



Annual Report 2016

Rabobank



Rabobank

Annual Report 2016

Management report

Overview of the strategy, developments and financial results and corporate social responsibility and sustainability of Rabobank Group

Management report



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Corporate governance

Retrospective on 2016 by the Supervisory Board. Explanation of the new governance structure of Rabobank.

Corporate governance

Consolidated Financial Statements 2016 Rabobank

The balance sheet and the profit and loss statement for the entire Rabobank Group, with notes.

Consolidated Financial Statements



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Company Financial Statements 2016 Rabobank

The balance sheet and the profit and loss statement of Rabobank, with notes.

Company Financial Statements



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Chairman's foreword

Rabobank's transition got off to a good start in 2016. We are a leading customer-oriented cooperative bank in the Netherlands and in food & agri worldwide. We are committed to making a substantial contribution towards achieving wealth and prosperity in the Netherlands and to resolving the food issue worldwide. I am proud that, thanks to the enormous efforts of our professionals, all businesses have generated improved results, both in the Netherlands and abroad, and that surveys among our 8.7 million customers show that customer satisfaction has risen. Based on the developments in 2016, we look to the future with confidence.

Satisfied customers

Our strategic direction for 2020 rests on three pillars: excellent customer service, improving our financial results, and a more flexible and stronger balance sheet. In 2016, we achieved what we set out to do in all three areas. Customer satisfaction rose thanks to the efforts of our employees, investments in digitalisation, organisational changes, and improvements in our service and product offering. In the Netherlands, our market shares rose or maintained their strong position, and outside the Netherlands, we further expanded our leadership in food & agri. In 2016 we took several new initiatives to improve our customer service and to innovate. A good example of this is the fact that we now give our customers the opportunity to obtain a mortgage offer in one week. Since 1 July 2016, we have offered interest rate averaging to our mortgage customers. Commercial customers whose funding needs are less than EUR 1 million have benefited from our service that offers clarity on their funding request within one day. In sectors experiencing structural problems, such as glass horticulture, pig farming and the dairy industry, Rabobank is taking the lead in the search for solutions. We are taking responsibility, in partnership with the sector.

For our Wholesale clients, we were able to play a leading role in many major food & agri and other transactions in the Netherlands and worldwide. We were recently named the Best Commodity Bank by Global Finance Magazine. 2016 was also a successful year for the international Rural business, with high customer satisfaction scores and growth in the loan portfolio. One of the highlights was the Farm to Fork event on innovation in food & agri. The event was a showcase for how the bank brings clients together and shares knowledge.

New cooperative structure

On 1 January 2016, our new cooperative structure came into effect, making us more customer-oriented and more effective. In the new governance model, the local Rabobanks have a maximum focus on serving our customers in the Netherlands. Where possible, we perform support functions centrally. We put intensive effort into this transition in 2016.

Good results, strong bank

2016 was a year of contrast for Rabobank in financial terms. Thanks to a good operational result, our net profit amounted to EUR 2,024 million. As the economy picked up, we saw a sharp reduction in loan impairment charges. We also succeeded in bringing down costs. The result came under substantial downward pressure from non-recurring items such as restructuring costs, an extra provision for compensating commercial customers with an interest rate derivatives contract, and an impairment on the stake in Achmea. The underlying operating profit before tax was EUR 4,090 million, 14% higher than in 2015.

A strong capital base is one of the main pillars of Rabobank's strategy. Our objective is to achieve a common equity tier 1 ratio of at least 14% in 2020 and a total capital ratio of at least 25%. In 2016, we once again reinforced our strong capital position, partly through the sale of Athlon. The recent issue of new Rabobank Certificates with a nominal amount of EUR 1.5 billion also impacts the fully loaded common equity tier 1 ratio, thereby accelerating the realisation of our target of at least 14% in anticipation of a possible increase in capital requirements.

In 2016, we took steps to reduce the balance sheet, including the sale of mortgage portfolios to investors and a more intense focus on core activities. We intend to take more of the loan portfolio off-balance and will continue to reduce the balance sheet in 2017.

Employees

We are extremely grateful to our employees for their efforts in what was a very intensive year. The bank's transition is proceeding at good speed and will continue in 2017. This requires a huge effort from our employees. Our internal research shows that there is broad support for the strategic direction of Rabobank and a high level of loyalty to the mission, but also that people feel under pressure from the pace of change. Many colleagues have seen their traditional workplace disappear as we have digitalised our service provision and implemented much-needed improvements, particularly in the back-office and support functions. We are introducing a number of measures designed to maintain motivation and promote passion. These include a new performance management system that focuses on personal leadership and enhancing expertise in one's field, and a programme to promote mental and physical fitness. Diversity also has our attention: women now occupy 25.8% of the senior roles at Rabobank.

Social impact

Rabobank commits itself to achieving progress in society and in the Sustainable Development Goals defined by the United Nations, through its Banking for Food and Banking for the Netherlands. We have received many accolades for our efforts on sustainability. In the Dutch Transparency Benchmark, we earned joint first place in the financial institutions category and came in 11th on the ranking of more than 200 large Dutch organisations. RobecoSAM puts Rabobank at number 7 in its worldwide ranking of over 100 international banks. Sustainalytics analysed 396 banks worldwide, ranking Rabobank number 1 for its positive impact on the environment. Our joint venture with FMO and Norfund underlines our deep commitment to sustainable growth and development in Africa and its local financial sector. Together we invest in African banks to stimulate growth. Also worthy of mention, is our first green bond, issued in 2016 with a total value of EUR 500 million. We will invest the returns in sustainable energy projects, such as wind farms and solar panels. Beyond that, in 2016, Rabobank once again contributed to numerous social and charitable initiatives, by making our staff available or by sharing our knowledge, network and financial resources. Our cooperative dividend, which is invested in projects determined by the Member Councils of the local Rabobanks, amounted to EUR 49 million. This money directly benefits the local communities in which Rabobank operates.

Outlook

In 2017, Rabobank will continue to invest in customer service provision. We will give priority to our digital activities and innovation, in combination with our identity as a bank firmly anchored in local communities and always nearby. Outside the Netherlands, we are capitalising on the growth potential in Rural Banking, and through our focus on food & agri, are reinforcing our leading position in the food & agri chain for our Wholesale clients. We are operating in an environment of modest economic growth, but also at a time of economic and political uncertainty around the world. In Europe, the consequences of Brexit and the outcome of elections in the Netherlands, Germany and France will be influential factors.

Overall, the positive developments Rabobank experienced in 2016 give us confidence for 2017. We are very grateful to our customers and our staff for their strong commitment to the cooperative Rabobank in the year 2016 and beyond. We live in a world of great uncertainties, both for individual citizens and for society as a whole. Against this backdrop, we believe there is an enduring need for a rock-solid cooperative bank that can help its retail and commercial customers realise their wishes and ambitions, both in the Netherlands and in food & agri worldwide.





Management report

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Reading guide

The Annual Report consists of the management report and the 'Corporate governance' section. The Report of the Supervisory Board does not form part of the statutory Annual Report.

The publications on the Rabobank website which are referred to in this Annual Report are not part of the Annual Report, with the exception of the provisions of the Dutch Banking Code.

This report has been prepared in accordance with the G4 Guidelines of the Global Reporting Initiative in accordance with the comprehensive option.

Welcome to Rabobank's Annual Report

As a customer-oriented cooperative, Rabobank is driven to create value for our customers, clients and other stakeholders. This year, again, we have taken steps to make our reporting more relevant to all our stakeholders by showing our value creation model from angles that matter to them.

The 2016 Annual Report is not just a review of financial achievements. Instead, it takes an integrated approach, highlighting the value creation and impact of Rabobank. By providing both financial and non-financial information, we hope to give our stakeholders a clear picture of the added value we provide for our customers and society.

This approach rests on two pillars: our value creation model and materiality matrix. The value creation model is about how we create economic, social and ecological value through our capital resources, business model and strategic priorities. Our key material themes in the materiality matrix are those topics that are of strategic interest to our stakeholders and to Rabobank's long-term success.

Rabobank's mission is to make substantial contributions to welfare and prosperity in the Netherlands and to feeding the world sustainably. Our ambition is to be the leading customer-oriented bank in the Netherlands and the leading food & agri bank worldwide. Our strategy is to offer value-added products and services to our customers in the Netherlands and in Food & Agri in the world, and become a rock-solid bank with strong financial capital and liquidity buffers for financial solidity and high ratings.

The Integrated Reporting Framework of the IIRC (International Integrated Reporting Council) served as a foundation in the preparation of the content and outline of our management report. The management report is prepared in accordance with the comprehensive option of the fourth generation of the Global Reporting Initiative guidelines (GRI G4). The GRI G4 Index is presented in Appendix 5.

Continuous stakeholder dialogue¹

We give high priority to a strategic, constructive and proactive dialogue with our stakeholders. In addition to a year-round continuing stakeholder dialogue, we base the list of material reporting topics on the dialogues we had during the year with the following stakeholder groups: customers, members,

employees, non-governmental organisations, government agencies, politicians and supervisory bodies and other banks. We thus have a clear view of what our stakeholders believe is important.

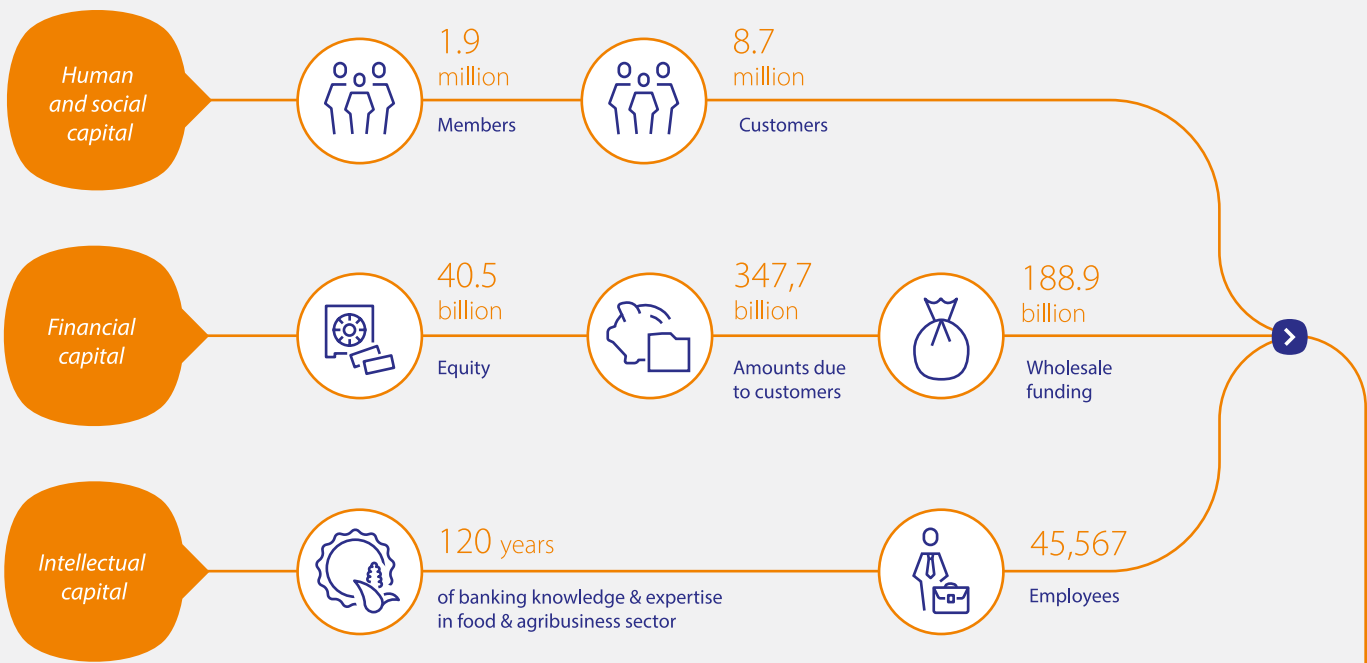
Our environment

Every year we analyse external trends and developments that affect our work. The year 2016 saw many changes in terms of consumer behaviour, technology, innovation, market players, regulations, the economy and society. All these new trends and developments present a number of opportunities and challenges for Rabobank.

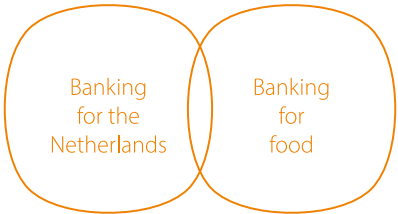
Our conclusions in a nutshell:

- Customer needs are changing. Increasingly, face-to-face contact is being replaced by digital interaction. We therefore need to invest in the quality of our services and innovation to improve customer services.
- Advances in technology call for a proactive, efficient customer approach and provide us with opportunities to combine online services with personal attention.
- There is ample opportunity to further leverage our sector knowledge and national/international network to the benefit of our clients and environment.
- To meet customer needs, we will proactively monitor innovations in, and related to, the financial industry and we will enter into strategic partnerships.
- Driven by the current economy and other factors, we need to operate on a cost-effective basis.
- Regulators and new legislation (such as the proposed reforms to Basel III) are having a growing impact on the ways in which banks can provide their services.
- Various social changes demonstrate a global trend towards the cooperative model. Together we are stronger in a changing and uncertain world.

¹ More insights into our dialogues with stakeholders is provided in Appendix 4 and in chapter Engaging with Stakeholders.



Our vision



Our ambition



Our services



Materiality

The report provides a clarification of the reporting topics from the 2016 reporting year. The materiality analysis provides insight into the choices that were made prior to the preparation of the report, resulting in a materiality matrix. The matrix shows the topics that require attention as they have substantial impact on both our stakeholders and on Rabobank. All material topics are reflected in the output section of the value creation model. Information on the process of determining materiality is provided in Appendix 1.

Our value creation model

The value creation model enables a transparent view of our ability to create value over the short, medium and long term. Our value creation begins with three key inputs: human and social capital, intellectual capital and financial resources. These inputs lead to our business model, including Rabobank's mission, vision and strategy. Finally, the output and impact section of the value creation model is structured according to our 15 material topics derived from the materiality matrix. Through the performance on our material topics we impact the UN Sustainable Development Goals (SDGs). In the value creation model we linked the material topics with specific SDGs. For more information about our impact on the SDGs, please refer to the chapter 'About Rabobank'.

Key inputs

These key inputs fuel our strategy and business model, allowing us to fulfil our mission and ambition, and maximise both our output and our impact on members, customers, the society and our employees.

Human and social capital

With the implementation of our new strategy, Rabobank remains focused on human capital and empowering employees by encouraging professionalism and entrepreneurship, with emphasis on development and training, employee diversity and corporate culture.

As a leading customer-focused cooperative bank with 1.9 million members, 8.7 million customers and over 45 thousand employees, Rabobank takes its role as a socially responsible bank seriously. We participate in many local, sector and supply chain initiatives and support both businesses and private customers, as we continue to actively promote sustainability.

Intellectual capital

Rabobank's intellectual capital input encompasses 120 years of banking knowledge and expertise in food & agri. We utilise our knowledge base to offer clients innovative products and services in line with ongoing economic changes and social trends.

Financial resources

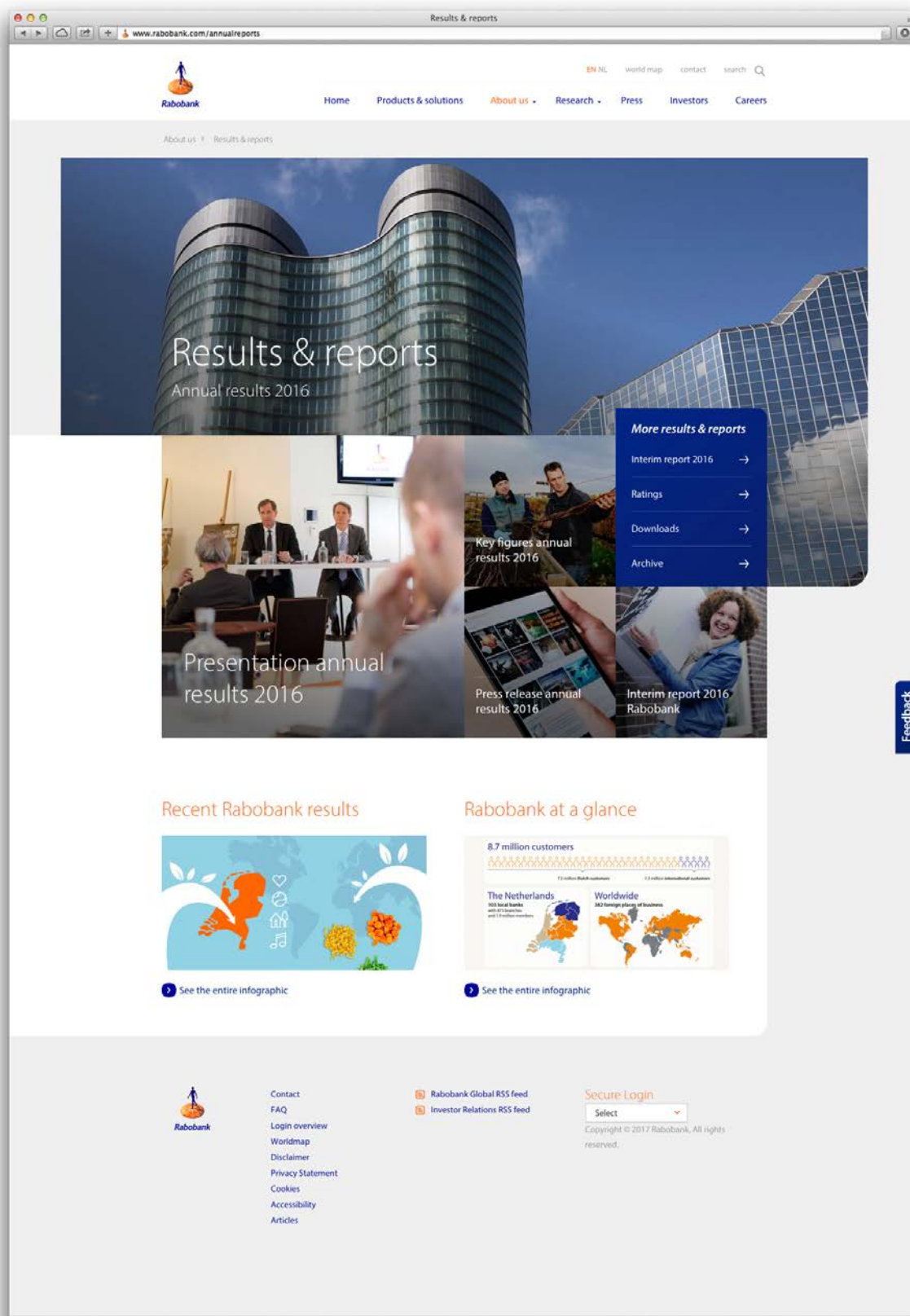
Rabobank offers financial resources to customers worldwide. Our products and services include banking, capital management, leasing, insurance and real estate. With EUR 40.5 billion in equity, EUR 347.7 billion in amounts due to customers and EUR 188.9 billion in wholesale funding, Rabobank is a rock-solid bank with strong financial capital and liquidity buffers for financial solidity and high ratings.

Rabobank will continue to follow its value creation model as we execute on our strategy, allowing us to remain a meaningful cooperative and a rock-solid bank our members, customers, the society and our employees can count on.

Rabobank Annual Report

Our reports can be read on desktop, tablet and mobile devices at rabobank.com/annualreport. Also have a look at our annual review which gives a summary of the results we achieved in the preceding year and reveals the added value of these results for customers, society and employees. Our annual review is a website featuring information and real-life stories, plus photos, infographics, animations and videos.

For any questions on our report: jaarverslagen@rabobank.nl



Key figures

Key Figures					
<i>Amounts in millions of euros</i>	<i>2016</i>	<i>2015</i>	<i>2014</i>	<i>2013</i>	<i>2012</i>
Financial position and solvency					
Equity	40,524	41,197	38,871	38,534	42,080
Common equity tier 1 capital	29,618	28,754	28,714	28,551	29,253
Tier 1 capital	37,079	35,052	33,874	35,092	38,358
Total (qualifying) capital	52,873	49,455	45,139	41,650	42,321
Risk-weighted assets	211,226	213,092	211,870	210,829	222,847
Profit and loss account					
Income	12,805	13,014	12,889	13,072	13,607
Operating expenses	8,594	8,145	8,055	9,760	9,003
Regulatory levies	483	344	488	197	196
Impairment losses on goodwill and investments in associates	700	623	32	42	(9)
Loan impairment charges	310	1,033	2,633	2,643	2,350
Income tax	694	655	(161)	88	158
Net profit from continued activities	2,024	2,214	1,842	342	1,909
Net profit from discontinued activities	0	0	0	1,665	149
Net profit	2,024	2,214	1,842	2,007	2,058
Ratios					
Common equity tier 1 ratio	14.0%	13.5%	13.6%	13.5%	13.1%
Fully loaded common equity tier 1 ratio	13.5%	12.0%	11.8%	11.1%	-
Tier 1 ratio	17.6%	16.4%	16.0%	16.6%	17.2%
Total capital ratio	25.0%	23.2%	21.3%	19.8%	19.0%
Equity capital ratio	15.0%	14.7%	14.4%	16.1%	15.3%
Leverage ratio	5.5%	5.1%	4.9%	4.8%	4.7%
Loan-to-deposit ratio	1.22	1.25	1.32	1.35	1.39
Return on tier 1 capital	5.8%	6.5%	5.2%	5.2%	5.4%
ROIC	5.2%	6.0%	-	-	-
Cost/income ratio excluding regulatory levies	67.1%	62.6%	62.5%	74.7%	66.2%
Cost/income ratio including regulatory levies	70.9%	65.2%	66.3%	76.2%	67.6%
Net profit growth	-8.6%	20.2%	-8.2%	-2.5%	-21.7%
Return on assets	0.30%	0.33%	0.28%	0.27%	0.28%
Ratings					
Standard & Poor's	A+	A+	A+	AA-	AA-
Moody's Investors Service	Aa2	Aa2	Aa2	Aa2	Aa2
Fitch Ratings	AA-	AA-	AA-	AA-	AA
DBRS	AA	AA	AA (high)	AAA	AAA
Sustainability ratings					
Dow Jones Sustainability Index (ranking)	7	5	12	-	-
Sustainalytics (ranking)	2	11	40	-	-
Volume of services					
Total assets	662,335	678,554	681,086	669,095	750,710
Private sector loan portfolio	424,551	433,927	429,731	434,691	458,091
Due to customers	347,712	345,884	326,288	326,222	334,271
Wholesale funding	188,862	203,218	216,529	219,057	253,672
Supporting local communities					
Rabobank Foundation (in the Netherlands and abroad)	16.9	13.1	15.7	12.9	15.2
Cooperative dividend (local Rabobanks)	49.0	38.1	36.8	44.5	44.2
Donations Rabobank Group	6.5	6.9	8.0	8.0	4.6
Climate Footprint before full compensation					
CO ₂ emissions attributable to business (x 1,000 tonnes CO ₂)	180	182	198	208	-
CO ₂ emissions per FTE (tonnes CO ₂)	3.7	3.5	3.6	3.5	-

Key Figures					
	2016	2015	2014	2013	2012
Retail customers					
Net Promotor Score (NPS Recommendation)	41	33	17	12	-
Customer Effort Score (CES Day-to-day banking)	67	64	68	66	-
Customer Advocacy Score (CAS Recommendation)	79%	76%	61%	59%	-
Satisfaction with day-to-day banking	8.2	7.9	7.8	7.7	-
Private Banking customers					
Net Promotor Score (NPS Recommendation)	46	37	29	20	-
Customer Effort Score (CES Day-to-day banking)	70	64	68	66	-
Customer Advocacy Score (CAS Recommendation)	84%	81%	70%	64%	-
Satisfaction with day-to-day banking	8.1	7.8	7.8	7.7	-
Corporate customers					
Net Promotor Score (NPS Recommendation)	36	21	10	1	-
Customer Effort Score (CES Day-to-day banking)	55	43	52	43	-
Customer Advocacy Score (CAS Recommendation)	71%	62%	53%	48%	-
Satisfaction with day-to-day banking	8.4	7.3	7.1	6.9	-
Nearby					
Members (x 1,000)	1,927	1,945	1,959	1,947	1,918
Number of users of mobile banking devices (x 1,000) ¹	3,079	2,469	2,271	1,784	1,086
Availability of internet payments & savings ²	99.7%	99.8%	98.9%	-	-
Availability of mobile banking ²	99.7%	99.8%	99.0%	-	-
Foreign places of business	382	403	440	769	759
Branches	475	506	547	656	826
Market shares (in the Netherlands)					
Mortgages	21%	20%	22%	26%	31%
Savings	34%	35%	36%	38%	39%
Trade, Industry and Services (TIS)	41%	42%	39%	44%	43%
Food & agri	84%	84%	85%	85%	85%
Sustainable financing corporate customers (amounts in millions of euros)					
Total sustainable financing	18,791	19,240	19,501	18,916	6,537
Sustainable financing	14,039	15,044	14,868	14,941	4,611
Access to finance	1,643	1,573	1,659	1,820	1,926
Community services	3,110	2,623	2,973	2,155	-
Sustainable Housing private customers (amounts in millions of euros)					
Sustainable mortgages	32,128	-	-	-	-
Energy Label A in Rabobank portfolio	16%	-	-	-	-
Sustainable assets under management and assets in custody and sustainable funding (amounts in millions of euros)					
Total sustainable assets under management and assets in custody	6,320	4,965	4,465	4,609	3,751
Sustainable assets under management and held in custody for clients	3,835	2,843	2,101	1,739	963
Sustainable funding	2,485	2,122	2,364	2,870	2,788
Personnel data (amounts in millions of euros)					
Number of employees (internal in FTEs)	40,029	45,658	48,254	56,870	59,628
Number of employees (external in FTEs)	5,538	6,355	5,658	6,034	6,081
Number of employees (total in FTEs)	45,567	52,013	53,912	62,904	65,709
Staff costs	4,521	4,786	5,086	5,322	5,325
Staff vitality score	66%	64%	63%	67%	65%
Absenteeism	3.6%	3.7%	3.7%	3.5%	3.6%
Females employed	51.7%	51.8%	53.3%	53.5%	53.6%
Females in senior positions (≥ scales 8)	25.8%	28.6%	28.5%	27.6%	27.4%
Training expenses	78	79	77	91	89
Training expenses in EUR per FTE	1,945	1,734	1,604	1,603	1,530

1 Users who log on at least once every three months.

2 Average availability measured over 12 months.

About Rabobank

Our organisation structure supports our ambition to be a leading customer-oriented cooperative bank in the Netherlands and in food & agri worldwide. To serve our customers Rabobank offers retail banking, wholesale banking, private banking, leasing and real estate services. Our focus is on all-finance services in the Netherlands and internationally on serving our food & agri customers. Rabobank has approximately 8.7 million customers.

Profile of Rabobank

At year-end 2016, Rabobank encompassed 103 local Rabobanks. The number of members totalled 1,927,000. Rabobank employs 40,029 internal employees (in FTEs) and 5,538 external employees (in FTEs). Rabobank is active in 40 countries.

Domestic retail banking

In the Netherlands, Rabobank is a leading player in the residential mortgage loans, savings, payments, investment and insurance markets. It is also an important financial services provider for the SME segment, the food & agri industry, and the corporate segment. At the end of 2016, the local Rabobanks had 475 branches and 2,141 ATMs. They offer a comprehensive range of financial services to approximately 6.5 million private customers and approximately 800,000 business clients in the Netherlands. The domestic retail banking business employs 17,455 FTEs in total (including mortgage lender Obvion as a Rabobank subsidiary).

Dutch and international wholesale banking and international rural and retail banking

Wholesale, Rural & Retail (WRR) has an international network of branches with offices and subsidiaries in various countries. For a complete overview of our business banking services, click [here](#). Rabobank also operates RaboDirect internet savings banks. The wholesale banking division serves the largest domestic and international companies (Corporates, Financial Institutions, Traders and Private Equity). Rural banking is focused on offering financial solutions for the specific needs of leading farmers and their communities in a selected number of key food & agri (F&A) countries. The total number of internal and external employees in wholesale banking and international retail banking stood at 7,808 FTEs at year-end 2016. Besides the results of WRR, the results of Group Treasury are presented within the segment wholesale banking and international rural and retail banking.

All sectors in the Netherlands are being serviced, contributing to the Banking for the Netherlands strategy, while outside the Netherlands we focus on the F&A and trade-related sectors. Internationally, Rabobank and subsidiaries services F&A clients, ranging from growers to the industrial sector, through its global network of branches. The combination of in-depth knowledge and a worldwide network, positions us as the leading food & agri bank in the world. We service the entire food value chain, with specialists per sector. We advise our clients and prospects in these sectors by offering them finance, knowledge and our network. Rabobank is active in the main food-producing countries such as the United States, Australia, New Zealand, Brazil and Chile and main food consumption countries. Our vision on global food security and the role of Rabobank as described in our Banking for Food strategy can be found [here](#).

DLL

Within Rabobank, DLL is the specialist in the field of leasing. With vendor finance it supports manufacturers and distributors worldwide when selling products and services. DLL, active in more than 30 countries, is a global provider of asset-based financial solutions in the Agriculture, Food, Healthcare, Clean technology, Transportation, Construction, Industrial and Office Technology industries. DLL is committed to delivering integrated financial solutions that support the complete asset life cycle. Its mobility solutions entity Athlon, active in 11 European countries, was sold to Daimler Financial Services on 1 December 2016. More information about this transaction can be found [here](#). As of 31 December 2016, DLL employed 4,675 FTEs (including external staff).

Real estate

Rabo Real Estate Group, FGH Bank and Rabo Real Estate Finance form part of the real estate segment of Rabobank. Rabo Real Estate Group consists of the BPD and Bouwfonds IM divisions. BPD is responsible for developing residential and commercial

Mission

Rabobank wants to make a substantial contribution to **welfare and prosperity** in the Netherlands and to **feeding the world sustainably**.

8.7 million customers



7.5 million Dutch customers

1.2 million international customers

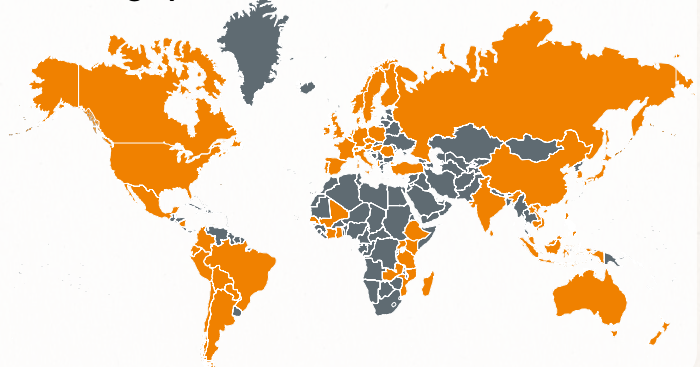
The Netherlands

103 local banks
with 475 branches
and 1.9 million members

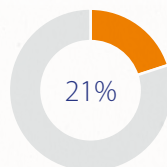


Worldwide

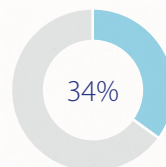
382 foreign places of business



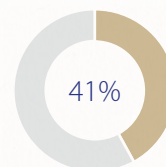
Market shares in the Netherlands



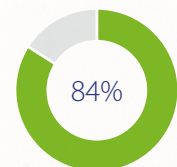
Mortgages



Savings



Trade, industry
and services (TIS)



Food and agri

Subsidiaries and associates

Payment transactions

- MyOrder

Wholesale

- Rembrandt (51%)

Mortgages

- Obvion

Leasing

- DLL (Freo)

Insurance

- Achmea (29%)

Real estate

- BPD Europe B.V.
- Bouwfonds IM
- FGH Bank

International retail

- ACC Loan Management
- BGZ BNP Paribas (7%)

Partner banks

- Banco Terra (45%)
- Banco Regional (38%)
- BPR (15%)
- NMB (35%)
- Zanaco (46%)
- Banco Sicredi (24%)
- DFCU (28%)
- Banco Finterra (15%)
- LAAD (8%)

real estate while Bouwfonds IM is responsible for real asset investments. Rabo Real Estate Group is active in the Netherlands and, to a much lesser extent, in France and Germany.

Rabo Real Estate Finance was launched in November 2016 in response to the ongoing integration of specialised real estate bank FGH Bank into the Rabobank organisation. Rabo Real Estate Finance is a new real estate finance organisation that combines the real estate knowledge and expertise of FGH Bank and Rabobank. Thanks to its banking knowledge, a broad offering of products and services, and a vast network throughout the Netherlands, Rabo Real Estate Finance positions Rabobank as a powerful player in the Dutch market for commercial real estate. As of 31 December 2016, the real estate segment employed 1,493 FTEs (including external staff).

Mission and Vision

Our mission	Rabobank wants to make a substantial contribution to welfare and prosperity in the Netherlands and to feeding the world sustainably.
Our vision	Rabobank is a leading customer-focused cooperative bank in the Netherlands and in F&A worldwide.

Through the customers we serve we want to make a contribution to welfare and prosperity in the Netherlands and to feeding the world's population sustainably. That is our mission, one that stems from our cooperative heritage and agricultural roots. These aims will allow us to remain a meaningful cooperative and to be successful over the long term for our customers, members, employees and society. Accordingly, our vision is to be the most customer-focused bank and the leader in the F&A sector worldwide.

The visions outlined in Banking for the Netherlands and Banking for Food define our focus and provide a joint understanding of what it means to be a customer-focused cooperative. Sustainability forms an integral part of both these visions, as described in our sustainability strategy, Sustainably Successful Together.

Banking for the Netherlands

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

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

Banking for Food

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

Sustainably Successful Together

By focusing on the aforementioned two strategic pillars (i.e. Banking for the Netherlands and Banking for Food), we are working with customers and business partners towards building a successful and meaningful cooperative Rabobank. One of the key aspects of these pillars is the Sustainably Successful Together (SST) programme which describes our ambitions regarding our contribution to sustainable development until 2020. It focuses on five themes and identifies 14 Key Performance Indicators (KPIs) until 2020. These group-wide sustainability goals are strengthening the vitality of communities; accelerating sustainable agriculture and food supply; collaboration with corporate clients, to make their businesses more sustainable and providing retail customers with not only the best financial advice but also a positive contribution to sustainable development. Finally, our commitment to sustainable development is provided by professional staff who consider sustainability an integral part of customer service.

We use 14 KPIs to measure the progress towards realising our sustainability ambitions; sharing our results with our stakeholders via various channels like the Annual Report, infographics, publications and in periodic meetings. We enter

into dialogues with our stakeholders and sometimes adjust our goals as a result. We aim to be ranked by independent rating agencies as one of the most sustainable, globally operating, general banks by 2020.

Growthpath

We have made meaningful progress with the implementation of SST during this year and are satisfied with the progress on the measurement of progress on the targets we have set for our contribution to sustainable development until 2020. For all KPIs we introduced measurement, improved its quality and/or made progress on the realisation of the targets themselves.

We aim to report in line with the expectations of our stakeholders in a fully integrated and meaningful way about our activities. This requires further integration in the management of and reporting on financial and non-financial targets, activities and results. We will therefore further integrate the management of and reporting about Banking for Food, Banking for the Netherlands and SST next year.

The quality of data gathering requires further improvement as well. Software is being developed to realise this. The integration with the management cycle for our two strategic pillars will be strengthened to this aim. This requires further integration of the existing management information systems and – processes. These activities were started during this year and will be continued upon delivery next year. In addition we will optimise the clarity of the wording of the KPIs of SST using the practical experience in implementing them over the last two years. We expect that the activities described will make it possible to realise both a faster realisation of the targets set, the measurement of its progress and the reporting about it.

Strategy

In 2016 we started the implementation of the Strategic Framework 2016-2020, which describes how we want to achieve our ambitions. This strategy provides a sharpened focus on improving customer service and realising a fundamental improvement in financial performance across Rabobank in order to safeguard our future success. To fulfil our ambitions for 2020, we are focusing on three core objectives.

1. Excellent customer focus

In the Netherlands, we strive to be the most customer-focused bank in the country and we aim for a sharp increase in customer satisfaction outside the Netherlands as well. We believe that this is where our strength and distinctiveness lie. Rabobank will undergo a fundamental transformation in the coming years in terms of working methods, culture, attitudes and conduct. By doing so, we are responding to changes in customer needs,

the uncertain economic climate, expectations of society and the stricter requirements of regulators. We want to become the most customer-focused bank in the Netherlands and in the F&A sector internationally by excelling in basic services, being the closest to our customers at key moments and fulfilling our role as a financial linking pin.

2. Increased flexibility and reduction of the balance sheet

In the years to come, we anticipate a further tightening of the regulatory environment, for example the implementation of the proposed reforms to Basel III and MREL. To maintain our position as a rock-solid bank, it will be necessary to make our balance sheet more flexible. We want to achieve balance sheet optimisation by, among other things, placing parts of our loan portfolio with external parties and maintaining a liquidity buffer that is in line with the reduced balance sheet total. We are carefully monitoring ongoing developments with regard to the pending Basel regulations, the final outcome of which will ultimately determine the extent of the required balance sheet reduction, but without changing our other financial targets for 2020.

3. Performance improvement

To maintain our position as a rock-solid bank we need to realise an improvement in performance. Our aim for 2020 is a gross profit (before tax) improvement of EUR 2 billion (excluding the effects of the reduction of our balance sheet) compared to 2014, which will be realised by improvements within our central organisation, the local Rabobanks and the international organisation. The improvement should be effected by both higher revenues and lower costs through increasing efficiency and new ways of working. Reaching this level of profit improvement will improve the cost/income ratio to approximately 53-54% in 2020, and we will achieve a return on invested capital (ROIC) of at least 8%. For more information, click [here](#).

Accelerators

The strategy calls for a substantial transformation of the Rabobank. In view of the challenge we face, and to accelerate implementation and realisation, we identify three accelerators simultaneously to realise and strengthen the transformation:

- 1 Strengthening innovativeness:** Innovativeness is essential both for an excellent customer focus and for building a rock-solid bank. Innovation allows us to improve our own services and respond rapidly to opportunities in the market. In addition, innovation is essential to provide support with regard to the strategic issues our customers face.
- 2 Empowered employees:** Achieving the strategic objectives will require a transformation into an organisation in which there is scope for professionalism and entrepreneurship, with a continual focus on development and training, employee diversity and a good, learning corporate culture.

3 Better cooperative organisation: The new governance structure will contribute to the transformation that our organisation must go through to fulfil the strategy. This will allow an organisation to emerge that is flexible for the future and centres on maximum local entrepreneurship.

Strategy implementation

The Strategic Framework 2016-2020 has initiated a group-wide transition process consisting of a wide range of change initiatives that impact our organisation structure, the way we work and the way we serve our customers. In addition to many initiatives in the line organisation, several large, strategic projects are also being implemented. The strategic implementation agenda has been designed along the four strategic pillars: Complete customer focus, Rock-solid bank, Meaningful cooperative and Empowered employees. The transition process is dynamic and can be adjusted based on changing circumstances.

An integrated process for the coordination of the transition is essential to ensure timely and coherent implementation of the strategic goals. This process began in 2016 and will continue in the coming years. Strategy implementation is facilitated by a central oversight and coordination office for performance and strategic initiatives, which reports frequently to the Executive Board, Supervisory Board and supervisors. Processes have been established to ensure short-cycle steering by the Executive Board members in their respective domains, based on goals that have been translated into concrete activities, KPIs and clearly allocated responsibilities. This approach enables the line organisation to remain in the lead of the transition process.

Sustainable Development Goals

Rabobank is a cooperative bank with deep social roots that was established by and for entrepreneurial poor farmers. Their response to the problems they faced at the time shows surprising parallels with the global challenges we face now. These days the scale of the problem is much greater, due to the limited natural resources which the earth has available in the face of rapidly growing global populations and increasing inequality. The seventeen SDGs drawn up by the United Nations are a clear benchmark for the challenges we must solve together.

The goals were developed in 2015, in cooperation with businesses, social organisations and other parties. It is a set of goals to end poverty, protect the planet and ensure prosperity for all as part of a new sustainable development agenda that has to be achieved over the next fifteen years. Rabobank helps to achieve the SDGs by offering financial support, sharing knowledge and connecting parties. We have embedded our

contribution to the SDGs in our strategic ambition because, as a socially responsible bank, we feel a responsibility to take up the challenge of making a meaningful contribution to achieving the seventeen goals. We have a direct impact on the SDGs by following our Banking for Food and Banking for the Netherlands strategies and the SST programme, as well as indirectly through projects organised by Rabobank Foundation and Rabo Development, for example.

The infographic below shows how we are working directly towards reaching the goals. The goals to which we are making a primary contribution are enlarged in the infographic, other relevant SDGs are coloured in and the SDGs on which we have limited impact are shown in grey.

Impact requires focus, so we focus our activities and partnerships locally and globally (e.g. with WWF, WFO, our involvement in the World Economic Forum and our active contribution in the Food & Agri roundtables) on the global challenges to which we can make the greatest social contribution. As a leading food & agri bank in the world, our highest priority is to work tirelessly to achieve global food security for the growing world population (SDG 2 Zero Hunger). In future years, the sustainability of production by both large and small farmers must be increased and better distributed. We are committed to investing in this process.

In the Netherlands and in our global F&A domain, we work hard to stimulate economic growth and decent work (SDG 8 Decent work and economic growth). In the coming years we will further develop our role of serving as a financial linking pin. This means that the main focus is not on the loan itself but on working with the client to find the right form of funding and the right network.

Traditionally, we have always played a major role in local communities (SDG 11 Sustainable Cities and Communities). Even though the number of physical branch offices is falling, we are still very much part of the local communities in which we have our roots and which we serve. This allows us to make a real contribution to maintaining the vitality of local communities – even when it is under pressure.

Achieving responsible consumption in a circular economy (SDG 12 Responsible Consumption and Production) is essential to the transition which we urgently need to bring about to accommodate the growing world population. This goes to the very core of our customer service with regard to knowledge and funding. Entrepreneurs are seizing upon this opportunity this transition presents to invest in circular business models.

Possibly the most pressing issue facing society is that of climate change (SDG 13 Climate Action). We see our contribution to solving this issue as a top priority. Our market share puts us in a position to make a real contribution, primarily by encouraging our customers in the Netherlands to realise energy savings. At the global level, our contribution consists of funding and making clear choices.

Finally, there is an African proverb that is particularly relevant to us as a cooperative bank: 'If you want to go fast, go alone. If you want to go far, go together' (SDG 17 Partnerships for the Goals). This is why we always look for partners to achieve maximum impact.

1 No poverty

- Investing EUR 28.7 mln by Rabo Foundation to alleviate poverty
- Impacting 4.7mln smallholder farmers in developing countries
- Impacting 450,000 vulnerable people in the Netherlands

2 Zero hunger

- Investing EUR 102 bln worldwide to stimulate sustainable food supply
- Offering over 200 knowledge reports on Food and Agri to relations
- Connecting parties in the F&A chain by organizing events like Farm2Fork Summit and Foodbytes!

3 Good health and well-being

- Financing over 21,000 business clients in the primary care sector
- Investing EUR 8 bln in hospitals, youth care and assistance for elderly

4 Quality of education

- Contributing, together with clients, to the education of over 1.8 mln Dutch students
- Training more than 268,000 farmers in developing countries by Rabobank Foundation

5 Gender equality

- Organizing 48 events to empower women within Rabobank
- Striving to have at least 30% woman working at executive level by 2020

7 Affordable and clean energy

- Investing EUR 2.3 bln in renewable energy generation
- Issuing the first EUR 500 mln Green Bond

8 Decent work and economic growth

- Investing over EUR 121.4 bln in Dutch Businesses and EUR 101.9 bln worldwide to stimulate economic growth
- Strengthening the capacity of domestic banks in emerging countries, expanding access to banking services locally for over 10 mln customers

9 Industry, innovation and infrastructure

- Investing around EUR 570 mln in the construction and infrastructure sector
- Investing around EUR 85 mln in information and communication technology
- Investing EUR 428 mln in industry in emerging markets together with development banks



11 Sustainable cities and communities

- Providing EUR 72.8 mln to community funds and donations
- Introducing the 'Green Mortgage' offering EUR 50 mln to enhance the sustainability of housing
- Supporting 381 new collective local community initiatives with finance, knowledge and our networks

12 Responsible consumption and production

- Offering EUR 18 bln in sustainable financing and EUR 2.5 bln in sustainable funding
- Initiating two Circular Economy Challenges (impacting 24 companies)
- Active in 9 roundtables for sustainable supply chains and offering 2 value chain visions

13 Climate action

- Funding EUR 70 mln for projects aimed at CO₂ reduction by offering an impact loan to around 100 clients
- Excluding the extraction of coal, financing of coal fired power plants and extraction of gas below the Wadden Sea from our activities

14 Life below water

- Supporting clients in developing sustainable aquaculture operations

15 Life on land

- Providing EUR 326 mln to organic farming and EUR 23 mln in nature conservation
- Partnering in the Tropical Rain Forest Alliance 2020

16 Peace, justice and strong institutions

- Asking investment funds to comply with the UN Principles for Responsible Investment and UN Global Compact Principles
- Contributing to the IMVO covenant for sustainable development

17 Partnerships for the goals

- Commitment to multiple United Nations entities in the realm of food security, nutrition and agriculture
- Partnering with the WWF on sustainable production
- Involved in the World Economic Forum

Our output and impact

Rabobank is committed to creating value for our stakeholders and society at large. In today's world with changing customer behaviour, technological developments and a complex economic environment, value is not created by functional excellence alone. Rather, the most sustainable value is created through enduring relationships with all stakeholders and responding to customer needs efficiently.

We have chosen to illustrate our impact and output from four different angles: Rock-solid bank, complete customer focus, meaningful cooperative and empowered employees. These four angles cover 15 key economic, societal and environmental topics that relate directly to our strategic pillars, new governance and employees, and give a good illustration of our output and impact in 2016.

They illustrate how we are well on the way to achieving our strategic goals. The underlying financial results have improved, the new governance model is making us more customer-oriented, and our customer satisfaction has risen thanks to the efforts of our employees. The topics also highlight aspects that require attention due to their impact on both our stakeholders and on Rabobank.

<i>Strategic pillar</i>	<i>Material topic</i>	<i>Reference</i>
Rock-solid bank	Improving performance	Page 19
Rock-solid bank	Strengthening capital ratios	Page 50
Rock-solid bank	A more flexible balance sheet	Page 54
Rock-solid bank	Balancing risks and returns	Page 56
Complete customer focus	Restoring trust	Page 61
Complete customer focus	Increasing transparency	Page 66
Complete customer focus	Digitalising services	Page 69
Complete customer focus	Engaging with stakeholders	Page 73
Meaningful cooperative	Working with clients on sustainability risks and returns	Page 78
Meaningful cooperative	Stimulating sustainable agriculture	Page 83
Meaningful cooperative	Supporting the vitality of communities	Page 87
Meaningful cooperative	Promoting a circular economy	Page 93
Empowered employees	Developing talent and competences	Page 98
Empowered employees	Encouraging diversity and equality	Page 102
Empowered employees	Responsible remuneration	Page 104

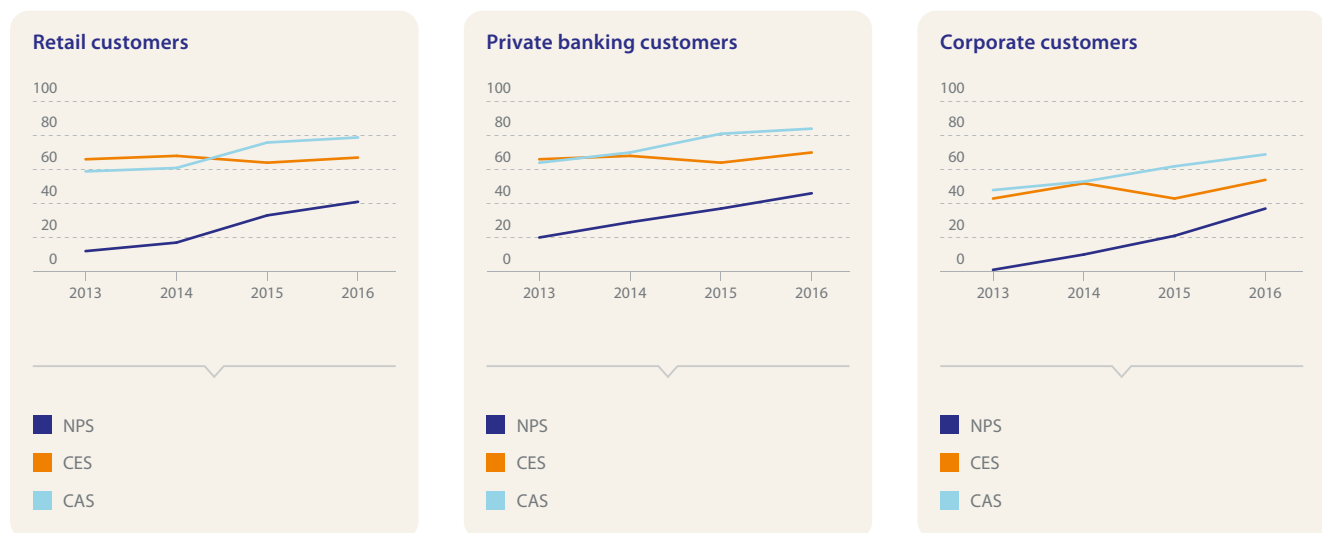
Our output and impact

Improving performance

Customer satisfaction

Satisfied customers are our highest priority. Achieving a high level of customer satisfaction is only possible through focusing on our customers' needs and expectations. We are committed to providing ordinary daily banking services extraordinarily well. We are always nearby during important moments in the clients' lives, and we are always happy to go the extra mile.

We use three scoring systems for Rural & Retail to measure customer satisfaction: the Net Promoter Score (NPS) for our advisers, the Customer Effort Score (CES) for the ease with which customers can do business with us, and the Customer Advocacy Score (CAS) for the extent to which the customer feels that we are acting in their interest. For Wholesale we use Greenwich to measure customer satisfaction. We also monitor the client satisfaction regarding the availability and quality of our knowledge and products concerning sustainability. The past year has shown a strong improvement in the customer satisfaction scores awarded us by both business and retail customers.



Client satisfaction on sustainable products and services

As a cooperative, customer-oriented bank that has integrated sustainability into its products and services, it is important for us to measure client satisfaction on this topic. We also consider it essential that our services remain available for everyone, including vulnerable groups. In our sustainability programme SST, we have incorporated KPIs dedicated to measuring client satisfaction among retail, business and vulnerable groups.

Retail and vulnerable clients

We periodically monitor how satisfied our Retail clients are with our engagement, our financial advice and the way we help to fulfil their ambitions and meet their personal financial goals with suitable products. We always strive for annual improvement of the customer satisfaction score. We also measure the satisfaction of customers from vulnerable groups, such as the elderly, people with dementia and people with mental or physical disabilities. The results are taken from broad external research.

Typical sustainable products for Retail clients include the availability of responsible investing funds and the green mortgage, which is aimed at reducing carbon emissions in housing while enhancing the standard of comfort of the property. These kinds of products require our employees to understand and incorporate their knowledge of sustainability into their meetings with clients. For more detail, see the chapter 'Working with clients on sustainability risks and opportunities. With regard to retail customers satisfaction we have identified the following KPIs:

KPI: By 2020, more than 80% of clients from vulnerable populations will find that Rabobank does a good job managing their banking business.

Satisfied customers from vulnerable groups ¹

Numbers of customers in % who are 'Quite satisfied' + 'Reasonably satisfied' (n = 938)	2016	2015
You can handle your banking affairs at Rabobank with ease and without any problems	72	73

In 2016 we continued our services to vulnerable groups with the Samen Bankieren (Banking Together) programme, to facilitate vulnerable clients in the Netherlands' access to banking services. Last autumn we launched a television campaign to inform the public about these services. This has not yet resulted in an increase in satisfaction numbers. Nevertheless, we will continue the programme as we believe the effects will be more noticeable in 2017 and that these services are part of the identity of our cooperative bank.

KPI: The percentage of retail and private banking clients indicating that they are satisfied about how they can match their finances to their sustainable ambitions with the appropriate products increases annually.

Satisfied retail and private banking customers ²

Numbers of customers in % who are 'Quite satisfied' + 'Reasonably satisfied' (n = 1,160)	2016	2015
Rabobank gives me good advice on my financial affairs to best suit my wishes	48	44
The products Rabobank advises me to choose are a good fit with my personal wishes	55	52

1 Source - Miles Research. Measured in the Netherlands.

Answer categories: quite satisfied, reasonably satisfied, neutral, reasonably unsatisfied, quite unsatisfied, no opinion

2 Source - National NPS Benchmark. Measured in the Netherlands.

Answer categories: quite satisfied, reasonably satisfied, neutral, reasonably unsatisfied, quite unsatisfied, no opinion.

KPI: The percentage of retail and private banking customers reporting that they were satisfied with how sustainability was discussed in the client meeting increases annually.

Satisfied retail and private banking customers ³

Number of customers in % who responded 'Yes' (n=553)	2016	2015
The subject of Sustainability was discussed last year during an advisory interview\with the customer	4	5
Number of customers in % who indicated that sustainability was discussed and who are 'Quite satisfied' + 'Reasonably satisfied' (n=30)		
How satisfied are customers with the way in which this subject was discussed with them?	89	88

In 2016 we increased our efforts to create sustainable products and services for our retail clients. We introduced the green mortgage and launched a campaign on responsible investing. Please refer to chapter 'Working with clients on sustainability risks and opportunities' for more detailed information on these topics. We also started to train our financial advisers to effectively address sustainability in the client conversations, which we will continue in 2017. We believe that these activities have helped in raising the client satisfaction scores regarding sustainability as mentioned in the two KPIs above. However, we acknowledge that sustainability was discussed in a relatively small percentage (4%) of these client conversations, which does not correspond with our efforts. We aim to increase this percentage in 2017. On the other hand, 89% of the clients with whom sustainability was discussed, was satisfied with the way it was discussed.

Business customers

We also measure, on an annual basis, the percentage of corporate customers who indicate that sustainability was discussed to their satisfaction in the client meeting. In the Netherlands, for customers of local Rabobanks, this is done after each client contact, using the so-called local customer monitor.

KPI: The percentage of corporate clients indicating that they are satisfied with how sustainability was discussed in client meetings increases annually.

Customers who consider Rabobank a good partner in conversations about sustainable/socially responsible enterprise

As % per corporate customer group	2016	2015	2014
Companies with less than EUR 1 million in turnover (n=1,998)	14	10	n/a
Companies with more than EUR 1 million in turnover (n=3,001)	15	11	n/a

3 Source - National NPS Benchmark.

Answer categories: quite satisfied, reasonably satisfied, neutral, reasonably unsatisfied, quite unsatisfied, no opinion.

The 2016 figures are based on 48 of 103 participating banks in the Netherlands (an increase from 34 in 2015). Not all of our customers received the survey. These two factors mean that this is not a representative survey. Therefore, it is difficult to compare the data between the years. Although Rabobank continued to measure client satisfaction regarding sustainability with corporate clients in the same manner, we have altered the segmentation of our clients, also resulting in less comparability of the figures.

Nevertheless, we have interpreted these numbers and the trend as indicators of client satisfaction development. The numbers presented here reflect the percentage of customers that rated the statement 'Rabobank is a good discussion partner for sustainable/social enterprise' either 'very good' or 'excellent'. In 2017 we aim to make the measurement of client satisfaction regarding sustainability a standard question for our corporate clients in the Netherlands.

Excellence in our daily banking services

Our banking services form the basis for excellent customer focus. Customers need financial solutions and good advice. Their inquiries should be addressed promptly, thoroughly and through their preferred channel. All daily banking services should, ideally, be available online.

Closer to our customers

Excellent customer focus means exceeding customer expectations. We want to ensure that customers continue to bank with us by supporting them when it really matters. The number of face-to-face branch contact moments has decreased, but customers still appreciate face-to-face contact when taking important financial decisions. That means we invest in making those face-to-face moments meaningful. We are no longer investing in new branches, but we are setting up contact points across the country. We also do home or work visits, we have a presence in shops and we are available by (video) chat.

Mortgage within a week

In May 2016, Rabobank launched a new service, 'mortgage within a week', to give potential homebuyers certainty quickly. We also provided signed mortgage offers within a week to homebuyers with an irregular income or buyers that are self-employed.

This new service won us the Gouden Spreekbuis 2016 and the Bronzen Effie 2016. According to the Effie jury's statement, Rabobank succeeded well in fulfilling the bold promise of arranging a mortgage in a week. They complemented Rabobank

on the internal organisation, its sharp insights, bold strategy and good execution, adding that the strong unique selling point has reversed the declining trend in the market share.

SME financing within a day

Rabobank offers SMEs with applications to EUR 1 million and a strong plan a response to their financing application within a day. With our one-day turnaround, we address our customers' need for clarity and speed. We received 12,600 applications in 2016. The number of online applications is increasing. Over December 2016 38% of our customers now submit their financing applications (< EUR 1 million) online. In September 2016, Rabobank organised a country-wide 'Day of new financing', during which customers could participate in workshops, pitch their business plans and explore new forms of financing for their plans.

The financing we offer SMEs totals EUR 58 million per day (local Rabobanks). Out of this amount, 83% is loans and 17% is revolving credit.

New initiatives launched in alternative sources of finance

Rabobank prefers to invest in our clients. We started to explore new types of services and financial solutions. This means we also inform our clients about solutions that we do not finance ourselves. Crowdfunding is an example of such a solution. In the role of Financial Advisor, during 2016 we entered into framework agreements with several crowdfunding platforms.

In May 2016, Rabobank launched a pilot known as Rabo & Co in which SMEs borrow money from high net worth customers of the bank. This form of 'peer-to-peer lending' supplements existing forms of financing such as regular bank credit and crowdfunding. [Rabo & Co](#) brings together businesses and high net worth customers of the bank. Businesses place their financing request on the platform and high net worth customers may elect which loan they wish to finance. Rabobank itself will provide at least 51% of every loan.

We also help customers and promote economic development by sharing our networks. For instance, our [Meet and Grow events](#) enable clients looking for funding to connect with other parties who may be interested in funding them.

Starters

'Start strong' is our new key message for starters. We encourage them to 'start strong' by gaining inspiration and knowledge from successful entrepreneurs who share their honest and, above all, personal stories about decisive moments in their entrepreneurship. There are many reasons to start a business.

We focus on entrepreneurs who want to grow and who have a dream, ambition, passion for entrepreneurship and a solid business case. Ikgastarten.nl is the online knowledge platform for start-ups.

International Business Network

One of the biggest hurdles for companies seeking to enter new markets abroad is finding good and reliable local partners and customers. The Rabo International Business Network (RIBN) helps entrepreneurs to succeed in doing business internationally without worries or hassle. The RIBN offers Rabobank clients quick, easy and valuable introductions to more than 12,000 foreign entrepreneurs in various sectors. Read more on our Wholesale banking activities in the chapter [Wholesale banking and international rural and retail banking](#).

Our output and impact

Improving performance

Rabobank

Financial performance

Rabobank operates in a challenging environment characterised by changing customer needs, disruption through innovation, new competitors, changing economic conditions, market volatility and more stringent regulations. The current European Central Bank (ECB) monetary policy makes a prolonged low interest environment likely. This offers banks fewer possibilities to maintain or improve their net interest margins. Simultaneously, capital requirements are becoming tighter. Regulations such as the proposed reforms to Basel III, minimum requirement for own funds and eligible liabilities (MREL) and total loss absorbing capacity (TLAC) are aimed at maintaining a stable, competitive and accessible banking system. As a consequence of these regulations Rabobank will face higher capital requirements and higher risk weighting of assets. Rabobank wants to increase retained earnings, but by adding retained earnings to the reserves the available capital can grow only to a limited extent. Therefore, Rabobank will also have to mitigate the increase in its capital requirements by reducing the balance sheet and making it more flexible. We need to keep the balance sheet flexible in order to facilitate future growth for our customers. So while we keep developing new services that meet customers' needs, we need to do so without putting pressure on our balance sheet. With these developments and challenges in mind, along with Rabobank's aim of remaining a rock-solid bank, the following financial targets have been set for the period up until 2020.

Update in realisation of financial targets

The table below presents the ambitions of the Strategic Framework 2016-2020 and the actuals as at 31 December 2016 and 2015.

Summary targets financial framework 2016-2020				
<i>Amounts in billions of euros</i>		<i>Actual 2015</i>	<i>Actual 2016</i>	<i>Ambition 2020</i>
Profitability	ROIC	6.0%	5.2%	>8%
	Cost/income ratio (regulatory levies included)	65.2%	70.9%	53%-54%
Capital	Common equity tier 1 ratio	13.5%	14.0%	>14%
	Total capital ratio	23.2%	25.0%	>25%
Funding and liquidity	Wholesale funding	203	189	<150

Rabobank wants to achieve higher capital ratios by increasing retained earnings, reducing the balance sheet and by raising additional capital. To facilitate the growth of common equity tier 1 capital through retained earnings, we will need a return on invested capital (ROIC) of at least 8%. The ROIC is calculated by dividing the net profit realised after non-controlling interests

by the core capital (actual tier 1 capital plus the goodwill in the balance sheet at the end of the reporting period) minus deductions for non-controlling interests in Rabobank's equity. The target cost/income ratio for 2020 is 53%-54%, including regulatory levies.

Underlying performance improvement on track

In 2016, net profit was impacted by several exceptional items which increased the operating expenses. Also, the operating profit before tax was pressured by an impairment on Rabobank's stake in Achmea. Nonetheless, Rabobank's net profit landed at EUR 2,024 (2,214) million in 2016. The ROIC amounted to 5.2%, compared to 6.0% in 2015. The cost/income ratio including regulatory levies was 70.9% (65.2%).

The underlying performance improvement is on track to achieve the targets of the Strategic Framework 2016-2020, as illustrated by the development of the underlying operating profit before tax. The underlying operating profit before tax was EUR 4,090 million, an increase of EUR 498 million compared to 2015. In calculating this underlying profit, an adjustment was made for the impairment on Rabobank's stake in Achmea, the book profit on the sale of Athlon, the provision for interest rate derivatives, restructuring costs and for the fair value items hedge accounting and structured notes. The 2015 underlying profit was also corrected for the goodwill impairment for Rabobank National Association (RNA). In 2016, if we exclude the regulatory levies, the underlying cost/income ratio stood at 60.8% compared to 60.8% as well for 2015. The underlying cost/income ratio including regulatory levies increased by 1.1 percentage points to 64.6% (63.5%).

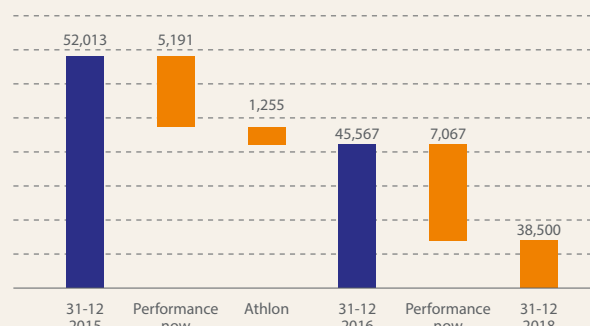
Development of underlying operating profit before tax		
<i>Amounts in millions of euros</i>	<i>2016</i>	<i>2015</i>
Operating profit before tax	2,718	2,869
Impairment Rabobank's stake in Achmea and goodwill impairment RNA	700	604
Book profit on the sale of Athlon	(251)	-
Provision for interest rate derivatives	514	150
Restructuring costs	515	245
Hedge accounting and structured notes	(106)	(276)
Underlying operating profit before tax	4,090	3,592

A decrease in the number of employees is one consequence of the major transition the bank is undergoing. Year-end 2016, staff reduction at Rabobank is ahead of plan. In 2016, around 5,200 FTEs left Rabobank as a result of the large restructuring programme Performance Now. The employee base will be reduced by another around 7,100 FTEs before year-end 2018 after Performance Now has been fully executed.

In 2016, Rabobank reduced the employee base (including external hires) by 6,446 FTEs to 45,567 FTEs. The target was a reduction of 4,000 FTEs in 2016. The largest reduction in staff numbers was at the local Rabobanks. During the second half of 2016, the decline in the number of employees was truly becoming evident, as was the rapid pace of staff reduction. Besides the reduction in employees the sobering of fringe benefits helped to bring staff costs down. The sale of Athlon

also reduced the number of staff by approximately 1,250 FTEs in December. Read more about the impact of the transition on staff and the replacement of personnel in the chapter [Developing human capital and talent management](#).

Employee base in FTEs



Careful asset re-allocation will contribute to higher income. Rabobank has made choices about where capital can be used most efficiently. This process reduced the balance sheet (read more on this topic in the chapter [Flexible balance sheet](#)). In applying portfolio management, Rabobank remained open for all customers in the Netherlands, but has increasingly attuned its margins to the risk profile of loans and credits granted. Our focus remained on the all-round relationship with the customer. We act as a financial linking pin in the interest of the customer and are always committed to the solution we recommend. We are now financing our customer's needs through stringent use of our balance sheet in order to achieve further balance sheet relief.

Looking back on financial targets 2012-2016

Three of the four financial targets from 2012 to 2016 were met. The current Strategic Framework spans from 2016 to 2020. For the year 2016, the fulfilment of the commitments has also been compared to the previous objectives as set out in the Strategic Framework 2012-2016. The objectives and the actual figures for 2015 and 2016 are presented in the table below.

Summary targets financial framework 2012-2016

<i>Amounts in billions of euros</i>		<i>Actual 2016</i>	<i>Target 2016</i>
Profitability	Return on tier 1 capital	5.8%	8%
Capital	Common equity tier 1 ratio	14.0%	14%
	Total capital ratio	25.0%	>20%
Liquidity	Loan-to-deposit ratio	1.22	<1.30

The loan-to-deposit ratio ended up at 1.22, compared to a target of 1.30 or below. The common equity tier 1 ratio improved to 14.0%, in line with the target of 14%. The total capital ratio was generously above the target of at least 20%

at 25.0%. The return on tier 1 capital – the net profit related to the level of tier 1 capital at the beginning of the year – reached 5.8% (6.5%) compared to a target of 8%. This target was not met, mainly because the impairment on Rabobank's stake in Achmea lowered the operating profit before tax, and restructuring costs and the additional provision for adopting the SME interest rate derivatives recovery framework increased operating expenses.

Rabobank's credit ratings

During 2016 Rabobank's credit ratings remained unchanged by all the rating agencies. Currently, Rabobank has been assigned an 'A+' rating by S&P, 'Aa2' by Moody's, 'AA-' by Fitch and 'AA' by DBRS. Rabobank has a large buffer of equity and subordinated debt, offering protection to non-subordinated bond holders, which is regarded as an important rating driver by all the rating agencies.

Globally, Rabobank is listed among the top 10 largest commercial banks (based on total balance sheet) with the highest rating awarded by S&P, Moody's and Fitch. In Europe, Rabobank is in the top three. The rating agencies view Rabobank's new governance structure (effective since 1 January 2016) as a positive change because it allows the bank to reduce both costs and inefficiencies while also increasing transparency.

All agencies view Rabobank's leading position in the Dutch banking sector and in food & agri internationally as important rating drivers. Both occupy a central place in our Strategic Framework 2016-2020. Other key elements in our strategy, further balance sheet optimisation and increased earnings capacity were taken into account in Moody's and S&P's recent affirmation.

In 2016 the outlook remained 'Stable' with all rating agencies, apart from Moody's, which revised the outlook from 'Stable' to 'Negative' in November 2016. Moody's claims that the affirmation of the credit ratings 'incorporates the expected improvements resulting from the bank's ongoing restructuring programme while the negative outlook reflects the execution risks inherent to the transformation'.

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

➤ Read more about Rabobank's credit ratings [here](#).

Rabobank's sustainability ratings

Rabobank has a strong focus on sustainability as it is one of our core values. We believe that our bank has a role to play in contributing to sustainable development. We therefore execute the SST programme. We receive external accreditation for our sustainability efforts from two independent sustainability rating agencies: Dow Jones Sustainability Index and Sustainalytics.

Dow Jones Sustainability Index Rating

	2016	2015	2014
Ranking	7	5	12
Overall score	91	87	83

Sustainalytics

	2016	2015	2014
Ranking	2 out of 396	11 out of 422	40 out of 382
Overall ESG score	85 (industry leader)	80 (industry leader)	70 (outperformer)

We are proud of our strong increase in the performance which we consider evidence of the effectiveness of the mentioned SST programme, yet we will continue our efforts to improve further.

Our output and impact

Improving performance

Rabobank

Rabobank booked net profit of EUR 2,024 million

The Dutch economy saw positive growth of 2.1% in 2016, with an increase in both household spending and exports. Rabobank's private sector loan portfolio decreased by EUR 1.0 billion to EUR 424.6 billion, excluding the restatement of the year-end 2015 private sector loan portfolio of EUR 8.3 billion. Despite this decrease, in 2016 we still helped many of our retail and business customers by granting credit in the form of a loan, a financial guarantee, a letter of credit or other lending-related financial instruments. The decrease was mainly the result of several successful balance sheet reduction transactions. Partly due to low interest rates on savings, the additional mortgage repayments remained high, which also contributed to the contraction of the loan portfolio. Amounts due to customers increased by EUR 10.1 billion to EUR 347.7 billion, excluding the restatement of EUR 8.3 billion of the year-end 2015 figure.

The economic upturn is reflected in the declining loan impairment charges, which fell by EUR 723 million to EUR 310 million or 7 basis points of the average loan portfolio (the long-term average is 36 basis points). Lower loan impairment charges had a positive impact on Rabobank's net profit. In 2015, an impairment on goodwill associated with RNA in the United States lowered Rabobank's net profit by EUR 604 million. This year's net profit was negatively impacted by non-cash impairments on Rabobank's stake in Achmea of in aggregate EUR 700 million, higher administrative expenses due to the additional provision for adopting the SME interest rate derivative recovery framework and higher restructuring costs. Furthermore, net profit was negatively impacted due to the increased contribution to the resolution fund and a first ex-ante contribution to the Deposit Guarantee Scheme (DGS) fund. Rabobank's net profit decreased by EUR 190 million to EUR 2,024 million.

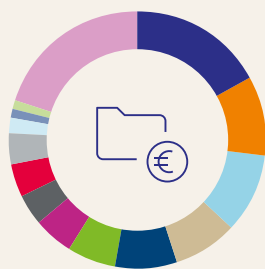
Rabobank's underlying operating profit before tax was EUR 4,090 (3,592) million, an increase of EUR 498 million compared to 2015. In calculating this underlying profit a correction was made for the impairments on Rabobank's stake in Achmea, the book profit on the sale of Athlon, the provision for interest rate derivatives, restructuring costs, the fair value items hedge accounting and structured notes, and for the 2015 goodwill impairment for RNA. The return on invested capital (ROIC) amounted to 5.2% (6.0%).

Decrease in private sector loan portfolio

The sale of parts of the mortgage portfolio and early repayments on residential mortgage loans contributed to the decrease in the local Rabobanks' private sector loan portfolio in 2016. Obvion also sold part of a portfolio of Dutch residential mortgages and securitised EUR 1 billion of its mortgage portfolio. In this transaction the most junior tranches were

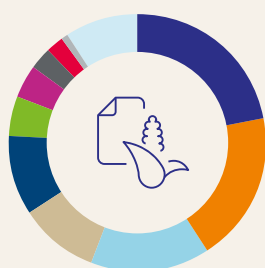
also sold to investors, resulting in off-balance sheet treatment. At real estate financier FGH Bank, the commercial real estate portfolio was further reduced and the sale of the real estate financing activities of RNHB contributed to a decrease of the loan portfolio. More information on these transactions can be found in the chapter [A more flexible balance sheet](#).

Loan portfolio TIS by industry at year-end 2016



Lessors of real estate	17%
Wholesale	10%
Finance and insurance, except banks	10%
Manufacturing	8%
Professional, scientific and technical services	8%
Transport and warehousing	6%
Health care	5%
Activities related to real estate	4%
Construction	4%
Retail non-food	4%
Utilities	2%
Information and communications	1%
Art, recreation	1%
Other	20%

Loan portfolio F&A by industry at year-end 2016



Dairy	22%
Grain and oilseeds	19%
Animal protein	15%
Farm inputs	10%
Fruit and vegetables	10%
Food retail and food service	5%
Beverages	4%
Sugar	3%
Flowers	2%
Various crops	1%
Other	9%

The loan portfolio of Wholesale, Rural & Retail (WRR) increased, due to several factors including growth in the rural banking portfolio and Fx changes. At Rabobank's leasing subsidiary DLL, the loan portfolio increased – excluding the sale of Athlon – on the back of better economic conditions, and foreign exchange fluctuations. The volume of the private sector loan portfolio at year-end 2015 was restated and increased by EUR 8.3 billion as a result of a change in accounting principles related to the netting of cash pools. More information can be found in the consolidated financial statements 2016 in the section on change in accounting principles. The loan portfolio at the Rabobank Group level decreased in 2016 by EUR 9.3 billion, including the effects of the change in accounting policies.

Loan portfolio

	31-12-2016	31-12-2015 (adjusted for cash pooling)	31-12-2015 (as reported)
<i>Amounts in billions of euros</i>			
Total loans and advances to customers	452.8	457.7	466.0
Loans to government clients	3.3	3.4	3.4
Reverse repurchase transactions and securities borrowings	16.3	19.7	19.7
Interest rate hedges (hedge accounting)	8.6	9.0	9.0
Private sector loan portfolio	424.6	425.6	433.9

The geographic breakdown of the loan portfolio as at year-end 2016 was as follows: 72% in the Netherlands, 11% in North America, 3% in Latin America, 7% in Europe (outside the Netherlands), 5% in Australia and New Zealand, 2% in Asia.

Loan portfolio by sector

	31-12-2016	31-12-2015 (adjusted for cash pooling)	31-12-2015 (as reported)
<i>Amounts in billions of euros</i>			
Volume of loans to private individuals	201.2	207.8	207.8
Volume of loans to TIS	121.3	120.0	127.7
of which in the Netherlands	84.6	87.3	95.3
of which in other countries	36.7	32.7	32.4
Volume of loans to F&A	102.0	97.8	98.4
of which in the Netherlands	37.5	35.0	35.7
of which in other countries	64.5	62.8	62.7
Total private sector loan portfolio	424.6	425.6	433.9

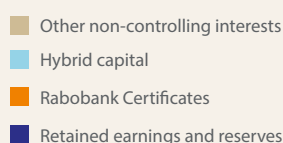
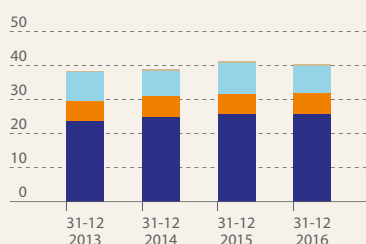
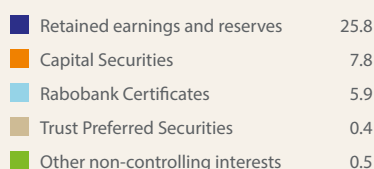
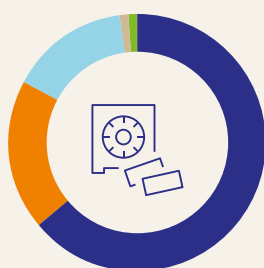
47% of the loan portfolio was lent to private individuals, 29% to TIS, and 24% to F&A. The figures alongside represent the breakdown of the TIS and F&A portfolios by industry.

Increase in amounts due to customers

As is the case for the private sector loan portfolio, also the amounts due to Rabobank customers at year-end 2015 were restated and increased by EUR 8.3 billion as a result of a change in accounting principles related to the netting of cash pools. Total amounts due to customers increased by EUR 1.8 billion to EUR 347.7 billion in 2016, including the effect of the change in accounting policies. Amounts due to customers in domestic retail banking increased to EUR 223.3 (215.2) billion, while amounts due to customers at WRR fell by EUR 6.1 billion to EUR 123.7 (129.8) billion. Private savings are the most important component of amounts due to customers. Private savings held at local Rabobanks were flat. However, customers making extra repayments on mortgage loans due to low interest rates on savings had a downward effect on private savings for domestic retail banking as a whole. This was more than compensated by an increase in private savings at WRR partly due to an increase in the savings balances of RaboDirect. In 2016, private savings increased to EUR 142.2 (140.5) billion.

Amounts due to customers

	31-12-2016	31-12-2015 (adjusted for cash pooling)	31-12-2015 (as reported)
<i>Amounts in billions of euros</i>			
Private savings	142.2	140.5	140.5
at domestic retail banking	116.2	117.0	117.0
at wholesale banking and international rural and retail banking	26.0	23.5	23.5
Other amounts due to customers	205.5	197.1	205.4
at domestic retail banking	107.1	95.4	98.2
at wholesale banking and international rural and retail banking	97.7	100.9	106.4
at other group entities	0.7	0.8	0.8
Total amounts due to customers	347.7	337.6	345.9

**Equity
in billions of euros****Breakdown of equity
at year-end 2016, in billions of euros****Decrease of equity**

In 2016, Rabobank Group's equity decreased to EUR 40,524 (41,197) million. In July 2016, Rabobank redeemed USD 2 billion capital securities. In October 2016, Rabobank also redeemed EUR 1.5 billion Trust Preferred Securities. Because a large part of these Trust Preferred Securities were already bought back previously, this redemption resulted in a drop of equity of only EUR 716 million. The additional tier 1 issue of EUR 1.25 billion in April 2016 and retention of the profit for the year (after deduction of payments on Rabobank Certificates and hybrid capital instruments) of EUR 0.7 billion had an upward impact on equity. Rabobank Group's equity consisted of 64% (62%) retained earnings and reserves, 15% (15%) Rabobank Certificates, 20% (22%) hybrid capital and subordinated capital instruments, and 1% (1%) other non-controlling interests.

Development of equity

<i>Amounts in millions of euros</i>	
Equity at the end of December 2015	41,197
Comprehensive income	1,870
Payments on certificates and hybrid capital	(1,278)
Issue of additional tier 1 capital	1,250
Call of Capital Securities	(1,753)
Redemption of Trust Preferred Securities	(716)
Other	(46)
Equity at the end of December 2016	40,524

Negative interest rate on ECB deposit facility

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

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

Provision for the SME interest rate derivatives recovery framework

In March 2016 the Dutch Minister of Finance Dijsselbloem appointed a committee of independent experts to write a recovery framework defining new rules for the way banks should conduct the reassessment of interest rate derivatives files for SME clients. Independent external evaluators will ensure the proper application of the recovery framework. Rabobank supports the Minister's actions.

On 7 July 2016 Rabobank announced its decision to join the Dutch Derivatives Committee recovery framework. The decision was informed by our wish to take responsibility and participate in finding an accurate solution to the derivatives recovery, and by our awareness of the extent of public support for the framework.

Rabobank's decision to take part in the recovery framework, announced on 7 July 2016, led us to make an additional provision of EUR 514 million in our 2016 figures. On 31 December 2016, the total provision for the SME interest rate derivatives recovery framework amounted to EUR 665 million. The main uncertainties in the calculations of the provision stem from assumptions regarding the scoping of clients. Furthermore, the calculations regarding technical recovery are based on a portfolio approach instead of individual contract calculations. More information on the interest rate derivatives recovery framework can be found in the chapter [Restoring trust](#).

Financial results of Rabobank

Results			
<i>in millions of euros</i>	2016	2015	Change
Net interest income	8,743	9,139	-4%
Net fee and commission income	1,918	1,892	1%
Other income	2,144	1,983	8%
Total income	12,805	13,014	-2%
Staff costs	4,521	4,786	-6%
Other administrative expenses	3,635	2,916	25%
Depreciation	438	443	-1%
Total operating expenses	8,594	8,145	6%
Gross result	4,211	4,869	-14%
Impairment losses on goodwill and investments in associates	700	623	12%
Loan impairment charges	310	1,033	-70%
Contribution to resolution fund and DGS	313	172	82%
Bank tax and levy	170	172	-1%
Operating profit before tax	2,718	2,869	-5%
Income tax	694	655	6%
Net profit	2,024	2,214	-9%
Loan impairment charges (in basis points)	7	24	-71%
Ratios			
Cost/income ratio exclusive regulatory levies	67.1%	62.6%	
Cost/income ratio inclusive regulatory levies	70.9%	65.2%	
Return on tier 1 capital	5.8%	6.5%	
ROIC	5.2%	6.0%	
Balance sheet (in EUR billion)	31-12-2016	31-12-2015	
Total assets	662.3	678.6	-2%
Private sector loan portfolio	424.6	433.9	-2%
Due to customers	347.7	345.9	1%
Number of internal employees (in FTEs)	40,029	45,658	-12%
Number of external employees (in FTEs)	5,538	6,355	-13%
Total number of employees (in FTEs)	45,567	52,013	-12%

Notes to the financial results of Rabobank

Net profit landed at EUR 2,024 million

Rabobank posted a net profit of EUR 2,024 (2,214) million in 2016. Impairments on Rabobank's stake in Achmea lowered net profit in 2016 by in aggregate EUR 700 million, whereas in 2015 an impairment on goodwill with regard to our retail subsidiary RNA in the United States reduced net profit by EUR 604 million. The net profit was pressured by higher administrative expenses due to the additional provision for adopting the SME interest rate derivatives recovery framework and due to higher restructuring costs. Furthermore, Rabobank's increased contribution to the resolution fund and ex-ante contribution to the DGS fund affected net profit by EUR 106 million. The loan impairment charges decreased to EUR 310 (1,033) million in 2016, positively influencing net profit.

Underlying performance improvement on track

The underlying performance improvement is on track to achieve the targets of the Strategic Framework 2016-2020, as illustrated by the development of the underlying operating profit before tax. The underlying operating profit before tax was EUR 4,090 million, an increase of EUR 498 million compared to last year. In calculating this underlying profit, a correction was made for the impairment on Rabobank's stake in Achmea, the book profit on the sale of Athlon, the provision for interest rate derivatives, restructuring costs and for the fair value items. The 2015 underlying profit was also corrected for the goodwill impairment for RNA.

Development of underlying operating profit before tax		
<i>Amounts in millions of euros</i>	<i>2016</i>	<i>2015</i>
Operating profit before tax	2,718	2,869
Impairment Rabobank's stake in Achmea and goodwill impairment RNA	700	604
Book profit on the sale of Athlon	(251)	-
Provision for interest rate derivatives	514	150
Restructuring costs	515	245
Hedge accounting and structured notes	(106)	(276)
Underlying operating profit before tax	4,090	3,592

Rabobank Group retained EUR 749 million of its net profit to bolster capital in 2016. Tax amounted to EUR 694 (655) million, with the effective tax rate amounting to 26% (23%).

Total income decreased by 2%

Net interest income down 4%

Net interest income amounted to EUR 8,743 (9,139) million. Lending at local Rabobanks and FGH Bank was down, which development is reflected in a lower contribution of net interest income. At Wholesale, Rural and Retail commercial interest margins stabilised. Among others negative interest rates, the

relatively flat interest rate curve and higher liquidity buffer costs led to lower net interest income from the Group Treasury activities. Net interest income at DLL was stable. The average net interest margin, calculated by dividing the average net interest income in 2016 by the average balance sheet total in the corresponding period, decreased from 1.33% to 1.29%.

Net fee and commission income up 1%

Net fee and commission income increased to EUR 1,918 (1,892) million in 2016. At the local Rabobanks, net fee and commission on payments increased. At WRR, net fee and commission income increased in line with the strategy of more fee-generating business and as result of growth of the loan portfolio. Also, at DLL, the growth of the loan portfolio resulted in higher net fee and commission income. However, the rise was tempered by the fall in net fee and commission income from the real estate segment, due to the demerger of Fondsenbeheer Nederland, which still contributed to net fee and commission income until June 2015.

Other income up 8%

In 2016, other income increased to EUR 2,144 (1,983) million, mainly as a result of the sale of Athlon. This sale resulted for DLL in a book profit of EUR 251 million. More information on this sale can be found in the chapter [Leasing](#). Furthermore, the sale of mortgages by the local Rabobanks contributed to the increase of other income. At WRR, Markets performed better compared to 2015 and also the release of foreign exchange reserves connected to the closing of Rabobank's office in Curaçao contributed to the increase in other income. The increase of the other income item was tempered by the lower (regular) results on our investment in Achmea and lower results on structured notes and hedge accounting.

Structured notes

The gross result on structured notes and hedge accounting decreased by EUR 170 million to EUR 106 (276) million. Structured notes are issued notes with optionality and/or other embedded derivatives which are mainly linked to interest rates, inflation and equity, or which have a callable feature and are issued in a wide range of currencies. The primary objective is to increase long-term funding under favourable conditions compared to the larger public bond issues. This is possible as structured notes are sold to investors and structured at their request ('reverse enquiry'). Furthermore, issuance of structured notes diversifies Rabobank's funding profile and allows for issuing with non-standard terms. To reduce the volatility in the statement of income, with the exception of own credit risk, fair value accounting is applied to these notes.

Up until 2015, movements in Rabobank's own credit spread were recorded in the statement of income. Credit spreads are a function of the perceived creditworthiness of Rabobank, but also of sector-specific events, home-country events and the broader macro-economic outlook, so they can be rather volatile.

In 2016, the European Commission endorsed the International Financial Reporting Standard 9 (IFRS 9). Under this accounting standard, value changes that result from changes in the credit spread must be excluded from the statement of income. Rabobank chose to adopt this specific part of IFRS 9 early, immediately after endorsement, since this change mitigates volatility in the statement of income. Up until June 2016, the net profit was pressured by EUR 63 million due to the change in fair value that is attributable to changes in own credit risk. As a result of the early adoption as of 1 January 2016 the full year negative effect of EUR 365 million was accounted for in other comprehensive income in equity.

In 2016, the first day gains on several newly issued notes were partly offset by a negative revaluation result due to interest rate volatility. The net result on structured notes decreased by EUR 125 million to EUR 150 (275) million. In 2015, driven by the Greek turmoil, a widening of the credit spreads fuelled the result on structured notes.

Hedge accounting

Hedge accounting can be applied under IFRS in order to mitigate volatility in the consolidated statement of income. This volatility is caused by valuation and classification differences between available-for-sale assets measured at fair value, loans granted and issued debt measured at amortised cost on the one hand, and related hedging derivatives measured at fair value through profit and loss on the other. IFRS does not allow the designation of hedge accounting relationships for all types of economic hedges. As a result of the imperfections and restrictions in applying hedge accounting, even when the risk is economically hedged, its application cannot completely prevent volatility in the consolidated statement of income.

Operating expenses increased 6%

Staff costs down 6%

In 2016, the total number of employees (including external hires) at Rabobank decreased by 6,446 FTEs to 45,567 (52,013) FTEs mainly as a result of the large restructuring programme Performance Now in the Netherlands. The sale of Athlon and staff reductions at WRR in Ireland, Australia, New Zealand and Chile also contributed to the decrease. The largest reduction in

staff was at the local Rabobanks. Besides the staff reduction, the sobering of fringe benefits helped to bring staff costs down to EUR 4,521 (4,786) million.

Other administrative expenses up 25%

Other administrative expenses increased to EUR 3,635 (2,916) million in 2016, as an additional provision of EUR 514 (150) million was made after Rabobank adopted the SME interest rate derivatives recovery framework (for more information, see [here](#)). Total restructuring costs amounted to EUR 515 (183) million in 2016. As of 31 December 2016, the restructuring provision in the balance sheet amounted to EUR 461 (354) million. This rise in restructuring costs can be attributed mostly to redundancies at Rabobank and, to a lesser extent, FGH Bank, DLL and ACC Loan Management. The digitalisation of services resulted in a decline in the number of employees and branches. The revaluation of property in own use, due to a lower occupancy rate of the local branch premises, also contributed to the increase in other administrative expenses. The increase in the other administrative expenses was partly compensated by a provision release for legal claims at WRR.

Depreciation down 1%

As a result of lower depreciation on intangible assets, depreciation fell to EUR 438 (443) million.

Impairment losses on goodwill and investments in associates

In 2016, the operating profit before tax was pressured by non-cash impairments of Rabobank's stake in Achmea of in aggregate EUR 700 million. The outlook for the future profitability of Achmea deteriorated during 2016, taking into account recent developments in the health insurance market and the financial results over the first half year of 2016. These elements, combined with the deteriorating business environment of Dutch insurers over the last years, gave triggers of potential impairments for the investment in Achmea. The test to establish whether these potential impairments had occurred resulted in downward adjustments of the book value of the investment in Achmea.

In 2015, an impairment on goodwill lowered the operating profit before tax by EUR 623 million. Of this sum, EUR 604 was associated with RNA in the United States.

Loan impairment charges at only 7 basis points

With EUR 310 (1,033) million, loan impairment charges for 2016 were significantly lower than in 2015, with improvements in nearly all business segments. Due to the economic recovery

in the Netherlands and the economic growth worldwide, all business segments of the bank are performing well. This resulted in significant releases on the loan impairment allowance. Other factors contributing to this positive development include foreclosures at better-than-anticipated collateral values as well as adequate existing allowances. Relative to the average private sector loan portfolio, loan impairment charges amounted to 7 (24) basis points; this is exceptionally low and substantially below the long-term average (period 2006-2015) of 36 basis points.

On 31 December 2016, the value of the non-performing loans was EUR 18,530 (19,503) million. If the loan impairment allowance of EUR 7,542 (8,478) million is related to the non-performing loans, it represents a coverage ratio of 40.7% (43.5%). On 31 December 2016, the non-performing loans as a percentage of the private loan portfolio stood at 4.4% (4.6%). The decrease in loan impairment allowance is the result of substantial write-offs, for an amount of somewhat more than EUR 1.5 (2.3) billion. More information on this topic can be found in the Pillar 3 report.

Outlook

Economic growth within the Netherlands is expected to continue in 2017. Consumption will rise thanks to Dutch households' increasing disposable incomes. House prices will rise even further in 2017 as mortgage rates are likely to stay low and because of the continued shortage in supply. Just like in 2016, low interest rates on savings will stimulate extra mortgage repayments and further improving consumer confidence is expected to keep the number of the housing transactions high.

The current geopolitical situation will be a risk factor to consider in 2017, as uncertainties regarding the global economy have risen. In addition, possible political and economic uncertainties due to Brexit and the elections in several EU countries should be taken into account. Despite these risks, the worldwide economy is expected to grow and slightly accelerate.

As in 2016, the low interest rate environment will require extra attention in 2017. For a bank in general, a low interest rate environment poses challenges to profitability. Liabilities with zero or very low interest rates (such as current account balances) and equity are less profitable in a low interest rate environment. In 2016, interest rates became increasingly negative, both at the short and the longer end of the curve. In addition, a low interest rate environment is often accompanied by a flattening of the curve, causing banks to be less profitable on the transformation of short-term liabilities to longer term assets.

Rabobank is fully committed to the continued pursuit of its intended restructuring measures, which inevitably will lead to a further reduction of the number of employees in 2017 and a decrease in operating expenses. Attuning margins to the risk profile of loans and credits granted will contribute to higher income. Loan impairment charges are expected to remain below the long-term average low level; however, in the unlikely event of an economic downturn in the Netherlands loan impairment charges could substantially increase. Higher capital requirements are leading to a lower return on equity in the banking sector. Long-term measures are being taken to manage operating costs and improve net profit. Increasing efficiency and effectiveness will be important topics for further improving performance. Regulatory levies are expected remain at more or less on the same level as in 2016.

Our output and impact

Improving performance

Domestic retail banking

Further economic recovery resulting in strong underlying profit

The net profit of the domestic retail banking division decreased from EUR 1,321 million in 2015 to EUR 1,127 million in 2016. This decrease can be attributed to higher operating expenses, especially due to a substantial increase of restructuring costs (EUR 325 million) and an additional provision following Rabobank's adoption of the SME interest rate derivatives recovery framework of EUR 514 million.

This decrease was partly compensated by the low level of loan impairment charges. Corrected for the additional provision following Rabobank's adoption of the SME interest rate derivatives framework and for the restructuring costs, the domestic retail banking division's underlying profit increased by EUR 268 million to EUR 2,366 (2,098) million compared to 2015.

In 2016 positive economic sentiment persisted, resulting in growth of the Dutch economy by approximately 2.0% with an increase in both exports and domestic household expenditures and dropping unemployment rates. However, businesses were still reluctant to invest in expansion. Rabobank's domestic loan portfolio shrank 3% to EUR 275.8 billion. The portfolio decline was due to the sale of parts of the mortgage portfolio and relatively high levels of extra repayments on customers' existing mortgages. The amounts due to customers rose by EUR 8.1 billion to EUR 223.3 billion. Economic developments and low mortgage interest rates led to rising prices and strong sales in the Dutch housing market in 2016. The market share of Rabobank and Obvion in the Dutch residential mortgage market rose to 20.5%. The market share in lending to the trade, industry and services (TIS) sectors fell to 41.3%, while market share in private savings markets declined to 33.8% and the market share in the food & agri market amounted to 84.2%.

Staff costs fell significantly from EUR 2,134 million in 2015 to EUR 1,798 million in 2016. The reduction of 6,076 FTEs (internal) is largely the result of the Performance Now programme, aimed at increasing efficiency and client focus at the local Rabobanks. Part of this programme, the 'Digital Bank', was introduced to accelerate the digitalisation of its services (more about digitalising services [here](#)).

Rabobank also rolled out the Banking for the Netherlands strategy (read more information [here](#)), detailing the organisation's contribution to prosperity and well-being in the Netherlands.

In line with economic developments, loan impairment charges decreased to EUR 25 million.

Allowances previously taken for defaulted loans proved to be sufficient and newly defaulted loans were limited. The loan impairment charges represent 1 basis point of average lending, which is far below the long-term average of 23 basis points.

Domestic retail banking

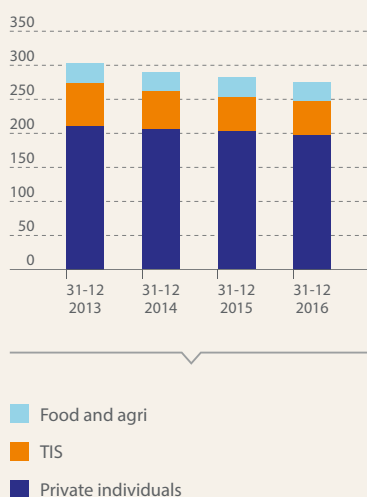
In the Netherlands, Rabobank is a leading player in providing loans in the residential mortgage market, as well as in the savings, payments, investment and insurance markets. It is also an important financial services provider for the SME segment, the F&A industry, and the corporate segment. At the end of 2016, the local Rabobanks had 475 (506) branches and 2,141 (2,206) ATMs. They offer a comprehensive range of financial services to approximately 6.5 (6.5) million private customers and approximately 800,000 (800,000) business clients in the Netherlands. The domestic retail banking business employs 17,455 (24,341) employees (in FTEs in total - including mortgage lender Obvion as a Rabobank subsidiary), or 16,100 internal and 1,355 external employees. The subsidiary Obvion employs 559 (480) FTEs, or 402 internal and 157 external employees and has a loan portfolio of EUR 28.0 (29.5) billion.

Loan portfolio shrank by 3%

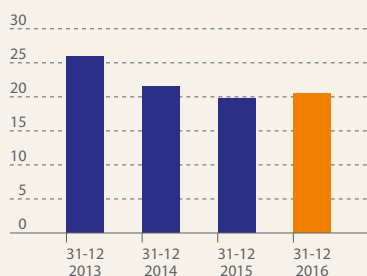
In March 2016, Rabobank sold a share of its mortgage loan portfolio worth EUR 1 billion to insurance company VIVAT Verzekeringen (read more about this sale [here](#)). In July 2016, Rabobank sold another share worth EUR 500 million to Delta Lloyd (read more about this sale [here](#)). Also in July 2016, Obvion sold a share of its mortgage loan portfolio worth EUR 340 million to BinckBank and securitised EUR 1 billion of its mortgage portfolio, all of which contributed to the decrease in the mortgage loan portfolio. In 2016, customers' extra mortgage repayments - all payments on top of the mandatory repayments, including repayment of the full mortgage - totalled approximately EUR 15.0 (12.9) billion at local Rabobanks. On 31 December 2016, the total volume of Rabobank's residential mortgage loan portfolio was EUR 195.9 (201.5) billion. The loan portfolio of Obvion of EUR 28.0 (29.5) billion is part of the residential mortgage loan portfolio.

The volume of the domestic retail banking loan portfolio at year-end 2015 was restated and increased by EUR 2.6 billion as a result of a change in accounting principles related to the netting of cash pools. The total domestic retail banking loan portfolio fell by EUR 8.7 billion to EUR 275.8 (284.5) billion. When excluded for the change in accounting principles, the loan portfolio fell by EUR 6.1 billion. Lending to private individuals (consisting almost entirely of residential mortgage loans) fell by EUR 5.8 billion to EUR 196.9 (202.7) billion. Loans to the TIS sectors remained EUR 51.1 (51.1) billion, and loans to the food & agri sector went down 1% to EUR 27.8 (28.2) billion.

**Loan portfolio by sector
in billions of euros**



**Share of mortgage market
in %**



Residential mortgage loans

The housing market

The recovery of the Dutch housing market continued in 2016, as both the House Price Index and the number of residential property transactions rose compared to 2015. The positive development is mainly the result of high consumer confidence, historically low interest rates and economic recovery. Mortgage interest rates are expected to remain low for the time being. During the past year, most home buyers chose fixed-rate mortgages with longer terms. Although negative equity and tightening lending criteria have tempered market growth, more and more underwater mortgages are moving into positive equity. Read [more information](#) on the RaboResearch website.

Market share

Rabobank Group's share of the Dutch mortgage market amounted to 20.5% (19.7%) of new mortgage production in 2016 (source: Dutch Land Registry Office (Kadaster)). The market share of the local Rabobanks rose to 17.3% (15.5%), whereas the market share of Obvion fell to 3.2% (4.2%). The increase of the market share of the local Rabobanks can be partly explained by the positive results of the 'Mortgage within a week' campaign which was launched during 2016. More information about this campaign can be found [here](#).

Mortgage loan portfolio

The quality of Rabobank's residential mortgage loan portfolio is seeing further improvement as a result of the recovery of the Dutch economy and the growing confidence in the housing market. In 2016, financing through the National Mortgage Guarantee (Nationale Hypotheek Garantie, NHG) remained relatively stable at 21% of the mortgage loan portfolio. Customers with 100% interest-only loans declined to 23.1% (23.9%) of the portfolio. The weighted average indexed loan-to-value (LTV) of the mortgage loan portfolio improved to 69% (73%), mainly due to an increase in the average price of existing private homes. Approximately 8% (13%) of the mortgage portfolio, excluding NHG financing, has a LTV in excess of 100%.

Loan impairment charges and write-offs

Loan impairment charges in connection with residential mortgage loans amounted to EUR 9 million (0.5 basis points) in 2016, which was considerably lower than in 2015. For the most part, this was due to non-recurring adjustments¹ in 2015, which had an upward effect on the loan impairment charges. Improved asset quality also contributed to this favourable development, as shown by the positive development of the more-than-90-days arrears ratio.

Residential mortgage loans		
Amounts in millions of euros	31-12-2016	31-12-2015
Mortgage portfolio	195,909	201,498
Weighted-average LTV	69%	73%
Non-performing loans (amount)	1,526	1,837
Non-performing loans (in % of total mortgage loan portfolio)	0.78%	0.91%
More than 90 days arrears	0.48%	0.57%
Share NHG portfolio	20.6%	20.9%
Share customers with fully interest-only mortgage	23.1%	23.9%
Loan impairment allowances	227	319
Coverage ratio based on non-performing loans	15%	17%
Loan impairment charges	9	286
Loan impairment charges (in basis points, including non-recurring effects)	0.5	14.1
Loan impairment charges (in basis points, excluding non-recurring effects)	2.7	7.5
Write-offs	119	156

Interest rate averaging for mortgage customers

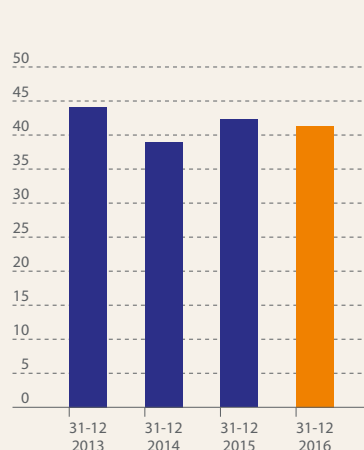
As of 1 July 2016, customers wishing to profit from the lower mortgage rate can apply for interest rate averaging. To that end, the current interest rate and the remaining term of the customer's current interest rate contract are averaged with the prevailing fixed-interest rate and the tenor of the fixing they select. This service is intended mainly for customers who do not have sufficient funds to pay penalty interest on the refinancing of their loan in a single payment. Read more about interest rate averaging on [Rabobank.nl](#).

Trade, industry and services

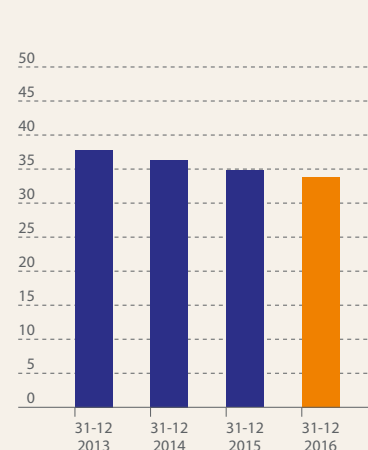
Rabobank Group's market share of lending to the TIS sectors amounted to 41.3% (42.3%) in 2016 (measured by Rabobank's own surveys). Domestic retail banking loans to these sectors remained stable at EUR 51.1 (51.1) billion in 2016. The reduction of the commercial real estate loan portfolio influenced the

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

Market share TIS in %



Market share savings in %



development of the portfolio. See the Pillar 3 section for a further explanation of the developments in this portfolio.

