rabobank is of the opinion that the regulatory framework does not address the risk, or does not adequately address the risk. Rabobank developed mostly statistical approaches and methodologies that: (1) challenge regulatory capital requirements; (2) cover risks not addressed in CRR/CRD IV, and (3) identify possible future events or changes in the market conditions that could impact Rabobank's strategic planning. The renewed Pillar II modelling landscape reflects the changing regulatory environment and similar developments in the industry.

The outputs of the renewed Pillar II models are used for various purposes within the bank, such as deal acceptance and pricing, strategy and planning of the firm's operations, and performance evaluation. Moreover, the regulators and supervisors view the level of capitalization as one of their key instruments to supervise Rabobank. Therefore, the renewed Pillar II capital framework promotes a sound and effective risk management culture within Rabobank, ensuring adequate capital levels to support business growth, maintain depositor and creditor confidence and comply with regulatory requirements.

Interim Financial Information

Contents

Interim Financial Information

Consolidated Statement of Financial Position

Consolidated Statement of Financial Position				
Amounts in millions of euros	*Note*	*June 30 2018*	*January 1 2018*[1]	*December 31 2017*[2]
Assets				
Cash and cash equivalents		67,461	66,861	66,861
Loans and advances to banks		25,806	26,864	27,254
Financial assets held for trading		2,868	1,767	1,760
Financial assets designated at fair value		970	1,204	1,194
Financial assets mandatorily at fair value		1,638	2,843	n/a
Derivatives		24,651	25,532	25,505
Loans and advances to customers	6	439,349	429,408	432,564
Financial assets at fair value through other comprehensive income		26,239	28,909	n/a
Available-for-sale financial assets		n/a	n/a	28,689
Investments in associates and joint ventures		2,447	2,521	2,521
Goodwill and other intangible assets		981	1,002	1,002
Property and equipment		4,509	4,587	4,587
Investment properties		199	193	193
Current tax assets		273	176	175
Deferred tax assets		1,506	1,730	1,733
Other assets		8,233	7,952	7,961
Non-current assets held for sale	12	715	992	992
Total assets		**607,845**	**602,541**	**602,991**
Liabilities				
Deposits from banks		19,913	18,945	18,922
Deposits from customers		346,617	343,195	340,682
Debt securities in issue		140,835	136,975	134,423
Financial liabilities held for trading		746	581	581
Financial liabilities designated at fair value		7,311	7,679	13,792
Derivatives		26,520	28,563	28,103
Other liabilities		6,962	8,248	8,271
Provisions	7	1,172	1,644	1,537
Current tax liabilities		212	249	248
Deferred tax liabilities		538	411	396
Subordinated liabilities		16,397	16,170	16,170
Liabilities held for sale	12	108	256	256
Total liabilities		**567,331**	**562,916**	**563,381**
Equity				
Reserves and retained earnings	8	26,507	25,391	25,376
Equity instruments issued by Rabobank				
Rabobank Certificates		7,440	7,440	7,440
Capital Securities		5,512	5,759	5,759
		12,952	**13,199**	**13,199**
Non-controlling interests				
Equity instruments issued by subsidiaries				
Capital Securities		163	166	166
Trust Preferred Securities IV		396	394	394
Other non-controlling interests		496	475	475
		1,055	**1,035**	**1,035**
Total equity		**40,514**	**39,625**	**39,610**
Total equity and liabilities		**607,845**	**602,541**	**602,991**

1 The consolidated statement of financial position as at 1 January 2018 has been prepared in accordance with IFRS 9 and IFRS 15 for the transition from 31 December 2017 to 1 January 2018

2 As reported under IAS 39

Consolidated Statement of Income

Consolidated Statement of Income

Amounts in millions of euros	*Note*	*First half-year 2018*	*First half-year 2017*
Interest income from financial assets using the effective interest method[1]	1	7,925	8,219
Other interest income	1	171	146
Interest expense	1	3,822	3,911
Net interest income	**1**	**4,274**	**4,454**
Fee and commission income		1,062	1,074
Fee and commission expense		81	86
Net fee and commission income		**981**	**988**
Income from other operating activities	2	1,165	879
Expenses from other operating activities	2	889	684
Net income from other operating activities	**2**	**276**	**195**
Income from investments in associates and joint ventures		144	105
Gains/ (losses) arising from the derecognition of financial assets measured at amortised cost		(5)	n/a
Gains/ (losses) on financial assets and liabilities at fair value through profit or loss		141	100
Gains/ (losses) on available-for-sale financial assets		n/a	12
Gains/ (losses) on financial assets at fair value through other comprehensive income		11	n/a
Other income		207	84
Income		**6,029**	**5,938**
Staff costs	3	2,127	2,206
Other administrative expenses	4	1,304	1,348
Depreciation		180	201
Operating expenses		**3,611**	**3,755**
Loan impairment charges		n/a	(67)
Impairment charges on financial assets	5	(37)	n/a
Regulatory levies		284	258
Operating profit before tax		**2,171**	**1,992**
Income tax		473	476
Net profit for the period		**1,698**	**1,516**
Of which attributed to Rabobank		1,152	903
Of which attributed to holders of Rabobank Certificates		242	242
Of which attributed to Capital Securities issued by Rabobank		257	323
Of which attributed to Capital Securities issued by subsidiaries		7	8
Of which attributed to Trust Preferred Securities IV		11	11
Of which attributed to other non-controlling interests		29	29
Net profit for the period		**1,698**	**1,516**

1 Presentation adjusted (see note Changes in accounting principles and presentation)

Condensed Consolidated Statement of Comprehensive Income

Condensed Consolidated Statement of Comprehensive Income		
Amounts in millions of euros	*First half-year 2018*	*First half-year 2017*
Net profit for the period	**1,698**	**1,516**
Other comprehensive income transferred to profit or loss if specific conditions are met, net of tax:		
Exchange differences on translation of foreign operations	58	(701)
Changes in the fair value of available-for-sale financial assets	n/a	(74)
Changes in the fair value of debt instruments at fair value through other comprehensive income	(66)	n/a
Costs of hedging	18	n/a
Cash flow hedges	(3)	20
Share of other comprehensive income of associates and joint ventures	(31)	(6)
Other	-	35
Other comprehensive income not to be transferred to profit or loss, net of tax:		
Remeasurements of post-employee benefit obligations	6	(3)
Changes in the fair value of equity instruments at fair value through other comprehensive income	(11)	n/a
Share of other comprehensive income of associates and joint ventures	-	1
Fair value changes due to own credit risk on financial liabilities designated at fair value	65	(135)
Other comprehensive income	**36**	**(863)**
Total comprehensive income	**1,734**	**653**
Of which attributed to Rabobank	1,194	61
Of which attributed to holders of Rabobank Certificates	242	242
Of which attributed to Capital Securities issued by Rabobank	257	323
Of which attributed to Capital Securities issued by subsidiaries	7	8
Of which attributed to Trust Preferred Securities IV	11	11
Of which attributed to other non-controlling interests	23	8
Total comprehensive income	**1,734**	**653**

Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Equity

			Non-controlling interests		
Amounts in millions of euros	*Reserves and retained earnings*	*Equity instruments issued by Rabobank*	*Equity instruments issued by subsidiaries*	*Other*	*Total*
Balance on December 31 2017	**25,376**	**13,199**	**560**	**475**	**39,610**
Change in accounting policy IFRS 9[1]	(26)	-	-	-	(26)
Change in accounting policy IFRS 15[2]	41	-	-	-	41
Restated balance on January 1 2018	**25,391**	**13,199**	**560**	**475**	**39,625**
Net profit for the period	1,669	-	-	29	1,698
Other comprehensive income	42	-	-	(6)	36
Total comprehensive income	**1,711**	**-**	**-**	**23**	**1,734**
Payments on Rabobank Certificates	(242)	-	-	-	(242)
Payments on Trust Preferred Securities IV	-	-	-	-	-
Payments on Capital Securities issued by Rabobank	(291)	-	-	-	(291)
Payments on Capital Securities issued by subsidiaries	(7)	-	-	-	(7)
Redemption of Capital Securities (note 9)	(71)	(275)	-	-	(346)
Other	16	28	(1)	(2)	41
Balance on June 30 2018	**26,507**	**12,952**	**559**	**496**	**40,514**
Balance on January 1 2017	**25,821**	**13,584**	**594**	**525**	**40,524**
Net profit for the period	1,487	-	-	29	1,516
Other comprehensive income	(842)	-	-	(21)	(863)
Total comprehensive income	**645**	**-**	**-**	**8**	**653**
Payments on Rabobank Certificates	(242)	-	-	-	(242)
Payments on Trust Preferred Securities IV	-	-	-	-	-
Payments on Capital Securities issued by Rabobank	(359)	-	-	-	(359)
Payments on Capital Securities issued by subsidiaries	(8)	-	-	-	(8)
Redemption of Capital Securities	(376)	(1,421)	-	-	(1,797)
Issue of Rabobank Certificates	120	1,500	-	-	1,620
Cost of issue Rabobank Certificates	(12)	-	-	-	(12)
Other	(45)	7	(15)	(12)	(65)
Balance on June 30 2017	**25,544**	**13,670**	**579**	**521**	**40,314**

1 See note 'Key impacts of the implementation of IFRS 9'

2 See note 'New and amended standards issued by the International Accounting Standards Board (IASB) and adopted by the European Union which apply in the current financial year'

Condensed Consolidated Statement of Cash Flows

Condensed Consolidated Statement of Cash Flows		
Amounts in millions of euros	*First half-year 2018*	*First half-year 2017*
Operating profit before tax	2,171	1,992
Non-cash items recognized in operating profit before tax	75	430
Net change in assets and liabilities relating to operating activities	(5,099)	1,948
Net cash flow from operating activities	**(2,853)**	**4,370**
Net cash flow from investing activities	**32**	**14**
Net cash flow from financing activities	**3,576**	**(16,118)**
Net change in cash and cash equivalents	**755**	**(11,734)**
Cash and cash equivalents at January 1	66,861	84,405
Net change in cash and cash equivalents	755	(11,734)
Exchange rate differences on cash and cash equivalents	(155)	(862)
Cash and cash equivalents at June 30	**67,461**	**71,809**

Notes to the Interim Financial Information

Corporate Information

The interim financial statements of Rabobank include the financial information of Coöperatieve Rabobank U.A. and its subsidiaries, together referred to as Rabobank Group.

Basis for Preparation

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

For the publication of its interim report, Rabobank has opted for the alternative of presenting a condensed version of its Consolidated Statement of Comprehensive Income and a condensed version of its Consolidated Statement of Cash Flows. These interim financial statements do not include all the information and disclosures required in the Consolidated financial statements and should be read in conjunction with the 2017 Consolidated Financial Statements of Rabobank Group, which were prepared in accordance with the IFRS as adopted by the European Union. The accounting policies used in this interim report are consistent with those set out in the notes to the 2017 Consolidated financial statements of Rabobank Group and in the description of the estimates below, except for the changes in accounting policies described in note "Changes in accounting principles and presentation".

Going concern

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

Judgements and estimates

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

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

Impairment allowances on financial assets

IFRS 9 establishes three separate approaches for measuring and recognizing expected credit losses. Rabobank implemented these three-stage expected credit loss impairment models as of January 1, 2018 which involved a significant degree of management judgement. The impairment methodology for loans and advances results in the recognition of allowances measured at an amount equal to 12-month expected credit losses (stage 1); allowances measured at an amount equal to lifetime expected credit losses for financial assets for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets (stage 2); and financial assets that are credit-impaired (stage 3).

The detailed approach for each category is further explained in note "Changes in accounting principles and presentation" and the reconciliation of the impairment allowances determined in accordance with IAS 39 as at December 31, 2017 to the impairment allowances in accordance with IFRS 9 as per January 1, 2018 is explained in note "Key impacts of the implementation of IFRS 9".

Fair value of financial assets and liabilities

Information on the determination of the fair value of financial assets and liabilities is included in the note 11 "Fair value of financial assets and liabilities".

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

Goodwill and other intangible assets are assessed for impairment – at least once a year – by comparing the recoverable value to the carrying amount, while investments in associates and joint ventures are tested for impairment when specific triggers are identified. The determination of the recoverable amount in an impairment assessment of these assets requires estimates based on quoted market prices, prices of comparable businesses, present value or other valuation techniques, or a combination thereof, necessitating management to make subjective judgements and assumptions. Because these estimates and assumptions could result in significant differences to the amounts reported if underlying circumstances were to change, these estimates are considered to be critical. The important assumptions for determining recoverable value of goodwill are set out in note 14 and for investments in associates and joint ventures in note 13 of the 2017 Consolidated Financial Statements of Rabobank.

Taxation

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

Provisions

In applying IAS 37 judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any expected economic outflows. More information on judgements regarding the provision for legal and arbitration proceedings is included note 7 "Legal and arbitration proceedings".

New and amended standards issued by the International Accounting Standards Board (IASB) and adopted by the European Union which apply in the current financial year

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial instruments: Recognition and Measurement. IFRS 9 became effective on January 1, 2018 and Rabobank applies the classification, measurement and impairment requirements retrospectively by adjusting the opening balance sheet and opening retained earnings as per January 1, 2018, with no restatement of comparative periods. The adoption of IFRS 9 Financial Instruments resulted in changes in accounting policies. The new accounting policies are set out in note "Changes in accounting principles and presentation". For a reconciliation between the consolidated statement of financial position as per December 31, 2017 and per January 1, 2018, refer to note "Key impacts of the implementation of IFRS 9". Rabobank continues to test and refine the new accounting processes, internal controls and governance framework as a consequence of the adoption of IFRS 9.

Amendments to IFRS 4

The amendments to IFRS 4 permit entities that predominantly undertake insurance activities the option to defer the effective date of IFRS 9 until January 1, 2021. The effect of such a deferral is that the entities concerned may continue to report under IAS 39 Financial Instruments: Recognition and Measurement.

IAS 28 Investments in associates and Joint Ventures require an entity to apply uniform accounting policies when using the equity method. Nevertheless, for annual periods beginning before January 1, 2021, an entity is permitted, but not required, to retain the relevant accounting policies applied by the associate or joint venture as follows: (a) the entity applies IFRS 9 but the associate or joint venture applies the temporary exemption from IFRS 9; or (b) the entity applies the temporary exemption from IFRS 9 but the associate or joint venture applies IFRS 9. These amendments are effective for annual periods beginning on or after January 1, 2018.

Rabobank applies IFRS 9 as of January 1, 2018. Achmea BV, an associate of Rabobank, undertakes insurance activities and uses the option to defer the effective date of IFRS 9 and therefore still applies IAS 39. Rabobank uses the temporary exemption to not apply IFRS 9 when measuring Achmea BV according to the equity method.

IFRS 15 Revenue from Contracts with Customers

Rabobank applies IFRS 15 as of January 1, 2018. IFRS 15 replaces IAS 11 and 18, IFRIC 13, 15 and 18 and SIC-31 and provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. The standard does not apply to financial instruments, insurance contracts or lease contracts. The impact of IFRS 15 for Rabobank consists of a change in revenue recognition of some property developments where revenue is recognized during the term of the contract. Under IAS 18, revenue was recognized at the completion of the contract as the risks and rewards towards ownership are transferred at the end of the project.

Rabobank used the transition option to retain the prior period figures as reported under the previous standards and recognized the cumulative effect of IFRS 15 as an increase to the opening balance of equity as per January 1, 2018 for an amount of 41. Furthermore, real estate projects classified as other assets increased with 59 and the deferred tax liabilities increased with 18. Contract assets and liabilities have not been separately presented in the statement of financial position as the amounts are insignificant.

Other amendments to IFRS

As of January 1, 2018, Rabobank applies the minor amendments to IFRS 2, IAS 40, IFRIC 22 and the Annual improvements to IFRS Standards 2014-2016 Cycle. The implementation of these changes has no impact on profit or equity.

New standards issued by the International Accounting Standards Board (IASB) and adopted by the European Union which do not yet apply in the current financial year

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 "Leases" with an effective date of annual periods beginning on or after January 1, 2019. IFRS 16 replaces IAS 17 and the related interpretations IFRIC 4, SIC-15 and SIC-27 and 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". Rabobank will recognise a "right of use" asset and a corresponding financial liability on the balance sheet. The asset will be amortized over the length of the lease and the financial liability will be measured at amortized cost. Lessor accounting remains substantially the same as in IAS 17. Rabobank is currently running a centrally managed IFRS 16 program which includes subject matter experts from finance and business functions. The implementation of IFRS 16 consists of a detailed analysis of Rabobank's lease contracts. Rabobank plans to apply the modified retrospective approach which retains the prior period figures as reported under the previous standard and recognises the cumulative effect of IFRS 16 as an increase to the opening balance of equity as per January 1, 2019. Rabobank does not expect that the implementation of IFRS 16 significantly affects profit or equity. The undiscounted operating lease commitments as per December 31, 2017 have been set out in note 29 of the Consolidated financial statements 2017.

Other amendments to IFRS

There has been an amendment to IFRS 9 regarding prepayment features with negative compensation. Rabobank is currently assessing the impact of this amendment.

New standards issued by the International Accounting Standards Board (IASB) but not yet endorsed by the European Union

IFRS 17 Insurance contracts

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

Other amendments to IFRS

There have been minor amendments to IAS 28, IAS 19, IFRIC 23 and the issue of the Annual improvements to IFRS Standards 2015-2017 Cycle.

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

Changes in accounting principles and presentation

Classification

From January 1, 2018, Rabobank classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows:

1. Business model assessment; Assessment how the business is managed and how the business is seen from a strategic point of view. Also the frequency and size of sales are taken into account. This assessment results in a classification:
    - Hold to collect: where the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; or
    - Hold to collect and sell: where the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; or
    - Other business model.
2. Contractual cash flow assessment; Assessment whether the cash flows of the financial assets are solely payment of principal and interest (SPPI test).

The business model assessment can be made on a portfolio basis, whereas the contractual cashflow assessment is assessed for each individual financial asset. Rabobank only reclassifies debt instruments when the business model for managing those assets changes.

A debt instrument that is held within a business model "hold to collect" and meets the SPPI test is measured at amortized cost unless the asset is designated at fair value through profit or loss.

A debt instrument that is held within a business model "hold to collect and sell" and meets the SPPI test is measured at fair value with fair value adjustments recognized in other comprehensive income unless the asset is designated at fair value through profit or loss.

All other debt instruments are mandatorily measured at fair value through profit or loss.

All equity instruments in scope of IFRS 9 are measured at fair value with fair value adjustments recognized in profit or loss or in other comprehensive income. The option to designate an equity instrument at fair value through other comprehensive income is available at initial recognition and is irrevocable.

IFRS 9 gives new guidance around modification accounting. This alters the way Rabobank accounts for prepayment penalties and interest rate averaging in the consolidated statement of income.

Measurement

At initial recognition, Rabobank measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets measured at fair value through profit or loss are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. Derivative financial instruments are initially recognized and subsequently measured at fair value through profit or loss.

Debt instruments
Subsequent measurement of debt instruments depends on Rabobank's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which Rabobank classifies its debt instruments:

- *Amortized cost (AC)*
  Debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost and presented as "Loans and advances to banks" and "Loans and advances to customers". Interest income from these financial assets is included in net interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in Gains/ (losses) arising from the derecognition of financial assets measured at amortized cost. Impairment losses are included in "Impairment charges on financial assets" in the statement of income.
- *Fair value through other comprehensive income (FVOCI)*
  Debt instruments that are held for collection of contractual cash flows and to sell, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income and presented as "Financial assets at fair value through other comprehensive income". Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss. Interest from these financial assets is included in net interest income using the effective interest rate method. Impairment losses are included in "Impairment charges on financial assets" in the statement of income.
- *Fair value through profit or loss (FVPL)*
  a) Debt instruments that do not meet the criteria for amortized cost or FVOCI and are mandatorily measured at FVPL and presented as 'Financial assets mandatorily at fair value';
  b) Debt instruments that are irrevocably included as "Financial assets designated at fair value" at inception if the use of the designation removes or significantly reduces an accounting mismatch;
  c) Financial assets that are held for trading.

A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within Gains/(losses) on financial assets and liabilities at fair value through profit or loss in the period in which it arises.

Equity instruments
Rabobank subsequently measures all equity instruments at fair value. Where Rabobank has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the instrument. Dividends from such instruments continue to be recognized in profit or loss as other income when Rabobank's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in Gains/ (losses) on financial assets and liabilities at fair value through profit or loss.

Impairment allowances on financial assets

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

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

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

a) Methodology to determine expected credit losses

In order to determine ECLs Rabobank utilises Probability of Default (PD) x Loss Given Default (LGD) x Exposure at Default (EAD) models for the majority of portfolios in scope. Specific IFRS 9 models have been developed that are structured similar to the banks Advanced Internal Rating Based Approach (A-IRB) models for regulatory purposes, but based on point in time estimates, lifetime parameters and excluding prudential and downturn elements. Furthermore, forecasts of multiple future economic conditions (macroeconomic scenarios) are incorporated into the ECL models and probability weighted in order to determine expected credit losses. Rabobank utilises three global macroeconomic scenarios, a baseline, a baseline minus and a baseline plus scenario, which are probability weighted. When unexpected external developments are not sufficiently covered by the ECL models a top level adjustment will be made.

b) Stage determination criteria

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

Hedge accounting

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

IFRS 9 requires that there is an economic relationship between the hedged item and the hedging instrument for non-portfolio hedge accounting and does not permit voluntary de-designation of the hedge relationship. Furthermore, IFRS 9 replaces some of the arbitrary rules (such as 80%-125% effectiveness testing) with more principle based requirements. Additionally IAS 39 lacks a specific accounting solution for hedge accounting with cross-currency swaps (currency basis) used as hedging instruments, while IFRS 9 has this.

Rabobank has implemented IFRS 9 for non-portfolio hedge accounting to benefit from the specific treatment of currency basis that will be considered as costs of hedging and whose fair value changes caused by currency basis spread are recognized in OCI. We have been able to designate more effective non-portfolio hedge accounting relationships with cross-currency swaps under IFRS 9 and reduced the profit or loss volatility caused by currency basis. Rabobank has implemented this change prospectively and therefore opening retained earnings have not been impacted.