Food & agri

Domestic retail banking loans to the food & agri sector amounted to EUR 27.8 (28.2) billion at the end of 2016. This sector accounts for 10% (10%) of the total loan portfolio of the domestic retail banking business. Rabobank has had a stable market share in the Dutch food & agri sector of around 85% for decades and is indisputably the most important financier in this sector. Rabobank has acquired this position as a result of its agricultural roots and years of accumulated sector knowledge.

Amounts due to customers increased by EUR 8.1 billion

The private savings market in the Netherlands grew 1% to EUR 339.8 (336.2) billion in 2016. Rabobank Group's market share was 33.8% (34.8%) (source: Statistics Netherlands (Centraal Bureau voor de Statistiek)), of which local Rabobanks accounted for 33.0% (34.0%) and savings bank Roparco for 0.8% (0.8%). The amounts due to customers at year-end 2015 was restated and as a result increased by EUR 2.8 billion as a result of a change in accounting principles related to the netting of cash pools. Amounts due to customers – mainly from private savings – rose 4% to EUR 223.3 (215.2) billion. When excluded for the change in accounting principles, the amounts due to customers increased by EUR 10.9 billion. Private savings held at the local Rabobanks were flat. Private savings for domestic retail banking as a whole decreased EUR 0.8 billion to EUR 116.2 (117.0) billion partly due to the increase of additional mortgage repayments. Other amounts due to customers rose due to an increase in current accounts held by business clients.

Insurance

Rabobank offers retail and business customers a complete range of advisory services and product solutions, including insurance. For insurance products, Achmea (via its Interpolis brand) is Rabobank's most important strategic partner and supplier. Interpolis is Rabobank's preferred supplier for the retail market and offers a wide range of non-life, healthcare and life insurance policies for both private clients and businesses. In 2016, both the number of insurance customers and the number of insurance contracts fell by 3% and the total insurance income decreased by 2% to EUR 259 (265) million.

This can be partly attributed to a large decline in third party policies which is in line with the policy of Rabobank.

Type of insurance product

Number of policies	31-12-2016	31-12-2015
Alles in één Polis	1,218,000	1,245,000
ZekerVanJeZaak en Bedrijven Compact Polis	181,000	179,000
ZorgActief	218,000	217,000

Financial results of domestic retail banking

Results

Amounts in millions of euros	2016	2015	Change
Net interest income	5,467	5,661	-3%
Net fee and commission income	1,334	1,321	1%
Other income	58	18	222%
Total income	6,859	7,000	-2%
Staff costs	1,798	2,134	-16%
Other administrative expenses	3,113	2,470	26%
Depreciation	117	116	1%
Total operating expenses	5,028	4,720	7%
Gross result	1,831	2,280	-20%
Loan impairment charges	25	343	-93%
Contribution to resolution fund and DGS	190	89	113%
Bank tax and levy	89	82	9%
Operating profit before tax	1,527	1,766	-14%
Income tax	400	445	-10%
Net profit	1,127	1,321	-15%

Loan impairment charges (in basis points)	1	12	-92%
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Ratios

Cost/income ratio exclusive regulatory levies	73.3%	67.4%
Cost/income ratio inclusive regulatory levies	77.4%	69.9%

Balance sheet (in EUR billion)	31-12-2016	31-12-2015	
Total assets	315.5	325.2	-3%
Private sector loan portfolio	275.8	284.5	-3%
Due to customers	223.3	215.2	4%

Number of internal employees (in FTEs)	16,100	22,176	-27%
Number of external employees (in FTEs)	1,355	2,165	-37%
Total number of employees (in FTEs)	17,455	24,341	-28%

Notes to financial results

Income decreased 2%

Rabobank's domestic retail banking business total income decreased to EUR 6,859 (7,000) million in 2016. Margins on new lending improved, whereas margins on payment accounts were lower. At the same time, we observed increased volumes of early interest rate revisions in our mortgage book. These early revisions include interest rate averaging, which was offered to our clients as from the second half of the year. Combined with the decrease in lending volumes net interest income was pressured and decreased to EUR 5,467 (5,661) million. The income received from prepayment penalties, which is recognised as part of interest income, was used for the recouping of swaps. By recouping a swap, the historical interest coupon paid is lowered which ultimately will bring down the future total interest rate risk costs. Higher commission on payments contributed to an increase in net fee and commission income to EUR 1,334 (1,321) million. The sale of mortgages contributed to an increase of other income to EUR 58 (18) million.

Operating expenses up 7%

Total operating expenses for domestic retail banking increased to EUR 5,028 (4,720) million. Excluding restructuring expenses (EUR 325 (245) million) and the additional provision following Rabobank's adoption of the SME interest rate derivatives recovery framework (EUR 514 (150) million), operating expenses amounted to EUR 4,189 (4,325) million. Staff costs fell to EUR 1,798 (2,134) million as the virtualisation and centralisation of services impacted the size of the workforce. The number of internal and external employees in the segment decreased to 17,455 (24,341) FTEs in 2016. Part of this decrease is the result of the movement of employees from local Rabobanks to the central organisation. Other administrative expenses rose to EUR 3,113 (2,470) million, mainly due to the additional provision of EUR 514 million in the first half of 2016 following Rabobank's adoption of the SME interest rate derivatives recovery framework. Furthermore, the restructuring costs also increased due to the high level of redundancies compared to 2015. As a result of higher depreciation on intangible fixed assets, depreciation increased to EUR 117 (116) million.

Loan impairment charges remained low

In the Netherlands, the further recovery of the economy was clearly reflected in the limited number of newly defaulted loans and high releases on the loan impairment allowance. Also the allowances for loans for which a provision had already been taken proved to be sufficient. Low loan impairment charges decreased to only EUR 25 (343) million in 2016. This translates into 1 (12) basis points of the average loan portfolio – far below the long-term average of 23 basis points. The low impairment charges are noticeable in almost all sectors, except for sea and coastal shipping, for which structural problems continue. Although loan impairment charges in glasshouse horticulture were negative for the second consecutive year due to releases, the sector is still facing fragile market conditions. The dairy sector also saw low loan impairment charges, but was confronted with liquidity shortages and uncertainties regarding the phosphate policy, which will result in a significant decline in livestock in the coming years.

Outlook

The positive economic developments in recent years will probably continue in 2017. Despite uncertain factors in global politics, the Dutch economy is, according to RaboResearch, expected to grow 1.8% in 2017, after growth of 2.1% in 2016. We forecast expenditures within the Netherlands to increase and unemployment rates are expected to go down even further. High consumer confidence combined with an increase in disposable household income will stimulate consumption in 2017. Loan impairment charges are expected to remain relatively low. In this respect, the international situation is a cause for concern: there are currently many downward risks to global trade growth that could negatively affect Dutch export growth in 2017 and beyond.

In 2017, Rabobank will continue to focus on its customers, optimisation of the balance sheet and a further performance improvement. Our forecast is that mortgage interest rates will remain low, but will not decline further in 2017. As a result of the historically low interest rates on savings, extra mortgages repayments are expected to remain relatively high in 2017, leading to a moderate reduction of the retail banking business loan portfolio. The decrease of total assets also reflects our efforts to make the balance sheet more flexible and reduce its use.

Our output and impact

Improving performance

Wholesale banking and international rural and retail banking

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

Net profit improved due to continued higher gross results and lower impairments

In 2016, the wholesale banking and international rural and retail banking segment realised a net profit of EUR 644 million including Group Treasury, compared to a net loss of EUR 333 million in 2015. Higher income, lower costs and lower impairments were the main drivers for this strong performance. In 2015, an impairment on goodwill lowered net profit by EUR 612 million. Corrected for these impairments, net profit still improved in 2016.

WRR income showed an increase compared to last year. Lower interest results from Group Treasury resulted in lower net interest income. This decrease was partly compensated by an increase in other income of EUR 444 million, mainly due to higher results at Markets (the competence center for financial markets products for the Rabobank Group) and as result of the release of fx reserves connected to the closing of Rabobank's office in Curaçao (EUR 55 million). Furthermore, the increase of net result can be attributed to a significant drop in loan impairment charges in almost all regions.

The loan portfolio of wholesale banking and international rural and retail banking expanded to EUR 105.2 billion in 2016. The volume of lending to the F&A sector grew, in line with the Banking for Food strategy, to EUR 63.9 billion. The amounts due to customers decreased by 5% to EUR 123.7 billion. Global economic recovery in 2016, contributed to a decline in the loan impairment charges from EUR 526 million to EUR 255 million. This represents 26 basis point of the average loan portfolio and is well below the long-term average of 59 basis points.

Projects regarding digitalisation and standardisation of services showed significant progress; all aimed to further reduce complexity and to increase efficiency. Restructuring measures were carried out for the rural locations in Australia, New Zealand and Chile. Combined with the successful outsourcing of ACC Loan Management in Ireland, the closing of the Curaçao branch and the centralisation of IT services this resulted in a reduction of 1,771 FTEs in 2016.

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

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

The wholesale banking division serves the largest domestic and international companies (corporates, financial institutions, rural,

traders and private equity). All sectors in the Netherlands are being serviced, contributing to the 'Banking for the Netherlands' strategy, while outside the Netherlands we focus on the Food & Agri and trade-related sectors.

Rural banking is focused on offering financial solutions for the specific needs of leading farmers and their communities in a selected number of key food & agribusiness (F&A) countries.

Internationally, Rabobank's services food & agri clients, ranging from growers to the industrial sector, through its global network of branches. The combination of in-depth knowledge and a worldwide network positions us as the leading food & agri bank in the world. We service the entire food value chain, with dedicated specialists per sector. We advise our clients and prospects in these sectors by offering them finance, knowledge and our network. Rabobank is active in the main food-producing countries, such as the United States, Australia, New Zealand, Brazil and Chile and main food consumption countries. Our vision on global food security and the role of Rabobank as described in our Banking for Food strategy can be found [here](#).

At Rabobank Food & Agribusiness Research and Advisory (FAR) we have a global team of analysts who continuously gather knowledge about major F&A sectors, issues and trends. This knowledge is used within the bank and shared with our clients and stakeholders.

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

Besides the results of Wholesale, Rural & Retail, the results of Group Treasury are presented within the segment wholesale banking and international rural and retail banking. Group Treasury performs a centralised treasury function and is responsible for group-wide prudential management of liquidity risks, attracting short and long-term funding, capital issuance and collateral management.

WRR loan portfolio grew by 1%

In 2016, WRR's total loan portfolio increased by 1% to EUR 105.2 (104.0) billion. The volume of the WRR loan portfolio at year-end 2015 was restated upwards by EUR 4.8 billion as a result of a change in accounting principles related to the netting of cash pools. When excluded for this accounting effect the loan portfolio increased by EUR 6.0 billion. Total loans to the TIS sectors rose to EUR 38.9 (35.7) billion. In line with our Banking for Food strategy, the volume of lending provided to the food & agri sector rose to EUR 63.9 (60.0) billion. At the end of 2016, lending to the food & agri sector accounted for 61% (61%) of the total loan portfolio of this business segment. Lending to private individuals landed at EUR 2.4 (3.5) billion.

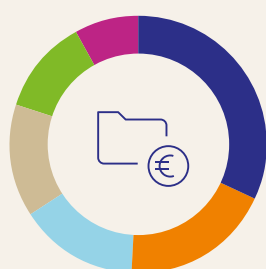
Dutch and international wholesale

Lending to the largest Dutch companies increased in 2016 by 1% to EUR 14.3 (14.2) billion, in line with the Banking for the Netherlands strategy. EUR 51.3 (47.0) billion of WRR's loan portfolio was granted to Wholesale clients outside of the Netherlands in line with the Banking for Food strategy.

International rural and retail banking

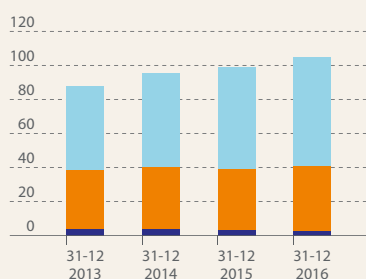
The loan portfolio to rural and retail clients amounted to EUR 39.6 (37.6) billion in 2016. In the main markets for rural banking, the loan portfolio totalled EUR 10.3 (9.8) billion in Australia, EUR 6.5 (6.1) billion in New Zealand, EUR 7.5 (6.9) billion in the United States, EUR 2.9 (2.5) billion in Brazil and EUR 1.0 (1.2) billion in Chile on 31 December 2016.

**Loan portfolio by region
at year-end 2016**



North America	32%
Australia and New Zealand	19%
Europe	15%
Netherlands	14%
Latin America	12%
Asia	8%

**Loan portfolio by sector
in billions of euros**



Food and agri
TIS
Private individuals

Rabobank operates international retail banking activities through subsidiaries in three countries: in the United States, Rabobank is active through Rabobank N.A. (RNA); in Ireland, through ACC Loan Management, and in Indonesia, through Rabobank Indonesia. RNA's portfolio increased to EUR 9.6 (9.2) billion. ACC Loan Management is being phased out and at year-end 2016, their loan portfolio amounted to EUR 1.3 (1.4) billion. As of 1 March 2016, Capita Asset Services took over the day-to-day management of all ACC Loan Management customer accounts and loan facilities. This was accompanied by a transfer of personnel from ACC Loan Management to Capita Asset Services.

Amounts due to customers decreased by 5%

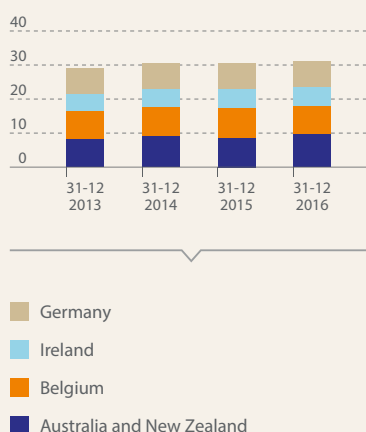
Amounts due to customers from WRR decreased to EUR 123.7 (129.8) billion at year-end 2016. It should be noted that amounts due to customers at year-end 2015 was restated from EUR 124.4 billion to EUR 129.8 billion as a result of a change in accounting principles related to the netting of cash pools. When excluding for this accounting effect amounts due to customers remained almost stable compared to 2015. Amounts due to customers include private savings from online bank RaboDirect as well as other amounts due to customers.

RaboDirect is Rabobank's online bank active in Belgium, Germany, Ireland, Australia and New Zealand. Private savings entrusted by customers to RaboDirect are used for funding the international rural and retail banking business and other divisions of Rabobank Group. The savings balances of RaboDirect, which are part of the total amount due to customers, showed a modest increase to EUR 31.1 (30.5) billion in 2016. The savings from RaboDirect activities represented 22% (22%) of the private savings held at Rabobank Group level. The number of customers of these internet savings banks grew to approximately 923,000 (900,000).

Financial results of wholesale banking and international rural and retail banking

Results			
<i>Amounts in millions of euros</i>	<i>2016</i>	<i>2015</i>	<i>Change</i>
Net interest income	1,974	2,270	-13%
Net fee and commission income	538	513	5%
Other income	1,097	653	68%
Total income	3,609	3,436	5%
Staff costs	1,137	1,123	1%
Other administrative expenses	1,023	1,101	-7%
Depreciation	94	107	-12%
Total operating expenses	2,254	2,331	-3%
Gross result	1,355	1,105	23%
Impairment losses on goodwill and investments in associates	0	612	-100%
Loan impairment charges	255	526	-52%
Contribution to resolution fund and DGS	78	66	18%
Bank tax and levy	73	73	0%
Operating profit before tax	949	(172)	652%
Income tax	305	161	89%
Net profit	644	(333)	293%
Ratios			
Cost/income ratio exclusive regulatory levies	62.5%	67.8%	
Cost/income ratio inclusive regulatory levies	66.6%	71.9%	
Balance sheet (in EUR billion)			
	<i>31-12-2016</i>	<i>31-12-2015</i>	
Total assets	489.5	494.7	-1%
Private sector loan portfolio	105.2	104.0	1%
Due to customers	123.7	129.8	-5%
Employees			
Number of internal employees (in FTEs)	7,460	8,785	-15%
Number of external employees (in FTEs)	348	794	-56%
Total number of employees (in FTEs)	7,808	9,579	-18%

Distribution of private savings of Rabo Direct in billions of euros



Notes to the financial results

Total income increased by 5%

In 2016 total income of WRR and Group Treasury increased to EUR 3,609 (3,436) million. Strong increase in income is mainly seen in the North America and Europe regions. At WRR commercial interest margins stabilised. Among others negative interest rates, the relatively flat interest rate curve and higher liquidity buffer costs led to lower net interest income from the Group Treasury activities. As a result net interest income decreased to EUR 1,974 (2,270) million. WRR's loan portfolio grew, while it also focused, in line with their strategy, on more fee-generating business. As a result net fee and commission income increased to EUR 538 (513) million. Markets performed better compared to 2015 and also the release of foreign exchange reserves connected to the closing of Rabobank's office in Curaçao contributed to the increase in other income to EUR 1,097 (653) million.

Operating expenses fell by 3%

In 2016 operating expenses at WRR fell to EUR 2,254 (2,331) million. Despite the increase in the value of the US dollar, staff costs remained more or less stable at EUR 1,137 (1,123) million due to cost-saving initiatives related to our performance improvement programme, Performance Now. Examples of such initiatives include efforts in further standardisation of the organisation and simplification of the IT landscape. Other administrative expenses were down to EUR 1,023 (1,101) million mainly due to the release of a provision for legal issues. As a result of lower depreciation on software developed in-house, depreciation was down to EUR 94 (107) million.

Loan impairment charges down by 52%

Loan impairment charges of Wholesale, Rural & Retail more than halved in 2016, falling to EUR 255 (526) million. For Wholesale all regions, with exception of Asia, exhibit significant reductions in loan impairment charges over 2016 compared to 2015. Specifically for the Netherlands loan impairment charges decreased below the long-term average, due to improved economic conditions. For Rural & Retail the decrease can mainly be attributed to the exceptionally low loan impairment charges of ACC Loan Management. Total loan impairment charges were equal to 26 (53) basis points of the average loan portfolio, well below the long-term average of 59 basis points.

Outlook

In 2017 the Dutch economy is expected to grow and the global economy is forecast to grow by 3.1%. In the United States, growth strengthens somewhat, while the eurozone continues to grow robustly. This will have a positive effect on the Netherlands, as more than two-thirds of the added value of Dutch exports is realised in Europe and North America. Nonetheless, international uncertainties have grown as a result of the United States change of course in foreign and trade policy and still many unknowns around the planned exit of the United Kingdom from the EU. Although also difficult to gauge the potential impact of growing anti-EU sentiment within several EU-Member States and elections in countries like France, Germany and the Netherlands contribute to an uncertain environment. The Chinese economy seems to be stabilising, but several challenges remain.

Wholesale, Rural & Retail will continue to focus on consolidating Rabobank's position as leading bank for Dutch Wholesale clients and also on consolidating our leading position as a food & agri bank. Total income from the wholesale, rural and retail businesses is forecast to increase slightly in 2017 due to higher fee and commission income. The cost-income ratio is expected to further improve. The loan portfolio will be further aligned with the Banking for Food strategy, and portfolio growth is anticipated for rural banking.

Our output and impact

Improving performance

Leasing

Continued strong results and growth in activities

Within Rabobank, DLL is the specialist in the field of leasing. After announcing in July 2016 its intention to sell its mobility solutions entity, Athlon Car Lease International B.V. (including all subsidiaries), DLL confirmed the sale to Daimler Financial Services, a division of Daimler AG, on 1 December 2016. DLL will continue to fulfil an important role in Rabobank's product portfolio, focusing resources, investments and innovation on the core business of vendor finance and creating greater synergies with parent company Rabobank.

DLL's net interest income was stable in 2016, and net fee and commission income grew in line with the growth of activities. Other income was positively influenced by the sale of Athlon. The sale of Athlon contributed to a decrease in FTEs of 20%. Staff costs increased slightly.

DLL and its clients benefited from worldwide economic growth in 2016. Although loan impairment charges were higher than in 2015, they remained at a low level. At EUR 101 million or 30 basis points of the average portfolio, loan impairment charges continued to trend significantly below the long-term average of 66 basis points.

DLL can look back on a very satisfying financial performance in 2016. The leasing segment booked a net profit of EUR 740 million, an increase of EUR 242 million compared to 2015. Due to the sale of Athlon, car lease has been excluded from the lease portfolio, which fell by 2% to EUR 34.9 billion. The common equity tier 1 ratio of Rabobank improved by around 40 basis points as a result of the sale. The share of F&A in the lease portfolio amounted to 34%.

DLL

DLL, active in more than 30 countries, is a global provider of asset-based financial solutions in the Agriculture, Food, Healthcare, Clean technology, Transportation, Construction, Industrial and Office technology industries. Next to vendor finance as its core business, DLL also provides leasing, factoring and consumer finance in the Netherlands. DLL is committed to delivering integrated financial solutions that support the complete asset life cycle. Its mobility solutions entity, Athlon (active in 11 European countries), was sold to Daimler Financial Services on 1 December 2016. More information about this transaction can be found [here](#). As of 31 December 2016, DLL employed 4,675 FTEs (including external staff).

As implied by their brand promise (See What Counts) DLL believes in establishing genuine customer partnerships built on personal trust, not just on numbers. By combining customer focus with deep industry knowledge, DLL looks beyond quick fixes to deliver sustainable solutions. DLL seeks to become an integral part of the overall business strategy and financial plans of their partners. It is about managing a multi-year relationship and developing a strategy that will help partners grow their market share and profitability over the long term efficiently and sustainably.

Each year, DLL conducts a survey of its global vendor finance partners for our Food & Agriculture, Healthcare, Clean technology, Office technology and Construction, Transportation and Industrial business lines. With over 3,000 partners in more than 30 countries responding, their Overall Satisfaction levels remained quite strong, as evidenced by 84% of the respondents reporting that they were 'Satisfied' or 'Very Satisfied' with the service and support they receive from DLL. Moreover, customer loyalty levels (Net Promoter Score) and continued to perform well above industry benchmarks.

In November 2016, DLL surpassed its competition and won the Leasing Life Vendor Finance Provider Award (for more info please see [here](#)). This award can be seen as a validation of DLL's business strategy and focus on customer satisfaction and business development.

Worldwide activities

The core of DLL's international activities is vendor finance, which supports manufacturers and distributors in selling more products and services to their end-customers by means of leasing and finance solutions. DLL's vendor finance business model is built on more than 45 years of experience and focuses on establishing and maintaining long-term alliances in several specialist industries. DLL offers financing options that support customers' sales objectives, processes and distribution channels, and enrich their value proposition in mature markets. Additionally, they help customers get a foothold and grow market share in emerging markets. DLL has continually optimised the model to adapt to changes in the accounting and regulatory environment. The ability to deliver such global solutions has helped DLL successfully establish new partnerships with many leading manufacturers.

The largest market for vendor finance within DLL is Food & Agriculture, followed by Construction, Transportation, Industrial, and Office technology. More information about the industry expertise of DLL can be found [here](#).

While vendor finance is its core business, DLL provides leasing, factoring and consumer finance in the Netherlands. Consumer finance goes through Rabobank brands and Freo, an online provider of consumer credit, which stands for diligent, beneficial and fair lending. In 2016, Freo received five stars from MoneyView, the maximum product appreciation, for its 'Doorlopend Krediet' (revolving credit) product in the categories Price and Product. The total consumer loan portfolio on 31 December 2016 totalled EUR 1.5 (1.4) billion.

In the Netherlands consumer finance (including Freo), factoring and leasing via Rabobank, are expected to be transferred to Rabobank in 2017. We intend to expand these activities, and in 2016 we spent time preparing for this transfer.

As facilitating and financing the frontrunners in sustainability is a KPI within Rabobank's sustainability programme, SST, DLL offers frontrunners specific knowledge and products to develop their circular economy ambitions.

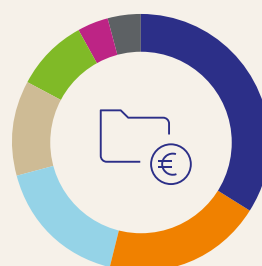
Clean technology: Financing energy efficiency and alternative energy use

In 2016, the volume of new business within the Clean technology group unit increased by 9.5% to EUR 303 million. In line with the strategy of DLL, the unit has a diverse portfolio with activities in renewable energy, energy efficiency, lighting, water and waste management. The energy efficiency business, in particular, continued to grow in 2016, thanks to the success of the retail approach.

Lease portfolio decreased by 2%

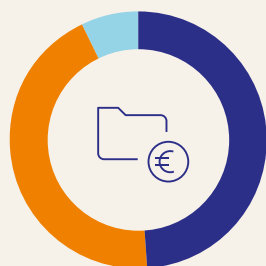
Excluding the sale of Athlon Car Lease, which reduced the total portfolio by EUR 3.5 billion, DLL experienced strong year over year portfolio growth of 7.7% in its core vendor finance business. A similar level of growth (7.9%) was realised within the portfolio of leases with Rabobank customers, as well as factoring and consumer financing activities in the Netherlands.

Lease portfolio by division
at year-end 2016



Food & Agri	34%
Construction, transportation and industrial	20%
Office technology	17%
Financial solutions	12%
Healthcare and clean technology	9%
Consumer finance	4%
Other	4%

Lease portfolio by region at year-end 2016



Europe	49%
America	44%
Asia/Pacific	7%

The total portfolio decreased by 2% to EUR 34.9 (35.7) billion. DLL's loan portfolio (financial leases only) amounted to EUR 31.8 (29.7) billion. DLL supports Rabobank's Banking for Food and Banking for the Netherlands strategies by supporting manufacturers, distributors and end-customers within the Food & Agriculture sector, both internationally and within the Netherlands. In 2016, the Food & Agriculture business line of DLL grew to EUR 11.8 (11.1) billion and now represents 34% (31%) of the DLL portfolio. The leasing, factoring and consumer finance portfolio in the Netherlands decreased to EUR 5.9 (6.6) billion and now represents 17% (19%) of the DLL portfolio. This decrease in the Netherlands market is due to the aforementioned sale of Athlon Car Lease.

External recognition

DLL was honoured for its efforts, receiving the Vendor Finance Provider award from Leasing Life, one of the top leasing industry journals in Europe. The Vendor Finance Provider award recognises an asset finance lessor that has worked in conjunction with a manufacturer to provide tailored asset finance at the point of sale. The jury explains: 'Through DLL's high quality feedback in their endorsements from clients and their unconditional focus on the vendor partnerships, DLL far surpassed the competition within the Vendor Finance Provider category, making them the winner.'

Financial results of leasing

Results

Amounts in millions of euros	2016	2015	Change
Net interest income	1,086	1,094	-1%
Net fee and commission income	90	57	58%
Other income	816	568	44%
Total income	1,992	1,719	16%
Staff costs	616	601	2%
Other administrative expenses	285	277	3%
Depreciation	31	38	-18%
Total operating expenses	932	916	2%
Gross result	1,060	803	32%
Impairment losses on goodwill and investments in associates	0	10	-100%
Loan impairment charges	101	85	19%
Contribution to resolution fund and DGS	11	9	22%
Bank tax and levy	11	10	10%
Operating profit before tax	937	689	36%
Income tax	197	191	3%
Net profit	740	498	49%

Loan impairment charges (in basis points)	30	25	20%
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Ratios

Cost/income ratio exclusive regulatory levies	46.8%	53.3%
Cost/income ratio inclusive regulatory levies	47.3%	54.4%

Balance sheet (in EUR billion)	31-12-2016	31-12-2015	
Lease portfolio	34.9	35.7	-2%
Number of internal employees (in FTEs)	4,323	5,402	-20%
Number of external employees (in FTEs)	352	422	-17%
Total number of employees (in FTEs)	4,675	5,824	-20%

Notes to financial results

Income up 16%

Total income from the leasing segment rose to EUR 1,992 (1,719) million in 2016. Net interest income was more or less stable at EUR 1,086 (1,094) million. Net fee and commission income increased to EUR 90 (57) million as a result of the higher activity level. Other income mainly consisted of sales results on end-of-lease assets and income from operational lease contracts. In December, the sale of Athlon which resulted in a book profit of EUR 251 million contributed largely to the increase in other income. Consequently, other income rose to EUR 816 (568) million.

Operating expenses up 2%

Total operating expenses in the leasing segment rose to EUR 932 (916) million. Due to the sale of Athlon in December, the total number of employees decreased to 4,675 (5,824) FTEs, but Athlon still contributed to DLL staff costs until November. In 2016, staff costs showed a modest rise to EUR 616 (601) million, mainly related to regular yearly salary adjustments. Other administrative expenses were higher, at EUR 285 (277) million, due in part to higher costs for regulation and supervision. Lower depreciation of intangible assets led to a decline in depreciation to EUR 31 (38) million.

Loan impairment charges up 19%

Loan impairment charges for the leasing segment increased to EUR 101 (85) million in 2016. Despite this increase, charges remained at a relatively low level, which becomes clear when expressed in basis points of the average portfolio. Loan impairment charges for 2016 amounted to 30 (25) basis points, well below the long-term average of 66 basis points. As DLL's lease portfolio is spread over more than 30 countries and eight industries, the risks are also well diversified. In 2016, there were no new significant individual default cases.

Outlook

DLL's vision is clear; they intend to be the world's best global vendor finance company. To help DLL get there, they have set out a strategic path in its Mid-Term Plan (MTP) 'Focus and Accelerate'. It stipulates that DLL will focus the majority of its resources, investments, and innovations on its leading global vendor finance business. And that it will accelerate its value delivery to customers by providing new and innovative products and digital tools, as well as first class customer experiences. The core vendor finance business will grow modestly across all business lines and profitability will remain robust.

Throughout 2017, DLL will continue to focus on the businesses of its partners, specialising in their markets and helping them sell more products and services with finance and leasing. This focus has been the key to DLL's success for over 45 years and will continue to be for decades to come.

By providing new and innovative digital tools and excellent customer experience, all delivered by an empowered and engaged workforce, DLL will continue to differentiate its offering in a growing, highly competitive market and create greater synergies with its parent company, Rabobank.

DLL expects modest growth of the loan portfolio as a result of the growth of the vendor finance business. It is expected that the loan impairment charges will move more towards the long-term average. DLL strives to further expand its Dutch activities and the share of Food & Agriculture in the lease portfolio.

Our output and impact

Improving performance

Real estate

Favourable developments in the real estate market

In 2016 the Dutch, as well as the German and French real estate markets saw more transactions, a shortage in the supply of residential units for sale and a relatively low volume of new houses built. This caused shortages in some regions of the market, which pushed up house prices by approximately 5% in 2016. For area developer BPD, these conditions resulted in an increase in the number of residential units sold by 18% to 9,905. Several new fund initiatives were started at Bouwfonds Investment Management (Bouwfonds IM), where the reduction of non-strategic activities was further continued. On balance, these movements caused the assets under management at Bouwfonds IM to decrease to EUR 5.9 billion.

In 2016, Rabo Real Estate Finance was launched, a new real estate finance organisation composed of FGH Bank and Rabobank. In 2016, FGH clients who fit within the real estate strategy of Rabobank were transferred from FGH Bank to Rabobank Real Estate Finance this year. This process will continue in 2017 and we are doing our utmost to ensure seamless migration for customers.

FGH Bank's integration into Rabobank has led to a reduction in staff. The dotation to the provision made for this reduction raised other administrative expenses. On 31 December 2016, the loan portfolio amounted to EUR 11.3 billion, a decrease of EUR 4.0 billion. This decrease lowered net interest income. The resulting lower gross result was more than compensated by lower loan impairment charges, which fell by EUR 165 million to minus EUR 75 million, the equivalent of minus 54 basis points of the average loan portfolio. This is sharply below the long-term average of 94 basis points.

Net profit of the real estate segment increased by EUR 108 million to EUR 288 million. FGH Bank contributed just over half of the profit of the real estate segment. Of the remainder, Rabo Real Estate Group brought growth in net profit from EUR 26 million in 2015 to EUR 129 million in 2016.

Real estate profile

Rabo Real Estate Group, FGH Bank and Rabo Real Estate Finance represent the real estate segment of Rabobank.

Rabo Real Estate Group consists of BPD and Bouwfonds IM. BPD is responsible for developing residential real estate while Bouwfonds IM focuses on real asset investments. Rabo Real Estate Group is active in the Netherlands and, to a much lesser extent, in France and Germany. Rabo Real Estate Finance is a new real estate finance organisation that combines the real estate knowledge and expertise of FGH Bank and Rabobank. Thanks to its banking knowledge, a broad offering of products and services, and a vast network throughout the Netherlands,

Rabo Real Estate Finance positions Rabobank as a powerful player in the Dutch market for commercial real estate.

BPD

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

Bouwfonds IM

Bouwfonds IM is the real asset investment management division of Rabo Real Estate Group. Bouwfonds IM delivers sustainable value by investing capital raised from its clients in real assets through investment funds and by actively managing these assets. Bouwfonds IM focuses specifically on investment products in five sectors: commercial real estate, residential real estate, parking garages, communication infrastructure and agriculture & farming.

Rabo Real Estate Finance and FGH Bank

In 2015, it was announced that FGH Bank would be integrated into Rabobank, consolidation all knowledge, expertise and network in the field of commercial real estate financing within both FGH Bank and Rabobank. In view of this, In November 2016, Rabo Real Estate Finance was launched. Rabobank's mission is to sustainably support (local) communities and to play a meaningful role in society. The financing of commercial real estate supports this mission. Therefore, knowledge of real estate and of the real estate market is crucial, as is knowledge of and experience with financing real estate. The ambition of Rabo Real Estate Finance is to remain a key player in the real estate financing market, even though we are in the process of managing down our overall exposure to this industry to some extent.

Rabo Real Estate Finance serves as a partner and facilitates real estate clients in conducting business in future-proof real estate and realising healthy returns. Through Rabo Real Estate Finance, we provide real estate clients the most suitable financing solutions for development, construction, conversion, ex-rental sales and real estate investments. FGH clients that fit within our real estate strategy will gradually be transferred from FGH Bank to Rabobank to ensure a smooth transition. The commitments made to clients who do not fit within this strategy will be honoured by FGH Bank.

Sustainability

The strategic pillars for Rabobank's 2020 goals for sustainable development are supporting residential and business customers in sustainability, stimulating sustainable agriculture and food security, and strengthening local communities.

For Rabo Real Estate Group corporate social responsibility means that real estate should benefit society at large. The Corporate Social Responsibility (CSR) policy explains how we wish to engage with our stakeholders and society in a broad sense. We aspire to occupy a top position in the field

of sustainability within the real estate industry. The main topics that concern our group translate to four pillars: sustainable real estate, ethical business practices, responsible operations and social engagement.

Rabobank is committed to future-proof real estate in a market that, despite recent positive economic news, is still marked by structural overcapacity and vacancy. We can advise and structure customised financial constructions that make redevelopment or transformation possible. This brings the vacancy rate down, and in many cases, helps to avoid (unnecessary) newbuild. This approach encourages buildings to be given not just a second or third life, but it also helps us limit the use of scarce open space, raw materials and supplies. Partly in response to the signed Memorandum on Tackling Vacant Offices (Convenant Aanpak Leegstand Kantoren), we have changed our focus from construction to transformation. In recent years we have been involved in financing more than 160 transformations, which has taken a total of approximately 1.5 million square meters off the market and repurposed it. These are not just known landmarks in the Randstad conglomeration, but also include many other projects beyond it. In addition to promoting specific projects, we also encourage the development of knowledge about renovation and quality of life. In this regard, we are closely involved in the National Renovation Platform (NRP) and our New Winkelstraat project represents an investment in stimulating local initiatives to tackle shop vacancy.

Our sustainability programme, SST, specifically presents carbon emissions reduction as an important aspect of addressing climate change. As real estate offers great potential for reducing emissions, BPD initiated and participated in several projects in 2016. For example, in Wageningen, the Netherlands, the district New Kortenoord is developing residential properties that combine the popular 1930s style of residential architecture with energy efficient heating systems powered by geothermal energy. The properties consume no gas, as they only run on electricity. Besides a communal energy supply, many homes generate their own green electricity using solar panels.

Residential real estate developments

In 2016, the Dutch economy was on a favourable upward curve. Due to rising consumer confidence, domestic expenditure grew. The economic recovery was also reflected in the labour market; unemployment fell fast in 2016. These developments, together with low mortgage rates, contributed to strong growth in residential units sold. In 2016, the Dutch residential market was characterised by a relatively sharp increase in transactions.

The increase in transactions, combined with a shortage in the supply of houses for sale and the relatively low volumes of new houses built is causing growing shortages in some regions of the market. These developments pushed up residential prices with approximately 5% in the Dutch market.

Increase in number of transactions by BPD

The positive developments in the Dutch housing market resulted in a strong increase in BPD's sales of new residential units. In the Netherlands, BPD's number of residential units transactions rose by 21.7% to 5,363 (4,407). The housing market in Germany remains strong with the number of transactions rising to 1,546 (1,126). In France, the number of transactions also rose to 2,978 (2,791), as a result of market improvements. Including some transactions (less than 1%) in other countries, the total number of transactions made by BPD in 2016 increased to 9,905 (8,386).

Decrease in assets under management

Bouwfonds IM made several real estate acquisitions on behalf of the various funds in 2016. The Bouwfonds European Real Estate Parking Fund invested a total amount of EUR 92 million in three car parks in the UK and Ireland and raised the full amount of equity of EUR 177 million for its third institutional car park fund. Also, Bouwfonds IM completed the sale of the largest group of shares in the Bouwfonds Germany Residential Fund I to V and made significant progress in the reduction of the non-strategic activities. Total assets under management decreased to EUR 5.9 (6.3) billion. The decrease was the result of further reduction of non-strategic activities.

Real estate results

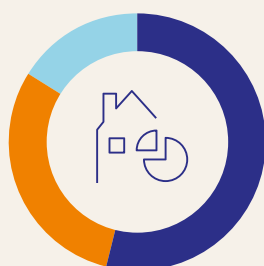
Sale of 'De Rotterdam'

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

Loan portfolio

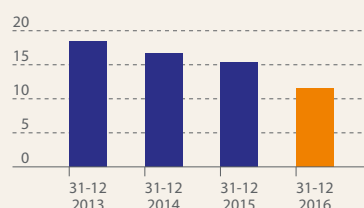
Rabo Real Estate Finance focuses on the financing of commercial real estate. The loan portfolio of the real estate segment, provided almost entirely by FGH Bank, further declined to EUR 11.3 (15.3) billion. In July 2016, FGH Bank sold a portion of a portfolio of real estate loans. In September, FGH Bank entered into an agreement to sell the real estate financing activities of RNHB with a loan portfolio of approximately EUR 1.7 billion. This transaction was completed in December.

Residential property transactions by country at year-end 2016

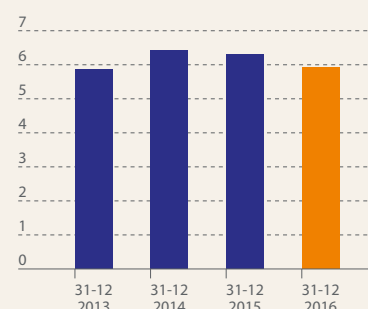


■ The Netherlands	54%
■ France	30%
■ Germany	16%

Loan portfolio segment real estate in billions of euros



Assets under management Bouwfonds IM in billions of euros



Financial results of real estate

Results			
<i>Amounts in millions of euros</i>	<i>2016</i>	<i>2015</i>	<i>Change</i>
Net interest income	293	348	-16%
Net fee and commission income	16	29	-45%
Other income	379	302	25%
Total income	688	679	1%
Staff costs	215	196	10%
Other administrative expenses	142	124	15%
Depreciation	4	7	-43%
Total operating expenses	361	327	10%
Gross result	327	352	-7%
Impairment losses on goodwill and investments in associates	0	1	-100%
Loan impairment charges	(75)	90	-183%
Contribution to resolution fund and DGS	6	7	-14%
Bank tax and levy	7	8	-13%
Operating profit before tax	389	246	58%
Income tax	101	65	55%
Net profit	288	181	59%
Loan impairment charges (in basis points)	(54)	56	-196%
Ratios			
Cost/income ratio exclusive regulatory levies	52.5%	48.2%	
Cost/income ratio inclusive regulatory levies	54.4%	50.4%	
Balance sheet (in EUR billion)	31-12-2016	31-12-2015	
Loan portfolio	11.3	15.3	-26%
Assets under management	5.9	6.3	-6%
Number of houses sold	9,905	8,386	18%
Number of internal employees (in FTEs)	1,193	1,358	-12%
Number of external employees (in FTEs)	300	229	31%
Total number of employees (in FTEs)	1,493	1,587	-6%

Notes to financial results

Total income increased by 1%

In 2016, total income of the real estate segment increased to EUR 688 (679) million. Net interest income fell to EUR 293 (348) million. The decrease of the loan portfolio at FGH Bank resulted in lower net interest income, which was partly offset by higher income from penalty interest received in connection with the early repayment of loans. The reduction in the loan portfolio and the decrease in assets under management influenced net fee and commission income, which dropped to EUR 16 (29) million. Other income was positively influenced by the rise in the number of residential units sold, and the sale of 'De Rotterdam' in June. As a result, other income increased to EUR 379 (302) million.

Operating expenses increased by 10%

Total operating expenses in the real estate segment rose to EUR 361 (327) million in 2016. At BPD, the increased commercial

activity led to a small increase of the number of employees, more than neutralised by the decrease of personnel at RVG Holding. The number of employees also increased at Rabo Real Estate Finance: the integration of FGH Bank into Rabobank resulted in additional activities, for which external employees were taken on, increasing staff costs to EUR 215 (196) million. Once the integration is finished, the number of employees is expected to fall. Particularly the restructuring provision taken for redundant employees at FGH Bank contributed to the increase in other administrative expenses by 15% to EUR 142 (124) million. Depreciation showed a decrease to EUR 4 (7) million.

Loan impairment charges negative

The economic recovery in the Netherlands positively impacted the loan impairment charges in the real estate segment. These loan impairment charges were EUR 75 million negative, so on a total segment level provisions taken for loan losses in the past were released. In 2015 EUR 90 million was added to these provisions. Among others the economic recovery led to an increased demand for logistic real estate and retail premises, while the property investment market saw significant activity from both domestic and foreign investors. Mainly due to initiatives to convert vacant buildings, the number of vacant offices and retail premises is decreasing. However, rental prices are still under pressure in areas outside core locations in large cities. Loan impairment charges amounted to minus 54 (plus 56) basis points of average lending. The long-term average is 94 basis points.

Outlook

For BPD we expect continued positive results in the core countries; the Netherlands, Germany and France. Bouwfonds IM will continue to focus on new initiatives and is expecting moderate growth in managed assets. Provided there are no unforeseen circumstances, the Rabo Real Estate Group will continue its positive development. The overarching theme for 2017 at FGH Bank is the integration into Rabobank, and honouring the commitments with clients who do not transfer to Rabobank. Although the overall real estate exposure will decrease, the real estate financing business will continue to represent a substantial portion of Rabobank's activities in the Dutch market.

Rabobank has far-reaching financing ambitions and sees opportunities in all segments of the commercial real estate market. The related drive in this field is to contribute to welfare and prosperity in the Netherlands. As a cooperative company and, Rabobank has a clear focus on sustainability, conversion, innovation and local communities. We link financial returns to social returns to fulfil our mission both in large cities and in towns and villages.

Our output and impact

Strengthening capital ratios

We are delivering on our promises

Rabobank has set target capital ratios to remain a rock-solid bank. We determine these targets in part by the expected impact of new regulations, which will increase capital requirements. Risk weighting of assets and the subsequent required absolute amount of capital are expected to increase, which will also affect our targets. Our objective, in anticipation of these regulations, is to maintain the common equity tier 1 (CET1) ratio at a minimum of 14% and the total capital ratio at a minimum of 25% by the end of 2020. We have already made great strides in increasing our capital ratios. Year-end 2016, the CET1 ratio (the CET1 capital as a percentage of risk-weighted assets) increased by 0.5 percentage points to 14.0% and the fully loaded CET1 ratio increased by 1.5 percentage points to 13.5%. The total capital ratio – the qualifying capital related to the risk-weighted assets – improved by 1.8 percentage points to 25.0%.

The retention of the 2016 net profit (after payments on capital instruments and Rabobank Certificates) as well as balance sheet reduction measures had a positive influence on the capital ratios, while the phasing-in of Capital Requirements Regulations had a negative impact on the CET1 ratio.

The CET1 ratio gained 0.3 percentage points from the inclusion of 2016 profit, while the sale of Athlon Car Lease also added approximately 0.4 percentage points to Rabobank's CET1 ratio. These developments more than offset the phasing-in effect of the CRD IV on 1 January 2016, which had a negative influence of 0.4 percentage points on the CET1 ratio.

The same factors that strengthened the CET1 ratio also improved the total capital ratio, as did the April issue of additional tier 1 instruments and the July issue of tier 2 instruments.

> Read [more](#) about the development of the capital ratios.

Capital strategy

Strong capital and liquidity buffers are key drivers of financial solidity. These buffers are vital prerequisites to maintaining a high credit rating and good access to professional funding in the capital markets. Rabobank's capital buffer consists of retained earnings, Rabobank Certificates, additional tier 1 capital and tier 2 capital.

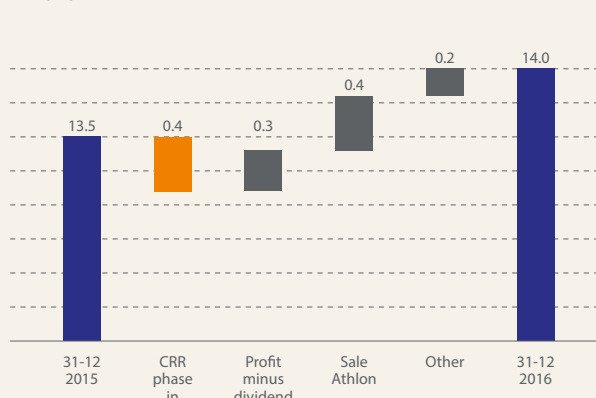
Retained earnings

The appropriation of net profit after deducting payments on Rabobank Certificates and hybrid capital instruments, as well as payments to other non-controlling interests, increases the share of retained earnings. While Rabobank does not seek to maximise profit, improving earnings capacity is important for ensuring continuity and financial soundness.

Rabobank Certificates

Rabobank Certificates are deeply subordinated instruments which qualify as common equity tier 1 capital. They are listed on Euronext Amsterdam. In 2016, the closing price fluctuated between 105.48% (lowest price on 11 February 2016

Development of the CET 1 ratio in 2016



– connected to the turmoil in China at that time) and 114.18% (highest price on 30 December 2016). The price on 31 December 2015 was at 111.58%.

Rabobank Certificates in 2016



Offering of new Rabobank Certificates

In January 2017, Rabobank announced the offering of newly issued Rabobank Certificates. The nominal issued amount was EUR 1.5 billion. As a result of the issuance, Rabobank has met its target CET1 ratio of at least 14% early and anticipates an expected increase in capital requirements. Rabobank issued 60 million new Rabobank Certificates; each of these newly issued Certificates was priced at 108% of the nominal value of EUR 25. After the issuance, a total nominal amount of approximately EUR 7.4 billion in Rabobank Certificates was outstanding.

Tier 1 capital

Rabobank has responded to the stricter regulatory framework in force since 2014 (i.e. the gradual implementation and phase-in of CRD IV and the Capital Requirements Regulation (CRR)) by issuing instruments that fully qualify as additional tier 1 capital. In April 2016, Rabobank issued EUR 1.25 billion of additional tier 1 instruments which comply with the CRR conditions. In July 2016, the call of 2 billion US dollar capital securities decreased tier 1 capital.

Tier 2 capital

New issues will shore up tier 2 capital, and this will lead to an increase of the total capital ratio. For example, Rabobank issued USD 1.5 billion of tier 2 instruments in July 2016. Rabobank's capital strategy is designed to achieve high capital ratios in anticipation of the expected consequences of the Basel III reforms and the minimum requirement for own funds and eligible liabilities (MREL) obligations.

Development of capital ratios in more detail

The CRR and CRD IV collectively form the European adoption of the Basel capital and liquidity agreement of 2010 (Basel III). These regulations have applied to Rabobank since 1 January 2014 and will be phased in over a number of years. The fully loaded CET1 ratio is the CET1 ratio, assuming that CRD IV has already been fully phased in. The fully loaded CET1 ratio reached 13.5% (12.0%) at 31 December 2016. The actual (or transitional) CET1 ratio as of 31 December 2016 was 14.0% (13.5%). This ratio mainly increased due to the retention of the 2016 net profit (after deduction of payments on Rabobank Certificates and hybrid capital instruments) and the sale of Athlon. This increase is dampened by the phasing-in of CRD IV, whereby various adjustments are being made to CET1 capital on 1 January of each year during the transition period.

The leverage ratio is the tier 1 capital divided by balance sheet positions and off-balance-sheet liabilities and is calculated based on the definitions provided in CRR/CRD IV. At 31 December 2016, the fully loaded leverage ratio stood at 4.6% (3.9%). The actual (or transitional) leverage ratio at 31 December 2016 stood at 5.5% (5.1%). The actual leverage ratio is well above the minimum leverage ratio of 3% according to the Basel III guidelines.

Capital ratios			
<i>Amounts in millions of euros</i>	<i>31-12-2016</i>	<i>1-1-2016</i>	<i>31-12-2015</i>
Retained earnings	25,709	25,482	25,482
Expected dividends	(60)	(126)	(126)
Rabobank Certificates	5,948	5,949	5,949
Non-controlling interests	25	23	23
Reserves	112	224	224
Deductions	(3,302)	(5,668)	(5,539)
Transition guidance	1,186	1,884	2,741
Common equity tier 1 capital	29,618	27,768	28,754
CRD IV compliant instruments	2,728	1,488	1,488
Grandfathered instruments	5,462	5,462	6,373
Non-controlling interests	5	5	5
Deductions	(91)	(76)	(76)
Transition guidance	(643)	(1,017)	(1,492)
Total additional tier 1 capital	7,461	5,862	6,298
Tier 1 capital	37,079	33,630	35,052
Subordinated debt qualifying as tier 2 capital	16,094	15,078	15,078
Non-controlling interests	7	6	6
Deductions	(99)	(85)	(85)
Transition guidance	(208)	(420)	(596)
Qualifying capital	52,873	48,209	49,455
Risk-weighted assets	211,226	212,768	213,092
Common equity tier 1 ratio (transitional)	14.0%	13.1%	13.5%
Common equity tier 1 ratio (fully loaded)	13.5%	12.0%	12.0%
Tier 1 ratio	17.6%	15.8%	16.4%
Total capital ratio	25.0%	22.7%	23.2%
Equity capital ratio	15.0%	14.8%	14.7%

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

The additional tier 1 instruments issued by Rabobank prior to 2014 do not meet the CRR conditions. Therefore, these instruments will gradually cease to qualify as capital instruments. In 2016 a 40% haircut was applied to these grandfathered instruments. In April 2016, Rabobank issued EUR 1.25 billion of additional tier 1 instruments which are CRR compliant. In July 2016 Rabobank issued a tier 2 capital instrument of USD 1.5 billion. The total capital ratio rose by 1.8 percentage points to 25.0% (23.2%).

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

Because Rabobank wishes to mitigate the bail-in risk for creditors and depositors as much as possible, it holds a large buffer of equity and subordinated loans that will be called upon first in the event of a bail-in. Only after the buffer has been used will non-subordinated creditors, whose claims are not covered by collateral, have to contribute to losses if the bank gets into difficulties. Rabobank defines the bail-in buffer as retained earnings, other reserves, Rabobank Certificates, hybrid and subordinated debt instruments and other debt instruments, the so-called Senior Contingent Notes. Also positive FX effects made a limited contribution to the increase of the bail-in buffer. The bail-in buffer increased from EUR 57.5 billion to EUR 58.0 billion, an increase that corresponds to approximately 28% (27%) of the risk-weighted assets.

Bail-in buffer		
<i>Amounts in billions of euros</i>	<i>31-12-2016</i>	<i>31-12-2015</i>
Retained earnings and other reserves	25.8	25.7
Rabobank Certificates	5.9	5.9
Hybrid capital instruments	8.2	9.1
Subordinated liabilities	16.9	15.5
Senior Contingent Notes	1.2	1.3
Bail-in buffer	58.0	57.5
Risk-weighted assets	211.2	213.1
Bail-in buffer/risk-weighted assets	27.5%	27.0%

Regulatory capital

The regulatory capital is the external capital requirement and represents the minimum amount of capital Rabobank is required to hold by the CRR and CRD IV. Year-end 2016, the regulatory capital (or external capital requirement) of Rabobank

Group amounted to EUR 16.9 (17.0) billion, of which 84% related to credit and transfer risk, 13% to operational risk and 3% to market risk. Regulatory capital decreased by EUR 0.1 billion, mainly due to a reduction in the capital required for credit risk. Credit risk mainly decreased thanks to the reduction of exposures, the sale of Athlon and various other relatively small movements.

Rabobank Group calculates its regulatory capital for credit risk for virtually its entire loan portfolio based on the Advanced IRB approach approved by the prudential supervisor.

In consultation with the supervisor, the Standardised Approach is applied to portfolios with relatively limited exposure and to a few smaller portfolios outside the Netherlands that are unsuitable for the Advanced IRB approach. Operational risk is measured using a supervisor-approved internal model that is based on the Advanced Measurement Approach. For its market risk exposure, Rabobank has obtained permission from the supervisor to calculate the general and specific position risk using its own internal Value at Risk (VaR) models, based on the CRR.

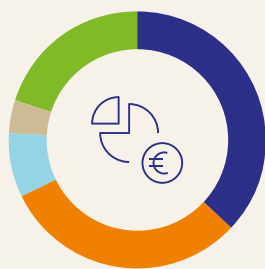
Regulatory capital by business segments		
<i>Amounts in billions of euros</i>	<i>31-12-2016</i>	<i>31-12-2015</i>
Domestic retail banking	6.4	6.7
Wholesale banking and international rural and retail banking	6.5	6.4
Leasing	1.7	1.7
Real estate	1.2	1.1
Other	1.1	1.1
Rabobank Group	16.9	17.0

Economic capital

Economic capital (EC) refers to Rabobank's internal assessment of the amount of capital it requires to cover the risks it is exposed to. In addition to regulatory capital, Rabobank Group uses an internal capital requirement based on an EC framework. In contrast to regulatory capital, our calculation of EC takes account of all tangible risks the bank is exposed to. By assuming a higher confidence level (99.99%) than is used for regulatory capital (99.90%), EC is generally more prudent than regulatory capital.

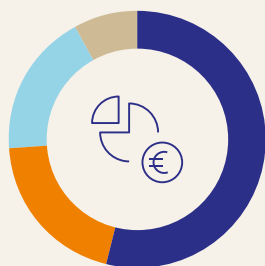
A broad spectrum of risks is measured consistently to gain an understanding of these risks and to enable a rational assessment of risk against return. We use a series of models to assess the risks incurred by Rabobank Group. These include credit, transfer, operational, business, interest rate and market risks. Market risk breaks down into trading book, private equity, currency, real estate and residual value risks.

Economic capital by business segment at year-end 2016



Domestic retail banking	37%
Wholesale banking and international retail banking	31%
Leasing	8%
Real estate	4%
Other	20%

Economic capital by risk type at year-end 2016



Credit and transfer risk	54%
Operational and business risk	20%
Interest rate and market risk	18%
Other risks	8%

From 1 January 2017 the EC framework will be replaced with a so-called Regulatory Capital Plus (RC+) framework. Reflecting changing regulatory requirements and similar developments in the industry, the new framework will be based on regulatory capital, but reserve additional capital for those risks where Rabobank considers the regulatory framework insufficiently risk-sensitive or not prudent enough.

Economic capital by business segments

Amounts in billions of euros	Economic capital	
	31-12-2016	31-12-2015
Domestic retail banking	9.6	10.1
Wholesale banking and international rural and retail banking	8.1	7.7
Leasing	2.0	2.0
Real estate	1.2	1.4
Other	5.1	5.5
Rabobank Group	26.0	26.7

The EC decreased to EUR 26.0 (26.7) billion compared to year-end 2015. The decrease was due to a number of factors of which Achmea was the most prominent.

In 2016, the regulatory capital (the external capital requirement) for the domestic retail banking business decreased to EUR 6.4 (6.7) billion, due to a decline in lending. The regulatory capital for WRR increased to EUR 6.5 (6.4) billion in 2016. Regulatory capital for DLL was unchanged at EUR 1.7 (1.7) billion in 2016 as the sale of Athlon was compensated by an increase elsewhere in the lease portfolio which were partly the result of currency effects. The regulatory capital for the real estate segment increased to EUR 1.2 (1.1) billion due to higher regulatory requirements. The sale of the Rotterdam and the RNHB portfolio compensated this decrease. The credit risk fell as a result of the reduction in non-core assets.

Qualifying capital increased

Our sizeable buffer underlines the financial solidity of Rabobank Group. The available qualifying capital of EUR 52.9 (49.5) billion that the bank retains to absorb potential losses was well above the level of the total external (regulatory) and internal (economic) capital requirements.

Our output and impact

A more flexible balance sheet

Several balance sheet relief transactions executed

Rabobank intends to reduce its balance sheet, and make it more flexible in order to remain a rock-solid bank. We are carefully monitoring ongoing developments related to the proposed reforms to Basel III regulations. The final outcome of these proposals will ultimately determine the extent of balance sheet reductions, while upholding our other financial targets for 2020. We have taken note of substantial changes made to these proposals since December 2014, including extended timelines. The targeted reduction of our balance sheet is highly dependent on the Basel outcomes. In 2016 we have decided to execute the balance sheet relief transactions as described in this chapter. We continued preparing our infrastructure and processes for making larger reductions possible in the future.

We are poised to take the necessary steps in reducing the risk-weighted assets in order to absorb the impact of the new Basel rules. Despite the above-mentioned constraints of unknown proposed reforms to Basel III' outcomes, Rabobank has critically assessed which transactions could relieve the balance sheet, and as a result, we were able to take initial steps towards making it more flexible in 2016:

- The most influential transaction was the sale of Athlon Car Lease to Daimler Financial Services. Started in June and completed in December, this transaction reduced the balance sheet by approximately EUR 4 billion, and it also improved the common equity tier 1 ratio (CET1 ratio) by approximately 40 basis points. More information can be found on Rabobank.com.
- Rabobank's residential mortgage loan portfolio is a substantial exposure on the balance sheet. If the bank were to keep all residential mortgage loans on its own balance sheet, it would have to tie up extra capital to meet the expected capital requirements. Instead, the bank sees more benefit in transferring a part of this portfolio to institutional investors (e.g. pension funds and insurers). In March 2016, Rabobank sold a share of its mortgage portfolio worth EUR 1 billion to the insurance company VIVAT Verzekeringen (more information on Rabobank.com) and in July, we sold a share of EUR 0.5 billion to Delta Lloyd insurance company (more information on Rabobank.com).

- Obvion sold EUR 0.3 billion of their portfolio of Dutch residential mortgages to BinckBank and reduced its balance sheet by securitising EUR 1 billion of its mortgage portfolio in July. The regulatory capital in the real estate segment declined in the first half of 2016 after the sale of the building 'De Rotterdam'.
- In July, FGH Bank sold a portion of a portfolio of commercial real estate loans to an institutional investor. In September, FGH Bank entered into an agreement to sell the real estate financing activities of RNHB with a loan portfolio of approximately EUR 1.7 billion. This transaction was completed in December. More information can be found on Rabobank.com.
- In October, the sale of our remaining stake in Robeco resulted in a EUR 0.2 billion decrease in assets. Also we reduced our equity stake in Van Lanschot with 2.3%, equal to EUR 16.2 million, in October.

The sale of parts of the mortgage portfolio has no consequences for our mortgage customers. The mortgage contract and conditions they agreed with the bank will also remain in place. Rabobank is still the first and only point of contact for the customer. In short, Rabobank remains the financial linking pin for our clients and the same trusted adviser for our retail customers. Moreover, Rabobank receives a fee from the investor for servicing the loans. This results in a shift in our statement of income from net interest income to net fee and commission income going forward.

Developments in the balance sheet

Balance sheet		
<i>In billions of euros</i>	<i>31-12-2016</i>	<i>31-12-2015</i>
Cash and cash equivalents	84.4	64.9
Loans to customers	452.8	466.0
Financial assets	38.5	43.4
Due from other banks	25.4	32.4
Derivatives	42.4	48.1
Other assets	18.8	23.8
Total assets	662.3	678.6
Due to customers	347.7	345.9
Debt securities in issue	159.3	175.0
Due to other banks	22.0	19.0
Derivatives and other trade liabilities	48.0	55.1
Other financial liabilities at FV through P/L	16.5	17.0
Other liabilities	28.3	25.4
Equity	40.5	41.2
Total liabilities and equity	662.3	678.6

Assets

In 2016, the balance sheet total decreased by EUR 16.3 billion. Loans to customers and hence total assets at year-end 2015 were restated and increased by EUR 8.3 billion as a result of a change in accounting principles related to the netting of cash pools. Excluding this restatement, total assets decreased by EUR 8.0 billion. The strengthening of the liquidity buffer due to the increase of cash held at central banks had an upward effect on the balance sheet total. Excluding the restatement, loans to customers decreased by EUR 4.9 million. This decrease in loans to customers is largely linked to the transactions aimed at balance sheet relief measures described above. Combined with the decrease in amounts due from other banks, these were the main elements that contributed to the decrease in total assets.

Liabilities

On the liabilities side, amounts due to customers decreased at Wholesale, Rural & Retail. Also, Rabobank reduced its position in debt securities in issue. This and a decrease in derivatives and other trade liabilities, linked to interest rate developments, resulted in a decrease in total liabilities.

Equity

Equity decreased by EUR 0.7 billion in 2016. In July, we redeemed USD 2 billion in capital securities, and in October, we also redeemed USD 1.5 billion in Trust Preferred Securities. Because a large part of these securities had already been bought back previously, this redemption resulted in a drop of equity of only EUR 0.7 billion. The additional tier 1 transaction of EUR 1.25 billion in April 2016 and retention of the profit for the year (after deduction of payments on Rabobank Certificates and hybrid capital instruments) had a beneficial impact on equity.

Wholesale funding

Rabobank aims to reduce its structural wholesale funding usage. Doing so will make the bank less sensitive to potential future financial market instability. The main source of wholesale funding are the issued debt securities, both short- and long-term. For more information, see the Pillar 3 report. We intend to reduce the amount of wholesale funding for the group to EUR 150 billion by 2020. In 2016, the amount of wholesale funding decreased by EUR 14 billion to EUR 189 billion. In order to further diversify the funding base, in 2016 Rabobank has started to register its inaugural Covered Bond Program with De Nederlandsche Bank. Rabobank also participated in the 'Targeted Long-Term Refinancing Operations'-programme (TLTRO II) of the ECB, which is intended to support the lending to the European real economy.

Our output and impact

Balancing risks and returns

When we do business with our customers, explore options or take decisions, we continually assess risks. Banking is all about taking and managing risks. Each time business opportunities are discussed and decisions are taken, risks are assessed against expected return. Without taking risks, no profitable banking activities are possible and therefore it is not only necessary to accept, but also striving for a certain degree of risk.

Every day Rabobank takes informed risk decisions on engaging with (new) customers, granting credit, entering into interest rate contracts and in providing other services to customers. To manage the material risks, risk and control processes are designed to ensure that the risks incurred remain within the bank's risk appetite and that risk and return are appropriately matched. To ensure effectiveness of the Risk Management framework Rabobank works according to the concept of the 'Three Lines of Defense' model. This model explains the relationship between the first line functions in Rabobank that own and manage risk (the business), the second line functions (Risk Management) that oversee the risk and an independent third line function (Audit) that provides assurance on the effectiveness of the first and second lines of defense. The Risk Management framework covers the regular banking risk types: credit risk, market risk, interest rate risk, liquidity risk and operational risks (including compliance risk, tax risk and legal risk). The risk classification supports effective risk management by providing a clear definition and common understanding of risk management throughout the organisation. In addition to the main risk types a more granular classification is used which also includes risks such as FX-translation risk and model risk. Per risk type a risk appetite is determined to manage the risk profile within its desired appetite and alignment with the Strategic Framework.

In addition, we acknowledge that we currently face uncertain, volatile and partially adverse market circumstances that create, among others, the following risks for the bank:

- Business model: Rabobank's earnings model needs to adapt to the changing economic and political environment, and to the demands of society. Narrowing spreads between funding and lending impact the profit margins needed for a sustainable future for the bank. This is amplified by increased competition of non-banks and market innovators using disruptive technologies. Regulatory requirements put additional (capital) strain on banks. The cumulative effects of these requirements influence the strategic choices available to Rabobank, but we can manage this through excellent customer focus in support of our vision Banking for the Netherlands and Banking for Food, supplemented by a strong focus on sustainability through our clients. Internally, we are improving financial performance, strengthening innovativeness, empowering employees and examining our products and services portfolio.
- Execution power: This includes challenges to improve customer focus and performance and to meet regulatory requirements. The change agenda is ambitious and contains many interdependencies. While we need to preserve our cooperative heart and the uniqueness of Rabobank, we also need to be receptive to client behaviours, external developments and unexpected risks with serious long-term effects. Our (new) governance leads to more effective decision-making and timely responses. We manage this through close monitoring of change initiatives and by enabling the business in its first-line responsibilities.
- Technology & continuity: A complex IT landscape, growing demands on continuity and increasing cyber threats are continuing challenges. The ongoing digitalisation of our services improves efficiency and adds value for our customers. Services need to keep running smoothly while at the same time systems need to be improved to keep up with requirements, trends and innovations. We use an integrated approach and manage dependencies for our core banking transformation, front-to-back processes and systems. We closely monitor cyber threats and data privacy.

- **Data management:** This entails timely, sufficient and accurate data for business and regulatory purposes and availability of in-depth information for client advice, reporting and business decisions. Data quality is an important concern and regulatory requirements (BCBS239) have also increased substantially. We are unifying our steering of data management and data governance projects.
- **Business conduct:** Conduct issues impede public trust and may affect Rabobank. Regulatory scrutiny has continued to increase since the start of the financial crisis and has resulted in hundreds of billions in fines for product suitability, sanctions and market abuse in the financial services industry. Moreover, strict adherence to legislation is no longer sufficient. Most issues have long lead times, both in discovery and in remediation so (legacy) conduct issues may continue to emerge. We are further improving the implementation of regulations, client onboarding, the risk & control framework, and customer integrity and employee awareness.
- **Employees:** Keep staff fully engaged during a transition period and maintain a healthy flow of key positions. Although collaboration across and between departments has improved, our staff reduction inevitably impacts all employees. Staff mobility and a change-mindset are needed, in addition to a sound risk culture in which risks are identified, escalated and managed proactively and in a timely manner. Our strategic HR improvements focus on performance management, talent management, diversity and an adaptive way of working.
- **Balance sheet:** This includes funding gaps, capital availability and respective pricing. Serving the Dutch society and the F&A sector means continuously balancing of our strategic focus and the potential risk of concentration in assets and liabilities. We are reducing our balance sheet through proactive portfolio management and advancing our planning and budget process.
- **External environment:** These factors include continuing economic instability, climate change, serious geopolitical unrest and emerging market contagion. A potential economic downturn poses threats to worldwide growth and adds to financial market uncertainty. Climate change may negatively impact the business of our customers, so sustainability is becoming increasingly important to them. We support them in achieving a long-term social and ecological balance. The Eurozone is under pressure, as tensions increase between European countries, growth in China is slowing down and developments in other emerging markets could have a contagious effect on trade. This may

result in protectionism and the freezing of world trade. We are monitoring macro-economic and geopolitical developments closely and enhancing our focus on sustainability and portfolio management, including stress testing.

Managing risks: Risk strategy

Rabobank's risk strategy supports management in the realisation of the business strategy by defining the way in which the business takes on risks to operate. Rabobank's risk strategy is focused on the following goals:

- **Support business in delivering excellent and appropriate customer focus.**
- **Protect profit and profit growth:** Rabobank's business strategy is strongly related to its cooperative roots, achieving a healthy profit generation and at the same time realising a high standard in serving its members, clients and society.
- **Maintain a solid balance sheet:** Sound balance sheet ratios are essential to ensuring continuity in servicing our customers under sustainable and favourable conditions.
- **Protect identity and reputation:** A solid reputation is essential to maintaining stakeholders' fundamental trust in the bank.
- **Make healthy risk-return decisions:** Make transparent choices related to where capital and resources can be used most efficiently or appropriately with respect to sectors or concentrations.

These goals are strongly interwoven and fully dependent on maintaining sound governance and a strong risk culture throughout the organisation. Long-term customer value requires a solid balance sheet, minimised funding costs and supporting the bank's profitability and reputation. Maintaining a solid balance sheet, on the other hand, requires a healthy profitability and a sound reputation.

Risk appetite

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

The risk appetite at group level is an integral part of the bank's strategy. Entity-specific risk appetite statements further specify the group risk appetite at entity level. The risk appetite is embedded across Rabobank Group within principles, policies, indicators, limits and controls. The Risk Appetite Statement is endorsed annually by the Executive Board and approved by the Supervisory Board. In 2016, sustainability was integrated for the first time in the RAS and addresses non-compliance with Rabobank's sustainability policies.

The RAS is monitored by benchmarking the actual risk profile against the risk appetite and discussed on a quarterly basis by the Executive Board and Supervisory Board Risk Committee. This ensures day-to-day operations are executed within the boundaries set by the business and risk strategy. Breaches of the risk appetite will result in immediate action at the appropriate management level.

Risk culture

At Rabobank risk is everybody's business. A sound risk culture is the basis for good risk management. Rabobank expects all employees to contribute to a sound risk culture, focusing on long-term relationships with, and in the best interest of, our customers. Employees are expected to deal with risks and dilemmas, to carefully consider the interests of stakeholders, to always be honest and reliable, and to take responsibility for their actions. Each individual employee contributes to the risk profile of Rabobank and the way in which risks are managed in line with the 'Three Lines of Defense' model. Desirable behaviour is encouraged and undesirable behaviour is corrected.

2016, sustainability was integrated for the first time in the RAS regarding non-financial risks for our Wholesale clients. It addresses non-compliance with Rabobank's sustainability policies.

An important baseline is to create an environment in which risks and dilemmas that arise in our work are openly discussed. Tunnel vision and group bias need to be avoided in the perception of risk. It is vital to learn from mistakes and avoid repetition by removing the causes and by sharing experiences. Risk management activities keep risks within the established risk appetite and support careful consideration of risk / return trade-offs and appropriate measures based on up-to-date risk analyses.

Rabobank's risk principles provide additional guidance in preserving our core values: integrity, respect, professionalism and sustainability, and maintaining our aim to build long-term client relationships while always acting in our client's

interest. These principles serve as a compass to guide our actions and provide standards for the desired behaviour within Rabobank. This is complemented with risk awareness and compliance training programmes for all employees.

Rabobank keeps track of external developments and closely monitors the risks that might affect the achievement of organisational objectives. Regular and structural top-down and bottom-up risk assessments are performed to identify various types of risks, and specific stress tests are conducted to calculate the impact of adverse scenarios. An integrated overview of the main risks, the changes to them and the measures taken to address them are regularly discussed in the Executive Board and Supervisory Board. Banking is all about taking and managing risks. When we do business, explore options or take decisions, we continually assess risks.

Credit Risk Management

Rabobank's prudent credit acceptance policy is typified by careful assessment of customers and their ability to repay the loan that was issued (continuity perspective). As a result, the loan portfolio has an acceptable risk profile even in less than favourable economic circumstances. Rabobank aims to have long-term relationships with customers that are beneficial for both the client and the bank. An important starting point in acceptance policy for business loans is the 'know your customer' principle. This means that the bank only issues loans to business customers whose management Rabobank considers to be ethical and competent. In addition, Rabobank closely monitors developments in the business sectors in which its customers operate and can properly assess the financial performance of its customers. Corporate sustainability also means sustainable financing. Sustainability guidelines have been established for use in the credit process. Internal credit models are used to estimate PD, LGD and EAD parameters. Rabobank uses a wide range of credit mitigation techniques to reduce also specific counterparty credit risk or country risk. Rabobank uses different modelling methodologies for the different portfolios. Ranging from statistical models to expert-based models, and taking into account quantitative and qualitative risk drivers. The credit risk parameters are used in the calculation of the capital requirements.

Within Rabobank, the Basel II default definitions are used for identifying a loan impairment allowance. However, exit criteria for forborne non-performing exposure are stricter than for impaired exposure. Furthermore, recovered forborne non-performing exposure is bound by more rigorous inflow criteria and can be labelled as non-performing exposure once more, even if the impaired criteria are not being met.

Rabobank applies concentration risk mitigation on, for example, asset classes, sector and country level. For its asset classes Rabobank has determined a risk appetite, expressed in exposure, percentage of defaults and loan impairment charges. Furthermore, exposure limits are set on a sector and country level as well. Single name concentrations are limited on exposure and loss at default (LAD) and are monitored closely.

Operational Risk

Operational risk (OpRisk) is an integral part of doing business. Operational Risk Management (ORM) within Rabobank is aimed at having a healthy balance between the exposure to these risks and tools to manage these risks. The objective of ORM is to identify measure, mitigate and monitor operational risk, and promote risk awareness and a healthy risk culture within Rabobank. Risk quantification and awareness helps management set priorities in their actions and allocate people and resources. Within Rabobank, operational risk is defined as the risk of losses resulting from inadequate or failed internal processes, people and systems (and includes Tax and Legal Risk) or from external events, including potential reputational consequences.

The primary responsibility for the management of operational risk (including Fraud, IT Risk, Business Continuity and Conduct Risk) lies within the business, as it should be fundamentally woven into their strategic and day-to-day decision-making. Risk management committees have an important role in identifying and monitoring the operational risks of the entity. These responsibilities are supported by Risk Management, which provides oversight, tools, expertise and challenge to the group entities and transparency throughout the Group and towards senior management.

Market Risk/Interest Rate Risk

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

Within the trading environment, the most significant types of market risk are: interest rate risk (including basis risk), credit spread risk and currency risk. Risk positions acquired from clients can either be redistributed to other clients or managed through risk transformation (hedging). The trading desks are also acting as a market-maker for secondary markets (by providing liquidity and pricing) in interest rate derivatives and debt, including Rabobank Bonds and Rabobank Certificates.

Market risk in the trading environment is managed and monitored on a daily basis within the trading market risk framework. A prudent limit and control framework is in place.

Within the banking environment the most significant type of market risk is interest rate risk. Rabobank is mainly exposed to interest rate risk in the banking environment as a result of (1) mismatches between the repricing period of assets and liabilities and (2) embedded optionality in client products. Rabobank is also exposed to currency risk in the banking environment. This currency risk is mainly translation risk on capital invested in foreign activities. Other non-trading currency risks are mostly hedged.

The internal VaR model forms a key part of Rabobank's market risk framework. Rabobank has opted to apply a VaR model based on historical simulation for which one year of historical data is used. The major benefit of a VaR model based on historical simulation is that no assumptions need to be made in terms of distribution of possible value changes of the various risk factors. Back testing is a risk management technique used to evaluate the quality and accuracy of internal VaR models. In essence, back testing is a routine comparison of model generated risk measures (daily VaR) with the subsequent trading outcomes (hypothetical or actual Profit & Loss). Rabobank recognises that VaR, due to its underlying statistical assumptions, must be complemented by stress testing for a more complete risk assessment. Stress testing is used to measure events that are not captured by the VaR model.

Rabobank accepts a certain level of interest rate risk in the banking environment, because this can be a major source of earnings and economic value, but at the same time it seeks to avoid any material unexpected swings in earnings and economic value caused by interest rate movements. Therefore, the Executive Board, under the supervision of the Supervisory Board, determines the interest rate risk appetite and the corresponding limits on an annual basis.

Rabobank uses three standard measures:

- 1) Equity at Risk (EatR);
- 2) Basis Point Value (BPV) or the delta of equity (total and per maturity); and
- 3) Income at Risk (IatR);

to control and manage the interest rate risk in the banking environment arising from changes in the level of interest rates. The delta per maturity or the delta profile is used to control and manage the risk of changes in the shape of the yield curve, which shows the yield per maturity. These measures are also used to express the Risk Appetite of Rabobank.

Liquidity Risk

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

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

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

Risk Developments

Rabobank aims to continually improve the risk management function in the organisation. In 2016 the Rabobank has appointed a Chief Risk Officer in the board separate from the Chief Financial Officer and combined the directorates of Compliance, Legal and Risk. Additionally a separate Risk Control Framework department has been established. This was set up within the standing organisation to further develop, implement and maintain the Risk Control Framework (RCF). RCF includes initiatives regarding organisation wide Risk and Control Activities supported by one way of working, tooling, learning programme and taxonomy for all OpRisk expertise areas.

In 2016, it was decided to overhaul the credit modelling landscape of Rabobank (excluding DLL) in light of the strategical framework objectives, increased use of data-analytics, new regulation and new modelling techniques. In the coming years, new models will be built for the different portfolios of Rabobank.

During 2016 Rabobank has progressed with the implementation of IFRS 9 towards the effectiveness date of 1 January 2018. During 2017 we are planning a parallel-run as from July 2017 onwards.

Large and relevant events that took place within Rabobank in 2016 or before include:

- SME Derivatives: Rabobank will follow the Uniform Reassessment Framework proposed by the commission for reassessing the quality of advice rendered on interest rate derivatives in the SME market with respect to those customers that fall within the definitions of the Framework.
- Penalty interest on mortgages: An in-depth discussion has taken place between the large Dutch banks, NVB and AFM about the way banks calculate their loss on restructuring of private mortgages ('oversluiten'). Rabobank is currently following up on her internal evaluations of the process.
- The Department of Justice is currently investigating alleged omissions with regards to AML in North America.

All large incidents include analysis and lessons learned for appropriate follow up.

Our output and impact

Restoring trust

Trust in financial institutions is low. The economic downturn and series of crises and government bailouts that followed caused public confidence in commercial financial institutions to plummet. Rabobank is no exception. We believe that rebuilding that trust is pivotal to ensuring a good and lasting relationship with all our stakeholders: customers, members, employees, regulators, politicians, investors, rating agencies and society at large. While recent reports show that our efforts are paying off and that confidence is slowly returning, much work still needs to be done.

Rabobank believes that earning customer trust begins by truly listening to the concerns of all stakeholders and by showing our commitment to our cooperative principles of customer participation, long-term relationships, sustainability and financial solidity. We have launched a number of initiatives to grant clients easier access to new, relevant products, to focus on sustainability and banking ethics, to improve communication and problem resolution, and to increase transparency. These products, measures and programmes are just a few of the ways we as a bank are working on to restore and strengthen stakeholder confidence.

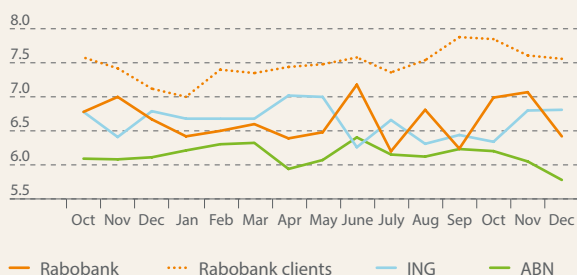
Reputation

The loss of confidence in banking institutions had consequences for the reputation of banks, and Rabobank's own reputation has taken a hit since 2012/13. The bank no longer enjoys the leading position it has traditionally held. But Rabobank still has the highest score on reliability and preference, and the gap between Rabobank and its competitors is small. The awareness of Rabobank being a cooperative remained high in 2016, with a score of 78%. However, Rabobank's rating as a cooperative saw a gradual decline from the significantly higher levels in 2013. This particular appraisal has continued to decline in 2016 and is lower than it was in previous years.

Bank reputation in the Netherlands¹					
	Annual average 2016	Annual average 2015	Annual average 2014	Annual average 2013	Annual average 2012
Rabobank as a cooperative					
Familiarity with Rabobank as a cooperative	78%	79%	78%	81%	76%
Positive valuation of Rabobank as a cooperative	47%	49%	52%	56%	57%
Rabobank image					
Reliable	No. 1: 33%	No. 1: 33%	No. 1: 33%	No. 1: 39%	No. 1: 46%
Lead on number 2	3 percentage points	5 percentage points	5 percentage points	12 percentage points	14 percentage points
Bank preference					
Rabobank preference	No. 1: 47%	No. 1: 46%	No. 1: 48%	No. 1: 52%	No. 1: 53%
Lead on number 2	3 percentage points	2 percentage points	4 percentage points	10 percentage points	10 percentage points

¹ Figures are based on a survey by the research agency No Ties. Every year, over 7,500 people in the Netherlands are interviewed about the reputation of the country's various banks. They are asked which reputation indicators they associate most strongly with which banks (multiple answers are possible). This results in scores for the banks on each of the various reputation indicators. Similar figures are not available for the other countries in which Rabobank operates.

Reputation scores based on RepTrak



- The RepTrak® Monitor is a tool of the Reputation Institute that tracks 27 KPIs grouped around eight reputation dimensions that appear to be most effective in getting stakeholders to support the company.
- The reputation of Rabobank and the reputation of selected benchmark companies (ING and ABN AMRO) were measured through an online survey among a representative sample of the General Public in the Netherlands. The reputation of Rabobank was also measured among Rabobank clients. Rabobank was measured as Rabobank Group and ING was measured as ING Group among the general public.

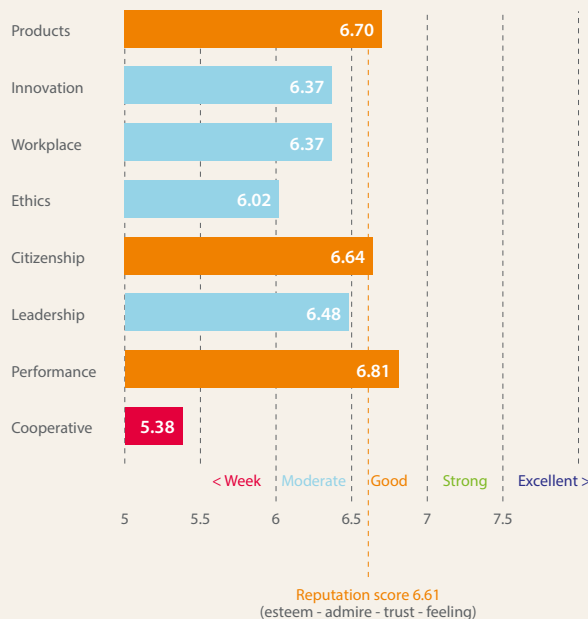
In 2015 Rabobank participated in the RepTrak® reputation study of the Reputation Institute. RepTrak® measures the overall reputation and eight reputation drivers and awards marks for each attribute. On a monthly basis, the reputation of Rabobank fluctuated widely in the last six months. Among Rabobank clients, our reputation is stable and highly rated. The most positive reputation drivers for Rabobank are financial performance and products and services. Cooperative values are in the red zone and scores for 'ethics' were at a relatively low level.

2016 Banking Confidence Monitor

The Dutch Banking Association (DBA) presented the findings of the second Banking Confidence Monitor on 3 October 2016. The Banking Confidence Monitor investigates the following questions: How much confidence do consumers have in banks in general and their own bank in particular? How do they rate banks' services? To what extent do banks put their customers' interests first? Banks can use this research to reach out to consumers, representatives of stakeholder organisations and regulatory authorities on the subject of private banking services. More information on the scores of Rabobank and the banking sector can be found [here](#).

In addition to the results of an online survey, the individual scores of banks are published in the Client Dashboard modules of the Netherlands Authority for the Financial Markets (AFM),

Reputation drivers 2016



including the payment services module developed by the Dutch Payments Association (Betaalvereniging Nederland, BVN). Rabobank supports and is a part of this initiative. Integrating client feedback in our process is part of an ongoing effort for all-round improvement; it is something we do every day. The results of this research, combined with our own insights, make it easier for us to identify areas in which we can improve, and areas in which we are already doing well.

Lending more at lower interest rates

Entrepreneurs, from SMEs to big businesses, who need to finance their investment with a bank credit or lease can benefit from an interest rebate if they meet the criteria. In the past seven years (2009-2016) Rabobank and DLL were able to provide EIB financing with an attractive discount to over 2,500 SME and midcap entrepreneurs. These entrepreneurs together employ over 40,000 people in the Netherlands.

TLTRO incentive measure

As a result of the Rabobank's participation in the 'Targeted Long-Term Refinancing Operations'-programme (TLTRO II) of the ECB, Rabobank is able to fund loans at lower costs than usual. Because the TLTRO-programme aims to stimulate bank lending to the real economy, the lower funding costs for the Rabobank are reflected in a lower interest rate offered to our business clients.

Sustainability

Rabobank acknowledges the increasingly relevant role that sustainable development plays in our modern society. We wish to contribute to these developments and have set out our sustainability ambitions in the SST memorandum. SST outlines 14 ambitious KPIs belonging to five overarching themes selected in 2014, with the year 2020 as ultimate deadline.

We are currently halfway through this trajectory and are satisfied with the progress of the implementation of our ambitions. When, in four years' time, Rabobank delivers on the promises it made in 2014, we will have an impact on sustainability within society. We see our concrete sustainability activities and products, the publication of SST and our progress in reporting in the Annual Report as contributions to strengthening – or indeed restoring – society's trust in financial institutions. For a detailed breakdown of the KPIs described in SST, please refer to [Appendix 2](#).

Ethics

Restoring trust in the financial sector is a process consisting of many steps. Each small step brings us closer to our ultimate goal, and many steps present ethical queries which we must handle carefully. Since 1998 Rabobank has had an Ethics Committee. At the start, this Committee was specifically meant to reflect on dilemmas arising from doing international business. Over time the Committee's scope has expanded to include every case and theme relating to ethics that confronts the bank. Every employee of the Rabobank organisation can submit an (often practical) ethical case to the Ethics Committee.

Ethical themes are often abstract, but arise from developments that Rabobank anticipates. By discussing these cases and themes methodically, the Ethics Committee can make decisions that are careful, explainable and tenable, and which are guided by the moral compass that is the Rabobank Code of Conduct¹. The Ethics Committee's main aim is to make fair decisions for the relevant stakeholders.

When it was initially formed, the Ethics Committee took a reactive approach to ethical conflicts, responding as they arose. Today we try to be more proactive so as to meet the demands of a rapidly changing world. In 18 years, the Ethics Committee has dealt with nearly 500 cases and a wide range of themes. In 2016, the Ethics Committee met five times and addressed 25 different subjects.

In one case, a client was engaged in the training and export of dogs. Some were search and rescue dogs, others were for the patrol and security purposes of, for instance, the Israeli army against Palestinian militants. The clients' website presented the dogs as effective weapons. The Ethics Committee considered this case problematic and decided it should be discussed with the client, who was expected to provide the required assurances about not violating human rights or else find another bank.

Two other cases the Ethics Committee considered related to ethical issues pertaining to refugees and to LGBT rights. Following a discussion about whether Rabobank should facilitate entrepreneurs seeking to profit unfairly from developing housing for refugees, the Ethics Committee offered to assist COA, the national agency responsible for the reception, supervision and departure of asylum seekers in the Netherlands, in the commercial aspects of its housing projects. The Ethics Committee also took steps towards recognising the importance of LGBT rights, ranging from travel security for LGBT employees to how to deal with countries that violate LGBT rights.

Specific themes that the Ethics Committee discussed in 2016 included Artificial Intelligence (AI) and lobby and ethics. AI can be a very helpful tool that serves the interests of the bank and the client. But it remains questionable whether independently thinking AI will be able to act ethically and in accordance with the Code of Conduct. Furthermore, massive use of AI will have a huge impact on the work force. Any future borderline cases in which these interests diverge will be addressed in the Ethics Committee. Rabobank has also expressed its support of a Dutch parliamentary initiative to increase transparency in the lobbying process and has agreed to share knowledge on specific topics. These contacts benefit not just Rabobank, but also society at large.

Rabobank took some important general steps in 2016 towards intensifying ethical cooperation among banks. Restoring trust in the financial sector is in the common interest of all banks. Careful, explainable and tenable decision-making helps keep the horse in front of the cart. Rabobank cooperates in this field with ABN AMRO, ING and SNS through the Dutch Banks Association. Our cooperation is intended to stimulate our banks' individual programmes of ethics, culture and conduct. In October 2016, the CEOs of these banks had an offsite during which they explored how to encourage dialogue about ethical issues within and between their organisations. Fiscal ethics was an important theme during these discussions (to read more on the Ethics Committee's views on fiscal ethics see [here](#)).

¹ Please find the latest version of the Code of Conduct and other key documents on : <https://www.rabobank.com/nl/about-rabobank/profile/organisation/key-documents/index.html>

The Ethics Office, which supports the Ethics Committee, contributed to a 2016 book about ethical leadership for SMEs. This is just one way that Rabobank is trying to help other stakeholders to deal with ethical dilemmas. For internal purposes, Rabobank developed the Rabobank Dilemma Game, which playfully teaches employees skills for discussions on ethics and ethical decision-making.

In 2017, the Ethics Committee hopes to further develop an ethical standpoint on the use of big data.

Rabobank Right: Keeping our customers' trust

We launched our worldwide employee training programme 'Rabobank Right' in 2016. The programme aims to ensure that employees can deal effectively with operational risks in their day-to-day work by improving their assessment and control skills, which helps us to retain the trust that our customers place in us.

Rabobank Right focuses on developing knowledge, attitudes and behaviour, and is mandatory for all Rabobank employees. It takes a group-policy approach, and equips all employees with a clear and comprehensive set of tools for developing their risk awareness. All employees learn about the key risks and how to deal with them, thus preparing them for taking the right decisions in practice. Completing the programme helps employees in enhancing their risk awareness and maintaining a balance between commercial objectives and risks as just another part of their job.

Values Week

Rabobank held its worldwide Values Week from 31 October-4 November 2016. This programme encourages a productive dialogue on what Rabobank means to its customers and society, and urges employees to reflect on how they fit in to the bigger picture of Rabobank.

The 2016 theme was 'The Meaningful Cooperative Bank'. We talked about how employees contribute individually to the strategic pillar 'Meaningful cooperative', and what this means. During this Values Week, members of the central organisation were invited to participate in on-site dialogues with colleagues from local Rabobanks. This gave an additional boost to internal relations.

The dialogues revolved around how employees conduct their day-to-day work as professionals, based on their own influence and our combined actions. Our challenge is to put this effectively into actions, arrive at a shared view, and make sure our customers experience Rabobank as a meaningful bank every day. A Values Week will be held again in 2017.

Communication and customer feedback

In 2015 the Dutch AFM performed an exploratory research study to find out how banks approach SME customers in Financial Restructuring & Recovery, the department that assists companies in financial difficulties. AFM concluded that banks could improve their communication with clients, which led us to promote more transparent communication about the purpose of Rabobank's Special Asset Management department and how it works.

In response to the AFM findings, Rabobank now offers their SME customers a document which explains what Special Asset Management stands for and what customers can expect from Rabobank. Drafted in cooperation with the DBA and our stakeholders, this document covers the following points:

- transferring a client to the Special Assets Management department,
- encouraging entrepreneurs to make proactive statements,
- the possibility of financing our customers in Special Asset Management,
- improving our approachability,
- making decisions more rapidly,
- informing customers about measures we have taken,
- making it easier to make a complaint,
- confirming agreed arrangements, and
- providing better access to information.

Dealing with complaints

In 2016, Rabobank participated in a follow-up investigation Ernst & Young Accountancy performed at the request of the DBA, a year after the AFM recommendations were published. The aim was to find out how banks handle customer complaints.

The study showed that banks deal with complaints appropriately. However, customers were found to occasionally be reluctant to make a complaint because they feared that it may be used against them.

Rabobank saw this reluctance as a call to action. Customers are now directly notified about the option of making a complaint, and the complaint process has been simplified. Furthermore, customers now receive information about the bank's motives regarding more complex developments, such as higher interest rates due to increased bank risk regarding finance or the involvement of external advisers or additional costs for property valuation.

Customer feedback

In 2016 Rabobank started conducting regular surveys with Special Asset Management customers. Customers are asked about their experiences with receiving advice from a bank employee. Additionally, we register complaints more thoroughly so we have a better overview of the sorts and volumes of complaints. This helps us provide better service to our customers.

Because of the economic recovery, at present we are serving fewer Special Asset Management customers than we traditionally have. We still continue to help our Special Asset Management customers. To provide even better customer service, Rabobank is currently revising its way of working and will implement changes to this effect in 2017.

Derivatives

In March 2016, Dutch Minister of Finance Dijsselbloem appointed a committee of independent experts to write a recovery framework defining new rules for the way banks should conduct the reassessment of interest rate derivatives files for SME clients. Independent external evaluators will ensure the proper application of the recovery framework. Rabobank supports the Minister's actions. It is important to us to be a part of the solution that contributes to restoring confidence in the financial sector.

Our wish to take responsibility and participate in finding an accurate solution to the derivatives recovery led us to join the Dutch Derivatives Committee recovery framework on 7 July 2016.

As a major lender to SME companies, Rabobank has had intensive consultations with a range of stakeholders since signing on to the framework (originally published on 5 July 2016). The decision to join the framework, which enjoys broad public support, was taken in the interest of SME customers of Rabobank with an interest rate derivatives contract. The approach required by the framework gives them the clarity they need. Being a cooperative bank, Rabobank has sought and obtained internal support for the decision from local Rabobanks and the highest representative body of Rabobank members.

By joining the recovery framework, Rabobank demonstrates its commitment to work towards a solid and accurate solution for its customers. Our participation in the framework also brings us closure on what has been a long-running issue in the SME sector. The reassessment process of interest rate derivative contracts is geared towards delivering what people expect of a customer-focused cooperative that takes its role in society seriously.

Rabobank has mapped to some 11,000 commercial customers, with in total around 16,000 derivatives contracts, representing just over 1% of Rabobank's total of 800,000 commercial customers. The recovery framework applies to those of the 11,000 SME clients which meet the criteria of the recovery framework. The reassessment of these contracts has been subject to considerable delay. Implementation of the new recovery framework is expected to last until 2018.

Our output and impact

Increasing transparency

At Rabobank, we believe it is important to be open about our customers' evaluation of their experience with Rabobank's service. We use customer feedback every day to improve our services. In 2016 several measures were taken to promote transparency. Customers' confidence in Rabobank was monitored for the second time, and we are working to improve our banking terms and conditions. An important part of this was about making the language we use in our communication with customers more accessible. With an eye to improving overall transparency and clarity, we also revised several key texts, like letters to customers, brochures and product conditions. Our measures also extended to reporting on sustainability topics in our core processes.

Revisited banking terms and conditions represent significant improvement for customers

Rabobank is working to improve the banking terms and conditions. The current General Banking Terms and Conditions (GBTC) will be replaced on 1 March 2017 by a new and more accessible set of terms and conditions. The new GBTC was written in a style that is easier to understand, and includes illustrative examples. The new version also pays more attention to the customer's rights regarding the bank, making it much more functional for customers. Rabobank has also rewritten many of the letters, brochures and product conditions in clearer, understandable language that keeps the customer's perspective firmly in mind.

Internal Regulation for Reporting of Abuses

The Internal Regulation for Reporting Abuses offers staff the possibility to safely address (possible) misconduct within the organisation. It contributes to transparent governance and promotes integrity within Rabobank. In 2016 the procedures for reporting misconduct have been updated. The most significant change is that employees may report anonymously.

Also in 2016 the external 'Speak Up' platform in combination with a local external trusted person was initiated.

The roll-out for all international locations has been completed and implementation for the Netherlands will follow in the first half of 2017.

The Trusted Committee received 8 reports of possible misconduct in 2016. These were all discussed and appropriately handled. In addition the Committee also finalised five cases that were initiated in 2015.

Stimulating transparency to promote sustainability

We believe that increased transparency adds to fruitful discussions about sustainability with members, clients and other stakeholders. Transparency contributes to accelerating sustainable development.

Rabobank aims to increase transparency in its reporting on the progression and integration of sustainability topics in its core processes. The Annual Report is one of the most important tools we have to share this information. Rabobank's ranking in the Transparency Benchmark (TB) rose sharply in 2016, and is now at the top of the Dutch financial sector. This external acknowledgement of our efforts to increase transparency has been encouraging.

Our efforts to stimulate transparency to promote and accelerate sustainable development do not stop there. We engage with clients who need to take further steps to be fully compliant with our policies. We are open to being rated by independent sustainability rating agencies so we can learn from their views on our progress. In 2016, Rabobank also drafted an updated version of our Sustainability Policy Framework and introduced the Sustainable Procurement Standard.

The following sections will elaborate on our transparency promoting activities in the area of sustainable development and discuss how the findings of external sustainability ratings agencies factor into our day-to-day business and policy. Our top ranking demonstrates that we are already making strides towards increasing transparency on sustainability issues, but we believe there is always more to be done.

Sustainability Policy Framework

Rabobank published a new Sustainability Policy Framework in 2016. This improved framework sets out Rabobank's complete sustainability policy and sheds more light on Rabobank's sustainability standpoints for customers, employees and society. The advantages and benefits of the 2016 Sustainability Policy Framework lie in the enhanced interconnection between the different sustainability policies such as Human Rights and sector policies such as the Sustainable Palm Oil policy. Also, it provides a more defined scope and clearer language. The new framework includes a few elements that are new or have been altered, including an updated Animal Welfare policy and a new policy on land governance that refines the 2015 statement on land governance. The content of the new Sustainability Policy Framework is based on Rabobank's existing policy documents and the various external guidelines Rabobank endorses, such as the Organisation for Economic Co-operation and Development (OECD) guidelines for multinational companies and the United Nations Global Compact. The Sustainability Policy Framework is available in Dutch and English and can be found [here](#).

Sustainable Procurement Standard

The Sustainability Policy Framework addresses policies, but also provides an overview of the implementation landscape with Standards: documents describing how to implement the policies. 2016 saw the introduction of the Sustainable Procurement Standard (more Standards will be added to the framework in future). Based on a best practice at the facilities department, the Sustainable Procurement Standard has scope throughout the bank, and prescribes that a supplier's level of sustainability be documented during the Requests for Proposal, RFP's (Procurement Projects).

For procurement projects exceeding EUR 50,000 the Rabobank Procurement department has a mandate from the Executive Board to participate in the procurement team. Procurement will support the business in conducting a check on sustainability criteria for potential suppliers based upon the ISO26000 guideline.

In general, the Standard requires that Rabobank exclude potential suppliers if they are involved in activities which the bank considers unethical or inappropriate. Also, all procuring employees must evaluate sustainability criteria and incorporate them in their decision-making process. Finally, every contracted supplier must also sign the Sustainability Statement for business partners of Rabobank Group.

Sustainability ratings

Rabobank strives for continuous improvement in sustainability performance. We value our top position in the ratings of key agencies highly, which validates our impact on sustainable development. Learning how society perceives our performance tells us much about our progress and the sustainability improvements we've made to our services. In addition to Rabobank's own sustainability programme SST, participating in the extensive questionnaires of different sustainability ratings agencies is also an important way for the bank to provide insight into how sustainability is embedded in our business.

We monitor the social appreciation of our worldwide sustainability efforts based on RobecoSAM's ranking of globally operating financial institutions, Sustainalytics' analysis and the Transparency Benchmark of the Netherlands Ministry of Economic Affairs.

Rabobank's sustainability performance scores have been analysed. Although we are proud of these scores, our sustainability targets are ambitious. We hope to keep improving our sustainability performance and, in doing so, our scores in the sustainability ratings. Below is an overview of a few important evaluators and our scores. We believe that these scores can give our clients, NGO's, employees and society at large independent and transparent insight into our contribution to sustainable development.

Benchmark	Description	Performance Rabobank Group in 2016
RobecoSAM	In cooperation with S&P Dow Jones Indices, RobecoSAM publishes the globally renowned Dow Jones Sustainability Indices (DJSI). Based on its own Corporate Sustainability Assessment of 3,000 listed and non-listed companies, RobecoSAM has built one of the most extensive databases in the world of financially relevant sustainability information.	In 2016, Rabobank received 91 points and with that ended in 7th place in the banking category. This is an increase in points on the 87 points Rabobank earned in 2015. However, our relative position fell back two positions compared to 2015, when we ranked 5th. This indicates that our peers are also striving to improve their sustainability performance to realise a more sustainable world.
Sustainalytics	Sustainalytics is a global leader in sustainability research. Sustainalytics supports investors in the development and execution of responsible investment strategies. Investors use the research of Sustainalytics to integrate environmental, social and governance factors in their investment.	In 2016, Rabobank ranked 2nd out of a peer group of 396 financial institutions and has increased from 80 to 85 points overall. This is a rise of nine positions compared to 2015. This ranking in the top 5% classifies Rabobank as an 'Industry Leader'. Sustainalytics ranks Rabobank as number 1 out of 396 banks on the subcategory Environment.
Transparency Benchmark	The TB is an annual research study in the Netherlands with regard to the content and quality of social reporting in Dutch companies.	Rabobank scored 188 points on the TB with the integrated Annual Report 2015. This is 19 points higher than last year. Rabobank ranked 2 nd place in the financial sector and 11 th overall.
Fair Finance Guide	<p>The Fair Finance Guide (Eerlijke Bankwijzer) is an annual research report commissioned by Fair Finance Guide an initiative of the following six Dutch civil society organisations: Amnesty International, Dierenbescherming, FNV, Milieudefensie, Oxfam Novib, and PAX. The goal of the Fair Finance Guide is to improve the sustainability policies and practices of banks that are active in the Netherlands.</p> <p>The Fair Finance Guide compares the 10 main Dutch providers of individual payment and savings accounts with regard to ethical and sustainability topics it has prioritised. The report evaluates the investment and financial policy of Dutch banking groups and looks at certain themes and sectors, such as, 'labour rights', 'animal welfare', 'housing and real estate' and 'arms'.</p>	Rabobank's Fair Finance Guide score has increased over the past years as Rabobank has taken important steps to improve transparency and to improve the clarity and consistency of its sustainability policies. In 2016 the Fair Finance Guide rates Rabobank 'satisfactory' to 'good' on the majority of the 21 topics evaluated this year, but feels Rabobank needs to aim for more on a number of topics including climate change.

The reporting agencies provide feedback regarding Rabobank's methods of integrating sustainability into its business operations. They also indicate how successfully Rabobank does this compared to other parties. We take their recommendations seriously and work to improve the weaker points mentioned in the reports. These improvements are what led to Rabobank's higher ranking in 2016.