IFRS 9 does not offer a solution for fair value hedge accounting for a portfolio hedge of interest rate risk. Rabobank opted to use the accounting policy choice of IFRS to continue to apply the IAS 39 EU carve-out for such portfolio hedge accounting.

Changes in presentation of interest income

As a result of a change in IAS 1 due to the implementation of IFRS 9, interest income on financial assets using the effective interest method is presented separately in the statement of income. Interest income on financial assets using the effective interest method includes interest income on "Loans and advances to banks", "Loans and advances to customers" and "Financial assets at fair value through other comprehensive income". The line-item "Other interest income" refers to interest income on all other financial instruments. Refer to note 1 "Net interest income" for an overview of all interest income items.

Key impacts of the implementation of IFRS 9

The implementation of IFRS 9 resulted in an increase of the impairment allowance of financial assets of EUR 227 million before tax. The impact of other movements due to the IFRS 9 implementation is positive EUR 201 million before tax. The following table shows a reconciliation between the consolidated statement of financial position as reported per December 31, 2017 under IAS 39 and the restated amounts per January 1, 2018 under IFRS 9.

Consolidated statement of financial position

Amounts in millions of euros	*Measurement category IFRS 9*	*Measurement category IAS 39*	*Note*	*December 31 2017 (IAS 39)*	*Reclassification*	*Remeasurements (ECL)*	*Other remeasurement[1]*	*January 1 2018 (IFRS 9)*
Assets								
Cash and cash equivalents	AC	AC		66,861	-	-	-	66,861
Loans and advances to banks	AC	AC		27,254	(390)	(2)	2	26,864
Financial assets held for trading	FVPL	FVPL		1,760	7	-	-	1,767
Financial assets designated at fair value	FVPL	FVPL		1,194	6	-	4	1,204
Financial assets mandatorily at fair value	FVPL	n/a	a	n/a	3,067	-	(224)	2,843
Derivatives	FVPL	FVPL		25,505	27	-	-	25,532
Loans and advances to customers	AC	AC	a	432,564	(2,788)	(134)	(234)	429,408
Available-for-sale financial assets	n/a	FVOCI		28,689	(28,689)	-	-	n/a
Financial assets at fair value through other comprehensive income	FVOCI	n/a		-	28,867	(8)	50	28,909
Investments in associates and joint ventures	n/a	n/a		2,521	-	-	-	2,521
Goodwill and other intangible assets	n/a	n/a		1,002	-	-	-	1,002
Property and equipment	n/a	n/a		4,587	-	-	-	4,587
Investment properties	n/a	n/a		193	-	-	-	193
Current tax assets	n/a	n/a		175	-	51	(50)	176
Deferred tax assets	n/a	n/a		1,733	-	-	(3)	1,730
Other assets	n/a	n/a		7,961	(83)	24	(9)	7,893
Non-current assets held for sale	n/a	n/a		992	-	-	-	992
Total assets				**602,991**	**24**	**(69)**	**(464)**	**602,482**
Liabilities								
Deposits from banks	AC	AC		18,922	29	-	(6)	18,945
Deposits from customers	AC	AC	b	340,682	2,830	-	(317)	343,195
Debt securities in issue	AC	AC	b	134,423	2,827	-	(275)	136,975
Financial liabilities held for trading	FVPL	FVPL		581	-	-	-	581
Financial liabilities designated at fair value	FVPL	FVPL	b	13,792	(6,118)	-	5	7,679
Derivatives	FVPL	FVPL		28,103	473	-	(13)	28,563
Other liabilities	n/a	n/a		8,271	(17)	-	(6)	8,248
Provisions	n/a	n/a		1,537	-	107	-	1,644
Current tax liabilities	n/a	n/a		248	-	(3)	4	249
Deferred tax liabilities	n/a	n/a		396	-	(3)	-	393
Subordinated liabilities	n/a	n/a		16,170	-	-	-	16,170

Amounts in millions of euros	Measurement category IFRS 9	Measurement category IAS 39	Note	December 31 2017 (IAS 39)	Reclassification	Remeasurements (ECL)	Other remeasurement[1]	January 1 2018 (IFRS 9)
Liabilities held for sale	n/a	n/a		256	-	-	-	256
Total liabilities				**563,381**	**24**	**101**	**(608)**	**562,898**
Equity								
Reserves and retained earnings				25,376	-	(170)	144	25,350
Equity instruments issued by Rabobank								
Rabobank Certificates				7,440	-	-	-	7,440
Capital Securities				5,759	-	-	-	5,759
				13,199	**-**	**-**	**-**	**13,199**
Non-controlling interests								
Equity instruments issued by subsidiaries								
Capital Securities				166	-	-	-	166
Trust Preferred Securities IV				394	-	-	-	394
Other non-controlling interests				475	-	-	-	475
				1,035	**-**	**-**	**-**	**1,035**
Total equity				**39,610**	**-**	**(170)**	**144**	**39,584**
Total equity and liabilities				**602,991**	**24**	**(69)**	**(464)**	**602,482**

1 Amounts in this column relate to remeasurements caused by changes in the measurement category of reclassified financial instruments.

Reclassifications and remeasurements of financial assets (note a)

The combination of the assessment of 37 separate business models and contractual cash flow characteristics (SPPI test) resulted in some differences in the composition of financial assets measured at amortized cost and at fair value, as compared to IAS 39. The most significant change was the measurement of some legacy, non-core portfolios in the business segments WRR and Real estate. These porfolios were undergoing a pre-sales process before exiting Rabobank and therefore have been classified as "Other business model" and are measured at fair value through profit or loss. This resulted in a negative impact of EUR 156 million before tax. The other classification changes of financial assets resulted together in a positive impact of EUR 67 million before tax. The altered way of accounting for prepayment penalties and interest averaging results in a negative impact of EUR 304 million before tax.

Reclassifications and remeasurements of financial liabilities (note b)

The classification and measurement of financial liabilities under IFRS 9 remains the same as under IAS 39 with the exception of financial liabilities designated at fair value through profit and loss. Rabobank has elected to reclassify the callable notes included in the structured funding portfolio measured under IAS 39 at fair value to amortized cost under IFRS 9. The purpose of this is to further reduce the volatility due to own credit standing movements in total comprehensive income resulting from callable notes. The reclassification of the callable notes from fair value through profit or loss to amortized cost will result in the bifurcation of the embedded derivatives whilst at the same time the funding host contract is measured at amortized cost. The amortized cost measurement also reflects better the purpose of the funding transaction. This accounting treatment creates a symmetric valuation and presentation of the embedded (and bifurcated) derivative and the external hedging derivative whilst at the same time the funding host contract is, in line with the assets for which the funding is attracted, not subject to any fair value changes that would previously have been accounted for in other comprehensive income. Rabobank has decided to do this for callable notes only and not for other notes included in the structured funding portfolio. Since the callable loans create the majority of the fair value movements in the total comprehensive income.The total impact of this change is positive EUR 594 million before tax.

Reconciliation of impairment allowances

The following table reconciles the impairment allowances determined in accordance with IAS 39 as at December 31, 2017 to the impairment allowances in accordance with IFRS 9 as per January 1, 2018. The IAS 39 impairment methodology was based on an "incurred loss" model, meaning that an allowance is determined when an instrument is credit-impaired. Next to the allowance for these credit impaired instruments under IAS 39 also an allowance was recognized for assets that were in difficulties but not yet reported as such (incurred but not reported). The allowance for instruments that are credit impaired will generally align with the stage 3 category of IFRS 9. However, within the expected credit loss framework of IFRS 9 the entire portfolio of financial instruments will be assigned an impairment allowance through the additions of the 12-month ECL category (stage 1) and the Lifetime ECL Non-Credit-Impaired (stage 2), generally leading to increases in overall allowances.

Reconciliation of impairment allowances under IAS 39 and provision under IAS 37 to expected credit losses under IFRS 9

Amounts in millions of euros	*Impairment allowance IAS 39 and IAS 37 as at December 31 2017*	*Reclassification of financial assets at amortised cost*	*Remeasurements*	*Impairment allowances IFRS 9 as at 1 January 2018*
Loans and advances to banks	17	-	2	19
Loans and advances to customers	5,446	(1,304)	134	4,276
Financial assets at fair value through other comprehensive income	-	-	8	8
Other assets	26	-	(24)	2
Treasury related assets	85	-	-	85
Credit related contingent liabilities	20	-	107	127
Total	**5,594**	**(1,304)**	**227**	**4,517**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Loans and advances to banks	1	1	17	19
Loans and advances to customers	320	287	3,754	4,361
Financial assets at fair value through other comprehensive income	3	5	-	8
Other assets	-	-	2	2
Credit related contingent liabilities	33	12	82	127
Total impairment allowances IFRS 9 as at January 1 2018	**357**	**305**	**3,855**	**4,517**

Impact on regulatory capital and solvency ratios

The total decrease in IFRS equity due to the introduction of IFRS 9 is EUR 26 million and is the basis for defining the impact on the CET1 ratio. The change in accounting for the callable notes did not have an impact on CET1 because of prudential filters. The impact on equity due to impairments is compensated by the existing IRB-shortfall. The total impact of IFRS 9 on the CET1 ratio is therefore limited and amounted to 14 basis points negative.

In order to reduce the potential impact of IFRS 9 expected credit losses on capital and leverage ratios during the transition period (i.e. January 1, 2018 until December 31, 2022), the EU adopted on December 12, 2017, Article 473a CRR. Rabobank assessed the advantage to apply this transition arrangement and concluded that it has no significant benefits and that market participants will look through these transition measures. Therefore Rabobank has chosen not to apply for the transitional arrangement.

The following table shows regulatory capital and solvency ratios as reported per December 31, 2017 under IAS 39 and the restated amounts per January 1, 2018 under IFRS 9 in the fully-loaded scenario. Be aware that the retained earnings as presented in this table excludes the effect of adoption of IFRS 15 (EUR 41 million).

Regulatory capital and solvency ratios

	January 1 2018	*December 31 2017*
Amounts in millions of euros	*(IFRS 9)*	*(IAS 39)*
Reserves and Retained earnings	25,350	25,376
Expected dividends	(54)	(54)
Rabobank Certificates	7,440	7,440
Part of non-controlling interests treated as qualifying capital	26	26
Deductions	(2,317)	(2,050)
Common Equity Tier 1 capital	**30,445**	**30,738**
Capital Securities	2,728	2,728
Non-controlling interests	6	6
Deductions	(88)	(88)
Additional Tier 1 capital	**2,646**	**2,646**
Tier 1 capital	**33,091**	**33,384**
Part of subordinated liabilities treated as qualifying capital	14,896	14,896
Non-controlling interests	7	7
Deductions	(89)	(89)
Tier 2 capital	**14,814**	**14,814**
Qualifying capital	**47,905**	**48,198**
Risk-weighted assets	198,207	198,269
Common Equity Tier 1 ratio	15.4%	15.5%
Tier 1 ratio	16.7%	16.8%
Total capital ratio	24.2%	24.3%

Notes to the Primary Financial Statements

1. Net interest income

Net interest income

Amounts in millions of euros	*First half-year 2018*	*First half-year 2017*
Cash and cash equivalents	168	113
Loans and advances to banks	136	141
Loans and advances to customers	7,421	7,814
Derivatives used for hedge accounting	(157)	(241)
Financial assets at fair value through other comprehensive income	357	n/a
Available-for-sale financial assets	n/a	392
Interest income from financial assets using the effective interest method	**7,925**	**8,219**
Financial assets held for trading	19	19
Financial assets mandatorily at fair value	12	n/a
Financial assets designated at fair value	8	15
Interest income on financial liabilities with a negative interest rate	92	65
Other	40	47
Other interest income	**171**	**146**
Interest income	**8,096**	**8,365**
Deposits from banks	71	192
Deposits from customers	1,240	1,088
Derivatives held as economic hedges	412	295
Debt securities in issue	1,515	1,557
Financial liabilities held for trading	6	7
Financial liabilities designated at fair value	106	244
Subordinated liabilities	352	381
Interest expense on financial assets with a negative interest rate	129	144
Other	(9)	3
Interest expense	**3,822**	**3,911**
Net interest income	**4,274**	**4,454**

2. Net income from other operating activities

Net income from other operating activities

Amounts in millions of euros	*First half-year 2018*	*First half-year 2017*
Income from real estate activities	782	531
Expenses from real estate activities	600	417
Net income real estate activities	**182**	**114**
Income from operational lease activities	370	336
Expenses from operational lease activities	284	258
Net income from operational lease activities	**86**	**78**
Income from investment property	13	12
Expenses from investment property	5	9
Net income from investment property	**8**	**3**
Net income from other operating activities	**276**	**195**

3. Staff costs

Staff costs

Amounts in millions of euros	*First half-year 2018*	*First half-year 2017*
Wages and salaries	1,334	1,401
Social security contributions and insurance costs	174	162
Pension costs - defined contribution plans	203	289
Pension costs - defined benefit pension plans	1	1
Addition/ (release) of other post-employment provisions	5	(2)
Other staff costs	410	355
Staff costs	**2,127**	**2,206**

4. Other administrative expenses

Other administrative expenses

Amounts in millions of euros	*First half-year 2018*	*First half-year 2017*
Additions/ (releases) of provisions	94	216
IT expenses and software costs	379	367
Consultants fees	189	170
Training and travelling expenses	96	91
Publicity expenses	69	62
Result on derecognition and impairments on (in)tangible assets	56	17
Other expenses	421	425
Other administrative expenses	**1,304**	**1,348**

5. Impairment charges on financial assets

In the first six months of 2018 impairment charges on financial assets were EUR 37 million negative (IFRS 9) and in the first half of 2017 EUR 67 million negative (IAS 39). Relative to the average private sector loan portfolio, impairment charges on financial assets amounted to minus 2 (2017: minus 5) basis points.

6. Loans and advances to customers

The measurement of loans and advances has changed per 1 January 2018 due to the introduction of IFRS 9. More information about the changes in accounting policy, refer to note "Changes in accounting principles and presentation".

In the table below a breakdown of the loan portfolio is presented.

Loan portfolio

Amounts in millions of euros	*June 30 2018*	*January 1 2018*	*December 31 2017*
Total loans and advances to customers	**439,349**	**429,407**	**432,564**
Of which to government clients	2,462	2,319	2,319
Reverse repurchase transactions and securities borrowings	15,232	12,895	12,895
Interest rate hedges (hedge accounting)	5,923	6,137	6,386
Private sector loan portfolio	**415,732**	**408,056**	**410,964**

In the next table you find the impairment allowance per stage for Loans and advances to customers.