Our output and impact

Digitalising services

Customer needs and behaviours are changing, and so is the way they communicate with Rabobank. They want concrete support and answers – fast, and preferably 24/7. Rabobank is fully committed to digitalisation in order to make it easier for customers to arrange their financial affairs whenever and wherever they want to: from the comfort of the couch or on the road. New technologies enable us to bring about improvements that can contribute significantly to flawless, fast customer services and better user experiences.

Last year, we extended our existing products and services following direct customer feedback and customer experience research. Digitalisation also allowed us to develop completely new services, sometimes in collaboration with our digital partners. We also took steps in further digitalising internal services, bringing about significant improvements in internal communications, HR services and digital education.

Extending existing digital products and services

In 2016, we improved several existing services and processes by applying new technologies and innovations. We used customer feedback to improve our Rabo Banking App and Rabo Investment App and made our Rabo Wallet available to a larger group of customers. We also broadened the range of online services, making it possible to open an account and buy insurance policies online, and improved our online corporate banking environment and digital solutions for online leasing.

Doing more with the Rabo Banking App

The improved design and functionality of the Rabo Banking App simplifies daily financial decisions. The new features include an account overview with improved clarity and insight into multiple accounts, as well as balance and payment updates. The app also allows customers to search transactions, share proof of payment with others and view both their internet banking address book and the Banking App address book in one place. We also added new functionality aimed at specific customer groups. For example, customers with investments through Rabobank can now view their investment portfolio in the app. Rabo Banking Apps for Apple iPhone or iPad use Touch ID fingerprint authentication and our app for Apple Watch allows customers to view their balance and alerts on the go. We will strive to further improve the Rabo Banking App in 2017, starting with fingerprint access for Android users.

Insight into investment portfolio

The award-winning Rabo Investment App gives clients instant access to information about the progress, return, value and composition of their portfolio. Automated daily monitoring ensures clients receive an alert if something seems off-track. Rabobank provides a variety of investment solutions, including a discretionary portfolio management programme named 'Rabo Beheerd Beleggen'. Through this programme, a team of experienced portfolio managers invests client capital and ensures appropriate diversification according to their investment goals, investment horizon and how much risk they are willing to take.

Contactless payment with the Rabo Wallet

Rabo Wallet allows customers to make payments in shops just by holding their phone over the payment terminal. Rabo Wallet users can also save their loyalty cards to Rabo Wallet and use the app to pay for parking. The next step is to make Rabo Wallet available to all Android users by using cloud technology. Additional services (e.g. paying for petrol with a smartphone, saving coupons and offers, or linking to accumulated air miles points) are being tested in a living lab environment. Rabo Wallet was made available on three different Samsung smartphones in 2015. In April 2016, we rolled out Rabo Wallet for Dutch customers who own an Android smartphone with an NFC SIM from KPN, Telfort or Simyo.

Becoming a customer online: Opening an account

At the end of 2016, we took another step towards providing customer service that is always available and always nearby: private customers can now apply to open a checking account using the Rabo Banking App. Also, customers who already have a private account can now open a business account using internet banking. In 2017, we will further develop this product to make it available to non-customers.

Buying insurance online

Rabobank offers customers a complete range of advisory services and products, including insurance. Small business clients can now open and manage their insurance policies completely online. Rabobank and Interpolis are the first to provide this service at this magnitude in the Netherlands. The current online features – based on state-of-the-art technology – will also be further enhanced for development for the mobile app. In 2016, we sold the 100,000th small business insurance policy.

Online corporate banking environment

Rabo Corporate Connect already offered Corporate and Wholesale clients within the Netherlands a personalised financial dashboard and access to daily banking products, research and rates. In 2016, Rabo Corporate Connect was rolled out internationally to clients in all regions. We also focused on adding new services to the online portfolio, such as requesting standard bank confirmations online. Wholesale clients can now easily request, pay and receive an SBC via the portal. We also enabled clients to enter CRS/FATCA data online as part of client onboarding and improved self-support features, such as searching for support content in the knowledge database to increase the ease of using Rabo Corporate Connect. In 2017, we will work on continuous improvements, starting with the roll-out of a self-service module and new dashboard widgets with relevant financial data.

Digital solutions for online leasing

Businesses frequently make use of lease arrangements to finance their operating equipment and want to get clear answers fast. Rabobank responds to this demand by providing these SME customers instant clarity about a financing request when they apply for a lease (max. EUR 250,000) online. If the online request is eligible for financing, DLL will follow up with a real-time offer.

DLL will continue to focus on digital services in an effort to speed up and simplify its processes and delivery, and support partners with customised financial solutions. During the first half of 2016, DLL introduced the mobile app 'DLL Express Finance' in the US for all industries in which it operates.

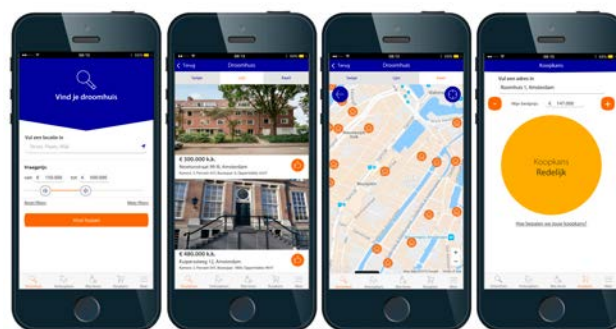
The app allows for quick and reliable communication between customers and account managers. In autumn 2016, DLL launched the European Vendor Finance Mobile app, aimed at field sales representatives of the vendor finance partners with the purpose of making doing business with DLL easier and faster and to support closing the deal at point of sale. Over the coming months, the app will be enhanced to cover the full origination process (Quote – Online Credit Check – e-Signature). Most of the app features can be used offline. The app will also be made available for a wider range of devices and operating systems.

New digital services

In an effort to be closer than ever to customers, we have concentrated our efforts on bringing innovation to the next level. In 2016, we launched a number of new services, including the HomeCatcher app, a playful way to offer customers relevant insight during the orientation phase of buying or selling a home, iDin, an online identification and authentication tool, and SmartPin, a payment terminal in a smartphone. We also encourage employees to come up with new, innovative ideas, supporting Rabobank's vision that organisational innovation competences are an important key to future success. Easytrade, a new foreign exchange hedging platform for clients, is one of these so-called Moonshot ideas.

Finding the right home: The HomeCatcher app

The HomeCatcher App was developed with an eye to simplifying the process of finding a dream home, as well as making it more fun. Smart use of data makes it possible to give customers better insight into selling or buying a house. Customers can use the app to look for a house, rate their chances of being able to buy it, and to receive an estimate of the maximum mortgage they could get. Customers can also specify their personal preferences regarding the duration of the buying process and the budget to rate the chances of selling their current home.



Online identification and authentication tool: iDIN

The iDIN service was co-developed by Rabobank and the Dutch Payments Association Netherlands, along with other participating banks in the Netherlands. Private customers can use iDIN to identify themselves online and to login to participating organisations. Customers use their bank's trusted login tools to identify themselves to iDIN (for Rabobank, the Rabo Scanner). Rather than having to remember multiple passwords, customers can access government websites, webshops and MyPortal pages with just one secure, familiar and easy online login tool. Points of sale (businesses, government organisations, etc.) can use iDIN to verify the identity of their online clients. Authentication from the bank is valuable because the customer's identity was already verified when they opened an account. Since the data required by different organisations may vary, points of sale that accept iDIN can select which details they need and users can select which details they wish to share with the organisations when they need to identify themselves.

A payment terminal in a smartphone: SmartPin

Rabo SmartPin represents one way that Rabobank is pioneering rapid, efficient and modern methods of payment. The Rabo SmartPin is an innovative solution that enables entrepreneurs to receive debit card payments. The Rabo SmartPin consists of a handheld card reader and an app for iOS and Android phones, transforming small business owners' smartphones or tablets into a payment terminal. With Rabo SmartPin entrepreneurs can accept payments and e-mail the receipt to the client. The Rabo SmartPin app can also process contact-free debit card payments and displays an overview of daily turnover. Different user profiles can be created in the app, which also makes Rabo SmartPin suitable for larger businesses. The prospects for growth are positive as the app has been downloaded 10,000 times and users rate it generously.



New foreign exchange hedging platform for clients: Easytrade

Easytrade is Rabobank's new foreign currency hedging platform that went live in December 2016 after only four months of development. The main principle of Easytrade is to automatically hedge all foreign currency exposures by just

uploading the accounting records. Currently, a few clients are engaged in a pilot in which they actually trade and provide feedback for further improvements. Easytrade enables midcap and largecap corporates to upload purchase and sales orders or payables and receivables straight from their ERP system. Easytrade will make sure that all foreign currency items are identified and hedged automatically, applying the company's hedging policy. After uploading orders or invoices, Easytrade filters out the foreign currency items, the items that were already hedged and the items with changed payment dates. These last items will automatically be re-hedged at the new due date. The trading of all items only takes seconds. The first reactions from pilot clients have been very positive and Easytrade now aims to provide the service to more Rabobank clients and to work on continuous improvements of the platform with them.

Digital partnerships

In 2016, we expanded our collaborations with accelerators and start-ups to create more and better digital services for our customers. Rabobank's success at turning collaboration with start-ups into services for our customers has been recognised by the Nesta organisation and the Startup Europe Partnership, both of which are dedicated to promoting innovation. We are now ranked as the most start-up-friendly bank and the second-best corporate spread over all sectors on Europe's top 25 Corporate Startup Stars ranking. Our collaborative efforts aim to achieve goals ranging from enhancing Internet of Things (IoT) services to helping customers reduce home energy costs with our partner's dedicated digital platform, Bleeve.nl. We can be proud of many of our digital partnerships in 2016 and look forward to more in 2017.

Collaborating with accelerators to tackle new areas of expertise

Rabobank continues to expand its cooperation with start-ups and accelerators. Our collaborations with innovative partners have increased fivefold in the last three years. We are experimenting with new technologies such as the use of the blockchain and AI to increase speed, insight, or the value of current products and services. Rabobank is a partner for many local accelerators, such as UtrechtInc and Yes!Delft, where our account managers meet entrepreneurs and support them in their future plans. We also have an international collaboration with our partner Startupbootcamp FinTech London, the leading accelerator of start-ups that supports and scales companies that innovate and disrupt the financial sector. In 2016, Rabobank also agreed to partner with the Accenture FinTech Innovation Lab Accelerator in London.

As a founding partner of Startup Fest, Europe's most premier innovation festival, we played a matchmaking role in the 2016 edition. We published an online magazine for businesses in our network to introduce them to about 700 high-potential start-ups. This was a win-win for all involved: we supported start-ups in finding their launch customers and know-how, while more established businesses got to benefit from the start-up's innovation and new business models. We also co-organised F&A Next, a platform for investors, start-ups and scale-ups in the F&A industry, and Utrecht's Campus Party: a five-day, large-scale internet and technology event where participants can work on digital challenges.

In order to better understand the developments around the Internet of Things and to be closely engaged with the latest developments, DLL started a partnership with London's 'Startupbootcamp IoT | Connected Devices' in spring 2016. In this programme, start-up companies receive support in developing an IoT application, from idea to workable prototype.

Saving energy at home with Bleeve

Following the boost in collaboration with accelerators, Rabobank also increased its cooperation with start-ups. With the aim of improving sustainable housing, we have expanded the existing programme through collaboration with Bleeve.nl, supporting Rabobank's sustainability strategy, SST.

Homeowners can use the Bleeve.nl platform to obtain a free quick scan to discover how they can save on energy costs at home. Bleeve.nl can also connect homeowners with local installation companies who carry out measurements to identify ways to cut energy costs. By collaborating with Bleeve.nl, Rabobank is helping customers to lower their monthly costs and encouraging them to reduce their energy consumption. Rabobank believes that connecting its name to an impartial platform makes it easier for customers to identify trustworthiness.

In 2016, Rabobank and Bleeve started a pilot programme in which we refer new and existing clients to Bleeve, providing them with the quick scan and free energy consultations at home. The service of Bleeve mixes strong technical components with a personal approach that keeps costs at a minimum. This collaboration is an ideal digital match for the bank. It underscores our desire to explore innovative opportunities in this new era, while still maintaining our focus on the same values and ideals as ever. The pilot will continue in 2017, when we aim to incorporate attention for energy saving into the mortgage consultation process, and to offer the quick scan and energy consultations to retail customers in every local Rabobank.

Digitalising internal services

In 2016, about 2,000 international business people and other interested parties (clients and staff) participated in the first Massive Online Open Course (MOOC) for international business. This Masterclass in International Business was developed by Rabobank in cooperation with its social partners and several Dutch universities, bringing together digital client support and internal digitalisation.

Rabobank has long been a leader in digitalising internal services to improve employee performance. The User Experience Lab is already a standard part of the design and development of the work environment. E-Learning modules are being released and completed on a large scale. The advancements made in 2016 follow naturally on these earlier developments, with 2016 seeing significant improvements to internal digital communications and HR services be moved to a central HR portal. A number of e-learning modules were rolled out throughout the bank, along with a massively simplified approach to digital education, development and performance management. Digitalisation not only helps employees provide excellent customer service, it also helps them advance their personal development.

Our output and impact

Engaging with stakeholders

Rabobank is very aware of the social role it has as a provider of financial services, and of its social responsibility as a cooperative organisation. Also, because banks play a crucial role in payments and lending to private individuals, businesses and other institutions, as a cooperative bank we are closely involved in matters that impact the economy and society at large. This is why we are committed to engaging with all our stakeholders, customers, members, employees, non-governmental organisations, government agencies, media, politicians and supervisory bodies and other banks. We continuously engage with our stakeholders by means of Member Councils, customer feedback platforms, task forces with supervisory bodies, customer- and employee surveys, participation in sector initiatives, etc. (for more details, please refer to [Appendix 4](#)). Through the stakeholder dialogues we gain useful insights to improve our sustainability performance. This topic outlines the various dialogues we maintain on relevant banking trends such as social and financial performance, legal policies, social issues and the general public debate. Furthermore, Our CEO and other members of the Board frequently meet with our employees, clients and other stakeholders to discuss progress on Rabobank's strategy, receive their feedback and discuss the current developments in the financial sector and within Rabobank specifically.

Empowering employees

While the bank is going through times of transition, our employees are - without exception - impacted by the changes, either on a professional or on a personal level. At the same time they must give shape to and execute the transition as they are key to the successful implementation of the strategy of the bank.

In the recently held culture and engagement survey, Rabobank employees worldwide were invited to give their feedback on the progress of the organisational culture change. This feedback has provided us with insight into how our employees think the bank is developing and how they can contribute to this. What they feel is going well and what can be improved, what motivates our staff and what they need to be empowered.

A total of 17,000 employees completed the survey and, additionally, provided many personal quotes. It expresses a strong commitment from employees all over the world to the organisation. The results of the survey show a few elements on which progress is being felt, compared to two years ago.

But above all it gives the leadership clear guidance to achieve substantial improvement in the working experience of staff. For example in the area of more clarity on strategic direction, management leadership, work environment and reducing bureaucracy.

The bank's leadership considers the outcomes as an incentive to the Executive Board, along with their direct reports and chairmen of the local member banks and management of the worldwide branches, to work hard on these points and to contribute to the empowerment of staff.

'Empowered employees', one of the four strategic pillars of Rabobank, centres on staff feeling supported in their efforts to contribute to the strategic goals of the organisation. The bank believes that employees feel empowered when they are physically and mentally fit, an expert in their field and can cope with a changing environment. This helps them take charge of their own development. And it is necessary in a changing environment and culture.

The general public

Rabobank measures how the Dutch public perceives its sustainable performance using, among others, the Social Image Monitor – an initiative of the Hope & Glory agency which performs the research in cooperation with Motivaction. Participants in the 2016 study were presented with the following Rabobank goals and asked to state the degree to which they found these suitable or recognisable for Rabobank:

- Main goal: Contribution to sustainable development in the Netherlands,
- Four subgoals related to 'sustainable agriculture and food supply' and 'vital communities':
 - 1 stimulating the sustainability of agriculture and food supply in the world,
 - 2 helping food & agri companies that are customers of Rabobank be economically successful,
 - 3 supporting local and social initiatives with manpower, knowledge and money, and
 - 4 supporting farmers and small businesses in developing countries.

KPI: By 2020, 80% of the Dutch public should associate Rabobank with sustainability in a positive way, along with at least one of the following topics: sustainable agriculture and a sustainable food supply, and vital communities.

Results					
In % of the Dutch public (n=478)		2016	2015	2014	2020 target
Positive association with sustainability		44	42		80
% who found the statement 'Rabobank contributes to sustainable development in the Netherlands' to be '(very) appropriate'/'(very) recognisable'	Appropriate	75	72	-	
	Recognisable	44	42	-	
% who found that at least one of the four stated aims for sustainable agriculture and food supply and/or vital communities to be '(very) appropriate'/'(very) recognisable'	Appropriate	88	85	80	
	Recognisable	70	67	61	

Rating categories of the two different questions:

- Not appropriate, poorly appropriate, neutral, reasonably appropriate, very appropriate – don't know/no opinion
- Very unrecognisable, unrecognisable, neutral, recognisable, very recognisable – don't know/no opinion

This was the second time we measured the main goal of contributing to sustainable development in the Netherlands and, excluding those who answered 'do not know', 44% indicated they found this recognisable for Rabobank. This is an increase of 2% compared to the previous year.

The end goal for 2020 is 80%. Notwithstanding our ongoing efforts to strengthen Rabobank's reputation with sustainability practices and impact, we need to acknowledge that the bar of 80% in 2020 is ambitious and requires additional efforts.

In total four aims were defined for the social themes sustainable agriculture, food supply and vital communities. The percentage of respondents that found at least one of the four aims suitable and/or recognisable (excluding those who answered 'do not know') increased in 2016 when compared to the previous year by 3% each. An impressive 88% thought at least 1 of 4 goals was suitable. This strengthens our idea that the social themes in SST are the right ones for Rabobank.

Social debate

As a cooperative bank, Rabobank aims to help its clients achieve their ambitions in and for a sustainable society. We have continuous dialogues with our stakeholders to keep in touch with what the public needs and to collect their input. We use this input to improve our sustainability policies and develop internal tools such as the expert opinion procedure¹ to manage our sustainability risks better. With regard to social welfare organisations, a list of debated topics and the outcome of discussions is included in [Appendix 4](#), covering various sustainability matters, including land rights, livestock farming and the palm oil supply chain.

Public debate on food-related issues

Rabobank's Banking for Food vision shows we want to play a prominent role in the public debate on the broad issue of food. Our networks allow us to connect producers with consumers. Our knowledge allows us to actively participate in roundtables on sustainability within select agribusiness value chains worldwide. And our ability to offer access to financing allows us to help our customers integrate solutions into their operations.

In cooperating with innovative customers and social partners on ambitious sustainability projects, our hope is they will work to inspire others to increase sustainability in their own value chains. We aspire to combine added value for the client with an acceleration of sustainability measures in global agribusiness and food.

Acting on our belief that sustainability knowledge is a valuable form of support for the F&A sector, in 2016, we participated in 9 roundtables and operated within 10 value chains. The knowledge gained from these activities was shared with customers in the form of events, reports and client meetings.

¹ See chapter Working with clients on sustainability Risks and opportunities – expert opinion

Overview of 10 value chains and the role of Rabobank in 2016:

Value chain	Member RT/Initiative	Rabobank highlights 2016
Beef	Global Roundtable Sustainable Beef (GRSB) Brazil Livestock Roundtable (GTPS)	<ul style="list-style-type: none"> - Active in discussions on Brazil guidelines for sustainable livestock production. - Participating in multiple meetings of the GTPS. - We published a joint report with WWF on Integrated Crop-Live Stock-Forest Systems addressing a more climate-friendly approach to cattle farming.
Biomaterials	Associate member EU Biobased industries consortium Associate member Dutch biorefinery cluster Host of third Agri Meets Chemical Conference Host of European conference on bioeconomy http://biconsortium.eu/news/bic-welcomes-25-new-members http://www.dutchbiorefinerycluster.nl/over-dbc-apc/geassocieerde-leden	<p>Rabobank has continued its role as partner and fuelled the possibilities with Biomaterials by hosting the third AgriMeetsChemicals Conference in close coordination with Deloitte. See: https://www2.deloitte.com/nl/nl/pages/manufacturing/events/agri-meets-chemicals-conference.html</p> <p>Further at the request of the EU commission and the Dutch presidency in 2016 we hosted the bioeconomy conference in Utrecht in April. Wiebe Draijer acted as one of the key note speakers. http://www.bioeconomyutrecht2016.eu/programme#speakers</p>
Cocoa		<ul style="list-style-type: none"> - Multiple deals with cocoa traders to support smallholders through supply chain finance with Rabobank Foundation. - Multiple partnerships with cocoa traders and companies, NGO's to support smallholders through supply chain finance & capacity building of coops with Rabobank Foundation and Rabo Development.
Coffee	Member Global Coffee Platform (previously 4C which is now integrated in this platform)	<p>Rabobank also joined the Global Coffee Platform that was launched in April 2016. The Global Coffee Platform (GCP) is the multi-stakeholder sustainable coffee platform that unites stakeholders in a non-competitive approach working towards a thriving, sustainable sector. Rabobank is actively participating and sharing input with this new Global Coffee Platform and driving the sustainability coffee agenda forward also in its relations with our clients. http://www.globalcoffeeplatform.org/membership/our-membership.</p> <p>Another example is our golden sponsorship of the Annual Swiss Coffee Trade Association meeting, where the Future of Coffee Trading and 'Climate change and Coffee: Risk and Response' were two themes on the agenda for panel discussion, in which Rabobank participated. The coffee infographic was presented here.</p>
Dairy	Advisory council Global Dairy Agenda for Action (GDAA) and Dairy Sustainability Framework (DSF) http://dairysustainabilityframework.org/wp-content/uploads/2016/10/Rabobank_IN574_Dairy_and_the_Sustainable_Development_Goals_Bellamy_Bogdan_Oct2016.pdf	<p>As part of our work on DSF we published an Industry Note on the SDGs and the DSF's work and necessary work on this. Also working with WWF and Friesland Campina working on biodiversity projects enhancing a framework for KPIs incorporating biodiversity for the value chain. See: https://www.oneworld.nl/business/partnerships/frieslandcampina-wnf-en-rabobank-werken-samen-aan-biodiversiteit-landbouw</p>
Forestry	Banking Environment Initiative https://www.rabobank.com/nl/about-rabobank/in-society/sustainability/vision-and-policy/vision-sustainably-successful-together.html	<p>The Banking Environment Initiative (BEI): The BEI is an initiative that is comprised of global banking institutions stretching across Asia, Europe, the United States and Latin America. Together with our members, the BEI has looked into determining how banks might best align with our deforestation commitment. Its overriding mission is to lead the banking industry in collectively directing capital towards environmentally and socially sustainable economic development.</p>
Palm oil	Member Of the Roundtable for Sustainable Palm Oil – RSPO Board: http://www.rspo.org/about/who-we-are/board-of-governors and http://www.rspo.org/about/who-we-are/board-of-governors/alternate-members	<p>Rabobank contributed to working groups on making smallholders more sustainable. Rabobank participated in the Financial Institution Task Force. We published our vision on Sustainable Palm Oil.</p>
Seafood	Partner ASC and through ASC with Global Salmon Initiative Partnership WWF/Rabobank http://www.asc-aqua.org/partners&supporters https://www.rabobank.com/nl/about-rabobank/in-society/sustainability/partnership-wnf/index.html	<p>In 2016 we shared our views on the Global Salmon Initiative. http://globalsalmoninitiative.org/wp-content/uploads/2016/11/AquaSur-Rabobank-2016.pdf</p> <p>Rabobank supports the ASC through its Impact Loan initiative with EIB. https://www.rabobank.nl/images/overzicht-duurzaamheidskeurmerken_29800042.pdf</p> <p>With WWF we support a project on ASC and salmon in Chile. See monitoring plan 2016 Steering Group WWF/Rabo partnership</p>
Soy	Member Of the Roundtable for Sustainable Soy – acting President of the Executive Board in 2016 http://www.responsiblesoy.org/about-rtrs/governance/executive-board/?lang=en	<p>Chair of the 11th annual conference of RTRS http://www.responsiblesoy.org</p>
Sugar Cane	Bonsucro http://bonsucro.com/site/members/list-of-members/	<p>Main work with Bonsucro relates to our partnership in India with WWF and partner with EID Parry. See Article Bonsucro as well as monitoring report steering committee WWF/Rabo. http://bonsucro.com/site/dhampur-india-an-organic-revolution-for-smallholders/</p>

Public affairs

Due to the crucial role financial institutions play, we engage with all our stakeholders on a broad range of topics that impact the opportunities to finance our clients. These include the operation and design of the banking industry and policies and bills in the financial sector as well as other regulatory initiatives.

The topics we covered with our stakeholders in 2016 include Payments Services Directive 2, capital standards, how to resolve institutions, developments in lending to the economy, initiatives with regard to duty of care, special asset management and developments around solving outstanding issues with derivatives for SMEs. These discussions were held

across Europe and included numerous diverse parties from the Dutch and European parliaments to the European Commission and employers' federations. We also engage with regulators and supervisors in other parts of the world. Our position papers regarding regulation are published on our corporate website (see: section 'In society').

Engagement with investors and rating agencies

Rabobank is an active issuer in the debt capital markets. In 2016 Rabobank issued a total amount of EUR 14.2 billion in senior unsecured funding including its inaugural EUR 500 million green bond. In addition, we completed several subordinated debt and capital transactions.

Good access to the capital markets at a fair price hinges on good relationships with those who invest in these instruments as well as agencies that assign credit ratings to banks. This calls for a proactive approach and is pivotal to being a rock-solid bank. Rabobank's Investor Relations & Rating Agencies department (IR&RA) is responsible for making these stakeholders feel as comfortable as possible with Rabobank's creditworthiness and what the group stands for.

IR&RA's primary responsibility is to build and maintain long-term relationships with both rating agencies and investors. This is achieved by giving investors and rating agencies insight into Rabobank's risk profile. Investors and rating agencies are informed both proactively and at their request on all internal and external developments, which (could) impact the creditworthiness of Rabobank. This enables investors to take a well-considered decision when investing in Rabobank's debt or capital instruments. IR&RA also enables rating agencies to make an accurate assessment of the current and future creditworthiness of Rabobank.

Topics covered during 2016 with both investors and rating agencies include Rabobank's financial performance, governance change, Strategic Framework 2016-2020, capital position, regulatory developments and asset quality. In addition to these topics, the rating agencies also receive information attuned to their specific needs and methodology.

Overall, the rating agencies are positive about the outlook for stronger profitability underpinned by the bank's new structure. In its most recent update, Fitch said that it expects the improving trend in Rabobank's profitability to 'continue for structural and cyclical reasons, and that the group will reduce the profitability gap to similarly rated peers'. S&P notes that Rabobank's 'capital position will continue to strengthen as it

executes its medium-term optimisation strategy to adapt to low interest rates and regulatory challenges'. The bank's overall asset quality is regarded as a credit positive by all rating agencies. Moody's, for example, views Rabobank's asset quality as solid although risks could increase 'due to renewed weakness in the Dutch commercial real estate sector or rising deficiencies in the corporate loan portfolio'. All rating agencies appreciate Rabobank's strong position and franchise network in the domestic market and the strong performance of the domestic residential mortgage book.

More information on Rabobank's credit ratings is available [here](#).

Dutch Banking Sector Agreement

In 2016 the Dutch Banking Sector reached an agreement on international responsible business conduct regarding human rights. Rabobank was one of the individual banks in the working group that conducted the dialogue preparing the banking sector agreement.

The working group consisted of participants from the four parties to the agreement: industry association, unions, NGOs and government, plus individual banks. The parties and the banks that endorse the agreement aim to achieve a material, positive impact for people (potentially) facing adverse human rights conditions that are related to the activities of clients in the Dutch banking sector. Rabobank is keen to jointly search for solutions to address problems that an individual bank cannot solve by itself. The parties have agreed that we wish to learn from one another by undertaking a joint programme of research and by sharing best practices, like successful methods of influencing businesses in high-risk sectors. We also recognise that we need up-to-date, detailed information about human rights situations and any factors that might have a positive or negative impact on them. We plan to draw on the knowledge of all parties and develop a joint database for collecting reliable information about human rights risks across countries and sectors. Rabobank will be able to use this information project and business financing decision-making. By combining forces, we expect to be better equipped to achieve structural change.

The materiality matrix

Rabobank uses its dialogues with stakeholders as important input for the materiality matrix. The materiality matrix provides an overview and analysis of the topics we and our stakeholders consider material. The topics identified in the matrix form the backbone of this report, as set out in the Foreword. For further information on the materiality matrix, please refer to [Appendix 1](#).

Dilemma

Balancing business and societal interests

NGO's such as Milieudefensie ('Environmental Defence') and Amnesty International aim with concrete action to protect the rainforest and eradicate child labour. Palm Oil producers are claimed to cut rainforest to grow palm oil trees and are said to let children perform the tasks of producing cheap oil. NGO's are urging Rabobank to address these issues with clients and they ask us to take additional actions at a higher pace and with more effectiveness, including the ultimate consequence being the ending of the customer relationship.

Following our vision on contribution on sustainable development we consider it of great importance to be part of the solution and therefore actively engage with these clients to understand the complexity and organise change with all parties in the value chain. However, solving these complex issues takes considerable amounts of time. In the meanwhile we invest our retail clients' savings in financing these firms. How much patience can we have with solving these complex issues and how much time do we allow clients to strengthen their policies and practices?

Reaction Amnesty International

The serious labour rights abuses that Amnesty found on palm oil plantations in Indonesia require immediate action. We appreciate that Rabobank actively engages with its clients on these issues, and for Amnesty and the victims only concrete results count. Though this may not be easy, but we believe it is necessary and not impossible. Maximum leverage needs to be built, together with other investors and buyers. The Banking Agreement on human rights for instance, also offers opportunities to jointly work on improving labour conditions in the field.

Our output and impact

Working with clients on sustainability risks and opportunities

Sustainability is essential for the long-term success of businesses. For that reason, one of Rabobank's central sustainability ambitions (see [Sustainably Successful Together](#)) is to encourage and support clients in developing and achieving their Environmental, Social and Governance (ESG) goals. ESG issues also come with risks that need to be managed. As a result, sustainability forms an integral part of the bank's business model.

Rabobank is dedicated to an active approach to promoting sustainability. Sustainability is included in our sector visions. We regularly share our knowledge with our business customers. We conduct periodic reviews of our larger clients' performance so that we can, together, explore further opportunities for improvement and help the client systematically improve their performance. We also connect our customers with each other to exchange sustainability know-how and to create shared commercial opportunities. We provide customised financial solutions to make the most of these opportunities. We reward leaders in sustainability by giving them priority in financing and by doing so we aim to double the volume of services we offer them. These activities enable us to combine business success for our customers with sustainable innovation for society.

ESG risks and opportunities for corporate clients

2016 saw an increased customer focus with regard of sustainability. Drawing on the success of our client photo assessment for our Dutch clients, we have introduced the client photo for our Wholesale Clients as well. Also, in 2016 Rabobank introduced the expert opinion as part of its ambition to continuously improve and strengthen our understanding of the significance of sustainability in our clients' business activities part of the risk assessment on sustainability are the client engagement trajectories, which are called into action upon receiving information that may indicate that a client's sustainability performance is not in line with our sustainability policy.

Client photo – Corporate clients

Rabobank believes in helping our clients to develop a sustainable business model, because a sustainable business model is mutually beneficial for our clients and the bank.

The client photo was developed to provide insight into our clients' active approach and performance on ESG issues. Account managers create a profile of clients by assigning them to one of four main categories, ranging from 'sustainable leader' to 'non-compliant with Rabobank sustainability policies'. The client photo has been integrated into the lending process, one of the bank's primary processes.

KPI: By 2020, all our corporate clients will have maximum access to the sustainability expertise they require, and the sustainability performance of all our larger corporate clients will be recorded in a client photo.

Client photo			
Number of clients assessed	Number	%	2020 target
Local Rabobanks	14,502	99%	100%
Wholesale offices	1,533	85%	100%
Other Group divisions	n/a	n/a	100%

Sustainability performances of clients of local Rabobanks in the Netherlands (exposure > EUR 1 million)

Client photos of clients with an exposure above EUR 1 million						
<i>Number and exposure of clients > EUR 1 million</i>	<i>Total</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D+</i>	<i>D</i>
Total in numbers	14,502	519	13,466	502	6	9
Total in %	100%	4%	93%	3%	0%	0%
Receivables from clients in millions of euros	42,082	1,943	38,630	1,484	7	18
Total in %	100%	5%	91%	4%	0%	0%
<i>Client photos of clients per sector</i>						
	<i>Total</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D+</i>	<i>D</i>
Food & agri	15,228	435	14,351	426	9	7
Trade, industry and services	17,839	624	16,056	1,126	13	20
Other and unclassified	8,136	307	7,441	373	8	7
Total in numbers	41,203	1,366	37,848	1,925	30	34
Total in %	100%	3%	92%	5%	0%	0%

Sustainability performances of clients of wholesale offices

Client photos of clients with an exposure above EUR 1 million						
	<i>Total</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D+</i>	<i>D</i>
Food & agri	61	12	47	1	1	0
Trade, industry and services	677	186	416	69	2	4
Other and unclassified	795	202	509	79	2	3
Total in numbers	1,533	400	972	149	5	7
Total in %	100%	26%	64%	10%	0%	0%
<i>Receivables from clients in millions of euros</i>						
	<i>Total</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D+</i>	<i>D</i>
Total loans and advances	52,050	16,049	32,586	3,314	53	48
Total in %	100%	31%	63%	6%	0%	0%

<i>Category</i>	<i>Criteria</i>
A	A customer is in the highest category if it is among the most active companies in sustainability in its peer group. These customers are (pro)actively engaged in preserving their core business, while also looking at innovative solutions.
B	The majority of our customers are in this category. They recognise that sustainability is an issue that they have to take into account in their business and they respond to demands from customers or from the market. Working on the sustainability of the core activities is done mainly from an economic perspective. For example, they seek a balance between investments and fast returns.
C	Customers in this category see sustainability as a necessary requirement imposed on them via (inter)national laws and regulations. Sustainability is seen as an increase in costs and therefore adopted only when benefits are proven or regulations amended.
D+	This client does not (yet) meet Rabobank's sustainability policy on one or more points or has not responded adequately to key questions. Specific agreements are made about a possible solution and timelines are established. Once the customer meets the sustainability policy of Rabobank, it is classified in category A, B or C.
D	The customer does not meet Rabobank's sustainability policy (any more) on one or more points or does not give Rabobank insight into their sustainability. Here no specific arrangements are made within certain periods or the client does not respect its commitments. Financing of prospects in category D will not be approved. The relationship with existing customers in category D will be phased out.

In 2016 Rabobank covered 99% of its portfolio of clients with an exposure of over EUR 1 million with a client photo in the Netherlands. In general the classification remained similar between 2015 and 2016, but we do see a slight increase of 1% of clients improving their category from C to B, which now equals 91%. The total number of D and D+ clients is 15 which is still under 1%. We actively engage with these clients regarding their sustainable performance and we aim to help them improve.

During 2016 local member banks also started to assign client photo labels to clients with an exposure below the threshold of EUR 1 million. The exposures of these clients have been included in the client photo table for local member banks.

We also expanded the client photo coverage for our Wholesale Clients. This part of the client photo covers 85% of the corporate clients from international offices with an exposure over EUR 1 million. What stands out is the high percentage of frontrunners in our Wholesale domain, 26%. This matches our ambition of being the preferred bank for leading sustainable food & agri Wholesale companies. The client photo figures are not yet available for other entities of Rabobank.

Expert opinion

The expert opinion is an enhanced risk and opportunities assessment, supported by the central sustainability department. A risk-based method is applied to select which clients receive this extra support. Those selected for this procedure are clients either do not comply with our sustainability policies, attract considerable negative media attention on sustainability topics, or are large clients active in countries and industries facing high sustainability risks or controversies. The expert opinion is provided during the credit process, which has also enhanced our decision-making.

Client engagement

We regularly have discussions with all our clients about sustainability. When the explicit aim of these discussions is to improve the sustainability impact our clients have on the ground, we call this client engagement. Rabobank initiates such a client engagement process after receiving information that may indicate that a client's sustainability performance is not in line with our sustainability policy.

The sustainability department decides which engagements should be undertaken, based on a fixed set of criteria.

As a general rule, staff responsible for the clients in question are in charge of leading the client engagement dialogues. Where necessary and beneficial to the process, staff with specific sustainability knowledge provide support or take the lead. The central department oversees and manages the progress and helps to determine the results we wish to achieve. In 2016, the central sustainability department was involved in engagements regarding 88 issues with 47 clients in the area of environment, human rights, labour rights and governance. Our engagements have contributed to the upgrading of housing facilities for employees and the restoration of forests and other high value conservation areas that had been damaged. (See [Appendix 4](#) for more details).

ESG opportunities for Retail Clients

In 2016 we further developed the theme of sustainability in financial services for retail customers, paying special attention to energy efficiency in the housing market and expanding the range of sustainable investment products. Rabobank strives to align its products and services with the customers' sustainability requirements.

Rabo green mortgage

One product that exemplifies our sustainability efforts is the successful launch of a 'green mortgage', which we developed with our Rabo Green Bank. The green mortgage offers retail customers a 0.5% discount on the interest rate when they buy a new, very energy efficient house. To qualify, houses must be valued at more than EUR 150,000 and meet the requirements

regarding the level of energy efficiency and 100% use of sustainable timber.

This green mortgage encourages construction companies to build more energy efficient houses. In that case the business case for 'Nul-op-de-meter' houses (house with almost no energy costs) would be more attractive and sustainable timber is used in the projects.

Slim Verbouwen ('Smart Renovation')

Other efforts to promote energy economisation in the housing market in 2016 included the organisation of more so-called Slim Verbouwen ('Smart Renovation') events in 2016. On every information market around 18 corporate customers participated last year which then drew between 50 and 270 retail customers. During these events our corporate customers can showcase their products and services and connect with our retail customers with an eye to helping them make sustainable home improvements.

Current energy labels of Rabobank mortgage portfolio in the Netherlands

Energy labels in the mortgage portfolio

Energy labels	% of houses funded by Rabobank in 2015 ¹	relative discrepancy	% of houses funded by Rabobank in 2016 ²	% of houses in the Netherlands ³
A	15%	+1%	16%	9%
B	17%	-1%	16%	16%
C	26%	0%	26%	31%
D	19%	-2%	17%	22%
E	11%	0%	11%	12%
F	7%	+1%	8%	7%
G	5%	+1%	6%	3%
Total	100%	0%	100%	100%

Amount mortgage portfolio

	Total loan amount
Total mortgage portfolio	EUR 195.9 billion
'A' energy labels (16.4% of total)	EUR 32.1 billion ⁴
Climate mortgages	EUR 81.9 million

- 1 In 2010 approximately 10% of the mortgage portfolio has a confirmed energy label.
- 2 In 2016 approximately 15% of the mortgage portfolio has a confirmed energy label.
- 3 Confirmed energy labels: Rijksdienst voor Ondernemend Nederland.
- 4 In 2016 approximately 15% of the mortgage portfolio has a confirmed energy label. This is extrapolated over the total mortgage portfolio. To come to the total corresponding loan value an assumption is taken that the loan value per mortgage financed house in all energy labels is the same.

The data coverage improved in 2016 with the percentage of confirmed energy labels in the mortgage portfolio increasing by 50%. Compared to the average Dutch housing market, Rabobank portfolio has 7% more A and B labels, 11% less C, D and E labels but also 4% more F and G labels. This is stable compared to the previous year. The total amount for mortgages with an A label is EUR 32.1 billion, an increase of EUR 2.7 billion compared to 2015.

Responsible investing

Rabobank takes companies' and countries' sustainability performance on issues like people, the environment and good (corporate) governance into account when making investment decisions. We have a three pillar approach to responsible investing, which helps us to promote sustainability on the capital market – and play a pivotal role on it – by providing information to customers, by entering into dialogue with the asset managers with whom we cooperate, by engaging with companies that underperform based on UN Global Compact principles and by making conscious choices about the range of investments. The pillars of the approach are: 1) respecting internationally recognised standards that apply to the environment, people and good governance, 2) integrating these standards into the investment process and 3) avoiding investments in controversial weapons.

We expect the fund managers we work with to support the Principles for Responsible Investment (PRI) to demonstrate their commitment to taking ESG factors into account during the investment process. Rabobank also monitors whether the fund houses it works with meet the above criteria – if they do not, we enter into dialogue with them. Likewise, fund houses are also expected to seek out a dialogue on these issues with companies they invest in, for example, if the latter are lagging far behind on one of the principles of responsible investment. We also ask that cooperating fund houses refer to the United Nations Global Compact principles and incorporate these 10 principles in their corporate sustainability strategies on human rights, the environment, labour rights and anti-corruption. Clients who want to take sustainable investing a step further can avail of Rabobank's ample offering of additional screening options and sustainable investment funds. These funds are typically characterised by more stringent exclusion criteria, a best-in-class approach or thematic investing. In 2016, Rabobank total sustainable assets under management and assets in custody – including funding – amounted to EUR 6,320 million.

Rabobank aims to provide a concrete response to the investors' concerns about climate change and the risks it involves for them. We also try to directly address other topical issues and customer demands related to ESG. For example, customers who want to invest in a more climate-friendly manner can indicate that they wish their preferences to be reflected in their chosen investment.

Cooperation with Sustainalytics

To perform a CO₂ intensity review of the portfolios of institutions and charities that desire this, Rabobank works with Sustainalytics, a provider of sustainability ratings. A number of customers were offered such a portfolio analysis during the Paris climate summit in 2015 so that they could focus on CO₂. Some customers may prefer this approach because it is compatible with their investment philosophy or because they believe that the biggest polluters will eventually be less profitable. We continued to offer this service to our clients in 2016.

Sustainalytics also reassessed Rabobank's own investment list of shares in 2016, finding that it was less CO₂-intensive than in 2015. The pool of shares which serves as the basis of investment specialist portfolios is now 56% less CO₂-intensive (per converted dollar) than the worldwide reference benchmark (MSCI Developed Markets Index). This pool was 47% in 2015, and we had aimed to make it at least 50% less CO₂-intensive than the benchmark in 2016. The score is partly due to the fact that Rabobank has already been taking account of sustainability criteria in the composition of the selection list for some time.

Dialogue and cooperation with fund houses and companies

Most fund managers had the issue of climate change clearly on their radar, but the extent to which it informs their investment process differs widely. This was the finding of a 2015 survey by Rabobank Private Banking of 30 fund houses with which the bank cooperates. In 2016, Rabobank met with various asset managers to address this topic again. We aim to see the issue of climate change be entrenched in the fund houses' investment processes, in a variety of possible forms. For example, a climate policy could be formulated to measure the CO₂-intensity of portfolios. Fund houses could also enter into dialogue with companies whose efforts to reduce their environmental impact are really lagging behind. Our own experience has taught us that just asking such questions raises awareness and can lead to new initiatives for fund houses. Even though very limited in the volume invested by our clients, we also started

monitoring individual companies we advise, along with part of their portfolios. We will engage with companies we advise to maintain, in which clients collectively invest a minimum amount and that do not meet the required minimum standards. Our aim is to support them to become compliant with our policies. If the non-compliance continues, they are taken off our advisory list. This occurs a number of times each year.

Rabobank is already a top 3 player in the distribution of sustainable investment funds, as was once more confirmed the annual assessment (Duurzaam Sparen en Beleggen 2016) by VBDO, the Dutch Association of Investors for Sustainable Development. We will also continue to actively seek opportunities to increase our assortment of sustainable investment funds. After the successful launch of a number of responsible index funds from Actiam and Northern Trust in 2015, the bank added numerous sustainable trackers and sustainable investment funds to its platform last year. These include various impact investing funds which offer our customers low-threshold access to impact investing. In such cases, the investor explicitly seeks a social return in addition to a financial return. Furthermore, Rabobank introduced a discretionary sustainable portfolio for its clients (Rabobank Beheerd Beleggen Actief Duurzaam), thereby further lowering the threshold to invest sustainably. The introduction was accompanied by a mass media campaign to inform clients about the facts and myths about sustainable investing.

DLL ESG risks

DLL upholds high internal and external standards of ethical behaviour. In line with these standards, we conducted an extensive ESG Risk assessment on all Global vendors in 2016. Sustainability generally and ESG Risk specifically are also included in DLL's updated Code of Conduct and Values Dialogue, through including business dilemmas to encourage open dialogue and improve ethical behaviour in running our business. Finally, DLL's Business Principles Committee also addressed several ESG Risk related topics. This committee advises DLL's Executive Board on DLLs ethical and identity course.

Our output and impact

Stimulating sustainable agriculture

Accelerating sustainable agriculture and food supply worldwide is a key theme within Rabobank's sustainability agenda. It is one of two central social issues covered in the SST programme which outlines Rabobank's ambition to support clients in achieving sustainability goals. Rabobank engages with clients, NGOs and other stakeholders through various activities such as roundtables, offering access to finance, knowledge and networks to encourage the acceleration of sustainability. These actions contribute to realising Rabobank's vision of helping to nourish the world more sustainably, directly supporting the Banking for Food strategy.

Food & agri in the Netherlands: Implementing Banking for Food

For 2016, the further implementation of Banking for Food – Rabobank's vision on global food security and the role of the bank – was the key initiative within F&A in the Dutch retail market. This resulted in various activities designed to accelerate sustainable agriculture efforts.

Banking for Food toolbox

Local member banks now have access to a toolbox created to inspire users and encourage knowledge sharing with stakeholders and clients in food & agri. More than 35 local Rabobanks have committed to the programme and are developing their own activities. Banking for Food initiatives will continue in 2017 as part of the broader agenda to share food & agri knowledge with the Dutch market.

Revitalising F&A sectors

Oversupply and resulting low prices necessitated the initiation of the Action Plan to Revitalise Pig Farming 'Vitalisering Varkenshouderij', a large project to revitalise the Dutch pork sector. Rabobank provided access to knowledge and networking, and the Dutch government and sector organisation POV also joined the team. As a result, a plan for revitalising the sector was recently published, and it is now up to sector players to take action.

Space for new activities in horticulture

In the horticulture sector, Rabobank has joined the 'Herstructureren en Ontwikkeling Tuinbouw' (HOT) project. The goal of this project is to revitalise older horticulture areas by creating space for new activities via the removal of old green houses. Rabobank could potentially provide pre-financing in this process.

Sustainable livestock sector

Rabobank's participation in the covenant 'Uitvoeringsagenda Duurzame veehouderij' continued in 2016, working together with NGOs, representatives from the livestock, feed, meat processing and dairy sectors, as well as the Dutch government, education and WUR to form a trajectory to create a sustainable livestock sector by 2023. This platform aims to stimulate and activate other parties in the livestock sector to create the right movements towards 2023. A specific project where Rabobank is involved is to help farmers to involve sustainability as an integral part of their business plan. As a result of this project a guide to do so will be published.

Sustainability knowledge

To facilitate meaningful discussions between clients and our account management teams, efforts to integrate sustainability knowledge into our sector information system continue. In 2016, we have had many conversations with F&A clients in the Netherlands where sustainability was at least one of the themes discussed. Having access to this information allows account managers to share knowledge with clients and also proves useful in assessing their sustainability performance.

KPI: We define our vision of how to improve the sustainability of the agricultural value chain for soy, palm oil, sugarcane, forestry, beef, dairy, fish, coffee, cocoa and bio-materials. We share our vision and actively participate in roundtables or similar initiatives to accelerate the process of making these agricultural value chains more sustainable and work together with our clients to integrate the outcomes of these dialogues into their business operations and achieve commercial success at the same time.

Results				
<i>In numbers</i>	2016	2015	2014	2020 target
Number of published value chain visions (cumulative)	2	0	0	10
Number of published position papers (cumulative)	10	10	10	n/a
Number of value chain visions updated during the reporting year	0	0	0	n/a
Number of roundtables or similar initiatives in which we take part	9	9	8	10

Roundtables and value chains

Rabobank believes it can add value by participating in roundtables to share knowledge and expertise and by partnering with customers in 10 key value chains: soybeans, palm oil, sugarcane, forestry, beef, dairy, fish, coffee, cocoa and biomaterials.

Three criteria were used to identify these chains: many active customers in the chain; customers span the entire chain and relevant sustainability issues in the chain.

Sustainable agricultural food chains are important to ensuring sufficient, quality food supplies. With our extensive knowledge of the F&A sector, with our involvement in the nine roundtables and similar initiatives as well as in the cooperation with our customers, we are active in all parts of the chain, nationally and internationally.

As a financial institution, we work in multiple sectors. That is why it is crucial we have a broad vision on sustainability within a chain. Our sector policies integrate criteria created via a multi-stakeholder approach. For example, we require customers who produce palm oil to commit to the criteria of the Roundtable on Sustainable Palm Oil (RSPO). In November 2016, Rabobank presented its vision 'Making Sustainable Palm Oil the Norm' during a Dutch trade mission to Indonesia, thereby actively advocating our view on the sector. This event catalysed increased cooperation with clients, the Indonesian and Dutch government, IDH to accelerate the transition towards a more sustainable supply chain, see [link](#) for more information.

While Rabobank reported 10 published position papers in 2015, we have altered the definition to match the KPI better where we have said that we would present visions on sectors. Visions are forward looking and aim to indicate the future directions in the sector. Therefore the previously published papers are now presented in a separate figure and the number of visions has been added. Rabobank has presented its visions on sustainable palm oil and on [coffee](#). Updates of the visions will be published in the future if new trends require a new perspective on the sectors.

Putting knowledge, networks and financial solutions into practice: Coffee

Today's coffee industry is extremely dynamic, with costs and margins fluctuating due to rapidly changing consumer demands for quality coffee and supply side limitations in production, including issues in accessibility, quality and sustainability.

Linking players along the chain

As an active participant throughout the coffee value chain, Rabobank links players together by providing financial solutions as well as knowledge and network sharing. For example, the expertise and services of Rabobank Foundation, Rabo Development and the Rabobank Rural Fund are serving small farmers and cooperatives by providing technical assistance, access to finance to scale up (e.g. input loans, investment loans and working capital) and connecting them to reliable offtakers. The case of Café Gourmet Sierra Azul, 32 cup and Koffiebranderij BOON is a good example of how Rabobank is linking the entire value chain. The infographic below illustrates Rabobank's unique proposition along the coffee value chain (from farmers to trading houses, and roasters to retailers) and how we are implementing our Banking for Food strategy.

Global coffee platform

Rabobank also joined the Global Coffee Platform (GCP) that was launched in April 2016. The GCP is a multi-stakeholder sustainable coffee platform that unites stakeholders in a non-competitive approach, working towards a thriving, sustainable sector. Rabobank is actively participating and sharing input with the GCP and continues to drive the sustainable coffee agenda forward in its client relationships.

KPI: We actively contribute to improving agricultural value chains due to sustainability being an integral part of our philosophy about sectors. We share this knowledge in dialogue with our clients.

Results			
	2016	2015	2014
Number of events/podiums organised by Rabobank aimed at improving sustainability in agricultural value chains in the Netherlands	4	n/a	n/a
Number of events/podiums organised by Rabobank aimed at improving sustainability in agricultural value chains abroad ¹	14	n/a	n/a

For 2016 we changed the methodology to measure this KPI. In 2015 we reported the number of initiatives by local Rabobanks aimed at increasing sustainability of agricultural value chains and the number of customers local Rabobanks were talking to about making food & agri value chains more sustainable. Although the dialogue with our customers is still fundamental to our approach we found that it is difficult to capture this in a reporting indicator. As of 2016 we report the number of events/podiums organised by Rabobank aimed at improving sustainability in agricultural value chains in the Netherlands as well as the number of events/podiums organised by Rabobank aimed at improving sustainability in agricultural value chains abroad. We aim to disseminate our knowledge on the subject via these events. This matches our ambitions as expressed in the Banking for Food strategy. We expect to see an increase in these events in the coming period.

Collaboration with World Wide Fund for Nature

Rabobank has been collaborating with the World Wide Fund for Nature (WWF) since 2011 with the purpose to make global food supply chains more sustainable. In order to achieve this we set up projects with customers to create an earning model for sustainable food production. Rabobank finances these projects with funds from the partnership budget and is also involved in the projects as a knowledge partner. We provide a contribution, from our financial and content expertise, towards achieving the objectives established for each project. View our WWF partnership projects [here](#).

DLL: sustainable agricultural innovations

DLL is working to stay abreast of sustainable innovations and business opportunities and has established a partnership with Netafim, a leader in drip irrigation, in support of innovative and smart agricultural solutions such as water use optimisation equipment.

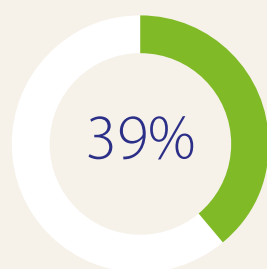
GlobalFarmers.com connects Rabobank's farmers around the world

GlobalFarmers.com is a unique new global digital platform created at the request of Rabobank customers in the farming community. It allows farmers from all over the world to connect and exchange vital business information and ideas. GlobalFarmers.com was formally launched in June 2016 and already has over 2,500 users of which 1,500 farmers from Australia, Brazil, Chile, New Zealand, the Netherlands and the US. Approximately 1,000 users are Rabobank colleagues, making them part of the worldwide farmers' community. The platform connects offline customer contacts and events with the online world. GlobalFarmers.com is developed in close co-creation with customers, based on a continuous dialogue on what features and content farmers need. This collaborative web platform was intended for agricultural entrepreneurs seeking to cooperate, learn, share and grow together. It supports the agricultural community in working together to build a healthy and profitable sector, which is vital to feeding the fast-growing world population.

For Rabobank, GlobalFarmers.com is a key element in successfully implementing its Banking for Food strategy in the primary sector to help farmers become successful rural entrepreneurs. Supporting farmers in an ever increasingly complex environment – integrating finance, knowledge and networks – makes Rabobank's proposition distinctive and relevant. [GlobalFarmers.com](#) reconfirms Rabobank's position as the leading Food & Agricultural bank, working on a healthy and profitable agricultural sector for its customers.

¹ events in Brazil, Australia and North America.

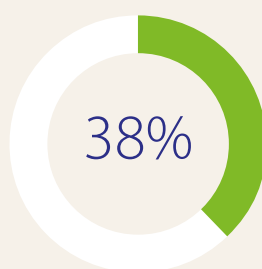
Customer



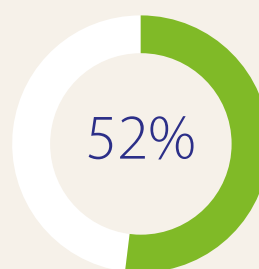
Rural

7.1
million

Credit

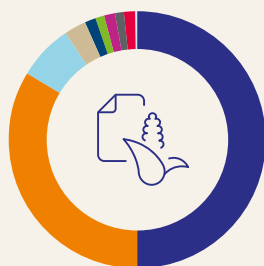


to farmers

to food & agri
value chain

12.0
billion

Partnerbanks serve over
3,800 F&A cooperatives



Sicredi	2,010
BPR	1,352
NMB	277
Zanaco	114
Regional	10
Finterra	4
LAAD	4
BTM	3
DFCU	2

Rabo Development supporting partner banks

Rabo Development has nine strategic partnerships with banks in East Africa and Latin America in which it holds a minority equity stake. These partnerships are based on the common ambition to improve financial inclusion and F&A sector development, particularly in rural areas. Rabo Development aims to support its partner banks in their growth, innovation and financial positions by, among other offerings, capital and expertise. Overall, outreach to partner bank clients grew 13 percent from 2014 to 2015¹.

Arise

In September, Rabobank, FMO and Norfund established a new investment and development company called Arise. This joint venture strengthens Rabobank's contribution to economic growth in Africa and increases the prosperity of the people by providing access to financial services, increasing employment, strengthening rural development and promoting poverty alleviation. The three parties will transfer their current investments in African banks to Arise, which will support these banks in implementing their strategies with the help of knowledge, network and capital. Arise is operational as company per January 2017.

¹ We incorporated data over 2015 from the Social Impact Report of Rabo Development. The 2016 data is not yet available and the data coming from partner banks is not audited.

Our output and impact

Supporting the vitality of communities

Support for vital communities is a central theme within Rabobank's sustainability programme. With a focus on local issues, we aim to strengthen economic and social vitality by supporting the business success of local collective initiatives in the countries where we operate. In the Netherlands, these issues include sustainability, economic vitality, and ensuring quality in healthcare and housing. In developing countries, we focus on establishing and professionalising farming organisations, and providing access to the local financial infrastructure. To accomplish these goals, Rabobank supplies human resources, knowledge, networks, facilities and financial services. In addition, we invest 3% of our profits in not-for-profit local social projects each year. To ensure that local communities continue to see the combined benefit of increasing self-sufficiency, greater collaboration and stronger economic and social vitality, Rabobank has developed a number of KPIs to identify specific objectives that contribute to these ambitions and allow us to measure our results. For more information, see [Appendix 2](#).

As a global, customer-focused, cooperative and socially responsible bank, Rabobank supports many local initiatives and organisations. In 2016, we did this by, among other things, making contributions to social projects of EUR 72.8 million, and many dedicated employee hours in the Netherlands and abroad. The contributions add up to 3.6% of our net profit. In addition, we devoted extra attention to supporting local civil cooperatives, with the ambition of creating local sustainable energy or of supporting fibreoptic cooperative initiatives. Rabobank also launched a cooperative toolkit and held workshops to train employees in better servicing these initiatives.

Meaningful cooperative

In 2016, we worked on the 'Meaningful cooperative' strategic pillar of the Strategic Framework 2016-2020. One of the steps taken to support our local Rabobank colleagues' commitment to the theme of new cooperatives is the development of the Cooperative Planner – a publication aimed at citizens and entrepreneurs – and associated workshops for colleagues in local Rabobanks. In the second half of 2016, Rabobank held eight workshops and trained 105 colleagues from 81 local Rabobanks. The workshops offer insights into the assistance of the initiatives, in order to help them develop into fully fledged cooperatives in areas such as energy, healthcare and fibreoptic internet.

MiddenBrabantGlas

An example of such an initiative is MiddenBrabantGlas. Central Brabant is home to an initiative to provide residents in remote areas with fibreoptic internet connections, giving participants faster and more stable internet. The initiative is founded on cooperative principles: the members join the initiative and share responsibility for funding the project. The area has approximately 4,000 potential connections and promoters are seeking 75% participation from businesses and households. Rabobank Hart van Brabant played a facilitating role in the preparations for the project by engaging in discussions regarding financing at an early stage. The bank has offered committed funding to supplement member capital. Thanks to the efforts of promoters and the bank, the installation begins 14 January 2017.

Investing in vital communities in the Netherlands

We consider our investments in vital communities a distinctive part of our identity. It demonstrates that Rabobank does more than just provide banking services.

KPI: We support social initiatives in the communities in which we operate with manpower, knowledge, networks and facilities, and we invest the equivalent of 3% of our annual profit in social initiatives on a not-for-profit basis.

Results				
<i>In % of profit</i>	2016	2015	2014	2020 target
Community not-for-profit investments ¹	3.6	2.8	3.5	3

1 The KPI and target include donations by Rabobank Foundation, which is a separate entity outside the Rabobank Group organisation.

Community funds and donations					
<i>In millions of euros</i>	2016	2015	2014	2013	2012
Cooperative dividend (from 97% of the local Rabobanks)	49.0	38.1	36.8	44.5	44.2
Donation from Rabobank and other Group divisions	6.5	6.9	8.0	8.0	4.6
Rabobank Foundation (in the Netherlands and abroad)	16.9	13.1	15.7	12.9	15.2
Other	0.4	0.5	0.5	0.5	0.4
Total community funds and donations	72.8	58.6	61.0	65.8	64.4

The 2016 contribution to community initiatives as a percentage of net profit equals 3.6%; this exceeds the KPI target of 3% and represents a significant increase from levels in 2015, when the target had not been met yet. This is primarily due to an increase in cooperative dividend spending by local Rabobanks. In 2016, 97% of local Rabobanks contributed funds to Rabobank Foundation. Besides giving financial support, Rabobank also supports social projects through a contribution of employee hours.

KPI: By 2020, we will be supporting 1,000 cooperatives and other member organisations in achieving business success, including 500 in the Netherlands and 500 in developing countries.

New collective local community initiatives as declared by local Rabobanks (cumulative)				
	2016	2015	2014	2020 target
Total	103	n/a	n/a	500

New collective local community initiatives (cumulative)				
	2016	2015	2014	2020 target
Numbers supported by Rabobank abroad				
Number of initiatives supported by Rabobank Foundation	278	230	n/a	
Total	278	230	n/a	500

Rabobank Foundation supported 278 initiatives in 2016. As some initiatives consist of multiple independent projects, the total number of individually supported initiatives is expected to be higher. In 2017, Rabobank Development will begin reporting on farmers' organisations in developing countries.

In 2016, local Rabobanks reported 103 collective local community initiatives, with both a social and an economic

purpose. These initiatives consist of local renewable energy cooperatives, local civil healthcare collaborations and fibreoptic internet projects, as well as others. We share our knowledge and networks with these initiatives as well as financial support. If we continue to support around 100 initiatives annually, the cumulative target of 500 in 2020 is realistic.

We used a more stringent method of measuring and reporting these initiatives in 2016 in order to focus on those which truly result from civil participation. We re-evaluated the portfolio to this end, so are not reporting the 2015 figures as they do not compare. This method will be used for future reference and going forward, will be embedded in the data collection processes of local Rabobanks. A side effect of the more stringent reporting method is the fact that it underrepresents the broad number of social initiatives supported by the banks mentioned. This presents us with a dilemma, as we want to report the correct figure, but it does not sufficiently reflect the valuable support of activities performed locally. A possible solution is the Rabo Versterkt platform, which does mention these initiatives which fit so well within our Banking for the Netherlands strategy.

Rabo Versterkt

One of the challenges we identified in 2015 was how to make our social contributions more known. The 'Rabo Versterkt' (Rabo Reinforces) initiative uses a digital and interactive map of the Netherlands to show which initiatives are supported by local Rabobanks. This makes it possible and easy to see where those projects are located and what they entail. Rabo Versterkt is about more than just sponsorships: it also encompasses donations and connections the bank makes in order to contribute to economic and community vitality. The local

Rabobanks present their activities and projects with photo and film material as well as accompanying descriptions. The bank's role in these projects may be purely financial, but also often entails sharing knowledge, network and facilities such as meeting spaces or media facilities.

By the end of 2016, over 2,200 projects had been presented on the Rabo Versterkt platform. This is an increase of 500 compared to 2015. Supported themes include housing, healthcare, economic vitality, sustainability and F&A. In 2016, additional focus was given to the promotion of working and entrepreneurship, providing education on food and finance, and supporting green initiatives in local neighbourhoods. The sponsoring of sports, youth and culture also remained an important part of our social contribution in 2016. Other entities also contribute to the strengthening of communities, these include DLL, Rabobank Foundation and Rabo Development. Their activities on this topic are described below.

DLL

Charitable donations and volunteering

In addition to Rabobank's own work to support vital communities, DLL aims to make meaningful contributions to the local community it serves through various fundraising and donation activities. For example, in 2016, DLL raised a record-breaking sum of USD 301,740 to be donated to the Make-A-Wish Foundation in Southeastern Philadelphia. Make-A-Wish aims to grant the wishes of every child diagnosed with a life-threatening medical condition. DLL's donation will allow children in the region to have their wishes granted. In addition to financial donations, DLL members across 22 countries gave their time and expertise as volunteers and assisted in community projects as part of the DLL milestone celebrations. These milestone celebrations marked the success of DLL as a global provider of asset-based financial solutions across the globe, in more than 33 countries and eight industries. DLL wouldn't be in its current position were it not for its customers and the efforts of DLL members to help them reach their goals. Therefore, DLL celebrated its success with all its members around the globe, while including community involvement in the celebrations.

DLL also launched the societal impact engagement platform in 2016. DLL's Community Involvement Portal (CI Portal) is a digital platform for DLL members from all over the world who are granted 2 days of company time to engage with the local communities we operate in and to have a positive impact by sharing our time, expertise, or money. At the time of writing, the platform had 3,163 active members, with 1,364 members volunteering and five new fundraising projects being launched.

In the Netherlands, DLL organised a special event with, among others, the municipality of Eindhoven to mark the tenth matchmaking dinner, where businesses and charities are coupled based on their non-financial needs. The event saw the launch of Impact040, a business coalition with the aim of creating more strategic cooperation on social issues in the region. Initial participants include the municipality of Eindhoven and six local companies.

Micro-leasing

In 2016, with a focus on Rwanda and Kenya, the DLL micro-leasing team intensified their advisory work to support local stakeholders (MFIs, Saccos) in developing micro-leasing as a financial solution for their end-customers.

Rabobank Foundation

The Rabobank Foundation is the social fund of Rabobank, offering poor and disadvantaged groups a better outlook by promoting and investing in self-sufficiency. It has been active for over 40 years. In 2015¹, Rabobank Foundation had more than EUR 24 million invested in projects abroad and in the Netherlands. In 2016, this amount was EUR 28 million (see [infographic](#) for detailed information.)

Banking for the Netherlands

Banking for the Netherlands is Rabobank's vision on how the bank can contribute to welfare and prosperity in the Netherlands. The Rabobank Foundation contributes to this vision by supporting various social projects focused on vulnerable groups' participation in society. Via our 49 project partners in the Netherlands, we helped 450,000 people in 2015. The foundation's activities in the Netherlands include cooperating with social welfare organisations and social enterprises to encourage labour participation by people who are far-removed from the labour market, allowing them to become financially self-sufficient, and to make sports accessible for people with disabilities and for children who are growing up in poverty. As our shared goal is a society in which everyone is able to work according to their abilities, the foundation's Social Enterprise programme has a special focus on social entrepreneurship, encouraging the creation of opportunities for vulnerable groups on the labour market. We offer entrepreneurs with a social mission access to finance, know-how and networks.

¹ We incorporated data over 2015 from the Social Impact Report of the Foundation into this Annual Report. However, when we already have 2016 data available, we have added them. The Social Impact data coming from project partners is not audited.

Banking for Food

Banking for Food is Rabobank's vision on global food security and the role of the bank. The Rabobank Foundation contributes to this vision by supporting small-scale farmers in 22 developing countries in Africa, Asia and South America, providing access to finance, knowledge and networks. Through our support to project partners abroad (270 in 2015), we have been able to reach out to 4.7 million farmers. The Rabobank Foundation also strengthens cooperatives and their members. By providing cooperatives with working capital loans and investments, the organisation has access to resources to issue loans to members under fair market conditions.

The Rabobank Foundation also invests in capacity building to professionalise and strengthen the organisations we work with. Our social impact study showed that 13,410 board and staff members received training on professionalising their cooperatives in 2015.

More than 268,000 small-scale farmers have profited from our technical assistance. They are being trained in better agricultural practices. But we also focus on innovations to improve the businesses of small-scale farmers. In 2016, Rabobank Foundation enabled SoilCares to launch a new soil scanner to support small-scale farmers in Kenya. Farmers in developing countries often lack knowledge about the soil in which they grow their crops. The SoilCares soil scanner and the related training programme enable farmers to achieve 50% better crop yields. This enables them to improve both their income and food security in their local regions. Read more about this [here](#).

Cooperative nature

By forging links between local Rabobanks, staff, customers and our project partners, we are able to emphasise the cooperative nature of our bank. In 2015, 94.5% of all local Rabobanks supported the Rabobank Foundation with funds. In 2016, this 97% did so. But the local Rabobanks support Rabobank Foundation with more than just financial donations. They are also showing their involvement by 'adopting' a project abroad or a project in the Netherlands. Rabobank Noord Oost Polder, for example, is involved with a Rabobank Foundation potato project in Peru, 'Papas de Colores'. Four Dutch potato growers and clients of Rabobank visited this project in 2016 to exchange knowledge. According to the Dutch farmers, the rudimentary circumstances on the farmland formed a sharp contrast with the fairly modern facilities at the new potato crisp factory, where locally grown potatoes are processed into colourful crisps.

In the Netherlands, many local Rabobanks are involved in the Home Paperwork project of Humanitas. Over the period 2014-2016 the Rabobank Foundation forged a partnership with Humanitas and Dutch budget information service Nibud for this project. The aim is to attract and train 500 new volunteers annually to help people develop healthy financial habits and get out of debt.

Client and employee involvement

Rabobank employees can also contribute to the Rabobank Foundation. The Rabobank Foundation Employee Fund allocated EUR 751,000 (2015) and EUR 790,141 (2016) for farmer communities in 22 developing countries. These donations help people get access to education and water (drinking water and irrigation).

Our new funding per year (€)

Africa



2015	9,380,000
2014	8,327,000
2013	9,425,000

Asia



2015	9,001,000
2014	8,606,000
2013	6,889,000

Latin America



2015	6,886,000
2014	5,877,000
2013	6,038,000

Donations from private and business clients enhances Rabobank Foundation's ability to realise its goals. The Rabo Foundation Client Fund received approximately EUR 2 million (2015) and approximately EUR 1.4 million (2016) in new donations from socially committed Rabobank customers. Because of its revolving characteristics, the Client Fund also funded projects through its own capital. All in all, this resulted

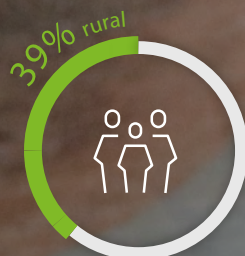
in a substantial contribution to Rabobank Foundation's total budget in 2016. The Client Fund also enables Rabobank's customers to lend their knowledge and network to further enhancing Rabobank Foundation's impact.

➤ Read more about Rabobank Foundation [here](#).

Rabo Development

Rural outreach and impact

Total Portfolio



Customer
7.1 million



Deposits
12.7 billion



Credit
12.0 billion



1,854
Branches



4,853
ATMs



2,439
Agents



3.3 million
Mobile banking
subscriptions



1.1 million
Internet Banking
subscriptions

Charity management

Rabobank helps wealthy clients realise their personal ambitions to make a contribution to society. We believe that these clients and their giving strategies, often based on a personal affinity, are helped with professional support in developing their giving strategy. We design a personal Giving Plan to our clients, which they can use to start their own foundations, a fund in their own name, a Giving Programme or for Legacies to charity.

Rabo Development

Rabobank's roots stem from nineteenth-century agricultural communities in the Netherlands that had no proper access to financial services. Today, around 2 billion adults worldwide are not financially included, especially in rural areas. The agricultural sector, which in many developing parts of the world accounts for a large part of the economy, is often underserved by banks. Financial Inclusion has a positive contribution on economic growth and will create a more equal wealth distribution to the benefit of rural areas. Through its partner bank network, Rabo Development makes a contribution towards creating a more equal wealth distribution to the benefit of rural areas.

 Read more about Rabo Development [here](#).

Our output and impact

Promoting a circular economy

The circular economy is a theme with strategic importance to Rabobank. It serves as a point of reference for our Banking for the Netherlands and Banking for Food strategies and has led to the development of three concrete initiatives to support adoption of the circular business model. We believe transforming the current linear economy into a circular system will strengthen the competitiveness of the Dutch economy and clients active in global food supply chains. Ongoing efforts to promote the transition to a circular economy include sponsoring the Herman Wijffels Innovation Award, DLL's Life Cycle Asset Management (LCAM) programme, and offering impact loans and sustainable bonds.

Circular economy: Three concrete initiatives

Rabobank's vision on the importance of well-functioning circular business models for a strong economy and a liveable society has resulted this year in three initiatives. The first initiative developed by Rabobank (in cooperation with Radboud University Nijmegen) is a circular enterprise performance indicator, an online tool to measure circular activity at companies to gain insight in circular opportunities.

The second initiative is collaboration with the so-called The Source Shakers – a platform for food & agri entrepreneurs looking for solutions to reduce waste and bring profits up. Rabobank is one of the co-initiators of the platform, along with Wageningen University, HAS, Foodsquad and others.

The third initiative is the Circular Economy Challenge. The programme – initiated by Rabobank in 2014 – challenges companies to convert their ideas for circular activities into business opportunities. The success of the initial nationwide circular business challenge prompted the launch of regional challenges, organised and hosted by three to six local Rabobanks in a specific region. In 2016, two circular economy challenges involving 24 companies were carried out in the Amsterdam Metropolitan and Groene Hart regions. More challenges have been scheduled for 2017. In addition to the business challenges, Rabobank has co-organised circular economy master classes, which have been attended by a number of entrepreneurs in many different regions and locations in the Netherlands.

Furthermore in 2016, Rabobank signed an agreement with two other Dutch banks, ABN AMRO and ING, formalising their plan to support the transition towards a circular economy by sharing knowledge, enforcing its network and delivering financial services.

Herman Wijffels Innovation Award

To promote and support sustainable frontrunners, Rabobank has organised and funded the Herman Wijffels Innovation Award for the past 15 years. The award is named after Rabobank's former CEO and thought leader on sustainable development, and it encompasses three categories: Circular Economy, Food & Agri and Vital Communities. Total prize money in 2016 added up to EUR 60,000; the awards were presented in Nijmegen this year, in collaboration with local Rabobank Rijk van Nijmegen.

> For more information, please see [link](#).

LCAM: Helping drive the transition to a circular economy

As the world's population continues to increase and consumption explodes, so does the need for sustainable business models that take responsibility for the planet's precious resources. Circular economic methods offer businesses a way to deliver value and profitability in a sustainable manner. By designing products to be recycled, reused or remanufactured at the end of their first life cycle, manufacturers can help reduce pressure on the planet's finite resources.

The concept of a circular economy further relies on usage rather than ownership of assets. Usage-based models enable manufacturers to maintain control of equipment throughout its technical life and can ensure the equipment does not wind up in a landfill.

DLL supports its partners in their transition to a circular economy by providing financial solutions through its Life Cycle Asset Management (LCAM) programme. In practice, this means helping partners by financing used and refurbished equipment, and providing new service-based financial solutions such as leasing and pay-per-use to unlock circular models. DLL is a leader in this area, and it sees it as its responsibility to share its knowledge and experience in any way it can, including white papers, blogs, presentations, press releases and free webinars. DLL's Used Equipment Finance capabilities include lease solutions to the end user as well as inventory finance to dealers and resellers. In 2016 DLL focused on geographical expansion of its Used Equipment Finance (UEF) strategy. For example, DLL booked its first deals in Poland and Brazil. In Germany, UEF business is growing continuously and DLL has closed dealer agreements with various new partners specialising in used equipment. DLL's new business in used equipment to dealers in Europe increased from approximately EUR 2 million in 2014 to EUR 39 million in 2016 in those countries where inventory finance for used assets is eligible. Relative to total new business globally, business volume in used equipment to end users stabilised.

Another example of an innovative project focused on retaining the value of a product already in circulation is remounting and refurbishing ambulances, begun in the UK. Many of the funded ambulances return to DLL after a period of five to seven years and are typically sold at auction. By mounting the most valuable part of an ambulance (the box) on a new chassis, investment costs for the end customer can be reduced by more than 20%, and the life of the vehicle is extended by a further five to seven years. In this example, DLL is playing an active role in the process of extending vehicle life by financing the full cost of the remount process rather than just the end product.

Partners' Sustainability Engagement Tool

DLL has developed and implemented a Partners' Sustainability Engagement Tool. This tool assesses vendor performance in terms of sustainability and provides leading-edge sustainability expertise to help raise their sustainability ambitions.

External sustainability recognition

- DLL won the 2016 Alliance Trust Award for Circular Economy Investor, part of the Circulars award programme organised by the Young Global Leaders of the World Economic Forum in cooperation with Accenture.
- DLL was honoured for its sustainability efforts, receiving the sustainability award from Leasing Life, one of the top leasing industry journals in Europe. DLL continues to set the pace for the industry within this field of sustainability. Through its Lifecycle Asset Management programme DLL has the finance structure to promote recycling. Their commitment to this theory all the way through their vendors, their dealers, their sales teams and being able to persuade customers to buy repurposed and recycled equipment is impressive. This part of their business has scaled rapidly since it started in 2013, which shows its tremendous potential. Most important, today's measurable results are a source of inspiration and motivation for the entire industry.

Mobility solutions

In 2016, DLL's mobility solutions entity Athlon continued to develop its suite of mobility products and services designed to help customers towards more sustainable and cost-efficient mobility policies. Examples include launching scooter leasing in cooperation with partners in Italy and moving closer to developing a 'Mobility as a Service' solution in Belgium.

Impact Loans

To facilitate a transition to a more sustainable and circular economy, Rabobank wants to increase the delivery of products to frontrunners and leaders. An example is the Impact Loan was developed and funded in collaboration with the European Investment Bank to encourage SMEs in the Netherlands to make sustainable investments. It provides a discount of max 1.1%, depending on the term of the loan. After a successful first launch in 2015, we issued a second tranche of EUR 100 million in 2016. Clients who are actively involved in sustainability and which invested in the application of eligible selected independent meaningful sustainability certification schemes can receive an Impact Loan for new investments. Rabobank is the first and only provider of this loan. In total, we financed more than EUR 70 million via impact loans in 2016. [Steven van den Brink](#), a Dutch logistics provider, is one of the clients we supported via the Impact Loan. The 'Rabo Impactlending' contributes to our services with a positive social impact. The total outstanding volume of impact loans is EUR 80.6 billion at the end of 2016.

Sustainable bonds

The support for sustainable frontrunners as described above has also evolved progressively in 2016 in the debt capital markets, as we have been more and more involved in issuing green and sustainable bonds for large corporations in 2016. As capital markets are increasingly interested in sustainable investments and asset classes, we have seen that corporates are more and more open to issue green and climate related investment vehicles.

Rabobank has acted as a green bond lead manager and green structurer for several of its core clients, including Heerema Marine Contractors, and FrieslandCampina. Rabobank has been involved in all inaugural green bonds issued by Dutch Sovereigns, Supranationals and Agencies (SSA) and non-financial corporates (mostly as a green structurer and has acted as the sole green structuring adviser for the first Green Schuldschein issuance structured according to the green bond principles and for the first green European Private Placement (EUPP) in 2016. Rabobank is an executive member of the Climate Bond Initiative and is one of the drafting parties of the Food, Agri, Forestry (FAF) Climate Bond standards.

In October 2016, Rabobank issued its first own EUR 500 million green bond to institutional investors. The proceeds were invested in renewable solar and wind energy projects. This bond meets the growing demand for sustainable investments from pension funds and other investors. The benefits are twofold: it broadens our spectrum of funding instruments and contributes to Rabobank's sustainability objectives.

These products and services showcase Rabobank's contribution to giving sustainability leaders priority. The underlying figures give a numerical breakdown of our sustainable financing proposition.

KPI: Rabobank gives priority to sustainability leaders in financing and will double the volume of the services provided to them¹.

Results			
<i>Financing in millions of euros</i>	2016	2015 ²	2014
Sustainable financing	14,039	15,044	14,868
Access to finance	1,642	1,573	1,659
Community services	3,110	2,623	2,973
Total sustainable financing – corporate customers	18,791	19,240	19,501

Results			
<i>Sustainable funding in millions of euros</i>	2016	2015	2014
Rabo Green Bonds ³	500	23	24
Rabo Green Savings	1,867	1,957	2,093
Rabo Green Deposits	18	31	31
Rabo Socially Responsible Deposits	100	111	216
Total	2,485	2,122	2,364

Results			
<i>Transaction volume of other services in millions of euros</i>	2016	2015	2014
Financial transactions supervised by Rabobank (Including Green Bonds, IPOs and M&A transactions)	5,250	6,322	2,393

The total volume of sustainable finance showed a slight decrease to EUR 18.8 billion. This is mainly due to the fact that we decided to raise the criteria which we applied in the selection of companies with a sustainability label. This resulted in a decrease of the volume of finance to companies with a sustainability label from EUR 8.9 billion to EUR 7.6 billion. Next to this technical decrease in the volume of loans with a sustainability label we increased the volume of sustainable financing in green loans (with EUR 103 million compared to 2015), we increased the volume of Clean tech financing by DLL (with EUR 60 million compared to 2015) and we increased the volume of loans to customers in sustainable sectors (with EUR 177 million compared to 2015). This means that when filtering out the methodology change for measuring loans with a sustainability label the total volume of sustainable finance increased by EUR 273 million compared to 2015.

The total of sustainable funding increased to EUR 2.5 billion because Rabobank issued its first EUR 500 million Rabobank green bond to institutional investors. The proceeds are invested in renewable solar and wind energy projects.

Rabo Groen Bank B.V.

The funding of the Green Bank of Rabobank is realised through the green savings account of Rabobank (Rabobank GroenSparen). Private investors with a green savings account benefit from a tax reduction. This means cheap funding for Rabo Groen Bank. This benefit is transferred to companies with sustainable investments through a discount on the interest of the green loans; thus stimulating green investments. Since the introduction in the end of 1995 both products; green savings and green loans, have been popular. In 2016 Rabo Groen Bank has issued new

- 1 We measure and report the total of sustainable finance, sustainable funding and other sustainable services. We give priority to sustainable leaders which is a rule of conduct which is not captured in a reporting value.
- 2 We made a correction in the total of sustainable project finance for 2015. The amount reported in the Annual Report 2015 was adjusted from EUR 4 billion to EUR 3.4 billion. This adjustment was required to reflect the correct volume of the portfolio per yearend 2015.
- 3 Green bonds in 2014 en 2015 include bonds issued by the Rabo Groen Bank, Green bonds in 2016 includes the first Rabobank Green Bond issued at group level

green loans for a total amount of EUR 342 million. These green loans were mainly issued for: organic farming, sustainable building, green label greenhouses, nature conservation, solar energy, wind energy and geothermal energy.

Our own efforts to reduce emissions

Rabobank continues efforts to reduce CO₂ emissions per FTE by 10%. In 2016, we joined the Carbon Disclosure Project to publicly disclose data on our emissions usage and reduction efforts. We also increased our green gas purchasing.

KPI: By increasing energy efficiency and reducing and making mobility and other services more sustainable, we aim to reduce carbon emissions 10% per FTE per year between 2013 and 2020.

Results				
Carbon footprint	2016	2015	2014	2020 target
Total CO ₂ emissions in tonnes CO ₂	180,263	182,066	198,275	
Total CO ₂ emissions per FTE	3.7	3.5	3.6	3.2

Rabobank was again climate neutral in 2016 and is actively reducing CO₂ emissions related to its own operations. After reducing carbon emissions by 20% per FTE between 2009 and 2013, Rabobank's goal has been an additional reduction of 10% per FTE until 2020. As such, carbon emissions per FTE of Rabobank would be reduced by 28% in 2020. This year, Rabobank has moved away from target which is caused by the quick decline in employees in the course of 2016. Therefore despite the further reduction in CO₂ emissions, the emissions per FTE have increased. Rabobank compensates its remaining footprint.

The target remains ambitious. In the coming years, it is Rabobank's ambition to get closer to its clients, physically as well as virtually. At the same time, we expect the number of Rabobank branches to decline in the coming time. Together with increased digitalisation, the potential increase in the physical distance between the bank and its customers may result in a larger demand of electricity and mobility (per FTE), which make up almost 70% of the total climate footprint of Rabobank. Another trend that we signal is the increasing ambition and social dialogue regarding the integration and calculation of the emission footprint of our clients in the balance sheet. Supervisors are discussing this topic in a more structural manner and Rabobank is an active participant in the relevant working group.

Next to monitoring and reporting on our own carbon footprint, Rabobank is following the developments of reporting standard setters on carbon disclosure and climate change reporting.

We recognise that the potential impact of climate change and carbon reporting through our client base is much larger than our own footprint.

Carbon footprint DLL

DLL is currently on track to achieve its global CO₂ reduction target: a 10% reduction in CO₂ per FTE by 2020 compared with 2013 figures. Based on the official Rabobank Annual Report calculation, a reduction of 19% (CO₂ total) and 24% (CO₂ per FTE) has thus far been achieved.

Green Mobility

Mobility is a key theme for both Banking for the Netherlands and DLL. CO₂ emission reduction is also a KPI in our SST programme. Consequently, Rabobank has opted for an environmentally friendly mobility policy, to contribute to reducing CO₂ emissions. This translates into two employee arrangements: one for car lease and one for commuting.

Rabobank has been reducing emissions on mobility for a longer period of time. Over 2016, carbon emissions from Rabobank's car fleet in the Netherlands have been reduced by 2.4% CO₂ per kilometre. To invigorate further carbon emission reductions in the area of personal mobility, Rabobank has become participant in the Lean & Green network, as first bank of the Netherlands. In doing so, Rabobank has committed to reduce the climate footprint of its employees by 20% per FTE within a timespan of five years.

Car lease arrangement

Employees eligible for a lease car are restricted to a vehicle with the CO₂ deposit capped to a maximum based on their function group. The caps are evaluated and adjusted biannually. In 2016, opting for a lease car with a lower CO₂ deposit was rewarded. Furthermore, to encourage CO₂ reductions, we offer greener alternatives, including a mobility card for public transport for employees with a lease car; the possibility to lease a (hybrid) electric vehicle, rechargeable at Rabobank offices, and the option to re-lease the vehicle.

Reimbursement of travel expenses to accommodate commuter traffic

All employees receive a fixed, monthly travel expense reimbursement. Next to that, employees who commute over 5 kilometres by public transport only can opt for a complete refund of their public transport travel expenses. To accommodate this, Rabobank has a special arrangement with the Dutch Railways.

Buildings

An ongoing focus of Rabobank's policies is to improve the sustainability of its buildings and systems. To advance our goal of improving our sustainable business practices, we have signed an accord with the Dutch government to endorse the energy efficiency targets set out in the National Energy Agreement Meerjarenspraak Energie-efficiency.

Our energy efficiency measures again resulted in lower energy consumption in 2016. Modifications to our systems based on changes in the way we use office space and changes in our energy needs are two of the contributing factors. In light of the new strategy, the construction of any new buildings has been delayed until further notice, but both new developments and renovations to existing properties will invariably comply with the standards for sustainable construction, including the application of innovative sustainable solutions.

In replacing a number of devices in 2016, we also managed to significantly reduce energy consumption relating to thermal energy storage at the largest Rabobank branch office in Utrecht, also known as De Verrekijker. In addition, the conventional outdoor lighting at this site has been replaced with LED lighting.

Employee awareness

In the process of improving its sustainable business practices, Rabobank – in addition to responsible building and systems management – also focuses on its employees. For example, as part of these efforts we have launched a number of colourful campaigns designed to raise employee awareness of energy efficiency, including the promotion of waste segregation and reuse of cardboard cups. Rabobank's Purchasing department has integrated sustainability into the Global Standard for Sustainable Procurement. Sustainability goals and targets are incorporated into and safeguarded in the tools used in the purchasing process, and suppliers must comply with the sustainability requirements set.

Purchasing

As part of our sustainable purchasing policy, we have launched the use of a carbon-neutral coffee, which has saved an impressive amount of carbon, contributing to the reduction of our total carbon footprint by 9,835 tonnes. We have also installed new energy efficient coffee machines that consume

significantly less energy than the old machines. In addition, we have seen a substantial reduction in paper consumption at local Rabobanks, due to ongoing virtualisation and the option for customers to process their data online themselves. We have noted a reduction in the amount of paper used and the number of postal routes.

In catering and logistics, we entered into several new contracts with sustainable businesses and various social organisations in 2016. Rabobank's Purchasing department has selected FIRA as its verification agency for sustainability. The FIRA platform is charged with checking and verifying the accuracy of suppliers' business data. Improved access to reliable information and the ability to evaluate suppliers helps Rabobank and its suppliers improve the sustainability of the supply chain.

Power

Rabobank also increased the use of renewable energy in its power consumption in 2016 by purchasing certificates for European wind energy and European solar energy. Renewable energy also accounted for 15% of Rabobank's gas consumption in 2016.

Customers have a meaningful value

Rabobank involves its customers in the process of achieving and implementing its goal of using green gas. The purchasing cooperative between Rabobank and De SuikerUnie helps promote sustainability in the agricultural industry. Rabobank encourages De SuikerUnie, a cooperative, and its 9,000 farmer members to further develop these innovative sustainable practices.

Everyday enjoyment from a special innovation

Sustainability remains a strategic priority at Rabobank. In order to increase the reusability of products and raw materials and reduce waste, the bank has made an innovative decision: sustainability is literally within reach thanks to the introduction of cups made from waste and sugarcane. The segregation of waste also makes it possible to reuse these cups in the manufacturing of tissues.

As part of its commitment to the Green Deal for Circular Purchasing, Rabobank includes a list of requirements during the purchasing selection process.

Our output and impact

Developing talent and competencies

Our people are the most important keys to change within the organisation. We therefore work continuously on staff development, laying the foundations for them to provide the best possible service to our customers, now and in the future. Their personal and professional development is not only a valuable outlet for them to express their passion for the job – it also helps to contribute to the sustainable development of the bank.

Three central themes

To support our employees to execute the strategy of the bank and its four strategic pillars in particular, we have introduced three central themes for employee development: Empowering employees, Organisational performance & health and Employee journeys.

Empowering employees is about promoting clear and involved leadership, individual responsibility and risk awareness in all layers of the organisation. It requires professionalism and expertise, but also capacity for change. Organisational performance & health turns not only on solid performance, but also on strong directional leadership to build a culture of continuous improvement and innovation. Our new performance management model GROW! supports our positive and short-cycle approach to performance management and development. The Employee journeys theme entails the optimisation and standardisation of HR services to improve career planning and development. Just like our customers, our employees want simple products and services, a high level of self-service where possible and, where necessary, personal support to do the best possible job. Employees are given the freedom to engage and develop themselves and their talents in an inspiring working environment, allowing for development that will ensure their continued ability to provide added value to customers, their colleagues and the bank. This is achieved through an innovative and effective approach to informing, inspiring and supporting our employees to continue to learn based on a commitment to learning and development.

Our core values in recruitment

We emphasise the competencies 'cooperation' and 'customer focus' in our recruitment, while painting a picture of our bank

based on our cooperative identity. We see sustainability as a part of our cooperative identity and one of our core values. Sustainability is determined in function profiles and is part of the performance agreements and the employee's individual evaluation. We believe it is important that managers lead by example. All management courses encourage managers to integrate cooperative values into their daily work.

Our Human Resources department is facilitating a process of restructuring the organisation. Although we realise that our ambition to introduce a systematic approach to sustainability in recruitment and selection has not yet been fully accomplished due to a staffing shortage in 2016, our ambition is deep-seated and we will introduce an action plan in 2017 aimed at achieving it.

All new Rabobank employees are offered an introduction programme that explains our identity and core values. This programme also addresses how sustainability translates into daily practices. These topics are also addressed in the Rabo Global Traineeship programme.

However, Rabobank is still in the midst of a reorganisation. Successive reorganisations led to an increase in job redundancies in 2016 as we continue to implement our new strategy. Rabobank feels a responsibility to assist employees whose positions have become redundant and is providing professional guidance to facilitate their search for another job.

We introduced the 'active mobility' phase to allow employees in positions that will be subject to major changes to prepare for potential redundancies and to offer support in finding a new job within Rabobank or elsewhere. While some employees

have been successful in finding new employment before their positions became redundant, we have increased participation in related activities to speed up the process and improve results.

Rabo Global Traineeship

2016 saw the commencement of the first Rabo Global Traineeship programme: 18 trainees started in March and another 35 in September, including 15 international trainees from our regional offices in the United States, India, Indonesia and the United Kingdom. These international trainees complete a joint orientation programme in the Netherlands, and are given the opportunity to tackle an assignment abroad. The personal, tailored, one-year traineeship gives these young, talented Rabobank employees the chance to gain greater knowledge and experience of the bank, and to fast-track their personal development within various organisational entities both in the Netherlands and abroad.

The programme also promotes advancement and retention of talented 'alumni' trainees, through the set-up of the Management Development Steering Committee for alumni trainees, under the direction of a Supervisory Board member and including several directors from various central departments and local Rabobanks.

Vitality

One of the bank's strategic pillars is Empowering employees. Rabobank therefore values the health and vitality of its staff. Instead of being viewed as the absence of illness, health is now regarded as the ability to deal with life's physical, emotional and social challenges, while retaining as much individual control as possible. Work is no exception, and health therefore represents the ability to deal with changing circumstances and to take one's own responsibility to achieve and retain vitality. Rabobank offers support and encouragement in this respect.

This positive definition of health informs the resources made available by Rabobank to empower its employees. Covering areas such as vitality, work-related stress, resilience and absenteeism, these resources vary from digital tests and information sessions to courses, workshops and one-on-one support. As part of this vision on health, in 2016 we collaborated with the Dutch Cancer Society to present the 'Work and Cancer' workshop aimed at managers and HR advisers; 113 ergonomics coaches completed training on the importance of movement at work, and campaigns on vitality and work-related stress focused on retaining individual control.

During the first half of 2016, 66% of Rabobank employees reported feeling a sense of vitality (compared to 64% in 2015), and seven out of ten stated that they felt engaged (67% in 2015).

Absenteeism rates dropped to 3.6 in 2016, lower than both the figures in 2015 (3.72) and the OH&S standard of 3.7. 47% of long-term illnesses were mental health disorders (46% in 2015). In 2016, 46% of employees never called in sick (46% in 2015). Of those who were away sick, 79% had returned fully to work within the week (80% in 2015).

Some employees were at risk of becoming unfit for work in 2016 due to work-related stress, often as the result of an excessive workload. In the Netherlands, 29% of employees said they experienced their workload as high (2015: 31%), and 15% experienced reported experiencing work-related stress (2015: 18%). The workload figures exceed the OH&S standard of 25%.

Culture change

The Culture Collective movement that was started in 2014 continued into 2016. Board members, managers, team leaders and employees were challenged in a variety of ways to reflect on their attitudes and conduct, and how they influence others. The Culture Collective meetings were in line with both the bank's current internal transitions and prominent customer focus. Management teams of local Rabobanks, management teams at the central units and HR managers took part in events dealing with how to be a rock-solid bank by empowering employees within an ever-changing environment.

We also organised a summer school, and all board members, managers and team leaders were invited to attend. The sessions focused on providing team coaching as an alternative to one-on-one interventions when resolving underlying problems in teams. Real-life examples were used to provide first-hand experience and the opportunity to learn through giving and receiving feedback.

Managers are responsible for concretising concepts for their own business units, and acting as role models for cultural change. They are supported in this role by culture coaches from their units and central facilitators. Preparations are being made to include Culture Collective in the Performance and Health plan for 2017 and beyond, with the intention of making line management responsible for creating a healthy day-to-day working culture.

Remarks:

Absenteeism figures are for all Rabobank employees in the Netherlands. Figures on work-related stress, workload, engagement and vitality are limited to employees of local Rabobanks during the first half of 2016.

Culture and Engagement Survey

New governance also requires new ways of analysing employees' perceptions of their work. This year, for the first time, a single culture and engagement survey was conducted worldwide that covered a wide variety of topics. The newly introduced survey replaces all other surveys on the topic. Specific attention was devoted to the connection between employees' day-to-day working experiences and the realisation of Rabobank's strategy.

Even though the results show positive change in some areas, in most areas the scores are lower than compared to a similar (smaller scoped) survey conducted two years ago. First and foremost, the results provide us with useful points for improvement to clarify the bank's strategy, improve the overall leadership and working environment and reduce bureaucracy. Employees have indicated their engagement and support, but have also voiced their concern. The transformation the bank is going through indicates that employees are highly involved, but at the same time also have feelings of concern. The current plan is to conduct this extensive, global survey annually. In addition to this, a 'pulse survey' will be introduced in order to measure effectiveness of management interventions on a quarterly basis. Furthermore, the bank is moving towards a more integrated approach of managing financial and health performance.

Because we see sustainability as a part of our cooperative identity, we also measure our employees' attitude towards sustainability through how they experience our cooperative identity. In the global questionnaire we measured how employees perceive their daily activities in relation to Rabobank's strategy for the future, also in view of our cooperative identity. In alignment with the sustainability programme SST¹, the questionnaire measures the topics 'Cooperation with the customer' and 'Characteristics of cooperatives':

KPI: We aim to increase our organisation's score on the criteria 'customer cooperation' and 'cooperative characteristics' in the employee survey each year.

Result of employee survey 'Customer focus'

% '(strongly) agree', not including 'don't know' / 'n/a'	
Rabobank has developed high levels of client loyalty	62
Rabobank effectively manages external business relationships with clients, partners and stakeholders	54
Rabobank identifies and targets specific groups of clients with tailored offerings	49
Rabobank solicits feedback from its clients to improve its ability to meet clients needs	78
Managers communicate that products and services offered need to be in long term client interests	69
When making decisions, I assess the impact on Rabobank's clients and Rabobank	90
We make sure our systems and processes are client oriented	56

Result of employee survey 'Meaningful cooperation'

% '(strongly) agree', not including 'don't know' / 'n/a'	
Rabobank maintains a network of external business partners	77
Rabobank works with external partners to help them perform well	65
Rabobank invests significant resources to build and maintain strong relationships with the community	80
Rabobank invests in relationships with government, regulatory, and consumer groups	73
It is possible to combine our cooperative identity with our processes and procedures	47
In its policies, Rabobank is mindful of the impact these policies will have on society	67
It is clear how the Banking for Food and Banking for the Netherlands objectives are translated into goals and milestones	42
Management encourages different parts of Rabobank to work together to make improvements	45
Rabobank holds events to share knowledge and ideas across the organisation	41
Leaders in Rabobank (including my manager) create a sense of teamwork and mutual support throughout Rabobank	61

n=17,232

The results show a clear consciousness of employee decision-making on impact of the bank (90%) as well as an awareness of our role within the community (80%), fitting the sustainability ambitions. Simultaneously only 42% recognises a clear translation of our strategies to goals. We expect to see an increase in this result as 2016 was only the first year in which the strategies were operational.

The new employee survey has posed different questions from other surveys performed in previous years, even though themes remain similar. The scores can therefore not be compared to the 2015 figures. The above presented scores are a subset belonging to the topics 'Customer focus' and 'Meaningful cooperation' of the complete survey.

The results have been shared with the board and the direct reports, and subsequently with all other employees.

Sustainability in training

We are currently halfway through the SST programme (2014-2020) and sustainability is now part of the educational framework of the business lines in the Netherlands. Since 2014, we have been offering our account managers a workshop on discussing sustainability risks and opportunities with clients. This year saw the introduction of another workshop aimed at our advisers on the integration of the financing of energy-saving measures within the mortgage consultations.

In 2016, we also organised a number of workshops on the topic of new cooperatives. These workshops trained 81 local Rabobanks on offering professional services to groups who are looking for ways to contribute to broader societal themes with the objective of benefitting society while making a profit.

Since the roll-out in 2015, 34 local Rabobanks have already followed a management workshop on Sustainability (16 banks in 2016). This is a non-mandatory tailor-made workshop of 2.5 hours to inspire management teams and assist them in integrating sustainability into their businesses.

Next to all specific trainings on sustainability, the topic of sustainability is integrated into different courses for client-facing staff and management teams. Examples include the Credit Risk Management curriculum for client-facing staff in our Corporate and Wholesale divisions, the annual KICK trainings for local Rabobank employees and the Continuing Education for all Heads of Local Rabobanks ('directievoorzitters') and their Corporate Heads ('directeuren bedrijven').

We have also launched a company-wide e-learning module on sustainability, IJoin, to train all employees on the topic of sustainability. IJoin covers all areas of sustainability: social engagement, our own business operations and the integration of sustainability into our products and services to clients. Participants are also invited to share their suggestions for more sustainable steps within the bank.

Sustainability as an educational theme is growing in importance. However, both the Sustainability department and Human Resources have the ambition to jointly take the opportunity to develop a systematic approach to the integration of sustainability in education in 2017. We will focus on creating a company-wide programme which will include sustainability, integrating it into educational programmes for client-facing staff as well as management development programmes.

KPI: Cooperative and sustainable banking forms an integral part of recruitment and selection and the training programmes for all employees.

Target group	Number of specific sustainability trainings available (non-mandatory)	Percentage of local Rabobanks where courses were held in 2016
Retail advisers local Rabobanks	2	12%
Corporate division local Rabobank	2	76%
Management local Rabobanks	1	16%

Rabobank has integrated the subject of sustainability in more trainings and educational programmes, in addition to the above presented figures. However, structural measuring of these programmes is yet to be initiated. In 2017 a project will start in which sustainability will be integrated in all relevant training programmes. With regard to recruitment and selection the topic of sustainability has been integrated in onboarding programmes, but is yet to be embedded further in selection processes.

Sustainable procurement of educational programmes and employees

Rabobank suppliers of educational programmes and external employees are expected to comply with Rabobanks Sustainable Procurement Standard, drawn up in 2016. These suppliers are requested to submit a CSR Profile from the platform FIRA.

Our output and impact

Encouraging diversity and equality

In addition to more attention for gender diversity, 2016 saw specific attention devoted to the promotion of overall cultural diversity, creating employment opportunities for people with an occupational disability, and the acceptance of LGBTI, as illustrated by the fact that Rabobank joined the Amsterdam Gay Parade for the first time. Rabobank signed the Charter Diversity (Charter Diversiteit in Bedrijf) in May 2016, demonstrating our commitment to promoting workplace diversity and inclusiveness. Our Diversity Board, comprising directors of both local and central units and chaired by a Supervisory Board member, meets each quarter to monitor policy compliance and realisation of targets.

Diversity and inclusiveness

Diversity is an integral part of the Rabobank's strategic objectives, as we strongly believe that a more diverse staff profile will enable us to better understand and serve our customers. Effort has been invested in raising awareness and communication. In addition to training and workshops, communication is a key means of achieving these goals. This is why we have included diversity in our profile description on Rabobank.com, and why we are now publishing a biannual staff magazine focused on diversity. It is also the reason why dozens of meetings are organised by the various networks now at our disposal. The Agora network, for example, in which Rabobank is participating, organises a cross-mentoring programme for multicultural employees, and Rabo Women has run over 40 events on topics including leadership, diversities, corporate responsibility, role models and work-life balance. The 'Rainbow' LGBTI network was responsible for Rabobank's participation in Amsterdam Gay Pride for the first time, and various bank entities have organised festivities as part of Roze Zaterdag (Pink Saturday) and Coming Out Day. Rap aan de Slag (a network for people with extra challenges in life) organised an inspirational event with Paralympian Bibian Mentel and others, and the bank's youth network Jong en Wij(s) Rabo devoted attention to generational differences and the added value they can provide, along with a range of other activities.