Impairment allowance IFRS 9

Amounts in millions of euros	*June 30 2018*	*January 1 2018*
Stage 1	308	320
Stage 2	297	287
Stage 3	3,453	3,754
Total Impairment allowance Loans and advances to customers	**4,058**	**4,361**

7. Legal and arbitration proceedings

Rabobank Group is active in a legal and regulatory environment that exposes it to substantial risk of litigation. As a result, Rabobank Group is involved in legal cases, arbitrations and regulatory proceedings in the Netherlands and in other countries, including the United States. The most relevant legal and regulatory claims which could give rise to liability on the part of Rabobank Group are described below. If it appears necessary on the basis of the applicable reporting criteria, provisions are made based on current information; similar types of cases are grouped together and some cases may also consist of a number of claims. The estimated loss for each individual case (for which it is possible to make a reliable 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 uncertainty 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 recognized. For those cases where (a) the possibility of an outflow of funds is not probable but also not remote or (b) the possibility of an outflow of funds is more likely than not but the potential loss cannot be estimated reliably, a contingent liability is shown.

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

Interest rate derivatives

Rabobank concludes interest rate derivatives, such as interest rate swaps, with Dutch business customers who wish to reduce the interest rate risk associated with variable (e.g. Euribor-indexed) loans. An interest rate swap protects businesses from rising variable interest rates and helps them to keep their interest payments at an acceptable level. In March 2016 the Dutch Minister of Finance appointed an independent committee which on July 5, 2016 published a recovery framework (the Recovery Framework) on the reassessment of Dutch SME interest rate derivatives. Rabobank announced its decision to take part in the Recovery Framework on July 7, 2016. The final version of the Recovery Framework was published by the independent committee on December 19, 2016. Rabobank is taking all its effort to finalise the implementation of the Recovery Framework as soon as possible, taking into consideration all necessary care.

Rabobank is involved in civil proceedings in the Netherlands relating to interest rate derivatives entered into with Dutch business customers. The majority of these concern individual cases. In addition, there is a collective action regarding interest rate derivatives pending before the Court of Appeal (for which a standstill was agreed to, due to the Recovery Framework; the few remaining out-of-scope customers will be assessed on an individual basis). These actions concern allegations relating to alleged misconduct in connection with Rabobank's Euribor submissions (as described below) and/or allegations of misinforming clients with respect to interest rate derivatives. Rabobank will defend itself against all these claims.

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

With respect to the (re-)assessment of the interest rate derivatives of its Dutch SME business customers and the advance payments made, Rabobank recognized a provision of 342 (2016: 664). The scoping of clients is the most important parameter in the calculations to estimate the provision. Furthermore, the calculations regarding technical recovery are based on a portfolio approach instead of individual contract calculations.

Prospectus liability issues

Fortis

In 2011, the Dutch Investors Association (VEB) issued a summons against the company formerly known as Fortis N.V. (currently trading as Ageas N.V.), the underwriters involved – including Rabobank – and the former directors of Fortis N.V. The VEB states in this summons that (i) investors were misled by the prospectus published by Fortis N.V. in connection with its rights issue in September 2007 and (ii) the impact and risks of the subprime crisis for Fortis and its liquidity position were misrepresented in the prospectus. The proceedings were launched as a class action, not only by VEB but also by several other claimant organizations. The Court of Appeal recently declared a settlement of EUR 1.2 billion as previously announced by Ageas binding, for all claimant organizations, for both active as non-active claimants.

Investors may choose to opt out of the settlement during an opt-out period of five 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. As part of the settlement agreement, eligible shareholders that do not opt out of the settlement and the VEB, among other collective interest groups that are party to the settlement agreement, release Rabobank (and other underwriters) of all claims, actions, charges and damages in relation to the events surrounding Fortis as described in the settlement agreement and covered in the VEB proceedings.

Investors that choose to opt out of the settlement may still claim damages from Ageas and the defendants (including Rabobank) on an individual basis.

Imtech

On January 30, 2018, Rabobank received a letter indicating that legal proceedings may be started at a later stage with respect to a potential collective action in relation to certain share offerings of Royal Imtech N.V. in which Rabobank was involved. This situation has remained unchanged.

Libor/Euribor

Rabobank has been involved for a number of years in several regulatory proceedings in relation to benchmark-related issues. Rabobank is cooperating, and will continue to cooperate, with the regulators and authorities involved in these investigations. On October 29, 2013, Rabobank entered into settlement agreements with a number of these authorities in relation to their investigations into the historical Libor and Euribor submission processes of Rabobank. All amounts payable under these settlement agreements were fully paid and accounted for by Rabobank in 2013.

Rabobank, along with a large number of other panel banks and inter-dealer brokers, has been named as a defendant in a number of punative class action suits and individual civil court cases brought before the Federal Courts in the United States. These proceedings relate to 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. Rabobank and/or its subsidiaries have also received complaints and writs of summons ordering Rabobank to appear before various Dutch, Argentine, United Kingdom, Irish, and Israeli courts in civil proceedings relating to interest rate benchmarks.

Since the class action suits and civil proceedings listed above are intrinsically subject to uncertainties, it is difficult to predict their outcomes. Rabobank takes the stance that it has substantive and convincing legal and factual defenses against these claims. Rabobank has the intention to continue to defend itself against these claims.

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

BSA/AML

Rabobank, National Association (RNA), a retail banking subsidiary of Rabobank in California, has been under investigation by the U.S. Department of Justice (DOJ), the U.S. Office of the Comptroller of the Currency (OCC), and the Financial Crimes Enforcement Network (FinCEN) in connection with issues related to RNA's BSA/AML compliance program and the manner in which certain former employees communicated with the OCC in 2013. On February 7, 2018 the DOJ, the OCC , Rabobank and RNA announced that the latter has entered into agreements with the DOJ and the OCC to conclude the previously reported investigations. Recognizing the material improvements the bank has made to its BSA/AML compliance program, the OCC has also terminated the Consent Order issued in December 2013. RNA paid approximately USD 369.2 million in forfeiture and civil money penalties and fines. It has also agreed to plead guilty to one charge of conspiring to obstruct a regulatory examination. Under the plea agreement's terms with the DOJ, no further action will be taken against RNA with regard to its BSA/AML compliance program and related conduct. In February 2017 a criminal complaint was filed with the Dutch Public Prosecutor (DPP) against Rabobank, two group entities and the persons factually in charge of these entities asking for a criminal investigation in relation to the matters related to the DOJ investigation. There has, as yet, been no further progress on this matter.

Other cases

Rabobank Group is subject to other legal proceedings for which a provision was recognized. These cases are individually less significant in size and are therefore not further described. The total provision for those cases combined amounts to 145.

On top of the contingent liability cases described above for which an assessment regarding a possible outflow is not yet possible, Rabobank Group has identified a number of other, less relevant cases in terms of size as a contingent liability. Because these cases are less significant, Rabobank has chosen not to describe them in detail. The principal amount claimed for those contingent liability cases combined amounts to 128.

8. Reserves and retained earnings

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

Reserves and retained earnings

	June 30 2018	*January 1 2018*	*December 31 2017*
Amounts in millions of euros			
Foreign currency translation reserves	(884)	(938)	(938)
Revaluation reserves – Available-for-sale financial assets	n/a	n/a	464
Revaluation reserves – Financial assets at fair value through other comprehensive income	369	468	n/a
Revaluation reserves – Costs of hedging	18	-	n/a
Revaluation reserves – Held for sale	(35)	(35)	(35)
Revaluation reserves - Cash flow hedges	(42)	(39)	(42)
Remeasurement reserve – Pensions	(219)	(225)	(225)
Remeasurement reserve – Fair value changes due to own credit risk on financial liabilities designated at fair value	(77)	(142)	(625)
Retained earnings	27,377	26,302	26,777
Total reserves and retained earnings	**26,507**	**25,391**	**25,376**

9. Redemption and call of equity instruments in the first half of 2018

Rabobank issued the CHF 350 million Capital Securities on June 27, 2008. In accordance with the Terms and Conditions of these Capital Securities, Rabobank has redeemed the Capital Securities on the first call date, being June 27, 2018.

Rabobank issued the ILS 323 million Capital Securities on July 14, 2008. In accordance with the Terms and Conditions of these Capital Securities, Rabobank has elected to redeem these Capital Securities on the first call date being July 14, 2018. Since the call notification, these Capital Securities have been classified as liabilities measured at amortized cost.

10. Fair value of financial assets and liabilities

This note should be read in conjunction with note 4.9 "Fair value of financial assets and liabilities" of the 2017 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, recognized at amortized cost on the basis of the valuation methods and assumptions detailed below. Fair value represents the price that would have been received for the sale of an asset or that would have been paid in order to transfer a liability in a standard transaction conducted between market participants on the valuation date. For fair value measurement Rabobank assumes that the transaction to sell the asset or transfer the liability is conducted in the principal market for the asset or liability or in the most advantageous market if there is no principal market.

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

Fair value of financial instruments measured at amortized cost in the statement of financial position

	June 30 2018 (IFRS 9)		*December 31 2017 (IAS 39)*	
Amounts in millions of euros	*Carrying amount*	*Fair value*	*Carrying amount*	*Fair value*
Assets				
Cash and cash equivalents	67,461	67,461	66,861	66,861
Loans and advances to banks	25,806	25,813	27,254	27,190
Loans and advances to customers	439,349	449,685	432,564	443,249
Liabilities				
Deposits from banks	19,913	19,905	18,922	18,929
Deposits from customers	346,617	350,131	340,682	344,783
Debt securities in issue	140,835	143,012	134,423	137,392
Subordinated liabilities	16,397	17,297	16,170	18,042

The figures stated in the table above represent the best possible estimates by management on the basis of a range of methods and assumptions. If a quoted price on an active market is available, this is the best estimate of fair value.

If no quoted prices on an active market are available for fixed-term securities, equity instruments, derivatives and commodity instruments, Rabobank bases the expected fair value on the present value of the future cash flows, discounted at market rates which correspond to the credit ratings and terms to maturity of the investments. A model-based price can also be used to determine fair value. Rabobank follows a policy of having all models used for valuing financial instruments validated by expert staff independent of the staff responsible for determining the fair values of the financial instruments.

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

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

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

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

Fair value hierarchy of financial assets and liabilities measured at fair value in the statement of financial position

Amounts in millions of euros				
On June 30 2018 (IFRS 9)	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets				
Financial assets held for trading	2,294	502	72	2,868
Financial assets designated at fair value	126	829	15	970
Financial assets mandatorily at fair value	-	-	1,638	1,638
Derivatives	22	24,449	180	24,651
Financial assets at fair value through other comprehensive income	22,406	3,391	442	26,239
Non-current assets held for sale	-	-	715	715
Liabilities				
Derivatives	32	26,342	146	26,520
Financial liabilities held for trading	746	-	-	746
Financial liabilities designated at fair value	-	7,307	4	7,311
On December 31 2017 (IAS 39)				
Assets				
Financial assets held for trading	1,481	216	63	1,760
Financial assets designated at fair value	143	529	522	1,194
Derivatives	8	25,182	315	25,505
Available-for-sale financial assets	24,645	3,512	532	28,689
Non-current assets held for sale	-	-	992	992
Liabilities				
Derivatives	12	27,832	259	28,103
Financial liabilities held for trading	581	-	-	581
Financial liabilities designated at fair value	-	13,742	50	13,792

The next table shows movements in financial instruments which are measured 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 (as per December 31, 2017) and financial assets at fair value through other comprehensive income (as per June 30, 2018). In the first half of 2018, 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 January 1 2018*	*Gains/ (losses) recognized in profit or loss*	*Gains/ (losses) recognized in OCI*	*Purchases*	*Sales*	*Settlements*	*Transfers to or from level 3*	*Transfers to or from Non-current assets held for sale*	*Balance on June 30 2018*
									(IFRS 9)
Assets									
Financial assets held for trading	68	7	-	-	(3)	-	-	-	72
Financial assets designated at fair value	23	-	-	1	-	(9)	-	-	15
Financial assets mandatorily at fair value	1,668	79	-	64	(76)	(97)	-	-	1,638
Derivatives	315	(41)	-	-	-	(94)	-	-	180
Financial assets at fair value through other comprehensive income	471	5	2	15	(42)	-	(9)	-	442
Liabilities									
Derivatives	259	(22)	-	-	-	(104)	13	-	146
Financial liabilities designated at fair value	6	-	-	-	(2)	-	-	-	4

Amounts in millions of euros	*Balance on January 1 2017*	*Gains/ (losses) recognized in profit or loss*	*Gains/ (losses) recognized in OCI*	*Purchases*	*Sales*	*Settlements*	*Transfers to or from level 3*	*Transfers to or from Non-current assets held for sale*	*Balance on December 31 2017*
									(IAS 39)
Assets									
Financial assets held for trading	89	(3)	-	-	(23)	-	-	-	63
Financial assets designated at fair value	514	42	-	138	(98)	-	-	(74)	522
Derivatives	535	50	-	-	-	(331)	61	-	315
Available-for-sale financial assets	540	(22)	31	13	(30)	-	-	-	532
Liabilities									
Derivatives	524	46	-	-	-	(318)	7	-	259
Financial liabilities designated at fair value	13	(1)	-	-	(3)	-	44	(3)	50

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

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

Amounts in millions of euros	*Instruments held at the end of the reporting period*	*Instruments no longer held at the end of the reporting period*	*Total*
On June 30 2018 (IFRS 9)			
Assets			
Financial assets held for trading	7	-	7
Financial assets designated at fair value	-	-	-
Financial assets mandatorily at fair value	79	-	79
Derivatives	27	(68)	(41)
Financial assets at fair value through other comprehensive income	6	(1)	5
Liabilities	45	(67)	(22)
Derivatives	-	-	-
Financial liabilities designated at fair value			
On December 31 2017 (IAS 39)			
Assets			
Financial assets held for trading	(3)	-	(3)
Financial assets designated at fair value	37	5	42
Derivatives	61	(11)	50
Available-for-sale financial assets	(22)	-	(22)
Liabilities			
Derivatives	52	(6)	46
Financial liabilities designated at fair value	(1)	(1)	(1)

The potential effect before taxation, if more positive reasonable assumptions are used for the valuation of the financial instruments in level 3 on the income statement, is EUR 121 (2017: 70) million and on equity EUR 11 (2017: 16) million. The potential effect before taxation, if more negative reasonable assumptions are used for the valuation of financial instruments in level 3 on the income statement, is EUR -115 (2017: -64) million and on equity EUR -11 (2017: -16) million.

Level 3 of the financial assets at fair value includes private equity interests. Private equity interests amount to EUR 521 (2017: 525) million. A significant unobservable input for the valuation of these interests is the multiplier which is applied to the EBITDA. The average weighted multiplier is 7.1 (2017: 6.3), 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 occurred in the first half of 2018 that have materially affected the financial position or performance of Rabobank during this period.

11. Credit related contingent liabilities

Credit related contingent liabilities represent the unused portions of funds authorized for the granting of credit in the form of loans, financial guarantees, letters of credit and other lending related financial instruments. The credit contingent liabilities are EUR 56 (2017: 55) billion. The contingent liabilities related to litigation are disclosed in note 7 Legal and arbitration proceedings.