Development is slow but steady in terms of the target figures that have been set for gender diversity. Growth was strongest among the top 50, or the directors who must report directly to the Executive Board. While the figures were at 11.9% at year-end 2015, they had risen to 23.8% by the end of 2016, representing almost a 12% increase. Programmes such as sponsoring, boardroom coaching, cross-mentoring and empowerment workshops are in place to further encourage the advancement of women to executive roles.

A culturally diverse working group has developed a long-term plan for the promotion of cultural diversity in the work force and customer base, with a focus on commercial opportunities within multicultural society. Our marketing & communication campaigns can still be tailored more effectively to our various customer target groups. Best practices will be shared more extensively throughout the organisation in 2017.

Despite the reorganisation and downsizing, half the local Rabobanks have succeeded in reserving positions for employees with an occupational disability. One-third of local Rabobanks have also contracted external suppliers (for catering, cleaning and reprographic services) to promote labour participation among the target group, and 58% of local Rabobanks are involved in regional and other network initiatives for the creation of employment opportunities for people with an occupational disability.

Employee representation

Consultation with employee representative bodies within Rabobank takes place both formally and informally. On 1 July 2016 a new employee representation structure was introduced in light of the new governance within Rabobank. The new structure was enacted following intensive dialogue with existing works councils (the Works Council of Rabobank Nederland and the Group Works Council of local Rabobanks). Elections were held in spring 2016 for the new joint works council (OR Rabobank), which will meet to discuss matters of joint interest. Local works councils (i.e. those of the local Rabobanks and OR Rabobank Nederland) will continue to play a key role in matters of local importance.

Industrial Relations Disputes Procedure (GRA)

The Industrial Relations Disputes Procedure (GRA) provides a way for managers and staff to bring difficult situations before an independent and unbiased third party. The aim of the advisers/mediators is to resolve differences of opinion locally within the organisation, preferably in open dialogue between the bank and the employee. The Disputes Committee can also be asked to issue a binding decision.

Most disputes in 2016 were related to reorganisations, differences of opinion regarding employee performance, or strained workplace relations. There were also many disputes involving the application of employment terms and conditions. The year was characterised by many change processes in the organisation and a drop in total FTE numbers due to redundancies. This caused insecurity among many employees and led them to reassess their own position and prospects. In 2016, the GRA handled 204 disputes (254 in 2015). The advisory procedure was the one most frequently applied in disputes (153 in 2016). There were 24 cases of arbitration, and 20 cases of mediation. Six cases were presented to the Industrial Relations Disputes Committee, which issued four binding decisions after reviewing both verbal and written statements from both parties. In two cases, the parties resolved the matter satisfactorily either before or after the hearing, thus eliminating the need for a decision. The Board of Arbitration for staff members at Executive levels took one decision.

Our output and impact

Responsible remuneration

As a bank with a cooperative background, Rabobank navigates its own, socially responsible and comparatively moderate strategy within the bounds of legislation and regulations when determining remuneration. All Rabobank employees receive a salary and a set of employment conditions which corresponds with their responsibilities and performance, as well as an inspiring working environment in which to develop and make the most of themselves and their talents.

We believe that reward is more than just payment. Our background as a cooperative means we offer positions that allow employees to make a real difference both in the local communities where they work and internationally by contributing to our goal of providing a solution to the global food issue.

Remuneration policy

Rabobank's Vision on Remuneration and Group Remuneration Policy (GRP) serve as a framework within which several entities define their own remuneration arrangements. Agreements on remuneration are captured in the CLA. The Rabobank CLA applies to most Rabobank employees. A separate remuneration policy applies to the Executive Board and other executives, and DLL and Rabo Real Estate Group have each adopted remuneration policies of their own within the framework. A separate CLA is in place for most employees of Rabobank Real Estate Group. Remuneration policies for Wholesale, Rural & Retail (WRR), DLL and Rabo Real Estate Group entities located outside the Netherlands are partly based on local legislation and regulations, as well as market conditions.

Rabobank's Vision on remuneration

Rabobank's remuneration policy is designed to promote fair and consistent employee compensation. (See [Vision](#) to review the basic principles). Our annual performance management cycle supports Rabobank's business strategy and assesses employee performance. We use external benchmarking with the aim to set our remuneration on or just shy of the market median for comparable work. The risk management framework and the guiding principle based on legislation of 'rewards for success, not failure' means guaranteed variable remuneration to employees is not permitted. Variable remuneration is no longer offered to most employees. Where Rabobank Group does still award variable remuneration, it has been capped.

Annual performance management

The annual performance management cycle stimulates putting customer interests first and promotes the financial strength and long-term continuity of Rabobank. Setting and assessing result and competence (behaviour) targets is part of this cycle. Annual appraisals determine employee remuneration levels, ensuring a clear link between performance and remuneration. The uniform process of performance management that applies throughout Rabobank was carried out for the last time in 2016. In 2017, a new process will be kicked off.

External benchmarking

We use external benchmarking to compare the level of remuneration with that of the relevant market. In principle, we aim to set our remuneration on or just shy of the market median for comparable work.

Risk management framework

The risk management framework necessitates a deferral policy for variable remuneration for employees who could have a material impact on the risk profile. So this group, also known as Identified Staff, only receives part of the variable remuneration after a waiting period of at least three years. This also applies for non-Identified Staff eligible for variable remuneration above a certain level. The Executive Board reserves the right to withhold deferred variable remuneration during the deferral period (malus) and/or reclaim it (claw-back), in accordance with legislation and regulations.

Group Remuneration Policy

The principles and guidelines of the Vision on Remuneration are detailed in the GRP. The requirements under external legislation and regulations are also enshrined in this policy, including the Dutch law Wbfo¹, the Regulations on Restrained Remuneration Policies, the Capital Requirements Directive IV (CRD IV) and the Dutch Banking Code.

The GRP is subject to annual review, and applies to the entire Rabobank Group. The boards of the subsidiaries (DLL, Rabo Real Estate Group and Obvion) are responsible for adopting and implementing a remuneration policy in line with the Vision on Remuneration and the GRP.

The GRP complies with Rabobank Group's business strategy, customer focus, core values and desired risk profile. The policy supports solid and effective risk-management processes designed to protect Rabobank's long-term results and bolster its robust capital position, while also raising employees' awareness of risks and discouraging taking undesirable risks (e.g. irresponsible sales practices). At the same time, it enables Rabobank to hire and retain appropriately qualified employees. It also encourages employees to aim for lasting results in line with the long-term interests of Rabobank Group, its clients and other stakeholders.

Variable remuneration

The large majority of Rabobank employees do not receive variable remuneration. Variable income was removed from the CLA and abolished for the Executive Board in 2013, and for other executives in 2014. However, certain groups of employees, primarily within the Wholesale, Rural & Retail domain, DLL and Rabo Real Estate Group, continue to be eligible for variable remuneration. In 2016, 5% of total remuneration was variable, which boils down to EUR 210 million for Rabobank Group worldwide.

Our remuneration policy must contribute to management and employees making the right considerations in terms of risks. We have the following risk-controlling measures that apply to employees with variable remuneration:

Capping of variable remuneration

Wherever variable remuneration still applies, a cap has been imposed. In the Netherlands, any variable remuneration must not exceed 20% on average. Outside the Netherlands the maximum is 100%.

Deferred variable remuneration

A deferral policy applies to variable remuneration, which means a portion is paid on a deferred basis. The deferred payment covers a sufficient period of time, at least three years, to allow the ex-post test to be performed.

Balanced mix of performance targets

Rabobank's performance objectives do not contain any incentives that might encourage behaviour that is careless or otherwise not in the clients' best interest. Our performance objectives consist of well-balanced financial and non-financial criteria. At least half of the performance objectives must be non-financial.

Ex-ante test

On an annual basis, the Executive Board verifies whether payment of the proposed variable remuneration is responsible, based on Rabobank Group's qualifying capital and solvency ratio. This 'ex-ante' test therefore centres on the question of whether Rabobank can pay the variable remuneration without causing financial problems.

Ex-post test

Before the bank releases deferred amounts and amounts awarded on a conditional basis, they are tested to see if there is any reason to downgrade the amounts before awarding them unconditionally (malus). This test centres on the question of whether the award of the variable remuneration is, in light of the latest information, still justifiable.

Claw-back

In special cases, Rabobank can withdraw an awarded sum with retroactive effect. This is called claw-back. Rabobank Group is authorised to reclaim all or a portion of variable remuneration from both employees and former employees in the following cases:

- Payment was made based on inaccurate or misleading information regarding the achievement of the performance targets or the conditions on which the variable remuneration was made dependent.
- The employee concerned has engaged in fraudulent conduct.
- The employee has participated in, or been responsible for, conduct that has resulted in substantial losses and/or damage to the bank's reputation.
- The employee has failed to satisfy the relevant standards for competence and appropriate conduct.

¹ Wbfo; Wbfo is an amendment and an addition to the Dutch law Wet op het Financieel Toezicht, Wft.

In addition to these risk-management measures, the following general prohibitions also apply:

- It is not possible to award guaranteed variable remuneration to employees.¹
- Personal hedging strategies are not permitted under any circumstances whatsoever.
- A severance payment must reflect the quality of an employee's performance. Employees will not be rewarded for failure or misconduct.
- In the event that the termination of the employment relationship was initiated by the employee, no severance pay will be awarded, unless this termination is the result of serious imputable acts or culpable omissions committed by the employer.

Identified Staff

The Executive Board has identified a number of positions as 'Identified Staff'. These are positions that could have a significant impact on Rabobank's risk profile. Over four hundred employees hold such positions across all entities of Rabobank Group, with only a portion eligible for variable remuneration under strict rules to minimise the risks involved. The most important of these risk-mitigating measures include a balanced mix of performance targets, deferred variable remuneration and deferred remuneration notes.

Balanced mix of performance targets

As is the case for all other employees, Identified Staff must have a proper balance of performance objectives. Any variable remuneration is awarded based on a minimum of 50 percent non-financial objectives.

Deferred variable remuneration and Deferred Remuneration Notes

A minimum of 50% of the variable remuneration for eligible Identified Staff is awarded conditionally and paid on a deferred basis after a period of at least three years. This group receives half of the variable remuneration in the form of Deferred Remuneration Notes (DRNs), which are linked directly to the price of Rabobank Certificates. A retention period of one year applies to DRNs awarded unconditionally. This means that payments are made on DRNs one year after they have vested. The Executive Board can withdraw or reclaim this variable remuneration in accordance with the applicable legislation and regulations.

Performance Management

In our view, achieving Rabobank's strategic objectives demands effective management, coaching and feedback for our employees. Performance Management (PM) is an ongoing series of conversations between manager and employee aimed at ensuring employees' contribution to overall business targets, and empowering employees to play an active role in their own development. PM is therefore not just about evaluating past performance, but also about discussing potential for further development.

Customer's interest

In PM, customers' interests come first. Managers and staff reach mutual agreements on the results and competency targets to be achieved, which must contain no incentives that may lead to behaviour that is careless or not in the customer's interest. The targets set constitute a balanced mix of financial and non-financial criteria. Under competencies, 'customer focus' and 'collaboration' are compulsory.

Redesigned process

PM was introduced at the same time with variable income, but the current process and system no longer suit Rabobank's goal of being a high-performance organisation for its customers. The annual objectives were not allowing us to respond quickly enough to the pace of real-world change, and recording all agreements requires a simple system. Therefore, PM was redesigned in 2016.

The new process focuses on employee growth and is based on ongoing dialogue between managers and employees regarding the employees' contribution to the organisation's objectives, their conduct and development. Meaningful conversations between managers and employees and their colleagues help employees become aware of their own and each other's qualities. Feedback forms part of these interviews which are held in a constructive and energising atmosphere, empowering employees and realising the high-performance bank that we aim to be for our customers. Due to the focus on growth – for employees, customers and the bank alike – the name of the new PM is GROW!. It was launched 1 January 2017 and applies to all employees within the bank, in the Netherlands and also the international departments of Wholesale, Rural & Retail.

¹ Awarding compensation for the discontinuation of (deferred) variable remuneration an employee received from a previous employer is only possible when recruiting new employees, and only for the first year of employment. The full cycle of risk management is applied in this process.

Rabobank Supervisory Board

Fee structure

Supervisory Board directors are non-executives and independent of Rabobank. Instead of a salary, they receive a predetermined fee commensurate with their position on one of the various committees, which is determined by our General Members Council. Our Supervisory Board has nine members, one-third of them are women.

Committee memberships are listed on www.rabobank.com.

As of 1 October 2016 the fee structure was adjusted.

Individual payments

Payments to members and former members of the Supervisory Board totalled EUR 1.2 million, including the VAT and employer's contributions. The remuneration for individual members of the Supervisory Board in office on 31 December 2016 (excluding VAT and other charges) was as follows:

Payments to individual members of the Supervisory Board	
<i>in thousands of euros</i>	<i>Remuneration</i>
W. Dekker (in office until 15 September 2016)	242
I.P. Asscher-Vonk	98
L.N. Degle	86
S.L.J. Graafsma	110
E.A.J. van de Merwe (in office until 14 September 2016)	73
R. Teerlink	131
A.A.J.M. Kamp	91
M. Trompetter	104
P.H.J.M. Visée (remunerated as of 14 December 2016)	4
P.H.M. Hofsté (remunerated as of 14 December 2016)	4
J. Nooitgedagt (remunerated as of 14 September 2016)	32
Total 2016	975
Total 2015	1,030

Loans per member of the Supervisory Board

The loans, advances and guarantees secured by members of the Supervisory Board in office on 31 December 2016 and the average interest rates were as follows:

Loans per member of the Supervisory Board		
<i>in millions of euros</i>	<i>Outstanding loans</i>	<i>Average interest rate (in %)</i>
<i>On 31 December 2016</i>		
A.A.J.M. Kamp	0.9	2.6
M. Trompetter	0.4	4.0

Movements in the loans, advances and guarantees provided to members of the Supervisory Board in office on 31 December 2016 were as follows:

Movements in loans, advances and guarantees provided to Supervisory Board		
<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
<i>Loans, advances and guarantees</i>		
Outstanding on 1 January	1.4	2.6
Provided during the year	-	-
Redeemed during the year	(0.1)	(0.7)
Reduction on account of leaving office	-	(0.9)
Increase on account of taking office	-	0.4
Outstanding on 31 December	1.3	1.4

At year-end 2016, the members of the Supervisory Board not listed in the table above had not received any loans, advances or guarantees. These transactions were concluded in accordance with market rates, which partly depend on the currency as well as the agreed fixed-interest period and the time the transaction was completed or a new fixed-interest term becomes effective.

Certificates per member of the Supervisory Board

Some members of the Supervisory Board have invested in Rabobank Certificates in person and/or through their own pension B.V. At year-end 2016 certificates totalled 15,780.

Number of certificates per member of the Supervisory Board	
I.P. Asscher-Vonk	6,894
L.N. Degle	4,836 (pension B.V.)
S.L.J. Graafsma	4,050 (pension B.V.)

Benchmark

We use external benchmarking to compare the Supervisory Board remuneration against remuneration paid in the market. The latest study took place in 2013 and compared remunerations paid to the Supervisory Board from three perspectives, including remunerations paid to supervisory boards of larger AEX companies, remunerations based on time use combined with an hourly rate, and remunerations based on the points system for Supervisory Board membership in relation to the fixed salary of the Supervisory Board chairperson. The fee structure was adjusted 1 October 2016.

There were no major external shifts which necessitated external benchmarking, but the adjustment was motivated by a number of recent developments. First, the increased external supervision requires greater commitment from the committees' chairpersons. Furthermore, the new governance entails that the supervisory task is fulfilled on behalf of the members, and requires closer contacts with these members. Finally, Rabobank

intends to strengthen the cooperation within the team, which means that the vice chairman will be more closely involved in the chairperson's activities. By increasing the involvement of the team members, allows for a downward adjustment in the chairperson's fee. The General Members Council approved to the adjustment. The new fee structure is more transparent and still within the bandwidth of the external market.

The fee structure as of 1 October 2016 is as follows:

As of 1 October 2016 the fee structure	
<i>in euros</i>	<i>Fee</i>
Member	90,000
Chairman of Audit Committee, Risk Committee, Cooperative Issues Committee, additional	20,000
Chairman of Appointments Committee together with HR Committee, additional	20,000
Vice chairman, additional	30,000
Chairman	220,000

Executive Board

Remuneration package

The primary remuneration package of the members of the Executive Board consists of fixed pay and pension entitlements. In addition, Executive Board members receive a management supplement that serves as a fixed reimbursement of expenses. They are eligible for a package of fringe benefits in line with market standards. Executive Board members became ineligible for variable remuneration in 2013.

Fixed income

As with employees subject to the CLA, salary scales have been set for the Executive Board, including a scale minimum and maximum. The scales (including holiday and thirteenth month) as of 31 December 2016 are as follows:

Executive Board salary scales

<i>in euros</i>	<i>Minimum</i>	<i>Maximum</i>
Chairman of the Executive Board	923,500	1,154,400
Members of the Executive Board	707,200	884,000

Pension

The Rabobank pension scheme applies to members of the Executive Board and qualifies as a collective defined contribution scheme. As of 1 January 2016, the maximum income on which Executive Board members may accrue pension was EUR 96,000, which means Executive Board members now receive an individual pension contribution (IPC) of 24% of their fixed annual income above the threshold for pension accrual.

Fringe benefits

Members of the Executive Board are eligible for a package of fringe benefits, such as a car lease arrangement, in line with market standards.

Expense allowance

Members of the Executive Board are eligible for a fixed expense allowance to cover costs relating to the performance of their duties. These costs cannot be claimed separately as the underlying principle of the allowance is that the amount of the expense allowance is based on customary practice in the market for similar positions.

Severance payments

Rabobank complies with all existing laws and regulations concerning severance payment levels, meaning Executive Board members would receive a maximum of one year's salary.

Individual remuneration

In 2016, the remuneration of members and former members of the Executive Board totalled EUR 7.6 million (6.4 million).

Remuneration per member of the Executive Board

<i>In thousands of euros</i>	<i>Total salaries</i>	<i>Pension contributions</i>	<i>Individual pension contribution</i>	<i>Other</i>	<i>Total</i>
R.J. Dekker	884	25	189	3	1,101
B.J. Marttin	884	25	189	-	1,098
J.L. van Nieuwenhuizen	884	25	189	-	1,098
H. Nagel	884	25	189	-	1,098
W. Draijer	980	25	212	-	1,217
B.C. Brouwers	884	25	189	-	1,098
P.C. van Hoeken	663	19	142	-	824
Total 2016	6,063	169	1,299	3	7,534
Members Executive Board	4,257	128	908	5	5,298
Formers Members Executive Board	884	26	189	1	1,100
Total 2015	5,141	154	1,097	6	6,398

Since the variable remuneration for members of the Executive Board was discontinued in 2013, the number of DRNs granted to members and former members of the Executive Board was 0 for the performance year 2016 (0). There was a total of 486 DRNs outstanding with members and former members of the Executive Board at year-end 2016 (2015: 11,647). This total includes the DRNs awarded to members and former members of the Executive Board in previous positions.

Loans per member of the Executive Board

The loans, advances and guarantees secured by members of the Executive Board in office as of 31 December 2016 and the average interest rates were as follows:

Loans per Executive Board member		
<i>in millions of euros</i>	<i>Outstanding loans</i>	<i>Average interest rate (in %)</i>
<i>On 31 December 2016</i>		
B.C. Brouwers	0.5	2.6
R.J. Dekker	1.0	2.1
B.J. Marttin	0.4	5.8
H. Nagel	1.0	2.2
J.L. van Nieuwenhuizen	1.2	2.0

Movements in the loans, advances and guarantees provided to members of the Executive Board in office on 31 December 2016 were as follows:

Movements in loans, advances and guarantees of members of the Executive Board		
<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
<i>Loans, advances and guarantees</i>		
Outstanding on 1 January	4.3	4.9
Provided during the year	-	1.2
Redeemed during the year	(0.8)	(1.8)
Reduction on account of leaving office	-	-
Increase on account of taking office	0.6	-
Outstanding on 31 December	4.1	4.3

These transactions have been entered on employee terms and/or at market rates, which partly depend on the currency as well as the agreed fixed-interest period and the time at which the transaction was completed or the commencement of a new fixed-interest period.

Certificates per member of the Executive Board

The members of the Executive Board do not have personal investments in Rabobank Certificates and/or via their own pension B.V. (private limited liability company).

Benchmark

The remuneration of the Executive Board members was compared with two external reference markets – one financial and one non-financial – by an external agency (Hay Group) in 2014. Because the underlying dynamics of these two markets are extremely different, we decided not to use a single combined group. Both reference groups include listed and non-listed companies. The financial, sector-specific reference market was defined within an international/European context and includes the following companies: Crédit Agricole, Banco Santander, Société Générale, Groupe BPCE, UniCredit, ING Bank, Nordea Bank, Intesa Sanpaolo, BBVA, Commerzbank, Danske Bank, DZ Bank, ABN AMRO and Caixabank. The non-financial group of cross-industry companies in the Netherlands was determined by selecting companies of comparable size and complexity, which include the following companies: ABN AMRO, AEGON, Ahold, Akzo Nobel, DSM, FrieslandCampina, Heineken, ING Bank, ING Verzekeringen, KPN, Philips, Randstad, SHV Holding and TNT Express.

In 2014 the aggregate remuneration of all the members of the Executive Board was within the bottom 25% of both reference groups, and was therefore well below our aim to set our remuneration on or just shy of the market median for comparable work. However, in 2016 the Supervisory Board saw no reason in the results of the benchmarking in 2014 to adjust the levels of remuneration of the Executive Board. This decision was based on the fact that the current scale maximums for the Executive Board have not been changed since they were set on the basis of a representative peer group in 2008, and because the Executive Board of Rabobank is since 2013 not eligible for short- or long-term variable remuneration, even though these elements of remuneration are customarily offered in the rest of the market. Rabobank feels comfortable with the current remuneration of the Executive Board and will continue to consider developments in the market in future decisions concerning levels of remuneration. Like the salaries of other employees of the bank, remuneration for the Executive Board remained unchanged in 2016.

Performance management

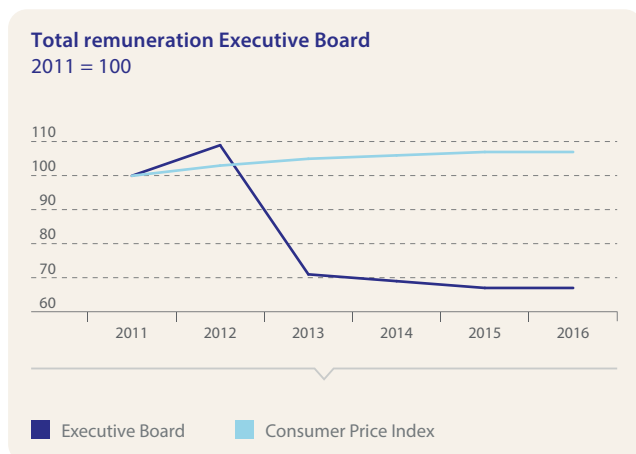
A uniform PM process applies throughout Rabobank; members of the Executive Board (all designated as Identified Staff) are also subject to this process. The Executive Board's performance targets comply with the distribution prescribed for Identified Staff across group targets, business unit targets and individual targets. At least 50% of the performance targets consist of non-financial targets. In 2016, all members of the Executive Board shared joint targets in the following areas:

- Improving customer satisfaction;
- Improving ROIC trend 10%;
- Improving performance (Cost reduction);
- Optimising balance sheet;
- Contributing to successful operation of cooperative governance;
- Ensuring a sound culture and awareness of risk;
- Carrying out items on implementation agenda;
- Helping to make the Executive Board a strong team;
- Improving culture and conduct in line with Rabobank Vision.

The uniform process of PM that applies throughout Rabobank will be carried out for the last time in 2016. In 2017, the new GROW! process will be kicked off.

Development of remuneration package

As previously stated, the salary scales for the members of the Executive Board have not been adjusted for inflation or otherwise increased since 2008. Variable remuneration for the Executive Board was discontinued in 2013.



The chart shows the development of the overall Executive Board remuneration package, including pension (policy levels), over the past six years as indices compared to 2011. The index for 2016 is 67, meaning the overall remuneration package has fallen by 33% in a period of six years, while the consumer price index rose by 7% in that same period. The peak in the graph in 2012 is connected to that year's elimination of the senior management supplement for the Executive Board; a non-recurring compensation was provided in return in 2012. The decrease since 2013 is connected to the discontinuation of the variable pay for the Executive Board. At present, we see no reason to adjust the remuneration of the Executive Board.

Domestic banking: Executives

Executives work directly below the Executive Board. There are five position scales for executives, ranging from Executive Scale I to Executive Scale V. In 2016, more than 240 employees made up the executives team; 10% of these employees are expats working abroad on a Dutch contract. One executive had total remuneration of more than EUR 1 million.

Remuneration package

The primary remuneration package for executives consists of fixed pay and pension entitlements. Executives also receive a management supplement that serves as a fixed reimbursement of expenses, and they are eligible for a package of fringe benefits in line with market standards. With the exception of a small group of specialist positions, executives have not been eligible for variable remuneration since 2014.

Fixed income

The Executives Scales are based on the Hay Group's system for evaluating jobs. There are five Executive Scales, each with a scale minimum and maximum and covering a broad salary range (including holiday allowance and 'thirteenth month'), as shown in the table below.

Executive Scales		
<i>in euros</i>	<i>Minimum</i>	<i>Maximum</i>
Senior management	153,700	476,900

Pension

The Rabobank pension scheme applies to the executives. The Rabobank pension scheme qualifies as a collective defined contribution plan. The maximum income for pension accrual was EUR 96,000 as of 1 January 2016. The 'senior management allowance' was discontinued 1 January 2015. Executives at this level have since received an individual pension contribution according to the level of their position.

Fringe benefits

Executives are eligible for a package of fringe benefits, such as a car lease arrangement, in line with market standards.

Management supplement

Executives are eligible for a fixed expense allowance to cover costs relating to the performance of their duties. These costs cannot be claimed separately as the underlying principle is that the allowance is based on customary practice for similar positions in the market.

Benchmark

The maximum salaries for executives were determined based on a representative peer group in 2008, which was last subject to market comparison by an external party in 2014. The comparison was based on the level of difficulty of the position relative to the Dutch market in general and the Dutch financial sector in particular.

The outcomes from the market comparisons show that the total remuneration for Executives Scales is well below the median for the Dutch market in general. The Executive Scales are also well below the median compared to the Dutch financial sector, as neither short-term variable remuneration nor long-term variable remuneration – typical remuneration components in the rest of the market – are included in the package. As we aim to set our remuneration on or just shy of the market median for comparable work, the comparison with the external market indicated no reason to adjust the level of remuneration for executives. Rabobank is comfortable with the current salary positions for executives. In 2016, like the salaries of other employees of the bank, remuneration for executives remained unchanged.

Performance management

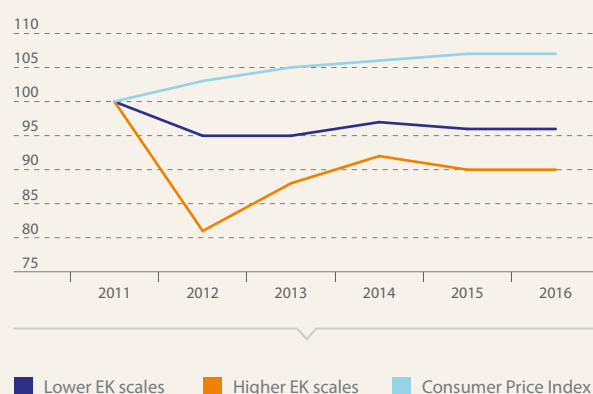
A uniform PM process is in place for all Rabobank employees, including executives. The performance targets of executives who are designated Identified Staff comply with the distribution prescribed for Identified Staff across group targets, business unit targets and individual targets. Executives are assessed on three to six performance targets and three to six competence targets; the competences 'customer focus' and 'cooperation' are mandatory for all employees. Individual pay rises are determined on the basis of having achieved the set targets.

The uniform process of PM that applies throughout Rabobank will be carried out for the last time in 2016. In 2017, the new process will be kicked off: GROW!

Development of remuneration package

The salaries for executives have not been adjusted for inflation or increased in any other way since 2008, and variable pay for executives was discontinued on 1 January 2014. At the same time, the scale maximum was raised by 13%. These changes combined represent a reduction in the remuneration package.

Total remuneration executives
2011 = 100



The chart shows the development of the remuneration package for executives, including pension (policy levels), over the past six years. The index for 2016 is 96 for the lower position scales and 90 for the higher ones. In other words, the overall remuneration package has fallen by 4% to 10% in a period of six years, while the consumer price index increased by 7% in that same period. The sharp fall in incomes from the higher Executives Scales in 2012 is connected to the elimination of variable pay. At present, we see no reason to adjust the remuneration of the executives.

Domestic banking domain: CLA population

The position scales below senior management are within the scope of the CLA and consist of two position scales for senior staff (Senior Staff A and Senior Staff B) and scales 1 to 11.

Since the CLA 2013-2015, Obvion falls fully within the scope of the Rabobank CLA, including the remuneration package, so the following information about the remuneration package also applies to the subsidiary Obvion.

Remuneration package

The remuneration package for position scales 1 to 11 and Senior Staff A and Senior Staff B consists of fixed income, the employee benefit budget, pension and fringe benefits. The CLA population has not been eligible for variable pay since 2013.

Fixed income

The position scales in the Rabobank CLA are based on the Hay Group's system for evaluating jobs. The minimum and maximum scales can be found in the Rabobank CLA. The median remuneration for Rabobank employees in the Netherlands is EUR 50,838, which gives a ratio in the Dutch banking sector of 1:19.3 between the median remuneration and the employee with the highest earnings. Relative to 2015 the median remuneration rose while the highest remuneration remained unchanged. The reorganisation resulted in a reduction of lower paid employees, leading to an increase of the median remuneration.

Employee benefit budget

Employees receive an employee benefit budget which they can use for certain employment benefits that enhance their personal circumstances and preferences. The employee benefit budget allows employees to buy extra leave, save for extra pension, purchase a bicycle in a tax-efficient way or pay union fees. The level of the employee benefit budget varies per position scale and can be found in the Rabobank CLA.

Pension

The Rabobank CLA pension is a collective defined contribution scheme. The maximum income for pension accrual for full-time employees as of 1 January 2016 was EUR 96,000. Employees with an income higher than EUR 96,000 receive a personal budget.

Fringe benefits

Employees are eligible for a package of fringe benefits, such as a reimbursement for commuting, in line with market standards.

Benchmark

The remuneration for the CLA population is periodically compared with the general market in the Netherlands in order to follow developments and maintain a remuneration policy that attracts and retains the right employees. In doing so, we aim to take up a position on or just shy of the median for the general market. The most recent benchmark was established in 2015, with market comparisons showing a varied picture for the different position scales. The remuneration for some scales is around the median level in the general market, while higher than the median for other scales. The remuneration for these scales, in accordance with policy, has been moving towards the median since 2012, partly as a result of the baseline applicable since then and the most recent CLA effective until 2019.

Performance management

The uniform process of PM that applies throughout Rabobank will be carried out for the last time in 2016. In 2017, a new process will be kicked off: GROW!

New Rabobank CLA 2017-2020

The new Rabobank CLA, effective for 2017-2020, emphasises the importance of encouraging professional growth and employability. New arrangements have been made to provide employees with conscientious guidance in the event that they have been affected by our transition to becoming a leading customer-focused and social bank.

Certain employment conditions have been amended in different ways, all of which reinforce the middle course we have set for the coming four years. The zero line that has applied to employees subject to the CLA since 2012 will remain in place until 2019. This means that a structural pay rise will only become effective in 2019, with an adjustment of 1%; until then, employees will receive a one-time payment of 1% in 2017 and 2018.

New Rabobank CLA and Redundancy Plan

As of 1 January 2017 the new Collective Labour Agreement (CLA) of Rabobank will be in place.

The Redundancy Plan forms an integral part of the CLA. In the years ahead, many Rabobank employees will lose their jobs. For this reason, parties involved in the process towards the new Rabobank CLA have prioritised agreements concerning the new Redundancy Plan in their negotiations about the new Rabobank CLA.

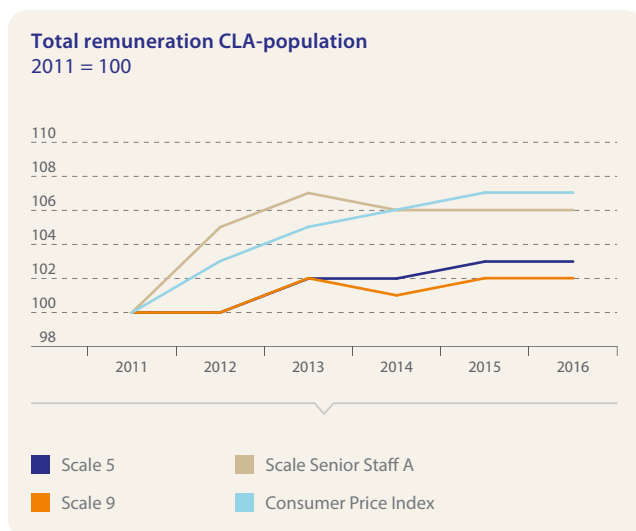
The core of the new plan will continue to focus on finding new work for employees who are made redundant. Agreements have also been made regarding a new severance payment system which, in addition to income security, also gives employees more control and better incentives to search for and accept new work.

The Rabobank CLA also includes agreements regarding the terms and conditions of employment for the next four years, including a modest wage agreement, a new PM system (GROW!) and a development budget.

The new Rabobank CLA 2017-2020 contains a balanced set of agreements, and offers long-term clarity and prospects both for employees who are made redundant, and for those who continue to work for the bank.

Development of remuneration package

The most recent general salary increase for the salary scales within the CLA took place in 2011, which means salary scales have a baseline from 2012. Variable pay was discontinued in 2013. The new CLA 2017-2020 also means that the current baseline will remain valid until 2019.



This chart shows the development of the total remuneration package (policy levels) of three CLA scales over the past six years as indices compared to 2011. The chart shows that the three CLA scales fall behind, as the consumer price index increased by 7% in that same period. At present, we see no reason to adjust the remuneration of the CLA population.

Remuneration in the Wholesale, Rural & Retail domain

The majority of the employees in Wholesale, Rural & Retail work outside of the Netherlands. Within this domain, remuneration is primarily driven by the market practice in the respective country within the guidelines of the GRP. In 2016, one employee had a total remuneration (including pension contributions) in excess of EUR 1 million.

Remuneration package in the Netherlands

The employees under Dutch contract in the WRR domain fall under the Rabobank CLA. What is described under 'Domestic banking domain: CLA population' thus also applies to this group. A limited number of specialised positions also qualify for variable remuneration. The variable remuneration for this group may never exceed 20% on average. In addition, a salary extension scheme is possible for the most specialised positions within WRR in the Netherlands.

International remuneration package

The remuneration package in the foreign offices of Rabobank includes three elements: fixed income, variable remuneration and fringe benefits. Rabobank strives for a position just below the median for the total package. In general, this is achieved in the various countries by arranging the fixed income and fringe benefits around the median and the variable remuneration just below the market average.

International fixed income

The fixed income differs per country and is based on the remuneration level in the local labour market.

For Rural & Retail, the salaries are based on salary scales with a minimum and a maximum. These salary scales are linked to the same position scales as in the domestic banking business: 1 to 11 and Senior Staff A and Senior Staff B. A project was started in 2015 for Wholesale to develop salary structures linked to the position scales 1 to 11 and Senior Staff A and Senior Staff B. The new salary structures have been in place in different regions since the performance year 2015 and were developed for the other regions in 2016 and will be implemented over performance year 2016.

International variable remuneration

Unlike in the Dutch banking business, variable remuneration is still a regular part of the total remuneration package outside of the Netherlands. In Rural & Retail, the variable remuneration is linked to the position (scale) and the performance of the employee, which is measured on the basis of financial and non-financial factors. The maximum achievable percentage of variable remuneration in general equals the position level. This model has been in use for several years.

For the Wholesale domain, the variable remuneration before performance year 2016 is based on a bonus pool, in which the responsible management team awards individual bonuses on a discretionary basis.

In 2015, we kicked off a project to structure variable remuneration in Wholesale. The aim is to bring it in line with that of Rural & Retail where the variable remuneration is linked to the position (scale) and performance of the employee, as well as the performance of the Rabobank Group as a whole and the relevant business. For some regions, this new system has been in place since the 2015 remuneration round. The variable remuneration system for the other regions and for the global business lines was developed and implemented in 2016.

International fringe benefits

The package of fringe benefits varies strongly per country, while the primary remuneration policy (fixed income and variable remuneration) is determined centrally. The package of fringe benefits is chiefly determined locally, because of differences in local laws and regulations as well as market practice.

Benchmark

In principle, benchmarking is conducted per country and is based on a comparison with peers in the relevant remuneration market(s). Rabobank uses a central framework for benchmarking within the WRR domain. This framework provides a guideline for choosing the market position, the way in which the peer group is selected and the remuneration elements that are provided. It also determines how positions are linked to those in the benchmark study, in order to ensure that Rabobank positions are correctly compared with external market positions.

Performance management

Since 2015, Rabobank's banking business has had a single system and process of PM. We also have one IT system in place for logging all the PM agreements. The information provided under 'Domestic banking domain: CLA population' also applies to WRR; the unit's domestic and international business will also be subject to the new PM process GROW!, rolled out worldwide 1 January 2017.

Remuneration policy for other group entities

DLL

DLL has its own remuneration policy that has been implemented worldwide. DLL has around 5,300 employees, 4,000 of which work outside of the Netherlands. In 2016, DLL had one employee whose total remuneration exceeded EUR 1 million.

Remuneration package

In the Netherlands, DLL uses a remuneration package that consists of fixed and variable remuneration components and various fringe benefits, including a pension scheme. The variable remuneration percentages vary from 5% to 20%, depending on the position level. Outside of the Netherlands, the level of the fixed income, the variable pay and the benefits in the remuneration package are based on the local market of the respective country.

Benchmark

In principle, benchmarking takes place per country and is based on a comparison with relevant remuneration market(s). Traditionally, in the Netherlands, the pay is above the median of the financial services market, but steps are now being taken to lower this relatively positive position in relation to

the labour market. For this reason, there was no structural pay rise to employees in the Netherlands in 2016, although one-off payments were made. Internationally, we are aiming for a position between the median and the third quartile.

Performance management

DLL uses its own PM system. It focuses on achieving results, bringing the DLL core values into practice and the personal development of employees. This system facilitates the following:

- Regular discussions between manager and employee about employee's performance,
- Employee's personal development,
- Clear mutual expectations (of manager and employee),
- Direction with regard to the realisation of business goals, and
- Transparency in evaluation.

As part of the PM cycle, the manager and employee have a number of meetings each year to agree on the target setting, to discuss progress and to evaluate performance.

Developments in the remuneration package

In 2016, DLL took further steps to moderate variable remuneration:

- Variable remuneration was completely discontinued - domestically and internationally - for the top levels of management;
- In the US, variable remuneration will be capped at 100% as from 2017, as was already the case in other countries.

In North and South America, a system has been introduced geared towards simplifying variable remuneration and applying a bandwidth system. In 2017, we will investigate whether this approach could be implemented in other countries.

DLL has made further progress in managing and monitoring the terms of employment worldwide. A worldwide Compensation & Benefits monitoring plan was established in 2016, which will form the basis of further improvements to the application of the remuneration policy.

Rabo Real Estate Group

Remuneration policy

Rabo Real Estate Group implements its own remuneration policy that meets the requirements of the GRP of Rabobank. Rabo Real Estate Group has a remuneration package consisting of fixed and variable elements, and a pension scheme.

In the Netherlands, in addition to the three members of the Board of Directors, the group employs approximately 30 executives and approximately 670 employees in the CLA population. These two groups each have their own terms of employment.

BPD and Bouwfonds Investment Management employs approximately 650 people outside the Netherlands. Each international division has its own remuneration policy and own PCM system.

Performance management

Rabo Real Estate Group's system of Performance & Competence Management (PCM), with which the group focuses on achieving results and developing employees. This instrument contributes to the following goals:

- Regular discussions between manager and employee about employee's performance,
- Employee's personal development,
- Clear mutual expectations (of manager and employee),
- Direction with regard to the realisation of business goals, and
- Transparency in evaluation.

As part of the annual PCM process, the manager and employee have a number of meetings each year: the target-setting meeting, the progress interview and the evaluation interview.

Specific developments to remuneration policy in reporting year

FGH integration into Rabobank

In the reporting year, Rabo Real Estate Group made agreements with trade unions De Unie and FNV concerning measures it is taking to ensure that FGH Bank is successfully integrated into Rabobank, and that employees who end up moving to Rabobank as a result of the transition are properly compensated. These agreements were set out in an addendum to Rabo Real Estate Group's 2013-15 Social Plan – a part of Rabo Real Estate Group's CLA. A separate implementation agreement was also drawn up, to which Rabobank is also a signatory, in which the bank commits to implementing the provisions of the addendum.

The first wave of FGH staff migration to Rabobank took place on 1 October 2016. The migration is expected to be completed by 1 July 2017.

Rabo Real Estate Group CLA

The CLA of Rabo Real Estate Group is negotiated with the trade unions CNV, FNV and De Unie. The current Rabo Real Estate Group CLA expires on 1 January 2017. In the light of organisational developments, Rabo Real Estate Group decided in September 2016 to terminate the CLA when it expires and to devote attention to developing the most suitable CLA scenario for the future. Parties responsible for the CLA began negotiations in Q4 2016 with the aim of settling a new agreement before 2017.

During the negotiations, the parties exchanged views and sought agreement on the various CLA themes. The consultations focused mainly on their scope, fixed and variable remuneration and the social plan. It appears that the parties' positions are too far apart to be able to finalise a new collective agreement for Rabo Real Estate Group to be reached by 1 January 2017. The uncertainty about future developments in the various divisions also plays a role in this. As the employer expects more clarity in the first half of 2017, the parties decided to suspend discussions until after the summer of 2017.

Supplementary remuneration policy for Bouwfonds Investment Management

Legislation under the Alternative Investment Fund Managers Directive (AIFMD) applies to Bouwfonds IM. This investment management division is not subject to the Dutch law Wbfo¹. Therefore, Rabo Real Estate Group has implemented a remuneration policy specific to Bouwfonds IM (to supplement the CLA and terms of employment that apply to Rabo Real Estate Group as a whole). This supplementary policy complies with AIFMD legislation.

1 Wbfo; 20% bonus cap; Wbfo is an amendment and an addition to the Dutch law Wet op het Financieel Toezicht, Wft

Management

Members of the Executive Board

- Wiebe Draijer, *Chairman*
- Bas Brouwers, *Chief Financial Officer*
- Ralf Dekker, *Chief Operating Officer*
- Petra van Hoeken, *Chief Risk Officer*
- Berry Marttin, *Markets Rural & Retail International*
- Rien Nagel, *Markets Retail Netherlands*
- Jan van Nieuwenhuizen, *Markets Wholesale Netherlands/ International*

Rens Dinkhuijsen, *Company Secretary*

As of 1 January 2016 the position of CFRO was split into the positions of Chief Financial Officer (CFO) and Chief Risk Officer (CRO). Bas Brouwers joined the Executive Board as CFO as of 1 January 2016. Until the appointment of Petra van Hoeken as new CRO on 1 April 2016 Wiebe Draijer held the CRO position on an interim basis.

More information about the members of the Executive Board, based on the composition of the Executive Board as of 31 December 2016, is given below.

Wiebe Draijer (W.) (Male, 1965, Dutch nationality)

Appointed with effect from 1 October 2014, current appointment term runs until 1 July 2018

Chairman, portfolio:

- Communications & Corporate Affairs
- Human Resources
- Audit Rabobank
- RaboResearch
- Company Secretariat
- Organisational Development & Performance
- Compliance (until 1 October 2016)
- Legal (until 1 October 2016)

Also CRO on interim basis from 1 January 2016 until 1 April 2016, portfolio:

- Risk Management
- Credit Risk Management
- Financial Restructuring & Recovery



Bas Brouwers (B.C.) (Male, 1972, Dutch nationality)

Appointed with effect from 1 January 2016, current appointment term runs until 1 January 2020

CFO, portfolio:

- Group Control
- Control Retail NL
- Control WRR
- Finance & Risk Centre
- Portfolio Management
- Treasury
- Investor Relations & Rating Agencies
- Group Tax

Ralf Dekker (R.J.) (Male, 1957, Dutch nationality)

Appointed with effect from 1 November 2013, current appointment term runs until 1 November 2017

Chief Operating Officer (COO), portfolio:

- Fintech & Innovation
- IT Systems
- IT Infrastructure
- IT Strategy, Data & Architecture
- IT Risk, Reporting & Security
- Operations
- COO WRR

Petra van Hoeken (P.C.) (Female, 1961, Dutch nationality)

Appointed with effect from 1 April 2016, current appointment term runs until 1 April 2020

CRO, portfolio:

- Risk, including:
 - Retail NL
 - WRR
 - IT & Operations
 - Operational Risk
 - Credit Risk Management
 - ALM & Analytics
 - Integrated Risk
 - Financial Restructuring & Recovery
- Compliance, as of 1 October 2016
- Legal, as of 1 October 2016

Berry Marttin (B.J.) (Male, 1965, Dutch and Brazilian nationalities)

Appointed with effect from 1 July 2009, current appointment term runs until 1 July 2017

Portfolio:

- Markets Rural & Retail International including:
 - Global Rural and Retail Banking
 - Australia/New Zealand
 - South America
 - North America
- Sustainability
- Rabo Development
- Rabobank Foundation
- Leasing

Rien Nagel (H.) (Male, 1963, Dutch nationality)

Appointed with effect from 1 November 2013, current appointment term runs until 1 November 2017

Portfolio:

- Cooperative & Governance, including 'kring' directors
- Business, including:
 - Large corporates
 - SME's
 - Food & Agri in the Netherlands
 - Public & Health sector
 - Expertise Centre Real Estate Finance
- Retail & Private Banking, including:
 - Wealth management
 - Mortgages/Real Estate
 - Digital Banking
 - Marketing
 - Insurance

Jan van Nieuwenhuizen (J.L.) (Male, 1961, Dutch nationality)

Appointed with effect from 24 March 2014, current appointment term runs until 24 March 2018

Portfolio:

- Markets Wholesale Netherlands/International, including:
 - Global Wholesale Product Clients
 - Global Corporate Clients
 - Wholesale Netherlands & Africa
 - Europe
 - Asia
- Real Estate

Composition of the Supervisory Board of Rabobank¹

Members of the Supervisory Board (as of 31 December 2016)²

<i>Name</i>	<i>Gender</i>	<i>Year of birth</i>	<i>Nationality</i>	<i>Position</i>	<i>Year of first appointment</i>	<i>Current appointment term expires in</i>
Ron Teerlink (R.)	Male	1961	Dutch	Chairman since 14 September 2016	2013	2017
Marjan Trompetter (M.)	Female	1963	Dutch	Vice-chair	2015	2019
Irene Asscher-Vonk (I.P.)	Female	1944	Dutch	Member	2009	2017
Leo Degle (L.N.)	Male	1948	German	Member	2012	2020
Leo Graafsma (S.L.J.)	Male	1949	Dutch	Member	2010	2018
Petri Hofsté (P.H.M.)	Female	1961	Dutch	Member	2016	2020
Arian Kamp (A.A.J.M.)	Male	1963	Dutch	Member	2014	2018
Jan Nooitgedagt (J.J.)	Male	1953	Dutch	Member	2016	2020
Pascal Visée (P.H.J.M.)	Male	1961	Dutch	Member	2016	2020

On 14 September 2016 Wout Dekker and Erik van de Merwe voluntarily resigned from their respective positions as chairman and member of the Supervisory Board. On the same date Jan Nooitgedagt was appointed and Leo Degle was reappointed by the General Members' Council as members of the Supervisory Board. Pascal Visée was appointed with effect from 14 December 2016, Petri Hofsté with effect from 30 December 2016.

The members of the Supervisory Board committees are listed in the Report of the Rabobank Supervisory Board.

- 1 The Supervisory Board in its current composition meets principle III.2 Independency of the Dutch Corporate Governance Code
- 2 You can find information about the profession, the main position and the secondary activities of the Members of the Supervisory Board at www.rabobank.com/en/about-rabobank/profile/organisation/board/supervisory-board-members.html

Assurance report of the independent auditor

To: the general members' council of Coöperatieve Rabobank U.A.

Assurance report on the Sustainability Statements 2016

Our conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Sustainability Statements included in the Annual Report 2016 of Coöperatieve Rabobank U.A. does not present, in all material respects, a reliable and adequate view of:

- the policy and business operations with regard to sustainability; and
- the events and achievements related thereto for the year ended 31 December 2016;

in accordance with the sustainability reporting Guidelines version G4 of GRI and the internally applied reporting criteria as described in Appendix 1: 'About this report' and Appendix 2: 'Sustainably Successful Together'.

Our opinion

In our opinion, the fourteen sustainability key performance indicators in the tables on the pages 125 - 128 and Appendix 3 on the pages 129 - 134 in the Annual Report 2016, are prepared, in all material respects, in accordance with the sustainability reporting criteria as described in 'Appendix 1: About this report'.

What we are assuring

The Sustainability Information contains a representation of the policy and business operations of the Coöperatieve Rabobank U.A. (hereinafter 'Rabobank' or 'the Bank') and its subsidiaries, regarding sustainability and the events and achievements related thereto for 2016. We have reviewed the Sustainability Statements for the year ended 31 December 2016, as included in the following sections in the Annual Report for the year ended 31 December 2016 (herein: 'Sustainability Statements') of Rabobank:

- Engaging with stakeholders pages 73 - 77
- Working with clients on sustainability risks and opportunities pages 78 - 82

- Stimulating sustainable agriculture pages 83 - 86
- Supporting the vitality of communities pages 87 - 92
- Promoting a circular economy pages 93 - 97
- Developing talent and competencies pages 98 - 101
- Encouraging diversity and equality pages 102 - 103
- Appendix 1: About this report
- Appendix 2: Sustainably Successful Together
- Appendix 4: Dialogue with social welfare organizations and dialogue with clients
- Appendix 5: Global Reporting Initiative

Additionally, we have audited the fourteen sustainability key performance indicators in the tables on the pages 125 - 128 and Appendix 3 on the pages 129 - 134.

The Sustainability Statements contains several links to external sources or websites, which are not part of the Sustainability Statements. Therefore, we do not provide assurance over information outside of the Sustainability Statements.

The basis for our conclusion and opinion

We conducted our assurance engagement in accordance with Dutch law, including Dutch Standard 3810N 'Assurance-opdrachten inzake maatschappelijke verslagen' (Assurance engagements on corporate social responsibility reports). This engagement is aimed to obtain a combination of limited and reasonable assurance. Our responsibilities under this standard are further described in the section 'Our responsibilities for the assurance engagement of the Sustainability Statements' of this Assurance report.

Independence and quality control

We are independent of Rabobank in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, the Dutch auditor independence regulations for assurance engagements) and other relevant independence requirements in the Netherlands. Furthermore we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, the Dutch Code of Ethics for Professional Accountants and regulation with respect to Rules of Professional Conduct).

We apply the 'Nadere voorschriften accountantskantoren ter zake van assurance opdrachten' (RA/AA, the Dutch detailed rules for auditing firms on assurance engagements) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other applicable legal and regulatory requirements.

We believe that the assurance information we have obtained is sufficient and appropriate to provide a basis for our conclusion and our opinion.

Reporting criteria

Rabobank developed its reporting criteria on the basis of the sustainability reporting criteria as described in Appendix 1: 'About this report' and Appendix 2: 'Sustainably Successful Together' of the Annual Report 2016. The information in the scope of this assurance engagement needs to be read and understood in conjunction with these reporting criteria. The Board of Management is responsible for selecting and applying these reporting criteria. The absence of a significant body of established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Inherent limitations

The Sustainability Information includes prospective information such as expectations on ambitions, strategy, plans, estimates and risk assessments based on assumptions. Inherently, the actual results are likely to differ from these expectations, due to changes in assumptions. These differences may be material. We do not provide any assurance on the assumptions and achievability of prospective information in the Sustainability Information.

Responsibilities for the Sustainability Statements and the assurance-engagement

Responsibilities of the executive board

The Board of Management of Rabobank is responsible for the preparation of the Sustainability Statements in accordance with the sustainability reporting criteria, as described in Appendix 1: 'About this report' and Appendix 2: 'Sustainably Successful Together' on the pages 125 - 128 of the Annual Report 2016, including the identification of stakeholders and the definition of what is material to these stakeholders. The choices made by the Board of Management regarding the scope of the Sustainability

Statements and the reporting policy are summarized in Appendix 1: 'About this report' and Appendix 2: 'Sustainably Successful Together' on the pages 125 - 128 of the Annual Report 2016. The Board of Management is responsible for determining that the applicable reporting criteria are acceptable in the circumstances.

The Board of Management is also responsible for such internal control as it determines is necessary to enable the preparation of the Sustainability Statements that is free from material misstatement, whether due to fraud or error.

Our responsibilities for the assurance engagement on the Sustainability Statements

Our responsibility is to plan and perform the assurance engagement to obtain sufficient and appropriate assurance information to provide a basis for our conclusion and our opinion.

A review engagement is aimed at obtaining limited assurance. In obtaining a limited level of assurance, the performed procedures are aimed at determining the plausibility of information and are less extensive than those aimed at obtaining reasonable assurance in an audit engagement. The performed procedures in this context consisted mainly of gathering information from the Bank's employees and applying analytical procedures set out in relation to the information included in the Sustainability Statements. The assurance obtained in review engagements aimed at obtaining limited assurance is therefore significantly lower than the assurance obtained in audit engagements aimed at obtaining reasonable assurance.

Our audit of the information presented in the fourteen sustainability key performance indicators in the tables on the pages 125 - 128 and Appendix 3 on the pages 129 - 134 in the Annual Report 2016 has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors or fraud.

Misstatements may arise due to fraud or error and are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the Sustainability Statements. The materiality criteria used affects the nature, timing and extent of our review and audit, as well as the evaluation of the effect of identified misstatements on our conclusion and our opinion.

Procedures performed

We have exercised professional judgement and have maintained professional scepticism throughout the assurance engagement, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Our main review procedures included:

- Performing an external environment analysis and obtaining insight into relevant social themes and issues, and the characteristics of the organization;
- Evaluating the appropriateness of the reporting policy and its consistent application, including the evaluation of the results of the stakeholders' dialog and the reasonableness of management's estimates.
- Evaluating the design and implementation of the reporting systems and processes related to the Sustainability Statements in the Annual Report 2016;
- Interviewing management and relevant staff at corporate and branch level responsible for the sustainability strategy and policies;
- Interviewing relevant staff responsible for providing sustainability information, carrying out internal control procedures on the data and consolidating the data included the Sustainability Statements.
- An analytical review of the data and trends submitted for consolidation at corporate level.
- Joining the internal audit department in meetings with the business and other locations;
- Reviewing internal and external documentation to determine whether the sustainability information, including the disclosure, presentation and assertions made in the Sustainability Statements is substantiated adequately;
- Assessing the consistency of the Sustainability Statements and the information included in the Annual Report 2016 which is not in scope for this assurance report;
- Assessing whether the Sustainability Statements have been prepared in accordance with the sustainability reporting Guidelines version G4 of GRI and the internally applied reporting criteria as described in Appendix 1: 'About this report' and Appendix 2: 'Sustainably Successful Together';
- Reviewing the relevant work of the Internal Audit function; and
- Discussing our observations with management.

In addition to the procedures mentioned above, we performed the following audit procedures on the fourteen sustainability key performance indicators in the tables on the pages 125 - 128 and Appendix 3 on the pages 129 - 134, included amongst others:

- Identifying and assessing the risks of material misstatement of the Sustainability Statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Evaluating the design and implementation of the reporting systems and processes related to the sustainability information;
- Evaluating the overall presentation, structure and content of the Sustainability Statements, including the disclosures;
- Testing relevant data and internal and external documentation, on a sample basis, to determine the reliability of the information in the information in the Sustainability Statements;
- Attending a number of local Rabobanks of Rabobank in order to evaluate the reliability and accuracy of the source information provided by the local Rabobanks to Rabobank.

Amsterdam, 8 March 2017

PricewaterhouseCoopers Accountants N.V.

Original has been signed by P.J. van Mierlo RA

Executive Board responsibility statement

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

- the financial statements give a true and fair view of the assets, liabilities, financial position and profit of Rabobank, and the companies included in the consolidation;
- the management 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 financial year at Rabobank Nederland and its affiliated entities whose information is included in its financial statements;
- the management report describes the principal risks that Rabobank Nederland faces.

W. Draijer, *Chairman*

B.C. Brouwers, *CFO*

R.J. Dekker, *COO*

P.C. van Hoeken, *CRO*

B.J. Marttin, *International Rural & Retail*

H. Nagel, *CCO NL*

J.L. van Nieuwenhuizen, *Wholesale*

Utrecht, 8 March 2017

Appendices

Appendix 1 About this report

The Rabobank Annual Report 2016 is prepared in accordance with the Comprehensive option of the fourth generation of the Global Reporting Initiative guidelines (GRI G4). The GRI G4 Index is presented in Appendix 5. The Integrated Reporting Framework of the IIRC (International Integrated Reporting Council) served as a foundation in the preparation of the content and outline of our management report.

Scope and boundaries

The Rabobank Annual Report 2016 relates to the reporting period 1 January 2016 to 31 December 2016 and was published on 21 March 2017 on Rabobank's corporate website. The materiality analysis ensures that we cover all material economic, social and environmental topics within our Annual Report. The information in this report relates to Rabobank Group as a whole; we consolidated data for all Rabobank's entities and divisions. We have chosen not to include any data from outside Rabobank, since we believe we have the greatest direct impact through our own operations. For more information on our value chain visions, please refer to the

chapter 'Stimulating sustainable agriculture'. Rabobank includes the data of newly acquired businesses as of the year following the acquisition. Rabobank no longer reports on divested units from the time of divestment. The Rabobank Annual Report 2016 aims to provide a complete, concise and accurate view of our performance. When the reporting is limited to a selection of the group divisions within or outside of the Netherlands, or when a less comprehensive view is being presented, this is indicated explicitly in the relevant report topic.

Materiality

Determining the topics for this year's report began with an analysis of the material themes identified in 2015. We first evaluated the relevance of each topic by checking with internal experts to ensure alignment with the current strategic approach. We defined a list of 15 topics on the basis of this evaluation. A materiality matrix was used to determine the relevance of topics for both Rabobank and our stakeholders. As such, the impact of each topic on Rabobank was determined based on Rabobank's strategic documents and validated by the Executive Board. The impact of each topic on stakeholders was validated by a thorough process of desk research, including minutes from our stakeholder dialogues held throughout the year. The results of the 2015 and 2016 analyses were averaged to reflect all stakeholders' interests over the longer term.

The table below provides insight into how each topic is tied to the strategic pillars of Rabobank's Strategic Framework 2016-2020. It also includes references to the relevant page numbers within the report where we describe the management approach and performance per topic.

Rabobank materiality analysis
Situation on 31 December 2016



<i>Strategic pillar</i>	<i>No</i>	<i>Material topic</i>	<i>Reference</i>
Rock-solid bank	1	Improving performance	Page 19
Rock-solid bank	2	Strengthening capital ratios	Page 50
Rock-solid bank	3	A more flexible balance sheet	Page 54
Rock-solid bank	4	Balancing risks and returns	Page 56
Complete customer focus	5	Restoring trust	Page 61
Complete customer focus	6	Increasing transparency	Page 66
Complete customer focus	7	Digitalising services	Page 69
Complete customer focus	8	Engaging with stakeholders	Page 73
Meaningful cooperative	9	Working with clients on sustainability risks and returns	Page 78
Meaningful cooperative	10	Stimulating sustainable agriculture	Page 83
Meaningful cooperative	11	Supporting the vitality of communities	Page 87
Meaningful cooperative	12	Promoting a circular economy	Page 93
Empowered employees	13	Developing talent and competences	Page 98
Empowered employees	14	Encouraging diversity and equality	Page 102
Empowered employees	15	Responsible remuneration	Page 104

Data collection of sustainability information

The financial information of Rabobank has been prepared in accordance with International Financial Reporting Standards (IFRS), for which we refer to the Financial Statements. The collection of sustainability information is coordinated centrally within Rabobank Group. The Sustainability department is responsible for data collection, in cooperation with Finance & Control. The sustainability data of Rabobank Group divisions and local Rabobanks is obtained via Rabobank's automated central management information system. Data which is not recorded in the central system is collected via qualitative and quantitative questionnaires which are based on internal business principles, policies and external guidelines which are approved by Rabobank Group.

The sustainability coordinator of the respective Group division/ local Rabobank is responsible for collecting and reporting the sustainability data. Finance & Control and the Sustainability department perform plausibility checks after submission, whereafter appropriate actions are taken in order to optimise the data quality.

The data with regard to Rabobank's internal business operations is mostly based on Rabobank's automated central management information system and on invoices from our providers. Reliable sources and established protocols are used for conversion factors. The climate footprint is calculated according to the most recent directives of the Greenhouse Gas Protocol (GHG) and the associated CO₂ conversion factors originate from, among others, DEFRA, CE Delft and the Dutch Emissions Authority. The operating information for the climate footprint report is based on the period from 1 October 2015 to 30 September 2016.

Preparation of the Annual Report

Rabobank has organised the process for producing its Annual Report and Interim Report as follows: at the behest of the Executive Board an Annual Report Steering Group was set up, from which an Annual Report Working Group was created. The following disciplines are represented in both the Steering Group and the Working Group: Executive Board Secretariat, Finance & Control, Investor Relations & Rating Agencies, Sustainability, Integrated Risk Management, Audit, and Communications and Corporate Affairs. The Annual Report Steering Group agrees on the different tasks, roles and responsibilities relating to the production of the Annual Report and Interim Report.

Before work started on gathering information and writing the Annual Report, the chair of the Annual Report Steering Group and the Executive Board decided on the structure and key messages of the report. The Working Group then translated these guidelines into drafts, which were subsequently reviewed by a committee of members from the Working Group, Steering Group and other key employees. The draft texts of the Annual and Interim reports are discussed twice in the respective meetings of the Executive Board, the Supervisory Board and the Audit Committee.

Assurance

We believe that reliability of the information included in this report is crucial for us and for our stakeholders. For that reason, assurance is provided for the Rabobank Annual Report 2016 by PwC (the texts on our external website are outside of the scope of assurance). For more information on PwC assurance, we refer to the Independent Auditor's Report.

Appendices

Appendix 2 Sustainably Successful Together

With the SST memorandum in 2014, Rabobank established its commitment to integrating sustainability into all relevant policy processes, products and services. The progress of the implementation of the memorandum is a recurring topic for the Executive Board, the Supervisory Board, in the annual plans of our divisions, internal and external reporting and performance management. The objectives which are translated to Rabobank Group are a fully integrated part of the management cycle. Responsibility for sustainability within the Executive Board lies with Mr. Berry Marttin. During the reporting year, members of the Supervisory Board met to discuss various issues related to sustainability as well as the implementation of the SST strategy.

Each group division is responsible at management level for the implementation of SST and has set their objectives accordingly. At local Rabobanks, each board member is responsible for sustainability within their portfolio.

In 2016, Rabobank Group divisions began or continued to draw up plans and implement activities that contribute to the goals of the SST memorandum. Progress is reported to the Executive Board and the Cooperative Issues Committee (CIC). Divisions such as Wholesale and Retail Customers & Private Banking have made good progress by rolling out specific products such as a Sustainability Bond and the green mortgage.

The sustainability ambitions of Rabobank are captured in 14 KPIs. These ambitions are fully embedded in our strategy and each KPI is managed, monitored and reported as part of our daily business operations.

In addition, central cooperative projects such as the client photo were extended in 2016 to Wholesale Clients. Local Rabobanks have also organised their own activities, such as Smart Renovation markets, where customers who are homeowners had the opportunity to meet corporate clients from the sector who offer energy-saving solutions. Based on the current sustainability performances outlined in this report, we are satisfied with the progress of the implementation of our 2020 ambitions. But more attention is needed to ensure progress is made within all entities at the desired speed. Also, some activities can change over time, leading to different

results, as, for instance, in the case of KPI 14, the employee survey which measured new items this year with respect to 2015.

One challenge Rabobank has faced in 2016 with regard to its sustainability ambitions was the regrettable fact of the departure of many colleagues from Rabobank due to the bank's restructuring. This also meant that we could no longer rely on the involvement of certain employees who had previously been active in this area. Updating of entity plans for 2017 will mitigate this side effect of reorganisation.

In 2016, we also invested in preparatory work for further integration of sustainability into our reporting standards and systems and the enhancement of data quality. This includes a modernised digital reporting system for sustainability topics. These efforts will start to bear fruit in 2017.

The sustainability department oversees the progress on the sustainability KPIs and also handles reporting and stakeholder management in the area of sustainability for Rabobank Group. We measure progress every year and report on it internally and externally. Rabobank strives to ensure continuous improvement in its sustainability performance and communicates transparently on related activities.

We measure our progress in achieving our ambitions of sustainable development by 2020 with KPIs. In the SST memorandum, we define 14 group-wide sustainable KPIs, divided over five themes:

1. Vital communities
2. Sustainable agriculture and food supply
3. Corporate clients
4. Retail customers
5. Our commitment

The table below shows each of the KPIs. Progress on these KPIs is measured with information obtained from both inside and outside the organisation. Each KPI is managed, monitored and reported as part of our daily business operations. A number of KPIs have an absolute target. Others, especially the results of customer and employee surveys, are relative targets.

Vital communities				
	2016	2015	2014	2020 target
KPI 1: Community not-for-profit investments				
Percentage of profit added to community not-for-profit investments	3.6%	2.8%	3.5%	3%
KPI 2: New collective local community initiatives				
Number supported by local Rabobanks in the Netherlands cumulative	103	n/a	n/a	500
Number supported by Rabobank Foundation	278	230	n/a	500 ¹

Sustainable agriculture				
	2016	2015	2014	2020 target
KPI 3: Our vision of agribusiness value chains				
Number of published value chain visions	2	0	0	10
Number of roundtables or similar initiatives in which we participate	9	9	8	10
KPI 4: Making the agribusiness value chains sustainable				
Number of events/podiums organised by Rabobank aimed at improving sustainability in agribusiness value chains in the Netherlands	4	n/a	n/a	-
Number of events/podiums organised by Rabobank aimed at improving sustainability in agribusiness value chains abroad	14	n/a	n/a	-

Business clients				
	2016	2015	2014	2020 target
KPI 5: Sustainable Trendsetters				
Total sustainable financing (in EUR millions)	18,791	19,240	19,501	Doubling of services
Total sustainable funding (in EUR millions)	2,485	2,122	2,364	
Volume of financial transactions supervised by Rabobank (in EUR millions)	5,250	6,322	2,393	
KPI 6: Rabobank as a good partner to discuss sustainable enterprise (in % per corporate customer group)				
Companies with less than EUR 1 million in turnover (n=1,998)	14%	11%	n/a	Annual growth
Companies with more than EUR 1 million in turnover (n=3,001)	15%	n/a	n/a	Annual growth
KPI 7: Customers with a sustainability photo				
Number and percentage of assessed customers from local Rabobanks		14,502	99%	100%
Number and percentage of assessed customers from wholesale offices		1,533	85%	100%

Retail customers				
	2016	2015	2014	2020 target
KPI 8: Satisfied retail and private banking customers				
Customer satisfaction with the good fit of financial advice of Rabobank and personal wishes	55%	52%	n/a	Annual growth
KPI 9: Satisfied customers from vulnerable groups				
Customer satisfaction with the ease and problem-free handling of banking affairs at Rabobank	72%	73%	n/a	Annual growth
KPI 10: Retail and private banking customers satisfied with sustainability interview				
Customer satisfaction with how the subject of sustainability is discussed	89%	88%	n/a	Annual growth

Our commitment				
	2016	2015	2014	2020 target
KPI 11: Carbon footprint				
CO ₂ emissions per FTE	3.7	3.5	3.6	3.2
KPI 12: Associations of the Dutch public				
% of Dutch public with positive associations of Rabobank with sustainability	44%	42%	n/a	80%
KPI 13: Sustainability in recruitment and selection process				
Number of specific sustainability training courses	5	n/a	n/a	
KPI 14: Results of employee survey 'Customer cooperation' and 'Cooperative characteristics'				
When making decisions, I assess the impact on Rabobank's clients and Rabobank	90%	n/a	n/a	Annual growth
Rabobank solicits feedback from its clients to improve its ability to meet client needs	78%	n/a	n/a	Annual growth
Rabobank has developed high levels of client loyalty	62%	n/a	n/a	Annual growth
Rabobank invests significant resources to build and maintain strong relationships with the community	80%	n/a	n/a	Annual growth
In its policies, Rabobank is mindful of the impact these policies will have on society	67%	n/a	n/a	Annual growth
Rabobank invests in relationships with government, regulatory and consumer groups	73%	n/a	n/a	Annual growth

¹ The target of 500 includes initiatives from both Rabobank Foundation and Rabobank Development.

The table below serves to clarify the methodology and definitions used to measure and report the progress on each KPI.

Vital communities	
KPI 1	We support social initiatives in the communities in which we operate with manpower, knowledge, networks and facilities and we invest the equivalent of 3% of our annual profit in social initiatives on a not-for-profit basis through the Rabobank Group and the Rabobank Foundation
Methodology	We measure and report the financial donations by Rabobank entities and loans by Rabobank Foundation. The total of financial donations is reported as a percentage of net profit on group level. The main component of the total amount is the amount of donations by local Rabobanks. Manpower and knowledge invested in local communities are measured as well but not included in the KPI report because the data has been captured in such a way that it is difficult to verify and consolidate into a group-wide number.
Terminology	Cooperative dividend – the part of the profit that is reinvested back into the community Community funds are funds created by Rabobank entities for funding activities that create a positive social contribution to society
KPI 2	By 2020, we will be supporting 1,000 new local collective community-based initiatives achieving business success, including 500 in the Netherlands and 500 in developing countries.
Methodology	Currently we measure and report the number of new collective local community initiatives that have been supported by financing, time investment or knowledge by local Rabobanks in the Netherlands and through the Rabobank Foundation. In 2017 we will start to measure the number of new collective local community initiatives supported through Rabo Development. The data is reported on an annual basis, evaluated and aggregated to group level.
Terminology	Collective local community initiatives are measured and reported based on five criteria: a) the initiative is supported by Rabobank with networking knowledge or financial solutions; b) the initiative is founded by citizens and/or companies to achieve a local impact; c) the initiative is dedicated to achieving a positive social and/or environmental impact; d) the initiative has a solid economic base e) the initiative is founded on a formal legal structure (or is in its start-up phase), such as (but not restricted to) a cooperative structure.

Sustainable agriculture and food supply	
KPI 3	We define our vision of how to improve the sustainability of the agricultural value chain for soy, palm oil, sugarcane, forestry, beef, dairy, fish, coffee, cocoa and bio-materials. We share our vision and actively participate in roundtables or similar initiatives to accelerate the process of making these agricultural value chains more sustainable and work together with our clients to integrate the outcomes of these dialogues into their business operations and achieve commercial success at the same time.
Methodology	We measure and report the number of supply chain visions and/or position papers for each selected value chain. We publish these papers on our corporate website and share this knowledge with our customers. Position papers are updated regularly.
Terminology	Our visions on agricultural chains which we define contain Rabobank's forward looking perspectives and criteria, how to improve and accelerate sustainability with clear steps on the most important sustainability themes in a specific value chain. Further it contains how Rabobank seeks to contribute to these ambitions. Visions are being developed since 2016 as part of our Sustainably Successful Together ambition – our contribution to sustainable development until 2020. Previously Rabobank had published positioning papers on agricultural supply chains. These positioning papers contain our policies and expectations on specific value chains. These have been incorporated in our Sustainability Policy Framework, available on rabobank.com .
KPI 4	We actively contribute to improving agricultural value chains due to sustainability being an integral part of our philosophy about sectors. We share this knowledge in dialogue with our clients.
Methodology	In 2016 we changed the methodology for measuring this KPI. In 2015 we reported the number of initiatives by local Rabobanks aimed at increasing sustainability of agricultural value chains and the number of customers local Rabobanks were talking to about making food & agri value chains more sustainable. As of 2016 we report the number of events/podiums organised by Rabobank worldwide aimed at improving sustainability in agricultural value chains.
Terminology	Agricultural value chains are referring to well-functioning and sustainable food chains starting with farmers and aimed at providing sufficient and high-quality food for everyone. More detail on this topic can be found in our Banking for Food policy. See : https://www.rabobank.com/en/about-rabobank/food-agribusiness/vision-banking-for-food/index.html

Corporate Clients	
KPI 5	Rabobank gives priority to sustainability leaders in financing and will double the volume of the services provided to them.
Methodology	We measure and report the total of sustainable finance, sustainable funding and other sustainable services worldwide. Giving priority to sustainable leaders is a rule of conduct which is not measured in a reporting value. We aim to double the volume of sustainable loans.
Terminology	Total Sustainable financing is based on sustainable sectors, asset classes or certified companies including green assets (also related to our Green and Sustainable bond framework and included verifiable criteria). Sustainable funding includes Rabo Green Bonds issued by Rabobank, Rabo Green Savings and Rabo Green Deposits issued by the Rabo Groenbank and Rabo Socially Responsible Deposits. Transaction volume of other services include financial transactions supervised by Rabobank (Including Green Bonds, IPOs and M&A transactions).
KPI 6	The percentage of corporate clients indicating they were satisfied with how sustainability was discussed in client meetings increases annually.
Methodology	We measure and report the progress of this KPI based on internal annual client satisfactory surveys. These surveys are designed to collect information about the services provided by Rabobank and the perception and appreciation by the client in the Netherlands. Each local Rabobank can decide to participate or not in the survey. The survey includes a variety of different aspects, sustainability is one of these aspects. The percentage is based on the number of clients who are 'quite satisfied' and 'reasonable satisfied'.
Terminology	Sustainability in client meetings means that we enter into active dialogue with clients about making their business processes and living and working environment more sustainable.
KPI 7	By 2020, all our corporate clients will have maximum access to the sustainability expertise they require, and the sustainability performance of all our larger corporate clients will be recorded in a client photo.
Methodology	We first implemented the client photo in 2015 in the Netherlands and expanded the client to our international wholesale clients in 2016. We started with clients with an exposure > EUR 1 million, during 2016 we also started to apply the client photo for clients with an exposure below the Eur 1 million threshold. In the Annual Report we include a table that shows the number of client photos and exposure (> EUR 1 million) for each client photo category. We also included a section that shows the total number of client photos of local Rabobanks in the Netherlands.
Terminology	The client photo measures the sustainability performance of our clients. We have defined 5 performance level categories (a, b, c, d+ and d). In the Annual Report a definition of the categories is included.

Retail Customers

KPI 8	The percentage of retail and private banking clients indicating that they are satisfied about how they can match their finances to their sustainable ambitions with the appropriate products increases annually.
Methodology	We measure and report the progress of this KPI based on external annual client satisfactory surveys. These surveys are designed to collect information about the services provided by Rabobank and the perception and appreciation by the client in the Netherlands. The survey includes a variety of different aspects, sustainability is one of these aspects. The percentage is based on the number of clients who are 'quite satisfied' and 'reasonable satisfied'.
Terminology	Matching the customer's finance to their sustainability ambitions means that Rabobank gives the customer advice on how financial affairs can be best suited to the wishes of the customer and the products Rabobank advises fit these personal wishes.
KPI 9	By 2020, more than 80% of clients from vulnerable populations will find that Rabobank does a good job managing their banking business.
Methodology	We measure and report the progress of this KPI based on external annual client satisfactory surveys for the group of vulnerable people. These surveys are designed to collect information about the services provided by Rabobank and the perception and appreciation by the client in the Netherlands. The survey includes a variety of different aspects, sustainability is one of these aspects.
Terminology	A large group of vulnerable people – senior citizens, people with low levels of literacy and those with learning difficulties – are finding it increasingly difficult to do their banking independently. The fact that banking services are becoming more and more digitalised is leaving some people behind. Rabobank is keen to remedy this situation because it's important to us that all our customers can continue to use our services. Doing a good job is based on the number of clients who are 'quite satisfied' and 'reasonable satisfied'.
KPI 10	The percentage of retail customers reporting that they were satisfied with how sustainability was discussed in the client meeting increases annually.
Methodology	We measure and report the progress of this KPI based on external annual client satisfactory surveys. These surveys are designed to collect information about the services provided by Rabobank and the perception and appreciation by the client. The survey includes a variety of different aspects, sustainability is one of these aspects.
Terminology	Satisfied customers are represented by the percentage of clients who are 'quite satisfied' and 'reasonable satisfied'.

Our commitment

KPI 11	By increasing energy efficiency and by reducing and making mobility and other services more sustainable, we aim to further reduce carbon emissions per FTE per year by 2020 by 10% from 2013.
Methodology	The climate footprint is calculated according to the most recent directives of the Greenhouse Gas Protocol (GHG) and the associated CO ₂ conversion factors originate from, amongst others, DEFRA, CE Delft and the Dutch Emissions Authority. The operating information for the climate footprint report is based on the period from 1 October 2015 to 30 September 2016.
Terminology	Increasing energy efficiency means that are committed to reduce our energy consumption as much as possible, for example by facilitating teleworking in order to reduce employee travel time. Rabobank is also as sustainable as possible in its purchasing policies, attempting to use renewable raw materials and contracts based on circular economic principles wherever we can.
KPI 12	By 2020, 80% of the Dutch public should associate Rabobank with sustainability in a positive way, along with at least one of the following topics: sustainable agriculture and a sustainable food supply; and vital communities.
Methodology	We measure the perception of the Dutch public in close cooperation with external research organisations, among others, the Social Image Monitor – an initiative of the Hope & Glory agency which performs the research in cooperation with Motivaction.
Terminology	We defined four subgoals related to 'sustainable agriculture and food supply' and 'vital communities': 1 stimulating the sustainability of agriculture and food supply in the world, 2 helping food & agri companies that are customers of Rabobank be economically successful, 3 supporting local and social initiatives with manpower, knowledge and money, and 4 supporting farmers and small businesses in developing countries.
KPI 13	Cooperative and sustainable banking forms an integral part of recruitment and selection and the training programmes for all employees.
Methodology	The number of specific sustainability trainings available (non-mandatory) is reported. This represents the trainings coordinated by the central sustainability department. There is no data available yet related to sustainability in the recruitment and selection processes.
Terminology	To integrate sustainability into the heart of the organisation we are committed to explicitly address the topic of sustainability in our recruitment, selection as well training processes.
KPI 14	We aim to increase our organisation's score on the criteria 'customer cooperation' and 'cooperative characteristics' in the employee survey each year.
Methodology	We measure and report the perception of employees using an annual employee survey. The survey includes a list of statements. These are in alignment with the Sustainability Programme SST, Sustainably Successful Together. The score is based on the % of employees who 'agree' or 'strongly agree'
Terminology	Customer Focus' aspects <ul style="list-style-type: none"> Rabobank has developed high levels of client loyalty Rabobank effectively manages external business relationships with clients, partners, and stakeholders Rabobank identifies and targets specific groups of clients with tailored offerings Rabobank solicits feedback from its clients to improve its ability to meet customer needs Managers communicate that products and services offered need to be in long term client interests When making decisions, I assess the impact on Rabobank's clients and Rabobank We make sure our systems and processes are client oriented 'Meaningfull cooperation' aspects <ul style="list-style-type: none"> Rabobank maintains a network of external business partners Rabobank works with external partners to help them perform well Rabobank invests significant resources to build and maintain strong relationships with the community Rabobank invests in relationships with government, regulatory, and consumer groups It is always possible to combine our cooperative identity with our processes and procedures In all its policies, Rabobank is mindful of the impact these policies will have on society It is clear how the Banking for Food and Banking for the Netherlands objectives are translated into goals and milestones Management encourages different part of Rabobank to work together to make improvements Rabobank holds events to share knowledge and ideas across the organisation Leaders in Rabobank (including my manager) create a sense of teamwork and mutual support throughout Rabobank

Appendices

Appendix 3 Sustainability Facts & Figures

Finance Overview with a societal character or a positive societal impact

<i>in millions of euros</i>	2016	2015	2014	2013	2012
Corporate Customers					
Sustainable finance					
Green loans	1,613	1,509	1,574	1,826	1,987
Sustainable project finance (excluding green loans)*	3,301	3,374	2,444	2,621	2,291
Loan with agriculture guarantee fund BF/BF+	261	255	294	300	333
DLL Clean tech financing	303	243	no comparative figures		
Financing for sustainable technology and energy companies	349	278	192	166	no comparative figures
Financing for environmental and recycling companies	623	517	533	574	
Financing for companies with a sustainability label	7,589	8,867	9,831	9,454	
Subtotal	14,039	15,044	14,868	14,941	4,611
Access to finance					
Rabo Stimulus Capital	176	222	280	328	389
Loans with a State guarantee (under BMKB)	1,176	1,069	1,075	1,126	1,179
Loans with Go facility	269	251	268	330	312
Growth Facility Scheme (Rabo Capital Injection Loan)	21	31	36	35	45
Microcredit and first-time credit for SMEs in the Netherlands	0	0	0	1	1
Subtotal	1,642	1,573	1,659	1,820	1,926
Community services					
Financing for businesses in the education sector and research and development	577	658	617	644	no comparative figures
Financing for social and ethical organisations	573	516	663	593	
Financing for cultural organisations	130	114	117	179	
Financing for organisations caring for vulnerable groups and sheltered employment	1,830	1,335	1,575	738	
Subtotal	3,110	2,623	2,973	2,155	
Total sustainable finance	18,791	19,240	19,510	18,926	6,547
In % of total credit and loan portfolio private customers	4.43%	4.52%	5.09%	4.90%	2.00%

An overview of the labels can be found on the corporate website.

- * The total amount of sustainable project finance in 2015 is adjusted downwards to reflect the correct yearend position of the portfolio.
- * VIV loans were funded by the National Green Fund and made available for Rabobank clients. In 2013 the product was discontinued and no new VIV loans have been provide since.

Equator Principles

The Equator Principles (EP) is a framework for risk management by financial institutions for determining, assessing and managing social and environmental risks in projects and project financing. Rabobank was one of the first banks to subscribe to the EP when they were adopted in 2003. In addition to our sustainability policy and for the financial products falling within the scope of the EP, we ask our customers to bring into focus and address relevant environmental and social risks in accordance with the relevant standards as stated in the EP.

Within Rabobank the relationship managers share responsibility with the central sustainability department for the correct implementation of the EP. As part of our sustainability assessment of the customer, all transactions are checked for applicability of the EP. When the EP apply to a new transaction, a checklist is completed to ensure the correct application of the principles. This checklist should be signed by the sustainability department before the transaction can be executed.

We conduct a Social and Environmental Assessment for each proposed project. The terminology to categorise the projects is based on the International Finance Corporation's categorisation process, and classifies projects into high, medium and low, in terms of environmental and social risk.

The categories are:

- Category A – Projects with potentially significant adverse social or environmental impacts which are either diverse, irreversible or unprecedented;
- Category B – Projects with potentially limited adverse social or environmental impacts which are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures;
- Category C – Projects with minimal or no social or environmental impacts.

The total number of project loans granted in 2016 was 30.

The distribution is as follows:

Distribution of project loans			
Sector	Category A	Category B	Category C
Mining	-	-	-
Infrastructure	-	-	-
Oil & Gas	-	-	-
Power	-	30	-
Others	-	-	-
Region			
Americas	-	24	-
Europe, Middle East & Africa	-	6	-
Asia Pacific	-	-	-
Country Designation			
Designated	-	30	-
Non-Designated	-	-	-
Independent Review			
Yes	-	30	-
No	-	-	-
Totals	-	30	-

Project names
Cloosh Valley Wind Farm
Sandstone Solar
Mojave West
Adera Solar
Citizen Solar
Electra wind project
Broadview wind project
Western Antelope Blue Sky Ranch B
Summer Solar Project
North Lancaster Ranch
Elevation Solar C
Central Antelope Dry Ranch B
Antelope Big Sky Ranch
Solverde 1
Western Antelope Dry Ranch
Antelope DSR 1
Antelope DSR 2
Merkur
Zulu
Beacon 1
Beacon 3
Beacon 4
Bethel Wind Farm
Deerfield Wind Project
Fluvanna Wind Energy
Norther
Pears
Rentel
Project Company BuildCo Phase II
SolaireHolman 1

Overview total sustainable assets under management for customers, sustainable funding and other transaction volumes

Total sustainable assets under management for customers and sustainable funding					
<i>in millions of euros</i>	2016	2015	2014	2013	2012
Sustainable assets under management and assets in custody and sustainable funding					
Sustainable assets under management and assets in custody					
Private Banking ¹	3,073	1,915	1,258	735	358
Real Estate	370	410	381	286	211
International ²	392	518	462	718	395
Total sustainable assets under management and assets in custody	3,835	2,843	2,101	1,739	963
Sustainable Funding					
Rabo Green Bonds	500	23	24	258	1,487
Rabo Green Savings	1,867	1,957	2,093	2,140	1,222
Rabo Green Deposits	18	31	31	32	
Rabo Socially Responsible Deposits	100	111	216	100	
Total Sustainable Funding	2,485	2,122	2,364	2,870	2,788
Total Sustainable assets under management and assets in custody including sustainable funding	6,320	4,965	4,465	4,609	3,751
Transaction volume of other services in millions of euros					
Financial transactions supervised by Rabobank (Including Green Bonds, IPOs and M&A transactions)	5,250	6,313	2,383	883	196
Fund management					
Public Fund Management Netherlands assets	0	0	3,117	3,018	2,945

Greenhouse gas emissions and climate footprint (in tonnes of CO₂)				
<i>Emission source</i>	2016	2015	2014	2013
Scope 1				
Use of natural gas	12,269	13,998	18,398	11,696
Use of other fuels	48	62	91	76
Use of air conditioning	2,218	2,419	1,743	1,845
Lease mileage driven	33,944	36,484	39,679	43,888
Scope 2				
Use of electricity	108,679	102,128	110,582	121,926
Use of heat	1,951	1,803	2,042	2,987
Scope 3				
Business car mileage driven	5,092	5,378	5,918	6,496
Business air mileage	15,223	18,873	18,725	18,193
Use of paper	837	922	1,097	1,344
Climate footprint, total CO ₂ emissions	180,263	182,067	198,275	208,451
Climate footprint per FTE: CO ₂ emissions per FTE	3.7	3.5	3.6	3.5
Use of electricity in accordance with market-based calculation method	29,072	26,066	29,611	32,428
Climate footprint in accordance with market-based calculation method	100,655	106,004	117,304	118,953
Climate footprint per FTE in accordance with market-based calculation method	2.1	2.0	2.1	2.0

1 The funds in this category have been selected on the basis of ESG (Environmental, Social and Governance) criteria as used by Morningstar.

2 This figure refers to funds from Asset Managers who are signatory to the UN PRI.

Energy usage Rabobank Group by source and activity

	Change in % compared to 2015	2016	2015	2014	2013	Unit
Energy	-3%	1,100	1,134	1,264	1,518	Terajoules
Total electricity	-0%	820	823	892	990	Terajoules
- Green electricity	-3%	629	652	694	769	Terajoules
- Grey electricity	11%	190	171	198	221	Terajoules
Total gas	-12%	240	274	330	417	Terajoules
- Green gas	26%	37	29	14	307	Terajoules
- Grey gas	-17%	203	244	316	110	Terajoules
District heating	8%	40	37	42	110	Terajoules
Electricity per FTE	9%	4,717	4,343	4,456	4,677	kWh/FTE
Netherlands green electricity	-8%	88%	95%	93%	98%	percentage
Green electricity outside the Netherlands	46%	42%	29%	30%	29%	percentage
Water in the Netherlands	4%	312	301	272	367	x 1,000 m ³
Water in the Netherlands (m ³ /FTE)	14%	9	8	5	8	m ³ /FTE
Lease kilometres	-19%	181	224	238	241	x 1 million km
A4 paper	-1%	18	19	21	24	kg/FTE
Paper and cardboard waste in the Netherlands	-1%	35	35	44	58	kg/FTE
Residual waste	68%	42	25	35	37	kg/FTE

Sustainability ratings**RobecoSAM**

	2016	2015	2014
Ranking	7	5	12
Overall score	91	87	83
Economic Dimension	94	88	90
Environmental Dimension	93	90	78
Social Dimension	87	85	77

Sustainalytics

	2016	2015	2014
Relative position	2 out of 396	11 out of 422	40 out of 382
Overall ESG score	85 (Industry Leader)	80 (Industry Leader)	70 (Outperformer)
Environment	92	84	70
Social	86	81	80
Governance	78	76	60

Transparency benchmark

	2016	2015	2014
Total score	188	169	168
Position	11	34	22
Company and business model	33	26	27
Policy and results	30	27	24
Management Approach	31	32	31
Relevance	17	15	15
Clarity	19	15	19
Reliability	18	18	18
Responsiveness	21	20	16
Coherence	18	16	18

Fair Finance Guide

	2016	2015	2014
Arms	7	8	8
Human rights	8	8	8
Climate change	3	5	3
Labour rights	9	9	9
remuneration	5	4	2
Animal welfare	6	4	4
Health	6	6	1
Taxes and corruption (until 2015)		5	2
Taxes	5		
Corruption	8		
Nature	6	7	3
Manufacturing	6	6	1
Mining	6	6	4
Power generation	5	5	1
Forestry	5	6	4
Food	6	7	5
Oil and Gas	7	7	4
Fisheries	6	7	6
Financial Sector	3	3	1
Transparency and accountability	5	6	5
Housing & Real Estate	3		
Gender Equality	4		

Social Indicators

Number of employees			
<i>G4-10</i>	<i>Male</i>	<i>Female</i>	<i>Total</i>
Permanent	19,158	20,468	39,626
Temporary	829	951	1,780
Full-time	19,024	11,304	30,328
Part-time	971	10,129	11,100
Internal	19,996	21,432	41,428
External ¹	4,844	2,544	7,388

1 Excluding Rabo Real Estate Group Netherlands

<i>G4-10</i>	<i>Gender</i>	<i>North America</i>	<i>South America</i>	<i>The Netherlands</i>	<i>Europe excluding the Netherlands</i>	<i>Asia</i>	<i>Australia/New Zealand</i>	<i>Africa</i>
Total personnel	male	2,101	530	14,626	1,588	484	667	2
	female	2,260	424	16,344	1,455	380	569	3

New hires and personnel turnover in numbers and ratio									
<i>G4-LA1</i>			<i>Numbers</i>						
	<i>Age</i>	<i>Gender</i>	<i>North America</i>	<i>South America</i>	<i>The Netherlands</i>	<i>Europe excluding the Netherlands</i>	<i>Asia</i>	<i>Australia/New Zealand</i>	<i>Africa</i>
New personnel	<35	male	165	45	466	128	71	62	2
		female	183	38	548	147	33	61	1
	35-54	male	124	14	227	80	47	25	0
		female	136	13	176	60	24	32	2
	>54	male	25	2	36	8	2	2	0
		female	28	0	7	9	0	5	0
Turnover	<35	male	132	56	705	225	39	58	0
		female	144	48	917	245	26	48	0
	35-54	male	132	62	1,517	365	36	71	0
		female	155	51	2,120	337	28	61	0
	>54	male	91	6	792	53	4	26	0
		female	88	7	457	35	1	9	0

<i>G4-LA1</i>			<i>Ratio</i>						
	<i>Age</i>	<i>Gender</i>	<i>North America</i>	<i>South America</i>	<i>The Netherlands</i>	<i>Europe excluding the Netherlands</i>	<i>Asia</i>	<i>Australia/New Zealand</i>	<i>Africa</i>
New personnel	<35	male	0.40	0.11	1.12	0.31	0.17	0.15	0.00
		female	0.44	0.09	1.32	0.35	0.08	0.15	0.00
	35-54	male	0.30	0.03	0.55	0.19	0.11	0.06	0.00
		female	0.33	0.03	0.42	0.14	0.06	0.08	0.00
	>54	male	0.06	0.00	0.09	0.02	0.00	0.00	0.00
		female	0.07	0.00	0.02	0.02	0.00	0.01	0.00
Turnover	<35	male	0.32	0.14	1.70	0.54	0.09	0.14	0.00
		female	0.35	0.12	2.21	0.59	0.06	0.12	0.00
	35-54	male	0.32	0.15	3.66	0.88	0.09	0.17	0.00
		female	0.37	0.12	5.12	0.81	0.07	0.15	0.00
	>54	male	0.22	0.01	1.91	0.13	0.01	0.06	0.00
		female	0.21	0.02	1.10	0.08	0.00	0.02	0.00

G4- LA3	Number of employees		
	Male	Female	Total
Entitled to parental leave	19,475	21,020	40,495
Taken parental leave	608	2,206	2,814
Back to work after parental leave *	230	380	610
Still working 12 months after parental leave *	137	222	359
Return to work rate **	39	17	22
Retention rate **	60	58	59

* Excluding group-wide numbers

** Excluding group-wide, Ireland and DLL NL

Training				
G4-LA9	Salary Scale *	Hours		
		Male	Female	Total
Average number of training hours ¹	1-7	22	18	19
	8-11	19	19	19
	SK	14	18	15
	EK	12	10	12
	Total **	21	21	21

* Excluding Obvion, Rabo Real Estate Group and international branches because the hours per salary scale are not available

** Including international branches

Periodic performance discussions				
G4-LA11	Salary Scale*	%		
		Male	Female	Total
% of personnel with periodic performance & career development	1-7	99.8	99.8	99.8
	8-11	99.8	99.8	99.8
	SK	99.7	99.4	99.6
	EK	93.2	84.1	91.6
	Total **	99.2	99.3	99.2

* Excluding international branches because the % per salary scale are not available

** Including international branches

Salary ratio			
G4-LA13	Salary Scale*	Female/male	
		Dutch	International
salary ratio female/male	EK	103.5	n/a
	SK	93.3	n/a
	8-11	92.1	n/a
	1-7	93.3	n/a

* Excluding international branches because the salary scales are not available

$$\text{Salary ratio} = 100 \times \frac{\text{Average salary female}}{\text{Average salary male}}$$

Other information		
G4-11	% employees under CLA	82%
G4-54/55	ratio salary highest/median the Netherlands	19:1
	ratio % increase salary highest/median the Netherlands	-1%
	ratio salary highest/median international	n/a
	ratio % increase salary highest/median international	n/a

Appendices

Appendix 4 Dialogue with social welfare organisations and dialogue with clients

This appendix includes lists of examples of dialogues that the central Sustainability department of Rabobank is engaged in with clients and social welfare organisations and clients. For each organisation, the topics covered and the outcomes are given. 'Dialogues with clients' lists the client's industry and region, the type of issue and a short description thereof, as well as the status category and status. The list only covers those client discussions that were held in response to controversies that prompted Rabobank to have a discussion with the client. A table at the end of Appendix 4 shows how types of issues are linked to types of controversies. There is also a table showing the various statuses assigned to the discussions with clients.

Dialogue with social welfare organisations

This table provides a list of examples of dialogues that the sustainability department of Rabobank is engaged in with environmental organisations, and/or social welfare organisations. For each organisation, the topics covered and the outcomes are given.

Dialogues with organisations in 2016		
<i>Organisation</i>	<i>Topic</i>	<i>Action</i>
Fair Finance Guide International/ Eerlijke Bankwijzer	Annual update on responsible business policies and their implementation	Provided information and data to questionnaires, engaged and dialogue on (draft) reports
Fair Finance Guide International/ Eerlijke Bankwijzer	Living wage	Provided information and data to questionnaires, engaged and dialogue on (draft) reports
Oxfam Novib	Responsible forestry and PEFC certification	Shared and discussed views in context of Rabobank Sustainability Framework
Fair, Green and Global	Corporate conduct	Provided views and feedback on developments in corporate transparency, accountability and dialogue
Prof Korthals Altes (WUR)	Land governance in Romania	Explained our land governance policy and ways of operating in Romania
Rabobank	Indigenous land governance issues in Chile	Rabobank interacted with the Mapuche community to keep it well-placed in resolution of their land tenure issues
VBDO/Dutch Heart Foundation	Tobacco	Clarified position, policy and exposure to tobacco products industry
Both Ends	Responsible Soy	Clarified position and efforts of Rabobank to make international soy value chains more sustainable
Both Ends	Export finance	Discussed views on sustainability in export finance
Banktrack	Forrestry – Paper – pulp value chains	Provided views, policies and exposure for benchmark report, and discussed with international group of NGO forest campaigners
Fair Finance Guide International/ Eerlijke Bankwijzer	Palm oil, soy, beef, rubber value chains	Provided information on views and implementation of F&A value chain policies
Global Witness	Palm oil business in Liberia	Heard grievances and screened signals for potential client engagement
Rainforest Action Alliance	Forest risk and policy benchmark	Provided information on views and implementation of F&A value chain policies
Rainforest Action Alliance	Labour issues palm oil company Indonesia	Applied engagement procedure and monitoring RSPO complaint
Banktrack	Human rights	Provided information on views and implementation of human rights policy. Rabobank's policies were ranked first out of 28 international banks
Milieudefensie/Oxfam	Export finance coal company	Clarified sustainability policies. Adapted policies regarding companies active in coal mining & trade
Natuur & Milieu	Energy efficiency of Rabobank offices	Provided data and information on energy efficiency of Rabobank offices
NLVOW	OECD MNE Guidelines and onshore wind parks	Dialogue about role and impacts of onshore windpark finance
VBDO	Tax transparency	Provided information for annual tax TB. Rabobank's tax policy was benchmarked a shared 6th rank
Oxfam	Tax transparency	Provided information and answers to study of Oxfam

Dialogue with clients

Rabobank engages with clients on material sustainability controversies and alleged issues regarding the environment, human rights, labour rights and governance. In 2016, the sustainability department had 63 such engagements under management. The table below provides a short description of the topic of discussion and the industry and region in which the issues arose. Colleagues of local Rabobank offices closer to the respective clients play an important role in conducting these dialogues. The sustainability department decides which engagements should be held, tracked and monitored, and they will contact the colleagues responsible for the client relationship to discuss a course of action. Progress and interim results of the engagements are agreed,

monitored and aggregated by the sustainability department. Some engagements can take several years before they are concluded and 40 of the dialogues listed below have been carried over from last year. During 2016 we added 22 new engagements. We closed a total of 20 engagements, as indicated in the table. Details on the nature of the allegations' 'issue type', the current status of the issue and the status of the engagement complete this overview.

Furthermore, the Issue Table 2016 shows the classes of issues we use and provides the number of engagements in which the respective issue plays a role. One engagement can encompass more than one issue. The Table Status Category provides a description of the categories we use.

Dialogues with clients in 2016					
<i>Industry</i>	<i>Region</i>	<i>Issue type</i>	<i>Short issue description</i>	<i>Issue status</i>	<i>Status category</i>
Animal protein	Asia	E - E1	Different sustainability and welfare standards exist within the group	Closed	Client has improved policy/behaviour
Animal protein	Asia	G - G1	Licences missing	Open	Authorities involved
Animal protein	Asia	G - P1	Acquisition of new company, implementation existing policies required	Closed	Engagement stopped
Animal protein	Asia	S - L1	Client allegedly linked to slave labour in supply labour	Open	Client is taking action
Animal protein	Europe	S - H2	Allegations of impacts and insufficient consultation/ client can improve transparency	Closed	Client has improved policy/behaviour
Animal protein	Europe	G - P1	Client active in a restricted activity, agreed to change to alternative	Open	Client willing to improve policy/behaviour
Animal protein	North America	S - L5	Allegations of poor working conditions	Closed	Insufficient evidence
Animal protein	North America	S - L5	Allegations of poor working conditions	Closed	Insufficient evidence
Animal protein	North America	S - L5	Allegations of poor working conditions	Closed	Insufficient evidence
Animal protein	South America	E - E2	Illegal clearing/reforestation underway and fine paid	Open	Client is taking action
Animal protein	South America	S - H2	Potential claim of indigenous people to land/agreed not on land in question	Closed	Engagement stopped
Beverages	Asia	S - H1 S - L5	Welfare, health and working conditions on plantation insufficient	Open	Client is taking action
Beverages	South America	S - L4	Fatalities during maintenance work	Open	Authorities involved
Cocoa	Africa	S - L2	Child labour vs poverty reduction dilemma	Open	Client acknowledges issue
Cotton	Europe	S - L1 S - L2	Child labour vs poverty reduction dilemma	Open	Client is taking action
Energy/metals	Europe	S - L4	Fatalities during operations	Closed	Client has improved policy/behaviour
Energy/metals	South America	S - H1	Allegations of abusing public security forces to remove protestors	Open	Client has resolved issue
Energy/metals	South America	S - L1 E - E3	Client allegedly linked to HR violations and depletion of natural resources in supply chain.	Closed	Client has improved policy/behaviour
Energy/metals	South America	E - E2 E - E4 S - H2	Various allegations of damage to environment and insufficient consultation	Closed	Client relationship terminated
Farm inputs	North America	E - E2 S - H2	Alleged negative impacts to people and environment	Open	Authorities involved
Farming	South America	S - L5	Quality employee facilities	Closed	Client has resolved issue
Farming	South America	S - L5	Quality employee facilities	Closed	Client relationship terminated
Farming	South America	E - E2	Damage to HCV	Open	Client relationship terminated
Farming	South America	S - L5	Allegations of labour contract irregularities	Closed	Client has resolved issue
Farming	South America	E - E2	Damage to HCV	Open	Engagement stopped
Farming	South America	E - E2 S - L5	Quality employee facilities and environmental issues	Open	Client is taking action
Farming	South America	E - E2	Damage to HCV	Open	Client is taking action
Farming	South America	E - E2 S - L5	Quality employee facilities and environmental issues	Closed	Client has resolved issue
Farming	South America	E - E2 S - L5	Quality employee facilities and environmental issues	Closed	Client has resolved issue
Farming	South America	E - E2 S - L5	Quality employee facilities and environmental issues	Closed	Engagement stopped
Farming	South America	E - E2 S - L5	Quality employee facilities and environmental issues	Open	Client is taking action
Food	Europe	G - G1	Tax avoidance	Open	Client is taking action

Food	North America	S - L3	Allegation of treating pro-union staff unfairly	Open	Investigation
Food	South America	S - L5 S - L6	Allegations of poor working conditions	Open	Investigation
Grains	Asia	E - E2	Allegations of burning to clear land	Open	Authorities involved
Grains	South America	G - G1	Optimising legal structures to the potential detriment of land rights holders.	Closed	Client has resolved issue
Palm oil	Africa	S - H2	Alleged negative impact on community	Open	Insufficient evidence
Palm oil	Africa	S - H2	Alleged insufficient information/compensation to communities	Open	Authorities involved
Palm oil	Africa	S - H2	Issues due to insufficient agreement regarding FPIC procedure	Open	Client is taking action
Palm oil	Africa	S - H2	Allegations on insufficient consultation/compensation	Closed	Client is taking action
Palm oil	Asia	S - H3	Conflicting claims of communities on land. Dispute on sharing the agreed compensation sum with new claimants	Open	Client has resolved issue
Palm oil	Asia	S - H2	FPIC and settlement issues in part-owned plantation	Open	Client is taking action
Palm oil	Asia	S - L5	Labour conditions not in breach of policy or applicable law, but room for improvement	Open	Client is taking action
Palm oil	Asia	G - P1	Relationship started w/out RSPO adherence. Membership obtained. No progress in compliance certification.	Closed	Client relationship terminated
Palm oil	Asia	S - H2 S - H3 E - E2	Several accusations regarding insufficient FPIC, compensation and ESIA	Open	Client has resolved issue
Palm oil	Asia	S - H2	Allegations of primary forest destruction and no FPIC applied	Open	Client willing to improve policy/behaviour
Palm oil	Asia	S - H2 E - E2	Allegations of insufficient FPIC, legal compliance and HCV assessments. Breaches convincingly refuted by client yet above and beyond measures agreed.	Open	Client is taking action
Palm oil	Asia	S - H3	Issues with land rights and legal requirements to operate that mutually exclude.	Open	Client is taking action
Palm oil	Asia	E - E2	Allegations of destruction of HCV	Open	Client is taking action
Palm oil	Asia	E - E2 S - H2 S - H3	Allegations of insufficient EIA and insufficient share to land rights holders	Open	Client willing to improve policy/behaviour
Palm oil	Asia	E - E3 S - H2	Potential issue of insufficient consultation	Open	Investigation
Palm oil	Asia	E - E2	Alleged HCV destruction	Closed	Insufficient evidence
Palm oil	Asia	E - E2	Measures to protect environment in supply chain insufficient	Open	Client is taking action
Palm oil	Asia	E - E3	Insufficient traceability	Open	Client is taking action
Palm oil	Asia	E - E3	Insufficient traceability	Open	Client is taking action
Palm oil	Asia	E - E3	Insufficient traceability	Open	Client is taking action
Palm oil	Asia	S - L2 S - L3 S - L4	Allegations of worker exploitation	Open	Investigation
Palm oil	Asia	E - E3	Allegations of deforestation of primary forest	Open	Client has improved policy/behaviour
Palm oil	Asia	E - E4 S - H2	Environmental and social issues in supply chain	Open	Investigation
Palm oil	Asia	S - L2 S - L4 S - L5 S - L6	Allegations of illegal and abusive labour practices	Open	Client is taking action
Services	South America	E - E2 H - H2	Allegations of use of violence to relocate people and damage to environment	Open	Authorities involved
Sugar	Asia	S - H2	Controversy regarding compensation of relocated people	Open	Client has resolved issue
Sugar	South America	E - E2	Damage to HCV	Open	Client is taking action

Rabobank Issue Table 2016

Environment		Society			Governance		
		Human rights		Labour rights			
E1. cruelty to animals	#1	H1. human rights abuses	#2	L1. forced labour	#3	G1. integrity (corruption, bribery, money laundering, fraud, tax evasion, anti-competitive practices)	#3
E2. impacts on ecosystems and landscapes	#20	H2. impacts on communities and indigenous peoples	#17	L2. child labour	#4	G2. lack of transparency	#0
E3. overuse of natural capital resources or waste of resources	#6	H3. participation issues	#4	L3. freedom of association and collective bargaining	#2	G3. misleading communication and 'greenwashing'	#0
E4. pollution	#2	H4. social discrimination	#0	L4. health and safety of employees	#4	G4. products or services that pose health and safety risks to consumers	#0
				L5. poor employment conditions	#15	P1. non-compliance Rabobank policy	#3
				L6. employee discrimination	#2		

= number of engagements in which issue is discussed

Status Category

Status category	Description
Investigation	Investigation is required to better understand the nature and extent of the problem and to gain more insight into the necessary or desired improvement
Client acknowledges issue	There is agreement on the facts of the issue
Insufficient evidence	There is insufficient certainty that the client is causing the problem or can contribute to reducing or resolving it
Client willing to improve policy/behaviour	There is agreement on how an improvement can be achieved
Client is taking action	-
Client has resolved issue	-
Client has improved policy/behaviour	-
Authorities involved	A dispute between parties is under consideration by or requires the action or decision of a government agency or court of law; the dialogue has been suspended
Client relationship terminated	The client has shown insufficient progress and the bank has taken steps to end the relationship
Engagement stopped	In case of prospective clients: the prospect is unwilling to act in accordance with our policies; in case of a client relationship: the link between Rabobank and the client or the issue no longer exists

Appendices

Appendix 5 Global Reporting Initiative

General Standard Disclosures				
	<i>Disclosure</i>	<i>Location of Disclosure 2016</i>	<i>Identified Omission(s)</i>	<i>Reason(s) for Omission(s)</i>
Strategy and analysis				
G4-1	Statement from the most senior decision-maker of the organisation	Annual report: Chairman's foreword		
G4-2	Description of key impacts, risks and opportunities	<p>The material topics are the most relevant economic, environmental and social topics for Rabobank. We describe each material topic extensively in the separate chapters of our Annual Report (incl. identified risks and opportunities) and the topics are prioritized in the materiality matrix.</p> <p>Key impacts:</p> <ul style="list-style-type: none"> Annual report: Welcome to Rabobank's Annual Report: Our value creation model Annual report: Welcome to Rabobank's Annual Report: Key inputs Annual report: About Rabobank: Strategy and SDGs Annual report: Our output and impact (chapters) <p>Risks:</p> <ul style="list-style-type: none"> Annual report: Balancing risks and returns: Managing risks: Risk strategy, Risk appetite and Risk culture Annual report: Working with clients on sustainability risks and opportunities: ESG risks and opportunities for corporate clients Appendix 2: Sustainably Successful Together: Introduction: Management and organisation <p>Opportunities:</p> <ul style="list-style-type: none"> Annual report: Welcome to Rabobank's Annual Report: Our environment Annual report: Digitising services: Extending existing digital products and services (Contactless payment with the Rabo Wallet) and New digital services (A payment terminal in a smartphone: SmartPin) Annual report: Working with clients on sustainability risks and opportunities: Client photo – corporate clients and ESG opportunities for Retail Clients 		
Organisational profile				
G4-3	Name of the organisation	<ul style="list-style-type: none"> Annual report: About Rabobank: Profile of Rabobank www.rabobank.com 		
G4-4	Primary brands, products, and/or services	<ul style="list-style-type: none"> Annual report: Value creation model: Business model Annual report: About Rabobank: Profile of Rabobank (Domestic retail banking, Dutch and international wholesale banking and international rural and retail banking, DLL, Real estate) Products & Services (www.rabobank.com/en/products-services/index.html) 		
G4-5	Location of organisation's headquarters	<ul style="list-style-type: none"> Annual report: Colofon https://www.rabobank.com/nl/contact/index.html 		
G4-6	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	<ul style="list-style-type: none"> Annual report: About Rabobank: Profile of Rabobank Appendix 1: About this report: Scope and boundaries https://www.rabobank.com/en/locate-us/index.html 		
G4-7	Nature of ownership and legal form	<ul style="list-style-type: none"> Annual report: Chairman's foreword: New cooperative structure https://www.rabobank.com/en/about-rabobank/background-stories/cooperative/rabobank-towards-a-new-governance-structure.html 		
G4-8	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	<ul style="list-style-type: none"> Annual report: About Rabobank: Profile of Rabobank (Domestic retail banking, Dutch and international wholesale banking and international rural and retail banking, DLL, Real estate) 		
G4-9	Scale of the reporting organisation	<ul style="list-style-type: none"> Annual report: Welcome to Rabobank's Annual Report: Key figures (table) Annual report: About Rabobank: Profile of Rabobank Annual report: Financial statements 		

	<i>Disclosure</i>	<i>Location of Disclosure 2016</i>	<i>Identified Omission(s)</i>	<i>Reason(s) for Omission(s)</i>
G4-10	<ul style="list-style-type: none"> Number of employees by employment contract and gender. Number of permanent employees by employment type and gender. Total workforce by employees and supervised workers and by gender. Total workforce by region and gender. Portion of the organisation's work is performed by workers who are legally recognised as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors. Significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries) 	<ul style="list-style-type: none"> Annual report: Our output and impact: Improving performance: Financial results of Rabobank (table) Annual report: Welcome to Rabobank's Annual Report: Key figures (table) Annual report: Our output and impact: Improving performance: Notes to the financial results of Rabobank (Operating expenses increased 6%) Appendix 3: Sustainability Facts & Figures: Social indicators (table G4-10, G4-LA1) 		
G4-11	Percentage of employees covered by collective bargaining agreements	<ul style="list-style-type: none"> Appendix 3: Sustainability Facts & Figures: Social indicators (table G4-11) 		
G4-12	Supply chain of the reporting organisation	<ul style="list-style-type: none"> Annual report: Welcome to Rabobank's Annual Report: Value creation model and Key inputs (Human and social capital, Intellectual capital, Financial resources) 		
G4-13	Significant changes during the reporting period regarding size, structure, ownership, or supply chain	<ul style="list-style-type: none"> Annual report: About Rabobank: DLL Annual report: Our output and impact: Improving performance: Domestic retail banking (Loan portfolio shrank by 3%) Appendix 1: About this report: Scope and boundaries 		
G4-14	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	<ul style="list-style-type: none"> Annual report: Increasing Transparency: Sustainability Policy Framework https://www.rabobank.com/en/about-rabobank/in-society/sustainability/articles/2016/share-in-a-better-climate.html 		
G4-15	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses	<p>Rabobank embraces:</p> <ul style="list-style-type: none"> United Nations Global Compact Natural Capital Declaration UNEP FI Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy Principles for multinational enterprises and social policy (ILO) Equator Principles OECD Guidelines for multinational enterprises <p>• Annual report: Increasing Transparency: Sustainability Policy Framework https://www.rabobank.com/nl/images/sustainability-policy-framework.pdf</p>		
G4-16	Memberships in associations (such as industry associations) and/or national/international advocacy organisations	<ul style="list-style-type: none"> Annual report: Engaging with stakeholders: Public debate on food-related issues (table) Annual report: Stimulating sustainable agriculture: Global coffee platform and Collaboration with World Wide Fund for Nature Annual report: Improving a circular economy: Sustainable bonds <p>Banking:</p> <ul style="list-style-type: none"> European Association of Cooperative Banks (EACB) Euro Banking Association (EBA) Nederlandse Vereniging van Banken [Netherlands Association of Banks (NVB)] Banking Environment Initiative Palm oil Member of RSPO, Member of the Board of Governors of RSPO 		
Identified material aspects and boundaries				
G4-17	All entities included in the organisation's financial statements or equivalent documents	<ul style="list-style-type: none"> Annual report: Financial Statements 		
G4-18	Process for defining the report content, Aspect Boundaries, and implementation of the Reporting Principles for Defining Report Content.	<ul style="list-style-type: none"> Annual report: Welcome to Rabobank's Annual Report: Continuous stakeholder dialogue and Our environment and Materiality Appendix 1: About this report: Scope and boundaries, Materiality and Data collection of sustainability information 		
G4-19	List of all material Aspects identified in the process for defining report content	<ul style="list-style-type: none"> Annual report: Welcome to Rabobank's Annual Report: materiality Appendix 1: About this report: Materiality 		
G4-20	Identification of Aspect Boundaries within the organisation	<ul style="list-style-type: none"> Appendix 1: About this report: Scope and boundaries The boundary for material topics 1-4 and 13-15 are within the organisation 		
G4-21	Identification of Aspect Boundaries outside the organisation	<ul style="list-style-type: none"> Appendix 1: About this report: Scope and boundaries The boundary for material topics 5-12 are within the organisation 		
G4-22	The effect of any restatements of information provided in previous reports, and the reasons for such restatements	<ul style="list-style-type: none"> Annual report: Promoting a circular economy: Sustainable bonds Annual report: Supporting the vitality of communities (Cooperative Dividend) Appendix 3: Sustainability Facts & Figures: Finance Overview with a societal character or a positive societal impact (table *) and Social Indicators (table G4-10) 		
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	No changes		

	Disclosure	Location of Disclosure 2016	Identified Omission(s)	Reason(s) for Omission(s)
Stakeholder engagement				
G4-24	List of stakeholder groups engaged by the organisation	<ul style="list-style-type: none"> Annual report: Welcome to Rabobank's Annual Report: Continuous stakeholder dialogue Annual report: Engaging with stakeholders: Introduction Appendix 4: Dialogue with Social Welfare Organisations and clients in 2016 (table) 		
G4-25	Basis for identification and selection of stakeholders with whom to engage	<ul style="list-style-type: none"> Annual report: Welcome to Rabobank's Annual Report: Continuous stakeholder dialogue Annual report: Engaging with stakeholders: Introduction and empowering employees <p>We engage with all our stakeholder who directly and indirectly affect our organisation</p>		
G4-26	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	<ul style="list-style-type: none"> Annual report: Welcome to Rabobank's Annual Report: Continuous stakeholder dialogue Annual report: Engaging with stakeholders: Introduction and Empowering employees Appendix 4: Dialogue with Social Welfare Organisations and clients: Dialogue with Social Welfare Organisations in 2016 (table) <p>https://www.rabobank.com/en/about-rabobank/profile/organisation/board/member-council.html</p> <p>https://www.rabobank.com/en/about-rabobank/cooperative/in-practice/index.html</p>		
G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting.	<ul style="list-style-type: none"> Annual report: Welcome to Rabobank's Annual Report: Continuous stakeholder dialogue Annual report: Engaging with stakeholders Appendix 1: About this report Appendix 4: Dialogue with Social Welfare Organisations and clients: Dialogue with Social Welfare Organisations in 2016 and Dialogues with clients in 2016 (tables) 		
Report profile				
G4-28	Reporting period for information provided	<ul style="list-style-type: none"> Appendix 1: About this report: Scope and boundaries 		
G4-29	Date of most recent previous report	<ul style="list-style-type: none"> Rabobank Group Annual Report 2015 (publication: April 2016) 		
G4-30	Reporting cycle	Annual		
G4-31	Contact point for questions regarding the report or its contents	<ul style="list-style-type: none"> Annual report: Welcome to Rabobank's Annual Report: Rabobank Annual Report 		
G4-32	GRI 'in accordance' option, GRI Content Index for the chosen option and reference to the External Assurance Report	<ul style="list-style-type: none"> Annual report: Welcome to Rabobank's Annual Report: Introduction Appendix 5: GRI (table) Annual report: Assurance Report 		
G4-33	Policy and current practice with regard to seeking external assurance for the report	<ul style="list-style-type: none"> Appendix 1: About this report: Assurance <p>The Rabobank Annual Report is an integrated report which is assured by an external assurance provider and reviewed by the Audit Committee, Supervisory Board and Executive Board of Rabobank</p>		
Governance				
G4-34	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight	<ul style="list-style-type: none"> Annual Report: Corporate Governance section Annual report: About Rabobank: Profile of Rabobank Annual report: Management (picture and whole chapter) <p>https://www.rabobank.com/en/about-rabobank/profile/organisation/index.html</p>		
G4-35	Process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees	<ul style="list-style-type: none"> Annual Report: Corporate Governance section Appendix 2: Sustainably Successful Together: Introduction: Management and organisation <p>https://www.rabobank.com/en/images/Reglement-RvB-finaal_ENG.pdf</p>		
G4-36	Executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body	<ul style="list-style-type: none"> Bas Rüter, Director Sustainability reports directly to Berry Marttin Annual Report: Corporate Governance section Appendix 2: Sustainably Successful Together: Introduction <p>https://www.rabobank.com/en/images/Reglement-RvB-finaal_ENG.pdf</p>		
G4-37	Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics	<ul style="list-style-type: none"> Annual report: Welcome to Rabobank's Annual Report: Continuous stakeholder dialogue Annual report: Engaging with stakeholders: Introduction Appendix 4: Dialogue with Social Welfare Organisations and clients 		
G4-38	Composition of the highest governance body and its committees	<ul style="list-style-type: none"> Annual Report: Corporate Governance section Annual report: Management 		
G4-39	Indicate whether the Chair of the highest governance body is also an executive officer	<ul style="list-style-type: none"> Due to the two-tier model, the Chairman of the Executive Board is always non-executive and independent. Annual report: Management Annual report: Corporate Governance section 		

	<i>Disclosure</i>	<i>Location of Disclosure 2016</i>	<i>Identified Omission(s)</i>	<i>Reason(s) for Omission(s)</i>
G4-40	Nomination and selection processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members	<ul style="list-style-type: none"> The appointment of members of the Executive Board are provisionally put forward to the regulatory authorities for their opinion, and for information purposes to the works council. https://www.rabobank.com/en/images/Reglement-benoemingscommissie-finaal_ENG.pdf		
G4-41	Processes in place for the highest governance body to ensure conflicts of interest are avoided	<ul style="list-style-type: none"> Article 15 https://www.rabobank.com/en/images/Reglement-RvB-finaal_ENG.pdf		
G4-42	Roles of the highest governance body and senior executives in the development, approval, and updating of the organisation's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts	<ul style="list-style-type: none"> Appendix 2: Management and organisation – Sustainably Successful Together Article 17 https://www.rabobank.com/en/images/Reglement-RvB-finaal_ENG.pdf		
G4-43	Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics	<ul style="list-style-type: none"> Article 3.3 https://www.rabobank.com/en/images/Reglement-RvB-finaal_ENG.pdf <ul style="list-style-type: none"> CSR is a regular topic on the agenda of the Supervisory Board, the Executive Board as well as General Members Council. 		
G4-44	Processes in place for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics. Actions taken in response to evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics, including, as a minimum, changes in membership and organisational practice	<ul style="list-style-type: none"> Annual report: Responsible remuneration: Remuneration policy and Rabobank's Vision on remuneration 		
G4-45	Highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities. The use of stakeholder consultation to support the highest governance body's identification and management of economic, environmental and social impacts, risks, and opportunities	<ul style="list-style-type: none"> Appendix 1: About this report: Data collection of sustainability information and Preparation of the Annual Report Appendix 2: Management and organisation – Sustainably Successful Together Annual report: Supervisory Board report 		
G4-46	Highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for economic, environmental and social topics	<ul style="list-style-type: none"> Annual report: Supervisory Board report 		
G4-47	Frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities	<ul style="list-style-type: none"> Annual report: Supervisory Board report 		
G4-48	Highest committee or position that formally reviews and approves the organisation's sustainability report and ensures that all material Aspects are covered	<ul style="list-style-type: none"> Appendix 1: About this report Annual report: Supervisory Board report 		
G4-49	Process for communicating critical concerns to the highest governance body	<ul style="list-style-type: none"> Annual Report: Corporate Governance section 		
G4-50	Nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them	<ul style="list-style-type: none"> Annual report: Supervisory Board report 		
G4-51	Remuneration policies for the highest governance body and senior executives	<ul style="list-style-type: none"> Annual report: Responsible remuneration: Remuneration policy and Rabobank's Vision on remuneration 		
G4-52	Process for determining remuneration	<ul style="list-style-type: none"> Annual report: Responsible remuneration: Remuneration policy, Group Remuneration Policy https://www.rabobank.com/nl/images/2014-01-23%20-Vision_on_remuneration.pdf		
G4-53	Mechanisms in place taking into account stakeholder's views regarding remuneration, including the results of votes on remuneration policies and proposals, if applicable.	<ul style="list-style-type: none"> Annual report: Responsible remuneration: Rabobank's Vision on remuneration (External benchmarking) and Rabobank Supervisory Board (Benchmark) https://www.rabobank.com/en/images/2014-01-23%20-Vision_on_remuneration.pdf		
G4-54	Ratio of the annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country	<ul style="list-style-type: none"> Appendix 3: Sustainability facts & figures (table G4-54/55) Annual report: Responsible remuneration: Rabobank Supervisory Board (Individual payments) Annual report: Responsible remuneration: Remuneration of the Executive Board (Individual remuneration) Annual report: Responsible remuneration: Domestic banking: Executives: Remuneration package (Fixed income) <p>Our most significant country in which we operate is The Netherlands.</p>		
G4-55	Ratio of percentage increase in annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country	<ul style="list-style-type: none"> Appendix 3: Sustainability facts & figures: Social Indicators: (table G4-54/55) Annual report: Responsible remuneration: Remuneration of the Executive Board: Development of remuneration package <p>Our most significant country in which we operate is The Netherlands.</p>		

	Disclosure	Location of Disclosure 2016	Identified Omission(s)	Reason(s) for Omission(s)
Ethics and integrity				
G4-56	Description of the organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	<ul style="list-style-type: none"> Annual report: Restoring trust: Ethics https://www.rabobank.com/en/images/code-of-conduct-rabobank-en.pdf		
G4-57	Internal and external mechanisms for seeking advice on ethical and lawful behaviour, and matters related to organisational integrity	<ul style="list-style-type: none"> Annual report: Restoring trust: Ethics Annual report: Dealing with complaints: Dealing with complaints Annual report: Dealing with complaints: Customer feedback https://www.rabobank.com/en/about-rabobank/in-society/ethics/index.html https://www.rabobank.nl/particulieren/klacht/ https://www.rabobank.com/nl/images/klokkenluideregeling-19-05-2016-nl.pdf		
G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organisational integrity	<ul style="list-style-type: none"> Annual report: Restoring trust: Ethics Annual report: Dealing with complaints: Dealing with complaints Annual report: Dealing with complaints: Customer feedback https://www.rabobank.com/en/about-rabobank/in-society/ethics/index.html https://www.rabobank.nl/particulieren/klacht/ https://www.rabobank.com/nl/images/klokkenluideregeling-19-05-2016-nl.pdf		

SPECIFIC STANDARD DISCLOSURES

	Disclosure	Location of Disclosure 2016	Identified Omission(s)	Reason(s) for Omission(s)
Economic performance				
G4-DMA	Generic Disclosures on Management Approach	<ul style="list-style-type: none"> Annual report: Welcome to Rabobank's Annual Report Annual report: About Rabobank Banking for the Netherlands Banking for Food Sustainably Successful Together Annual report: Improving performance Appendix 1: About this report Appendix 2: Sustainably Successful Together 		
G4-EC1	Direct economic value generated and distributed	<ul style="list-style-type: none"> Annual report: Financial statements Annual report: Improving performance Annual report: Supporting the vitality of communities - Investing in vital communities in the Netherlands Appendix 2: Sustainably Successful Together 		
G4-EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	https://www.rabobank.com/en/images/2015-09-18-rabobank-climate-statement.pdf https://www.rabobank.com/en/images/infographic-klimaat-eng2.pdf	More detailed information on financial implications and cost estimates of risks and opportunities will become available. In 2017 Rabobank has initiated further research and we expect to disclose more information in 2018.	
G4-EC3	Coverage of the organisation's defined benefit plan obligations	https://www.rabobankpensioenfondsen.nl/downloads/default.aspx https://www.rabobankpensioenfondsen.nl/Het-pensioenfondsen/Default.aspx https://www.rabobankpensioenfondsen.nl/Images/20130228_Aanpassingen_Pensioenreglement_Rabobank_2006_nw.pdf		
G4-EC4	Financial assistance received from government	No financial support received		
Indirect economic impacts				
G4-DMA	Generic Disclosures on Management Approach	<ul style="list-style-type: none"> Annual report: Welcome to Rabobank's Annual Report Annual report: About Rabobank: Mission and Vision (Banking for the Netherlands, Banking for Food) Annual report: Stimulating sustainable agriculture Annual report: Supporting the vitality of communities: Rabobank Foundation (Banking for the Netherlands and Banking for Food) Appendix 1: About this report: Materiality Appendix 2: Sustainably Successful Together: Introduction https://www.rabobank.com/nl/about-rabobank/in-society/rabobank-foundation/index.html (social impact report) https://www.rabobank.com/nl/about-rabobank/food-agribusiness/rabo-development/index.html		

	<i>Disclosure</i>	<i>Location of Disclosure 2016</i>	<i>Identified Omission(s)</i>	<i>Reason(s) for Omission(s)</i>
G4-EC7	Development and impact of infrastructure investments and services supported	<ul style="list-style-type: none"> Annual report: Stimulating sustainable agriculture: Sustainability knowledge (table) Annual report: Supporting the vitality of communities: Rabobank Foundation (Banking for the Netherlands and Banking for Food) Annual report: Working with clients on sustainability risks and opportunities: Responsible Investing https://www.rabobank.com/en/products-services/business-banking/project-finance/index.html		
G4-EC8	Significant indirect economic impacts, including the extent of impacts	https://www.rabobank.com/en/about-rabobank/in-society/rabobank-foundation/rabobank-foundation-news/2016/view-on-impact.html (social impact report) https://www.rabobank.com/nl/about-rabobank/food-agribusiness/rabo-development/index.html		
Energy				
G4-DMA	Generic Disclosures on Management Approach	<ul style="list-style-type: none"> Annual report: Welcome to Rabobank's Annual Report: Introduction, Value creation model (Output) Annual report: About Rabobank Annual report: Promoting a circular economy: Our own efforts to reduce emissions Appendix 1: About this report: Materiality Appendix 2: Sustainably Successful Together: Our commitment 		
G4-EN3	Energy consumption within the organisation	<ul style="list-style-type: none"> Annual report: Promoting a circular economy: Our own efforts to reduce emissions Appendix 1: About this report: Data collection of sustainability information Appendix 3: Sustainability Facts & Figures: Greenhouse gas emissions and climate footprint (table) 		
G4-EN4	Energy consumption outside of the organisation	<ul style="list-style-type: none"> Appendix 1: About this report: Scope and boundaries Appendix 3: Sustainability Facts & Figures: Greenhouse gas emissions and climate footprint (table) 		
G4-EN5	Energy intensity	<ul style="list-style-type: none"> Annual report: Promoting a circular economy: Our own efforts to reduce emissions Appendix 1: About this report: Scope and boundaries Appendix 3: Sustainability Facts & Figures: Greenhouse gas emissions and climate footprint (table) 		
G4-EN6	Reduction of energy consumption	<ul style="list-style-type: none"> Annual report: Promoting a circular economy: KPI: Rabobank gives priority to sustainability leaders in financing and will double the volume of the services provided to them (tables) Annual report: Promoting a circular economy: Our own efforts to reduce emissions Appendix 1: About this report: Scope and boundaries Appendix 3: Sustainability Facts & Figures: Equator Principles and Table Greenhouse gas emissions and climate footprint 		
G4-EN7	Reduction in energy requirements of products and services	<ul style="list-style-type: none"> Annual report: Rabo Green Mortgage Appendix 1: About this report: Scope and boundaries Appendix 3: Sustainability Facts & Figures Table Greenhouse gas emissions and climate footprint (in tonnes of CO₂) and Energy usage Rabobank Group by source and activity Appendix 3: Sustainability Facts & Figures: Equator Principles 		
Emissions				
G4-DMA	Generic Disclosures on Management Approach	<ul style="list-style-type: none"> Appendix 1: About this report: Data collection of sustainability information Annual report: Promoting a circular economy: Our own efforts to reduce emissions 		
G4-EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	<ul style="list-style-type: none"> Annual report: Promoting a circular economy: Our own efforts to reduce emissions Appendix 3: Sustainability Facts & Figures: Greenhouse gas emissions and climate footprint (table) 		
G4-EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	<ul style="list-style-type: none"> Annual report: Promoting a circular economy: Our own efforts to reduce emissions Appendix 3: Sustainability Facts & Figures: Greenhouse gas emissions and climate footprint (table) 	Rabobank does not produce estimates related to the emissions of the financing portfolio. We expect to disclose this information in 2018	
G4-EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)	<ul style="list-style-type: none"> Annual report: Promoting a circular economy: Our own efforts to reduce emissions Appendix 3: Sustainability Facts & Figures: Greenhouse gas emissions and climate footprint (table) 		
G4-EN18	Greenhouse gas (GHG) emissions intensity	<ul style="list-style-type: none"> Annual report: Promoting a circular economy: Our own efforts to reduce emissions Appendix 3: Sustainability Facts & Figures: Greenhouse gas emissions and climate footprint (table) 		
G4-EN19	Reduction of greenhouse gas (GHG) emissions	<ul style="list-style-type: none"> Appendix 3: Sustainability Facts & Figures: Greenhouse gas emissions and climate footprint (table) 		
G4-EN20	Emissions of ozone-depleting substances (ODS)	<ul style="list-style-type: none"> Rabobank does not produce or use ODS in its processes 		
G4-EN21	NOX, SOX, and other significant air emissions	<ul style="list-style-type: none"> Not included given that all Rabobank's products are services. All relevant greenhouse gases are included as CO₂ equivalents in the calculation. 		
Employment				
G4-DMA	Generic Disclosures on Management Approach	<ul style="list-style-type: none"> Annual report: Encouraging diversity and equality: Introduction and Diversity and inclusiveness 		
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	<ul style="list-style-type: none"> Appendix 3: Sustainability Facts & Figures: Social Indicators: New hires and personnel turnover in numbers and ratio (tables G4-LA1) 		

	<i>Disclosure</i>	<i>Location of Disclosure 2016</i>	<i>Identified Omission(s)</i>	<i>Reason(s) for Omission(s)</i>
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	<ul style="list-style-type: none"> There is no difference in the fringe benefits between full-time and part-time employees or between employees with a fixed-term/indefinite contract. The rules for some fringe benefits do depend on the number of working days or hours worked. Taking parental leave as an example, you are allowed to take 26 times your working hours as leave. The fixed commuting expense allowance is based on the number of days worked. Some fringe benefits are paid pro rata to the number of hours defined in the contract of employment. 		
G4-LA3	Return to work and retention rates after parental leave, by gender	<ul style="list-style-type: none"> Appendix 3: Sustainability Facts & Figures: Social Indicators: table G4- LA3 		
Training and education				
G4-DMA	Generic Disclosures on Management Approach	<ul style="list-style-type: none"> Annual report: Developing talent and competencies: Three central themes and Rabo Global Traineeship 		
G4-LA9	Average hours of training per year per employee by gender, and by employee category	<ul style="list-style-type: none"> Annual report: Developing talent and competencies: Sustainability in training Appendix 3: Social indicators: Table training 		
G4-LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	<ul style="list-style-type: none"> Annual report: Developing talent and competencies: Three central themes Annual report: Developing talent and competencies: Sustainability in training 		
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	<ul style="list-style-type: none"> Appendix 3: Sustainability Facts & Figures: Social Indicators: Periodic performance discussions (table G4-LA11) 		
Diversity and equal opportunity				
G4-DMA	Generic Disclosures on Management Approach	<ul style="list-style-type: none"> Annual report: Encouraging diversity and equality: Encouraging diversity and equality 		
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	<p>Executive Board:</p> <ul style="list-style-type: none"> Male: 6, Female: 1. age category 30-50: 1, age category >50: 6 https://www.rabobank.com/nl/about-rabobank/profile/organisation/board/executive-board-members.html <p>Supervisory board:</p> <ul style="list-style-type: none"> Male: 6, Female: 3. age category > 50: 5, >60: 3, >70: 1 https://www.rabobank.com/nl/about-rabobank/profile/organisation/board/supervisory-board-members.html <p>https://www.rabobank.nl/particulieren/leden/</p>	A breakdown per minority group is not relevant because there are no minority groups represented in the central governance bodies of Rabobank. Minority groups are represented in the member councils of local Rabobanks, but no breakdown is available	
Equal remuneration for women and men				
G4-DMA	Generic Disclosures on Management Approach	<ul style="list-style-type: none"> Annual report: Encouraging diversity and equality 		
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	<ul style="list-style-type: none"> Appendix 3: Sustainability Facts & Figures: Social Indicators: Salary ratio (table G4-LA13) 		
Local communities				
G4-DMA	Generic Disclosures on Management Approach	<ul style="list-style-type: none"> Annual report: Supporting the vitality of communities: Introduction Annual report: Supporting the vitality of communities: DLL (Charitable donations and volunteering) <p>https://www.rabobank.com/nl/about-rabobank/in-society/sustainability/vital-communities/index.html</p>		
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programmes	<ul style="list-style-type: none"> Annual report: Supporting the vitality of communities: Meaningful cooperative and Rabo Versterkt Appendix 2: Sustainably Successful Together: Clarification of terms and methodology sustainability performance measurement <p>https://indd.adobe.com/view/8830926a-dbcf-4111-9a33-d60e65d0616d</p>		
G4-SO2	Operations with significant actual and potential negative impacts on local communities	<ul style="list-style-type: none"> Rabobank does not have operations with direct significant and potential negative impacts on local communities. Through responsible investing negative indirect impacts are reduced. 		
Compliance (society)				
G4-DMA	Generic Disclosures on Management Approach	<ul style="list-style-type: none"> Annual report: Balancing risks and returns: Introduction and Managing risks: Risk strategy 		
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	<ul style="list-style-type: none"> During 2016 Rabobank Group had: 2 non-monetary sanction, 1 fine of more than EUR 100,000, 0 cases that were referred to dispute resolution systems. Rabobank defines significant fines as those which are more than EUR 100,000. 		

	Disclosure	Location of Disclosure 2016	Identified Omission(s)	Reason(s) for Omission(s)
Product and service labeling				
G4-DMA	Generic Disclosures on Management Approach Policies for the fair design and sale of financial products and services Initiatives to enhance financial literacy by type of beneficiary	<ul style="list-style-type: none"> We inform customers about product risks using financial brochures: www.afm.nl/nl-nl/consumenten/themas/advies/verplichte-info/fb We monitor their success using the confidence indicator: https://www.rabobank.nl/particulieren/over-rabobank/vertrouwensmonitor/ We enhance financial literacy through the Rabobank Foundation : https://www.rabobank.com/en/about-rabobank/in-society/rabobank-foundation/employees-fund/themes/education.html 		
G4-PR3	Type of product and service information required by the organisation's procedures for product and service information and labeling, and percentage of significant product and service categories subject to such information requirements	www.rabobank.nl/particulieren/voorwaarden/ 100% for services in the Netherlands https://www.rabobank.com/en/products-services/index.html 100% for services abroad		
G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	<ul style="list-style-type: none"> Number of incidents of non-compliance with regulations resulting in a fine or penalty : 0 Number of incidents of non-compliance with regulations resulting in a warning : 1 Number of incidents of non-compliance with voluntary codes : 0 		
G4-PR5	Results of surveys measuring customer satisfaction	<ul style="list-style-type: none"> Annual report: Our output and impact: Improving performance: Customer satisfaction Appendix 2: Sustainably Successful Together: Retail customers: KPI 8- 10 		
Customer privacy				
G4-DMA	Generic Disclosures on Management Approach	<ul style="list-style-type: none"> Annual report: Balancing risks and returns https://www.rabobank.com/en/footer/privacy/index.html		
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	<ul style="list-style-type: none"> Number of complaints received concerning breaches of customer privacy from outside parties and substantiated by the organisation (number) 2144 Number of complaints received concerning breaches of customer privacy from regulatory bodies (number) 2 Number of identified leaks, thefts or losses of customer data (number) 56 		
Compliance (product responsibility)				
G4-DMA	Generic Disclosures on Management Approach	<ul style="list-style-type: none"> Rabobank attaches great value to the quality of its products and services. Good products are good for both customers and Rabobank. This means that in designing and maintaining products all interests, risks and legal requirements are properly weighed. Recent regulation puts in place extra requirements in the area of Treating Customers Fairly (TCF). The global policy TCF contains three principles on products governance: <ol style="list-style-type: none"> Rabobank has in place a standard governing the development and periodical review of its products and services. Rabobank strives to develop a range of products and services that is useful and comprehensible to the intended target market. Rabobank seeks to provide products and services that are well designed, suitable/appropriate, useful, fairly priced and fit for the intended target market. The Compliance expertise center on Treating Customers Fairly is owner of the global policy and responsible to monitor on new laws and regulations for which the standard should be updated. 		
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	EUR 850.000		
Product portfolio				
G4-DMA	<ul style="list-style-type: none"> Generic Disclosures on Management Approach Policies with specific environmental and social components applied to business lines Procedures for assessing and screening environmental and social risks in business lines Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions Processes for improving staff competency to implement the environmental and social policies and procedures as applied to business lines Interactions with clients / investees / business partners regarding environmental and social risks and opportunities 	<ul style="list-style-type: none"> Rabobank Sustainability policy framework : https://www.rabobank.com/en/images/sustainability-policy-framework.pdf Annual report: Working with clients on sustainability risks and opportunities: Introduction, ESG risks and opportunities for corporate clients, Client photo Annual report: Stimulating sustainable agriculture: Introduction Annual report: Supporting the vitality of communities: Rabobank Foundation and Rabo Development Annual report: Promoting a circular economy: Circular economy: Three concrete initiatives, Sustainable bonds and Rabo Groen Bank B.V. Appendix 4: Dialogue with social welfare organisations and dialogue with clients: Dialogue with Clients: Dialogues with clients in 2016 (table) 		

	Disclosure	Location of Disclosure 2016	Identified Omission(s)	Reason(s) for Omission(s)
G4-FS6	Percentage of the portfolio for business lines by specific region, size (e.g. micro/sme/large) by sector	<ul style="list-style-type: none"> Annual report: About Rabobank: 2016 Overview Annual report: Our output and impact: Improving performance: Net profit improved due to continued higher gross results and lower impairments: WRR loan portfolio grew by 1% Annual report: Our output and impact: Leasing Continued strong results and growth in activities: Lease portfolio decreased by 2% https://www.rabobank.com/nl/images/overzicht-leningenportefeuille-Rabobank.pdf		
G4-FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	<ul style="list-style-type: none"> Appendix 3: Sustainability Facts & Figures: Finance Overview with a societal character or a positive societal impact (table) Overview Total sustainable assets under management for customers, sustainable funding and other transaction volumes 		
G4-FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	<ul style="list-style-type: none"> Appendix 3: Sustainability Facts & Figures: Finance Overview with a societal character or a positive societal impact (table) Overview Total sustainable assets under management for customers, sustainable funding and other transaction volumes 		
Active ownership				
G4-DMA	<p>Generic Disclosures on Management Approach</p> <p>Voting policy(ies) applied to environmental or social issues for shares over which the reporting organisation holds the right to vote shares or advises on voting.</p>	<ul style="list-style-type: none"> Annual report: Working with clients on sustainability risks and opportunities: Responsible Investing 		
G4-FS10	Percentage and number of companies held in the institution's portfolio with which the reporting organisation has interacted on environmental or social issues.	<ul style="list-style-type: none"> Annual report: Working with clients on sustainability risks and opportunities: Introduction, ESG risks and opportunities for corporate clients, Client photo Appendix 4: Dialogue with social welfare organisations and dialogue with clients <p>We interact with clients on a daily basis and environmental and social issues form an integral part of our engagement. We manage this via several ways (e.g. KPI 7: Client Photo). It is not feasible to report the percentage.</p>		
G4-FS11	Percentage of assets subject to positive and negative environmental or social screening.	<ul style="list-style-type: none"> Annual report: Working with clients on sustainability risks and opportunities: Introduction, ESG risks and opportunities for corporate clients, Client photo Annual report: Working with clients on sustainability risks and opportunities: Responsible Investing Appendix 3: Sustainability Facts & Figures: Finance Overview with a societal character or a positive societal impact (table), Equator Principles (table) and Overview Total sustainable assets under management for customers, sustainable funding and other transaction volumes (table) <p>According to our Responsible Investing policy, we assess our assets based on social and environmental aspects. We manage this via several ways and measure our Sustainable Financing and Funding. It is not feasible to report the percentage.</p>		
Local communities				
G4-FS13	Access points in low-populated or economically disadvantaged areas by type	<ul style="list-style-type: none"> Rabo Development impact report: https://www.rabobank.com/nl/images/rabo-development-impact-report.pdf World map of activities : https://www.rabobank.com/en/map/index.html Annual report: Profile of Rabobank Annual report: Supporting the vitality of communities 	The data over the period 2016 is not available yet, therefore we incorporate data over 2015.	
G4-FS14	Initiatives to improve access to financial services for disadvantaged people	<ul style="list-style-type: none"> Annual report: Our output and impact: Improving performance: Customer satisfaction: Client satisfaction on sustainable products and services (Retail and vulnerable clients) https://www.rabobank.nl/particulieren/toegankelijkheid/		



Corporate governance

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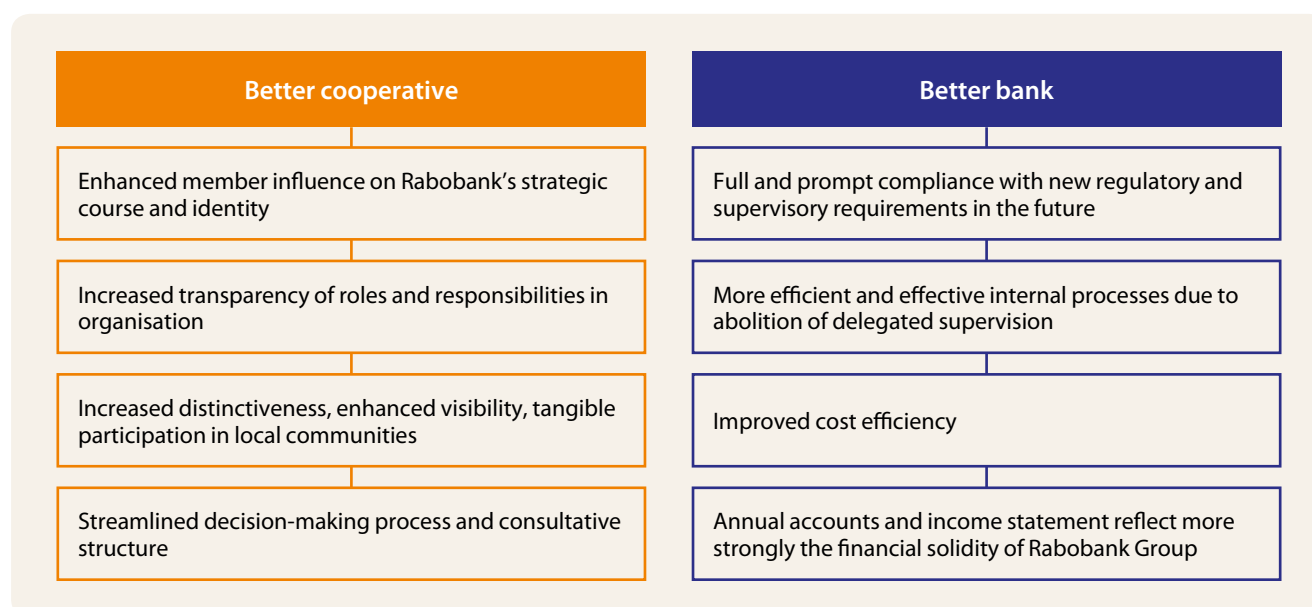
Corporate Governance

2016 was the first year that the new governance structure of Rabobank was operational. Per 1 January 2016 all local cooperative Rabobanks and Rabobank Nederland merged to create one cooperative bank which operates with one banking license and one set of financial statements. The reforms brought changes for member representatives in governance bodies, the Supervisory Board, the Executive Board, as well as staff. At the same time, this fundamental step boosted the awareness that this member-based governance is one of the things that makes us different. A well-functioning governance structure and a healthy banking business enable Rabobank to pursue a strategy that other players cannot mimic. Under these conditions, the operational course will be predominantly focused on servicing the real economy and contributing to the sustainable development of local communities.

The revision process in short

At the beginning of 2014, an internal Governance Committee was assigned the task of formulating a future-proof governance structure. The Committee consisted of representatives of local supervisory bodies and chairmen of local management teams, as well as Executive Board members of Rabobank Nederland. Its ultimate proposals had to satisfy a number of shared principles and rectify various shortcomings in the – working of the – existing framework. The governance revision process took about two years. The figure below illustrates the governance transformation's dual aims of strengthening the cooperative and the bank.

In order to create support for interim proposals and to offer ample room for active participation and co-decision-making, the Committee opted for an intensive and iterative collaborative process with many stakeholders. This method accords with the longstanding tradition of Rabobank to seek broadly accepted solutions to challenging issues in interaction and dialogue with stakeholders. Given the scope and potential impact of the governance adaptations, numerous roundtable discussions, information sessions, webinars and plenary meetings took place to openly discuss all relevant issues and to reach a consensus regarding the most desirable outcomes. A crucial element in this debate was trust and confidence among all stakeholders. It was broadly felt that the cooperative nature had to be firmly anchored in the new structure.



The Governance Committee's approach eventually yielded satisfactory results. Its solid and far-reaching proposals were ultimately approved unanimously by the members' councils of all 106 local Rabobanks on 2 December 2015. The local cooperative banks approved this move one week later in the General Meeting of Rabobank Nederland.

Salient aspects in 2016

All participants in the new governance have to get used to the new structure. The approved new framework must demonstrate its effectiveness and efficiency in practice. In two constituent meetings of the General Members' Council (GMC), technical issues regarding the functioning of the new governance and its procedures were discussed and agreed upon.

The GMC is the highest decision-making body in the new structure. It consists of chairmen of all local supervisory bodies, who have the task of representing the members of their local Rabobanks in the GMC. The GMC has around 100 members and meets at least twice a year. It focuses on the strategy and the identity of Rabobank including the cooperative, local Rabobanks and all other group entities.

The GMC appoints members of the Supervisory Board of Rabobank who appoint and supervises the Executive Board. Both the Supervisory Board and the Executive Board are accountable to the GMC.

During 2016, the GMC also considered the composition of its three permanent committees: the urgency affairs committee, the coordination committee and the committee on confidential matters. The GMC also discussed the required competences for committee members.

On behalf of the members, the GMC safeguards the continuity as well as acts the custodian of collective values. It determines the development of the cooperative and the decentralised organisation and ensures adherence to the Articles of Association. The GMC evaluates the governance and the banking business on the basis of commonly agreed strategic principles.

To perform these functions, the GMC has several formal roles and responsibilities. The GMC has the power to amend the Articles of Association or change the legal status of Rabobank. It adopts the Group's annual accounts and has advise and approval rights for major decisions by the Executive Board. For instance, the GMC determines the basic premises of Rabobank's identity and strategic frameworks and the main points of the annual plan and budget.

The Governance Committee monitors the practical functioning of the new structure. Also, formal evaluations will be carried out periodically by an independent institution to determine whether all bodies are operating according to their envisaged objectives and which aspects could be strengthened. The first edition of the questionnaire investigated the importance the participants attach to the specified functions of the governance bodies and whether they expect that the underlying objectives will really be achieved. The results from this baseline survey indicate that the set-up and purpose of all governance organs are generally well understood.

One particular aspect of the transition to the new regime deserved some further elaboration though: the new associated status of the local supervisory body (LSB). The LSB is appointed by and accountable to its local member council. According to Dutch Corporate Law, LSBs are no longer bodies that supervise an independent legal entity with its own banking licence. Instead the LSB is a body created by the Articles of Association to which the Executive Board has delegated specific local governance powers.

As already mentioned, LSB chairmen are key players in the collective governance as they represent local members in the GMC. At the local level, the LSB supervises the execution of the strategy. In this light, the general state of affairs and (social) performance of the local Rabobank, including its internal financial reporting, must feature periodically on the LSB agenda. This body is authorised to supervise the degree to which the local Rabobank complies with external laws and regulations and the Articles of Association.

Moreover, local supervisors are supposed to actively assess whether the quality of the offered services satisfies the needs of customers and members. They judge the extent to which the local management team chairman satisfies his or her local responsibility to focus on customers' long-term interests and to contribute to the sustainable development of the local and connection with the community. The functional employer's role of the local management team chairman has been delegated to the LSB, too. This responsibility encompasses appointing, assessing and suspending the chairman. The LSB is also authorised to approve a number of important local decisions. Local members are the 'eyes and ears' and act as sparring partner and the LSB must ensure that the local management team chairman duly notes their advice in policy making. Furthermore, the LSB has an advisory role with regard to the local Rabobank management and fulfils a liaison role between local society and the local Rabobank.

The ambition to strengthen Rabobank's cooperative identity is firmly embedded in the overall strategy, but switching to the new regime reinforced our awareness that member engagement and involvement are essential to a cooperative bank. In order to bolster a solid foundation of these characteristics for the future, Rabobank has established a Youth Forum. This body consists of one young member representative from each local Rabobank. A permanent dialogue with this member category is considered very important for the future development of the bank. At the same time, it is a step towards achieving Rabobank's goals for better reflecting diversity in society in its governing bodies, which are still too homogeneous. To achieve more diversity, our corporate governance needs to include more women and young people as well as a wider variety in ethnic and cultural backgrounds. After all, being a meaningful cooperative bank for all members and all of society is one of our key strategic objectives.

To address tactical, operational and policy-related banking issues in the new governance, the Directors' Conference was established. This body is composed of local management team chairmen, the Executive Board and the directors of divisions which support local Rabobanks. The Directors' Conference is a meaningful and influential platform with a preparatory, informative and advisory role for proposals and policies concerning local Rabobanks. The Conference also fulfils a liaison role between the highest echelons of the bank. It is tasked with safeguarding customers' interests and needs. Every meeting of the Conference is devoted to a specific theme of the strategic agenda. This year, the Conference paid considerable attention to proposals regarding 'The Bank of the Future'. Other topics included the integral F&A value chain and Rabobank's role therein as well as Rabobank's contribution to social-economic developments.

External reactions

Rabobank's historic step has attracted considerable outside attention. Some European cooperative bankers, academics and financial analysts have questioned the expressed motives and intentions of the governance reform. Some see the merger as a centralisation in disguise. In their opinion, the new governance will weaken the independent position and autonomy of local Rabobanks. These sceptics fear that the new governance strikes at the very roots of the organisation's cooperative nature.

Indeed, the move to one banking licence has made some activities at local Rabobanks redundant. Merging local back-office activities at the collective level yields efficiency gains for the entire organisation, but unfortunately necessitates a considerable loss of employment. The remaining local staff

will, however, be less burdened with administrative duties. They can now focus more closely on the customer and the market, while intensifying their participatory activities in local communities. Rabobank believes that both elements will reinforce the local orientation rather than weaken it.

Furthermore, it is worth noting that the completely redrafted Articles of Association and internal rules are meant to secure local autonomy. While it is true that the Executive Board now has the ultimate responsibility for the integral banking business (including all activities of local Rabobanks) in the new structure, our internal rules stipulate that local Rabobanks have their own responsibilities. In fact, they have been granted mandates from the Executive Board to safeguard their local orientation and firm anchoring in local communities. Local supervisory bodies as well as local management team chairmen can exercise their authority and responsibility to deliver high quality local banking services. They also have the opportunity to turn the concept of cooperative identity into reality at the local level. Certainly, Rabobank acknowledges that the cooperative identity we hold so dear should be made more visible and tangible in practice. In this respect, we have to do more to live up to our claims regarding local autonomy and independence.

Some European financial cooperatives argue that (inter)national supervisors could view Rabobank's new framework as a blueprint for the governance structures of their own organisations. We cannot speak to the accuracy of this claim, but we do know that all cooperative banks have followed unique evolutionary paths since their establishment many decades ago. Governance changes are time and path dependent. They follow or pre-empt major trends in society and banking. Numerous contextual factors have shaped Rabobank's governance structure – and business model – over the course of time, which also explains why our current governance differs so greatly from that of all other cooperative banking groups in Europe. So, taking unique situations and circumstances into account, Rabobank would not recommend just copying and pasting its governance model onto other cooperative banking groups.

Dutch Corporate Governance Code

The Dutch Corporate Governance Code applies to listed companies and contains principles and best practice provisions for what is generally regarded as good corporate governance. Because of its cooperative structure, Rabobank is not required to comply with the Dutch Corporate Governance Code, but only departs from it on a few points, partly due to its cooperative structure.

➤ For additional information about this, please refer to www.rabobank.com.

Future-oriented banking: The Dutch Banking Code

In 2009 the Dutch Banking Association (DBA) adopted the Banking Code for Dutch banks in order to regain trust in the banking sector. The Banking Code aims to ensure stable, service-oriented and reliable banks for stakeholders by setting out principles of conduct for Dutch banks in terms of corporate governance, risk management, audit and remuneration. The Banking Code took effect on 1 January 2010 on a 'comply or explain' basis.

In 2013, the Committee on the Structure of Dutch Banks (the 'Wijffels Committee') laid significant foundations for the further strengthening of Dutch banks. The Committee published a report focused on the stability of the banking industry and the importance of competition and diversity in Dutch banking. The Committee also called on banks to set out the role they want to play in society.

Following this recommendation, the DBA introduced a Social Charter, including an updated Banking Code, and implemented a bankers' oath (with the associated rules of conduct and disciplinary system). With these actions, Dutch banks, including Rabobank, want to demonstrate what they stand for and what they want to be held accountable for in the ongoing renewal process – as individual banks and as an industry at the heart of the community. The Social Charter, the Banking Code 2015 and the rules of conduct associated with the bankers' oath together form a package called '[Future-oriented Banking](#)'. Rabobank has endorsed the package. For further information about Rabobank's compliance with the Banking Code 2015, please refer to www.rabobank.com.

Report of the Supervisory Board of Rabobank

2016, a year of transition

In 2016 Rabobank began implementing its Strategic Framework 2016-2020. The strategic targets of the bank (see Board Report) imply a fundamental transition for Rabobank. It takes strong leadership to manage such a transition while keeping employees motivated. Fortunately, in 2016 we strengthened the Executive Board with the appointment of two new members: Bas Brouwers and Petra van Hoeken. We further reinforced the Supervisory Board with several new members who possess knowledge and competencies that will help Rabobank face the challenges ahead. This is especially important since the newly implemented governance structure has widened our supervisory scope. The Supervisory Board now overlooks how the Executive Board steers the entire bank, including the local Rabobanks.

The Supervisory Board monitors, challenges and advises the Executive Board on a broad variety of financial, risk, regulatory, compliance, IT/operations and HR themes. In addition to the supervisory and advisory roles, the Supervisory Board acts as employer to Executive Board members and as liaison to Rabobank's stakeholders and society at large.

This review of the activities of the Supervisory Board in 2016 focuses on the four main themes the Executive Board uses to manage all aspects of the current transition process: customer service, performance, engagement and employees. Furthermore, we reflect on the overall performance of the Supervisory Board, its committees and its members.

The supervisory and advisory roles of the Supervisory Board

Customer service

Given our independent role and participation in various networks outside Rabobank, the Supervisory Board is able to share stakeholder questions and concerns with the Executive Board on an ongoing basis. Furthermore, we monitor business developments in general, issues for client sectors facing difficulties and customer satisfaction scores. To obtain better insight into the current and future wishes and needs of our customers the Supervisory Board held an education session on the economic and social trends that can affect our customers, especially our food & agri clients. Recently we have started a debate with the Executive Board and other relevant parties on 'Mission Customer', which aims at strengthening Rabobank's customer proposition based on its values and unique selling points as a cooperative bank.

In 2016, the Supervisory Board was regularly updated on progress made regarding Customer Due Diligence-/Know Your Customer (CDD/KYC) in the Netherlands and abroad. We followed the deliberations closely and discussed the outcome of the CDD audits of Rabobank and DNB at the local Rabobanks and the central Expertise Center. We also monitored mitigating actions of the Executive Board to ensure Rabobank's structural compliance with the rules and regulations regarding CDD.

Another client related topic that required our special attention in 2016 was SME derivatives. The Supervisory Board organised a thematic deep-dive meeting and several additional meetings on SME derivatives. We also discussed ways to be more proactive in dealing with client-related issues.

Performance

The Strategic Framework 2016-2020 contains several financial and risk targets. These include strengthening capital and liquidity buffers, creating a shorter and more flexible balance sheet, consciously weighing risk and return, and improving performance.

In 2016 the Supervisory Board regularly assessed the financial markets, the development of Rabobank's ratings and key financial indicators, including capital ratios and funding position. The financial position of Rabobank was compared to its strategic goals and to the position of peers in the Netherlands and Europe. The Supervisory Board monitored whether Rabobank was operating within the limits of the Balance Sheet Management Mandate 2016. While doing so, the Supervisory Board also reviewed Rabobank's progress in reducing its dependency on wholesale funding.

During regular Supervisory Board meetings and a joint off-site meeting the Executive Board and the Supervisory Board reflected on ways to achieve a smaller and more flexible balance sheet through the pass-through and sale of assets and by being selective in the sectors Rabobank serves. We gave due attention to both the financial aspects and non-financial aspects of such transactions. In the second half of 2016 we agreed to sell the mobility solutions entity Athlon Car Lease International B.V. This transaction has improved the Common Equity Tier One (CET1) ratio of Rabobank, which is in line with Rabobank's ambition to further strengthen its capital position.

At least once a year, the Executive Board and the Supervisory Board deliberate extensively on the risk appetite of Rabobank as a whole and of the commercial entities within Rabobank Group. The Supervisory Board monitors whether Rabobank is operating within set limits and following the right procedures in case a limit is breached. Risk updates are frequently discussed in both Risk Committee and Supervisory Board meetings.

In 2016, the Supervisory Board was informed at least quarterly on the status of Performance Now, Rabobank's large restructuring programme, aimed at enhancing Rabobank's performance by increasing income and reducing costs. The Supervisory Board also receives regular updates on the status of ongoing business cases and projects as well. The Supervisory Board monitored the progress and kept a close eye on actions taken by the Executive Board to mitigate potential transition risks.

Of course keeping Rabobank healthy also entails non-financial aspects such as strong leadership, capable employees, reliable IT-systems and close monitoring and mitigation of a broad spectrum of non-financial risks. In view of this, during the past year, the Supervisory Board (in full or in one of the committees) regularly assessed matters concerning succession planning, talent development and education, safety and availability of IT systems, compliance with (upcoming) rules and regulations, operational incidents, and the follow up of In Control and audit findings. Several audit findings were IT related, with a potential impact on some crucial business cases, the audit committee monitored the actions taken by the Executive Board to ensure an adequate and (more) timely follow-up of audit findings related to IT.

Engagement

By pursuing its dual strategy of Banking for the Netherlands and Banking for Food, Rabobank endeavours to become a more successful and meaningful cooperative bank over the long term.

The Supervisory Board (in full or by means of the Cooperative Issues Committee (CIC)) regularly monitored the progress on these strategies in 2016. We were informed as to the activities of Rabobank Development, Rabobank Foundation and Rabobank International Advisory Services (RIAS). In the Supervisory Board we also approved Arise, a joint venture between Rabobank, Norfund and FMO for Africa, established to reaffirm the long-term commitment of the parties involved to Africa's future development, growth potential and local financial sector.

Supervisory Board members also show their commitment to Rabobank by operating as 'liaison officers' both internally and externally. Individually and as a group we invest in constructive relationships with both internal and external stakeholders like members (General Members' Council), regulators, the external auditor, internal experts and the Works Council of Rabobank. Some facts and figures on several of these contacts are given below.

Employees

In 2016 the HR committee paid regular attention to Rabobank's transition and the impact thereof on employees. The Works Council and individual Rabobank employees had occasion to share their view and feelings on this topic with Supervisory Board members. In 2016, the HR Committee of the Supervisory Board also discussed the organisational culture of Rabobank based on the outcome of the Organisational Health Index (OHI), the vitality of employees, employability, educational efforts, employee participation, the redesign of the performance management system (GROW), talent and management development, various compensation-related issues and the widened scope for diversity (cultural differences and occupational disabilities).

The Supervisory Board as an employer

In 2016 the Supervisory Board appointed a new Chief Financial Officer, Bas Brouwers, and a new Chief Risk Officer, Petra van Hoeken. During a joint off-site meeting the Executive Board and the Supervisory Board reviewed the organisational structure of Rabobank Nederland and the portfolios of the individual Executive Board members. This led to the decision to place Legal and Compliance under management of the CRO instead of the CEO, in order to better accommodate the new Risk Control Framework (RCF). Extensive discussions on management development, talent management and new ways of working led to various new appointments at higher senior management levels in the new structure of Rabobank Nederland.

The Supervisory Board follows a systematic approach to target setting and evaluating members of the Executive Board. The performance of the Executive Board and its individual members is evaluated at least once a year by the Supervisory Board. Ron Teerlink and Marjan Trompetter regularly confer with the individual Executive Board members on their performance. Recently, the Supervisory Board set the 2017 key performance indicators (KPIs) for each individual Executive Board member and for the team as a whole.

In 2016, on the advice of the HR committee, the Supervisory Board approved a limited number of material exceptions to the Group Remuneration Policy. None of these exceptions related to the Executive Board and they were approved in part on the basis of divergent local legislation and regulations and/or market practice. The Supervisory Board also considered the highest remuneration levels in the past year via a group-wide report on remuneration and the annual summary of variable remuneration for Identified Staff.

Composition of the Supervisory Board

Composing a fit and proper team

We make use of an outline profile for the Supervisory Board when deciding on both appointments and reappointments. Based on a succession plan and competence matrix, the Supervisory Board carries out an annual assessment of the outline profile and regularly reviews how the required competences match with current and future tasks and developments.

In 2016, we saw some dedicated and knowledgeable colleagues leave the Supervisory Board. Henk van Dalen, who voluntarily stepped down in November 2015, officially left the Supervisory Board in April 2016. Wout Dekker decided to step down as chairman of the Supervisory Board in mid-2016, at the end of his current appointment term. At the same time, Erik van de Merwe, chairman of the risk committee, also decided to decline a new appointment term. We thank Henk, Wout and Erik for their valuable contributions to the Supervisory Board and to Rabobank in general.

The Appointments Committee of the Supervisory Board prepared for the succession of Wout and Erik. In this process we worked closely together with the committee on confidential matters of the General Members' Council (GMC). After due consideration, vice chairman Ron Teerlink was appointed as chairman and member Marjan Trompetter became the new vice chair. In September and December 2016, the GMC appointed three new members of the Supervisory Board: Jan Nooitgedagt (risk profile), Petri Hofsté (audit profile) and Pascal Visée (profile: international business experience and knowledge of finance and economics). Leo Degle was reappointed as a member. With the appointment of Petri Hofsté, the Supervisory Board meets its own target of having the Supervisory Board consist of at least 30% female members.

The composition of the Supervisory Board as of 31 December 2016 is drafted in the table below and in the [Management section](#) of this Annual Report. Please refer to www.rabobank.com for the profile of the Supervisory Board and the [CV's](#) of its members.

Reflections on our own performance in 2016

In October and November 2016 the Company Secretariat conducted in-depth interviews with members of the Supervisory Board, members of the Executive Board, external auditor and reviewed several direct reports of Executive Board members who are in frequent contact with the Supervisory Board. Questions were asked about, among other things, behavioural and cultural aspects, the contribution of each member, the effectiveness of each member, committee and the whole team, as well as the relationship between the Supervisory Board and the various stakeholders inside and outside Rabobank. The assessment identified several themes on which the Supervisory Board members deliberated in a private session. We emphasised that we always have to question the Executive Board regularly and thoroughly, particularly in duty-of-care cases with potential legal and reputational risks for Rabobank. The outcome of the assessment led us to make some changes in our way of working, namely, by taking a more proactive role in formulating KPIs for the Executive Board members and formulating three to four themes that we specifically want to address in 2017.

Below we present an overview of some facts and figures regarding the activities of the Supervisory Board and its committees in 2016.

Supervisory Board

General task

In the new governance structure, the Executive Board assumes responsibility for the entire Rabobank. In this context, in 2016, the Supervisory Board supervised the policies pursued by the Executive Board and the general course of affairs at Rabobank (the former member banks and Rabobank Nederland) and its affiliates. In addition to its supervisory role, the Supervisory Board serves as an adviser to and employer of the Executive Board. The Supervisory Board members also act as 'liaison officers' for Rabobank by engaging with members, clients and other stakeholders.

Facts & figures

Members on 31 December 2016

- Ron Teerlink, chairman as of 14 September 2016
- Marjan Trompetter, vice chair as of 14 September 2016
- Irene Asscher-Vonk
- Leo Graafsma
- Petri Hofsté, as of 30 December 2016
- Leo Degle
- Arian Kamp
- Jan Nooitgedagt, as of 14 September 2016
- Pascal Visée, as of 14 December 2016
- Henk van Dalen, member until April 2016, inactive since November 2015 (see [Management](#))
- Wout Dekker, chairman until 14 September 2016
- Erik van de Merwe, member until 14 September 2016

Other attendees throughout the year

- Regular attendees:
- EB members
 - Head of Audit Rabobank, Rudi Kleijwegt
 - External auditors PwC

Meetings

- 17 meetings in total, including extra meetings
- Over 95% attendance
- Six sessions for continuing professional education for the entire Supervisory Board
- In addition to these meetings, the Supervisory Board held several private meetings without members of the Executive Board present.

Topics

Regular topics of discussion

- Article 25 of the Articles of Association of the Coöperatieve Rabobank U.A. states the responsibilities of the Supervisory Board, including the decisions that need approval of the Supervisory Board.
- The Supervisory Board discussed some strategic and high-level matters, such as Rabobank's strategy execution and the reliability and continuity of information technology, in addition to the committee subjects mentioned in the tables below.
- Committee discussions are more in-depth. In cases where approval of the Supervisory Board was needed, the relevant committee prepared its advice for the full Board.

Special topics

- In 2016 the Supervisory Board regularly paid attention to the business and compliance organisation of Rabobank in the United States. The Supervisory Board discussed the developments at RNA several times with internal and external experts. In the summer of 2016 a delegation of Supervisory Board members visited the US to speak with US regulators on US governance and US regulatory topics. In our experience such trips enhance mutual understanding and respect.
- In 2016, the Supervisory Board held several extra meetings on SME derivatives.
- Other special items in 2016 were the new organisational structure of Rabobank Nederland, the sale of Athlon and Swap Dealer Registration. This last item will be discussed further in 2017.

Additional comment

- After receiving advice from the committee on confidential matters, the GMC set the remuneration of the members of the Supervisory Board. The remuneration is not dependent on Rabobank results. On 14 September 2016, the GMC agreed to a simplification of the remuneration system for the Supervisory Board, thereby also reducing the total remuneration level.
- See the chapter on [remuneration](#) in this Annual Report.

All Supervisory Board members participate in committees. Below is a list of general tasks, topics, and facts and figures typically discussed by these Supervisory Board committees.

Audit Committee of the Supervisory Board

General task

The audit committee assists the Supervisory Board in its oversight of the activities of the Executive Board primarily relating to financial reporting, internal control, compliance and audit, including the following:

- a. the system of internal controls
- b. the financial reporting system and processes
- c. external reporting and the provision of financial information to regulators
- d. compliance with internal codes, relevant legislation and regulations
- e. the scope and activities of internal and external auditors
- f. the follow-up of audit findings and recommendations, and
- g. the functioning of the compliance organisation, internal auditors and external auditors.

Facts & figures

Members on 31 December 2016

- Leo Graafsma, chairman
- Irene Asscher-Vonk
- Leo Degle
- Petri Hofsté, as of 30 December 2016
- Jan Nooitgedagt, as of 14 September 2016
- Ron Teerlink
- Marjan Trompetter
- Wout Dekker, member until 14 September 2016
- Erik van de Merwe, member until 14 September 2016

Other members of the Supervisory Board frequently attended the meeting as observers

Other attendees throughout the year

Regular attendees:

- Wiebe Draijer, Bas Brouwers, Petra van Hoeken
- Head of Compliance, Angelique Keijzers
- Head of Group Control, Jan Bos
- Head and deputy head of Audit Rabobank, Rudi Kleijwegt and Dick Duit
- External auditors PwC

Meetings

- There were seven regular meetings and one extra meeting, with over 90% attendance
- Two sessions on continuing professional education were held with the members of the risk committee (see overview below on educational efforts)

Topics

Regular topics of discussion

- Annual Report and financial statements for 2015 and Interim report for 2016, including discussions on topics such as the valuation of financial instruments, hedge accounting and the evaluation of equity investments;
- Audit Report EY – FY 2015, Board Report PwC – HY 2016;
- Allowance for loan losses/impairment of loans and advances to customers;
- Legal claims and provisions (litigation, regulatory oversight and client care are also addressed in the risk committee);
- Pillar 3 report;
- Report on audit findings and Quarterly progress reports on audit findings;
- Rabobank 'In Control' and Management Letter (In Control Statement);
- Quarterly report Audit Rabobank;
- Audit Charter;
- Year Plans internal and external auditor;
- Independence and costs external auditor;
- Quarterly report Compliance;
- Compliance Charter;
- Year Plan Compliance;
- Monthly / Quarterly results Rabobank Group;
- Situation on the financial markets and the potential impact thereof on Rabobank;
- The development of the rating of Rabobank;
- Mid-term Planning and Budget Rabobank Group for the upcoming year;
- High-level benchmark comparing Rabobank to its peers;
- Tax policy and developments;
- Periodic updates on client integrity, privacy, various specific compliance themes and supervisory files.

Special topics

- Preparations for the introduction of IFRS 9;
- Initial Observations PwC concerning Control / Financial reporting and
- ECB on-site inspection Compliance.
- The audit committee was involved in the appointment procedure of the new head of Compliance, Angelique Keijzers, and the new head of Audit Rabobank, Rudi Kleijwegt.
- In November 2016, the JST/ECB attended a meeting of the audit committee as an observer in the context of the second Thematic review on risk governance and risk appetite (RIGA II). In the beginning of 2017 JST will attend another meeting of the audit committee and a meeting of the risk committee.

Additional comments

- In 2015, the former General Meeting appointed PricewaterhouseCoopers Accountants N.V. (PwC) as the external auditor of Rabobank for a period of four years for the book years 2016 up to and including 2019.
- The Supervisory Board is of the opinion that the internal auditor, Audit Rabobank, had sufficient resources at its disposal to adequately perform its core duties in 2016. Due to reorganisation and some voluntary staff departures, resourcing is a point of attention. The audit committee and the Supervisory Board will keep a close eye on staffing in 2017. The principles underlying the Audit Plan 2017 will be assessed and externally benchmarked to ensure all necessary audits are in check and can be performed on time.
- The ECB/JST performed several on-site investigations in 2016. In the autumn of 2016 the ECB held an on-site investigation on Compliance. ECB observations showed some points for improvement, including the functioning of the audit committee of the Supervisory Board. The ECB stressed that the audit committee must review the Compliance Function in a more structured way at least once a year. Actions have been taken to implement the required improvements.

Risk Committee of the Supervisory Board

General task

The duties assigned to the risk committee include the supervision of the Executive Board with regard to the risk policy pursued by the Executive Board, risk management and the associated risk profile. This includes the performance of the product approval process and the risks associated with the Rabobank Group's remuneration policy. The risk committee also discusses the financing structure and the policy regarding the adequacy and allocation of capital, liquidity and the short-term and long-term funding in the light of the business strategy and the adopted risk policy.

Facts & figures

Members on 31 December 2016

- Jan Nooitgedagt, chairman as of 14 September 2016
- Leo Degle
- Leo Graafsma
- Ron Teerlink
- Pascal Visée, as of 14 December 2016
- Wout Dekker, member until 14 September 2016
- Erik van de Merwe, chairman until 14 September 2016

Other attendees throughout the year

- Regular attendees:
- Wiebe Draijer, Petra van Hoeken, Bas Brouwers
 - Head of Audit Rabobank, Rudi Kleijwegt
 - External auditors PwC

Other members of the Supervisory Board frequently attended the meeting as observers

Meetings

- There were eight regular meetings and two extra meetings, with over 95% attendance.
- Two sessions on continuing professional education were held with the members of the audit committee (see overview below on educational efforts)

Topics

Regular topics of discussion

- Pillar 3 report;
- Capital plan / the Capital Management Framework;
- Internal Capital Adequacy Assessment Process (ICAAP);
- Internal Liquidity Adequacy Assessment Process (ILAAP);
- Balance Sheet Management Mandate (formerly 'Funding and Capital Mandate');
- Group Risk Policy (update);
- Risk Governance / Risk Committee Structure;
- Group Integrated Risk Assessment (top risk analysis and mitigating factors);
- Group Risk Appetite / Risk Appetite Statements for the upcoming year;
- Risk Charter;
- Integrated Risk Report;
- Risk appetite statement;
- Reports on specific types of risk, such as credit risk, market risk, model risk, operational risk and interest rate scenarios;
- Semi annual risk disclosure;
- Risk Culture;
- Risk Oversight Committee - Regulatory Heatmap and
- Recovery and Resolution Planning.

Special topics

- At the request of the risk committee, special attention was paid to several markets and sectors in 2016. The risk committee also studied periodical reports on data management and data quality. The risk committee monitored the introduction of the new Risk Control Framework (RCF), strengthening the 'Three Lines of Defense' model. The risk committee further discussed the result of various risk related on-site assessments by ECB/DNB.

Additional comment

- The Supervisory Board will explicitly address the topic of product approval and product innovation in an education session in 2017.

Cooperative Issues Committee of the Supervisory Board

General task

The duties assigned to the Cooperative Issues Committee (CIC) include the assessment of the Executive Board's reports on the cooperative organisation and operation of Rabobank. The CIC also devotes specific attention to the sustainability strategy.

Facts & figures

Members on 31 December 2016

- Arian Kamp, chairman as of 14 September 2016
- Irene Asscher-Vonk
- Petri Hofsté, as of 30 December 2016
- Marjan Trompetter
- Ron Teerlink, chairman ad interim until 14 September 2016
- Wout Dekker, member until 14 September 2016

Other attendees throughout the year

- Regular attendees:
- Wiebe Draijer and Rien Nagel
 - Head of the Cooperative & Governance department, Dirk Duijzer and on occasion the head of Sustainability, Bas Rüter

Meetings

- There were three meetings with 100% attendance.

Topics

- In 2016, the CIC reflected extensively on the scope of the CIC and topics to be discussed, given the new governance structure of Rabobank.
- The main duty of the CIC is to assess and strengthen the efforts of the Executive Board regarding Rabobank as a cooperative. In this context, the Executive Board asked the CIC to challenge and provide advice on the realisation of Rabobank's goal of remaining a meaningful cooperative. The CIC deliberated with the Executive Board on questions such as "How can Rabobank be a meaningful cooperative for its stakeholders, adding value for amongst others its members, clients and (the local) community?" and "How can the cooperative structure of Rabobank contribute to the strategy of Rabobank and the way the bank operates?" The CIC tries to link the 'meaningful cooperative' pillar to the strategies Banking for Food and Banking for the Netherlands, considering aspects such as membership, participation, (local) communities, new markets, new technologies and innovation. To get an outside-in perspective, the CIC was informed on the outcome of a meeting with young members of local Rabobanks on their expectations of the bank.
- In addition, the CIC, among others, assessed the functioning of the new governance structure, including the new role of the performance directors ('kringedirecteuren') towards local Rabobanks.
- Finally, the CIC also addressed sustainability topics.

Appointments Committee of the Supervisory Board

General task

The Appointments Committee helps the Supervisory Board prepare for its decision-making in relation to the composition of, and (re)appointments to, the Supervisory Board and the Executive Board.

Facts & figures

Members on 31 December 2016

- Marjan Trompetter, chair as of 14 September 2016 / vice chair until this date
- Irene Asscher-Vonk
- Arian Kamp
- Ron Teerlink, as of 14 September 2016
- Pascal Visée, as of 14 December 2016
- Wout Dekker, chair until 14 September 2016

Other attendees throughout the year

- Regular attendees:
- Wiebe Draijer
 - Head of Human Resources, Janine Vos

Meetings

- There were four meetings and several private sessions with over 90% attendance.

Topics

Regular topics of discussion

- In general, the Appointments Committee extends advice on personnel changes in the Supervisory Board and the Executive Board based on, respectively, the succession plan and outline profile of the Supervisory Board and assessments of the senior executive management. The Committee also advises the Supervisory Board on the approval of a number of senior management appointments at Rabobank and its affiliates. As part of talent management, the Committee also addressed the subject of (gender) diversity.

Special topics

- During 2016, the activities of the Appointments Committee were mainly driven by changes in the composition of the Supervisory Board (see before), fulfilling the positions of chairman, vice chair and several vacancies in the Board following the voluntary departure of Wout Dekker and Erik van de Merwe. This involved a review of the outline profile of the Supervisory Board, drafting specific profiles for each position, identifying potential candidates and setting up a selection process in close connection with the GMCcommittee on confidential matters in particular.

HR Committee of the Supervisory Board

General task

In 2015 the Remuneration committee of the Supervisory Board changed its scope and name to cover a broader range of HR subjects, including remuneration. The HR Committee supervises the development and implementation of policies regarding employment and helps the Supervisory Board prepare for its decision-making in relation to the remuneration of the members of the Executive Board and the remuneration policy for members of senior management. The Supervisory Board approves the remuneration policy for senior management and supervises its execution by the Executive Board. In addition, the remuneration of the members of the Executive Board is benchmarked periodically at the request of the Supervisory Board.

The HR Committee prepares the yearly discussion on the remuneration policy for the Supervisory Board, which includes: a review of the general principles governing the remuneration policy and a discussion of the remuneration practice within the Rabobank Group for the highest earning employees on the basis of a group-wide report, which, in addition to the fixed and variable remuneration also contains information about the relevant retention, exit and welcome packages within the Rabobank Group. The HR Committee keeps close track of remuneration policies pursued in the external market and advises the Supervisory Board on how to apply the guidelines for the remuneration policy in the banking sector.

Facts & figures

Members on 31 December 2016

- Marjan Trompetter, chair as of 1 April 2016 / member until this date
- Irene Asscher-Vonk, chair ad interim until 1 April 2016
- Arian Kamp
- Ron Teerlink, member as of 14 September 2016
- Pascal Visée, member as of 14 December 2016
- Wout Dekker, member until 14 September 2016

Other attendees throughout the year

- Regular attendees:
- Wiebe Draijer
 - Head of the Human Resources, Janine Vos

Meetings

There were seven meetings with over 90% attendance.

Topics

Regular topics of discussion

- The HR Committee addresses a wide range of HR related topics.
- In 2016 the HR-committee paid attention to diversity, talent development, employability, educational efforts, health, the transition of Rabobank and the impact of redundancy on employees, employee participation and various compensation related issues, among others
- Rabobank pursues a prudent, restrained and sustainable remuneration policy.
- In 2016, on the advice of the HR Committee, the Supervisory Board approved a limited number of material exceptions to the GRP which do not relate to the Executive Board. These exceptions were based in part on the divergent local legislation and regulations and/or market practice.
- The HR Committee discussed the general performance targets for Identified Staff. Please refer to the section on [Remuneration](#) in this Annual Report for an explanation of this term. The Committee carried out preparatory work for the Supervisory Board with regard to the annually available aggregate variable remuneration with an underlying risk assessment for Rabobank Group and for the individual variable remuneration of employees classified as Identified Staff.

Special topics

- The Supervisory Board welcomed initiatives of the Executive Board to set the 'Tone at the top', through leading by example.
- In 2017, (the HR committee of the) Supervisory Board will keep a close eye on follow-up actions of the OHI.

Appeals Committee of the Supervisory Board

General task

The Appeals Committee carries out the preparations for the Supervisory Board's role as an appeals body or binding adviser if a dispute arises between a Local Members' Council, a Local Supervisory Body or a Management Team and the Executive Board.

Facts & figures

Members on 31-12-2016

- Irene Asscher-Vonk, chair
- Leo Graafsma
- Arian Kamp

Other attendees throughout the year

-

Meetings

- No disputes were referred to the Appeals Committee in 2016.

Stakeholder relationships

As Supervisory Board members we consider our liaison officers for Rabobank. In this overview we provide insights into our stakeholder relationships.

Type of stakeholder

Specifics

Contact with members

Members - Next to being loyal customers, our members are our eyes and ears in the local community. They can act as ambassadors for Rabobank, but also question and reflect on the choices and actions taken by Rabobank.

All Supervisory Board members attend meetings of the GMC three to four times a year.

On several occasions members of Supervisory Board Committees concur with or attend meetings of Committees of the GMC. In 2016, due to several changes in the composition of the Supervisory Board, the Appointment Committee had frequent contact with the committee on confidential matters of the GMC.

The chairman or vice chair - visit all eight Regional Member Council meetings per GMC, accompanied by another Supervisory Board member.

The chairman of the Supervisory Board is technical chairman of the GMC and the emergency affairs committee of the GMC.

He attends the meetings of the coordination committee and the committee on confidential matters of the GMC.

The members of the Supervisory Board also visit individual local Rabobanks, conferences and information sessions for local directors and/or members of the Supervisory Boards of the local Rabobanks and, on invitation, meetings of local Rabobank members.

Contact with the external auditor PwC

External auditor - since PwC is able to compare Rabobank's activities to best practices elsewhere in the financial sector, we value highly their outside-in perspective on our organisation and ways of working.

The external auditor attends every meeting of the audit and the risk committee.

At least once a year there is a private session between the Audit Committee and the external auditor.

Regular informal contacts, especially with the chairman of the Supervisory Board and the chairman of the Audit Committee.

The chairman of the Supervisory Board, the chairman of the Audit Committee, the external auditor and the internal auditor meet at least four times a year.

Dutch or foreign regulators

Regulators in the Netherlands/Europe and abroad In Holland e.g.: Dutch Central Bank (DNB), the Netherlands Authority for the Financial Markets (AFM) and the Joint Supervisory Team of the ECB and DNB.

The chairman of the Supervisory Board, independently or together with the chairman of the Executive Board, keeps in touch with external regulators.

The vice chair and the chairmen of all committees also meet with members of the Joint Supervisory Team on a regular basis.

On occasion a delegation of Supervisory Board members are in contact with / visit US regulators.

Contact with the Executive Board -members and other Rabobank professionals

The chairman of the Supervisory Board is in close contact with the chairman of the Executive Board and the Chief Financial Officer.

Ongoing

The chairman of the Supervisory Board regularly consults with the internal auditor and the Chief Compliance Officer.

Twelve times per year

Informal audit meeting - Chairman of the Supervisory Board, the chairman of the audit committee, the external auditor and the internal auditor

At least four times per year

Informal risk organisation meeting - the chairman of the risk committee, the Chief Risk Officer and the internal auditor.

Regularly

Informal gatherings or formal meetings (continuous education) with directors, Rabobank specialists or external experts, centred on the exchange of information.

Several times per year

On a rotating basis, members of the Supervisory Board attend meetings of the Works Council as observers.

Several times per year

Local branches and Rabobank clients in the Netherlands and abroad

Mid 2016 a delegation of Supervisory Board members visited some local branches and local clients in the US. Given this positive experience, the Supervisory Board intends to organise one Supervisory Board meeting abroad each year.

On occasion individual members of the Supervisory Board have informally visited (clients of) local Rabobanks, affiliates and meetings of relevant networks in order to stay in touch with the company's core business and client groups.

Sessions for continuing professional education and other training initiatives

Sessions for the Supervisory Board in full:

In 2016, the Supervisory Board met for six plenary sessions within the framework of continuing professional education. These sessions included the following topics:

- 1) Developments in the mortgage market and Rabobank's business strategy for this market.
- 2) Global trends in food & agri business, including genetic modification and the Transatlantic Trade and Investment Partnership (TTIP)
- 3) Regulatory framework regarding resolution and Rabobank's resolution strategy.
- 4) Economic developments.
- 5) Oversight and internal controls (RIGA I).
- 6) Key developments in Banking Law and Regulations.

During these sessions all or nearly all members of the Supervisory Board were present, as well as several members of the Executive Board.

Sessions for the audit and/or risk committee

In 2016 two in-depth educational sessions were held on the subjects of data management and ICAAP/ILAAP/SREP risk control.

Extra's

In November 2016, Vvarious Supervisory Board members attended a financial and economic crime (FEC) training for the Executive Board about compliance culture and FEC laws and regulations.

The newly appointed Supervisory Board members receive an introduction programme consisting of talks with several managers and professionals within Rabobank and visits to several locations and activities of Rabobank, including local Rabobanks.

Proposal to the General Members' Council and conclusion

In accordance with the relevant provisions of the Articles of Association of Rabobank, the Supervisory Board has reviewed the Annual Report 2016 and the financial statements of Rabobank Group, as well as other relevant associated information. The Supervisory Board discussed these documents with the Executive Board, the internal auditor and external auditors (PwC) and took note of the unqualified external auditor's report that PwC issued on the financial statements in 2016.

The Supervisory Board would like to ask the General Members' Council of Rabobank to adopt the financial statements 2016.

Rounding up: A word of appreciation

The Supervisory Board would like to thank all clients of the bank for placing their confidence in Rabobank. We also thank Rabobank's employees for the commitment they have shown and the results they achieved in 2016. We are aware that these times of transition are hard on those who are leaving the bank as well as on those who are staying. This motivates us to be vigilant and ensure to the transition is carried out responsibly and in accordance with the company's moral standards.

We are on our way to realising our collective mission. But we are not quite there yet. We will face more challenges and will inevitably have to keep improving our customer focus and overall performance in the years to come. In our supervisory role, we will do our utmost to serve our stakeholders as best we can.

Utrecht, 8 March 2017

Supervisory Board Rabobank



Consolidated
Financial Statements

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General information

Rabobank is an international financial services provider operating on the basis of cooperative principles. It offers retail banking, wholesale banking, private banking, leasing and real estate services. It serves approximately 8.7 million clients around the world. Rabobank Group is comprised of Coöperatieve Rabobank U.A. (Rabobank) and its consolidated subsidiaries in the Netherlands and abroad. It is committed to making a substantial contribution to welfare and prosperity in the Netherlands and to feeding the world sustainably.

Rabobank puts the interests and ambitions of our customers and members first. With nearly two million members, Rabobank is one of the largest cooperatives in the Netherlands. And our members are more than just customers. They have a voice in deciding the bank's strategic direction.

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Consolidated statement of financial position

Consolidated statement of financial position				
Amounts in millions of euros	Note	31 December 2016	31 December 2015 ¹	1 January 2015 ²
Assets				
Cash and balances at central banks	6	84,405	64,943	43,409
Loans and advances to banks	7	25,444	32,434	45,962
Financial assets held for trading	8	2,585	3,472	4,279
Financial assets designated at fair value	9	1,321	2,196	4,325
Derivatives	10	42,372	48,113	56,489
Loans and advances to customers	11	452,807	465,993	472,037
Available-for-sale financial assets	12	34,580	37,773	39,770
Investments in associates and joint ventures	13	2,417	3,672	3,807
Goodwill and other intangible assets	14	1,089	1,493	2,059
Property and equipment	15	4,590	7,765	7,148
Investment properties	16	293	381	452
Current tax assets		171	193	211
Deferred tax assets	26	2,360	2,390	2,501
Other assets	17	7,878	7,854	8,502
Non-current assets held for sale	18	281	155	327
Total assets		662,593	678,827	691,278
Liabilities				
Deposits from banks	19	22,006	19,038	18,066
Deposits from customers	20	347,712	345,884	336,409
Debt securities in issue	21	159,342	174,991	189,060
Financial liabilities held for trading	22	739	573	1,324
Financial liabilities designated at fair value	23	16,520	16,991	19,744
Derivatives	10	48,024	54,556	66,236
Other liabilities	24	8,432	8,323	8,228
Provisions	25	1,546	993	794
Current tax liabilities		269	203	228
Deferred tax liabilities	26	618	575	473
Subordinated liabilities	28	16,861	15,503	11,928
Total liabilities		622,069	637,630	652,490
Equity				
Reserves and retained earnings	30	25,821	25,623	24,811
<i>Equity instruments issued by Rabobank</i>				
Rabobank Certificates	31	5,948	5,949	5,931
Capital Securities	32	7,636	7,826	6,349
		13,584	13,775	12,280
<i>Non-controlling interests</i>				
<i>Equity instruments issued by subsidiaries</i>				
Capital Securities	32	185	176	181
Trust Preferred Securities III to IV	32	409	1,131	1,043
Other non-controlling interests	33	525	492	473
		1,119	1,799	1,697
Total equity		40,524	41,197	38,788
Total equity and liabilities		662,593	678,827	691,278

1 Prior-year figures adjusted due to changes in presentation and a restatement (see note 2.1).

2 1 January 2015 is equivalent to 31 December 2014 (as published in the 2015 Consolidated financial statements) after the restatement and changes in presentation (see note 2.1).

Consolidated statement of income

Consolidated statement of income			
		<i>For the year ended 31 December</i>	
<i>Amounts in millions of euros</i>	<i>Note</i>	<i>2016</i>	<i>2015¹</i>
Interest income	34	16,438	17,593
Interest expense	34	7,695	8,454
Net interest income	34	8,743	9,139
Fee and commission income	35	2,177	2,127
Fee and commission expense	35	259	235
Net fee and commission income	35	1,918	1,892
Income from investments in associates and joint ventures	36	106	351
Gains/ (losses) on financial assets and liabilities at fair value through profit or loss	37	547	603
Gains/ (losses) on available-for-sale financial assets	12	87	148
Other net operating income	38	1,404	881
Income		12,805	13,014
Staff costs	39	4,521	4,786
Other administrative expenses	40	3,635	2,916
Depreciation	41	438	443
Operating expenses		8,594	8,145
Impairment losses on goodwill and investments in associates	13,14	700	623
Loan impairment charges	42	310	1,033
Regulatory levies	43	483	344
Operating profit before tax		2,718	2,869
Income tax	44	694	655
Net profit		2,024	2,214
Of which attributed to Rabobank		749	880
Of which attributed to holders of Rabobank Certificates		387	387
Of which attributed to Capital Securities issued by Rabobank		762	794
Of which attributed to Capital Securities issued by subsidiaries		15	15
Of which attributed to Trust Preferred Securities III to IV		47	63
Of which attributed to other non-controlling interests	33	64	75
Net profit for the year		2,024	2,214

1 Prior-year figures adjusted due to changes in presentation (see note 2.1).

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income			
	For the year ended 31 December		
Amounts in millions of euros	Note	2016	2015
Net profit for the year		2,024	2,214
<i>Other comprehensive income transferred to profit or loss if specific conditions are met, net of tax:</i>			
Exchange differences on translation of foreign operations	30	248	31
Changes in the fair value of available-for-sale financial assets	30	24	(75)
Cash flow hedges	30	(31)	(50)
Share of other comprehensive income of associates and joint ventures	30	18	(79)
Other	30	(2)	-
<i>Other comprehensive income not to be transferred to profit or loss, net of tax:</i>			
Remeasurements of post-employee benefit obligations	30	(53)	18
Share of other comprehensive income of associates and joint ventures	30	7	3
Fair value changes due to own credit risk on financial liabilities designated at fair value	30	(365)	-
Other comprehensive income		(154)	(152)
Total comprehensive income		1,870	2,062
Of which attributed to Rabobank		575	738
Of which attributed to holders of Rabobank Certificates		387	387
Of which attributed to Capital Securities issued by Rabobank		762	794
Of which attributed to Capital Securities issued by subsidiaries		15	15
Of which attributed to Trust Preferred Securities III to IV		47	63
Of which attributed to other non-controlling interests		84	65
Total comprehensive income		1,870	2,062

Consolidated statement of changes in equity

Consolidated statement of changes in equity						
			Non-controlling interests			
Amounts in millions of euros	Note	Reserves and retained earnings	Equity instruments issued by Rabobank	Equity instruments issued by subsidiaries	Other	Total
Balance on 1 January 2016		25,623	13,775	1,307	492	41,197
Net profit for the period		1,960	-	-	64	2,024
Other comprehensive income	30	(174)	-	-	20	(154)
Total comprehensive income		1,786	-	-	84	1,870
Payments on Rabobank Certificates		(387)	-	-	-	(387)
Payments on Trust Preferred Securities III to IV		(47)	-	-	-	(47)
Payments on Capital Securities issued by subsidiaries		(15)	-	-	-	(15)
Payments on Capital Securities issued by Rabobank		(829)	-	-	-	(829)
Redemption of Trust Preferred Securities III	32	-	-	(716)	-	(716)
Issue of Capital Securities	32	-	1,250	-	-	1,250
Cost of issue of Capital Securities		-	(9)	-	-	(9)
Redemption of Capital Securities	32	(316)	(1,437)	-	-	(1,753)
Change in Rabobank Certificates during the period		-	(1)	-	-	(1)
Other		6	6	3	(51)	(36)
Balance on 31 December 2016		25,821	13,584	594	525	40,524
Balance on 1 January 2015		24,894	12,280	1,224	473	38,871
Adjustment opening balance ¹		(83)	-	-	-	(83)
Restated amount on 1 January 2015		24,811	12,280	1,224	473	38,788
Net profit for the period		2,139	-	-	75	2,214
Other comprehensive income	30	(142)	-	-	(10)	(152)
Total comprehensive income		1,997	-	-	65	2,062
Payments on Rabobank Certificates		(387)	-	-	-	(387)
Payments on Trust Preferred Securities III to IV		(63)	-	-	-	(63)
Payments on Capital Securities issued by subsidiaries		(15)	-	-	-	(15)
Payments on Capital Securities issued by Rabobank		(787)	-	-	-	(787)
Issue of Capital Securities	31	-	1,500	-	-	1,500
Cost of issue of Capital Securities	32	-	(12)	-	-	(12)
Change in Rabobank Certificates during the period		-	18	-	-	18
Other		67	(11)	83	(46)	93
Balance on 31 December 2015		25,623	13,775	1,307	492	41,197

1 Prior-year figures adjusted due to the restatement (see note 2.1).

Consolidated statement of cash flows

Consolidated statement of cash flows			
	<i>For the year ended 31 December</i>		
<i>Amounts in millions of euros</i>	<i>Note</i>	<i>2016</i>	<i>2015</i>
Cash flows from operating activities			
Operating profit before tax		2,718	2,869
Adjusted for:			
<i>Non-cash items recognised in operating profit before taxation</i>			
Depreciation	41	438	443
Depreciation of operating lease assets and investment properties	15,16	978	1,013
Loan impairment charges	42	310	1,033
Impairment on property and equipment	15	112	-
Result on disposal of property and equipment		(35)	(11)
Income from investments in associates and joint ventures	36	(106)	(351)
Income from disposal of subsidiaries		(242)	(15)
Impairment losses on goodwill and investments in associates	14	700	623
Gains/ (losses) on financial assets and liabilities at fair value through profit or loss	37	(547)	(603)
Gains/(losses) on available-for-sale financial assets	12	(87)	(148)
Provisions	25	1,034	542
Capitalised costs self-developed software and other assets		(102)	(150)
<i>Net change in operating assets</i>			
Loans to and deposits from banks	7, 19, 42	9,958	15,734
Financial assets held for trading	8, 37	1,175	971
Derivatives	10	5,740	8,376
Net change in financial assets and liabilities designated at fair value	9, 23	663	(185)
Loans and advances to customers	11, 42	12,712	2,042
Acquisition of available-for-sale financial assets	12	(5,371)	(6,219)
Proceeds from the sale and repayment of available-for-sale financial assets		8,768	8,431
Dividends received from associates and financial assets		140	75
<i>Net change in liabilities relating to operating activities</i>			
Derivatives	10	(6,531)	(11,680)
Financial liabilities held for trading	22	166	(751)
Deposits from customers	20	1,829	11,305
Debt securities in issue	21	(15,649)	(14,069)
Other liabilities	24	(1)	3
Income tax paid		(321)	(371)
Other changes		2,794	(847)
Net cash flow from operating activities		21,243	18,060
Cash flows from investing activities			
Acquisition of associates net of cash and balances at central banks acquired	13	(75)	(37)
Proceeds from disposal of associates net of cash and balances at central banks		238	44
Proceeds from disposal of subsidiaries net of cash and balances at central banks		1,100	-
Acquisition of property and equipment and investment properties	15, 16	(2,262)	(2,513)
Proceeds from the disposal of property and equipment and investment properties		796	813
Net cash flow from investing activities		(203)	(1,693)
Cash flows from financing activities			
Purchase of Rabobank Certificates	31	(357)	(980)
Sale of Rabobank Certificates		356	998
Issue of Capital Securities (including costs)		1,241	1,488
Redemption of Trust Preferred Securities III		(716)	-
Payments on Rabobank Certificates, Trust Preferred Securities III to IV and Capital Securities		(1,128)	(1,252)
Payments on Senior Contingent Notes		(86)	(86)
Redemption of Capital Securities	32	(1,437)	-
Proceeds from the issue of subordinated liabilities		1,417	2,966
Redemption of subordinated liabilities		(63)	(3)
Net cash flow from financing activities		(773)	3,131
Net change in cash and balances at central banks		20,267	19,498
Cash and balances at central banks at the beginning of the year		64,943	43,409
Exchange rate differences on cash and balances at central banks		(805)	2,036
Cash and balances at central banks at the end of the year		84,405	64,943
The cash flows from interest are included in the net cash flow from operating activities			
Interest received		16,587	17,693
Interest paid		7,697	8,702

Notes to the consolidated financial statements

1 Corporate information

As of 1 January 2016, the 106 local Rabobanks and Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. were legally merged and the name of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. was changed to Coöperatieve Rabobank U.A. The legal merger has no impact on the consolidated figures as the local Rabobanks have always been consolidated in the Rabobank Group financial statements.

The Consolidated financial statements of Rabobank includes the financial information of Coöperatieve Rabobank U.A. and that of the group companies.

2 Accounting policies

The primary accounting policies used in preparing these consolidated financial statements are set out below.

2.1 Basis of preparation

The consolidated financial statements of Rabobank have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The consolidated financial statements have been prepared on the basis of the accounting policies set out in this section. Unless otherwise stated, assets and liabilities are accounted for on the historical cost basis and all amounts in these financial statements are in millions of euros.

New and amended standards issued by the IASB and adopted by the European Union, that are applicable to the current financial year

Early adoption of a specific part of IFRS 9 on fair value of financial liabilities designated at fair value through profit or loss

According to paragraph 7.1.2 of IFRS 9 ('Financial Instruments'), an entity may early adopt the requirement to present changes in the fair value of financial liabilities designated at fair value through profit or loss that are attributable to changes in credit risk in other comprehensive income ('OCI'). Rabobank has elected to early adopt this requirement in IFRS 9 for the own credit adjustment included in the valuation of financial liabilities designated at fair value through profit or loss, which

mainly consists of the structured notes portfolio. Excluding fair value changes resulting from changes in own credit risk from the statement of income means that Rabobank will no longer report profits or losses when the creditworthiness of Rabobank changes. As a result of early adopting this requirement in IFRS 9, the fair value changes resulting from own credit risk are accounted for in OCI in equity (net of tax) as opposed to the statement of income. When financial liabilities designated at fair value through profit or loss are derecognised (for instance due to buy-backs) the cumulative own credit risk adjustment remains in equity and is reclassified from OCI to retained earnings at the end of each reporting period, without being recycled to the statement of income.

The early adoption to report own credit adjustment on financial liabilities designated at fair value through profit or loss in OCI has been applied by Rabobank as from 1 January 2016. Comparative figures have not been restated. Differences have been recorded in the opening balance sheet as at 1 January 2016 as follows:

Impact of early adoption of IFRS 9 at 1 January 2016	
<i>Amounts in millions of euros</i>	
Revaluation reserve – Fair value changes due to own credit risk on financial liabilities designated at fair value	
Closing balance as at 31 December 2015	-
Reclassification from retained earnings	62
Opening balance as at 1 January 2016	62
Retained earnings	
Closing balance as at 31 December 2015	25,399
Reclassification of own credit adjustment on financial liabilities designated at fair value	(62)
Opening balance as at 1 January 2016	25,337

In 2016 Rabobank recognised a loss of 365 (net of tax) in OCI relating to fair value changes in financial liabilities designated at fair value through profit or loss resulting from changes in own credit risk. As a result net profit in 2016 would have decreased by 365 if Rabobank would not have elected to early adopt this element of IFRS 9. In 2016 0 has been reclassified from OCI to retained earnings as a result of derecognition of financial liabilities designated at fair value through profit or loss. There were no other changes to the classification and measurement of financial liabilities designated at fair value.

Improvements to International Financial Reporting Standards cycle 2012-2014

On 25 September 2014, the International Accounting Standards Board (IASB), in the context of its periodic improvement process, which is intended to streamline and clarify standards, proceeded to publish the Annual improvements in International Financial Reporting Standards cycle 2012-2014 ('the annual improvements'). The objective of the improvements is to address non-urgent, but necessary issues, discussed by the IASB during the project cycle, on areas of inconsistencies in International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) or ambiguous wording. These improvements became effective on 1 January 2016 and have no impact on profit or equity.

Amendments to IAS 1: Disclosure initiative

The purpose of the amendments was to achieve a more efficient provision of information and to encourage companies to seek professional advice for determining which information needs to be provided in the annual financial statements when they apply IAS 1. This amendment became effective on 1 January 2016 and has no impact on profit or equity.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

On 12 May 2014, the International Accounting Standards Board (IASB) published amendments to IAS 16 Tangible fixed assets and to IAS 38 Intangible assets. These amendments were introduced under the title Clarification of acceptable depreciation methods. As there are various different practices, it needs to be clarified whether it is appropriate to implement methods based on revenues for the calculation of the depreciation of an asset. This amendment became effective on 1 January 2016 and has no impact on profit or equity.