12. Non-current assets held for sale

The non-current assets held for sale amount to 715 (2017: 992) and comprise of an entity of BPD for an amount of 370, various types of real estate in the Domestic Retail Banking and Real Estate segments for an amount of 172, and a stake in a financial service provider in Africa for an amount of 108 that will be transferred to Arise B.V. after government approval. The book values are expected to be realized through sale rather than through continued operation.

13. 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.

Major business segments

Rabobank distinguishes five major business segments: domestic retail banking; Wholesale, Rural & Retail; Leasing, Real Estate, and other segments. Domestic Retail Banking mainly encompasses the activities of the local Rabobanks, Obvion, Financial Solutions, and Roparco. WRR supports the Rabobank Group in becoming the market leader in the Netherlands and focuses on the F&A sectors at international level. This segment develops Corporate banking activities and also controls globally operating divisions such as

Markets, Acquisition Finance, Global Corporate Clients, Export Finance & Project Finance, Trade & Commodity Finance, and Financial Institutions Group. The segment also actively involves International Direct Retail Banking and Rabo Private Equity. International Rural and Retail banking operations are part of the Rabobank label, with the exception of ACC Loan Management. In the leasing segment, DLL is responsible for leasing activities and offers a wide range of leasing products. Manufacturers, vendors and distributors are globally supported in their sales with products relevant to asset financing. Real estate mainly encompasses the activities of BPD, FGH Bank, and Rabo Real Estate Group . The core activities are the development of housing. Other segments within Rabobank include various sub-segments too numerous to list. This segment mainly comprises the financial results of associates (in particular Achmea B.V.), treasury, and head office operations.

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

Business segments

Amounts in millions of euros	*Domestic retail banking*	*WRR*	*Leasing*	*Real estate*	*Other segments*	*Consolidation effects*	*Total*
First half-year 2018 (IFRS 9)							
Net interest income	2,783	1,151	491	2	(153)	-	4,274
Net fee and commission income	713	233	54	11	(8)	(22)	981
Other results	38	453	154	264	(47)	(88)	774
Total income	**3,534**	**1,837**	**699**	**277**	**(208)**	**(110)**	**6,029**
Staff costs	600	482	237	73	44	691	2,127
Other administrative expenses	1,328	451	121	50	106	(752)	1,304
Depreciation	43	19	13	3	25	77	180
Operating expenses	**1,971**	**952**	**371**	**126**	**175**	**16**	**3,611**
Impairment charges on financial assets	(27)	-	35	(3)	(42)	-	(37)
Regulatory levies	135	101	14	2	32	-	284
Operating profit before tax	**1,455**	**784**	**279**	**152**	**(373)**	**(126)**	**2,171**
Income tax	364	199	49	36	(144)	(31)	473
Net profit	**1,091**	**585**	**230**	**116**	**(229)**	**(95)**	**1,698**
Cost/income ratio excluding regulatory levies (in %)[1]	55.8%	51.8%	53.1%	45.5%	na	na	59.9%
Cost/income ratio including regulatory levies (in %)[2]	59.6%	57.3%	55.1%	46.2%	na	na	64.6%
Impairment charges on financial assets (in basis points of average private sector loan)[3]	(2)	-	23	(77)	na	na	(2)
External assets	285,958	141,258	33,955	3,545	143,129	-	607,845
Goodwill	322	123	71	-	2	-	518
Private sector loan portfolio	279,870	106,228	29,011	328	295	-	415,732

Amounts in millions of euros	*Domestic retail banking*	*WRR*	*Leasing*	*Real estate*	*Other segments*	*Consolidation effects*	*Total*
First half-year 2017 (IAS 39)							
Net interest income	2,781	1,176	514	47	(64)	-	4,454
Net fee and commission income	700	240	32	35	1	(20)	988
Other results	44	445	120	125	(171)	(67)	496
Total income	**3,525**	**1,861**	**666**	**207**	**(234)**	**(87)**	**5,938**
Staff costs	734	517	244	93	10	608	2,206
Other administrative expenses	1,349	429	107	59	153	(749)	1,348
Depreciation	47	32	14	3	29	76	201
Operating expenses	**2,130**	**978**	**365**	**155**	**192**	**(65)**	**3,755**
Loan impairment charges	(156)	105	41	(43)	(14)	-	(67)
Regulatory levies	137	90	11	2	18	-	258
Operating profit before tax	**1,414**	**688**	**249**	**93**	**(430)**	**(22)**	**1,992**
Income tax	353	191	73	22	(156)	(7)	476
Net profit	**1,061**	**497**	**176**	**71**	**(274)**	**(15)**	**1,516**
Cost/income ratio excluding regulatory levies (in %)	60.4%	52.6%	54.8%	74.9%	na	na	63.2%
Cost/income ratio including regulatory levies (in %)	64.3%	57.4%	56.5%	75.8%	na	na	67.6%
Loan impairment charges (in basis points of average private sector loan)	(11)	20	26	(97)	na	na	(3)
As per December 31 2017 (IAS 39)							
External assets	285,894	131,888	32,466	5,598	147,145	-	602,991
Goodwill	322	119	75	-	3	-	519
Private sector loan portfolio	280,028	101,506	27,159	1,807	464	-	410,964

1 Operating expenses divided by income

2 Operating expenses plus regulatory levies divided by income

3 Annualised impairment charges on financial assets divided by 6-month average private sector loan portfolio

14. Events after reporting date

There were no subsequent events.

Managing Board Responsibility Statement

The Managing 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 details are included in the report's interim financial information;
- the interim report decribes the principal risks that Rabobank faces as well as a description of the principal risks and uncertainties for the last six months of 2018, 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.

Wiebe Draijer, *Chairman*
Bas Brouwers, *Chief Financial Officer (CFO)*
Petra van Hoeken, *Chief Risk Officer (CRO)*
Kirsten Konst, *Commercial Banking in the Netherlands*
Bart Leurs, *Digital Transformation Officer (DTO)*
Mariëlle Lichtenberg, *Retail Clients in the Netherlands*
Berry Marttin, *Rural & Retail International, Sustainability, Leasing, and Banking for Food Inspiration Center*
Jan van Nieuwenhuizen, *Dutch and International Wholesale Banking and Commercial Real Estate*
Ieko Sevinga, *Chief Information & Operating Officer (CIOO)*
Janine Vos, *Chief Human Resources Officer (CHRO)*

Utrecht, August 15, 2018

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Review report

To: Managing board and Supervisory board of Coöperatieve Rabobank U.A.

Introduction

We have reviewed the accompanying condensed consolidated interim financial information, page 36 to 60, for the six-month period ended 30 June 2018 of Coöperatieve Rabobank U.A., Amsterdam, which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of income, the condensed consolidated statement of comprehensive income, the consolidated statement of changes in equity, the condensed consolidated statement of cash flows for the period then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes. Managing board is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this condensed consolidated 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 Entity'. 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 2018 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union.

Amsterdam, 15 August 2018
PricewaterhouseCoopers Accountants N.V.

R.E.H.M. van Adrichem RA

PricewaterhouseCoopers Accountants N.V., Thomas R. Malthusstraat 5, 1066 JR Amsterdam, P.O. Box 90357, 1006 BJ Amsterdam, the Netherlands
T: +31 (0) 88 792 00 20, F: +31 (0) 88 792 96 40, www.pwc.nl

Colophon

Published by

Rabobank Communications & Corporate Affairs

Reporting

Rabobank has published the following documents as part of its 2018 reporting:

- Management Report and Corporate Governance Report 2017
- Consolidated Financial Statements 2017 Rabobank
- Company Financial Statements 2017 Rabobank
- Capital Adequacy and Risk Management Report 2017 (Pillar 3)
- Interim Report 2018

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

Contact

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

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

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August 2018
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