Amendments to IFRS 10, IFRS 12 and IAS 28: Investment entities: Applying the Consolidation Exception

These are narrow-scope clarifications of guidance, specifically related to investment entities. Because Rabobank is not an investment entity these amendments do not have an effect on the consolidated financial statements.

Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations

These amendments offer new guidelines on the administrative processing of an acquisition of an interest in a joint business operation, where this operation of the joint business operation constitutes a company. This amendment became effective on 1 January 2016 and has no impact on profit or equity.

New and amended 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 9 Financial Instruments

In July 2014, the IASB published IFRS 9 Financial Instruments as the replacement for IAS 39 Financial Instruments: Recognition and Measurement. The new standard becomes effective on 1 January 2018 and is endorsed by the EU on 22 November 2016. IFRS 9, in particular the impairment requirements, will lead to significant changes in the accounting for financial instruments.

Classification and measurement

Financial assets are classified and measured in two ways: how Rabobank manages them, and the type of contractual cash flows in these assets. Both are used to determine whether the financial assets are included at amortised cost, fair value with adjustments in the values thereof processed through other comprehensive income (FVOCI), or through the profit and loss account (FVTPL). In many cases, the classification and measurement will be in line with IAS 39, but may deviate with respect to embedded derivatives and equity instruments. There are almost no changes in the processing of financial liabilities with the exception of certain liabilities at fair value where the results have to be included in other comprehensive income because of changes to Rabobank's own credit risk. Rabobank has elected to early adopt this specific part of IFRS 9 on fair value of financial liabilities designated at fair value through profit or loss.

Impairments - Requirements

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

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

Impairments – Differences with current IAS 39 methodology

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

Impairments – Key concepts and their implementation at Rabobank

Two fundamental drivers of the IFRS 9 impairment 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 (ECLs)

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

b) Stage determination criteria

In order to allocate financial instruments in scope between the categories 12 month-ECL (also named 'Stage 1'), Lifetime ECL Non-Credit Impaired (also named 'Stage 2') and Lifetime ECL Credit Impaired (also named 'Stage 3') a framework has been developed of both qualitative and quantitative factors. As the credit-impaired definition used for IFRS 9 purposes is aligned with the default definition utilized 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 a debtor becoming unlikely to pay its credit obligations without recourse by the bank. In order to allocate financial instruments between stages 1 and 2 criteria are utilized that are currently applied in the credit process, such as days past due status and special asset management status. Also, quantitative criteria are used related to the probability of default, where a financial instrument is allocated to stage 2 when an increase in the weighted average probability of default since origination, exceeds a predefined threshold.

Impairments – Expected impact

With the introduction of IFRS 9, allowance levels are expected to increase due to the addition of Stage 1 and Stage 2 categories which are recognised on financial instruments that did not previously meet the criteria for having an allowance assigned under IAS 39. This subsequently also leads to a decrease in equity (net of income tax). However, the increase in allowance levels due to the addition of Stage 1 and 2 is offset by the release of the current IAS 39 allowance for Incurred But Not Reported (IBNR) losses, which partly compensates the overall increase. Rabobank is currently still in the process of developing ECL models. At this point in time these are not yet completed and validated for the majority of the portfolio it is currently not possible to make a reliable estimate on the quantitative impact of IFRS 9 on profit or equity at adoption date. We expect to disclose a quantitative impact on IFRS 9 in our 2017 Interim Financial Statements.

Impairments – Expected impact - Capital Planning

As IFRS equity, including retained earnings, is the basis for determining Common Equity Tier 1 (CET1) any decrease in IFRS equity is also expected to have a negative impact on Common Equity Tier 1. However, for Advanced-IRB banks the relationship between IFRS Equity and Common Equity Tier 1 is effected by the current regulations on the 'IRB Expected Loss Shortfall'. This IRB shortfall represents the difference between 1) the provisions determined for accounting purposes and 2) the provisions (or expected losses) determined under the IRB approach. Where (1) is lower than (2) a Shortfall exists and

an additional deduction is made from IFRS equity in order to arrive at Common Equity Tier 1. Note, the reason for a IRB Shortfall lies to a large extent in the conservatism applied in the IRB approach, such as applying economic downturn factors to collateral values (also named Loss Given Default Downturn Factor). The decrease in IFRS Equity (due to the introduction of IFRS 9) and the resulting impact that this decrease has on Common Equity Tier 1 is partly compensated by the corresponding lower IRB shortfall deduction. For Rabobank the IRB shortfall is expected to limit the impact on Common Equity Tier 1 – based on the 2016 IRB Shortfall levels and the end 2016 general economic environment.

The regulations regarding the regulatory treatment of accounting provisions, including the phase-in of a negative capital impact, are currently being revisited by the Basel Committee for Banking Supervision.

Hedge accounting - Requirements

Hedge accounting is an option IFRS offers to mitigate P&L swings caused by measurement and classification differences between granted loans and issued debt measured at amortised cost, assets measured on fair value through OCI (hedged items) and relating hedging derivatives measured at fair value through P&L (hedging derivatives).

The assets and liabilities measured at amortised cost are revalued for the fair value changes due to the hedged risk. For assets measured at fair value through OCI the fair value changes due to the hedged risk on the assets recognised in OCI is reclassified to P&L. In a cash flow hedge the fair value changes of the derivative are booked in the cash flow hedge reserve (effective part only).

Hedge accounting – Differences with current IAS 39 methodology

The main differences between IAS 39 and IFRS 9 for micro hedge accounting are that IFRS 9 does not permit voluntary de-designation of the hedge relationship and does not prescribe a specific effectiveness testing range anymore (IAS 39: 80-125%). Additionally IAS 39 does not have a specific accounting solution for hedge accounting with cross-currency swaps (currency basis) when used as hedging instruments, while IFRS 9 does. Under IFRS 9 the currency basis spreads are considered as costs of hedging and fair value changes caused by currency basis spread can be recognised through OCI.

Hedge accounting – Expected impact

At the moment Rabobank is in the process of exploring whether to continue with IAS 39 or to move on to IFRS 9 for the micro hedge accounting to benefit from the specific treatment of currency basis in IFRS 9 per 1 January 2018. We expect to

be able to designate more effective micro hedge accounting relationships with cross currency swaps under IFRS 9 and reduce the P&L volatility caused by currency basis, which will be recorded in OCI.

IFRS 9 does not offer a solution for portfolio hedge accounting and Rabobank will use the option IFRS 9 provides to continue to apply IAS 39 for portfolio hedge accounting.

Application

The rules governing classification, measurement and impairments will be applied retrospectively by amending the opening balance sheet on 1 January 2018. There is no obligation to amend the comparative figures.

IFRS 15 Revenue from Contracts with Customers

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

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

IFRS 16 Leases

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

IFRS 14 Regulatory Deferral Accounts

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

Other amendments to IFRS

There have been minor amendments to IFRS 2, IFRS 15, IAS 12 and IAS 7.

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

Other changes in accounting principles and presentation

Changes in presentation

IAS 32 'Financial Instruments: Presentation' prescribes that a financial asset and a financial liability shall be offset when there is a simultaneous legally enforceable right to set off and an 'intention to settle on a net basis'. Rabobank has both the legally enforceable right (by contract) to set off the amounts under a notional cash pooling arrangement as well as the intention to settle on a net basis. IFRS is principle based and does not prescribe how the intention to settle on a net basis is evidenced. Rabobank applies certain practices to evidence that the requirement of 'intention to settle net' is met. In April 2016, an Agenda Rejection Notice was published by the IFRS Interpretations Committee ('IFRIC') on balance sheet offsetting of notional cash pooling products. The issue relates to the question whether certain cash pooling arrangements would meet the requirements for offsetting under IAS 32. The IFRIC provided further clarification that the transfer of balances into a netting account should occur at the period end to demonstrate an intention to settle on a net basis. As a result of the Agenda Rejection Note, the comparable figures have been adjusted by reversing the netting that took place in 2015. The Loans and advances to customers and Deposits from customers have been increased by EUR 8,291 million per December 2015 and EUR 10,121 million per 1 January 2015. In the second half 2016 Rabobank re-assessed its cashpooling contracts also in light of the IFRIC clarification and the IFRS requirements around unit of accounts. This analysis showed that the contracts qualify for unit of accounts accounting. The amount involved as per 31 December 2016 is EUR 4,989 million.

Structured inventory products have been reclassified from other assets to loans to customers as per 31 December 2015 for an amount of EUR 418 million. This change results in a better alignment with the extent to which the risks and rewards of the underlying commodities are transferred.

The results on sale of group companies are classified as other net operating income. The comparative figures have been adjusted. The income from investments in associates and joint ventures changed from EUR 366 million to EUR 351 million and the other net operating income changed from EUR 866 million to EUR 881 million.

The other fee and commission income and expenses as per 31 December 2015 were each adjusted by EUR 50 million. The net fee and commission income remained unchanged. Insofar as other insights prompted reclassifications, the comparative figures have been adjusted accordingly.

Adjustments in the opening balance of equity as at 1 January 2015

As at 31 December 2015, receivables were overstated by an amount of EUR 110 million that had been reported as income in years prior to 2013. In accordance with IAS 8, Reserves and retained earnings as at 1 January 2015 have been adjusted retrospectively, from EUR 24,894 million to EUR 24,811 million and Loans and advances to customers have been reduced by EUR 110 million and Current tax liabilities have been reduced by EUR 27 million as at 31 December 2015.

Adjustment	
<i>Amounts in millions of euros</i>	<i>1 January 2015</i>
Total equity before adjustment	38,871
Decrease in loans and advances to customers	(110)
Decrease in current tax liabilities	27
Total equity after adjustment	38,788

Going concern

The Executive Board considers it appropriate to adopt the going concern basis of accounting in preparing these consolidated financial statements.

Judgements and estimates

In preparing the consolidated 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 critical estimates that are based on assessments and assumptions. Although management estimates are based on the most careful assessment of current circumstances and activities on the basis of available financial data and information, the actual results may deviate from these estimates.

Loan impairment allowance

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

- Specific allowances for individual impaired loans;

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

The detailed approach for each category is further explained in section 2.15 'Loans and advances to customers and banks'. Loan impairment allowances are recognised where there is objective evidence that not all amounts due under the original terms of the contract may be recoverable. Determining an allowance requires a significant degree of judgement, based on management's evaluation of the risks in the loan portfolio, the current economic circumstances, credit losses in previous years, and developments in financial credits, business sectors, business concentrations and geopolitical factors. Changes in management judgement formulation and further analyses may lead to changes in the magnitude of loan impairment allowances over time. Uncertainty is inherent in determining objective evidence of reduced creditworthiness and in determining the magnitude of the recoverable amounts and these involve assessing a variety of assumptions and factors regarding the creditworthiness of borrowers, the expected future cash flows and the value of collateral. See section 7 'Loans and advances to banks' and section 11 'Loans and advances to customers' for an analysis of the loan impairment allowances on loans to customers and banks.

Fair value of financial assets and liabilities

Information regarding the determination of the fair value of financial assets and liabilities is included in paragraph 4.9 'Fair value of financial assets and liabilities' and paragraph 10 'Derivatives'.

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 judgments 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 Section 14 and for investments in associates and joint ventures are set out in Section 13.

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.

Other provisions

In applying IAS 37 judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. More information on judgements regarding the provision for SME derivatives and the restructuring provision is included in section 25 Provisions.

The consolidation of structured entities is a critical estimate that requires judgement and is described in section 50 Structured entities.

2.2 Consolidated financial statements

2.2.1 Subsidiaries

The participating interests over which Rabobank has control are its subsidiaries (including structured entities) and these are consolidated. Control is exercised over a participating interest if the investor is entitled to receive variable returns from its involvement in the participating interest and has the ability to influence these returns through its control over the participating interest. The assets, liabilities and profit and loss of these companies are fully consolidated.

Subsidiaries are consolidated as from the date on which Rabobank acquires effective control and subsidiaries are de-consolidated as of the date on which this control is ceded. Transactions, balances and unrealised gains and losses on transactions between and among Rabobank Group and its subsidiaries are eliminated on consolidation.

Joint and several liability (cross-guarantee system)

Under the Dutch Financial Supervision Act (Wet op het financieel toezicht), various legal entities owned by Rabobank are jointly and severally liable under an Internal intra-group mutual keep well arrangement that requires the participating entities to provide the funds necessary should any participant not have sufficient funds to settle its debts.

As at 31 December 2016, the participants are:

- Coöperatieve Rabobank U.A., Amsterdam
- Rabohypotheekbank N.V., Amsterdam
- Raiffeisenhypotheekbank N.V., Amsterdam
- De Lage Landen International B.V., Eindhoven
- De Lage Landen Financiering B.V., Eindhoven
- De Lage Landen Trade Finance B.V., Eindhoven
- De Lage Landen Financial Services B.V., Eindhoven

On 1 January 2016, the local Rabobanks and Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. entered into a legal merger and the name of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. was changed to Coöperatieve Rabobank U.A.

2.2.2 Investments in associates and joint ventures

Investments in associates and joint ventures are initially recognised at cost and subsequently accounted for using the equity method of accounting. Its share of post-acquisition profits and losses are recognised in the income statement and its share of post-acquisition movements in reserves are recognised directly in other comprehensive income. The cumulative post-acquisition movements are included in the carrying amount of the investment.

Associates are entities over which Rabobank can exercise significant influence and in which it generally holds between 20% and 50% of the voting rights but does not have control. A joint venture is an agreement between one or more parties under which the parties jointly have control and are jointly entitled to the net assets under the agreement. Unrealised profits on transactions between Rabobank and its associates and joint ventures are eliminated in proportion to Rabobank's interest in the respective associates and joint ventures. Unrealised losses are also eliminated unless the transaction indicates that an impairment loss should be recognised on the asset(s) underlying the transaction.

Investments in associates include the goodwill acquired. Where the share of an associate's losses is equal to or exceeds its interest in the associate, losses are recognised only where Rabobank has given undertakings to, or made payments on behalf of, the associate.

2.3 Derivatives and hedging

General

Derivatives generally comprise foreign exchange contracts, currency and interest rate futures, forward rate agreements, currency and interest rate swaps and currency and interest rate options (written or acquired). Derivatives are recognised at fair

value determined on the basis of listed market prices (with mid-prices being used for EUR, USD and GBP derivatives that have a bid-ask range), prices offered by traders, discounted cash flow models and option valuation models based on current market prices and contract prices for the underlying instruments and reflecting the time value of money, yield curves and the volatility of the underlying assets and liabilities. Derivatives are included under assets if their fair value is positive and under liabilities if their fair value is negative. If their risks and characteristics are not closely related to those of the underlying non-derivative host contract and the contract is not classified as at fair value, derivatives that are embedded in other financial instruments are bifurcated and measured separately with unrealised profits and losses being recognised in profit and loss in 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss'.

Instruments not used for hedging

Realised and unrealised gains and losses on derivatives for trading purposes are recognised at fair value in 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss'.

Hedging instruments

Derivatives are used for asset and liability management of interest rate risks, credit risks and foreign currency risks. Rabobank makes use of the IAS 39 EU carve-out options, which allow the application of fair value portfolio hedge accounting to certain positions.

At the time of inception, derivatives are designated as one of the following: (1) a hedge of the fair value of an asset, a group of assets or a liability in the statement of financial position (fair value hedge); (2) a hedge of future cash flows allocable to an asset or liability in the statement of financial position, an expected transaction or a firm commitment (cash flow hedge); or (3) a hedge of a net investment in a foreign operation (net investment hedge). Hedge accounting is applied for derivatives designated in this manner provided that certain criteria are met, including the following:

- There must be formal documentation of the hedging instrument, the hedged item, the objective of the hedge, the hedging strategy and the hedge relationship and this must be in place before hedge accounting may be applied;
- The hedge must be expected to be effective, within 80% to 125%, in covering changes in the hedged item's fair value or the cash flows allocable to the hedged risks during the entire reporting period; and
- The hedge must be continuously effective from the moment of its inception.

Changes in the fair value of derivatives that are designated as fair value hedges and are effective in terms of the hedged risks are recognised in the statement of income in 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss', together with the corresponding changes in the fair values of the assets or liabilities hedged.

As and when the hedge no longer meets the criteria for hedge accounting (applying the fair value hedge model), the cumulative adjustment to the fair value of a hedged interest-bearing financial instrument is amortised through profit and loss over the relevant interest repricing period.

Hedges of net investments in foreign operations are measured at fair value, with changes in the fair value (to the extent that they are effective) being recognised in other comprehensive income. Changes in the hedged equity instrument resulting from exchange-rate fluctuations are also recognised in other comprehensive income. Gains and losses accumulated in other comprehensive income are reclassified to profit or losses when the equity instrument is disposed of.

Changes in the fair value of derivatives that are designated (and qualify) as cash flow hedges and that are effective in relation to the hedged risks are recognised in the hedging reserve included in other comprehensive income (see Section 10). Ineffective elements of the changes in the fair value of derivatives are recognised in the statement of income.

If a forecast transaction or a recognised liability results in the recognition of a non-financial asset or liability, any deferred profits or losses included in other comprehensive income are transferred to the initial carrying amount (cost) of the asset or liability. In all other cases, deferred amounts included in other comprehensive income are taken to the statement of income as income or expense in the periods in which the hedged recognised liability or the forecast transaction was recognised in the statement of income.

Although there are economic hedges under Rabobank's managed risk positions, certain derivative contracts do not qualify for hedge accounting under the specific IFRS rules and are therefore treated as derivatives held for trading purposes. Interest on derivatives held for economic hedging purposes are shown under interest income, both the receive and pay leg of the derivative. The fair value of derivatives held for trading and hedging purposes is disclosed in Section 10.

2.4 Financial assets and liabilities held for trading

Financial assets held for trading are financial assets acquired with the objective of generating profit from short-term

fluctuations in prices or trading margins or they are financial assets that form part of portfolios characterised by patterns of short-term profit participation. Financial assets held for trading are recognised at fair value based on listed bid prices and all realised and unrealised results therefrom are recognised under 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss'. Interest earned on financial assets is recognised as interest income. Dividends received from financial assets held for trading are recognised as 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss'.

Financial liabilities held for trading are mainly negative fair values of derivatives and delivery obligations that arise on the short selling of securities. Securities are sold short to realise gains from short-term price fluctuations. The securities needed to settle short sales are acquired through securities lending and repurchasing agreements. Securities sold short are recognised at fair value on the reporting date.

2.5 Other financial assets and liabilities designated at fair value

On initial recognition, certain financial assets (including direct and indirect investments in venture capital and excluding assets held for trading) and certain liabilities are included as 'Financial assets and liabilities at fair value through profit or loss' where any of the following criteria are met:

- This accounting eliminates or substantially reduces any inconsistent treatment that would otherwise have arisen upon measurement of the assets or liabilities or recognition of profits or losses on the basis of different accounting policies;
- The assets and liabilities belong to a group of financial assets and/or financial liabilities that are managed and assessed on the basis of their fair value in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly affect the cash flows or if it is evident that separate recognition is not required.

Interest earned and due on such assets and liabilities is recognised as interest income and expense, respectively. Other realised and unrealised gains and losses on the revaluation of these financial instruments to fair value are included under 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss' except for fair value changes due to own credit risk of financial liabilities designated at fair value. These fair value changes after tax are presented in other comprehensive income under line item 'Fair value changes due to own credit risk on financial liabilities designated at fair value'.

2.6 Day 1 gains

When using fair value accounting at the inception of a financial instrument, any positive difference between the transaction price and the fair value (referred to as 'day 1 gain') is accounted for immediately under 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss' where the valuation method is based on observable inputs from active markets. In all other cases, the entire day 1 gain is deferred and accounted for as 'Other liabilities'. After initial recognition the deferred day 1 gain is recognised as a gain to the extent it results from a change in a factor (including time effects).

2.7 Available-for-sale financial assets

Financial assets are classified on the date of acquisition, with the classification dependent on the purpose for which the investments are acquired. Financial assets are classified as available for sale if they are intended to be held for an indefinite period of time and could be sold for liquidity purposes or in response to changes in interest rates, exchange rates or share prices.

Available-for-sale financial assets are initially recognised at fair value, including transaction costs, based on quoted bid prices or at values derived from cash flow models. The fair values of unlisted equity instruments are estimated on the basis of appropriate price/earnings ratios, adjusted to reflect the specific circumstances of the respective issuer. Any unrealised gains and losses from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income unless they relate to amortised interest or exchange rate differences on monetary assets, in which case they are taken through profit and loss. As and when such financial assets are disposed of, the adjustments to fair value are transferred to the statement of Income.

Debt instruments are impaired if there are objective indications that the fair value has fallen to such a degree that it is reasonable to assume that the value will not recover to the carrying amount in the foreseeable future. On each reporting date, management determines whether there are objective indications of impairment of available-for-sale assets. Examples of objective evidence of impairment are:

- Significant financial difficulties on the part of the issuer
- Default in making interest or redemption payments
- Disappearance of active markets for the financial asset due to financial difficulties.

In the event of impairment, the cumulative loss is determined as the difference between cost and current fair value, reduced by any previously recognised impairment. This is transferred from the revaluation reserves in other comprehensive

income to the statement of income. If the impairment of a debt instrument subsequently reverses and the reversal can objectively be attributed to an event after the impairment, the impairment is reversed through the statement of income.

Equity instruments are impaired if cost (initial recognition) is unlikely to be recovered in the long term or if there is a significant or prolonged decline in the fair value below its cost. The recoverable amount and/or fair value of investments in unlisted equity instruments are determined using generally accepted valuation methods. The recoverable amount of listed financial assets is determined on the basis of market value. Impairment of equity instruments is never subsequently reversed through the statement of income.

2.8 Repurchase agreements and reverse repurchase agreements

Financial assets that are sold subject to related sale and repurchase agreements are included in the financial statements under 'Financial assets held for trading' or 'Available-for-sale financial assets', as applicable. The liability to the counterparty is included under 'Deposits from banks' or 'Deposits from customers', as applicable.

Financial assets acquired under reverse sale and reverse repurchase agreements are recognised as 'Loans and advances to banks' or 'Loans and advances to customers', as applicable. The difference between the sales and repurchasing prices is recognised as interest income/expense over the term of the agreement using the effective interest method.

2.9 Securitisations and (de)recognition of financial assets and liabilities

Recognition of financial assets and liabilities

Purchases and sales of financial assets and liabilities classified as fair value through profit or loss and available-for-sale financial assets which are required to be delivered within a regulatory-prescribed period or in accordance with market conventions are recognised on the transaction date. Financial instruments carried at amortised cost are recognised on the settlement date.

Securitisations and derecognition of financial assets and liabilities

Rabobank securitises, sells and carries various financial assets. Those assets are sometimes sold to a special purpose entity (SPE) which then issues securities to investors. Rabobank has the option of retaining an interest in these assets in the form of subordinated interest-only strips, subordinated securities, spread accounts, servicing rights, guarantees, put and call options or other constructions.

A financial asset (or a portion thereof) is derecognised where:

- The rights to the cash flows from the asset expire;
- The rights to the cash flows from the asset and substantially all the risks and rewards of ownership of the asset are transferred;
- A commitment has been made to transfer the cash flows from the asset and a substantial portion of the risks and rewards have been transferred; or
- Not substantially all the risks and rewards are transferred but where control over the asset is not retained.

A financial liability or a part thereof is derecognised if it ceases to exist, i.e. after the contractual obligation has been fulfilled or cancelled or has expired. Continuing involvement is recognised if Rabobank neither retains nor transfers substantially all the risks and rewards and control has retained. The asset is recognised to the extent of Rabobank's continuing involvement in it.

Where a transaction does not meet these conditions for derecognition, it is recognised as a loan for which security has been provided. To the extent that the transfer of a financial asset does not qualify for derecognition, Rabobank's contractual rights are not separately recognised as derivatives if recognition of these instruments and the transferred asset, or the liability arising from the transfer, were to result in the double recognition of the same rights and obligations.

Profits and losses on securitisations and sale transactions depend partly on the carrying amounts of the assets transferred. The carrying amounts of these assets are allocated to the interests sold and retained using the relative fair values of these interests on the date of sale. Any gains and losses are recognised through profit and loss at the time of transfer. The fair value of the interests sold and retained is determined on the basis of listed market prices or as the present value of the future expected cash flows based on pricing models that involve a number of assumptions regarding, for instance, credit losses, discount rates, yield curves, payment frequency and other factors.

2.10 Cash and balances at central banks

Cash equivalents are highly liquid short-term assets held to meet current cash obligations rather than for investment or other purposes. These assets have terms of less than 90 days from inception. Cash equivalents are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

2.11 Offsetting financial assets and liabilities

Where there is legal right to offset recognised amounts and it is intended to settle the expected future cash flows on a net basis or to realise the asset and settle the liability simultaneously, financial assets and liabilities are offset and the net amount is recognised in the statement of financial position. This relates mainly to current accounts and derivatives. The offsetting of taxes is addressed in Paragraph 2.24.

2.12 Foreign currency

Foreign entities

Transactions and balances included in the financial statements of individual entities within Rabobank Group are reported in the currency that best reflects the economic reality of the individual entity's underlying operating environment (the functional currency).

The consolidated financial statements are presented in euros, which is the parent company's functional currency. The statements of income and cash flows of foreign operations are translated into Rabobank's presentation currency at the exchange rates prevailing on the transaction dates, which approximate the average exchange rates for the reporting period, and the statements of financial position are translated at the rates prevailing at the end of the reporting period. Exchange differences arising on net investments in foreign operations and on loans and other currency instruments designated as hedges of these investments are recognised in other comprehensive income. On sale of a foreign operation, these translation differences are transferred to the statement of income as part of the profit or loss on the sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are recognised as the assets and liabilities of the foreign entity, and are translated at the rate prevailing at the end of the reporting period.

Foreign-currency transactions

Transactions in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction dates. Differences arising on the settlement of transactions or on the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income and differences that qualify as net investment hedges are recognised in other comprehensive income. Translation differences on debt securities and other monetary financial assets carried at fair value are included under foreign exchange gains and losses. Translation differences on non-monetary items such as equity instruments held for trading are recognised as part of the fair value gains or losses.

Translation differences on non-monetary available-for-sale items are included in the revaluation reserves for available-for-sale financial assets.

2.13 Interest

Interest income and expense arising on interest-bearing instruments is recognised in the statement of income on an accruals basis using the effective interest method. Interest income includes coupons relating to fixed interest financial assets and financial assets held for trading, as well as the cumulative premiums and discounts on government treasury securities and other cash equivalent instruments. Impaired loans are written down to their recoverable amounts, and interest income thereon is recognised, based on the discount rate used in the original calculation of the present value of future cash flows (excluding future credit losses) for determining the recoverable amounts. Interest on derivatives held for economic hedging purposes are shown under interest income, both the receive and pay leg of the derivative. This amount is presented as negative interest income because the net interest-risk position of the banking book is a long receiver-position.

2.14 Fees and commissions

Rabobank earns fee and commission income from a diverse range of services it provides to its customers. Commissions earned for the provision of services are generally recognised on an accrual basis. Commission received for negotiating a transaction or for involvement in negotiations on behalf of third parties (for example the acquisition of a portfolio of loans, shares or other securities or the sale or purchase of companies) is recognised upon completion of the underlying transaction.

2.15 Loans and advances to customers and loans and advances to banks

Loans and advances to customers and banks are non-derivatives with fixed or definable payments and are not listed on an active market, except for assets that Rabobank classifies as held for trading or that were initially recognised at fair value and for which value adjustments are recognised in the statement of income or as available-for-sale financial assets. Loans and advances to customers and banks are initially recognised at fair value (including transaction costs) and thereafter at amortised cost (including transaction costs).

Loans are subject to either individual or collective impairment analyses. A loan impairment allowance is recognised if there is objective evidence that not all amounts due under the original terms of the contract will be recoverable. The amount of the allowance is the difference between the carrying amount and the recoverable amount (the present value of expected

future cash flows), including any expected interest income and repayments and amounts recoverable under guarantees and securities discounted to present value at the original effective interest rate. For individual impaired loans a specific allowance is determined and for retail exposures a collective assessment is made if it is not economically justified to recognise the loss on an individual basis. In these cases the collective assessment is made based on homogenous groups of loans with a similar risk profile with the purpose of identifying the need to recognise an allowance for loan losses.

Examples of objective evidence for value adjustments are the following:

- Significant financial difficulties on the part of the borrower
- Default in making interest and/or redemption payments on the part of the borrower
- Loan renegotiations
- Potential bankruptcy of, or financial reorganisation, within the borrower
- Changes in the borrower's payment history
- Changes in economic circumstances that could cause the borrower to default.

Losses are estimated on the basis of the borrowers' credit ratings and the value of the collateral provided and reflecting the economic environment in which the borrowers operate. The carrying amount of loans is reduced by allowances based on the most-likely-case scenarios, and losses are recognised in the statement of income. The assets and impairment allowances are eliminated as and when the foreclosure process has been completed, the security provided has been realised, virtually no other means of recovery are available and in the event of any formal cancellation of debt. Any amounts subsequently collected are included in 'Loan impairment charges' in the statement of income. Expected future cash flows on renegotiated loans are regularly monitored for ongoing validity.

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

- Loans that are past due by more than 90 days;
- It is likely that the borrower will default on all or part of the debt (including principal, interest and fees) if the bank were not to enforce its security interests, irrespective of the amount or period of the delay of payments.

As and when prospects for continuity recover and delays on payment have been cleared as previously agreed, the loan is no longer considered impaired and the impairment is reversed.

A general provision is made for impairment in the remaining element of the portfolio which has not been specifically

identified as impaired within the bank's risk systems (IBNR; incurred but not reported). Basel II parameters, adjusted to the IFRS guidelines and to current developments, are used to determine the provision, together with what is known as the Loss Identification Period (LIP), the period between the occurrence of a loss event and the recording of the event in the bank's risk systems. The LIP is expressed in months and varies between portfolios.

Exposures classified as corporate exposures under Capital Requirements Directive CRD IV are measured in accordance with the 'one debtor' principle. This principle requires that the approved limit for a debtor applies to the sum of all exposures (including derivatives, guarantees and the like) of the debtor group into which the debtor has been classified. Debtor groups include all debtors that are part of the economic entity with which the borrower is affiliated, including any majority shareholders of the economic entity. The 'one debtor' principle applies across all entities and group divisions.

2.16 Goodwill and other intangible assets

Goodwill

Goodwill is the amount by which the acquisition price paid for a subsidiary exceeds the fair value on the date on which the share of net assets and contingent liabilities of the entity was acquired. With each acquisition, the other non-controlling interests are recognised at fair value or at its share of the identifiable assets and liabilities of the acquired entity. Tests are performed annually, or more frequently if indications so dictate, to determine whether there has been impairment.

Other intangible assets, including software development costs

Costs directly incurred in connection with identifiable and unique software products over which Rabobank has control and that will likely provide economic benefits exceeding the costs for longer than one year are recognised as other intangible assets. Direct costs include the personnel costs of the software development team, financing costs and an appropriate portion of the relevant overhead.

Expenditures that improve the performance of software as compared with their original specifications are added to the original cost of the software. Software development costs are recognised as other intangible assets and amortised on a linear basis over a period not exceeding five years. Costs related to the maintenance of software are recognised as an expense at the time they are incurred.

Other intangible assets also include those identified through business combinations, and they are amortised over their expected useful lives.

Impairment losses on goodwill

Goodwill is allocated to cash-generating units for the purpose of impairment testing, which is undertaken at the lowest level of assets that generate largely independent cash inflows. During the fourth quarter of each financial year, or more frequently if there are indications of impairment, goodwill is tested for impairment and any excess of carrying amount over recoverable amount is provided. The recoverable amount is the higher of the value in use and the fair value less selling costs. The value in use of a cash flow generating unit is determined as the present value of the expected future pre-tax cash flows of the cash flow generating unit in question. The key assumptions used in the cash flow model depend on the input data and they reflect various judgemental financial and economic variables, such as risk-free interest rates and premiums reflecting the risk inherent in the entity concerned. Impairments of goodwill are included under 'Impairment losses on goodwill' in the statement of income.

Impairment losses on other intangible assets

At each reporting date, an assessment is made as to whether there are indications of impairment of other intangible assets. If there are such indications, impairment testing is carried out to determine whether the carrying amount of the other intangible assets is fully recoverable. The recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash generating unit to which the asset belongs is determined. An impairment loss is recognised if the carrying amount exceeds the recoverable amount. Impairment losses and impairment reversals are included in 'Other administrative expenses' in the statement of income.

2.17 Property and equipment

Property and equipment for own use

Property for own use consists mainly of office buildings and is recognised at cost less accumulated depreciation and impairment, as is equipment for own use. Assets are depreciated to their residual values over the following estimated useful lives:

Property	
- Land	Not depreciated
- Buildings	25 - 40 years
Equipment	
- Computer equipment	1 - 5 years
- Other equipment and vehicles	3 - 8 years

An annual assessment is made as to whether there are indications of impairment of property and equipment. If the carrying amount of an asset exceeds its estimated recoverable amount, the carrying amount is written down to

the recoverable amount. Impairment losses and impairment reversals are included under 'Other administrative expenses' in the statement of income. Gains and losses on the disposal of property and equipment are determined on the basis of their carrying amounts and are recognised in operating results.

Repair and maintenance work is charged to the statement of income at the time the costs are incurred. Expenditures to extend the economic life or increase the economic value of land and buildings as compared with their original economic value are capitalised and subsequently depreciated.

2.18 Investment properties

Investment properties, primarily office buildings, are held for their long-term rental income and are not used by Rabobank or its subsidiaries. Investment properties are recognised as long-term investments and included in the statement of financial position at cost net of accumulated depreciation and impairment. Investment properties are depreciated to their residual values over an estimated useful life of 40 years.

2.19 Other assets

Structured inventory products

Rabobank offers several products that relate to financing commodities. Some of these products are recognised as loans with commodities as collateral, others as loans with embedded derivatives and others as commodities. The classification is mainly dependent on the transfer of risk and rewards of the commodity from the client to Rabobank.

Building sites and equalisation funds

Building sites are carried at cost, including allocated interest and additional expenses for purchasing the sites and making them ready for construction or, if lower, the net realisable value. Interest is not recognised in the statement of financial position for land which has not been zoned for a particular purpose if there is no certainty that the land will be built on. Possible downsides that depend on a future change of designated use of the relevant land are not included in the cost of land, but are included in the determination of the net realisable value. The net realisable value of all building sites is reviewed at least once a year or if there are any indications an earlier review. The net realisable value for building sites is the direct realisable value or, if higher, the indirect realisable value. The direct realisable value is the estimated value upon sale less the estimated costs for achieving the sale. The indirect realisable value is the estimated sale price within the context of normal operations less the estimated costs of completion and the estimated costs necessarily incurred to realise the sale, in which respect the expected cash flows are discounted at the weighted average cost of capital. The calculation of the indirect realisable

value is based on an analysis of scenarios that includes as many site-specific aspects and company-specific parameters and conditions as possible. A downward revaluation is recognised if the carrying value exceeds the realisable value.

The equalisation funds relate to building rights purchased from third parties recognised in the statement of financial position, as well as building rights which arose on the sale of building sites to municipal authorities or other parties, and these are stated as the balance of the cost of the sites and the sales proceeds. The equalisation funds, which are stated net of any necessary depreciations, should be recovered from future building projects.

Work in progress

Work in progress concerns sold and unsold commercial property projects, as well as sold and unsold residential projects under construction or in preparation. Work in progress is carried at the costs incurred plus allocated interest or, if lower, the net realisable value. If the project qualifies as an agreement for the construction of real estate commissioned by a third party, the result is also recognised in work in progress according to the stage of completion. Expected losses on projects are immediately deducted from the work in progress. If the buyer has no or only limited influence, but the risk is gradually transferred to the buyer during construction, the result is also recognised in work in progress according to the stage of completion. If there is no such gradual transfer of risk, the result is recognised on the date of completion. Progress instalments invoiced to buyers and principals are deducted from work in progress. If the balance of a project is negative (progress instalments invoiced exceed the costs recognised in the statement of financial position), the balance of that project, including any provision for the project, is transferred to 'Other liabilities'.

The carrying amount of unsold work in progress is annually reviewed for indications of any decline in value. If there is such an indication, the indirect realisable value of the work in progress is estimated; in most cases this is done by means of an internal or external appraisal. The indirect realisable value is the estimated sale price within the context of normal operations less the estimated costs of completion and the estimated costs necessarily incurred to realise the sale. A downward value adjustment is recognised if the carrying value exceeds the expected indirect realisable value, to the extent that this difference must be borne by Rabobank.

Finished properties

Unsold commercial and residential properties developed in-house are carried at cost or, if lower, the net realisable value. The net realisable value of finished properties is reviewed at least once a year or if there are any indications for an earlier

review. For finished properties, the net realisable value is generally equal to the direct realisable value, which is mostly determined by means of an internal or external appraisal. A downward value adjustment is recognised if the carrying value exceeds the expected direct realisable value, to the extent that the difference must be borne by Rabobank.

2.20 Leasing

Rabobank as lessee

Leases relating to property and equipment under which virtually all risks and rewards of ownership vest with Rabobank are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Lease payments are apportioned between the lease liability and the finance charges so as to achieve a constant rate of interest on the remaining balance of the liability. The corresponding lease liabilities are included under 'Other liabilities' after the deduction of finance charges. The interest components of the finance charges are charged to the statement of income over the term of the lease. A tangible fixed asset acquired under a lease agreement is depreciated over the shorter of the useful life of the asset and the term of the lease.

Leases under which a considerable portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments (less any discounts granted by the lessor) are charged to the statement of income on a linear basis over the term of the lease.

Rabobank as lessor

Finance leases

A finance lease is recognised as a receivable under 'Loans and advances to banks' or 'Loans and advances to customers', as applicable, at an amount equal to the net investment in the lease. The net investment in the lease is the present value of the nominal minimum lease payments and the unguaranteed residual value. The difference between the gross investment and the net investment in the lease is recognised as unearned finance income. Lease income is recognised as interest income over the term of the lease using the net investment method, which results in a constant rate of return on the investment.

Operating leases

Assets leased under operating leases are included in the statement of financial position under 'Property and equipment'. The assets are depreciated over their expected useful lives in line with those of comparable items of property and equipment. Rental income (less write-downs and discounts granted to lessees) is recognised under 'Other net operating income' on a linear basis over the term of the lease.

2.21 Provisions

Provisions are recognised for obligations (both legal and constructive) arising as a result of a past event where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If Rabobank expects a provision to be reimbursed, for example under an insurance policy, the reimbursement is recognised as a separate asset but only if the reimbursement is virtually certain. The provisions are carried at the discounted value of the expected future cash flows. The additions to and releases of provisions are recognised in the statement of income under 'Other administrative expenses'.

Restructuring

Restructuring provisions comprise payments under redundancy schemes and other costs directly attributable to restructuring programmes. These costs are recognised during the period in which the legal or actual payment obligation arises, a detailed plan has been prepared for redundancy pay and there are realistic expectations among the parties concerned that the reorganisation will be implemented.

Tax and legal issues

The provision for tax and legal issues is based on the best estimates available at the end of the reporting period, taking into account legal and tax advice. The timing of the cash outflow of these provisions is uncertain because the outcome of the disputes and the time involved are unpredictable.

Other provisions

Other provisions include provisions for onerous contracts, credit guarantees and obligations under the terms of the deposit guarantee scheme.

2.22 Employee benefits

Rabobank has various pension plans in place based on the local conditions and practices of the countries in which it operates. In general, the plans are financed by payments to insurance companies or to trustee administered funds determined by periodic actuarial calculations. A defined benefit pension plan is one that incorporates an obligation to pay an agreed amount of pension benefit, which is usually based on several factors such as age, number of years' service and remuneration. A defined contribution plan is one in which fixed contributions are paid to a separate entity (a pension fund) with no further legal or constructive obligation on the part of the employer should the fund have insufficient assets to settle its obligations to employee-members of the plan.

Pension obligations

The obligation under defined benefit pension plans is the present value of the defined benefit pension obligation at the end of the reporting period reduced by the fair value of the fund investments. The defined benefit obligation is calculated annually by independent actuaries based on the projected unit credit method. The present value of the defined benefit obligation is determined as the estimated future outflow of cash funds based on the interest rates of high-quality corporate bonds with terms that approximate those of the corresponding obligation. The majority of pension plans are career-average plans. The costs of these plans (being the net pension charge for the period after deducting employee contributions and interest) are included under 'Staff costs'. Net interest expense/income is determined by applying the discount rate at the beginning of the reporting period to the asset or liability of the defined benefit pension plan.

Actuarial gains and losses arising from events and/or changes in actuarial assumptions are recognised in the statement of comprehensive income.

Defined contribution plans

Under defined contribution plans, contributions are paid into publicly or privately managed pension insurance plans on a compulsory, contractual or voluntary basis. These regular contributions are recognised as expense in the year in which they are due and they are included under 'Staff costs'.

Other post-employment obligations

Some of Rabobank's business units provide other post-employment benefits. To become eligible for such benefits, the usual requirement is that the employee remains in service until retirement and has been with the company for a minimum number of years. The expected costs of these benefits are accrued during the years of service, based on a system similar to that for defined benefit pension plans. The obligations are calculated annually by independent actuaries.

Variable remuneration

Variable remuneration payable unconditionally and in cash is recognised in the year in which the employee renders the service. Conditional cash remuneration is included, on a straight line basis, in staff costs in the statement of income over the period of the year in which the employee's services are received and the remaining three years of the vesting period (i.e. over four years). The liability is recognised in 'Other liabilities'. The accounting treatment of payments based on equity instruments is disclosed in Paragraph 2.23.

2.23 Equity instrument-based payments

For certain identified staff, remuneration for services rendered is settled in the form of cash payments based on equity instruments that are similar to, and have the same characteristics as, Rabobank Certificates. The costs of the services received are based on the fair value of the equity instruments on the award date and are restated annually to fair value at the time. The costs related to the award of equity instruments during the period of the employee's contract are included in staff costs in the statement of income over the period of the year of award and the remaining three years of the vesting period of the equity instruments (i.e. over four years). The liability is recognised in other liabilities.

2.24 Tax

Current tax receivables and payables are offset where there is a legally enforceable right to offset and where simultaneous treatment or settlement is intended. Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset and where they relate to the same tax authority and arise within the same taxable entity.

Provisions are made, using the liability method, for deferred tax liabilities arising on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. These temporary differences arise primarily on depreciation of tangible fixed assets, revaluation of certain financial assets and liabilities (including derivatives), provisions for pensions and other post-employment benefits, provisions for loan losses and other impairment, tax losses and fair value adjustments to net assets acquired in business combinations. Deferred income tax assets and liabilities are measured at the tax rates that have been enacted or substantively enacted as at the reporting date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the losses can be utilised.

Provisions are made in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, unless the timing of the reversal of the temporary differences is within Rabobank's control and it is probable that the temporary differences will not reverse in the foreseeable future.

Taxes on profit are calculated in accordance with the tax legislation of the relevant jurisdictions in which Rabobank operates and are recognised as an expense in the period in which the profit is realised. The tax effects of loss carry forwards

are recognised as an asset if it is probable that future taxable profits will be available against which the losses can be utilised.

Deferred tax assets and liabilities are recognised on the revaluation of available-for-sale financial assets and cash flow hedges that are taken directly to other comprehensive income. When realised, they are recognised in the income statement at the same time as the respective deferred gain or loss is recognised.

2.25 Deposits from banks, deposits from customers and debt securities in issue

These borrowings are initially recognised at fair value, being the issue price less directly allocable and non-recurring transaction costs, and thereafter at amortised cost including transaction costs.

Own debt instruments that are repurchased are derecognised, with the difference between the carrying amount and the consideration paid being recognised in the income statement.

2.26 Rabobank Certificates

The proceeds of the issue of Rabobank Certificates are available to Rabobank in perpetuity and are subordinate to all liabilities and to the Trust Preferred Securities and the Capital Securities. As the payment of distributions is wholly discretionary, the proceeds received and dividends paid on them are recognised in equity.

2.27 Trust Preferred Securities and Capital Securities

As there is no formal obligation to (re)pay the principal or to pay a dividend, the Trust Preferred Securities and Capital Securities are recognised as 'Equity' and dividends paid on these instruments are recognised directly in equity.

2.28 Financial guarantees

Financial guarantee contracts require the issuer to compensate the holder for losses incurred when the debtor fails to meet its obligations under the terms of the related debt instrument. The guarantees are initially recognised at fair value and subsequently measured at the higher of the discounted best estimate of the obligation under the guarantee and the amount initially recognised less cumulative amortisation.

2.29 Segmented information

A segment is a discrete operating component that is subject to risks and returns that differ from those of other segments or operating components and that is viewed and managed as a separate and discrete component for Rabobank's strategic and operating management purposes. Rabobank uses the business segmentation as its primary management and reporting framework, with the geographic segmentation as its secondary framework.

2.30 Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is determined as the monetary amount (or equivalent) agreed for the acquisition of the business combination plus any direct costs of acquisition. Goodwill represents the difference between the cost of the acquisition and acquirer's share of the fair value of the Identifiable assets, liabilities and conditional assets and liabilities acquired. Goodwill is capitalised and recognised as an intangible asset. The non-controlling interest is also determined as the fair value or its share of the identifiable net assets of the company acquired. Direct acquisition costs are charged directly to the statement of income on acquisition.

2.31 Disposal groups classified as held for sale and discontinued operations

Assets that have been classified as held for sale are written down to their fair value, reduced by the estimated costs of sale, where this is lower than the carrying amount. An asset (or group of assets) is classified as held for sale when it is very likely that its economic value will be realised primarily through sale rather than through continued use, the asset (or group of assets) is fully available for sale in its current condition, management has committed itself to a plan to sell the asset, and the sale is expected to be completed within one year of its classification as held for sale. If a group of assets classified as held for sale represents a key business activity or key geographic region, it is classified as discontinued operations and recognised outside comprehensive income arising from continuing operations.

2.32 Cash flow statement

Cash and balances at central banks include cash resources, money market deposits and deposits at central banks. The cash flow statement is prepared using the indirect method and provides details of the source of the cash and balances at central banks that became available during the year as well as their application during the year. The net pre-tax cash flow from operating activities is adjusted for non-cash items in the statement of income and for non-cash changes in items in the statement of financial position.

The statement presents separately the cash flows from operating, investing and financing activities. Cash flows from operating activities include net changes in loans and receivables, interbank deposits, deposits from customers and debt securities in issue. Investment activities include acquisitions, disposals and repayment of financial investments and acquisitions and disposals of subsidiaries and property and equipment. Financing activities include issues and repayments

of Rabobank Certificates, Trust Preferred Securities, Capital Securities, Senior Contingent Notes and subordinated liabilities.

The difference between the net change presented in the statement of cash flows and the change in cash and balances at central banks included in the statement of financial position is due to exchange differences.

3 Solvency and capital management

Rabobank aims to maintain a proper level of solvency. For this purpose a number of solvency ratios are utilised. The principal ratios are the common equity tier 1 ratio (CET1), the tier 1 ratio, the total capital ratio and the equity capital ratio. Rabobank uses its own internal objectives that extend beyond the minimum requirements of the supervisors. It takes market expectations and developments in legislation and regulations into account. Rabobank manages its solvency position based on policy documents. The solvency position and the objectives are periodically reviewed by the Risk Management Committee and the Asset Liability Committee of the Executive Board and the Supervisory Board.

The 'Capital Requirements Regulation (CRR)' and 'Capital Requirements Directive IV (CRD IV)' together constitute the European implementation of the Basel Capital and Liquidity Accord of 2010. These rules, which became effective on 1 January 2014, are applied by Rabobank.

Rabobank must comply with a number of minimum solvency positions as stipulated under law. The solvency position is determined on the basis of ratios. These ratios compare the qualifying capital (total capital ratio), the tier 1 capital (tier 1 ratio) and the core capital (common equity tier 1 ratio) with the total of the risk-adjusted assets. Effective 1 January 2014, the minimum required percentages are determined on the basis of CRD IV/CRR. The legal buffers below are applicable as from 2016. These buffers will gradually increase until the year 2019. Rabobank is already allowing for these changes in its capital planning. The table below shows the minimum legal buffers based on the planned final situation under CRD IV/CRR.

Minimum capital buffer				
		<i>CET 1</i>	<i>Tier 1</i>	<i>Total capital</i>
Pillar 1		4.5%	6.0%	8.0%
Pillar 2		1.75%	1.75%	1.75%
Capital conservation buffer ¹	2016-2019	2.5%	2.5%	2.5%
Systemic risk buffer ¹	2016-2019	3.0%	3.0%	3.0%
Countercyclical buffer ¹	2016-2019			0% - 2.5%

Risk-weighted assets are determined based on separate and distinct methods for each of the credit, operational and market risks. For credit risk purposes, the risk-weighted assets are determined in several ways dependent on the nature of the asset. For the majority of assets the risk weighting is determined by reference to internal ratings and a number of characteristics specific to the asset concerned. For off-balance sheet items the balance sheet equivalent is calculated firstly on the basis of internal conversion factors and the resulting equivalent amounts are then also assigned risk-weightings. For operational risk purposes, an Advanced Measurement Approach model is used to determine the amount of risk-weighted assets. In the market risk approach, the general market risk is hedged, as are the risks of open positions in foreign currencies, debt and equity instruments and commodities. The transitional CRR provisions have been reflected in the ratios set out below.

Rabobank Group's ratios		
<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Retained earnings	25,709	25,482 ²
Expected dividends	(60)	(126)
Rabobank Certificates	5,948	5,949
Part of non-controlling interests treated as qualifying capital	25	23
Reserves	112	224
Deductions	(3,302)	(5,539)
Transition guidance	1,186	2,741
Common Equity Tier 1 capital	29,618	28,754
Capital Securities	2,728	1,488
Grandfathered instruments	5,462	6,373
Non-controlling interests	5	5
Deductions	(91)	(76)
Transition guidance	(643)	(1,492)
Tier 1 capital	37,079	35,052
Part of subordinated liabilities treated as qualifying capital	16,094	15,078
Non-controlling interests	7	6
Deductions	(99)	(85)
Transition guidance	(208)	(596)
Qualifying capital	52,873	49,455
Risk-weighted assets	211,226	213,092
Common Equity Tier 1 ratio	14.0%	13.5%
Tier 1 ratio	17.6%	16.4%
Total capital ratio	25.0%	23.2%
Equity capital ratio ³	15.0%	14.7%

1 These buffers will phase in during the years 2016-2019.

The countercyclical buffer is capped at a maximum of 2.5%. In most countries, including the Netherlands, the countercyclical buffer for 2016 has been set at 0%.

2 Differs from the amount of retained earnings as reported in note 30 due to the prior year adjustment of 83 in the 2015 IFRS equity opening balance (see note 2.1)

3 The equity/capital ratio is calculated by comparing the items retained earnings and Rabobank Certificates to the risk-weighted assets.

The deductions consist mostly of goodwill, other intangible fixed assets, deferred tax liabilities which depend on future profit, the IRB shortfall for credit risk adjustments and adjustments relating to cumulative profits due to changes in the bank's credit risk on instruments issued at market value (FVPL). In accordance with CRR, a number of deductions are adjusted in the 'Transition guidance', as these adjustments are being phased in over the period 2014-2018. The 'Transition guidance' consists mainly of goodwill, other intangible non-current assets, deferred tax liabilities depending on future profits (i.e. non-temporary differences) and the IRB shortfall for credit-risk adjustments.

The additional tier 1 instruments issued by Rabobank prior to 2015 do not comply with the new CRR requirements. They are being 'grandfathered'. This means that these instruments will be phased out of solvency ratios, in line with the regulatory requirements.

4 Risk exposure on financial instruments

4.1 Risk organisation

Rabobank Group manages risks at various levels within the organisation. At the highest level, the Executive Board (under the supervision of the Supervisory Board) determines the risk strategy it will pursue, the risk appetite, the policy framework as well as the limits. The Supervisory Board regularly assesses the risks attached to the activities and portfolio of Rabobank Group. The Chief Risk Officer, as Member of the Executive Board, is responsible for the risk management policy within Rabobank Group.

Risk appetite

Identifying and managing risks for its organisation is an ongoing process at Rabobank. For this purpose an integrated risk management strategy is applied. The risk management cycle includes determining risk appetite, preparing integrated risk analyses, and measuring and monitoring risk. Throughout this process Rabobank uses a risk strategy aimed at continuity and designed to protect profitability, maintain solid balance-sheet ratios and protect its identity and reputation.

4.2 Strategy for the use of financial instruments

Rabobank's activities are inherently related to the use of financial instruments, including derivatives. As part of the services it offers, Rabobank takes deposits from customers at varying terms and at both fixed and variable interest rates. Rabobank attempts to earn interest income by investing these funds in high-value assets as well as by making loans to commercial and retail borrowers. Rabobank also aims to increase these margins through a portfolio approach of short-

term funds at lower interest rates and the allocation to loans for longer periods at higher interest rates, maintaining sufficient cash resources in hand to meet obligations as they fall due. Rabobank improves its interest income by achieving rental margins after deduction of provisions and by issuing loans with a variety of credit ratings and inherent risk profiles. Not only is Rabobank exposed to credit risk on the on-balance sheet loans, it is also exposed to credit risk on the off-balance sheet guarantees it provides, such as letters of credit, letters of performance and other guarantee documents.

4.3 Credit risk

Credit risk is the risk that a counterparty is unable to meet a financial or other contractual obligation vis-à-vis the bank. Credit risk is inherent to granting loans. Positions in tradeable assets such as bonds and shares are also subject to credit risk. Rabobank restricts its credit risk exposure by setting limits for loans to an individual counterparty, or a group of counterparties, as well as for loans to countries. The four-eyes principle is also a key factor when granting loans. A multi-level committee structure is put in place to make decisions on major loan applications. The competent committee is chosen on the basis of the size of the loan. Decisions on the largest loans are made by the highest level committee, the Central Credit Committee Rabobank Group (CCCRG).

The credit risk exposure relating to each individual borrower is further restricted by the use of sub-limits to hedge amounts at risk, not all of which are disclosed in the statement of financial position, and the use of daily delivery risk limits for trading items such as forward currency contracts. Most of the resulting items are tested against the limits every day.

Once a loan has been granted, it is continually subject to credit management as part of which new information, financial and other, is reviewed. The credit limits are adjusted where necessary. Rabobank obtains collateral or guarantees for the majority of loans.

4.3.1 Lending

Rabobank has a significant market share in lending to private individuals; these loans account for 47% of private sector lending. These loans have a low risk profile as evidenced by the losses actually incurred, of 3 basis points (excluding one-offs) in 2016. In 2016, the proportion of the private sector lending allocable to the food and agricultural sectors was 24%. At year-end 2016, the proportion of private sector lending allocable to trade, industry and services was 29%. The loans to trade, industry and services and loans to the food and agricultural sectors are spread over a wide range of industries in many different countries. None of these shares represents more than 10% of the total private sector lending.

<i>in millions of euros</i>	2016		2015	
Total loans and advances to customers	452,807		465,993	
Of which:				
government clients	3,329		3,372	
reverse repurchase transactions and securities borrowing	16,321		19,737	
interest rate hedges (hedge accounting)	8,606		8,957	
Loans to private sector clients	424,551		433,927	
<i>This can be broken down geographically as follows:</i>				
The Netherlands	304,723	72%	321,798	74%
Rest of Europe	28,895	7%	27,185	6%
North America	45,985	11%	42,241	10%
Latin America	13,680	3%	12,741	3%
Asia	9,624	2%	9,502	2%
Australia	21,315	5%	20,116	5%
Africa	329	0%	344	0%
Total	424,551	100%	433,927	100%
<i>Breakdown of loans by business sector</i>				
Private individuals	201,234	47%	207,834	48%
Trade, industry and services (TIS)	121,336	29%	127,690	29%
Food & agri	101,981	24%	98,403	23%
Total	424,551	100%	433,927	100%

<i>Trade, industry and services loan portfolio analysed by industry</i>		
<i>in millions of euros</i>	2016	2015
Lessors of real estate	20,670	24,082
Finance and insurance (except banks)	12,291	16,672
Wholesale	12,747	11,691
Activities related to real estate	5,340	5,221
Manufacturing	9,180	8,116
Transport and warehousing	6,729	7,421
Construction	5,014	5,792
Healthcare and social assistance	6,069	6,062
Professional, scientific and technical services	10,065	9,941
Retail (non-food)	4,520	4,657
Utilities	2,896	3,017
Information and communication	981	900
Arts, entertainment and leisure	1,164	1,441
Other TIS	23,670	22,677
Total loans granted to TIS	121,336	127,690

<i>Food & agri loan portfolio analysed by sector</i>		
<i>in millions of euros</i>	2016	2015
Grain and oil seeds	19,540	18,735
Animal protein	15,728	16,261
Dairy	22,713	22,174
Fruit and vegetables	10,628	10,932
Farm inputs	10,061	8,085
Food retail	4,527	3,926
Beverages	3,852	2,685
Flowers	1,682	1,732
Sugar	2,811	2,671
Miscellaneous crop farming	1,194	2,071
Other food & agri	9,245	9,131
Total loans granted to food & agri	101,981	98,403

4.3.2 Derivatives

Rabobank sets strict limits for open positions, in amounts as well as in terms. If ISDA (International Swaps and Derivatives Association) standards apply or a master agreement including equivalent terms has been concluded with the counterparty, and if the jurisdiction of the counterparty permits offsetting, the net open position is monitored and reported. This credit risk is managed as part of the general lending limits for clients. Where needed, Rabobank obtains collateral or other safeguards to mitigate credit risks inherent in these transactions. The credit risk exposure represents the current fair value of all open derivative contracts showing a positive market value, taking into account master netting agreements enforceable under law.

4.3.3 Collateral and credit management

Rabobank's credit risk exposure is partly mitigated by obtaining collateral where necessary. The amount and nature of the collateral required depends partly on the assessment of the credit risk of the loan to the counterparty. Rabobank has guidelines in place for the purpose of accepting and valuing different types of collateral. The major types of collateral are:

- Residential mortgage collateral;
- Mortgage collateral on immovable property, pledges on movable property, inventories and receivables, mainly for business loans;
- Cash and securities, mainly for securities lending activities and reverse repurchase transactions.

The management monitors the market value of collateral obtained and requires additional collateral where necessary. Rabobank also uses credit derivatives to manage credit risks and it further mitigates its exposure to credit risk by entering into master netting arrangements with counterparties for a significant volume of transactions. In general, master netting arrangements do not lead to the offsetting of assets and liabilities included in the statement of financial position because transactions are usually settled gross. The credit risk is limited by master netting arrangements, but only to the extent that if an event or cancellation occurs, all amounts involving the counterparty are frozen and settled net. The total credit risk exposure from derivatives to which offsetting arrangements apply is highly sensitive to the closure of new transactions, the expiry of existing transactions and fluctuations in market interest and exchange rates.

The table below shows offsets which have been applied in the consolidated balance sheet (IAS 32 Offsetting) and offsets which have not been applied in the consolidated balance sheet (Other offsetting). The other offsets consist of securities Rabobank has received from reverse repurchase transactions and securities Rabobank has provided in relation to loans for repurchase transactions.

Offsetting of financial instruments						
<i>in millions of euros</i>	<i>Gross carrying amount</i>	<i>IAS 32 Offsetting</i>	<i>Net carrying amount included in balance sheet</i>	<i>Master netting agreements</i>	<i>Other offsetting</i>	<i>Net value after other offsetting</i>
On 31 December 2016						
Loans and advances to banks	26,129	(685)	25,444	-	(13,817)	11,627
Derivatives	115,541	(73,169)	42,372	(29,950)	-	12,422
Loans and advances to customers	466,990	(14,183)	452,807	-	(16,114)	436,693
Other assets	8,253	(375)	7,878	-	-	7,878
Total	616,913	(88,412)	528,501	(29,950)	(29,931)	468,620
Deposits from banks	24,541	(2,535)	22,006	-	(401)	21,605
Deposits from customers	356,847	(9,135)	347,712	-	(215)	347,497
Derivatives and financial liabilities held for trading	124,391	(76,367)	48,024	(29,950)	-	18,074
Other liabilities	8,807	(375)	8,432	-	-	8,432
Total	514,586	(88,412)	426,174	(29,950)	(616)	395,608
On 31 December 2015						
Loans and advances to banks	33,107	(673)	32,434	-	(18,888)	13,546
Derivatives	108,741	(60,628)	48,113	(36,047)	-	12,066
Loans and advances to customers	476,981	(10,988)	465,993	-	(18,965)	447,028
Other assets	8,234	(380)	7,854	-	-	7,854
Total	627,063	(72,669)	554,394	(36,047)	(37,853)	480,494
Deposits from banks	21,336	(2,298)	19,038	-	(589)	18,449
Deposits from customers	350,314	(4,430)	345,884	-	(486)	345,398
Derivatives	120,117	(65,561)	54,556	(36,047)	-	18,509
Other liabilities	8,703	(380)	8,323	-	-	8,323
Total	500,470	(72,669)	427,801	(36,047)	(1,075)	390,679

The table on the next page sets out the maximum credit risk to which Rabobank is exposed on the reporting date in respect of the various categories of risk, without taking into account any collateral or other measures for restricting credit risk. It also shows the financial effect of any collateral provided or other types of credit risk reduction. In some cases the amounts stated deviate from the carrying amounts because the outstanding equity instruments are not included in the maximum credit risk.

<i>in millions of euros</i>	<i>Maximum gross credit risk</i>		<i>Credit risk reduction</i>	
	2016	2015	2016	2015
Cash and balances at central banks	84,405	64,943	0%	0%
Loans and advances to banks	25,444	32,434	48%	51%
Derivatives	42,372	48,113	88%	88%
Loans and advances to customers	452,807	465,993	75%	75%
Available-for-sale financial assets	33,745	36,838	0%	0%
Subtotal	638,773	648,321	61%	63%
Credit related off balance sheet commitments	62,760	62,056	18%	18%
Total	701,533	710,377	57%	59%

4.3.4 Off-balance-sheet financial instruments

The guarantees and standby letters of credit that Rabobank provides to third parties in the event of a client being unable to fulfil its obligations to these third parties, are also exposed to credit risk. Documentary and commercial letters of credit and written undertakings by Rabobank on behalf of clients authorise third parties to draw bills against Rabobank up to a fixed amount and subject to specific conditions. As these transactions are secured by the delivery of the underlying goods to which they relate, the risk exposure of such an instrument is less than that of a direct loan. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions and are included in credit related contingent liabilities. Rabobank is exposed to credit risk when it promises to grant loans. The amount of any losses is likely to be less than the total of the unused commitments because the commitments are made subject to the clients meeting certain loan conditions. Rabobank monitors

the term to the expiry of loan commitments because long-term commitments generally involve higher risk than short-term commitments.

4.3.5 Credit quality of financial assets

In its financing approval process, Rabobank Group uses the Rabobank Risk Rating, which reflects the risk of failure or the probability of default (PD) of the loan relation over a period of one year. The table below shows the loan quality of the loan-related balance sheet items after deduction of the impairment allowance. The loan-quality categories are determined on the basis of the internal Rabobank Risk Rating. The Rabobank Risk Rating consists of 21 performance ratings (R0-R20) and four default ratings (D1-D4). The performance ratings assess the probability of default within a period of one year and the rating is determined, in principle, on a cyclically neutral basis. D1-D4 ratings refer to default classifications. D1 represents 90 days' past due (depending on local conditions this may be extended to more than 90 days); D2 indicates high probability that the debtor is unable to pay; D3 indicates that the debtor's assets will most likely need to be liquidated due to default; and D4 indicates bankruptcy status. The default ratings make up the total impaired exposure. The 'vulnerable' category consists of performance ratings which are not (yet) classified as impaired. The other financial assets with a counterparty risk (e.g. cash and balances at central banks, available for sale assets) are of good quality as the exposure is with central banks or consist of quoted government bonds.

Credit quality of financial assets					
<i>in millions of euros</i>	<i>(Virtually) no risk</i>	<i>Adequate to good</i>	<i>Vulnerable</i>	<i>Impaired</i>	<i>Total</i>
On 31 December 2016					
Loans and advances to banks	18,257	7,113	73	1	25,444
Loans and advances to customers					
Loans to government clients	2,370	801	59	4	3,234
Loans to private clients:					
- overdrafts	1,229	18,150	514	762	20,655
- mortgages	40,257	162,491	2,319	1,056	206,123
- leases	606	17,819	1,223	204	19,852
- reverse repurchase transactions and securities borrowing agreements	7,605	8,463	-	-	16,068
- corporate loans	8,176	157,852	4,709	7,936	178,673
- other	299	7,427	58	-	7,784
Total	78,799	380,116	8,955	9,963	477,833
On 31 December 2015					
Loans and advances to banks	25,249	7,133	50	2	32,434
Loans and advances to customers					
Loans to government clients	2,428	815	49	8	3,300
Loans to private clients:					
- overdrafts	5,407	22,430	596	1,020	29,453
- mortgages	39,880	167,049	3,579	1,658	212,166
- leases	652	23,118	1,579	376	25,725
- reverse repurchase transactions and securities borrowing agreements	4,367	14,560	-	-	18,927
- corporate loans	7,636	149,844	2,742	7,491	167,713
- other	3,655	4,204	45	23	7,927
Total	89,274	389,153	8,640	10,578	497,645

The table below gives an age analysis of expired (pastdue) but non-impaired financial assets.

Age analysis					
<i>in millions of euros</i>	<i>< 30 days</i>	<i>30 to 60 days</i>	<i>61 to 90 days</i>	<i>> 90 days</i>	<i>Total</i>
On 31 December 2016					
Loans and advances to banks	54	19	-	-	73
Loans and advances to customers					
Loans to government clients	42	9	4	4	59
Loans to private clients:					
- overdrafts	477	20	11	6	514
- mortgages	1,644	327	158	190	2,319
- leases	811	220	48	144	1,223
- reverse repurchase transactions and securities borrowing agreements	-	-	-	-	-
- corporate loans	4,093	169	121	326	4,709
- other	36	10	2	10	58
Total	7,157	774	344	680	8,955
On 31 December 2015					
Loans and advances to banks	44	6	-	-	50
Loans and advances to customers					
Loans to government clients	41	5	1	2	49
Loans to private clients:					
- overdrafts	516	38	15	27	596
- mortgages	2,766	407	187	219	3,579
- leases	1,163	245	84	87	1,579
- reverse repurchase transactions and securities borrowing agreements	-	-	-	-	-
- corporate loans	1,828	213	138	563	2,742
- other	37	8	-	-	45
Total	6,395	922	425	898	8,640

4.3.6 Forbearance

Rabobank has a policy for monitoring its forbearance portfolio every quarter. This portfolio consists of the customers of Rabobank for whom forbearance measures have been put in place. The measures under that name comprise concessions to debtors facing or about to face difficulties in meeting their financial commitments. A concession refers to either of the following actions:

- A modification of the previous terms and conditions of a contract the debtor is unable to comply with due to its financial difficulties ('bad debt') in order to allow for sufficient debt serviceability. A modification that would not have been granted had the debtor not been in financial difficulty.
- A total or partial refinancing of a bad debt contract, which would not have been granted had the debtor not been in financial difficulty.

Examples include postponements of repayments and extensions of the term of a facility. The rationale for the focus on this portfolio derives from the concerns of European regulators about the deterioration of the quality of the portfolio; it is feared that forbearance measures might camouflage this deterioration of the portfolio as debtors are able to meet their financial

obligations for longer periods as a result of the concessions. The identification of forbearance measures for the corporate portfolio is based on the current Loan Quality Classification framework, with forbearance measures only applying to the classified portfolio. If forbearance measures are applied to a debtor, the debtor falls, by definition, under the supervision of the Special Asset Management department. Lastly, items in the forbearance category must be reported for up to two years after their recovery from 'non-performing' to 'performing'. This period of two years is referred to as 'Forborne under probation'. For the accounting policy regarding derecognition of financial assets please refer to section 2.9 'Securitisations and (de)recognition of financial assets and liabilities'.

4.4 Currency risk in the banking environment

Currency risk is the risk that the bank's financial result and/or economic value will be negatively affected by changes in exchange rates.

Rabobank is exposed to the effect of fluctuations in exchange rates on its financial position and cash flows. In the trading environment, currency risk, like other market risks, is managed on the basis of Value at Risk (VaR) limits set by the Executive Board. In the banking environment, there is a currency risk in the banking books and a translation risk.

Currency risk in the banking books is the risk that manifests itself at the moment receivables and liabilities are not covered, due to which currency fluctuations may have a negative impact on the financial results of the bank. Rabobank's policy is to fully hedge the material currency risk on the banking books. Translation risk becomes evident when the bank's consolidated balance sheet and results are prepared, whereby all items in foreign currencies must be valued in euros. This makes the financial data sensitive to exchange rate fluctuations. Translation risk manifests itself in two different ways within Rabobank:

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

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

4.5 Interest rate risk in the banking environment

'Interest rate risk in the banking environment' refers to the risk that the financial results and/or the economic value of the banking book are adversely affected by changes in market interest rates.

Interest rate risk at Rabobank arises as a result of repricing and maturity mismatches between loans and funding, and optionality in client products. Customer behaviour is an important determining factor with respect to interest rate risk in the banking environment. The modelling of customer behaviour is therefore one of the core elements of the interest rate risk framework. There are behavioural models in place for mortgage prepayments, savings accounts and current accounts. Movements in interest rates may also affect the creditworthiness of customers. Higher interest rates might for example lead to higher borrowing costs and, hence, have a negative impact on the creditworthiness of a customer. Any such effects are however regarded as credit risk rather than interest rate risk.

Rabobank accepts a certain amount of interest rate risk in the banking environment; this is a fundamental part of banking. But at the same time the bank also aims to avoid unexpected material fluctuations in the financial result and the economic value as a result of interest rate fluctuations. The Executive Board, overseen by the Supervisory Board, therefore annually

approves the interest rate risk appetite and the corresponding interest rate risk limits.

At group level, Rabobank's interest rate risk is managed by the Asset and Liability Committee Rabobank Group chaired by the Chief Financial Officer. The Treasury is responsible for implementing the decisions of this committee, while Risk Management is responsible for measuring and reporting the interest rate risk position.

The definition used for managing interest rate risk varies from the IFRS definition of equity. For interest rate risk management, the economic value of equity is defined as the present value of the assets less the present value of the liabilities together with the present value of the off-balance-sheet items. Through the use of hedge accounting and because a large proportion of the balance sheet is carried at amortised cost (in IFRS terms) and (except from the inherent counterparty risk) is therefore not exposed to value changes, the effects of the value changes on IFRS capital will largely impact only interest income.

As part of its interest rate risk policy, Rabobank uses the following two key indicators for managing and controlling interest rate risk:

- Equity at risk, duration of equity; and
- Income at risk; the sensitivity of net interest income to gradual increases or decreases in interest rates during the coming 12 months.

Paragraphs 4.5.1 and 4.5.2 provide further details on 'Income at risk' and 'Equity at risk' developments.

4.5.1 Income at Risk

Income at risk is calculated once a month based on a standard interest-rate-sensitivity analysis. This analysis shows the main deviation, in a negative sense, of the projected interest income over the next 12 months as a result of a scenario in which all money market and capital market interest rates gradually increase by 2 percentage points and of a scenario in which all money market and capital market interest rates gradually decrease by 2 percentage points. The projected interest rate income is based on a scenario in which all interest rates and other rates remain equal.

Throughout 2016, Rabobank's interest income was vulnerable to a decrease in interest rates. On 31 December 2016, the Income at Risk amounted to EUR 82 million. Compared to the end of 2015, the Income at Risk was at a higher level the whole of 2016. This is related to the change in the downward shock assumption.

Per January 2016 the Income at Risk methodology was updated to accommodate interest rate scenarios to go negative until a floor of -0.5%, while in 2015 these downward scenarios were floored at 0%. For the EUR and USD interest rates this meant that the applied maximum shocks enlarged from -2 to -10 basis points and -20 to -75 basis points respectively. In the last quarter of 2016 the increasing USD rates made room for a larger downward shock (i.e. -125 basis points) and consequently also led to an additional increase in the Income at Risk.

In 2016 the EUR swap curve showed a downward parallel shift with a flattening tendency: the 3M Euribor rate and the 10 year swap rate dropped from -13bp to -32bp and 92bp to 54bp respectively. In general, a low interest rate environment accompanied by a flattening of the curve, is challenging for the profitability of the bank, especially the retail business in case of unchanging margins.

Income at Risk		
<i>in millions of euros</i>	<i>31 December 2016</i>	<i>31 December 2015</i>
EUR interest rate	10 bp decline	2 bp decline
	82	19

4.5.2 Equity at Risk

The equity at risk (EatR) or duration of equity indicates by what percentage the economic value of equity will fall if the money market and capital market interest rates increase by one percentage point. The Executive Board has set a lower limit of 0% and an upper limit of 6% for this purpose. Additional limits apply for the basis point value (BPV) of equity and the delta profile (BPV per term point) for equity.

In the first half of 2016, the EatR decreased from 2.4% to 1.1% due to the fall in market interest rates and model adjustments regarding mortgage prepayments and on-demand savings deposits. During the course of 2016, the upward pressure on the EatR, caused by mortgage extensions and customers' shift in preference towards longer fixed interest periods, was largely hedged by entering into payer swaps leading to an EatR of 1.4% by year end.

Equity at Risk		
	<i>31 December 2016</i>	<i>31 December 2015</i>
	1.4%	2.4%

4.6 Market risk in the trading environment

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

Market risk in the trading environment is monitored daily within the market risk framework, which is put in place to measure, monitor and manage market risk in the trading books. An important part of the framework is an appropriate system of limits and trading controls. The relevant risk appetite limits are translated into limits and trading controls at book level and are monitored on a daily basis by the market risk departments. Due to Rabobank's strategy of client risk redistribution, risk transformation (hedging) and the low secondary market activity, the real market risk exposure of the trading portfolio is well within the risk appetite boundaries. If limits are breached, remedial actions will be stipulated which decrease the chance of large actual losses. The risk position is reported to senior management and discussed in the various risk management committees each month.

At consolidated level, the market risk appetite is represented by the Value at Risk (VaR), Interest Rate Delta and Event risk.

The VaR indicates the maximum loss for a given confidence level and horizon under 'normal' market conditions, based on one year of historical market movements. Daily risk management uses a confidence level of 97.5% and a horizon of 1 day. Under this method, VaR is calculated on the basis of historical market movements and the positions taken.

The table below presents the composition of the VaR. The VaR is divided into a number of components. A diversity advantage is achieved in this case by the opposing positions of various books which partially cancel each other out. In 2016, the VaR fluctuated between EUR 3.5 million and EUR 6.9 million, the average being EUR 4.4 million. The VaR amounted to EUR 4.3 million on 31 December 2016. VaR has moved during the year with some fluctuations being driven by client related deals and volatility in the financial markets.

VaR (1 day, 97.5%)							
<i>in millions of euros</i>	<i>Interest</i>	<i>Credit</i>	<i>Currencies</i>	<i>Shares</i>	<i>Commodities</i>	<i>Diversification</i>	<i>Total</i>
2016 - 31 December	4.5	0.6	0.4	0.0	0.2	(1.5)	4.2
2016 - average	4.1	1.1	0.2	0.2	0.2	n/a	4.4
2016 - highest	6.3	1.7	0.7	0.7	0.8	n/a	6.9
2016 - lowest	3.3	0.6	0.1	0.0	0.1	n/a	3.5
2015 - 31 December	4.3	1.2	0.4	0.4	0.1	(1.3)	5.1
2015 - average	4.2	1.3	0.2	0.7	0.3	n/a	4.8
2015 - highest	8.0	2.0	0.6	1.0	0.7	n/a	8.7
2015 - lowest	2.5	0.7	0.1	0.2	0.2	n/a	2.5

In addition to the VaR, there are several other key risk indicators. The interest rate delta is a measure of the change in the value of positions if there is a parallel increase in the yield curve of 1 basis point (i.e. 0.01 percentage point). The interest rate delta table below shows the sensitivity to changes in the yield curves for the major currencies. At 31 December 2016, the interest rate delta for trading books was EUR 0.3 million positive. The interest rate delta remained well within the set limit during the reporting period.

Interest rate delta		
<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Euro	0.1	(1.2)
US dollar	0.1	(0.4)
British pound	0.1	0.1
Other	0.0	0.1
Total	0.3	(1.4)

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

The event risk, which is measured by performing sensitivity analyses and stress tests was EUR 105 million on 31 December 2016, well within the set limit. It fluctuated between EUR 103 million and EUR 159 million with an average of EUR 125 million. Rabobank's event risk is largely determined by the tenor basis swap position, which comes from non-client facing positions of a more strategic nature which are classified as permitted proprietary trading activities outside the US under the Volcker Rule.

4.7 Liquidity risk

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

The liquidity risk policy focuses on financing assets using stable funding, i.e., funds entrusted by customers and long-term wholesale funding. Liquidity risk is managed on the basis of three pillars. The first of these sets strict limits for the maximum outgoing cash flows within the wholesale banking business. Among other things, Rabobank measures and reports on a daily basis what incoming and outgoing cash flows can be expected during the next twelve months. Limits have been set for these outgoing cash flows, including for each currency and each location. Detailed plans (the contingency funding plans) have been drawn up for contingency funding to ensure the bank is prepared for potential crisis situations. Periodic operational tests are performed for these plans.

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

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

Furthermore, scenario analyses are performed each month to determine the potential consequences of a wide range of stress scenarios. The analyses cover market-specific scenarios, Rabobank-specific scenarios and a combination of both.

Monthly reports on the Group's overall liquidity position are submitted to the Dutch Central Bank. These reports are prepared in accordance with the guidelines drawn up by this supervisory authority.

The table below shows the undiscounted liabilities grouped according to the remaining liquidity period from the reporting date to the expected contract repayment date. The total amounts do not correspond exactly with the amounts in the consolidated statement of financial position because this table is based on undiscounted contractual cash flows relating to both principal and future interest payments. Derivatives have not been analysed on the basis of the contractual due date, because they are not essential for the management of liquidity risk or for reporting to senior management.

Contractual repayment date						
<i>in millions of euros</i>	<i>On demand</i>	<i>Less than 3 months</i>	<i>3 months to 1 year</i>	<i>1 - 5 years</i>	<i>Longer than 5 years</i>	<i>Total</i>
On 31 December 2016						
Liabilities						
Deposits from banks	4,376	10,293	2,451	4,021	1,104	22,245
Deposits from customers	252,907	44,693	14,141	14,646	23,742	350,129
Debt securities in issue	-	33,370	38,687	68,561	32,012	172,630
Other liabilities (excluding employee benefits)	1,104	3,975	951	656	67	6,753
Financial liabilities held for trading	-	739	-	-	-	739
Financial liabilities designated at fair value	95	628	2,735	4,635	23,006	31,099
Subordinated liabilities	-	-	-	2,344	22,913	25,257
Total financial liabilities	258,482	93,698	58,965	94,863	102,844	608,852
Financial guarantees	11,595	-	-	-	-	11,595
Loan commitments	44,889	-	-	-	-	44,889
On 31 December 2015						
Liabilities						
Deposits from banks	2,911	9,465	2,521	3,492	795	19,184
Deposits from customers	254,264	46,182	12,534	13,290	23,848	350,118
Debt securities in issue	117	32,480	48,941	67,701	40,518	189,757
Other liabilities (excluding employee benefits)	1,471	3,741	1,060	614	48	6,934
Financial liabilities held for trading	-	573	-	-	-	573
Financial liabilities designated at fair value	59	615	2,434	4,696	21,088	28,892
Subordinated liabilities	-	50	10	2,435	21,524	24,019
Total financial liabilities	258,822	93,106	67,500	92,228	107,821	619,477
Financial guarantees	10,402	-	-	-	-	10,402
Loan commitments	46,674	-	-	-	-	46,674

The table below shows assets and liabilities grouped according to the period remaining from the reporting date to the contractual repayment date. These amounts correspond with the amounts included in the consolidated statement of financial position.

Current and non-current financial instruments						
<i>in millions of euros</i>	<i>On demand</i>	<i>Less than 3 months</i>	<i>3 months to 1 year</i>	<i>1 - 5 years</i>	<i>Longer than 5 years</i>	<i>Total</i>
On 31 December 2016						
Financial assets						
Cash and balances at central banks	83,032	1,362	11	-	-	84,405
Loans and advances to banks	4,442	18,882	1,295	556	269	25,444
Financial assets held for trading	1	958	128	818	680	2,585
Financial assets designated at fair value	-	341	89	290	601	1,321
Derivatives	8	4,500	3,033	9,798	25,033	42,372
Loans and advances to customers	20,459	42,397	40,350	92,451	257,150	452,807
Available-for-sale financial assets	43	3,361	3,313	18,456	9,407	34,580
Other assets (excluding employee benefits)	771	4,261	1,536	1,087	216	7,871
Total financial assets	108,756	76,062	49,755	123,456	293,356	651,385
Financial liabilities						
Deposits from banks	4,442	10,217	2,408	3,892	1,047	22,006
Deposits from customers	250,255	47,040	13,966	14,013	22,438	347,712
Debt securities in issue	-	33,287	37,817	61,587	26,651	159,342
Derivatives	-	5,468	3,646	9,786	29,124	48,024
Financial liabilities held for trading	-	739	-	-	-	739
Other liabilities (excluding employee benefits)	1,102	5,011	1,254	659	91	8,117
Financial liabilities designated at fair value	95	623	2,683	4,032	9,087	16,520
Subordinated liabilities	-	-	-	2,012	14,849	16,861
Total financial liabilities	255,894	102,385	61,774	95,981	103,287	619,321
Net balance	(147,138)	(26,323)	(12,019)	27,475	190,069	32,064
On 31 December 2015						
Financial assets						
Cash and balances at central banks	63,650	1,284	9	-	-	64,943
Loans and advances to banks	4,532	24,234	1,878	1,300	490	32,434
Financial assets held for trading	144	397	539	1,669	723	3,472
Financial assets designated at fair value	8	307	33	848	1,000	2,196
Derivatives	6	3,071	2,870	11,226	30,940	48,113
Loans and advances to customers	28,351	50,550	37,948	89,345	259,799	465,993
Available-for-sale financial assets	49	2,385	3,344	19,636	12,359	37,773
Other assets (excluding employee benefits)	1,030	3,765	1,669	1,113	270	7,847
Total financial assets	97,770	85,993	48,290	125,137	305,581	662,771
Financial liabilities						
Deposits from banks	2,911	9,459	2,492	3,415	761	19,038
Deposits from customers	252,485	46,108	12,322	12,550	22,419	345,884
Debt securities in issue	117	32,390	48,306	60,720	33,458	174,991
Derivatives	13	3,613	3,392	11,795	35,743	54,556
Financial liabilities held for trading	-	573	-	-	-	573
Other liabilities (excluding employee benefits)	1,363	4,623	1,343	590	48	7,967
Financial liabilities designated at fair value	62	542	2,380	4,464	9,543	16,991
Subordinated liabilities	-	48	10	2,008	13,437	15,503
Total financial liabilities	256,951	97,356	70,245	95,542	115,409	635,503
Net balance	(159,181)	(11,363)	(21,955)	29,595	190,172	27,268

The overview presented above, has been composed on the basis of contractual information and does not represent the actual behaviour of these financial instruments. However, this is taken into account for the day-to-day management of the liquidity risk. Customer savings are an example. Under contract, these are payable on demand. Experience has shown that this is a very stable source of long-term financing that Rabobank has at its disposal. The regulations of the supervisory authority also factor this in. On 31 December 2016, on the basis of the liquidity criteria set by the Dutch Central Bank (DNB), Rabobank had a substantial liquidity surplus. The average liquidity surplus during 2016 was 32% (2015: 23%) of the total 1-month liquidity requirement. On 31 December 2016, the surplus was 30% (2015: 25%). The European Commission Delegated Act 'Liquidity Coverage Ratio' (DA LCR) became a regulatory requirement as of October 1st 2015. With 130% as per 31 December 2016, Rabobank complies with the minimum 100% requirement as set by the Dutch Central Bank (DNB). The liquidity requirements to meet payments under financial guarantees are considerably lower than the amount of the liabilities because Rabobank does not generally expect that third parties to such arrangements will draw funds. The total outstanding amount in contractual obligations to provide credit does not necessarily represent the future cash resource needs of Rabobank because many of these obligations will lapse or terminate without financing being required.

4.8 Operational risk

Rabobank defines operational risk as the risk of losses being incurred as a result of inadequate or dysfunctional internal processes, people and systems or as a result of external trends and developments, including legal and reputational risks. In measuring and managing operational risk, Rabobank operates within the parameters of the most advanced Basel II approach, the Advanced Measurement Approach, and follows the 'three lines of defence model' as prescribed by the EBA. The bank's operational risk policy is based on the principle that the primary responsibility for managing operational risk lies with the first line and that this must be integrated into the strategic and day-to-day decision-making processes. The purpose of operational risk management is to identify, assess, mitigate and monitor the various types of operational risk. The operational risk measurement supports those responsible for operational risk prioritisation and deployment of people and resources.

Within Rabobank Group, the departments involved in the primary processes of the bank form the 'first line of defence'. They are fully responsible for day-to-day risk acceptance and for integrated risk management and mitigation within the approved risk appetite. The Compliance, Legal and Risk (CLR) functions together constitute the 'second line of defence'.

The second line functions have a monitoring role with regard to all types of operational risk and they monitor the way in which 'the first line of defence' manages these risks. In addition and independently from the first line, they report on the risk profile and appetite breaches to senior management and the Executive Board. Internal Audit forms the 'third line of defence'. At group level, the Risk Management Committee (RMC) is responsible for formulating policy and setting parameters. Compliance, Legal and Risk also report quarterly to the RMC on changes in operational risks at group level. Delegated risk management committees have been established within the group's entities. Their responsibilities include monitoring all operational risks at entity level (amongst others: Conduct risk, continuity risk, Information Security risk, Fraud risk including the legal and reputational impact thereof).

The annual risk management cycle consists of a group-wide Scenario programme and Risk Self-Assessment that identifies the more material operational risks of Rabobank Group. After assessment, if and when risks fall outside the defined risk appetite, mitigating measures are taken by first line and monitored by second line.

4.9 Fair value of financial assets and liabilities

The following table shows the fair value of financial instruments, recognised at amortised cost on the basis of the valuation methods and assumptions detailed below. This table is included because not all financial instruments are recognised at fair value in the balance sheet. Fair value represents the price that would have been received for the sale of an asset or that would have been paid in order to transfer a liability in a standard transaction conducted between market participants on the valuation date. For fair value measurement Rabobank assumes that the transaction to sell the asset or transfer the liability is conducted in the principal market for the asset or liability. Alternatively, 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 financial instruments for which no market prices are available, the fair values shown in the following table have been estimated using the present value or the results of other estimation and valuation methods, based on the market conditions on the reporting date. The values produced using these methods are highly sensitive to the underlying assumptions used for the amounts as well as for the timing of future cash flows, discount rates and possible market illiquidity. The following methods and assumptions have been used.

Cash and balances at central banks.

The fair value of cash and balances at central banks is assumed to be almost equal to their carrying amount. This assumption is used for highly liquid investments and also for the short-term component of all other financial assets and liabilities.

Loans and advances to banks.

Loans and advances to banks also includes interbank placings and items to be collected. The fair values of floating rate placings, that are re-priced regularly and do not vary significantly in terms of credit risk, and overnight deposits are their carrying amounts. The estimated fair value of fixed-interest deposits is based on the present value of the cash flows, calculated on the basis of appropriate money market interest rates for debts with comparable credit risks and terms to maturity.

Financial assets and derivatives held for trading.

Financial assets held for trading are carried at fair value based on available quoted prices in an active market. If quoted prices in an active market are not available, the fair value is estimated on the basis of discounted cash flow models and option valuation models.

Derivatives are recognised at fair value determined on the basis of listed market prices (with mid-prices being used for EUR, USD and GBP derivatives that have a bid-ask range), prices offered by traders, discounted cash flow models and option valuation models based on current market prices and contract prices for the underlying instruments and reflecting the time value of money, yield curves and the volatility of the underlying assets and liabilities.

For OTC derivatives credit valuation adjustments (CVA) are made to reflect expected credit losses related to the non-performance risk of a given counterparty. A CVA is determined per counterparty and is dependent on expected future exposure taking into account collateral, netting agreements and other relevant contractual factors, default probability and recovery rates. The CVA calculation is based on available market data including credit default swap (CDS) spreads. Where CDS spreads are not available relevant proxies are used. A debit valuation adjustment (DVA) is made to include own credit in the valuation of OTC derivatives. The calculation of DVA is consistent with the CVA framework and is calculated using the Rabobank CDS spread. Another factor that is taken into account are the funding valuation adjustments (FVA). FVA concerns the valuation difference between transactions hedged by securities and transactions not hedged by securities. Collateralised transactions are valued by means of a discounting curve, based on the overnight index spread. Non-collateralised transactions are valued by means of a discounting curve, based on Euribor/Libor plus a spread which reflects the market conditions.

Financial assets designated at fair value.

These financial assets are carried at fair value based on quoted prices on an active market if available. If not, they are estimated from comparable assets on the market, or using valuation methods, including appropriate discounted cash flow models and option valuation models.

Loans and advances to customers.

The fair value of loans and advances to customers is estimated by discounting expected future cash flows using current market rates for similar loans, taking into account the creditworthiness of the counterparty. For the fair valuation of residential mortgage loans, the contractual cash flows are adjusted for the prepayment rate of the portfolio. For variable-interest loans that are re-priced regularly and do not vary significantly in terms of credit risk, the fair value approximates the carrying amount.

Available-for-sale financial assets.

Available-for-sale financial assets are measured at fair value based on listed market prices. If quoted prices on an active market are not available, the fair value is estimated on the basis of discounted cash flow models and option valuation models.

Deposits from banks.

Loans and advances to banks also includes interbank placings, items to be collected and deposits. The fair values of floating rate placings, that are re-priced regularly and do not vary significantly in terms of credit risk, and overnight deposits are their carrying amounts. The estimated fair value of fixed-interest deposits is based on the present value of the cash flows, calculated on the basis of valid money market interest rates for debts with comparable credit risks and terms to maturity.

Deposits from customers.

Deposits from customers includes current accounts and deposits. The fair value of savings and current account balances that have no specific termination date are assumed to be the amount payable on demand on the reporting date i.e. their carrying amount on that date. The fair value of these deposits is estimated from the present value of the cash flows on the basis of current bid rates for interest for similar arrangements and terms to maturity and that match the items to be measured. The carrying amount of variable-interest deposits is a good approximation of their fair value on the reporting date.

Financial liabilities held for trading.

The fair value of financial liabilities held for trading is based on available quoted prices on an active market. If quoted prices on an active market are not available, the fair value is estimated on the basis of valuation models.

Financial liabilities designated at fair value.

The fair value option is used to eliminate the accounting mismatch and valuation asymmetry between these instruments and the hedging derivatives which would occur if these instruments would have been accounted for at amortised cost. The financial liabilities designated at fair value include structured notes and structured deposits which are managed and reported on a fair value basis together with the hedging derivatives. The fair value of these liabilities is determined by discounting contractual cashflows using credit adjusted yield curves based on available market data in the secondary

market as well as appropriate CDS spreads. All other market risk parameters are valued consistently with derivatives used to hedge the market risk in these liabilities. Changes in the fair value that are attributable to changes in own credit risk are reported in 'Other comprehensive income'. The change in fair value that is attributable to changes in own credit risk is calculated by deducting on a note by note basis the current fair value of the structured notes portfolio at the reporting date from the fair value recalculated based on the prevailing credit curve at the time of origination, with all other pricing components unchanged. This calculation reflects the amount that can be attributed to the change in the own credit risk of Rabobank since the origination of these structured notes.

Debt securities in issue.

The fair value of these instruments is calculated using quoted prices on an active market. For debt securities for which no quoted prices on an active market are available, a discounted cash flow model is used on the basis of credit adjusted yield curves appropriate for the term to maturity.

in millions of euros	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and balances at central banks	84,405	84,405	64,943	64,943
Loans and advances to banks	25,444	25,368	32,434	32,553
Loans and advances to customers	452,807	465,278	465,993	473,612
Liabilities				
Deposits from banks	22,006	22,042	19,038	19,077
Deposits from customers	347,712	353,227	345,884	350,519
Debt securities in issue	159,342	163,622	174,991	178,477
Subordinated liabilities	16,861	18,256	15,503	16,558

The above stated figures 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 who are independent of the staff who determine the fair values of the financial instruments.

In determining market values or fair values, various factors have to be considered. These factors include the time value of money, volatility, underlying options, credit quality of the counterparty and other factors. The valuation process has been designed in such a way that market prices that are available on a periodic basis are systematically used. This systematic valuation process has proved its worth during the credit crisis. Modifications to assumptions might affect the fair value of financial assets and liabilities held for trading and non-trading purposes.

The table on the next page 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.

<i>in millions of euros</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
On 31 December 2016				
Assets carried at amortised cost in the statement of financial position				
Cash and balances at central banks	84,379	26	-	84,405
Loans and advances to banks	-	24,554	814	25,368
Loans and advances to customers	263	121,231	343,784	465,278
Assets carried at fair value in the statement of financial position				
Financial assets held for trading	2,011	485	89	2,585
Financial assets designated at fair value	48	759	514	1,321
Derivatives	18	41,819	535	42,372
Available-for-sale financial assets	29,693	4,347	540	34,580
Non-current assets held for sale and discontinued operations	-	-	281	281
Liabilities carried at amortised cost in the statement of financial position				
Deposits from banks	-	14,672	7,370	22,042
Deposits from customers	6,487	59,826	286,914	353,227
Debt securities in issue	1,476	135,078	27,068	163,622
Subordinated liabilities	-	18,256	-	18,256
Liabilities carried at fair value in the statement of financial position				
Derivatives	21	47,479	524	48,024
Financial liabilities held for trading	739	-	-	739
Financial liabilities designated at fair value	9	16,498	13	16,520
On 31 December 2015				
Assets carried at amortised cost in the statement of financial position				
Cash and balances at central banks	64,929	9	5	64,943
Loans and advances to banks	-	31,634	919	32,553
Loans and advances to customers	-	133,323	340,289	473,612
Assets carried at fair value in the statement of financial position				
Financial assets held for trading	2,385	961	126	3,472
Financial assets designated at fair value	24	1,187	985	2,196
Derivatives	39	47,309	765	48,113
Available-for-sale financial assets	33,068	4,111	594	37,773
Non-current assets held for sale and discontinued operations	-	-	155	155
Liabilities carried at amortised cost in the statement of financial position				
Deposits from banks	-	18,209	868	19,077
Deposits from customers	5,017	85,782	259,720	350,519
Debt securities in issue	1,593	152,351	24,533	178,477
Subordinated liabilities	-	16,558	-	16,558
Liabilities carried at fair value in the statement of financial position				
Derivatives	26	53,842	688	54,556
Financial liabilities held for trading	552	21	-	573
Financial liabilities designated at fair value	-	16,967	24	16,991

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 70 (2015: 166) and on equity 7 (2015: 50). 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 -70 (2015: -167) and on equity -7 (2015: -50).

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

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

The table shows movements in the financial instruments which are stated at fair value in the statement of financial position and which are classified in Level 3. The fair value adjustments in Level 3 which are included in equity are accounted for in the revaluation reserves for available-for-sale financial assets.

In 2016 there were no significant transfers between level 1 and level 2.

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

The amount in total gains or losses recognised in the income statement for the period relating to the assets and liabilities held in Level 3 until the end of the reporting period is given in the following table.

Fair value changes for financial instruments in level 3 recognised in profit or loss			
<i>in millions of euros</i>	<i>Instruments held at the end of reporting period</i>	<i>Instruments not held anymore at the end of reporting period</i>	<i>Total</i>
On 31 December 2016			
Assets			
Financial assets held for trading	(10)	(1)	(11)
Financial assets designated at fair value	(37)	17	(20)
Derivatives	229	191	420
Available-for-sale financial assets	(1)	19	18
Liabilities			
Derivatives	238	289	527
Financial liabilities designated at fair value	(1)	-	(1)
On 31 December 2015			
Assets			
Financial assets held for trading	1	(1)	-
Financial assets designated at fair value	168	12	180
Derivatives	95	345	440
Available-for-sale financial assets	28	115	143
Liabilities			
Derivatives	119	351	470
Financial liabilities designated at fair value	3	(1)	2

Recognition of Day 1 gains

When using fair value accounting at the inception of a financial instrument, any positive difference between the transaction price and the fair value (referred to as 'day 1 gains') is accounted for in the statement of income where the valuation method is based on observable inputs from active markets. In all other cases, the entire day 1 gain is deferred and after initial recognition the deferred day 1 gain is recognised as a gain to the extent it results from a change in a factor (including time effects). The table below summarises the changes of the deferred day 1 gains during the year:

Provision for Day 1 gains		
<i>In millions of euros</i>	<i>2016</i>	<i>2015</i>
Opening balance	3	6
Additions	-	-
Amortisation	(3)	(2)
Changes	-	(1)
Closing balance	-	3

4.10 Legal and arbitration proceedings

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

When determining which of the claims is more likely than not (i.e., with a likelihood of over fifty percent) to lead to an outflow of funds, Rabobank Group takes several factors into account. These include (but are not limited to) the type of claim and the underlying facts; the procedural process and history of each case; rulings from legal and arbitration bodies; Rabobank Group's experience and that of third parties in similar cases (if known); previous settlement discussions; third-party settlements in similar cases (where known); available indemnities; and the advice and opinions of legal advisers 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 recognised. For those cases where (a) the possibility of an outflow of funds is less likely than not but also not remote or (b) the possibility of an outflow of funds is more likely than not but the potential loss cannot be estimated, a contingent liability is shown.

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

Interest rate derivatives

Rabobank concludes interest rate derivatives, such as interest rate swaps, with Dutch business customers who wish to reduce the interest rate risk associated with variable (e.g., Euribor-indexed) loans. Such an interest rate swap protects customers from rising variable interest rates and helps businesses to keep their interest payments at an acceptable level. In March 2016, the Dutch Minister of Finance appointed an independent committee, which on 5 July 2016, published a recovery framework (the Recovery Framework) on the reassessment of Dutch SME interest rate derivatives. Rabobank announced its decision to take part in the Recovery Framework on 7 July 2016. The final version of the Recovery Framework was published by the independent committee on 19 December 2016. Implementation of the Recovery Framework is expected to be finalised in 2017.

Rabobank is involved in civil proceedings in the Netherlands relating to interest rate derivatives concluded with Dutch business customers. The majority of these concern individual cases. In addition, there is a collective action regarding interest rate derivatives pending before the Court of Appeal. These actions concern allegations relating to 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, Rabobank has recognised a provision of 699. The main uncertainties in the calculations of the provision stem from assumptions regarding the scoping of clients. Furthermore, the calculations regarding technical recovery are based on a portfolio approach instead of individual contract calculations.

Fortis

In 2011, the Dutch Investors Association (VEB) issued a summons against the company formerly known as Fortis N.V. (currently trading as Ageas N.V.), the underwriters involved – including Rabobank – and the former directors of Fortis N.V. The VEB states in this summons that investors were misled by the prospectus published by Ageas N.V. in connection with its rights issue in September 2007. The VEB states that the impact and risks of the subprime crisis for Fortis and its liquidity position were misrepresented in the prospectus and has requested a declaratory judgement stating that the defendants acted illegitimately and must therefore be held liable for the loss allegedly suffered by investors in Fortis. Rabobank maintains the view that the aforementioned loss of EUR 18 billion has not been properly substantiated. The proceedings concern a settlement of collective loss, which means that the court will only rule on the question of whether the defendants (including Rabobank) are liable. Rabobank has been defending itself against the claim and a final hearing was scheduled to start on 14 March 2016. That day, however, Ageas announced a settlement of EUR 1.2 billion with claimant organisations VEB, Deminor, Stichting FortisEffect and Stichting Investor Claims Against Fortis (SICAF) with respect to all disputes and claims relating to various events in 2007 and 2008 in respect of the former Fortis group (including the VEB claim described above). On 23 May 2016, the parties to the settlement requested the Amsterdam Court of Appeal to declare the settlement binding for all eligible Fortis shareholders (in accordance with the Dutch Law on the Collective Resolution of Mass Damages ('Wet Collectieve Afwikkeling Massaschade'). The legal proceedings relating to the above VEB claim have been suspended until this specific procedure is finalised. There are two basic potential scenarios: (1) In case the Court of Appeal declares the settlement binding, investors may choose to opt out of the settlement during an opt-out period of three to six months. After this period (and provided that the settlement is not annulled because the opt-out ratio exceeds a certain limit), distributions of payments will start. The release of Rabobank (and other underwriters) is subject to satisfaction of the compensation obligations towards the eligible Fortis shareholders. It is expected that it will take at least 18 months from the Court of Appeal judgement on the binding nature of the settlement before the first payments will

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

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

On 9 February 2017, mass claim litigant ConsumentenClaim announced that it has filed an objection to having the settlement declared binding with the Court of Appeal. Rabobank Group considers the Fortis case to be a contingent liability. No provision has been made.

Libor/Euribor

Rabobank has received a number of requests in recent years from regulators in various countries to issue documents and other information in relation to various issues, including issues related to its interest rate benchmark submissions. Rabobank is cooperating, and will continue to cooperate, with the regulators and authorities involved in these global investigations.

On 29 October 2013, Rabobank entered into settlement agreements with various authorities in relation to their investigations into the historical Libor and Euribor submission processes of Rabobank. Additional information is available on the bank's corporate website. All amounts payable under these settlement agreements were fully paid and accounted for by Rabobank in 2013. Additionally, some of these settlement agreements required Rabobank to: (i) improve measures or to continue their implementation; and (ii) to cooperate on a continuous basis with ongoing investigations into the conduct of Rabobank and of its current and former employees in respect of the inappropriate conduct relating to interest rate benchmark submissions. Rabobank continues to comply with all its obligations under these settlement agreements.

Rabobank, along with a large number of other panel banks and inter-dealer brokers, has been named as a defendant in a number of putative class action suits and individual civil court cases brought before the Federal Courts in the United States. These proceedings relate to the US Dollar (USD) Libor, British Pound Sterling (GBP) Libor, Japanese Yen (JPY) Libor, Tibor (note: Rabobank was never a member of the TIBOR panel) and Euribor. In 2014, an Argentinian consumer protection organisation brought an alleged class action suit against Rabobank in Argentina in relation to USD Libor. Rabobank has also been summoned to appear before various Dutch courts in civil proceedings relating to Euribor. Furthermore, various individuals and entities (including two Dutch collective claim foundations of which one was already mentioned above in the paragraph 'Interest Rate Derivatives in the Dutch SME Segment')

have made a number of allegations relating to Euribor and/or other benchmarks in letters to and legal proceedings against Rabobank and/or an Irish subsidiary.

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

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

BSA/AML

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

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

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

Also recently, 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. Rabobank understands that the DPP has received the complaint and awaits the DPP's response to it. Rabobank Group considers the BSA/AML case to be a contingent liability. No provision has been made.

Other cases

Rabobank Group is subject to other legal proceedings for which a provision was recognised. These cases are individually less significant in size and are therefore not further described. The total provision for those cases combined amounts to 89. 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 these in detail. The principal amount claimed for those contingent liability cases combined amounts to 61.

5 Business segments

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

Rabobank distinguishes five major business segments: domestic retail banking; wholesale banking and international rural and retail banking; leasing; real estate; and other segments.

Domestic retail banking mainly encompasses the activities of the local Rabobanks, Obvion and Roparco. Wholesale banking and international rural and retail banking supports the Rabobank Group in becoming the market leader in the Netherlands and focuses on the Food & Agri sectors at international level. This segment develops corporate banking activities on a regional basis and in addition controls globally operating divisions such as Treasury, Markets, Acquisition

Finance, Global Corporate Clients, Export Finance & Project Finance, Trade & Commodity Finance and Financial Institutions Group. The segment also actively involves International Direct Retail Banking and Rabo Private Equity. International rural and retail banking operations is part of the Rabobank label, with the exception of ACC Loan Management. In the leasing segment – DLL – is responsible for leasing activities and offers a wide range of leasing, trading and consumer finance products in the Dutch home market. Manufacturers, vendors and distributors are globally supported in their sales with products relevant to asset financing. In 2016 DLL sold the car leasing business Athlon to Mercedes-Benz financial services. Rabobank recognised a gain on the sale of 251 which is presented in the income statement as 'Other net operating income'. As a result total assets have decreased with 4.3 billion euro.

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

<i>Amounts in millions of euros</i>	<i>Domestic retail banking</i>	<i>Wholesale banking and international rural and retail banking</i>	<i>Leasing</i>	<i>Real estate</i>	<i>Other segments</i>	<i>Consolidation effects</i>	<i>Total</i>
For the year ended 31 December 2016							
Net interest income	5,467	1,974	1,086	293	(77)	-	8,743
Net fee and commission income	1,334	538	90	16	(27)	(33)	1,918
Other income	58	1,097	816	379	71	(277)	2,144
Income	6,859	3,609	1,992	688	(33)	(310)	12,805
Staff costs	1,798	1,137	616	215	(76)	831	4,521
Other administrative expenses	3,113	1,023	285	142	245	(1,173)	3,635
Depreciation	117	94	31	4	50	142	438
Operating expenses	5,028	2,254	932	361	219	(200)	8,594
Impairment losses on goodwill and investments in associates	-	-	-	-	700	-	700
Loan impairment charges	25	255	101	(75)	4	-	310
Regulatory levies	279	151	22	13	18	-	483
Operating profit before tax	1,527	949	937	389	(974)	(110)	2,718
Taxation	400	305	197	101	(281)	(28)	694
Net profit	1,127	644	740	288	(693)	(82)	2,024
Cost/income ratio excluding regulatory levies (in %) ¹	73.3	62.5	46.8	52.5	n/a	n/a	67.1
Cost/income ratio including regulatory levies (in %) ²	77.4	66.6	47.9	54.4	n/a	n/a	70.9
Loan impairment charges (in basis points of average private sector loan portfolio) ³	1	26	30	(54)	n/a	n/a	7
Business segment assets	315,470	438,251	39,350	14,958	115,089	(262,942)	660,176
Investments in associates	17	397	24	182	1,797	-	2,417
Total assets	315,487	438,648	39,374	15,140	116,886	(262,942)	662,593
Business segment liabilities	285,564	426,846	34,984	12,671	117,316	(255,312)	622,069
Total liabilities	285,564	426,846	34,984	12,671	117,316	(255,312)	622,069
Investments in property and equipment	59	51	2,044	3	91	-	2,248
Impairment of tangible and intangible assets	112	4	1	-	(1)	-	116
Goodwill	322	136	77	-	2	-	537
Private sector loan portfolio	275,770	105,192	31,772	11,332	485	-	424,551

<i>in millions of euros</i>	<i>Domestic retail banking</i>	<i>Wholesale banking and international rural and retail banking</i>	<i>Leasing</i>	<i>Real estate</i>	<i>Other segments</i>	<i>Consolidation effects</i>	<i>Total</i>
Loan impairment allowances loans and advances to customers							
Balance on 1 January 2016	3,963	2,898	322	1,175	33	-	8,391
Loan impairment charges from loans and advances to customers	91	307	145	(73)	4	-	474
Write-down of defaulted loans during the year	(932)	(203)	(165)	(240)	(7)	-	(1,547)
Interest and other adjustments	125	33	15	12	(15)	-	170
Balance on 31 December 2016	3,246	3,035	317	874	15	-	7,487
Specific allowance	2,176	2,679	128	863	-	-	5,846
Collective allowance	650	11	95	-	-	-	756
IBNR	420	345	94	11	15	-	885
Total	3,246	3,035	317	874	15	-	7,487

¹ Operating expenses divided by Income

² Operating expenses plus regulatory levies divided by Income

³ Loan impairment charges divided by 12-month average private sector loan portfolio

<i>Amounts in millions of euros</i>	<i>Domestic retail banking</i>	<i>Wholesale banking and international rural and retail banking</i>	<i>Leasing</i>	<i>Real estate</i>	<i>Other segments</i>	<i>Consolidation effects</i>	<i>Total</i>
For the year ended 31 December 2015							
Net interest income	5,661	2,270	1,094	348	(234)	-	9,139
Net fee and commission income	1,321	513	57	29	(16)	(12)	1,892
Other income	18	653	568	302	662	(220)	1,983
Income	7,000	3,436	1,719	679	412	(232)	13,014
Staff costs	2,134	1,123	601	196	(38)	770	4,786
Other administrative expenses	2,470	1,101	277	124	102	(1,158)	2,916
Depreciation	116	107	38	7	47	128	443
Operating expenses	4,720	2,331	916	327	111	(260)	8,145
Impairment losses on goodwill and investments in associates	-	612	10	1	-	-	623
Loan impairment charges	343	526	85	90	(11)	-	1,033
Regulatory levies	171	139	19	15	-	-	344
Operating profit before tax	1,766	(172)	689	246	312	28	2,869
Taxation	445	161	191	65	(213)	6	655
Net profit	1,321	(333)	498	181	525	22	2,214
Cost/income ratio excluding regulatory levies (in %) ¹	67.4	67.8	53.3	48.2	n/a	n/a	62.6
Cost/income ratio including regulatory levies (in %) ²	69.9	71.9	54.4	50.4	n/a	n/a	65.2
Loan impairment charges (in basis points of average private sector loan portfolio) ³	12	53	25	56	n/a	n/a	24
Business segment assets	327,909	494,210	40,091	21,939	116,694	(325,688)	675,155
Investments in associates	16	487	32	197	2,940	-	3,672
Total assets	327,925	494,697	40,123	22,136	119,634	(325,688)	678,827
Business segment liabilities	298,883	482,273	35,411	19,865	111,244	(310,046)	637,630
Total liabilities	298,883	482,273	35,411	19,865	111,244	(310,046)	637,630
Investments in property and equipment	90	56	2,124	2	237	-	2,509
Impairment of tangible and intangible assets	-	631	10	1	11	-	653
Goodwill	322	131	448	2	2	-	905
Private sector loan portfolio	284,496	104,014	29,655	15,287	475	-	433,927

<i>in millions of euros</i>	<i>Domestic retail banking</i>	<i>Wholesale banking and international rural and retail banking</i>	<i>Leasing</i>	<i>Real estate</i>	<i>Other segments</i>	<i>Consolidation effects</i>	<i>Total</i>
Loan impairment allowances loans and advances to customers							
Balance on 1 January 2015	4,836	2,816	378	1,270	48	-	9,348
Loan impairment charges from loans and advances to customers	377	509	120	91	(10)	-	1,087
Write-down of defaulted loans during the year	(1,440)	(478)	(167)	(218)	(4)	-	(2,307)
Interest and other adjustments	190	52	(9)	32	(2)	-	263
Balance on 31 December 2015	3,963	2,899	322	1,175	32	-	8,391
Specific allowance	2,615	2,631	151	1,092	32	-	6,521
Collective allowance	884	30	83	-	-	-	997
IBNR	464	238	88	83	-	-	873
Total	3,963	2,899	322	1,175	32	-	8,391

1 Operating expenses divided by Income

2 Operating expenses plus regulatory levies divided by Income

3 Loan impairment charges divided by 12-month average private sector loan portfolio

Geographic information (country-by-country reporting)

Rabobank operates in seven main geographical areas. The country of domicile of Rabobank is the Netherlands. The information below is reported by distinguishable components of Rabobank that provide products and/or services within a particular economic environment within specific geographical locations/areas. The allocation is based on the location of the individual subsidiary from which the transactions are initiated. The prior year table has been changed due to further guidance of the OECD/G20 Base Erosion and Profit Shifting Project on country-by-country reporting and now represents the revenue and the gross numbers before consolidation. Revenue is defined as total income as presented in the statement of income plus interest expense and fee and commission expense.

Per 31 December 2016

<i>in millions of euros</i>								
<i>Geographic location</i>	<i>Country</i>	<i>Name of subsidiary</i>	<i>Type of operations</i>	<i>Revenues</i>	<i>Average number of internal employees in FTE</i>	<i>Operating profit before tax</i>	<i>Income tax</i>	<i>Government subsidies received</i>
The Netherlands	The Netherlands	Rabobank, DLL, Obvion, Friesland Zekerheden Maatschappij NV, Rabohypotheekbank, Rabo Real Estate Group	Domestic retail banking, Wholesale banking and international retail banking, Leasing, Real estate	24,601	31,627	1,128	187	-
Other Eurozone countries	France	DLL, Rabobank, Rabo Real Estate Group	Leasing, Wholesale banking and international retail banking, Real estate	246	553	86	31	-
	Belgium	DLL, Rabobank, Rabo Real Estate Group	Leasing, Wholesale banking and international retail banking, Real estate	176	201	28	8	-
	Germany	DLL, Rabobank, Rabo Real Estate Group	Leasing, Wholesale banking and international retail banking, Real estate	332	664	92	32	-
	Italy	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	81	146	33	6	-
	Luxembourg	DLL, Rabo Real Estate Group	Leasing, Real estate	2	-	-	-	-
	Ireland	DLL, Rabobank, ACC Loan Management	Leasing, Wholesale banking and international retail banking	812	319	265	26	-
	Finland	DLL	Leasing	5	7	2	-	-
	Austria	DLL	Leasing	2	2	1	-	-
	Portugal	DLL	Leasing	6	13	1	-	-
	Spain	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	58	140	21	11	-
Rest of Europe (non-Eurozone)	United Kingdom	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	586	648	85	22	-
	Norway	DLL	Leasing	22	31	7	2	-
	Sweden	DLL	Leasing	48	127	7	3	-
	Denmark	DLL, Rabo Real Estate Group	Leasing, Real estate	17	23	8	1	-
	Switzerland	DLL	Leasing	4	6	1	-	-
	Russia	DLL	Leasing	23	55	8	2	-
	Poland	DLL	Leasing	28	100	10	2	-
	Czech Republic	Rabo Real Estate Group	Real estate	-	1	-	-	-
	Hungary	DLL	Leasing	7	35	3	-	-
	Romania	DLL	Leasing	-	2	-	-	-
	Turkey	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	32	59	14	3	-
North America	United States	DLL, Rabobank, Rabo Real Estate Group	Leasing, Wholesale banking and international retail banking, Real estate	2,849	4,002	431	183	-
	Canada	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	183	213	53	14	-

<i>in millions of euros</i>								
<i>Geographic location</i>	<i>Country</i>	<i>Name of subsidiary</i>	<i>Type of operations</i>	<i>Revenues</i>	<i>Average number of internal employees in FTE</i>	<i>Operating profit before tax</i>	<i>Income tax</i>	<i>Government subsidies received</i>
Latin America	Mexico	DLL	Leasing	16	60	3	1	-
	Cayman Islands	Rabobank	Wholesale banking and international retail banking	-	-	-	-	-
	Curacao	Rabobank	Wholesale banking and international retail banking	7	1	1	1	-
	Brazil	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	607	679	153	58	-
	Chile	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	77	247	(12)	16	-
	Argentina	DLL	Leasing	3	36	(4)	1	-
Asia	India	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	59	161	(20)	(9)	-
	Singapore	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	135	205	(15)	(2)	-
	Indonesia	Rabobank	Wholesale banking and international retail banking	94	797	2	-	-
	Malaysia	Rabobank	Wholesale banking and international retail banking	4	4	1	-	-
	China	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	311	356	27	9	-
	South Korea	DLL	Leasing	8	25	(2)	-	-
	Japan	DLL	Leasing	-	1	-	-	-
Australia	Australia	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	1,204	983	200	57	-
	New Zealand	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	592	313	100	29	-
Other	Mauritius, Kenya	Rabobank	Wholesale banking and international retail banking	-	1	-	-	-
			Consolidation effects	(12,478)	-	-	-	-
				20,759	42,843	2,718	694	-

Per 31 December 2015

<i>in millions of euros</i>								
<i>Geographic location</i>	<i>Country</i>	<i>Name of subsidiary</i>	<i>Type of operations</i>	<i>Revenues</i>	<i>Average number of internal employees in FTE</i>	<i>Operating profit before tax</i>	<i>Income tax</i>	<i>Government subsidies received</i>
The Netherlands	The Netherlands	Local Rabobanks, Rabobank, DLL, Obvion, Friesland Zekerheden Maatschappij NV, Rabohypotheekbank, Rabo Real Estate Group	Domestic retail banking, Wholesale banking and international retail banking, Leasing, Real estate-	25,425	35,041	2,100	224	-
Other Eurozone countries	France	DLL, Rabobank, Rabo Real Estate Group	Leasing, Wholesale banking and international retail banking, Real estate	192	612	73	28	-
	Belgium	DLL, Rabobank, Rabo Real Estate Group	Leasing, Wholesale banking and international retail banking, Real estate	201	295	29	7	-
	Germany	DLL, Rabobank, Rabo Real Estate Group	Leasing, Wholesale banking and international retail banking, Real estate	319	699	101	27	-
	Italy	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	65	165	24	9	-

<i>in millions of euros</i>								
<i>Geographic location</i>	<i>Country</i>	<i>Name of subsidiary</i>	<i>Type of operations</i>	<i>Revenues</i>	<i>Average number of internal employees in FTE</i>	<i>Operating profit before tax</i>	<i>Income tax</i>	<i>Government subsidies received</i>
	Luxembourg	DLL, Rabobank, Rabo Real Estate Group	Leasing, Wholesale banking and international retail banking, Real estate	2	12	-	-	-
	Ireland	DLL, Rabobank, ACC Loan Management	Leasing, Wholesale banking and international retail banking	804	435	39	4	-
	Finland	DLL	Leasing	2	6	2	-	-
	Austria	DLL	Leasing	2	2	1	-	-
	Portugal	DLL	Leasing	3	18	1	-	-
	Spain	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	49	165	20	6	-
Rest of Europe (non-Eurozone)	United Kingdom	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	502	666	26	7	-
	Norway	DLL	Leasing	13	31	6	2	-
	Sweden	DLL	Leasing	35	123	7	2	-
	Denmark	DLL, Rabo Real Estate Group	Leasing, Real estate	11	24	5	(1)	-
	Switzerland	DLL	Leasing	2	6	1	-	-
	Russia	DLL	Leasing	14	55	6	1	-
	Poland	DLL, Rabobank, Bank BGZ	Leasing, Wholesale banking and international retail banking	19	121	8	3	-
	Czech Republic	Rabo Real Estate Group	Real estate	(1)	1	(1)	-	-
	Hungary	DLL	Leasing	6	31	2	-	-
	Romania	DLL	Leasing	-	2	-	-	-
	Turkey	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	26	54	10	3	-
North America	United States	DLL, Rabobank, Rabo Real Estate Group	Leasing, Wholesale banking and international retail banking, Real estate	2,340	3,989	(112)	189	-
	Canada	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	174	212	56	14	-
Latin America	Mexico	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	14	58	5	2	-
	Cayman Islands	Rabobank	Wholesale banking and international retail banking	-	-	-	-	-
	Curacao	Rabobank	Wholesale banking and international retail banking	161	13	53	2	-
	Brazil	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	546	683	156	53	-
	Chile	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	82	304	(51)	(15)	-
	Argentina	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	2	37	(7)	-	-
Asia	India	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	45	126	8	6	-
	Singapore	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	124	199	28	3	-
	Indonesia	Rabobank	Wholesale banking and international retail banking	95	1,112	(15)	1	-
	Malaysia	Rabobank	Wholesale banking and international retail banking	4	2	2	-	-
	China	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	295	353	4	(3)	-
	South Korea	DLL	Leasing	6	24	-	-	-

<i>in millions of euros</i>								
<i>Geographic location</i>	<i>Country</i>	<i>Name of subsidiary</i>	<i>Type of operations</i>	<i>Revenues</i>	<i>Average number of internal employees in FTE</i>	<i>Operating profit before tax</i>	<i>Income tax</i>	<i>Government subsidies received</i>
	Japan	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	-	1	-	-	-
Australia	Australia	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	1,240	967	168	49	-
	New Zealand	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	634	311	113	32	-
Other	Mauritius	Rabobank	Wholesale banking and international retail banking	3	1	1	-	-
			Consolidation effects	(11,753)				
				21,703	46,956	2,869	655	-

<i>in millions of euros</i>	<i>Additions to property and equipment and intangible assets</i>	<i>Additions to property and equipment and intangible assets</i>
	On 31 December 2016	On 31 December 2015
The Netherlands	1,020	1,588
Other Eurozone countries	827	944
Rest of Europe (non-Eurozone)	239	101
North America	251	230
Latin America	1	-
Asia	4	7
Australia	64	77
Total	2,406	2,947

6 Cash and balances at central banks

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Cash	653	861
Deposits at central banks other than mandatory reserve deposits	83,266	63,686
	83,919	64,547
Mandatory reserve deposits at central banks	486	396
Total cash and balances at central banks	84,405	64,943

The average minimum reserve to be held for the Netherlands for the month of December 2016 was 3,135 (December 2015: 3,109).

7 Loans and advances to banks

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Deposits with other banks	10,412	11,220
Reverse repurchase transactions and securities borrowing agreements	13,398	18,495
Loans	1,435	2,494
Other	169	126
Gross due from other banks	25,414	32,335
Less: loan impairment allowance loan and advances to banks	(18)	(16)
	25,396	32,319
Reclassified assets	48	115
Total loans and advances to banks	25,444	32,434
Loan impairment allowance loans and advances to banks		
Balance on 1 January	16	26
Loan impairment charges loans and advances to banks	-	(10)
Write-down of defaulted loans during the year	-	-
Other changes	2	-
Balance on 31 December	18	16

The loan impairment charges of the loans and advances to banks are included in the income statement under 'Loan impairment charges'. The gross carrying amount of 'Loans and advances to banks' whose value adjustments were established on an individual basis is 18 (2015: 18).

8 Financial assets held for trading

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Purchased loans	272	520
Short-term government securities	-	19
Government bonds	603	1,073
Other debt securities	1,123	1,637
Equity instruments	587	223
Total	2,585	3,472

9 Financial assets designated at fair value

<i>in millions of euros</i>	2016	2015
Other debt securities	32	791
Purchased loans	854	1,006
Venture capital (equity instrument)	314	270
Other equity instruments	121	129
Total	1,321	2,196

The change in the current year in the fair value of the loans designated as being at fair value with adjustments in the income statement that is allocable to the changes in the credit risk amounts to 1 (2015: 5). The cumulative change is -28 (2015: -29). Any changes in fair value are calculated by discounting future cash flows. When setting the discount rate, account is taken of expected losses, liquidity mark-ups and the risk margin. No use is made of credit derivatives to hedge the purchased loans designated at fair value.

10 Derivatives

Derivatives are used at Rabobank for the purpose of mitigating at least a portion of the risks arising from the bank's various operations. Examples of this include interest rate swaps used to hedge interest rate risks arising from the difference in maturities between assets and liabilities. Another example are cross-currency swaps, which are used to hedge the currency risk to which the bank is exposed after issuing debt instruments in foreign currencies. The bank's hedging policy is designed to protect its net interest income within the risk appetite framework. Additionally to hedging purposes derivatives are also contracted for the bank's customers.

10.1 Types of derivative instruments used by Rabobank

Forward currency and interest rate contracts are contractual obligations to receive or pay a net amount based on prevailing exchange or interest rates, or to purchase or sell foreign currency or a financial instrument on a future date at a fixed specified price in an organised financial market. Since collateral for forward contracts is provided in the form of cash, cash equivalents or marketable securities, and changes in the value of forward contracts are settled daily, mainly via a central counterparty clearing house, the credit risk is low. The credit risk exposure for Rabobank is represented by the potential cost of replacing the swaps if the counterparties default. The risk is monitored continuously against current fair value, a portion of the notional amount of the contracts and the liquidity in the markets. As part of the credit risk management

process, Rabobank employs the same methods for evaluating counterparties as it does for evaluating its own lending activities.

Forward rate agreements are individually agreed forward interest rate contracts under which the difference between a contractually agreed interest rate and the market rate on a future date has to be settled in cash, based on a notional principal amount.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps entail an economic exchange of currencies or interest rates (such as a fixed rate for one or more variable rates), or a combination (i.e. a cross-currency interest rate swap). Except in certain currency swaps, no transfer of the principal amount takes place. Currency and interest rate options are contracts under which the seller (known as the writer) gives the buyer (known as the holder) the right, entailing no obligation, to purchase (in the case of a call option) or sell (in the case of a put option) a specific amount of foreign currency or a specific financial instrument on or before an agreed date or during an agreed period at a price set in advance. As consideration for accepting the currency or interest rate risk, the writer receives a payment (known as a premium) from the holder. Options are traded on exchanges or between Rabobank and clients (OTC). Rabobank is only exposed to credit risks as an option holder and only up to the carrying amount, which is equivalent to the fair value.

Credit default swaps (CDSs) are instruments by means of which the seller of a CDS undertakes to pay an amount to the buyer. This amount is equal to the loss that would be incurred by holding an underlying reference asset if a specific credit event were to occur (i.e. the materialisation of a risk). The buyer is under no obligation to hold the underlying reference asset. The buyer pays the seller a credit protection fee largely expressed in basis points, with the size of the fee depending on the credit spread of the reference asset.

10.2 Derivatives issued or held for trading

The derivatives held or issued for trading are those used to hedge economic risks but which do not qualify as hedge accounting instruments and derivatives that corporate customers have contracted with Rabobank to hedge interest rate and currency risks. The exposures from derivatives with corporate customers are normally hedged by entering into reverse positions with one or more professional counterparties, within trading limits set.

10.3 Derivatives held as hedges

Rabobank contracts various financial derivatives that serve to hedge economic risks, including interest rate and currency risks, which qualify as a fair value hedge, cash flow hedge or net investment hedge.

Fair value hedges

The main components of the fair value hedge at Rabobank are interest rate swaps and cross-currency interest rate swaps which serve as protection against a potential change in the fair value of fixed-income financial assets and liabilities in both local and foreign currencies, such as mortgages, available-for-sale debt securities and issued debt securities. The net fair value of these interest rate swaps on 31 December 2016 was -6,921 (2015: -9,374). The net fair value of the cross-currency swaps on 31 December 2016 was 2,050 (2015: 2,190). Rabobank tests the hedge effectiveness on the basis of statistical regression analysis models, both prospectively and retrospectively. At year-end 2016, the hedge relations were highly effective within the range set by IAS 39.

The IFRS ineffectiveness for the year ended 31 December 2016 was 118 (2015: 130). The result on the hedging instrument amounted to -850 (2015: 1,466), with the result from the hedged position, allocable to the hedged risk, amounting to 968 (2015: -1,336).

Cash flow hedges

Rabobank's cash flow hedges consist mainly of cross-currency interest rate swaps which serve to protect against a potential change in cash flows from financial assets in foreign currencies with floating interest rates.

Rabobank tests the hedge effectiveness on the basis of statistical regression analysis models, both prospectively and retrospectively. At year-end 2016 and 2015, the hedge relations were highly effective within the range set by IAS 39. On 31 December 2016, the net fair value of the cross-currency interest rate swaps, classified as cash flow hedges was -594 (2015: -707).

In 2016, Rabobank accounted for an amount of -87 (2015: 659) after taxation in other comprehensive income as effective changes in the fair value of derivatives in cash flow hedges. In 2016, an amount of 56 (2015: -709) after taxation of cash flow hedge reserves was reclassified to the income statement. On 31 December 2016, the cash flow hedge reserves as part of equity totalled -70 (2015: -39) after taxation. This amount fluctuates along with the fair value of the derivatives in the cash flow hedges and is accounted for in profit over the term of the hedged positions as trading income. The cash flow hedge reserve relates to a large number of derivatives and hedged positions with different terms. The maximum term is 25 years, with the largest concentrations exceeding five years. The IFRS ineffectiveness for the year ended 31 December 2016 was 148 (2015: 181).

Net investment hedges

Rabobank uses foreign forward-exchange contracts to hedge a portion of the currency translation risk of net investments in foreign operations. The net fair value of these foreign forward-exchange contracts on 31 December 2016 was 20 (2015: 4). On 31 December 2016, forward contracts with a nominal amount of 1,230 (2015: 657) were designated as net investment hedges. These resulted in exchange gains and losses of -6 for the year (2015: -6), which are deferred in equity. A total of 24 was made in withdrawals from equity during the reporting year (2015: 22). For the year ended 31 December 2016, Rabobank reported no ineffectiveness resulting from the net investment hedges.

10.4 Notional amount and fair value

Although the notional amount of certain types of financial instruments provides a basis for comparing instruments that are included in the statement of financial position, it does not necessarily represent the related future cash flows or the fair values of the instruments and therefore the exposure of Rabobank to credit or exchange risks. The nominal value is the amount of the asset, reference rate or index underlying a derivative financial instrument, which represents the basis on which changes in a derivative financial instrument's value are measured. It provides an indication of the volume of transactions executed by Rabobank, but is not a measure of risk exposure. Some derivatives are standardised in terms of notional amount or settlement date and are specifically designed for trading on active markets (stock exchanges). Other derivatives are specifically constructed for individual clients and not for trading on an exchange, even though they can be traded at prices negotiated between buyers and sellers (OTC instruments).

The positive fair value represents the cost for Rabobank to replace all contracts on which it will be entitled to receive payment if all counterparties were to default. This is the standard method in the industry for calculating the current credit risk exposure. The negative fair value represents the cost of all Rabobank contracts on which it will have to make payment if Rabobank defaults. The totals of the positive and negative fair values are disclosed separately in the statement of financial position. Derivatives are positive (assets) or negative (liabilities) as a result of fluctuations in market or exchange rates in relation to their contract values. The total contract amount or notional amount of derivatives held, the degree to which these instruments are positive or negative, and hence the total fair value of the derivative financial assets and liabilities can sometimes fluctuate significantly.

The following table shows the notional amounts and the positive and negative fair values of derivative contracts held by Rabobank.

<i>in millions of euros</i>	<i>Notional amounts</i>	<i>Fair values</i>	
		Assets	Liabilities
Balance on 31 December 2016			
Derivatives held for trading	3,036,696	37,438	37,645
Derivatives held as hedges	133,517	4,934	10,379
Total derivative financial assets/liabilities	3,170,213	42,372	48,024
Derivatives held for trading			
Currency derivatives			
Unlisted tradeable contracts (OTC)			
Currency swaps	405,251	6,986	9,191
Currency options - purchased and sold	5,438	95	63
Listed tradeable contracts			
Currency futures	64	1	10
Total currency derivatives	414,086	7,092	9,276
Interest rate derivatives			
Unlisted tradeable contracts (OTC)			
Interest rate swaps	2,472,881	26,751	24,630
OTC interest rate options	81,784	3,388	3,435
Total OTC contracts	2,554,665	30,139	28,065
Listed tradeable contracts			
Interest rate swaps	62,078	1	0
Total interest rate derivatives	2,616,743	30,140	28,065
Credit derivatives			
Credit default swaps	2,663	1	4
Total return swaps	522	30	7
Total credit derivatives	3,185	31	11
Equity instruments/index derivatives			
Unlisted tradeable contracts (OTC)			
Options - purchased and sold	163	23	6
Total equity instruments/index derivatives	163	23	6
Other derivatives	2,518	153	287
Total derivative financial assets/liabilities held for trading	3,036,695	37,439	37,645
Derivatives held as hedges			
Derivatives designated as fair value hedges			
Currency swaps and cross-currency interest rate swaps	75,783	2,063	13
Interest rate swaps	48,654	1,903	8,824
Derivatives designated as cash flow hedges			
Currency swaps and cross-currency interest rate swaps	7,850	948	1,542
Derivatives classified as net investment hedges			
Currency futures contracts	1,230	20	-
Total derivative financial assets/liabilities designated as hedges	133,517	4,934	10,379

<i>in millions of euros</i>	<i>Notional amounts</i>	<i>Fair values</i>	
		Assets	Liabilities
Balance on 31 December 2015			
Derivatives held for trading	2,819,875	43,152	41,708
Derivatives held as hedges	148,307	4,961	12,848
Total derivative financial assets/liabilities	2,968,182	48,113	54,556
Derivatives held for trading			
Currency derivatives			
Unlisted tradeable contracts (OTC)			
Currency swaps	395,309	5,028	7,626
Currency options - purchased and sold	5,812	87	56
Listed tradeable contracts			
Currency futures	3	-	-
Total currency derivatives	405,186	5,154	7,709
Interest rate derivatives			
Unlisted tradeable contracts (OTC)			
Interest rate swaps	2,236,520	33,238	29,370
Interest rate options	101,210	4,135	4,143
Total OTC contracts	2,337,730	37,373	33,513
Listed tradeable contracts			
Interest rate swaps	67,932	1	1
Total interest rate derivatives	2,405,662	37,374	33,514
Credit derivatives			
Credit default swaps	2,782	1	5
Total return swaps	558	1	10
Total credit derivatives	3,340	2	15
Equity instruments/index derivatives			
Unlisted tradeable contracts (OTC)			
Options - purchased and sold	2,793	162	127
Listed tradeable contracts			
Options - purchased and sold	1,239	95	47
Total equity instruments/index derivatives	4,032	257	174
Other derivatives	1,655	365	296
Total derivative financial assets/liabilities held for trading	2,819,875	43,152	41,708
Derivatives held as hedges			
Derivatives designated as fair value hedges			
Currency swaps and cross-currency interest rate swaps	84,006	2,231	41
Interest rate swaps	47,687	1,787	11,161
Derivatives designated as cash flow hedges			
Currency swaps and cross-currency interest rate swaps	15,957	939	1,646
Derivatives classified as net investment hedges			
Currency futures contracts	657	4	-
Total derivative financial assets/liabilities designated as hedges	148,307	4,961	12,848

11 Loans and advances to customers

<i>in millions of euros</i>	2016	2015 ¹
Loans initiated by Rabobank:		
Loans to government clients:		
- leases	284	227
- other	2,957	3,083
Loans to private clients:		
- overdrafts	21,677	30,758
- mortgages	206,450	212,685
- leases	19,984	25,923
- reverse repurchase transactions and securities borrowing agreements	16,068	18,927
- corporate loans	184,647	173,789
- other	7,809	8,210
Gross loans and advances to customers	459,876	473,620
Less: loan impairment allowance loans and advances to customers	(7,487)	(8,391)
	452,389	465,211
Reclassified assets	418	782
Total loans and advances to customers	452,807	465,993
Loan impairment allowance loans and advances to customers		
Balance on 1 January	8,391	9,348
Loan impairment charges from loans and advances to customers	474	1,087
Write-down of defaulted loans during the year	(1,548)	(2,307)
Interest and other changes	170	263
Total loan impairment allowance loans and advances to customers	7,487	8,391
Specific allowance	5,846	6,521
Collective allowance	756	997
IBNR	885	873
Total loan impairment allowance loans and advances to customers	7,487	8,391
Gross carrying amount of loans whose value adjustments were established on an individual basis	16,564	18,094

1 Prior-year figures adjusted due to changes in presentation and the restatement (see note 2.1).

In 2016, Rabobank sold loans as part of its strategy and normal business operations. Mortgage loans of EUR 1.5 billion were sold to insurance companies. FGH Bank sold real estate loans for an amount of EUR 0.2 billion and Obvion reduced its balance sheet with EUR 1.4 billion through a sale of Dutch mortgages. Rabobank acquired financial and non-financial assets during the year by taking possession of collateral with an estimated value of 61 (2015: 62). It is the policy of Rabobank to sell these assets in the reasonably foreseeable future. Yields are allocated to repay the outstanding amount.

Reclassified assets

In 2008, based on the amendments to IAS 39 and IFRS 7, 'Reclassification of financial assets', Rabobank reclassified a number of 'Financial assets held for trading' and 'Available-for-sale financial assets' to 'Loans and advances to customers' and 'Loans and advances to banks'.

Rabobank has identified assets to which this amendment applies, whereby the intention has clearly shifted from holding the securities for the near future as opposed to selling or trading them in the short term. The reclassifications were effected as of 1 July 2008 at their fair value at the time. This note provides details on the impact of the reclassifications at Rabobank.

The table below shows the carrying amounts and fair values of the reclassified assets.

	31 December 2016		31 December 2015	
<i>in millions of euros</i>	<i>Carrying amount</i>	<i>Fair value</i>	<i>Carrying amount</i>	<i>Fair value</i>
Financial assets held for trading reclassified to loans	41	37	183	174
Available-for-sale financial assets reclassified to loans	425	437	714	678
Total financial assets reclassified to loans	466	474	897	852

If the reclassification had not been made, net profit for the assets held for trading would have been 3 higher (2015: 2 higher). The change in the equity position in 2016 would have been 33 more positive (2015: 43 more negative) if the reclassification of the available-for-sale financial assets had not been carried out.

Following reclassification, the reclassified financial assets made the following contribution to operating profit before taxation:

	<i>For the year ended 31 December</i>	
	2016	2015
Net income	(2)	3
Loan impairment charges	-	-
Operating profit before taxation on reclassified financial assets held for trading	(2)	3
Net income	9	16
Loan impairment charges	-	2
Operating profit before taxation on reclassified available-for-sale financial assets	9	18

Finance leases

Loans and advances to customers also includes receivables from finance leases, which can be broken down as follows:

<i>in millions of euros</i>	2016	2015
Receivables from gross investment in finance leases		
Not exceeding 1 year	7,561	8,872
Longer than 1 year but less than 5 years	13,773	18,775
Longer than 5 years	653	1,183
Total receivables from gross investment in finance leases	21,987	28,830
Unearned deferred finance income from finance leases	1,944	2,967
Net investment in finance leases	20,043	25,863
Not exceeding 1 year	7,321	8,575
Longer than 1 year but less than 5 years	12,180	16,443
Longer than 5 years	542	845
Net investment in finance leases	20,043	25,863

On 31 December 2016, the loan impairment allowance for finance leases amounted to 225 (2015: 287). The unguaranteed residual values accruing to the lessor amounted to 1,884 (2015: 1,705). The contingent lease payments recognised as income in 2016 were nil (2015: nil).

The finance leases mainly relate to the lease of equipment and cars, as well as factoring products.

12 Available-for-sale financial assets

<i>in millions of euros</i>	2016	2015
Short-term government papers	1,602	1,191
Government bonds	27,010	30,053
Other debt securities	5,133	5,594
Equity instruments	835	935
Total available-for-sale financial assets	34,580	37,773

The impairment of available-for-sale financial assets amounted to 0 (2015: 160) and is recognised in the income statement under 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss'.

<i>in millions of euros</i>	2016	2015
Gains/(losses) on available-for-sale financial assets	87	148

The changes in available-for-sale financial assets can be broken down as follows:

<i>in millions of euros</i>	2016	2015
Opening balance	37,773	39,770
Foreign exchange differences	395	703
Additions	5,371	6,219
Disposals (sale and repayment)	(8,768)	(8,431)
Fair value changes	(155)	(335)
Other changes	(36)	(153)
Closing balance	34,580	37,773

13 Investments in associates and joint ventures

The carrying amount of the investments in associates and joint ventures is 2,417 (2015: 3,672).

<i>in millions of euros</i>	2016	2015
Opening balance	3,672	3,807
Foreign exchange differences	3	(33)
Purchases	75	37
Sales	(350)	(44)
Share of profit of associates	44	351
Dividends paid out (and capital repayments)	(101)	(384)
Transferred to held for sale	(187)	-
Revaluation	27	(76)
Impairment	(700)	-
Other	(66)	14
Total investments in associates and joint ventures	2,417	3,672

13.1 Investments in associates

The main associate in terms of the size of the capital interest held by Rabobank is:

<i>On 31 December 2016</i>	Shareholding	Voting rights
The Netherlands		
Achmea B.V.	29%	29%

Achmea is a strategic partner of Rabobank for insurance products and Interpolis, a subsidiary of the Achmea Group, works closely with the local Rabobanks. Achmea's head office is located in Zeist, the Netherlands. No listed market price is available for the interest in Achmea. The interest in Achmea is valued according to the equity method. In 2016, Rabobank received dividend from Achmea for an amount of 43 (2015: nil).

The outlook for the future profitability of Achmea deteriorated during 2016, taken into account the recent developments in the health insurance market and the financial results over the first half year of 2016. These elements, in combination with the deteriorating business environment of Dutch insurers over the last years, gave triggers of potential impairments for the investment in Achmea. The test to establish whether these potential

impairments had occurred, resulted in a downward adjustments of the carrying value of the investment in Achmea of 700 which was recognised in the income statement as 'Impairment losses on goodwill and investments in associates'. Achmea B.V. is part of the operating segment 'Other segments'.

The recoverable amount is based on the estimated value in use and is a level 3 valuation according to the fair value hierarchy.

To determine the value in use for Achmea, Rabobank has undertaken a review of the expected cash flows that Achmea generates for Rabobank discounted at a pre-tax discount rate of 10.49%.

<i>Achmea</i>	2016	2015
Cash and balances at central banks	2,171	2,117
Investments	65,235	63,605
Banking credit portfolio	13,679	14,866
Other assets	11,930	12,851
Total assets	93,015	93,439
Insurance related provisions	61,345	61,061
Loans and funds borrowed	6,994	7,603
Other liabilities	14,894	14,495
Total liabilities	83,233	83,159
Revenues	23,966	23,225
Net profit	(382)	386
Other comprehensive income	109	(250)
Total comprehensive income	(273)	136

<i>Reconciliation carrying amount of interest in Achmea</i>	2016	2015
Total equity Achmea	9,782	10,280
Minus: hybrid capital	1,350	1,350
Minus: preference shares and accrued dividend	350	350
Shareholder's equity	8,082	8,580
Share of Rabobank	29.21%	29.21%
	2,360	2,506
Impairment	(700)	-
Carrying amount	1,660	2,506

<i>Other associates</i>	2016	2015
Result from continuing operations	175	260
Result from discontinued operations after taxation	-	-
Net profit	175	260
Other comprehensive income	(4)	(11)
Total comprehensive income	171	249

equensWorldline SE

On 30 September 2016 Equens SE (Equens) en Wordline completed the transaction that was presented on 3 November 2015. Rabobank's shareholding (classified as an investment in associate) of 15.15% in Equens was reduced to a shareholding of 5.8% in equensWorldline SE (classified as an available-for-sale financial asset). Rabobank realized a gain of 62 which is included in 'Income from investments in associates and joint ventures'.

Arise B.V.

On 27 July 2016 Rabobank entered into a partnership with Norfund and FMO to reaffirm their long-term commitment to Africa's future development, growth potential and the local financial sector. The partners have irrevocably agreed to transfer their stakes in several financial service providers (FSPs) in Sub-Saharan Africa to Arise B.V.. On 31 December 2016 Rabobank holds almost 25% of the shares in Arise, which is considered to be an investment in an associate. The current associate investments, of our stakes in several financial service providers (FSPs) in Sub-Saharan Africa, are classified as held for sale in accordance with IFRS 5 for an amount of 187.

Any dividends and other distributions from holding the current associate investments from 1 January 2016 (but excluding 2015 distributions), classified as held for sale, are for the account of Arise B.V.. The irrevocable obligation to deliver the shares is included under the associated investments, offsetting the equity value of the investment in Arise B.V..

13.2 Investments in joint ventures

Virtually all joint ventures are investments of Rabo Real Estate Group. Their total carrying amount is -36 (2015: -39). Joint ventures are recognised in accordance with the equity method.

Rabo Real Estate Group often has partnerships for the development of integrated residential areas, commercial real estate and the implementation of fund and asset management activities. In the majority of cases, each participating member of the partnership has a decisive vote, and decisions can only be passed by consensus. The majority of these partnerships therefore qualify as 'joint arrangements'.

Each partnership has its own legal structure depending on the needs and requirements of the parties concerned. The legal form (business structure) typically used is the Dutch 'CV-BV' structure (a limited partnership-private limited liability company) or the 'VOF' structure (general partnership) or a comparable structure. In the case of a CV-BV, the risk of a partner is generally limited to the issued capital and partners are only entitled to the net assets of the entity. In the case of general partnerships ('VOF'), each party bears, in principle, unlimited liability and has, in principle, a proportional right to the assets and obligations for the liabilities of the entity. On the basis of the legal form, a CV-BV structure qualifies as a 'joint venture', whereas a VOF structure qualifies as a 'joint operation'. It is important to note that the contractual terms and other relevant facts and circumstances may result in a different classification.

As a separate legal structure is established for each project, projects have different participating partners and individual projects are not of a substantial size, Rabo Real Estate Group did not have material joint arrangements in 2015 and 2016.

Result from joint ventures	2016	2015
Profit or loss from continuing operations	9	(5)
Post-tax profit or loss from discontinued operations	-	-
Net profit	9	(5)
Other comprehensive income	-	-
Total comprehensive income	9	(5)

Contingent assets and liabilities

Rabobank Real Estate Group entered into commitments on 31 December 2016 with regard to real estate projects, commitments with third parties (including subcontractors and architects) for the amount of 27 (2015: 17).

14 Goodwill and other intangible assets

<i>in millions of euros</i>	<i>Goodwill</i>	<i>Software developed in-house</i>	<i>Other intangible assets</i>	<i>Total</i>
Year ended 31 December 2016				
Opening balance	905	428	160	1,493
Foreign exchange differences	1	(1)	2	2
Additions	1	105	52	158
Disposals	-	(1)	(7)	(8)
Changes due to sale of Athlon	(367)	-	-	(367)
Other	(3)	6	-	3
Amortisation	-	(113)	(75)	(188)
Impairments	-	(4)	-	(4)
Closing balance	537	420	132	1,089
Cost	1,227	1,465	564	3,256
Accumulated amortisation and impairments	(690)	(1,045)	(432)	(2,167)
Net carrying amount	537	420	132	1,089
Year ended 31 December 2015				
Opening balance	1,454	421	184	2,059
Foreign exchange differences	79	1	4	84
Additions	4	380	54	438
Disposals	-	(239)	(12)	(251)
Other	(9)	11	7	9
Amortisation	-	(116)	(77)	(193)
Impairments	(623)	(30)	-	(653)
Closing balance	905	428	160	1,493
Cost	1,571	1,450	646	3,667
Accumulated amortisation and impairments	(666)	(1,022)	(486)	(2,174)
Net carrying amount	905	428	160	1,493

Goodwill is reviewed for impairment by comparing the carrying amount of the cash generating unit (including goodwill) with the best estimate of the value in use of the cash generating unit. For this purpose, the best estimate of the value in use determined on the basis of cash flow forecasts is used first, as taken from annual medium-term plans drawn up as part of the annual planning cycle. The plans reflect the management's

best estimates of market conditions, market restrictions, discount rates (before taxation), growth in operations, etc. If the outcome shows that there is no significant difference between the fair value and the carrying amount, the fair value is assessed in more detail, with the relevant share price being used for listed companies. In addition, valuation models are used which are similar to the initial recognition of an acquisition, peer reviews, etc. The valuation models are tested and include the development of the activities since the acquisition, the most recent income and expenses forecasts drawn up by management, as well as updated forecasts, assessments of discount rates, final values of growth rates, etc. Peer reviews include an assessment of the price/earnings ratio and price/carrying amount ratio of similar listed companies, or similar market transactions. Assumptions are generally based on experience, management's best estimates of future developments and, if available, external data.

The carrying amount of the goodwill allocated to RNA in the wholesale banking segment is 136 (2015: 131). The recoverable amount is based on the value in use and determined using cash flow forecasts. The principal assumptions used are a growth rate of after tax earnings expected in the near term of 12.8% (2015: average of 7.5%), the discount rate of 13% (2015: 14%) and the multiplier used for calculating the present value of the discounted cash flows after the forecast period of 16 (2015: 16). As the recoverable amount exceeds the carrying amount, it was concluded that the goodwill allocated to RNA was not impaired. A change of 0.5% in the discount rate does not cause the carrying amount to exceed the recoverable amount.

The goodwill allocated to one of the cash-generating units in the domestic retail segment is significant in comparison with the goodwill's total carrying amount. The carrying amount of this goodwill is 322 (2015: 322) and the cash-generating unit is the collective of local Rabobanks. The recoverable amount is based on the value in use. The value in use is determined using cash flows expected in the near future based on financial forecasts. As the recoverable amount substantially exceeded the carrying amount, it was concluded that the goodwill allocated to this cash-generating unit was not impaired. An increase in the discount rate of 10% or a reduction in the future cashflows of 10% are considered to be a maximum of possible changes in key assumptions. Such a change does not cause the carrying amount to exceed the recoverable amount and would not result in an impairment.

No impairment of goodwill was recognised in 2016 (2015: 623). Impairments of software developed in-house and other intangible assets are not individually material. The total impairments of software developed in-house was 4 (2015: 30). This was mainly caused by the fact that the software is (partly) no longer used.

15 Property and equipment

<i>in millions of euros</i>	<i>Land and buildings</i>	<i>Equipment</i>	<i>Total</i>
Year ended 31 December 2016			
Opening balance	1,945	5,820	7,765
Foreign exchange differences	3	20	23
Purchases	88	2,160	2,248
Disposals	(61)	(656)	(717)
Transfer to held for sale	-	-	-
Changes due to sale of Athlon	-	(3,475)	(3,475)
Impairments	(112)	-	(112)
Depreciation	(109)	(141)	(250)
Depreciation of operating lease assets	-	(969)	(969)
Other	(27)	104	77
Closing balance	1,727	2,863	4,590
Cost	3,140	4,846	7,986
Accumulated depreciation and impairments	(1,413)	(1,983)	(3,396)
Net carrying amount	1,727	2,863	4,590
Year ended 31 December 2015			
Opening balance	1,969	5,179	7,148
Foreign exchange differences	14	105	119
Purchases	109	2,400	2,509
Disposals	(47)	(722)	(769)
Impairments	-	-	-
Depreciation	(109)	(141)	(250)
Depreciation of operating lease assets	-	(1,002)	(1,002)
Other	9	1	10
Closing balance	1,945	5,820	7,765
Cost	3,292	9,285	12,577
Accumulated depreciation and impairments	(1,347)	(3,465)	(4,812)
Net carrying amount	1,945	5,820	7,765

The impairments recognised per 31 december 2016 relate to property for own use of the local Rabobanks. Vacancy of property as a result of the restructuring (decreasing usage of square meters) triggered impairments calculations and resulted in impairment losses for a total amount of 112.

16 Investment properties

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Opening balance	381	452
Purchases	14	4
Sales	(79)	(44)
Transfer to held for sale	(48)	-
Depreciation	(9)	(11)
Impairments	19	(25)
Other	15	5
Closing balance	293	381
Cost	627	774
Accumulated depreciation and impairments	(334)	(393)
Net carrying amount	293	381

The fair value of the investment properties amounts to 303 (2015: approximates the carrying amount). External valuations of investment properties were performed by duly certified external parties in accordance with RICS valuation standards or other equivalent standards. Investment properties are valued, for the determination of fair value, on the basis of the methodologies which are most appropriate for that property. This includes the discounted cash flow valuation method and the capitalisation method based on net initial yields for comparable transactions.

Valuations

	<i>2016</i>	<i>2015</i>
External valuations	100%	100%
Internal valuations	0%	0%

Most investment property is unique. There is often no active market for similar properties in the same location and condition. Appraisals of the different types of investment properties are based on a large number of parameters, which are derived from current contracts and market information as much as possible. A certain degree of judgement and estimation cannot be avoided. As a result, all investment property has been designated as level 3 in line with the fair value classification under IFRS 13. When determining the fair value of investment property, the parameters used include the following, depending on the type of property: current and expected future market rent per m², current and expected future vacancy rates, location of the property, the marketability of the property, the average discount rate, the development budget, and any credit risks.

17 Other assets

<i>in millions of euros</i>	<i>Note</i>	<i>2016</i>	<i>2015</i>
Receivables and prepayments		1,833	2,217
Accrued interest		1,351	1,500
Precious metals, goods and warehouse receipts		1,172	901
Real estate projects		1,963	2,291
Accrued income		672	379
Employee benefits	25	7	7
Other assets		880	559
Total other assets		7,878	7,854

Real estate projects

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Building sites and equalisation funds	1,104	1,206
Work in progress	816	761
Finished goods	43	324
Total real estate projects	1,963	2,291

In 2016, the net realisable value of all current land operations, sites not subject to a zoning plan and equalisation funds was calculated and compared with the carrying amount. This resulted in a transfer to provisions of a total of 7 (2015: -2).

<i>in millions of euros</i>	<i>Balance on 1 January 2016</i>	<i>Additions/release</i>	<i>Withdrawals/ other changes</i>	<i>Balance on 31 December 2016</i>
Movements in provisions for real estate projects				
Building sites and equalisation funds	633	7	(47)	593
Work in progress	153	(9)	(11)	133
Completed developments	4	4	-	8
Total	790	2	(58)	734
<i>in millions of euros</i>	<i>Balance on 1 January 2015</i>	<i>Additions/release</i>	<i>Withdrawals/ other changes</i>	<i>Balance on 31 December 2015</i>
Movements in provisions for real estate projects				
Building sites and equalisation funds	669	(2)	(34)	633
Work in progress	116	5	32	153
Completed developments	60	(21)	(35)	4
Total	845	(18)	(37)	790

Work in progress		
<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Residential property in preparation and under construction	660	686
Commercial property in development and under construction	85	108
Instalments invoiced in advance – residential property	(255)	(276)
Instalments invoiced in advance – commercial property	68	(30)
Total work in progress	558	488

18 Non-current assets held for sale

Total non-current assets held for sale amount to 281 (2015: 155) and mainly comprise of stakes in several financial service providers (FSPs) in Sub-Saharan Africa that will be transferred to Arise B.V. for an amount of 187. More information on Arise B.V. is disclosed in section 13.1 Investments in associates. The other non-current assets held for sale amount to 94 (2015: 155) and comprise of various types of real estate in the segments Domestic retail banking and Real estate. The book value is expected to be realised through sale rather than through continued operation. The real estate classified as held for sale are mostly unique objects. There is often no active market for similar real estate at the same location and in the same condition. A large number of parameters are used for the valuations of the various types of property investments, where possible based on existing contracts and market data. A certain level of assessment and estimation is unavoidable. It is for this reason that all non-current assets classified as 'held for sale' are classified in level 3.

19 Deposits from banks

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Demand deposits	905	2,040
Fixed-term deposits	20,619	16,146
Repurchase agreements	418	581
Miscellaneous liabilities to other banks	64	271
Total deposits from banks	22,006	19,038

20 Deposits from customers

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Current accounts	76,757	77,966
Deposits with agreed maturity	82,909	96,363
Deposits redeemable at notice	175,943	162,083
Repurchase agreements	212	488
Fiduciary deposits	11,857	8,377
Other deposits from customers	34	607
Total deposits from customers	347,712	345,884

Deposits from customers also includes balances at central banks amounting to EUR 23 billion (2015: EUR 23 billion).

21 Debt securities in issue

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Certificates of deposit	33,948	38,554
Commercial paper	11,848	14,399
Bonds	102,713	113,415
Other debt securities	10,833	8,623
Total debt securities in issue	159,342	174,991

22 Financial liabilities held for trading

Financial liabilities held for trading are mainly negative fair values of derivatives and delivery obligations that arise on the short selling of securities. Securities are sold short to realise gains from short-term price fluctuations. The securities needed to settle short sales are acquired through securities lending and repurchasing agreements. The fair value of the shares and bonds sold short are amount to 739 (2015: 573).

23 Financial liabilities designated at fair value

<i>in millions of euros</i>	2016	2015
Structured notes	12,608	13,057
Other debt securities	38	353
Deposits	3,874	3,581
Total financial liabilities designated at fair value	16,520	16,991

The cumulative change in fair value of the financial liabilities designated at fair value through profit or loss attributable to changes in the own credit risk of Rabobank amounts to 405 before taxes (2015: -83). Alignment of the calculation of OCA with IFRS 9 definitions has led to another disclosed cumulative change for 2015 which was previously reported at 1,041. The main difference is caused by the previous inclusion of first day profits. In 2016 an amount of 0 has been reclassified from OCI to retained earnings as a result of derecognition of financial liabilities designated at fair value through profit or loss.

The carrying value of the structured notes is 6,236 (2015: 5,104) lower than the amount Rabobank is contractually obliged to repay to the holders of the structured notes.

The change in fair value that is attributable to changes in own credit risk is calculated by deducting on a note by note basis the current fair value of the structured notes portfolio at the reporting date from the fair value recalculated based on the prevailing credit curve at the time of origination, with all other pricing components unchanged. This calculation reflects the amount that can be attributed to the change in the own credit risk of Rabobank since the origination of these structured notes.

24 Other liabilities

<i>in millions of euros</i>	Note	2016	2015
Payables		5,582	6,232
Accrued interest		2,541	2,543
Employee benefits	27	315	356
Other		(6)	(811)
Provision for day 1 gains		-	3
Total other liabilities		8,432	8,323

25 Provisions

<i>in millions of euros</i>	2016	2015
Restructuring provision	461	354
Provision for legal issues	770	347
Provision for tax issues	36	65
Other provisions	279	227
Total provisions	1,546	993

<i>in millions of euros</i>	Restructuring provision	Provision for legal issues	Provision for tax issues	Other provisions	Total
Opening balance on 1 January 2016	354	347	65	227	993
Additions	594	583	1	126	1,304
Withdrawals	(408)	(44)	-	(50)	(502)
Releases	(79)	(116)	(30)	(24)	(249)
Closing balance on 31 December 2016	461	770	36	279	1,546
Opening balance on 1 January 2015	315	211	56	212	794
Additions	285	218	13	102	618
Withdrawals	(207)	(80)	-	(56)	(343)
Releases	(39)	(2)	(4)	(31)	(76)
Closing balance on 31 December 2015	354	347	65	227	993

In the additions of the restructuring provision, an amount of 403 (2015: 183) is included for the reorganisation programme of the local Rabobanks. This reorganisation provision consists of future payments relating to redundancy pay and other costs directly attributable to the reorganisation programme.

These expenses are included when a redundancy scheme is drawn up and communicated to stakeholders. The expected outflow of funds will occur in 2017 and 2018.

An addition of 514 in the provision for legal issues was made in 2016 after Rabobank adopted the SME interest rate derivatives recovery framework. For additional information, please refer to Paragraph 4.10, 'Legal and arbitration proceedings'.

The provision for tax and legal issues is based on the best possible estimates available at year-end, taking into account legal and tax advice. The timing of the cash outflow relating to these provisions is uncertain because the outcome of the disputes and the time involved are unpredictable.

The item 'Other' includes provisions for onerous contracts and credit guarantees.

Maturities of Rabobank Group (excluding provisions for employee benefits and loan impairment allowances)

<i>in millions of euros</i>	<i>Up to one year</i>	<i>1 - 5 years</i>	<i>Longer than 5 years</i>	<i>Total</i>
On 31 December 2016	1,371	175	-	1,546
On 31 December 2015	861	131	1	993

26 Deferred taxes

Deferred tax assets and liabilities are measured for all temporary differences using the 'liability' method. The effective tax rate in the Netherlands for measuring deferred tax is 25% (2015: 25%). There were no changes in deferred tax assets and liabilities resulting from changes in the effective tax rate in the Netherlands. No deferred tax asset has been recognised for unused tax losses totalling 1,628 (2015: 1,648). These carry forward losses relate to various tax authorities and their term to maturity is largely unlimited.

Deferred tax assets recognised in respect of carry forward losses can only be utilised if taxable profits are realised in the future.

On 31 December 2016, Rabobank expects that sufficient taxable profits would be generated within the applicable periods.

	<i>Deferred tax assets</i>	<i>Deferred tax liabilities</i>	<i>Deferred tax charges</i>	<i>Tax on other comprehensive income</i>
<i>in millions of euros</i>				
For the year ended 31 December 2016				
Pensions and other post-employment benefits	53	(2)	(2)	2
Loan impairment allowance	403	(15)	(147)	-
Financial liabilities designated at fair value	-	-	(229)	-
Provisions	39	(10)	(3)	-
Hedging of interest rate risk	(14)	-	114	-
Carry forward losses	1,104	(21)	499	-
Goodwill and other intangible assets	19	2	(5)	-
Revaluation reserves for available-for-sale financial assets	(129)	1	-	(20)
Revaluation reserves – Cash flow hedges	20	-	-	10
Revaluation reserve – Fair value changes due to own credit risk on financial liabilities designated at fair value	101	-	-	122
Property and equipment, including leases	100	617	(98)	-
Other temporary differences	664	46	45	-
Total	2,360	618	174	114
	<i>Deferred tax assets</i>	<i>Deferred tax liabilities</i>	<i>Deferred tax charges</i>	<i>Tax on other comprehensive income</i>
<i>in millions of euros</i>				
For the year ended 31 December 2015				
Pensions and other post-employment benefits	55	-	7	9
Loan impairment allowance	255	(17)	122	-
Financial liabilities designated at fair value	(250)	-	42	-
Provisions	41	(1)	(10)	-
Hedging of interest rate risk	100	-	83	-
Carry forward losses	1,559	(76)	(52)	-
Goodwill and other intangible assets	14	-	(13)	-
Revaluation reserves for available-for-sale financial assets	(107)	2	-	2
Revaluation reserves – Cash flow hedges	10	-	-	16
Property and equipment, including leases	77	706	64	-
Other temporary differences	636	(39)	(122)	-
Total	2,390	575	121	27

27 Employee benefits

<i>in millions of euros</i>	2016	2015
Employee benefits – assets	(7)	(7)
Employee benefits – liabilities	315	356
Total employee benefits	308	349
Pension plans	158	110
Other employee benefits	150	239
Total employee benefits	308	349

27.1 Pension plans

Rabobank has placed its Dutch pension plan with Rabobank Pension Fund. The scheme is a collective defined contribution plan with a pensionable age of 67 and a target accrual percentage of 2. Each year Rabobank deposits pension contributions into the Rabobank Pension Fund based on a fixed system in an attempt to achieve the target pension accrual for services provided during the year of service based on a conditional career-average plan with a conditional indexation. Rabobank complies with all its pension obligations by paying the annual pension premium. Rabobank therefore has no more financial liabilities with regard to underlying membership years and already accrued pension rights. In the context of the risks transferred, Rabobank made a one-off payment in 2013 to the amount of 500 towards the creation of an index deposit. In addition, Rabobank will act as a guarantor during the period 2014-2020 for the realisation of the target pension accrual for the services provided during this period up to a maximum amount of 200 (2015: 250).

The new pension plan qualifies as a defined contribution plan under IAS 19. Rabobank's obligation is limited to the premium payments owed, less previously made payments.

As of 31 December 2016, a few small plans still qualify as defined benefit pension plans. These are career-average defined benefit pension plans, administered by a fund or otherwise that are related to the remuneration of employees upon retirement and which mostly pay annual pensions. Annual contributions are paid to the funds at a rate necessary to adequately finance the accrued liabilities of the plans calculated in accordance with local legal requirements. The assets related to the plans maintained in a fund are held independently of Rabobank assets in separate funds managed by trustees. The obligations are valued each year by independent actuaries based on the method prescribed by the IFRS. The most recent actuarial valuations were performed at the end of 2016. The tables relating to the weighted averages of the main actuarial assumptions and the future premium payments in 2016 relate to the pension plan of Friesland Bank and ACC Loan management. The table showing investments in plan assets are based on the pension plan of ACC Loan Management.

<i>In millions of euros</i>	2016	2015
Defined benefit obligation	758	679
Fair value of plan assets	600	569
Net defined benefit obligation	158	110

Movements in plan assets and liabilities:

<i>in millions of euros</i>	2016	2015
Defined benefit obligation		
Opening balance on 1 January	679	673
Exchange rate differences	(16)	9
Interest cost	17	18
Current service cost	-	6
Contributions paid by employees	-	-
Benefits paid	(25)	(22)
Pension plan amendment	-	-
Curtailments	-	-
Other	-	8
Experience adjustments	(3)	-
Actuarial gains and losses arising from changes in demographic assumptions	4	2
Actuarial gains and losses arising from changes in financial assumptions	102	(15)
Defined benefit obligation on 31 December	758	679
Fair value of plan assets		
Opening balance	569	557
Exchange rate differences	(13)	5
Interest income	14	15
Contributions paid by employer	10	7
Contributions paid by employees	-	-
Benefits paid	(25)	(22)
Administrative costs	-	(2)
Other	(4)	1
Experience adjustments	(2)	-
Remeasurements arising from changes in financial assumptions plan assets	51	8
Fair value of plan assets on 31 December	600	569

The costs recognised in profit and loss are shown in the table below.

<i>In millions of euros</i>	2016	2015
Interest cost on liabilities	17	18
Interest income on plan assets	(14)	(15)
Current service cost	-	6
Pension plan amendment	-	-
Losses/(gains) on curtailments, settlements and costs	-	1
Total cost of defined benefit pension plans	3	10

Main actuarial assumptions

The main actuarial assumptions for the valuation of the defined benefit obligation as at 31 December are the discount rate, the salary increases, the price inflation. Recent mortality tables have also been used for the valuation of the respective plans. The weighted averages of the actuarial financial assumptions are shown in the table below (in % per year):

	2016	2015
Discount rate	1.7%	2.5%
Salary increases	1.7%	1.6%
Price inflation	1.7%	1.6%

Sensitivity analysis

Rabobank is exposed to risks regarding their defined benefit plans related to the assumptions disclosed in the table below. The sensitivity analysis of these most significant assumptions has been determined based on changes of the assumptions occurring at the end of the reporting period that are deemed reasonably possible.

In millions of euros	Change in assumption	Effect on defined benefit obligation of increase		Effect on defined benefit obligation of decrease	
		2016	2015	2016	2015
Discount rate	0.25%	(25)	(21)	27	23
Salary increases	0.25%	18	14	(17)	(14)
Price inflation	0.25%	9	8	(7)	(8)
Mortality	1 year	21	17	(20)	(17)

Asset-liability matching strategy

The assets that would provide the closest match to the cashflows of the ACC Loan management defined benefit plan are a combination of fixed interest and index-linked bonds. Below is a comparison of the asset allocation at 31 December against the scheme's target asset allocation. The assets are all quoted in an active market.

	Asset allocation		Target asset allocation	
	2016	2015	2016	2015
Shares and alternatives	10%	10%	10%	10%
Interest-bearing securities	47%	45%	45%	45%
Alternatives	41%	41%	42.5%	40%
Other	2%	4%	2.5%	5%
Total	100%	100%	100%	100%

The alternatives are investments such as commodities, absolute return investments and hedge funds.

Estimated contribution

The estimated contributions to pension plans for 2017 are approximately 6 (2016: 6).

27.2 Other employee benefits

Other employee benefits mainly comprise liabilities for future long-service awards for an amount of 35 (2015: 95).

28 Subordinated liabilities

in millions of euros	2016	2015
Rabobank	16,847	15,479
Other	14	24
Total subordinated liabilities	16,861	15,503

In the following table details of the issues of subordinated liabilities are shown:

Subordinated liabilities				
Notional (in millions)	Currency	Coupon	Year of issuance	Year of maturity
1,500	USD	3.75%	2016	2026
225	AUD	5.00%	2015	2025, early repayment 2020
475	AUD	Variable	2015	2025, early repayment possible 2020
1,500	USD	4.375%	2015	2025
1,250	USD	5.25%	2015	2045
1,000	GBP	4.625%	2014	2029
2,000	EUR	2.50%	2014	2026, early repayment possible in 2019
50,800	JPY	1.429%	2014	2024
1,000	EUR	3.875%	2013	2023
1,750	USD	4.625%	2013	2023
1,250	USD	5.75%	2013	2043
1,000	EUR	4.125%	2012	2022
500	GBP	5.25%	2012	2027
1,500	USD	3.95%	2012	2022
1,000	EUR	3.75%	2010	2020
1,000	EUR	5.875%	2009	2019

29 Contingent liabilities

Credit related off balance sheet commitments

Loan commitments represent the unused portions of funds authorised for the granting of credit in the form of loans, financial guarantees, letters of credit and other lending related financial instruments. With regard to the credit risk exposure from loan commitments, Rabobank is potentially exposed to losses amounting to the unused portion of the authorised funds. The total expected loss is lower than the total of the unused funds. This is because loan commitments are subject to the clients in question continuing to meet specific standards of creditworthiness. Financial guarantees represent irrevocable undertakings that, provided certain conditions are met, Rabobank will make payments on behalf of clients if they are unable to meet their financial obligations to third parties. Rabobank also enters into credit arrangements in the form of credit facilities made available to safeguard clients' liquidity requirements, but which have not yet been drawn upon.

<i>In millions of euros</i>	2016	2015
Financial guarantees	11,595	10,402
Loan commitments	44,889	46,674
Letters of credit	6,276	4,980
Credit related off balance sheet commitments	62,760	62,056

The contractual commitments relating to the acquisition, construction and development of work in progress and investment properties amounts to 735 (2015: 678).

Contingent liabilities related to litigation

Rabobank is involved in a number of legal and arbitration proceedings in the Netherlands and other countries, including the United States, in connection with claims brought by and against Rabobank Group arising from its operations. The maximum amount of non-remote contingent liabilities relating to claims is 61. For additional information, please refer to Paragraph 4.10, 'Legal and arbitration proceedings'.

Contingent liabilities related to income tax

The European Commission has addressed questions to the Dutch government about article 29a of the Dutch Corporate Income Tax Code. If the European Commission would decide to start a formal investigation and ultimately would conclude that this is a case of state aid, Rabobank may have to repay tax benefits it enjoyed from 2015 onwards.

Article 29a of the Dutch Corporate Income Tax Code was included in the Dutch Corporate Income Tax Code so that capital instruments issued by credit institutions and which are covered by EU regulation 575/2013 would be considered tax deductible. In this context, Rabobank issued Capital Securities in January 2015 and in April 2016, amounting respectively to EUR 1.5 billion at a fixed interest rate of 5.5%, and EUR 1.25 billion at a fixed interest rate of 6.625%. The contingent liability related to this matter amounts to 54.

Liabilities relating to operating leases

Rabobank has concluded various operating lease contracts as lessee, mainly with respect to properties, information systems and cars. The future net minimum lease payments under non-cancellable operating leases can be broken down as follows:

<i>in millions of euros</i>	2016	2015
Not later than 1 year	145	103
Later than 1 year but not later than 5 years	332	308
Later than 5 years	375	185
Total liabilities relating to operating leases	852	596

The expected future minimum lease payments receivable from sub-leases are 0 (2015: 3). The operating lease expenses are 98 (2015: 73). These are included in 'Other administrative expenses' in the statement of income.

Payments receivable from operating leases

Rabobank has concluded various operating lease contracts as lessor. The future minimum lease payments receivable from non-cancellable operating leases can be broken down as follows:

<i>in millions of euros</i>	2016	2015
Not later than 1 year	796	1,340
Later than 1 year but not later than 5 years	1,551	2,050
Later than 5 years	83	38
Total payments receivable from operating leases	2,430	3,428

No contingent lease payments were recognised as assets during the current year.

30 Reserves and retained earnings

<i>in millions of euros</i>	2016	2015 ¹
Foreign currency translation reserves	203	(76)
Revaluation reserves – Available-for-sale financial assets	571	512
Revaluation reserve – Cash flow hedges	(70)	(39)
Revaluation reserve – Other	-	2
Revaluation reserve – Assets held for sale	(70)	-
Remeasurement reserve – Pensions	(219)	(175)
Revaluation reserve – Fair value changes due to own credit risk on financial liabilities designated at fair value	(303)	-
Retained earnings	25,709	25,399
Total reserves and retained earnings at year-end	25,821	25,623

1 Prior-year figures adjusted due to the restatement (see note 2.1).

Changes in the reserves were as follows:

<i>in millions of euros</i>	2016	2015 ¹
Foreign currency translation reserves		
Opening balance	(76)	(94)
Exchange rate differences emerging during the year	393	108
Changes at associates and joint ventures	(19)	(23)
Transferred to profit or loss	(165)	(67)
Transferred to Revaluation reserve – Assets held for sale	70	-
Closing balance	203	(76)
Revaluation reserves – Available-for-sale financial assets		
Opening balance	512	643
Foreign exchange differences	(4)	(1)
Changes at associates and joint ventures	39	(56)
Fair value changes	76	(124)
Amortisation of reclassified assets	2	6
Transferred to profit or loss	(41)	44
Transferred to Revaluation reserve – Assets held for sale	(4)	-
Other	(9)	-
Closing balance	571	512
Revaluation reserve – Cash flow hedges		
Opening balance	(39)	11
Fair value changes	(87)	659
Transferred to profit or loss	56	(709)
Closing balance	(70)	(39)
Revaluation reserve – Other		
Opening balance	2	2
Fair value changes	(2)	-
Closing balance	-	2
Revaluation reserve – Assets held for sale		
Opening balance	-	-
Transfers from revaluation reserves	(68)	-
Changes at associates and joint ventures	(2)	-
Closing balance	(70)	-
Remeasurement reserve – Pensions		
Opening balance	(175)	(196)
Changes at associates and joint ventures	7	3
Remeasurements defined benefit plans	(53)	18
Transferred to Revaluation reserve – Assets held for sale	2	-
Closing balance	(219)	(175)
Revaluation reserve – Fair value changes due to own credit risk on financial liabilities designated at fair value		
Opening balance	-	-
Adjustment opening balance ²	62	-
Fair value changes	(365)	-
Realisation at derecognition	-	-
Closing balance	(303)	-
Retained earnings		
Opening balance	25,399	24,445
Adjustment opening balance ²	(62)	-
Net profit	1,960	2,139
Payments on equity instruments	(1,278)	(1,252)
Redemption of Capital Securities	(316)	-
Other	6	67
Closing balance	25,709	25,399
Total reserves and retained earnings	25,821	25,623

31 Rabobank Certificates

Rabobank Certificates represent participation rights issued by Rabobank via the foundation Stichting Administratie Kantoor Rabobank Certificaten and belong to the Common Equity Tier 1 capital of Rabobank. The Rabobank Certificates have been listed on Euronext Amsterdam since 27 January 2014.

The initial opening price on 27 January 2014 amounted to 105.00% (EUR 26.25). On 31 December 2016, the trading price amounted to 114.18% (EUR 28.55). At year-end 2016, the total number of certificates was 237,961,365 with a nominal value of EUR 25 each.

The distribution paid per certificate in 2016 was EUR 1,625 (2015: EUR 1,625). The Executive Board is entitled not to pay the distribution. Unpaid distributions will not be paid at a later date. The amounts listed in the table below are based on the nominal value of EUR 25 per Rabobank Certificate. Cash flows arising from changes during the year in the Rabobank Certificates are included in the consolidated statement of cash flows.

Rabobank Certificates		
<i>in millions of euros</i>	2016	2015
Changes during the year:		
Opening balance	5,949	5,931
Change in Rabobank Certificates during the period	(1)	18
Closing balance	5,948	5,949

32 Capital Securities and Trust Preferred Securities III to IV

Capital Securities and Trust Preferred Securities III to IV can be broken down as follows:

<i>in millions of euros</i>	2016	2015
Capital Securities issued by Rabobank	7,636	7,826
Capital securities issued by subsidiaries	185	176
Trust Preferred Securities III to IV	409	1,131
Total Capital Securities and Trust Preferred Securities III to IV	8,230	9,133

- 1 Prior-year figures adjusted due to the restatement (see note 2.1).
- 2 Opening balance 2016 adjusted due to early adoption of IFRS 9 on fair value of financial liabilities designated at fair value. Prior-year figures adjusted due to the restatement (see both note 2.1)

Capital Securities

All Capital Securities are perpetual and have no expiry date. The distribution on Capital Securities per issue is as follows:

Capital securities issued by Rabobank

Issue of EUR 1,250 million

The coupon is 6.625% per year and is made payable every six months in arrears as of the issue date (26 April 2016), for the first time on 29 June 2016. The Capital Securities are perpetual and first redeemable on 29 June 2021. As of 29 June 2021, and subject to Capital Securities not being redeemed early, the distribution is set for a further five-year period, but without a step-up, based on the 5-year euro swap rate + 6.697%. The coupon is fully discretionary.

Issue of EUR 1,500 million

The coupon is 5.5% per year and is made payable every six months in arrears as of the issue date (22 January 2015), for the first time on 29 June 2015. The Capital Securities are perpetual and first redeemable on 29 June 2020. As of 29 July 2020, and subject to Capital Securities not being redeemed early, the distribution is set for a further five-year period, but without a step-up, based on the 5-year euro swap rate + 5.25%. The coupon is fully discretionary.

Issue of USD 2,000 million

The coupon is 8.40% per year and is made payable every six months in arrears as of the issue date (9 November 2011), for the first time on 29 December 2011. The Capital Securities are perpetual and first redeemable on 29 June 2017. If the Capital Securities are not redeemed early, the distribution is set for a further five-year period, but without a step-up, based on the US Treasury Benchmark Rate plus a 7.49% mark-up. The coupon is fully discretionary.

Issue of EUR 500 million

The coupon is 9.94% per year and is made payable annually in arrears as of the issue date (27 February 2009), for the first time on 27 February 2010. As of 27 February 2019, the coupon will be made payable every quarter based on the three-month Euribor plus an annual 7.50% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Issue of USD 2,868 million

The coupon is 11.0% per year and is made payable every six months in arrears as of the issue date (4 June 2009), for the first time on 31 December 2009. As of 30 June 2019, the coupon will

be made payable every quarter based on the three-month USD Libor plus an annual 10.868% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Issue of GBP 250 million

The coupon is 6.567% per year and is made payable every six months in arrears as of the issue date (10 June 2008), for the first time on 10 December 2008. As of 10 June 2038, the coupon will be made payable every six months based on the six-month GBP Libor plus an annual 2.825% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Issue of CHF 350 million

The coupon is 5.50% per year and is made payable annually in arrears as of the issue date (27 June 2008), for the first time on 27 June 2009. As of 27 June 2018, the coupon will be made payable every six months on 27 June and 27 December based on the six-month CHF Libor plus an annual 2.80% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Issue of ILS 323 million

The coupon is 4.15% per year and is made payable annually in arrears as of the issue date (14 July 2008), for the first time on 14 July 2009. As of 14 July 2018, the coupon will be made payable annually based on an index related to the interest rate paid on Israeli government bonds with terms between 4.5 and 5.5 years plus an annual 2.0% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Issue of NZD 900 million

The coupon on the NZD Capital Securities equals the one-year swap interest rate plus an annual 0.76% mark-up and is made payable annually on 8 October, until 8 October 2017. As of 8 October 2017, the coupon will be made payable every quarter based on the 90-day bank bill swap interest rate plus an equivalent mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Capital securities issued by Rabobank which were redeemed during the year

Issue of USD 2,000 million

The distribution is 8.375% per year and is made payable every six months in arrears as of the issue date (26 January 2011), for the first time on 26 July 2011. As of 26 July 2016, and subject to Capital Securities not being redeemed early, the distribution is set for a further five-year period, but without a step-up, based on the US Treasury Benchmark Rate plus a 6.425% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply. This issue was redeemed on the earliest redemption date of 26 July 2016.

The level of profit made by Rabobank may influence the distribution on the Capital Securities. Should Rabobank become insolvent, the Capital Securities are subordinate to the rights of all other (current and future) creditors of Rabobank, unless the rights of those other creditors are substantively determined otherwise.

Capital securities issued by subsidiaries

Issue of NZD 280 million

Rabo Capital Securities Limited has issued capital securities, the coupon of which equals the five-year swap interest rate plus an annual 3.75% mark-up and was set at 8.7864% per annum on 25 May 2009. As of the issue date (27 May 2009), the coupon is made payable every quarter in arrears, for the first time on 18 June 2009 (short first interest period). As of 18 June 2014, the coupon will be made payable every quarter based on the five-year swap interest plus an annual 3.75% mark-up. As of 18 June 2019, the coupon will be made payable every quarter based on the 90-day bank bill swap interest rate plus an annual 3.75% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Trust Preferred Securities III to IV

In 2004, the following tranches of non-cumulative Trust Preferred Securities were issued.

- Rabobank Capital Funding Trust III, Delaware, a group company of Rabobank, issued 1.5 million non-cumulative Trust Preferred Securities. The coupon is 5.254% up to and including 21 October 2016. For the period 21 October 2016 to 31 December 2016 inclusive, the coupon is equal to the interpolated USD Libor rate for the period, plus 1.5900%. The coupon is payable at the issuer's discretion. Thereafter, the distribution is equal to the three-month USD Libor rate plus 1.5900%. The total proceeds from this issue amounted

to USD 1,500 million. This issue was redeemed on the earliest redemption date of 21 October 2016.

- Rabobank Capital Funding Trust IV, Delaware, a group company of Rabobank, issued 350,000 non-cumulative Trust Preferred Securities. The coupon is 5.556% up to and including 31 December 2019. Thereafter, the coupon is equal to the six-month GBP Libor rate plus 1.4600%. The coupon is payable at the issuer's discretion.

The total proceeds from this issue amounted to GBP 350 million. As of 31 December 2019, these Trust Preferred Securities can be repurchased on each distribution date (which is once every half-year).

Trust Preferred Securities

<i>in millions of euros</i>	2016	2015
Changes during the year:		
Opening balance	1,131	1,043
Redemption	(716)	-
Exchange rate differences and other	(6)	88
Closing balance	409	1,131

33 Other non-controlling interests

This item relates to shares held by non-controlling interests in Rabobank subsidiaries.

<i>In millions of euros</i>	2016	2015
Opening balance	492	473
Net profit	64	75
Exchange rate differences	20	(10)
Entities included in consolidation/ deconsolidated	(1)	8
Dividends	(50)	(61)
Other	-	7
Closing balance	525	492

The Rabobank subsidiaries with the largest non-controlling interests are De Lage Landen Participacoes Limitada and AGCO Finance SNC. Both entities are accounted for in the segment Leasing.

De Lage Landen Participacoes Limitada is based in Porto Alegre, Brazil, and Rabobank has a capital and voting right interest of 72.88%. The non-controlling interests with regard to this entity amount to 79 (2015: 65). The following financial data apply:

De Lage Landen Participacoes Limitada	2016	2015
Revenues	70	82
Net profit	26	25
Other comprehensive income	-	-
Total comprehensive income	26	25
Profit attributable to non-controlling interests	9	12
Dividends paid to non-controlling interests	20	13
Financial assets	1,322	1,088
Other assets	118	82
Financial liabilities	1,095	931
Other liabilities	38	32

AGCO Finance SNC is located in Beauvais, France, and Rabobank has a capital and voting right interest of 51.0%. The non-controlling interests with regard to this entity amount to 89 (2015: 78). The following financial data apply:

AGCO Finance SNC	2016	2015
Revenues	41	39
Net profit	20	20
Other comprehensive income	-	-
Total comprehensive income	20	20
Profit attributable to non-controlling interests	10	10
Dividends paid to non-controlling interests	9	7
Financial assets	1,333	1,311
Other assets	51	41
Financial liabilities	1,182	1,179
Other liabilities	18	13

34 Net interest income

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Interest income		
Cash and balances at central banks	190	103
Loans and advances to banks	293	338
Financial assets held for trading	45	75
Financial assets designated at fair value	25	52
Loans and advances to customers	16,207	17,271
Available-for-sale financial assets	861	938
Derivatives held as economic hedges	(1,345)	(1,266)
Interest income on financial liabilities with a negative interest rate	74	16
Other	88	66
Total interest income	16,438	17,593
Interest expense		
Due to banks	422	452
Financial liabilities held for trading	10	17
Due to customers	2,445	3,033
Debt securities in issue	3,467	3,796
Other liabilities	727	603
Financial liabilities designated at fair value	362	466
Interest expense on financial assets with a negative interest rate	249	72
Other	13	15
Total interest expense	7,695	8,454
Net interest income	8,743	9,139

Capitalised interest attributable to qualifying assets amounted to 20 (2015: 21). The average interest rate applied in determining interest charges to be capitalized ranges between 1.0% and 5.5% (2015: between 1.0% and 5.5%). The interest income on impaired financial assets accrued is 201 (2015: 85).

35 Net fee and commission income

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Fee and commission income		
Asset management	25	44
Insurance commissions	259	325
Lending	581	545
Purchase and sale of other financial assets and handling fees	391	326
Payment services	734	740
Custodial fees and securities services	2	7
Other commission income	185	140
Total fee and commission income	2,177	2,127
Fee and commission expense		
Purchase and sale of other financial assets	16	8
Payment services	23	35
Custodial fees and securities services	10	11
Handling fees	50	35
Other commission expense	160	146
Total fee and commission expense	259	235
Net fee and commission income	1,918	1,892

36 Income from investments in associates and joint ventures

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Rabobank share of profit of associates and joint ventures	44	351
Result on disposal of investments in associates and joint ventures	62	-
Income from investments in associates and joint ventures	106	351

37 Gains/ (losses) on financial assets and liabilities at fair value through profit or loss

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Gains/ (losses) on financial assets and liabilities held for trading and from derivatives held or issued for trading	288	164
Gains/ (losses) on other financial assets designated at fair value through profit or loss	19	30
Gains/ (losses) on other financial liabilities designated at fair value through profit or loss and derivatives used to hedge the interest rate risk of those financial liabilities	240	569
Impairments	-	(160)
Total gains/ (losses) on financial assets and liabilities at fair value through profit or loss	547	603

Gains/ (losses) on other financial liabilities designated at fair value through profit or loss and derivatives used to hedge the interest rate risk of those financial liabilities mainly relates to fair value changes of the structured notes portfolio attributable to changes in i) market interest rates and ii) day-one gains that are directly recognised in profit or loss for an amount of 263. The results related to fair value changes of the structured notes due to changes in market interest rates are largely offset by the fair value changes of the derivatives used to hedge this interest rate risk. In 2015, a gain of 367 is included in 'Gains/ (losses) on other financial liabilities designated at fair value through profit or loss and derivatives used to hedge the interest rate risk of other financial liabilities designated at fair value' as the change in the fair value of the financial liabilities designated at fair value, that is attributable to changes in the credit risk of Rabobank itself.

<i>In millions of euros</i>	2016	2015
Gains/ (losses) on interest rate instruments	166	639
Gains/ (losses) on equity instruments	28	(99)
Gains/ (losses) on foreign currency	359	64
Other	(6)	(1)
Gains/ (losses) on financial assets and liabilities at fair value through profit or loss	547	603

The net foreign exchange gains/ (losses) included in line item Gains/ (losses) on foreign currency amount to 329 (2015: -346).

38 Other net operating income

<i>in millions of euros</i>	2016	2015
Project income real estate activities	1,653	1,495
Project expenses and impairments real estate activities	(1,319)	(1,213)
Net income real estate activities	334	282
Operational lease income	1,371	1,373
Depreciation and impairments operational lease	(980)	(1,011)
Net income from operational lease activities	391	362
Rental income from investment property	10	50
Depreciation and impairments investment property	6	(43)
Net income from investment property	16	7
Result on sale of group companies	242	15
Other	421	215
Other net operating income	1,404	881

DLL sold the car leasing business Athlon to Mercedes-Benz financial services. Rabobank recognised a gain on the sale of 251.

39 Staff costs

<i>in millions of euros</i>	2016	2015
Wages and salaries	3,101	3,194
Social security contributions and insurance costs	355	394
Pension costs - defined contribution plans	489	500
Pension costs - defined benefit pension plans	3	9
Release of other post-employment provisions	(76)	(65)
Other staff costs	649	754
Staff costs	4,521	4,786

Expressed in FTEs, the number of internal and external employees in Rabobank was 45,567 (2015: 52,013).

In 2011, following the implementation of CRD III and the regulations governing restrained remuneration policy, Rabobank Group adopted an amended remuneration policy: the Group Remuneration Policy. This policy is updated on a regular basis and has, as of 1 January 2015, been adjusted to include the provisions under the Dutch Act on Remuneration Policies for Financial Companies. Insofar as employees in the Netherlands are still eligible for variable remuneration, it never amounts to more than (on average over group employees) 20% of the fixed income. Outside the Netherlands, any variable remuneration never amounts to more than 100% of the fixed income. Insofar as identified staff (employees who can have a material influence on the risk profile of Rabobank Group) are eligible for variable remuneration, it is awarded for such a period that the risks associated with the underlying business activities are adequately taken into account. Payment of a significant portion of variable remuneration is therefore deferred. The immediate portion of variable remuneration is unconditional, whereas the deferred portion is conditional. The deferred portion vests after three years if the conditions are met. Among other things, it is assessed whether there has been a significant reduction in financial performance or a significant change in risk management at Rabobank Group and/or business unit that puts the circumstances assessed when the relevant variable remuneration was awarded in a different perspective. In principle, the right to any provisionally allocated remuneration lapses when the staff member's employment ends. 50% of both the direct and the deferred portion of the variable remuneration is allocated in cash. The cash component of the direct portion is immediately awarded following allocation. The cash component of the deferred portion is awarded to employees only after vesting (after a period of three years). 50% of the direct and the deferred portion of the variable remuneration is allocated in the form of an instrument (instrument component) i.e. the Deferred Remuneration Note (DRN). The value of a DRN is linked directly to the price

of a Rabobank Certificate (RC) as listed on the NYSE Euronext. The instrument component is converted into DRNs at the time of allocation on completion of the performance year. The number of DRNs is determined on the basis of the closing rates for Rabobank Certificates, as traded on the NYSE Euronext during the first five trading days of February of each year. This therefore represents both the instrument component of the direct and the deferred portion of the variable remuneration. The final number of DRNs relating to the deferred portion is established on vesting (after a period of three years). The payment of the instrument component is subject to a one year retention period. After the end of the retention period, the employee receives, for each DRN (or a portion thereof) an amount in cash that corresponds with the value of the DRN at that moment. Payment of the variable remuneration is measured in accordance with IAS 19 Employee benefits. The immediate portion of the variable remuneration is recognised in the performance year, whereas the deferred portion is recognised in the years before vesting.

The same system also applies, in broad terms, to non-identified staff, although no deferral policy applies to the first one hundred thousand euros and both the immediate and the deferred portion are paid fully in cash, which means that no DRNs are awarded.

On 31 December 2016, the costs of equity instrument-based payments were 13 (2015: 8). On 31 December 2016, a liability of 30 was recognised (2015: 26) of which 10 (2015: 11) was vested. The costs of variable remuneration paid in cash were 175 (2015: 190). The number of DRNs outstanding is presented in the following table.

<i>in thousands</i>	<i>2016</i>	<i>2015</i>
Opening balance	1,037	1,014
Awarded during the year	531	249
Paid during the year	(362)	(126)
Changes from previous year	171	(100)
Closing balance	1,377	1,037

The value of a DRN is linked directly to the price of a Rabobank Certificate. The estimated payments to be made for the variable remuneration are shown in the following table.

<i>On 31 December 2016</i>		<i>Year of payment</i>				
<i>in millions of euros</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>Total</i>
Variable remuneration, excluding DRNs	173.3	6.6	8.4	9.9	-	198.3
DRNs	10.9	10.6	3.8	7.2	8.4	40.9
Total	184.2	17.3	12.2	17.1	8.4	239.2

<i>On 31 December 2015</i>		<i>Year of payment</i>				
<i>in millions of euros</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>Total</i>
Variable remuneration, excluding DRNs	189.7	6.2	7.0	7.0	-	209.9
DRNs	11.7	7.9	4.5	3.9	3.7	31.7
Total	201.4	14.1	11.6	10.8	3.7	241.6

40 Other administrative expenses

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Additions and releases of provisions	1,063	506
IT expenses and software costs	718	634
Consultants fees	371	322
Training and travelling expenses	168	176
Publicity expenses	160	172
Result on derecognition and impairments on (in) tangible assets	96	32
Other expenses	1,059	1,074
Other administrative expenses	3,635	2,916

41 Depreciation

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Depreciation of property and equipment	250	250
Depreciation of intangible assets	188	193
Depreciation	438	443

42 Loan impairment charges

<i>in millions of euros</i>	2016	2015
Loans and advances to banks	-	(10)
Loans and advances to customers	474	1,087
Recoveries following write-downs	(157)	(101)
Credit related contingent liabilities	(7)	57
Loan impairment charges	310	1,033

In 2016 loan impairment charges were at a lower level compared to 2015, especially for the Dutch portfolio. The is mainly caused by the recovery of the economy which leads to a limited number of new defaults, recovery of existing defaults and adequate allowances for existing impaired clients.

43 Regulatory levies

The regulatory levies consist of bank tax, contributions to the single resolution fund and the deposit guarantee scheme. Banks operating in the Netherlands on 1 October of the current year are required to pay bank tax. There are two rates of bank tax: A rate of 0.044% for current liabilities and a rate of 0.022% for long-term liabilities, based on the balance on December 2015. In 2016, Rabobank Group was charged a total of 166 (2015: 168). In 2016, the bank levy in Ireland amounted to 4 (2015: 4).

On 1 January 2016 the European Single Resolution Fund (SRF) was set up. This fund will for a large part replace the National Resolution Funds, including the Dutch National Resolution Fund (NRF) that was set up on the 27 November 2015. Both funds have been established to improve the effectiveness of resolution instruments. Banks and investment firms that are in the scope of the SRM-regulation are obliged to contribute to the SRF. The NRF is build up exclusively by lump-sum contributions. In 2016, the contribution to the Single Resolution Fund amounted to 180. In 2015, the contribution to the National Resolution Fund amounted to 172.

Per the end of 2015, the new pre-funded deposit guarantee scheme was introduced. In 2016, banks have to pay a premium on a quarterly basis. Target size of the scheme is 0.8% of total guaranteed deposits of all banks together. In 2016, the contribution to the Deposit Guarantee Scheme amounted to 133.

44 Taxes

<i>in millions of euros</i>	2016	2015
Income tax		
Reporting period	527	555
Adjustments of previous years	(6)	(17)
Recognition of previously unrecognised tax losses	(1)	(4)
Deferred tax	174	121
Total income tax	694	655

The effective tax rate was 25.5% (2015: 22.8%) and differs from the theoretical rate that would arise using the Dutch corporate tax rate. This difference is explained as follows:

<i>in millions of euros</i>	2016		2015	
Operating profit before taxation		2,718		2,869
Applicable tax rate 25.0% (2015: 25.0%)	25.0%	680	25.0%	717
Increase/(decrease) in taxes resulting from:				
Tax-exempt income	(4.2%)	(116)	(3.7%)	(105)
Tax rate differences	2.6%	73	3.6%	104
Non-deductible expenses	2.6%	72	2.1%	60
Recognition of previously unrecognised tax losses	(0.1%)	(1)	(0.1%)	(4)
Other permanent differences	(0.4%)	(12)	(2.5%)	(72)
Adjustments of previous years	(0.2%)	(6)	(0.6%)	(17)
Other non-recurring tax items	0.2%	4	(1.0%)	(28)
Total income tax	25.5%	694	22.8%	655

The other permanent differences mainly comprise of the deduction of interest payments on Capital Securities and the impairment of Achmea.

45 Transactions with related parties

Two parties are considered related if one party exercises control or has significant influence over the other party with regard to financial or operating decisions. In the normal course of business, Rabobank conducts a wide variety of transactions with related entities which involve different types of loans, deposits and transactions in foreign currencies. Transactions between related parties also includes transactions with associates, pension funds, joint ventures, the Executive Board and the Supervisory Board. These transactions are conducted against commercial terms and conditions and market prices. In accordance with IAS 24.4, transactions within Rabobank Group are not disclosed in the consolidated financial statements.

In the normal course of Rabobank's business operations, banking transactions are carried out with related parties. These involve loans, deposits and transactions in foreign currencies. These transactions are conducted against commercial terms and conditions and market prices. The volumes of related party transactions, year-end outstanding balances and the corresponding income and expenses during the year are presented in the following table. Transactions and balances outstanding with members of the Executive Board and members of the Supervisory Board are disclosed in Section 47. Transactions with pension funds are disclosed in Section 27.

	<i>Investments in associates</i>		<i>Other related parties</i>	
<i>in millions of euros</i>	2016	2015	2016	2015
Loans				
Outstanding at beginning of year	361	360	-	-
Provided during the year	178	9	-	-
Redeemed during the year	(88)	(8)	-	-
Other	52	-	-	-
Gross loans as of 31 December	503	361	-	-
Less: loan impairment allowance	(68)	(58)	-	-
Total loans as of 31 December	435	303	-	-
Deposits from banks and deposits from customers				
Outstanding at beginning of the year	7,269	6,822	-	-
Received during the year	411	829	29	-
Repaid during the year	(576)	(382)	-	-
Other	77	-	-	-
Debts as of 31 December	7,181	7,269	29	-
Other assets	6	39	-	-
Credit guarantees and other guarantees issued by Rabobank	70	28	-	-
Income				
Net interest income	12	10	-	-
Fee and commission income	227	234	-	-
Trading income	-	-	-	-
Other	-	-	-	-
Total income from transactions with related parties	239	244	-	-
Expenses				
Interest expense	331	347	-	-
Fee and commission expense	-	-	-	-
Impairments	11	25	-	-
Total expenses from transactions with related parties	342	372	-	-

46 Costs of external auditor

Expenses for services provided by Rabobank's independent auditor, PricewaterhouseCoopers Accountants N.V. ('PwC') and its member firms and/ or affiliates to Rabobank and its subsidiaries in 2016 are specified as follows:

<i>in millions of euros</i>	2016		<i>Total</i>
	<i>PwC Netherlands</i>	<i>Other PwC network firms</i>	
Audit fees	6.2	8.0	14.2
Audit related fees	0.5	0.1	0.6
Tax advisory fees	-	0.8	0.8
Other non-audit services	-	2.4	2.4
Total	6.7	11.3	18.0

The audit fees listed above relate to the procedure applied to Rabobank and its consolidated group entities by PwC and other member firms in the global PwC network, including their tax services and advisory groups. These audit fees relate to the audit of the financial statements, regardless of whether the work was performed during the financial year.

In 2015, the audit firm Ernst & Young Accountants LLP in the Netherlands invoiced the below amounts to Rabobank, its subsidiaries and other companies it consolidates, within the meaning of section 382a of Book 2 of the Dutch Civil Code. These amounts do not include fees for financial statements audits, other audit engagements, tax consultancy services and other non-audit services charged by other auditors and other Ernst & Young business units

<i>in millions of euros</i>	2015
Financial statements audit	7
Other audit engagements	1
Other non-audit services	-
Total	8

47 Remuneration of the Supervisory Board and the Executive Board

The members of the Supervisory Board and the Executive Board are listed in Section 53 of these consolidated financial statements. Rabobank regards the members of the Executive Board and the Supervisory Board as key management personnel. The members of the Executive Board are among the identified staff as disclosed in Section 39. In 2016, the remuneration of members and former members of the Executive Board amounted to 7.5 (2015: 6.4). The increase is related to the expansion of the board with one extra member.

<i>in thousands of euros</i>	<i>Short-term employee benefits</i>	<i>Post-employment benefits</i>		<i>Other</i>	<i>Total</i>
		<i>Pension scheme</i>	<i>Individual pension contribution</i>		
W. Draijer	980	25	212	-	1,217
B.C. Brouwers	884	25	189	-	1,098
R.J. Dekker	884	25	189	3	1,101
P.C. van Hoeken	663	19	142	-	824
B.J. Martin	884	25	189	-	1,098
H. Nagel	884	25	189	-	1,098
J.L. van Nieuwenhuizen	884	25	189	-	1,098
Total 2016	6,063	169	1,299	3	7,534
Members Executive Board	4,257	128	908	5	5,298
Former members Executive Board	884	26	189	1	1,100
Total 2015	5,141	154	1,097	6	6,398

At year-end 2016, there were a total of 486 DRNs (liability of 16) outstanding with members of the Executive Board (year-end 2015: 11,647 pieces of which 5,503 regarding former members). The pension scheme for the members of the Executive Board is classified as a collective defined contribution scheme. As of 1 January 2015, the maximum income on the basis of which the members of the Executive Board can build up a pension amounts to a maximum, for 2016 ninety-six thousand euros. Any income exceeding this amount is not pensionable. As of 1 January 2015, the members of the Executive Board therefore receive an individual pension contribution.

Expenses related to members and former members of the Supervisory Board total 1.2 (2015: 1.2 of which former members 0.6). This includes VAT and employer's contributions payable. In addition to the role of Member of the Supervisory Board of Rabobank, the remuneration also depends on the roles in the various committees. The composition of these committees is detailed in the Annual Report. The remuneration structure as of 1 October 2016 (exclusive of VAT and other charges) is:

<i>As of 1 October 2016 the fee structure (in euros):</i>	<i>Fee</i>
Member	90,000
Chairman of Audit Committee, Risk Committee, Cooperative Issues Committee, additional	20,000
Chairman of Appointments Committee together with HR Committee, additional	20,000
Vice chairman, additional	30,000
Chairman	220,000

The table below shows the remuneration (excluding VAT and other charges) for individual members of the Supervisory Board.

<i>in thousands of euros</i>	<i>Remuneration</i>
W. Dekker (in office until 15 September 2016)	242
R. Teerlink	131
I.P. Asscher-Vonk	98
M. Trompeter	104
L.N. Degle	86
S.L.J. Graafsma	110
P.H.M. Hofsté (in office from 14 December 2016)	4
A.A.J.M. Kamp	91
E.A.J. van de Merwe (in office until 15 September 2016)	73
J.J. Nooitgedagt (in office from 14 September 2016)	32
P.H.J.M. Visée (in office from 14 December 2016)	4
Total 2016	975
Total 2015	1,030

At Rabobank, the Chairman of the Supervisory Board holds a number of roles which are related to the cooperative. These roles are specified in the Annual Report.

<i>in millions of euros</i>	<i>Executive Board</i>		<i>Supervisory Board</i>	
<i>Loans, advances and guarantees</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
Outstanding on 1 January	4.3	4.9	1.4	2.6
Provided during the year	-	1.2	-	-
Redeemed during the year	(0.8)	(1.8)	(0.1)	(0.7)
Reduction on account of leaving office	-	-	-	(0.9)
Increase on account of taking office	0.6	-	-	0.4
Outstanding on 31 December	4.1	4.3	1.3	1.4

The loans, advances and guarantees of the members of the Executive Board in office and the average interest rates were as follows:

<i>in millions of euros</i>	<i>2016</i>	
	<i>Outstanding loans</i>	<i>Average interest rate (in %)</i>
Loans, advances and guarantees		
B.C. Brouwers	0.5	2.6
R.J. Dekker	1.0	2.1
B.J. Marttin	0.4	5.8
H. Nagel	1.0	2.2
J.L. van Nieuwenhuizen	1.2	2.0

<i>in millions of euros</i>	<i>2015</i>	
	<i>Outstanding loans</i>	<i>Average interest rate (in %)</i>
Loans, advances and guarantees		
R.J. Dekker	1.2	1.6
B.J. Marttin	0.4	4.4
H. Nagel	1.0	1.9
J.L. van Nieuwenhuizen	1.7	3.3

The loans, advances and guarantees of the members of the Supervisory Board in office on 31 December 2016 and the average interest rates were as follows:

<i>in millions of euros</i>	<i>Outstanding loans</i>		<i>Average interest rate (in %)</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
Loans, advances and guarantees				
A.A.J.M. Kamp	0.9	1.0	2.6	2.7
M. Trompetter	0.4	0.4	4.0	4.9

At year-end 2016, the members of the Supervisory Board not listed in the table had not received any loans, advances or guarantees. These transactions with members of the Executive Board and Supervisory Board were completed in person on the basis of employee terms and conditions and/or market rates for the Supervisory Board. The rates depend in part on the currency, the agreed fixed-interest period and the time the transaction was completed or the time a new fixed-interest term becomes effective.

Several members of the Supervisory Board have invested in Rabobank Certificates in person and/or through their own pension B.V. At year-end 2016, this involved in total 15,780 certificates.

	<i>Number of Rabobank Certificates</i>	
On 31 December 2016		
I.P. Asscher-Vonk	6,894	
L.N. Degle	4,836	in pension B.V.
S.L.J. Graafsma	4,050	in pension B.V.

48 Main subsidiaries

At the year-end 2016, Rabobank Group is comprised of Coöperatieve Rabobank U.A. and its consolidated subsidiaries in the Netherlands and abroad.

<i>On 31 December 2016</i>	<i>Share</i>	<i>Voting rights</i>
Main subsidiaries		
The Netherlands		
DLL International B.V.	100%	100%
Rabo Vastgoedgroep N.V.	100%	100%
FGH Bank N.V.	100%	100%
Obvion N.V.	100%	100%
Rabohypothekbank N.V.	100%	100%
North America		
Rabobank Capital Funding LCC III	100%	100%
Rabobank Capital Funding Trust IV	100%	100%
Utrecht America Holdings Inc.	100%	100%
Australia and New Zealand		
Rabobank Australia Limited	100%	100%
Rabobank New Zealand Limited	100%	100%

All subsidiaries listed in the table are consolidated. In 2016, none of the subsidiaries experienced any significant restrictions in the payment of dividends or the redemption of loans and repayment of advances. The option of subsidiaries to pay dividend to Rabobank depends on various factors, including local regulatory requirements, statutory reserves and financial performance.

Rabobank will not consolidate several structured entities in the 'Wholesale banking and international retail banking business', even if it does retain more than half of the voting rights. These structured entities are not consolidated because the relevant activities are managed by a third party subject to a contract.

Rabobank does have control over several entities in the segment 'Leasing' as part of its vendor leasing operations, even though it retains less than half of the voting rights because control is not determined based on such rights, but rather on management participation.

49 Transfer of financial assets and financial assets provided as collateral

49.1 Reverse repurchase transactions and securities borrowing agreements

Reverse repurchase transactions and securities borrowing agreements concluded by Rabobank are included under 'Loans and advances to banks' or 'Loans and advances to customers' and as per 31 December amount to:

<i>in millions of euros</i>	2016	2015
Loans and advances to banks	13,398	18,495
Loans and advances to customers	16,068	18,927
Total reverse repurchase transactions and securities borrowing agreements	29,466	37,422

Under the terms of the reverse repurchase transactions and securities borrowing agreements, Rabobank receives collateral under conditions that enable it to re-pledge or resell the collateral to third parties. On 31 December 2016, the total fair value of the securities received under the terms of the agreements was 29,931 (31 December 2015: 37,853). In accordance with the agreement terms, a portion of the securities was re-pledged or sold as collateral. These transactions were effected subject to the normal conditions for standard reverse repurchase transactions and securities borrowing agreements. The securities are not recognised in the statement of financial position because almost all the associated risks and benefits accrue to the counterparty. A receivable is recognised at a value equivalent to the amount paid as collateral.

49.2 Repurchase transactions and securities lending agreements

Repurchase transactions and securities lending agreements concluded by Rabobank are included under 'Deposits from banks' and 'Deposits from customers' as of 31 December totalled:

<i>in millions of euros</i>	2016	2015
Deposits from banks	418	581
Deposits from customers	212	488
Total repurchase and securities lending	630	1,069

On 31 December 2016, interest-bearing securities with a carrying amount of 616 (2015: 1,075) were provided as collateral for repurchase agreements. The counterparty retains the right to sell or re-pledge the securities. These transactions were performed subject to the normal conditions for standard repurchase transactions and securities lending agreements. The bank may provide or receive securities or cash as collateral if the value of the securities changes. The securities are not

de-recognised because almost all the associated risks and benefits accrue to Rabobank, including credit and market risks. A liability is recognised at a value equivalent to the amount received as collateral.

49.3 Securitisations

As part of the financing activities and liquidity management of Rabobank Group, and in order to reduce credit risk, cash flows from certain financial assets are transferred to third parties (true sale transactions). Most of the financial assets subject to these transactions are mortgages and other loan portfolios that are transferred to a special purpose vehicle that is subsequently consolidated. After securitisation, the assets continue to be recognised in the statement of financial position of Rabobank Group, mainly under 'Loans and advances to customers'. The securitised assets are measured in accordance with the accounting policies referred to in Paragraph 2.15. The carrying amount of the transferred financial assets related to own-asset securitisation is 77,894 (2015: 75,805) with the corresponding liability amounting to 74,897 (2015: 75,707). Approximately 74% (2015: 75%) of the transferred assets are securitised internally for liquidity purposes. The carrying amount of the assets where Rabobank acts as a sponsor (Nieuw-Amsterdam) is 4,125 (2015: 5,218) with the corresponding liability amounting to 4,125 (2015: 5,218). Reference is made to section 50 Structured entities.

49.4 Carrying amount of financial assets provided as security for (contingent) liabilities

The assets referred to below have been pledged as security for (contingent) liabilities (with exception to repo transactions, securities lending and securitisations) with the objective of providing security for the counterparty. If Rabobank remains in default the counterparties may use the security to settle the debt.

<i>in millions of euros</i>	2016	2015
Cash and balances at central banks	130	54
Financial assets held for trading	134	-
Loans and advances to banks	4,704	5,186
Loans and advances to customers	12,759	13,838
Available-for-sale financial assets	7,693	2,563
Total	25,420	21,641

50 Structured entities

50.1 Consolidated structured entities

A structured entity is an entity which is structured such that voting rights or comparable rights do not constitute the dominant factor in determining who exercises control over the entity. Rabobank uses structured entities in order to securitise

mortgages and other loan portfolios as part of its financing activities, liquidity management and in order to reduce credit risk. The loans are actually transferred to the structured entities. Own-asset securitisation is handled by RaboAgri Finance (Harvest), Obvion (STORM and STRONG) and DLL (LEAP). As well as having provided cash facilities, Rabobank also acts as a swap counterparty for all own-asset securitisations.

Rabobank acts as a sponsor in Nieuw Amsterdam Receivables Corporation. Nieuw Amsterdam issues ABCP in various currencies and provides Rabobank customers access to liquidity through the commercial paper market. Rabobank provides advice and manages the programme, markets ABCP, provides cash facilities and/or credit risk enhancements and other facilities for the underlying transactions and the programme itself. Rabobank consolidates the own-asset securitisation vehicles and Nieuw Amsterdam because it is exposed to or entitled to fluctuating income in respect of its involvement in these

entities. In addition, Rabobank also has the option to influence the amount of the investor's income by virtue of having control over the entities.

50.2 Non-consolidated structured entities

Non-consolidated structured entities refers to all structured entities over which Rabobank has no control. These interests are comprised mainly of debt securities in a securitisation vehicle, including RMBS, ABS and CDO and private equity interests. The amount of these debt securities is almost always limited when compared to the vehicle's total assets. Those securitization vehicles are usually refinanced by issued debt securities or credit facilities.

The following table shows the nature and risks of Rabobank's interests in non-consolidated structured entities. The size of non-consolidated structured entities generally reflects the carrying amount of the assets and the contingent liabilities. The maximum exposure equals the carrying amount disclosed in the table below.

<i>in millions of euros</i>						
	On 31 December 2016			On 31 December 2015		
Assets recognised by Rabobank	<i>Securitisations</i>	<i>Other</i>	<i>Total</i>	<i>Securitisations</i>	<i>Other</i>	<i>Total</i>
Financial assets held for trading	38	83	121	1	100	101
Financial assets designated at fair value	-	92	92	255	72	327
Derivatives	418	-	418	463	-	463
Loans and advances to customers	712	-	712	1,011	-	1,011
Available-for-sale financial assets	180	41	221	670	61	731
Investments in associates	-	322	322	-	395	395
Total financial assets recognised by Rabobank	1,348	538	1,886	2,400	628	3,028
Liabilities recognised by Rabobank						
Derivatives	4	-	4	3	-	3
Deposits from customers	260	-	260	393	-	393
Total liabilities recognised by Rabobank	264	-	264	396	-	396

Income from sponsored, non-consolidated structured entities in which Rabobank holds no interest:

<i>in millions of euros</i>	<i>Fee and commission income</i>	<i>Interest income</i>	<i>Other results</i>	<i>Total income</i>	<i>Carrying amount of transferred assets</i>
On 31 December 2016					
Securitisations	-	5	-	5	-
Asset management	-	-	-	-	-
Total	-	5	-	5	-
On 31 December 2015					
Securitisations	1	46	64	111	-
Asset management	-	-	-	-	-
Total	1	46	64	111	-

51 Events after the reporting period

In January 2017, Rabobank announced the offering of newly issued Rabobank Certificates. The nominal issued amount was EUR 1.5 billion. Rabobank issued 60 million new Rabobank Certificates; each of these newly issued Certificate was priced at 108% of the nominal value of EUR 25. After the issuance, a total nominal amount of approximately EUR 7.4 billion in Rabobank Certificates was outstanding.

52 Management report on internal control over financial reporting

The management of Rabobank is responsible for establishing and maintaining adequate internal control over financial reporting. Management is also responsible for the preparation and fair presentation of the consolidated financial statements. Rabobank's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with International Financial Reporting Standards as adopted by the European Union.

All internal control systems, no matter how well designed, have inherent limitations. Due to the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. At the same time, future projections on the basis of any evaluation of the effectiveness of internal control are subject to the risk that the control measures may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The management has assessed the effectiveness of the internal control over financial reporting in Rabobank as of 31 December 2016 based on the framework set out in 2013 by the Committee of Sponsoring Organisations of the Treadway Commission (COSO), as defined in Internal Control - Integrated Framework. On the basis of that assessment, management concluded that, as of 31 December 2016, the internal controls on the internal financial reporting in Rabobank provide a reasonable measure of certainty based on the criteria established by COSO.

PricewaterhouseCoopers Accountants N.V., which has audited the consolidated financial statements of Rabobank for the financial year ended 31 December 2016, also examined management's assessment of the effectiveness of the internal control over financial reporting in Rabobank. The report of PricewaterhouseCoopers Accountants N.V. is included on page 241.

W. Draijer

B.C. Brouwers

Utrecht, 8 March 2017

53 Approval of the Supervisory Board

The publication of these financial statements was approved by the Supervisory Board on 8 March 2017. The financial statements will be presented to the General Meeting, to be held on 19 April 2017, for adoption. With regard to the adoption of the financial statements of Rabobank, the Articles of Association state: 'The resolution to adopt the financial statements will be passed by an absolute majority of the votes validly cast by the General Members' Council'.

On behalf of the Executive Board

W. Draijer, *Chairman*

B.C. Brouwers, *CFO*

R.J. Dekker, *COO*

P.C. van Hoeken, *CRO*

B.J. Marttin, *Member*

H. Nagel, *Member*

J.L. van Nieuwenhuizen, *Member*

On behalf of the Supervisory Board

R. Teerlink, *Chairman*

M. Trompetter, *Vice Chairman*

I.P. Asscher-Vonk, *Secretary*

L.N. Degle

S.L.J. Graafsma

A.A.J.M. Kamp

J.J. Nooitgedagt

P.H.M. Hofsté

P.H.J.M. Visée

Independent auditor's report

To: The General Members Council and Supervisory Board of Coöperatieve Rabobank U.A.

Report on the financial statements 2016

Our opinion

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of Coöperatieve Rabobank U.A. as at 31 December 2016 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the accompanying company financial statements give a true and fair view of the financial position of Coöperatieve Rabobank U.A. as at 31 December 2016 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2016 of Coöperatieve Rabobank U.A., Amsterdam ('Rabobank' or 'the Bank' or 'company'). The financial statements include the consolidated financial statements of Coöperatieve Rabobank U.A. and its subsidiaries (together: 'the Group') and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the following statements for 2016: the consolidated statement of income, the consolidated statements of comprehensive income, changes in equity and cash flows; and
- the notes, comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company statement of financial position as at 31 December 2016;
- the company statement of income for the year then ended;
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the financial statements' of our report.

Independence

We are independent of Coöperatieve Rabobank U.A. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO) and other relevant independence requirements in the Netherlands. During 2016, a PwC team outside The Netherlands, not involved in the audit of the financial statements 2016 of Coöperatieve Rabobank U.A., conducted an assurance related (Agreed-upon-Procedures) engagement at the joint request of, and for, a branch of Coöperatieve Rabobank U.A. and a foreign bank, with a contracted fee value of less than 0.1% of PwC's audit fees for the consolidated financial statements 2016. Under the Dutch independence rules this assurance related engagement is a non-permissible service, and should therefore not have been commenced. Upon identification, the assurance related engagement was immediately terminated and the related fees were not billed to Coöperatieve Rabobank U.A. We consulted with the Audit Committee and reported the incident to the Dutch regulator. The Audit Committee agreed with our conclusion that due to the nature and the limited size of the engagement our independence was not compromised, to which the Dutch regulator has not objected. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview and context of the 2016 audit

Rabobank is an international financial services provider operating on the basis of cooperative principles. Rabobank operates globally in 40 countries with focus on banking in the Netherlands and food and agri financing in the Netherlands and abroad. Its operations include domestic retail banking, wholesale banking and international rural and retail banking, leasing and real estate. Rabobank is in the midst of a transformation. During 2016 Rabobank started executing its 'Strategic Framework 2016-2020'. The strategic objectives that impact the financial statements directly are focussed on balance sheet reduction and further improving financial performance.

In particular, we looked at where the Executive Board made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In paragraph 'Judgements and estimates' in note 2.1 to the financial statements the company describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty in the impairment of loans and advances to customers, valuation of financial instruments, litigation, regulatory and client care, valuation of equity investments and restructuring related provisions we considered these to be key audit matters as set out in the key audit matter section of this report. Furthermore, we identified hedge accounting and asset and disposal portfolios as key audit matter because they require more complex judgements in the application of International Financial Reporting Standards adopted by the European Union (EU-IFRS). Lastly the continuity and reliability of information processing was identified as key audit matter since this is significant to the Bank's operational, regulatory and financial reporting processes.

The group comprises of multiple components and therefore we considered our group audit scope and approach as set out in the scope of our group audit section. We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statement.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by senior management that may represent a risk of material misstatement due to fraud.

We ensured that the audit teams, both at group and at component levels, collectively contain the appropriate skills and competences which are needed for the audit of a bank.

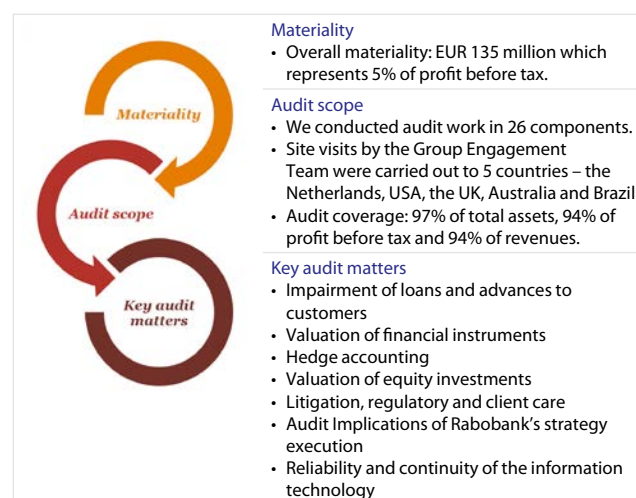
We therefore included specialists in the areas of IT, tax, real estate, hedge accounting, financial instruments, employee benefits and valuation in our team.

PwC's first year as auditor of Rabobank

Prior to becoming the Bank's auditor, we developed a comprehensive transition plan commencing in July 2015 to understand the connection between the Bank's strategy, the related business risks and the way they impact the Bank's financial reporting and internal controls framework. Our transition plan included amongst others:

- Close interaction with the previous auditor, including a process of file reviews and formal hand over procedures as prescribed by our professional standards;
- Active knowledge sharing and discussions with the Finance, Risk and Internal Audit functions ('Audit Rabobank') to understand their perspectives on the business and audit risks;
- Attendance as observers of a number of meetings between the previous auditors with senior management and the Audit Committee during the 2015 year-end financial closing process;
- Evaluation of key accounting positions and audit matters from prior years.
- Performed walkthrough procedures, to understand the design effectiveness of processes and internal controls, in the first half year of 2016 to support our knowledge and understanding at the early stage of our audit; and
- Introduction meetings with the European Central Bank as key regulator of the Bank.

We discussed and agreed our audit plan with the Bank's Audit Committee in April 2016 and we reported status, progress and key findings from our half year review and audit process during the year.



Materiality

The scope of our audit is influenced by the application of materiality which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	EUR 135 million
Benchmark applied	5% of profit before tax
Rationale for benchmark	This benchmark is a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. On this basis we believe that profit before tax is an important metric for the financial performance of the company.
Component materiality	To each component in our audit scope, we allocate, based on our judgement, materiality that is less than our overall group materiality. The range of materiality allocated across components was between EUR 18.5 million and EUR 45 million.

Next to the quantitative considerations as outlined above we have also focused in our audit on the accuracy and completeness of the fair value disclosure, which is an example of taking into account misstatements and/or possible misstatements, that in our judgement, are material for qualitative reasons.

We agreed with the Supervisory Board that we would report to them misstatements identified during our audit above EUR 6.25 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit

Coöperatieve Rabobank U.A. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of Coöperatieve Rabobank U.A.

Rabobank has an internal audit department ('Audit Rabobank') that performs operational audits, compliance audits, IT audits, loan (valuation) audits, culture and behaviour audit and a full financial statement audit. Audit Rabobank issues an audit opinion on the financial statements of Rabobank (for internal purposes only) to the Supervisory Board, Audit Committee and Executive Board. We considered, in the context of audit standard 610 'Using the work of internal auditors', whether we could

make use of the work of Audit Rabobank and we concluded that this was appropriate. To arrive at this conclusion, we evaluated the competence, objectivity and level of systematic and disciplined approach applied by Audit Rabobank, and more specific the financial audit team of Audit Rabobank. Subsequently we developed a detailed approach and model to make use of the work of Audit Rabobank in our 2016 financial statement audit. We were substantially and independently involved in the higher risk areas and or in areas or procedures that require significant judgement. During the audit process we worked closely with Audit Rabobank, had frequent status meetings and reviewed and reperformed some of their work which confirmed our initial assessment and reliance approach.

The group audit focused on the significant components: Domestic Retail Banking Netherlands (not including Obvion and other associated entities), Wholesale Banking Netherlands and Treasury (WRR) and De Lage Landen (DLL).

These three components were subject to audits of their complete financial information as those components are individually financially significant to the group. Additionally, 17 components were selected for full scope audit procedures to achieve appropriate coverage on financial statement line items in the financial statements. And another six components were subjected to specific audit procedures on certain financial statement line items only to achieve appropriate overall coverage on financial statement line items.

Group entities in the Netherlands included the significant components Domestic Retail Banking Netherlands, WRR and DLL, but also included Real Estate Group, FGH Bank, Obvion and some other smaller components. The group engagement team utilized the work of component teams for these entities. For components in the USA, Australia, Brazil, the UK, Ireland, Hong Kong and Indonesia, we used component auditors who are familiar with the local laws and regulations to perform the audit work.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

Total assets	97%
Profit before tax	94%
Revenue	94%

None of the remaining components represented individually more than 1% of total group assets, profit before tax or revenues. For these remaining components we performed, amongst other procedures, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within these components.

In the current year the group engagement team visited the Netherlands, USA, the UK, Australia and Brazil at least once. During these visits the group engagement team met with the component teams and with local management. Where the work was performed by component auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole.

The group consolidation, financial statement disclosures and a number of complex items are audited by the group engagement team at the head office. By performing the procedures above at components, combined with the additional procedures at group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the group. These procedures in totality provided a basis for our opinion on the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance to the audit of the financial statements. We have communicated the key audit matters to the Supervisory Board, however these should not be regarded as a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters or on specific elements of the financial statements. Any comments we make on the results of our procedures should be read in this context.

Key audit matter	How our audit addressed the matter
<p>Impairment of loans and advances to customers</p> <p>Refer to note 2.15 'Loans and advances to customers and loans and advances to banks' and note 11 'Loans and advances to customers'. We focused on this area because management makes complex and subjective judgements over both timing of recognition and the estimation of the size of any such impairment. Within Rabobank the impairment consists out of three different components being:</p> <ul style="list-style-type: none"> • Impairments for specifically identifiable individually impaired loans or advances ('specific allowance'); • Model based impairments for Incurred But Not Reported losses (referred to by the Bank as 'general allowance'); and • Model based impairments to cover impairment risks in impaired loans with individually low exposures ('collective allowance'). <p>The judgements and estimation uncertainty is primarily linked to the following:</p> <ul style="list-style-type: none"> • The identification and follow-up of impairment triggers and the underlying calculation of the allowances; • Regarding the specific allowance the valuation of the future cash flows based on the appropriate use of key parameters and the assessment of the recoverable amount; • The models that support the general and collective allowance; • Post model adjustments that management applies because the models do not take into account the groups consolidated market-, sector- and industry risk as well as latest macro-economic trends so that the provisions reflect conditions at the balance sheet date. 	<p>Internal controls</p> <p>We understood, evaluated and tested the operating effectiveness of key controls and focused on:</p> <ul style="list-style-type: none"> • Credit management including the identification of impairment triggers; • The governance over impairment models, including the continuous reassessment of management that the impairment models are still calibrated in a way that addresses the impairment risk in accordance with the IFRS standards; • The completeness and accuracy of transfer of data from the underlying source systems to the impairment models; and • The review and approval process that management has in place for the outputs of the impairment models, and the adjustments that are applied to modelled outputs. <p>We found that these key controls were designed and implemented. Most of these controls operated effectively. For certain controls remedial action was taken by management. Based on the testing of controls and additional testing of remedial actions we determined that we could place reliance on these controls for the purpose of our audit.</p> <p>Substantive audit procedures</p> <p>For a sample of individually impaired loans, we took note of the latest developments at the borrowers' and considered whether key judgements were appropriate. We challenged management's inputs including the future cash flows, the valuation of collateral and tested the key parameters. In addition we selected a sample of individual loans from the 'performing book' and the so called 'watch list'. Our procedures did not identify any material differences.</p> <p>We tested the impairment models for the general and collective allowance. We performed backtesting procedures on a sample of key model parameters and we challenged management and they provided us with reasonable explanations and evidence supporting the key model parameters, in line with market and industry practice.</p> <p>We challenged management on the post model adjustments to provide objective evidence that these adjustments were necessary to balance the Bank's sector, industry or macro economical exposure, and we found the provided support reasonable</p>

Key audit matter	How our audit addressed the matter
<p>Valuation of financial instruments Refer to note 2 'Accounting policies' and note 4.9 'Fair value of financial assets and liabilities'.</p> <p>The financial instruments that are measured at fair value and are significant for the financial statements are:</p> <ul style="list-style-type: none"> • Trading positions • Derivatives • Liabilities at fair value. <p>For financial instruments that are actively traded and for which quoted market prices or market parameters are available, there is less judgement involved in the determination of fair values (level 1 instruments). However, when observable market prices or market parameters are not available the fair value is subject to significant judgement. This is relevant for derivatives and liabilities at fair value. The fair value of these financial instruments is determined through the application of valuation techniques and estimates which involve management judgement (level 2 and level 3 instruments).</p> <p>In particular we focused on the significant estimation uncertainties in:</p> <ul style="list-style-type: none"> • The valuation of derivatives that include bilateral credit valuation adjustments (BCVA); and • The valuation of liabilities at fair value that include own credit adjustments (OCA). <p>BCVA is sensitive to the value of uncollateralised derivative financial instruments and their expected future market volatility.</p> <p>The liabilities at fair include own debt securities in issue, debt securities in issue structured and subordinated liabilities. For OCA Rabobank values its own liabilities using valuation models. Since the market for own funding of Rabobank is not highly active, management utilizes other observable market data points. In 2016 Rabobank decided to early adopt and retrospectively apply the IFRS 9 accounting provision for the OCA.</p>	<p>Internal controls We understood, evaluated and tested the operating effectiveness of key controls and focused on:</p> <ul style="list-style-type: none"> • The governance over models, including the support and approval process of the models and any subsequent changes to these models; • Controls over the completeness and accuracy of data inputs; • The Bank's independent price verification process that reviews the reasonableness of models and outputs; and • The governance, review and approval process that management has in place for BCVA, and OCA. <p>We determined that we could place reliance on these controls for the purpose of our audit.</p> <p>Substantive audit procedures We evaluated the assumptions, methodologies and models used by Rabobank for derivatives and financial liabilities at fair value. We have performed sensitivity testing on key assumptions, and reconciled model inputs to actual market transactions as far as possible. For key data inputs for which no market data were available we challenged management's judgement. These key data inputs relate mostly to:</p> <ul style="list-style-type: none"> • Value of uncollateralised derivative financial instruments; • Expected future market volatility; and • Creditworthiness of the Bank's counterparties. <p>We challenged management on the (right) use of comparable market transactions to demonstrate their appropriateness of these key data inputs. Based upon our work performed on these inputs we view the outcome of management's estimates and judgement as reasonable. Next to the procedures outlined above we performed an independent valuation of a sample of derivative positions. In some cases our independent valuation resulted in different values as compared to those calculated by management. We have assessed that those differences fell within the range of reasonable outcomes, in the context of the inherent uncertainties and use of models and assumptions.</p> <p>Disclosures We assessed the Bank's application of OCA under the early adopted IFRS 9 standard and noted that the impact amounts to EUR 365 million for 2016 and is appropriately presented in other comprehensive income instead of the statement of income. In our procedures we focused on the accurate presentation of financial instruments at fair value into level 1-3 and noted no material exceptions.</p>
<p>Hedge accounting Refer to note 2.3 'Derivatives and hedging' and note 10 'Derivatives'. The Bank manages its structural interest rate risk as well as exchange rate risk through hedges. If the hedge relationship meets the requirements of IAS 39, hedge accounting is applied. Hedge accounting is a technique that modifies the normal basis for recognising gains and losses (or revenues and expenses) on associated hedging instruments and hedged items, so that both are recognised in the statement of income (or OCI) in the same accounting period.</p> <p>The application of hedge accounting is judgemental and requires detailed calculations and documentation and that is why we determined this to be a key audit matter.</p>	<p>Internal controls We understood, evaluated and tested the operating effectiveness of key controls and focused on:</p> <ul style="list-style-type: none"> • The operating effectiveness of controls over the designation and ongoing management of hedge accounting relationships, including the periodic testing of hedge effectiveness; • Management's model validation controls that calculates the fair value of hedging relationships; • Checks and balances on the reasonableness of these fair values through independent source calculations of the fair values; and • Validation of controls around the appropriate monitoring and elimination of inter group hedging instruments. <p>We determined that we could place reliance on these controls for the purpose of our audit.</p> <p>Substantive audit procedures Testing has been performed over all key year-end reconciliations between source systems and the hedge accounting systems that maintain the hedging models to calculate the hedge effectiveness. Substantive procedures were focused on the application of hedge accounting which included, examining hedge accounting documentation to assess whether the documentation complied with the EU-IFRS requirements. The hedge accounting documentation appropriately supports the use of hedge accounting by the Bank.</p>
<p>Valuation of equity investments Refer to note 2.2.2 'Investments in associates and joint ventures' and note 13.1 'Investments in associates'.</p> <p>Rabobank has a 29.21% ownership in the equity of Achmea B.V. ('Achmea'), a Dutch non-public insurance company. In the fall of 2016 Rabobank identified a number of triggers to perform impairment assessments on its equity investment in Achmea.</p> <p>These triggers included the increasing uncertainties in the Dutch health insurance market, the deteriorating business environment for Dutch insurers, market transactions and press releases issued by Achmea. Management determined the value in use and fair value less cost to sell ('fair value').</p> <p>The value in use calculation is sensitive to assumptions as the future cash flow projection, the cost of equity and access capital distributions. The fair value method utilizes market multiples as price to book or price to earnings.</p> <p>Management compared the highest of value in use and fair value to the carrying value of the investment resulted in an aggregated impairment of EUR 700 million.</p>	<p>Substantive audit procedures We independently assessed the value in use and fair value of Achmea. We challenged and assessed:</p> <ul style="list-style-type: none"> • Cost of capital • Future cash flow projections • Access capital distributions in combination with target solvency levels <p>We based our assessment of these elements on the historical performance of Achmea, market practice data, and experience of valuation techniques.</p> <p>We used price to book and price to earnings multiples for most comparable peers in the Netherlands and Europe for the fair value calculation. We benchmarked the outcome with market prices in the Netherlands.</p> <p>We performed sensitivity testing on management's key assumptions and the output of the value in use and fair value calculation for Achmea.</p> <p>Overall we believe the key assumptions are reasonable and that the outcome falls within our range of possible outcomes.</p>

Key audit matter	How our audit addressed the matter
<p>Litigation, regulatory and client care Refer to note 2.21 'Provisions', note 4.10 'Legal and arbitration proceedings' and note 25 'Provisions'. Given the continued regulatory focus on the financial services industry, there is a risk that claims and/or regulatory investigations emerge that could impact the financial statements.</p> <p>There is an inherent risk across the Bank that emerging compliance or litigation areas have not been identified and or addressed by management for financial statement purposes. This includes the consideration whether there is a need for the recognition of a provision or a contingent liability disclosure.</p> <p>The recognition and measurement of provisions and the disclosure of contingent liabilities requires considerable management judgement.</p> <p>We were informed that the Bank decided to adopt the Uniform Recovery Framework for SME Interest Rate Derivatives. As at 31 December 2016 the Bank included, in the aggregate, EUR 699 million in the SME provision.</p>	<p>Internal controls We understood, evaluated and tested the operating effectiveness of controls of the Bank to identify litigation and regulatory exposures within the group. We determined that we could place reliance on these controls for the purpose of our audit.</p> <p>Substantive audit procedures We met with different members of the Executive Board on a regular basis to understand the emerging and potential exposures that they had identified. We challenged management's view on these exposures based upon our knowledge and experience of emerging industry trends and the regulatory environment.</p> <p>We assessed customer complaints received and the analysis prepared by management of these complaints. We tested a sample of complaints to ensure this analysis was properly prepared. We used the analysis to understand whether there were indicators of more systematic exposures being present for which provisions or disclosures should be made in the financial statements.</p> <p>We read the Bank's relevant correspondence with the AFM, DNB and ECB. We met on a trilateral and bilateral basis with the DNB and ECB during the year.</p> <p>We read the minutes of the Executive Board and the Supervisory Board meetings and attended all Risk- and Audit committee meeting throughout the year. We held regular bilateral meetings with the Chairs of the Supervisory Board, Audit committee and Risk committee.</p> <p>We obtained legal letters from the external lawyers to validate the identified exposures.</p> <p>The majority of our detailed audit work was on the significant provision for SME interest rate derivatives. We assessed the reasonableness of assumptions and interpretations of the SME framework by management in relation to their calculations supporting the recorded provision and expenses.</p> <p>Disclosures Given the inherent uncertainty and the judgemental nature of contingent liabilities and provisions, we evaluated the disclosures made in the financial statements. In particular we focused on disclosures regarding SME interest rate derivatives, Libor/Euribor and Bank Secrecy Act/Anti-Money Laundering) framework For Rabobank, N.A. (RNA).</p> <p>We challenged management that the disclosures were significantly clear in highlighting the exposures and significant uncertainties that exist.</p>
<p>Audit implications of Rabobank's strategy execution Refer to note 2 'Accounting policies', note 15 'Property and equipment' and note 25 'Provisions'.</p> <p>Rabobank is in the midst of a transformation. Rabobank's strategic objectives have a direct and indirect impact on its financial statements.</p> <p>The direct impact in the financial statements relates to:</p> <ul style="list-style-type: none"> • Asset and portfolio disposals • Restructuring and related provisions <p>The accounting of asset and portfolio transactions are complex from a legal and accounting perspective and require judgements and estimates. The effects of the restructuring decisions involves judgement and estimates in the timing and recognition of the amounts involved.</p>	<p>Audit procedures We assessed the following significant asset disposals:</p> <ul style="list-style-type: none"> • Athlon car lease • RNHB Hypotheekbank • Mortgage portfolios <p>For these transactions we read the contracts, assessed the Bank's accounting paper and reviewed the presentation in the financial statements. For mortgage portfolios we assessed in particular whether the majority of the risk and rewards are transferred to the buyer and as a result the assets could be derecognized from the balance sheet. Based on these procedures we concur with management's position.</p> <p>The restructuring provision at 31 December 2016 amounts to EUR 461 million. We assessed the reasonableness of assumptions, calculations management provided and validated the appropriate application of IAS 37 requirements.</p> <p>On the property in own use we performed sample testing to validate the value at the lower of cost or market value. Overall we believe the assumptions used are reasonable and that the outcome falls within the range of reasonable outcomes.</p>
<p>Reliability and continuity of the information technology The Bank relies on the continuity and reliability of information technology (IT) for its operational, regulatory and financial reporting processes. The Bank's accounting and reporting processes, including automated and IT dependent manual controls, are heavily dependent on the continuity and reliability of information technology. Deficiencies in IT general controls as such could have a persuasive impact across the Bank's internal control framework. Therefore we identified the continuity and reliability of information technology of the Bank as a key audit matter.</p>	<p>Audit procedures Our efforts relating to understanding, evaluating and testing the operating effectiveness of IT General Controls (ITGCs) focused on:</p> <ul style="list-style-type: none"> • Access to programs and data <ul style="list-style-type: none"> - Logical access to applications, operating systems and data; - Security of the IT infrastructure; and - Physical access to datacenters. • Change Management <ul style="list-style-type: none"> - Centralized change management process; - Implementation of changes; and - Security testing of changes. • Computer Operations <ul style="list-style-type: none"> - Batch monitoring; - Continuity management; - Incident management; - Problem management; and - Vulnerability management. <p>We focused on the ITGCs to the extend relevant for the purpose our audit of the financial statements. We noticed that these key controls where designed and implemented. Our test procedures indicated that most of these controls operated effectively. For certain of the controls, in particular relating to logical access, remedial actions were carried out by the Bank. Based on the testing of controls and additional testing of the remedial actions we determined that we could place reliance on these controls for the purpose of our audit.</p>

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the chairman's foreword
- the management report;
- the corporate governance report
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains all information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures were substantially less than the scope of those performed in our audit of the financial statements.

The Executive Board is responsible for the preparation of the other information, including the management report and the other information pursuant to Part 9 Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of Coöperatieve Rabobank U.A. on 18 June 2015 by the Supervisory Board following the passing of a resolution by the members at the General Members Council held on 18 June 2015 for a total period of uninterrupted engagement appointment of 4 calendar years, 2016, 2017, 2018 and 2019. This resolution is subject to be renewed annually by members.

Responsibilities for the financial statements and audit

Responsibilities of the Executive Board and the Supervisory Board for the financial statements

The Executive Board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the Executive Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Executive Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Executive Board should prepare the financial statements using the going-concern basis of accounting unless the Executive Board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Executive Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements. The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 8 March 2017

PricewaterhouseCoopers Accountants N.V.

Original has been signed by P.J. van Mierlo RA

Appendix to our auditor's report on the financial statements 2016 of Coöperatieve Rabobank U.A.

In addition to what is included in our auditor's report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things, of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Board.
- Concluding on the appropriateness of the Executive Board's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the Bank's financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Independent Auditor's Assurance Report

To: The General Members Council and Supervisory Board of Coöperatieve Rabobank U.A.

Scope

We have performed an assurance engagement to report on the effectiveness of internal control over the consolidated financial reporting of Coöperatieve Rabobank U.A. (hereafter 'Rabobank') as at 31 December 2016, based on criteria established in 'Internal Control – Integrated Framework' issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) ('the COSO criteria').

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with the applicable financial reporting framework. A company's internal control over financial reporting includes those policies and procedures that:

1. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
2. provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with International Financial Reporting Standards as adopted in the European Union and Part 9 of Book 2 of the Dutch Civil Code, and that receipts and expenditures of the company are being made only in accordance with authorisations of management of the company; and
3. provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Executive Board's responsibility

The Executive Board of Rabobank is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying executive board's report on internal control over financial reporting.

The statement of the Executive Board regarding its assessment of the effectiveness of internal over financial reporting is included in note 52 of the consolidated financial statements.

Auditor's responsibility

Our procedures were designed to enable us to express a reasonable assurance opinion on the effectiveness of the Rabobank's internal control over consolidated financial reporting as at 31 December 2016. We conducted our assurance engagement in accordance with Dutch Law, including the Dutch Standard 3000 'Assurance-engagements other than audits or reviews of historical financial information' based on the COSO criteria. This requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our assurance engagement included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk and other procedures as we considered necessary in the circumstances. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Inherent Limitations

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

Our opinion is provided based on the matters as explained in this assurance report.

In our opinion, Rabobank maintained, in all material respects, effective internal control over the consolidated financial reporting as of 31 December 2016, based on the COSO criteria.

Amsterdam, 8 March 2017

PricewaterhouseCoopers Accountants N.V.

Original has been signed by P.J. van Mierlo RA



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Statements

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Annual figures

Statement of financial position (before profit appropriation)

Statement of financial position			
<i>Amounts in millions of euros</i>	<i>Note</i>	<i>31 December 2016¹</i>	<i>31 December 2015</i>
Assets			
Cash and balances at central banks	1	83,568	63,403
Short-term government papers	2	801	860
Professional securities transactions		12,596	17,944
Other loans and advances to banks		35,093	90,493
Loans and advances to banks	3	47,689	108,437
Public sector lending		3,099	2,915
Private sector lending		366,544	121,120
Professional securities transactions		16,536	19,783
Loans and advances to customers	4	386,179	143,818
Interest-bearing securities	5	81,148	86,476
Shares	6	963	778
Interests in group companies	7	15,179	18,589
Other equity investments	8	1,699	2,672
Goodwill and other intangible assets	9	477	469
Tangible fixed assets	10	1,754	935
Other assets	11	4,786	4,378
Derivatives	12	47,041	57,239
Prepayments and accrued income	13	1,200	1,381
Total assets		672,484	489,435
Liabilities			
Professional securities transactions		418	81
Other liabilities to banks		21,182	41,261
Due to banks	14	21,600	41,342
Savings		134,180	21,098
Professional securities transactions		209	486
Other due to customers		198,165	99,779
Due to customers	15	332,554	121,363
Debt securities in issue	16	150,266	166,501
Other liabilities	17	59,049	57,920
Derivatives	12	48,335	63,424
Accruals and deferred income		2,353	2,239
Provisions	18	1,481	499
Subordinated liabilities	19	17,256	17,332
		632,894	470,620
Capital		-	600
Premium		-	5,402
Rabobank Certificates		5,948	5,949
Capital Securities		7,821	8,002
Revaluation reserves		431	792
Legal reserves		752	641
Other reserves		22,678	(3,479)
Profit for the year		1,960	908
Equity	20	39,590	18,815
Total equity and liabilities		672,484	489,435
Contingent liabilities	28	26,358	18,970
Irrevocable facilities	29	45,202	45,449

1 For the consequences of the legal merger, please refer to paragraph 'Legal merger'

Statement of income

Statement of income			
		<i>For the year ended 31 December</i>	
<i>Amounts in millions of euros</i>	<i>Note</i>	<i>2016</i>	<i>2015</i>
Interest income	21	14,931	8,812
Interest expense	21	9,434	8,280
Net interest income	21	5,497	532
Fee and commission income	22	1,927	516
Fee and commission expense	22	212	218
Net fee and commission income	22	1,715	298
Income from equity interests	23	2,017	796
Net income from financial transactions			
Trading portfolio		40	147
Investment portfolio		214	533
Other results		514	1,948
Income		9,997	4,254
Staff costs	24	3,307	1,558
Other administrative expenses		3,054	1,381
Depreciation		342	233
Operating expenses		6,703	3,172
Impairment losses on investments in associates		700	-
Loan impairment charges		155	194
Regulatory levies	25	424	138
Operating profit before taxation		2,015	750
Income tax	26	55	(158)
Net profit		1,960	908

Notes to the company financial statements

Accounting policies

1 Basis of preparation

The company financial statements of Rabobank, a credit institution as referred to in Section 1:1 of the Financial Supervision Act, have been prepared in accordance with accounting policies generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. With one exception, these accounting policies are the same as those used in preparing the consolidated financial statements of Rabobank Group, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The exception is the valuation of participating interests (and joint ventures). The participating interests are valued at net asset value.

The hedge accounting entries used in the consolidated financial statements are also applied in the company financial statements. Due to the legal merger, the vast majority of the hedged items used for consolidated hedge accounting became part of the statement of financial position of the company financial statements. The hedge accounting adjustment in the company financial statements is therefore no longer applied to the intercompany loans but to the hedged items itself using combination 3 (Option 3 RJ). The impact of this application is shown in paragraph 'Legal merger'.

Rabobank Group, the Coöperatieve Rabobank U.A. (Rabobank) and the legal entities and companies that form part of the group, is an international financial services provider operating on the basis of cooperative principles. On 1 January 2016, the local Rabobanks and the Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. entered into a legal merger. Furthermore, on 1 January 2016, the name of the Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. was changed into Coöperatieve Rabobank U.A. Rabobank has its registered office in Amsterdam.

Legal merger

After discussions between:

1. Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., Amsterdam;
2. The cooperative member banks of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.

it was decided at the respective meetings of the members' councils of the banks concerned (2) on 2 December 2015 and at the General Meeting of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. on 9 December 2015 to enter into a legal merger as of 1 January 2016.

One of the consequences of the decisions taken was that the former bank (1) received the assets of the banks referred to (2) under universal title and the banks referred to (2) ceased to exist.

During the aforementioned General Meeting, the bank (1), in connection with the merger, decided to change its name to Coöperatieve Rabobank U.A. as of 1 January 2016. Until 1 January 2016, each of the banks (2) was a 'U.A.' (cooperative with limited liability whereby the members are not liable for any deficit). Until that date, the bank (1) was a 'B.A.' (cooperative with limited liability where the members are liable for the deficit up to the level specified in the Articles of Association) with the banks as the only members (2). As a result of the merger the banks' members (2) became the only members of the merged bank (1). By changing the members' liability regime from B.A. to U.A. in the bank's (1) Articles of Association the liability regime remained de facto unchanged for the members who were members of the banks (2) before the merger and members of the merged bank (1) after the merger.

The local Rabobanks' assets and liabilities are included in the company financial statements as of 1 January 2016 at the book value at which they were included in the consolidated financial statements of Rabobank Group. Find below the statement of financial position as per 1 January 2016 and the consequences of the legal merger.

Impact of the legal merger		
	1 January 2016	31 December 2015
<i>Amounts in millions of euros</i>		
Assets		
Cash and balances at central banks	64,001	63,403
Short-term government papers	860	860
Loans and advances to banks	75,759	108,437
Loans and advances to customers	392,853	143,475
Interest-bearing securities	86,476	86,476
Shares	780	778
Interests in group companies	16,984	18,589
Other equity investments	2,688	2,672
Goodwill and other intangible assets	470	469
Tangible fixed assets	1,978	935
Other assets	4,383	4,721
Derivatives	57,580	57,239
Prepayments and accrued income	1,290	1,381
Total assets	706,102	489,435
Liabilities		
Due to banks	25,930	41,342
Due to customers	331,538	121,363
Debt securities in issue	166,501	166,501
Other liabilities	58,410	57,920
Derivatives	63,424	63,424
Accruals and deferred income	2,397	2,239
Provisions	996	499
Subordinated liabilities	17,332	17,332
	666,528	470,620
Equity	39,574	18,815
Total equity and liabilities	706,102	489,435

New and amended standards issued by the International Accounting Standards Board (IASB) and adopted by the European Union, that are applicable to the current financial year

Early adoption of a specific part of IFRS 9 on fair value of financial liabilities designated at fair value through profit or loss

According to paragraph 7.1.2 of IFRS 9 ('Financial Instruments'), an entity may early adopt the requirement to present changes in the fair value of financial liabilities designated at fair value through profit or loss that are attributable to changes in credit risk in other comprehensive income ('OCI'). Rabobank has elected to early adopt this requirement in IFRS 9 for the own credit adjustment included in the valuation of financial liabilities designated at fair value through profit or loss, which mainly consists of the structured notes portfolio. Excluding fair value changes resulting from changes in own credit risk from the statement of income means that Rabobank will no longer report profits or losses when the creditworthiness of Rabobank changes. As a result of early adopting this requirement in IFRS 9, the fair value changes resulting from own credit risk are accounted for in OCI in equity (net of tax) as opposed to the statement of income. When financial liabilities designated at

fair value through profit or loss are derecognised (for instance due to buy-backs) the cumulative own credit risk adjustment remains in equity and is reclassified from OCI to retained earnings at the end of each reporting period, without being recycled to the statement of income.

The early adoption to report own credit adjustment on financial liabilities designated at fair value through profit or loss in OCI has been applied by Rabobank as from 1 January 2016. Comparative figures have not been restated. Differences have been recorded in the opening balance sheet as at 1 January 2016 as follows:

Impact of early adoption of IFRS 9 at 1 January 2016	
<i>Amounts in millions of euros</i>	
Revaluation reserve – Fair value changes due to own credit risk on financial liabilities designated at fair value	
Closing balance as at 31 December 2015	-
Reclassification from retained earnings	62
Opening balance as at 1 January 2016	62
Retained earnings	
Closing balance as at 31 December 2015	(3,304)
Reclassification of own credit adjustment on financial liabilities designated at fair value	(62)
Opening balance as at 1 January 2016	(3,366)

In 2016 Rabobank recognised a loss of 365 (net of tax) in OCI relating to fair value changes in financial liabilities designated at fair value through profit or loss resulting from changes in own credit risk. As a result net profit in 2016 would have decreased by 365 if Rabobank would not have elected to early adopt this element of IFRS 9. In 2016 0 has been reclassified from OCI to retained earnings as a result of derecognition of financial liabilities designated at fair value through profit or loss. There were no other changes to the classification and measurement of financial liabilities designated at fair value.

Improvements to International Financial Reporting Standards cycle 2012-2014

On 25 September 2014, the International Accounting Standards Board (IASB), in the context of its periodic improvement process, which is intended to streamline and clarify standards, proceeded to publish the Annual improvements in International Financial Reporting Standards cycle 2012-2014 ('the annual improvements'). The objective of the improvements is to address non-urgent, but necessary issues, discussed by the IASB during the project cycle, on areas of inconsistencies in International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) or ambiguous wording. These improvements became effective on 1 January 2016 and have no impact on profit or equity.

Amendments to IAS 1: Disclosure initiative

The purpose of the amendments was to achieve a more efficient provision of information and to encourage companies to seek professional advice for determining which information needs to be provided in the annual financial statements when they apply IAS 1. This amendment became effective on 1 January 2016 and has no impact on profit or equity.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

On 12 May 2014, the International Accounting Standards Board (IASB) published amendments to IAS 16 Tangible fixed assets and to IAS 38 Intangible assets. These amendments were introduced under the title Clarification of acceptable depreciation methods. As there are various different practices, it needs to be clarified whether it is appropriate to implement methods based on revenues for the calculation of the depreciation of an asset. This amendment became effective on 1 January 2016 and has no impact on profit or equity.

Amendments to IFRS 10, IFRS 12 and IAS 28: Investment entities: Applying the Consolidation Exception

These are narrow-scope clarifications of guidance, specifically related to investment entities. Because Rabobank is not an investment entity these amendments do not have an effect on the consolidated financial statements.

Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations

These amendments offer new guidelines on the administrative processing of an acquisition of an interest in a joint business operation, where this operation of the joint business operation constitutes a company. This amendment became effective on 1 January 2016 and has no impact on profit or equity.

IFRS 9 Financial Instruments

In July 2014, the IASB published IFRS 9 Financial Instruments as the replacement for IAS 39 Financial Instruments: Recognition and Measurement. The new standard becomes effective on 1 January 2018 and is endorsed by the EU on 22 November 2016. IFRS 9, in particular the impairment requirements, will lead to significant changes in the accounting for financial instruments.

Classification and measurement

Financial assets are classified and measured in two ways: how Rabobank manages them, and the type of contractual cash flows in these assets. Both are used to determine whether the financial assets are included at amortised cost, fair value with adjustments in the values thereof processed through other comprehensive income (FVOCI), or through the profit

and loss account (FVTPL). In many cases, the classification and measurement will be in line with IAS 39, but may deviate with respect to embedded derivatives and equity instruments. There are almost no changes in the processing of financial liabilities with the exception of certain liabilities at fair value where the results have to be included in other comprehensive income because of changes to Rabobank's own credit risk. Rabobank has elected to early adopt this specific part of IFRS 9 on fair value of financial liabilities designated at fair value through profit or loss.

Impairments - Requirements

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

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

Impairments – Differences with current IAS 39 methodology

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

Impairments – Key concepts and their implementation at Rabobank

Two fundamental drivers of the IFRS 9 impairment 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 (ECL's)

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

b) Stage determination criteria

In order to allocate financial instruments in scope between the categories 12 month-ECL (also named 'Stage 1'), Lifetime ECL Non-Credit Impaired (also named 'Stage 2') and Lifetime ECL Credit Impaired (also named 'Stage 3') a framework has been developed of both qualitative and quantitative factors. As the credit-impaired definition used for IFRS 9 purposes is aligned with the default definition utilized 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 a debtor becoming unlikely to pay its credit obligations without recourse by the bank. In order to allocate financial instruments between stages 1 and 2 criteria are utilized that are currently applied in the credit process, such as days past due status and special asset management status. Also, quantitative criteria are used related to the probability of default, where a financial instrument is allocated to stage 2 when an increase in the weighted average probability of default since origination, exceeds a predefined threshold.

Impairments – Expected impact

With the introduction of IFRS 9, allowance levels are expected to increase due to the addition of Stage 1 and Stage 2 categories which are recognised on financial instruments that did not previously meet the criteria for having an allowance assigned under IAS 39. This subsequently also leads to a decrease in equity (net of income tax). However, the increase in allowance levels due to the addition of Stage 1 and 2 is offset by the release of the current IAS 39 allowance for Incurred But Not Reported (IBNR) losses, which partly compensates the overall increase. Rabobank is currently still in the process of developing ECL models. At this point in time these are not yet completed and validated for the majority of the portfolio it is currently not possible to make a reliable estimate on the quantitative impact of IFRS 9 on profit or equity at adoption date. We expect to disclose a quantitative impact on IFRS 9 in our 2017 Interim Financial Statements.

Impairments – Expected impact - Capital Planning

As IFRS equity, including retained earnings, is the basis for determining Common Equity Tier 1 (CET1) any decrease in IFRS equity is also expected to have a negative impact on Common Equity Tier 1. However, for Advanced-IRB banks the relationship between IFRS Equity and Common Equity Tier 1 is effected by the current regulations on the 'IRB Expected Loss Shortfall'. This IRB shortfall represents the difference between 1) the provisions determined for accounting purposes and 2) the provisions (or expected losses) determined under the IRB approach. Where (1) is lower than (2) a Shortfall exists and an additional deduction is made from IFRS equity in order to arrive at Common Equity Tier 1. Note, the reason for a IRB Shortfall lies to a large extent in the conservatism applied in the IRB approach, such as applying economic downturn factors to collateral values (also named Loss Given Default Downturn Factor). The decrease in IFRS Equity (due to the introduction of IFRS 9) and the resulting impact that this decrease has on Common Equity Tier 1 is partly compensated by the corresponding lower IRB shortfall deduction. For Rabobank the IRB shortfall is expected to limit the impact on Common Equity Tier 1 – based on the 2016 IRB Shortfall levels and the end 2016 general economic environment.

The regulations regarding the regulatory treatment of accounting provisions, including the phase-in of a negative capital impact, are currently being revisited by the Basel Committee for Banking Supervision.

Hedge accounting - Requirements

Hedge accounting is an option IFRS offers to mitigate P&L swings caused by measurement and classification differences between granted loans and issued debt measured at amortised cost, assets measured on fair value through OCI (hedged items)

and relating hedging derivatives measured at fair value through P&L (hedging derivatives).

The assets and liabilities measured at amortised cost are revalued for the fair value changes due to the hedged risk. For assets measured at fair value through OCI the fair value changes due to the hedged risk on the assets recognised in OCI is reclassified to P&L. In a cash flow hedge the fair value changes of the derivative are booked in the cash flow hedge reserve (effective part only).

Hedge accounting – Differences with current IAS 39 methodology

The main differences between IAS 39 and IFRS 9 for micro hedge accounting are that IFRS 9 does not permit voluntary de-designation of the hedge relationship and does not prescribe a specific effectiveness testing range anymore (IAS 39: 80-125%).

Additionally IAS 39 does not have a specific accounting solution for hedge accounting with cross-currency swaps (currency basis) when used as hedging instruments, while IFRS 9 does. Under IFRS 9 the currency basis spreads are considered as costs of hedging and fair value changes caused by currency basis spread can be recognised through OCI.

Hedge accounting – Expected impact

At the moment Rabobank is in the process of exploring whether to continue with IAS 39 or to move on to IFRS 9 for the micro hedge accounting to benefit from the specific treatment of currency basis in IFRS 9 per 1 January 2018.

We expect to be able to designate more effective micro hedge accounting relationships with cross currency swaps under IFRS 9 and reduce the P&L volatility caused by currency basis, which will be recorded in OCI.

IFRS 9 does not offer a solution for portfolio hedge accounting and Rabobank will use the option IFRS 9 provides to continue to apply IAS 39 for portfolio hedge accounting.

Application

The rules governing classification, measurement and impairments will be applied retrospectively by amending the opening balance sheet on 1 January 2018. There is no obligation to amend the comparative figures.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The original effective date of IFRS 15 has been delayed by one year and the standard is now effective for annual periods beginning on or after 1 January 2018 with early application permitted. IFRS 15 provides a principles-based

approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied.

The standard should be applied retrospectively, with certain practical expedients. The standard does not apply to financial instruments, insurance contracts or lease contracts. Rabobank has not finalized the investigation of the impact on the financial statements and the practical expedients but the current assessment is that this new standard will not have a significant impact on profit or equity.

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

IFRS 16 Leases

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

IFRS 14 Regulatory Deferral Accounts

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

Other amendments to IFRS

There have been minor amendments to IFRS 2, IFRS 15, IAS 12 and IAS 7.

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

Other changes in accounting principles and presentation

Changes in presentation

IAS 32 'Financial Instruments: Presentation' prescribes that a financial asset and a financial liability shall be offset when there is a simultaneous legally enforceable right to set off and an 'intention to settle on a net basis'. Rabobank has both the legally enforceable right (by contract) to set off the amounts under a notional cash pooling arrangement as well as the intention to settle on a net basis. IFRS is principle based and does not prescribe how the intention to settle on a net basis

is evidenced. Rabobank applies certain practices to evidence that the requirement of 'intention to settle net' is met. In April 2016, an Agenda Rejection Notice was published by the IFRS Interpretations Committee ('IFRIC') on balance sheet offsetting of notional cash pooling products. The issue relates to the question whether certain cash pooling arrangements would meet the requirements for offsetting under IAS 32. The IFRIC provided further clarification that the transfer of balances into a netting account should occur at the period end to demonstrate an intention to settle on a net basis. As a result of the Agenda Rejection Note, the comparable figures have been adjusted by reversing the netting that took place in 2015. The Loans and advances to customers and Deposits from customers have been increased by EUR 5,466 million per December 2015. In the second half 2016 Rabobank re-assessed its cashpooling contracts also in light of the IFRIC clarification and the IFRS requirements around unit of accounts. This analysis showed that the contracts qualify for unit of accounts accounting. The amount involved as per 31 December 2016 is EUR 4,989 million.

Structured inventory products have been reclassified from other assets to loans to customers as per 31 December 2015 for an amount of 418. This change results in a better alignment with the extent to which the risks and rewards of the underlying commodities are transferred.

As per 1 January 2016, it is no longer allowed to draw up the statement of income for OOBs (organisaties van openbaar belang) in accordance with Section 402, Book 2 of the Dutch Civil Code.

Going concern

The Executive Board considers it appropriate to adopt the going concern basis of accounting in preparing these financial statements.

Judgements and estimates

In preparing these 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 critical estimates that are based on assessments and assumptions. Although management estimates are based on the most careful assessment of current circumstances and activities on the basis of available financial data and information, the actual results may deviate from these estimates.

Loan impairment allowance

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

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

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

See section 7 'Loans and advances to banks' and section 11 'Loans and advances to customers' of the consolidated financial statements for an analysis of the loan impairment allowances on loans to customers and banks.

Fair value of financial assets and liabilities

Information regarding the determination of the fair value of financial assets and liabilities is included in paragraph 4.9 'Fair value of financial assets and liabilities' and paragraph 10 'Derivatives' of the consolidated financial statements.

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 judgments 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 Section 14 and for investments in associates and joint ventures are set out in Section 13 of the consolidated financial statements.

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.

Other provisions

In applying IAS 37 judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. More information on judgements regarding the provision for SME derivatives and the restructuring provision is included in section 25 Provisions of the consolidated financial statements.

The consolidation of structured entities is a critical estimate that requires judgement and is described in section 50 Structured entities of the consolidated financial statements.

2 Other accounting policies

2.1 Subsidiaries

The participating interests over which Rabobank has control are its subsidiaries. Control is exercised over a participating interest if the investor is entitled to receive variable returns from its involvement in the participating interest and has the ability to influence these returns through its control over the participating interest. The subsidiaries are stated at net asset value.

2.2 Investments in associates and joint ventures

Investments in associates and joint ventures are initially recognised at cost and subsequently accounted for using the equity method of accounting. Its share of post-acquisition profits and losses are recognised in the income statement

and its share of post-acquisition movements in reserves are recognised directly in other comprehensive income.

The cumulative post-acquisition movements are included in the carrying amount of the investment.

Associates are entities over which Rabobank can exercise significant influence and in which it generally holds between 20% and 50% of the voting rights but does not have control.

A joint venture is an agreement between one or more parties under which the parties jointly have control and are jointly entitled to the net assets under the agreement. Unrealised profits on transactions between Rabobank and its associates and joint ventures are eliminated in proportion to Rabobank's interest in the respective associates and joint ventures.

Unrealised losses are also eliminated unless the transaction indicates that an impairment loss should be recognised on the asset(s) underlying the transaction.

Investments in associates include the goodwill acquired.

Where the share of an associate's losses is equal to or exceeds its interest in the associate, losses are recognised only where Rabobank has given undertakings to, or made payments on behalf of, the associate.

2.3 Derivatives and hedging

Derivatives generally comprise foreign exchange contracts, currency and interest rate futures, forward rate agreements, currency and interest rate swaps and currency and interest rate options (written or acquired). Derivatives are recognised at fair value determined on the basis of listed market prices (with mid-prices being used for EUR, USD and GBP derivatives that have a bid-ask range), prices offered by traders, discounted cash flow models and option valuation models based on current market prices and contract prices for the underlying instruments and reflecting the time value of money, yield curves and the volatility of the underlying assets and liabilities. Derivatives are included under assets if their fair value is positive and under liabilities if their fair value is negative. If their risks and characteristics are not closely related to those of the underlying non-derivative host contract and the contract is not classified as at fair value, derivatives that are embedded in other financial instruments are bifurcated and measured separately with unrealised profits and losses being recognised in profit and loss in 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss'.

2.4 Financial assets and liabilities held for trading

Financial assets held for trading are financial assets acquired with the objective of generating profit from short-term fluctuations in prices or trading margins or they are financial assets that form part of portfolios characterised by patterns of short-term profit participation. Financial assets held for trading are recognised at fair value based on listed bid prices

and all realised and unrealised results therefrom are recognised under 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss'. Interest earned on financial assets is recognised as interest income. Dividends received from financial assets held for trading are recognised as 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss'.

Financial liabilities held for trading are mainly negative fair values of derivatives and delivery obligations that arise on the short selling of securities. Securities are sold short to realise gains from short-term price fluctuations. The securities needed to settle short sales are acquired through securities lending and repurchasing agreements. Securities sold short are recognised at fair value on the reporting date.

2.5 Other financial assets and liabilities designated at fair value

On initial recognition, certain financial assets (including direct and indirect investments in venture capital and excluding assets held for trading) and certain liabilities are included as 'Financial assets and liabilities at fair value through profit or loss' where any of the following criteria are met:

- This accounting eliminates or substantially reduces any inconsistent treatment that would otherwise have arisen upon measurement of the assets or liabilities or recognition of profits or losses on the basis of different accounting policies;
- The assets and liabilities belong to a group of financial assets and/or financial liabilities that are managed and assessed on the basis of their fair value in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly affect the cash flows or if it is evident that separate recognition is not required.

Interest earned and due on such assets and liabilities is recognised as interest income and expense, respectively. Other realised and unrealised gains and losses on the revaluation of these financial instruments to fair value are included under 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss' except for fair value changes due to own credit risk of financial liabilities designated at fair value. These fair value changes after tax are presented in other comprehensive income under line item 'Fair value changes due to own credit risk on financial liabilities designated at fair value'. Purchases and sales of all other financial assets and liabilities designated at fair value and which are required to be delivered within a regulatory-prescribed period or in accordance with market conventions are recognised on the transaction date.

2.6 Day 1 gains

When using fair value accounting at the inception of a financial instrument, any positive difference between the transaction price and the fair value (referred to as 'day 1 gain') is accounted for immediately under 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss' where the valuation method is based on observable inputs from active markets. In all other cases, the entire day 1 gain is deferred and accounted for as 'Other liabilities'. After initial recognition the deferred day 1 gain is recognised as a gain to the extent it results from a change in a factor (including time effects).

2.7 Available-for-sale financial assets

Financial assets are classified on the date of acquisition, with the classification dependent on the purpose for which the investments are acquired. Financial assets are classified as available for sale if they are intended to be held for an indefinite period of time and could be sold for liquidity purposes or in response to changes in interest rates, exchange rates or share prices.

Available-for-sale financial assets are initially recognised at fair value, including transaction costs, based on quoted bid prices or at values derived from cash flow models. The fair values of unlisted equity instruments are estimated on the basis of appropriate price/earnings ratios, adjusted to reflect the specific circumstances of the respective issuer. Any unrealised gains and losses from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income unless they relate to amortised interest or exchange rate differences on monetary assets, in which case they are taken through profit and loss. As and when such financial assets are disposed of, the adjustments to fair value are transferred to the statement of Income.

Debt instruments are impaired if there are objective indications that the fair value has fallen to such a degree that it is reasonable to assume that the value will not recover to the carrying amount in the foreseeable future. On each reporting date, management determines whether there are objective indications of impairment of available-for-sale assets. Examples of objective evidence of impairment are:

- Significant financial difficulties on the part of the issuer
- Default in making interest or redemption payments
- Disappearance of active markets for the financial asset due to financial difficulties.

In the event of impairment, the cumulative loss is determined as the difference between cost and current fair value, reduced by any previously recognised impairment. This is transferred from the revaluation reserves in other comprehensive

income to the statement of income. If the impairment of a debt instrument subsequently reverses and the reversal can objectively be attributed to an event after the impairment, the impairment is reversed through the statement of income.

Equity instruments are impaired if cost (initial recognition) is unlikely to be recovered in the long term or if there is a significant or prolonged decline in the fair value below its cost. The recoverable amount and/or fair value of investments in unlisted equity instruments are determined using generally accepted valuation methods. The recoverable amount of listed financial assets is determined on the basis of market value. Impairment of equity instruments is never subsequently reversed through the statement of income.

2.8 Repurchase agreements and reverse repurchase agreements

Financial assets that are sold subject to related sale and repurchase agreements are included in the financial statements under 'Financial assets held for trading' or 'Available-for-sale financial assets', as applicable. The liability to the counterparty is included under 'Deposits from banks' or 'Deposits from customers', as applicable.

Financial assets acquired under reverse sale and reverse repurchase agreements are recognised as 'Loans and advances to banks' or 'Loans and advances to customers', as applicable. The difference between the sales and repurchasing prices is recognised as interest income/expense over the term of the agreement using the effective interest method.

2.9 Securitisations and (de)recognition of financial assets and liabilities

Recognition of financial assets and liabilities

Purchases and sales of financial assets and liabilities classified as fair value through profit or loss and available-for-sale financial assets which are required to be delivered within a regulatory-prescribed period or in accordance with market conventions are recognised on the transaction date. Financial instruments carried at amortised cost are recognised on the settlement date.

Securitisations and derecognition of financial assets and liabilities

Rabobank securitises, sells and carries various financial assets. Those assets are sometimes sold to a special purpose entity (SPE) which then issues securities to investors. Rabobank has the option of retaining an interest in these assets in the form of subordinated interest-only strips, subordinated securities, spread accounts, servicing rights, guarantees, put and call options or other constructions.

A financial asset (or a portion thereof) is derecognised where:

- The rights to the cash flows from the asset expire;
- The rights to the cash flows from the asset and substantially all the risks and rewards of ownership of the asset are transferred;
- A commitment has been made to transfer the cash flows from the asset and a substantial portion of the risks and rewards have been transferred; or
- Not substantially all the risks and rewards are transferred but where control over the asset is not retained.

A financial liability or a part thereof is derecognised if it ceases to exist, i.e. after the contractual obligation has been fulfilled or cancelled or has expired. Continuing involvement is recognised if Rabobank neither retains nor transfers substantially all the risks and rewards and control has retained. The asset is recognised to the extent of Rabobank's continuing involvement in it.

Where a transaction does not meet these conditions for derecognition, it is recognised as a loan for which security has been provided. To the extent that the transfer of a financial asset does not qualify for derecognition, Rabobank's contractual rights are not separately recognised as derivatives if recognition of these instruments and the transferred asset, or the liability arising from the transfer, were to result in the double recognition of the same rights and obligations.

Profits and losses on securitisations and sale transactions depend partly on the carrying amounts of the assets transferred. The carrying amounts of these assets are allocated to the interests sold and retained using the relative fair values of these interests on the date of sale. Any gains and losses are recognised through profit and loss at the time of transfer. The fair value of the interests sold and retained is determined on the basis of listed market prices or as the present value of the future expected cash flows based on pricing models that involve a number of assumptions regarding, for instance, credit losses, discount rates, yield curves, payment frequency and other factors.

2.10 Cash and balances at central banks

Cash equivalents are highly liquid short-term assets held to meet current cash obligations rather than for investment or other purposes. These assets have terms of less than 90 days from inception. Cash equivalents are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

2.11 Offsetting financial assets and liabilities

Where there is legal right to offset recognised amounts and it is intended to settle the expected future cash flows on a net basis or to realise the asset and settle the liability simultaneously, financial assets and liabilities are offset and the net amount is recognised in the statement of financial position. This relates mainly to current accounts and derivatives. The offsetting of taxes is addressed in Paragraph 2.24.

2.12 Foreign currency

Foreign entities

Transactions and balances included in the financial statements of individual entities within Rabobank Group are reported in the currency that best reflects the economic reality of the individual entity's underlying operating environment (the functional currency).

The consolidated financial statements are presented in euros, which is the parent company's functional currency. The statements of income and cash flows of foreign operations are translated into Rabobank's presentation currency at the exchange rates prevailing on the transaction dates, which approximate the average exchange rates for the reporting period, and the statements of financial position are translated at the rates prevailing at the end of the reporting period. Exchange differences arising on net investments in foreign operations and on loans and other currency instruments designated as hedges of these investments are recognised in other comprehensive income. On sale of a foreign operation, these translation differences are transferred to the statement of income as part of the profit or loss on the sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are recognised as the assets and liabilities of the foreign entity, and are translated at the rate prevailing at the end of the reporting period.

Foreign-currency transactions

Transactions in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction dates. Differences arising on the settlement of transactions or on the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income and differences that qualify as net investment hedges are recognised in other comprehensive income. Translation differences on debt securities and other monetary financial assets carried at fair value are included under foreign exchange gains and losses. Translation differences on non-monetary items such as equity instruments held for trading are recognised as part of the fair value gains or losses.

Translation differences on non-monetary available-for-sale items are included in the revaluation reserves for available-for-sale financial assets.

2.13 Interest

Interest income and expense arising on interest-bearing instruments is recognised in the statement of income on an accruals basis using the effective interest method. Interest income includes coupons relating to fixed interest financial assets and financial assets held for trading, as well as the cumulative premiums and discounts on government treasury securities and other cash equivalent instruments. Impaired loans are written down to their recoverable amounts, and interest income thereon is recognised, based on the discount rate used in the original calculation of the present value of future cash flows (excluding future credit losses) for determining the recoverable amounts. Interest on derivatives held for economic hedging purposes are shown under interest income, both the receive and pay leg of the derivative. This amount is presented as negative interest income because the net interest-risk position of the banking book is a long receiver-position.

2.14 Fees and commissions

Rabobank earns fee and commission income from a diverse range of services it provides to its customers. Commissions earned for the provision of services are generally recognised on an accrual basis. Commission received for negotiating a transaction or for involvement in negotiations on behalf of third parties (for example the acquisition of a portfolio of loans, shares or other securities or the sale or purchase of companies) is recognised upon completion of the underlying transaction.

2.15 Loans and advances to customers and loans and advances to banks

Loans and advances to customers and banks are non-derivatives with fixed or definable payments and are not listed on an active market, except for assets that Rabobank classifies as held for trading or that were initially recognised at fair value and for which value adjustments are recognised in the statement of income or as available-for-sale financial assets. Loans and advances to customers and banks are initially recognised at fair value (including transaction costs) and thereafter at amortised cost (including transaction costs).

Loans are subject to either individual or collective impairment analyses. A loan impairment allowance is recognised if there is objective evidence that not all amounts due under the original terms of the contract will be recoverable. The amount of the allowance is the difference between the carrying amount

and the recoverable amount (the present value of expected future cash flows), including any expected interest income and repayments and amounts recoverable under guarantees and securities discounted to present value at the original effective interest rate. For individual impaired loans a specific allowance is determined and for retail exposures a collective assessment is made if it is not economically justified to recognise the loss on an individual basis. In these cases the collective assessment is made based on homogenous groups of loans with a similar risk profile with the purpose of identifying the need to recognise an allowance for loan losses.

Examples of objective evidence for value adjustments are the following:

- Significant financial difficulties on the part of the borrower
- Default in making interest and/or redemption payments on the part of the borrower
- Loan renegotiations
- Potential bankruptcy of, or financial reorganisation, within the borrower
- Changes in the borrower's payment history
- Changes in economic circumstances that could cause the borrower to default.

Losses are estimated on the basis of the borrowers' credit ratings and the value of the collateral provided and reflecting the economic environment in which the borrowers operate. The carrying amount of loans is reduced by allowances based on the most-likely-case scenarios, and losses are recognised in the statement of income. The assets and impairment allowances are eliminated as and when the foreclosure process has been completed, the security provided has been realised, virtually no other means of recovery are available and in the event of any formal cancellation of debt. Any amounts subsequently collected are included in 'Loan impairment charges' in the statement of income. Expected future cash flows on renegotiated loans are regularly monitored for ongoing validity.

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

- Loans that are past due by more than 90 days;
- It is likely that the borrower will default on all or part of the debt (including principal, interest and fees) if the bank were not to enforce its security interests, irrespective of the amount or period of the delay of payments.

As and when prospects for continuity recover and delays on payment have been cleared as previously agreed, the loan is no longer considered impaired and the impairment is reversed.

A general provision is made for impairment in the remaining element of the portfolio which has not been specifically identified as impaired within the bank's risk systems (IBNR; incurred but not reported). Basel II parameters, adjusted to the IFRS guidelines and to current developments, are used to determine the provision, together with what is known as the Loss Identification Period (LIP), the period between the occurrence of a loss event and the recording of the event in the bank's risk systems. The LIP is expressed in months and varies between portfolios.

Exposures classified as corporate exposures under Capital Requirements Directive CRD IV are measured in accordance with the 'one debtor' principle. This principle requires that the approved limit for a debtor applies to the sum of all exposures (including derivatives, guarantees and the like) of the debtor group into which the debtor has been classified. Debtor groups include all debtors that are part of the economic entity with which the borrower is affiliated, including any majority shareholders of the economic entity. The 'one debtor' principle applies across all entities and group divisions.

2.16 Goodwill and other intangible assets

Goodwill

Goodwill is the amount by which the acquisition price paid for a subsidiary exceeds the fair value on the date on which the share of net assets and contingent liabilities of the entity was acquired. With each acquisition, the other non-controlling interests are recognised at fair value or at its share of the identifiable assets and liabilities of the acquired entity. Tests are performed annually, or more frequently if indications so dictate, to determine whether there has been impairment.

Other intangible assets, including software development costs

Costs directly incurred in connection with identifiable and unique software products over which Rabobank has control and that will likely provide economic benefits exceeding the costs for longer than one year are recognised as other intangible assets. Direct costs include the personnel costs of the software development team, financing costs and an appropriate portion of the relevant overhead.

Expenditures that improve the performance of software as compared with their original specifications are added to the original cost of the software. Software development costs are recognised as other intangible assets and amortised on a linear basis over a period not exceeding five years. Costs related to the maintenance of software are recognised as an expense at the time they are incurred.

Other intangible assets also include those identified through business combinations, and they are amortised over their expected useful lives.

Impairment losses on goodwill

Goodwill is allocated to cash-generating units for the purpose of impairment testing, which is undertaken at the lowest level of assets that generate largely independent cash inflows. During the fourth quarter of each financial year, or more frequently if there are indications of impairment, goodwill is tested for impairment and any excess of carrying amount over recoverable amount is provided. The recoverable amount is the higher of the value in use and the fair value less selling costs. The value in use of a cash flow generating unit is determined as the present value of the expected future pre-tax cash flows of the cash flow generating unit in question. The key assumptions used in the cash flow model depend on the input data and they reflect various judgemental financial and economic variables, such as risk-free interest rates and premiums reflecting the risk inherent in the entity concerned. Impairments of goodwill are included under 'Impairment losses on goodwill' in the statement of income.

Impairment losses on other intangible assets

At each reporting date, an assessment is made as to whether there are indications of impairment of other intangible assets. If there are such indications, impairment testing is carried out to determine whether the carrying amount of the other intangible assets is fully recoverable. The recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash generating unit to which the asset belongs is determined. An impairment loss is recognised if the carrying amount exceeds the recoverable amount. Impairment losses and impairment reversals are included in 'Other administrative expenses' in the statement of income.

2.17 Property and equipment

Property and equipment for own use

Property for own use consists mainly of office buildings and is recognised at cost less accumulated depreciation and impairment, as is equipment for own use. Assets are depreciated to their residual values over the following estimated useful lives:

<i>Property</i>	
- Land	Not depreciated
- Buildings	25 - 40 years
<i>Equipment</i>	
- Computer equipment	1 - 5 years
- Other equipment and vehicles	3 - 8 years

An annual assessment is made as to whether there are indications of impairment of property and equipment. If the carrying amount of an asset exceeds its estimated recoverable amount, the carrying amount is written down to the recoverable amount. Impairment losses and impairment reversals are included under 'Other administrative expenses' in the statement of income. Gains and losses on the disposal of property and equipment are determined on the basis of their carrying amounts and are recognised in operating results.

Repair and maintenance work is charged to the statement of income at the time the costs are incurred. Expenditures to extend the economic life or increase the economic value of land and buildings as compared with their original economic value are capitalised and subsequently depreciated.

2.18 Investment properties

Investment properties, primarily office buildings, are held for their long-term rental income and are not used by Rabobank or its subsidiaries. Investment properties are recognised as long-term investments and included in the statement of financial position at cost net of accumulated depreciation and impairment. Investment properties are depreciated to their residual values over an estimated useful life of 40 years.

2.19 Other assets

Structured inventory products

Rabobank offers several products that relate to financing commodities. Some of these products are recognised as loans with commodities as collateral, others as loans with embedded derivatives and others as commodities. The classification is mainly dependent on the transfer of risk and rewards of the commodity from the client to Rabobank.

Building sites and equalisation funds

Building sites are carried at cost, including allocated interest and additional expenses for purchasing the sites and making them ready for construction or, if lower, the net realisable value. Interest is not recognised in the statement of financial position for land which has not been zoned for a particular purpose if there is no certainty that the land will be built on. Possible downsides that depend on a future change of designated use of the relevant land are not included in the cost of land, but are included in the determination of the net realisable value. The net realisable value of all building sites is reviewed at least once a year or if there are any indications an earlier review. The net realisable value for building sites is the direct realisable value or, if higher, the indirect realisable value. The direct realisable value is the estimated value upon sale less the estimated costs for achieving the sale. The indirect realisable value is the estimated sale price within the context of normal

operations less the estimated costs of completion and the estimated costs necessarily incurred to realise the sale, in which respect the expected cash flows are discounted at the weighted average cost of capital. The calculation of the indirect realisable value is based on an analysis of scenarios that includes as many site-specific aspects and company-specific parameters and conditions as possible. A downward revaluation is recognised if the carrying value exceeds the realisable value.

The equalisation funds relate to building rights purchased from third parties recognised in the statement of financial position, as well as building rights which arose on the sale of building sites to municipal authorities or other parties, and these are stated as the balance of the cost of the sites and the sales proceeds. The equalisation funds, which are stated net of any necessary depreciations, should be recovered from future building projects.

Work in progress

Work in progress concerns sold and unsold commercial property projects, as well as sold and unsold residential projects under construction or in preparation. Work in progress is carried at the costs incurred plus allocated interest or, if lower, the net realisable value. If the project qualifies as an agreement for the construction of real estate commissioned by a third party, the result is also recognised in work in progress according to the stage of completion. Expected losses on projects are immediately deducted from the work in progress. If the buyer has no or only limited influence, but the risk is gradually transferred to the buyer during construction, the result is also recognised in work in progress according to the stage of completion. If there is no such gradual transfer of risk, the result is recognised on the date of completion. Progress instalments invoiced to buyers and principals are deducted from work in progress. If the balance of a project is negative (progress instalments invoiced exceed the costs recognised in the statement of financial position), the balance of that project, including any provision for the project, is transferred to 'Other liabilities'.

The carrying amount of unsold work in progress is annually reviewed for indications of any decline in value. If there is such an indication, the indirect realisable value of the work in progress is estimated; in most cases this is done by means of an internal or external appraisal. The indirect realisable value is the estimated sale price within the context of normal operations less the estimated costs of completion and the estimated costs necessarily incurred to realise the sale. A downward value adjustment is recognised if the carrying value exceeds the expected indirect realisable value, to the extent that this difference must be borne by Rabobank.

Finished properties

Unsold commercial and residential properties developed in-house are carried at cost or, if lower, the net realisable value. The net realisable value of finished properties is reviewed at least once a year or if there are any indications for an earlier review. For finished properties, the net realisable value is generally equal to the direct realisable value, which is mostly determined by means of an internal or external appraisal. A downward value adjustment is recognised if the carrying value exceeds the expected direct realisable value, to the extent that the difference must be borne by Rabobank.

2.20 Leasing

Rabobank as lessee

Leases relating to property and equipment under which virtually all risks and rewards of ownership vest with Rabobank are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Lease payments are apportioned between the lease liability and the finance charges so as to achieve a constant rate of interest on the remaining balance of the liability. The corresponding lease liabilities are included under 'Other liabilities' after the deduction of finance charges. The interest components of the finance charges are charged to the statement of income over the term of the lease. A tangible fixed asset acquired under a lease agreement is depreciated over the shorter of the useful life of the asset and the term of the lease.

Leases under which a considerable portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments (less any discounts granted by the lessor) are charged to the statement of income on a linear basis over the term of the lease.

Rabobank as lessor

Finance leases

A finance lease is recognised as a receivable under 'Loans and advances to banks' or 'Loans and advances to customers', as applicable, at an amount equal to the net investment in the lease. The net investment in the lease is the present value of the nominal minimum lease payments and the unguaranteed residual value. The difference between the gross investment and the net investment in the lease is recognised as unearned finance income. Lease income is recognised as interest income over the term of the lease using the net investment method, which results in a constant rate of return on the investment.

Operating leases

Assets leased under operating leases are included in the statement of financial position under 'Property and equipment'. The assets are depreciated over their expected useful lives in line with those of comparable items of property and equipment. Rental income (less write-downs and discounts granted to lessees) is recognised under 'Other net operating income' on a linear basis over the term of the lease.

2.21 Provisions

Provisions are recognised for obligations (both legal and constructive) arising as a result of a past event where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If Rabobank expects a provision to be reimbursed, for example under an insurance policy, the reimbursement is recognised as a separate asset but only if the reimbursement is virtually certain. The provisions are carried at the discounted value of the expected future cash flows. The additions to and releases of provisions are recognised in the statement of income under 'Other administrative expenses'.

Restructuring

Restructuring provisions comprise payments under redundancy schemes and other costs directly attributable to restructuring programmes. These costs are recognised during the period in which the legal or actual payment obligation arises, a detailed plan has been prepared for redundancy pay and there are realistic expectations among the parties concerned that the reorganisation will be implemented.

Tax and legal issues

The provision for tax and legal issues is based on the best estimates available at the end of the reporting period, taking into account legal and tax advice. The timing of the cash outflow of these provisions is uncertain because the outcome of the disputes and the time involved are unpredictable.

Other provisions

Other provisions include provisions for onerous contracts, credit guarantees and obligations under the terms of the deposit guarantee scheme.

2.22 Employee benefits

Rabobank has various pension plans in place based on the local conditions and practices of the countries in which it operates. In general, the plans are financed by payments to insurance companies or to trustee administered funds determined by periodic actuarial calculations. A defined benefit pension plan is one that incorporates an obligation to pay an agreed amount of pension benefit, which is usually based on several factors such

as age, number of years' service and remuneration. A defined contribution plan is one in which fixed contributions are paid to a separate entity (a pension fund) with no further legal or constructive obligation on the part of the employer should the fund have insufficient assets to settle its obligations to employee-members of the plan.

Pension obligations

The obligation under defined benefit pension plans is the present value of the defined benefit pension obligation at the end of the reporting period reduced by the fair value of the fund investments. The defined benefit obligation is calculated annually by independent actuaries based on the projected unit credit method. The present value of the defined benefit obligation is determined as the estimated future outflow of cash funds based on the interest rates of high-quality corporate bonds with terms that approximate those of the corresponding obligation. The majority of pension plans are career-average plans. The costs of these plans (being the net pension charge for the period after deducting employee contributions and interest) are included under 'Staff costs'. Net interest expense/income is determined by applying the discount rate at the beginning of the reporting period to the asset or liability of the defined benefit pension plan.

Actuarial gains and losses arising from events and/or changes in actuarial assumptions are recognised in the statement of comprehensive income.

Defined contribution plans

Under defined contribution plans, contributions are paid into publicly or privately managed pension insurance plans on a compulsory, contractual or voluntary basis. These regular contributions are recognised as expense in the year in which they are due and they are included under 'Staff costs'.

Other post-employment obligations

Some of Rabobank's business units provide other post-employment benefits. To become eligible for such benefits, the usual requirement is that the employee remains in service until retirement and has been with the company for a minimum number of years. The expected costs of these benefits are accrued during the years of service, based on a system similar to that for defined benefit pension plans. The obligations are calculated annually by independent actuaries.

Variable remuneration

Variable remuneration payable unconditionally and in cash is recognised in the year in which the employee renders the service. Conditional cash remuneration is included, on a straight line basis, in staff costs in the statement of income over the

period of the year in which the employee's services are received and the remaining three years of the vesting period (i.e. over four years). The liability is recognised in 'Other liabilities'. The accounting treatment of payments based on equity instruments is disclosed in Paragraph 2.23.

2.23 Equity instrument-based payments

For certain identified staff, remuneration for services rendered is settled in the form of cash payments based on equity instruments that are similar to, and have the same characteristics as, Rabobank Certificates. The costs of the services received are based on the fair value of the equity instruments on the award date and are restated annually to fair value at the time. The costs related to the award of equity instruments during the period of the employee's contract are included in staff costs in the statement of income over the period of the year of award and the remaining three years of the vesting period of the equity instruments (i.e. over four years). The liability is recognised in other liabilities.

2.24 Tax

Current tax receivables and payables are offset where there is a legally enforceable right to offset and where simultaneous treatment or settlement is intended. Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset and where they relate to the same tax authority and arise within the same taxable entity.

Provisions are made, using the liability method, for deferred tax liabilities arising on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. These temporary differences arise primarily on depreciation of tangible fixed assets, revaluation of certain financial assets and liabilities (including derivatives), provisions for pensions and other post-employment benefits, provisions for loan losses and other impairment, tax losses and fair value adjustments to net assets acquired in business combinations. Deferred income tax assets and liabilities are measured at the tax rates that have been enacted or substantively enacted as at the reporting date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the losses can be utilised.

Provisions are made in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, unless the timing of the reversal of the temporary differences is within Rabobank's control and it is probable that the temporary differences will not reverse in the foreseeable future.

Taxes on profit are calculated in accordance with the tax legislation of the relevant jurisdictions in which Rabobank operates and are recognised as an expense in the period in which the profit is realised. The tax effects of loss carry forwards are recognised as an asset if it is probable that future taxable profits will be available against which the losses can be utilised.

Deferred tax assets and liabilities are recognised on the revaluation of available-for-sale financial assets and cash flow hedges that are taken directly to other comprehensive income. When realised, they are recognised in the income statement at the same time as the respective deferred gain or loss is recognised.

2.25 Deposits from banks, deposits from customers and debt securities in issue

These borrowings are initially recognised at fair value, being the issue price less directly allocable and non-recurring transaction costs, and thereafter at amortised cost including transaction costs.

Own debt instruments that are repurchased are derecognised, with the difference between the carrying amount and the consideration paid being recognised in the income statement.

2.26 Rabobank Certificates

The proceeds of the issue of Rabobank Certificates are available to Rabobank in perpetuity and are subordinate to all liabilities and to the Trust Preferred Securities and the Capital Securities. As the payment of distributions is wholly discretionary, the proceeds received and dividends paid on them are recognised in equity.

2.27 Capital Securities

As there is no formal obligation to (re)pay the principal or to pay a dividend, the Capital Securities are recognised as 'Equity' and dividends paid on these instruments are recognised directly in equity.

2.28 Financial guarantees

Financial guarantee contracts require the issuer to compensate the holder for losses incurred when the debtor fails to meet its obligations under the terms of the related debt instrument. The guarantees are initially recognised at fair value and subsequently measured at the higher of the discounted best estimate of the obligation under the guarantee and the amount initially recognised less cumulative amortisation.

3 Risk exposure on financial instruments

3.1 Solvency and capital management

Rabobank aims to maintain a proper level of solvency. For this purpose a number of solvency ratios are utilised. The principal ratios are the common equity tier 1 ratio (CET1), the tier 1 ratio, the total capital ratio and the equity capital ratio. Rabobank uses its own internal objectives that extend beyond the minimum requirements of the supervisors. It takes market expectations and developments in legislation and regulations into account. Rabobank manages its solvency position based on policy documents. The solvency position and the objectives are periodically reviewed by the Risk Management Committee and the Asset Liability Committee of the Executive Board and the Supervisory Board.

The 'Capital Requirements Regulation (CRR)' and 'Capital Requirements Directive IV (CRD IV)' together constitute the European implementation of the Basel Capital and Liquidity Accord of 2010. These rules, which became effective on 1 January 2014, are applied by Rabobank.

Coöperatieve Rabobank U.A. solo (local Rabobank Group) must comply with a number of minimum solvency positions as stipulated under law. The solvency position is determined on the basis of ratios. These ratios compare the qualifying capital (total capital ratio), the tier 1 capital (tier 1 ratio) and the corecapital (common equity tier 1 ratio) with the total of the risk-adjusted assets. Effective 1 January 2014, the minimum required percentages are determined on the basis of CRD IV/CRR. The legal buffers below are applicable as from 2016. These buffers will gradually increase until the year 2019. Rabobank is already allowing for these changes in its capital planning. The table below shows the minimum legal buffers based on the planned final situation under CRD IV/CRR.

Minimum capital buffer				
		CET 1	Tier 1	Total capital
Pillar 1		4.5%	6.0%	8.0%
Pillar 2		1.75%	1.75%	1.75%
Capital conservation buffer¹	2016-2019	2.5%	2.5%	2.5%
Countercyclical buffer¹	2016-2019		0% - 2.5%	

1 These buffers will phase in during the years 2016-2019.

The countercyclical buffer is capped at a maximum of 2.5%. In most countries, including the Netherlands, the countercyclical buffer for 2016 has been set at 0%.

The CET1-ratio of Coöperatieve Rabobank U.A. solo (local Rabobank Group) is 16.4% (2015: 16.0%).

3.2 Risk organisation

Rabobank Group manages risks at various levels within the organisation. At the highest level, the Executive Board (under the supervision of the Supervisory Board) determines the risk strategy it will pursue, the risk appetite, the policy framework as well as the limits. The Supervisory Board regularly assesses the risks attached to the activities and portfolio of Rabobank Group. The Chief Risk Officer, as Member of the Executive Board, is responsible for the risk management policy within Rabobank Group.

Risk appetite

Identifying and managing risks for its organisation is an ongoing process at Rabobank. For this purpose an integrated risk management strategy is applied. The risk management cycle includes determining risk appetite, preparing integrated risk analyses, and measuring and monitoring risk. Throughout this process Rabobank uses a risk strategy aimed at continuity and designed to protect profitability, maintain solid balance-sheet ratios and protect its identity and reputation.

3.3 Strategy for the use of financial instruments

Rabobank's activities are inherently related to the use of financial instruments, including derivatives. As part of the services it offers, Rabobank takes deposits from customers at varying terms and at both fixed and variable interest rates. Rabobank attempts to earn interest income by investing these funds in high-value assets as well as by making loans to commercial and retail borrowers. Rabobank also aims to increase these margins through a portfolio approach of short-term funds at lower interest rates and the allocation to loans for longer periods at higher interest rates, maintaining sufficient cash resources in hand to meet obligations as they fall due. Rabobank improves its interest income by achieving rental margins after deduction of provisions and by issuing loans with a variety of credit ratings and inherent risk profiles. Not only is Rabobank exposed to credit risk on the on-balance sheet loans, it is also exposed to credit risk on the off-balance sheet guarantees it provides, such as letters of credit, letters of performance and other guarantee documents.

3.4 Credit risk

Credit risk is the risk that a counterparty is unable to meet a financial or other contractual obligation vis-à-vis the bank. Credit risk is inherent to granting loans. Positions in tradeable assets such as bonds and shares are also subject to credit risk. Rabobank restricts its credit risk exposure by setting limits for loans to an individual counterparty, or a group of counterparties, as well as for loans to countries. The four-eyes principle is also a key factor when granting loans. A multi-level committee structure is put in place to make decisions on major

loan applications. The competent committee is chosen on the basis of the size of the loan. Decisions on the largest loans are made by the highest level committee, the Central Credit Committee Rabobank Group (CCCRG).

The credit risk exposure relating to each individual borrower is further restricted by the use of sub-limits to hedge amounts at risk, not all of which are disclosed in the statement of financial position, and the use of daily delivery risk limits for trading items such as forward currency contracts. Most of the resulting items are tested against the limits every day.

Once a loan has been granted, it is continually subject to credit management as part of which new information, financial and other, is reviewed. The credit limits are adjusted where necessary. Rabobank obtains collateral or guarantees for the majority of loans.

3.4.1 Derivatives

Rabobank sets strict limits for open positions, in amounts as well as in terms. If ISDA (International Swaps and Derivatives Association) standards apply or a master agreement including equivalent terms has been concluded with the counterparty, and if the jurisdiction of the counterparty permits offsetting, the net open position is monitored and reported. This credit risk is managed as part of the general lending limits for clients. Where needed, Rabobank obtains collateral or other safeguards to mitigate credit risks inherent in these transactions. The credit risk exposure represents the current fair value of all open derivative contracts showing a positive market value, taking into account master netting agreements enforceable under law.

3.4.2 Collateral and credit management

Rabobank's credit risk exposure is partly mitigated by obtaining collateral where necessary. The amount and nature of the collateral required depends partly on the assessment of the credit risk of the loan to the counterparty. Rabobank has guidelines in place for the purpose of accepting and valuing different types of collateral. The major types of collateral are:

- Residential mortgage collateral;
- Mortgage collateral on immovable property, pledges on movable property, inventories and receivables, mainly for business loans;
- Cash and securities, mainly for securities lending activities and reverse repurchase transactions.

The management monitors the market value of collateral obtained and requires additional collateral where necessary. Rabobank also uses credit derivatives to manage credit risks and it further mitigates its exposure to credit risk by entering into master netting arrangements with counterparties for

a significant volume of transactions. In general, master netting arrangements do not lead to the offsetting of assets and liabilities included in the statement of financial position because transactions are usually settled gross. The credit risk is limited by master netting arrangements, but only to the extent that if an event or cancellation occurs, all amounts involving the counterparty are frozen and settled net. The total credit risk exposure from derivatives to which offsetting arrangements apply is highly sensitive to the closure of new transactions, the expiry of existing transactions and fluctuations in market interest and exchange rates.

3.4.3 Off-balance-sheet financial instruments

The guarantees and standby letters of credit that Rabobank provides to third parties in the event of a client being unable to fulfil its obligations to these third parties, are also exposed to credit risk. Documentary and commercial letters of credit and written undertakings by Rabobank on behalf of clients authorise third parties to draw bills against Rabobank up to a fixed amount and subject to specific conditions. As these transactions are secured by the delivery of the underlying goods to which they relate, the risk exposure of such an instrument is less than that of a direct loan.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions and are included in credit related contingent liabilities. Rabobank is exposed to credit risk when it promises to grant loans. The amount of any losses is likely to be less than the total of the unused commitments because the commitments are made subject to the clients meeting certain loan conditions. Rabobank monitors the term to the expiry of loan commitments because long-term commitments generally involve higher risk than short-term commitments.

3.4.4 Forbearance

Rabobank has a policy for monitoring its forbearance portfolio every quarter. This portfolio consists of the customers of Rabobank for whom forbearance measures have been put in place. The measures under that name comprise concessions to debtors facing or about to face difficulties in meeting their financial commitments. A concession refers to either of the following actions:

- A modification of the previous terms and conditions of a contract the debtor is unable to comply with due to its financial difficulties ('bad debt') in order to allow for sufficient debt serviceability. A modification that would not have been granted had the debtor not been in financial difficulty.
- A total or partial refinancing of a bad debt contract, which would not have been granted had the debtor not been in financial difficulty.

Examples include postponements of repayments and extensions of the term of a facility. The rationale for the focus on this portfolio derives from the concerns of European regulators about the deterioration of the quality of the portfolio; it is feared that forbearance measures might camouflage this deterioration of the portfolio as debtors are able to meet their financial obligations for longer periods as a result of the concessions. The identification of forbearance measures for the corporate portfolio is based on the current Loan Quality Classification framework, with forbearance measures only applying to the classified portfolio. If forbearance measures are applied to a debtor, the debtor falls, by definition, under the supervision of the Special Asset Management department. Lastly, items in the forbearance category must be reported for up to two years after their recovery from 'non-performing' to 'performing'. This period of two years is referred to as 'Forborne under probation'. For the accounting policy regarding derecognition of financial assets please refer to section 2.9 'Securitisations and (de)recognition of financial assets and liabilities'.

3.5 Currency risk in the banking environment

Currency risk is the risk that the bank's financial result and/or economic value will be negatively affected by changes in exchange rates.

Rabobank is exposed to the effect of fluctuations in exchange rates on its financial position and cash flows. In the trading environment, currency risk, like other market risks, is managed on the basis of Value at Risk (VaR) limits set by the Executive Board. In the banking environment, there is a currency risk in the banking books and a translation risk.

Currency risk in the banking books is the risk that manifests itself at the moment receivables and liabilities are not covered, due to which currency fluctuations may have a negative impact on the financial results of the bank. Rabobank's policy is to fully hedge the material currency risk on the banking books.

Translation risk becomes evident when the bank's consolidated balance sheet and results are prepared, whereby all items in foreign currencies must be valued in euros. This makes the financial data sensitive to exchange rate fluctuations. Translation risk manifests itself in two different ways within Rabobank:

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

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

3.6 Interest rate risk in the banking environment

'Interest rate risk in the banking environment' refers to the risk that the financial results and/or the economic value of the banking book are adversely affected by changes in market interest rates.

Interest rate risk at Rabobank arises as a result of repricing and maturity mismatches between loans and funding, and optionality in client products. Customer behaviour is an important determining factor with respect to interest rate risk in the banking environment. The modelling of customer behaviour is therefore one of the core elements of the interest rate risk framework. There are behavioural models in place for mortgage prepayments, savings accounts and current accounts. Movements in interest rates may also affect the creditworthiness of customers. Higher interest rates might for example lead to higher borrowing costs and, hence, have a negative impact on the creditworthiness of a customer. Any such effects are however regarded as credit risk rather than interest rate risk.

Rabobank accepts a certain amount of interest rate risk in the banking environment; this is a fundamental part of banking. But at the same time the bank also aims to avoid unexpected material fluctuations in the financial result and the economic value as a result of interest rate fluctuations. The Executive Board, overseen by the Supervisory Board, therefore annually approves the interest rate risk appetite and the corresponding interest rate risk limits.

At group level, Rabobank's interest rate risk is managed by the Asset and Liability Committee Rabobank Group chaired by the Chief Financial Officer. The Treasury is responsible for implementing the decisions of this committee, while Risk Management is responsible for measuring and reporting the interest rate risk position.

The definition used for managing interest rate risk varies from the IFRS definition of equity. For interest rate risk management, the economic value of equity is defined as the present value of the assets less the present value of the liabilities together with the present value of the off-balance-sheet items. Through the use of hedge accounting and because a large proportion of the balance sheet is carried at amortised cost (in IFRS terms) and (except from the inherent counterparty risk) is therefore not exposed to value changes, the effects of the value changes on IFRS capital will largely impact only interest income.

As part of its interest rate risk policy, Rabobank uses the following two key indicators for managing and controlling interest rate risk:

- Equity at risk, duration of equity; and
- Income at risk; the sensitivity of net interest income to gradual increases or decreases in interest rates during the coming 12 months.

3.7 Market risk in the trading environment

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

Market risk in the trading environment is monitored daily within the market risk framework, which is put in place to measure, monitor and manage market risk in the trading books. An important part of the framework is an appropriate system of limits and trading controls. The relevant risk appetite limits are translated into limits and trading controls at book level and are monitored on a daily basis by the market risk departments. Due to Rabobank's strategy of client risk redistribution, risk transformation (hedging) and the low secondary market activity, the real market risk exposure of the trading portfolio is well within the risk appetite boundaries. If limits are breached, remedial actions will be stipulated which decrease the chance of large actual losses. The risk position is reported to senior management and discussed in the various risk management committees each month.

3.8 Liquidity risk

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

The liquidity risk policy focuses on financing assets using stable funding, i.e., funds entrusted by customers and long-term wholesale funding. Liquidity risk is managed on the basis of

three pillars. The first of these sets strict limits for the maximum outgoing cash flows within the wholesale banking business. Among other things, Rabobank measures and reports on a daily basis what incoming and outgoing cash flows can be expected during the next twelve months. Limits have been set for these outgoing cash flows, including for each currency and each location. Detailed plans (the contingency funding plans) have been drawn up for contingency funding to ensure the bank is prepared for potential crisis situations. Periodic operational tests are performed for these plans.

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

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

Furthermore, scenario analyses are performed each month to determine the potential consequences of a wide range of stress scenarios. The analyses cover market-specific scenarios, Rabobank-specific scenarios and a combination of both. Monthly reports on the Group's overall liquidity position are submitted to the Dutch Central Bank. These reports are prepared in accordance with the guidelines drawn up by this supervisory authority.

3.9 Operational risk

Rabobank defines operational risk as the risk of losses being incurred as a result of inadequate or dysfunctional internal processes, people and systems or as a result of external trends and developments, including legal and reputational risks. In measuring and managing operational risk, Rabobank operates within the parameters of the most advanced Basel II approach, the Advanced Measurement Approach, and follows the 'three lines of defence model' as prescribed by the EBA. The bank's operational risk policy is based on the principle that the primary responsibility for managing operational risk lies with the first line and that this must be integrated into

the strategic and day-to-day decision-making processes. The purpose of operational risk management is to identify, assess, mitigate and monitor the various types of operational risk. The operational risk measurement supports those responsible for operational risk prioritisation and deployment of people and resources.

Within Rabobank Group, the departments involved in the primary processes of the bank form the 'first line of defence'. They are fully responsible for day-to-day risk acceptance and for integrated risk management and mitigation within the approved risk appetite. The Compliance, Legal and Risk (CLR) functions together constitute the 'second line of defence'. The second line functions have a monitoring role with regard to all types of operational risk and they monitor the way in which 'the first line of defence' manages these risks. In addition and independently from the first line, they report on the risk profile and appetite breaches to senior management and the Executive Board. Internal Audit forms the 'third line of defence'. At group level, the Risk Management Committee (RMC) is responsible for formulating policy and setting parameters. Compliance, Legal and Risk also report quarterly to the RMC on changes in operational risks at group level. Delegated risk management committees have been established within the group's entities. Their responsibilities include monitoring all operational risks at entity level (amongst others: Conduct risk, continuity risk, Information Security risk, Fraud risk including the legal and reputational impact thereof).

The annual risk management cycle consists of a group-wide Scenario programme and Risk Self-Assessment that identifies the more material operational risks of Rabobank Group. After assessment, if and when risks fall outside the defined risk appetite, mitigating measures are taken by first line and monitored by second line.

3.10 Legal and arbitration proceedings

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

an outflow of funds, Rabobank Group takes several factors into account. These include (but are not limited to) the type of claim and the underlying facts; the procedural process and history of each case; rulings from legal and arbitration bodies; Rabobank Group's experience and that of third parties in similar cases (if known); previous settlement discussions; third-party settlements in similar cases (where known); available indemnities; and the advice and opinions of legal advisers 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 recognised. For those cases where (a) the possibility of an outflow of funds is less likely than not but also not remote or (b) the possibility of an outflow of funds is more likely than not but the potential loss cannot be estimated, a contingent liability is shown.

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

Interest rate derivatives

Rabobank concludes interest rate derivatives, such as interest rate swaps, with Dutch business customers who wish to reduce the interest rate risk associated with variable (e.g., Euribor-indexed) loans. Such an interest rate swap protects customers from rising variable interest rates and helps businesses to keep their interest payments at an acceptable level. In March 2016, the Dutch Minister of Finance appointed an independent committee, which on 5 July 2016, published a recovery framework (the Recovery Framework) on the reassessment of Dutch SME interest rate derivatives. Rabobank announced its decision to take part in the Recovery Framework on 7 July 2016. The final version of the Recovery Framework was published by the independent committee on 19 December 2016. Implementation of the Recovery Framework is expected to be finalised in 2017.

Rabobank is involved in civil proceedings in the Netherlands relating to interest rate derivatives concluded with Dutch business customers. The majority of these concern individual cases. In addition, there is a collective action regarding interest rate derivatives pending before the Court of Appeal. These actions concern allegations relating to 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, Rabobank has recognised a provision of 699. The main uncertainties in the calculations of the provision stem from assumptions regarding the scoping of clients. Furthermore, the calculations regarding technical recovery are based on a portfolio approach instead of individual contract calculations.

Fortis

In 2011, the Dutch Investors Association (VEB) issued a summons against the company formerly known as Fortis N.V. (currently trading as Ageas N.V.), the underwriters involved – including Rabobank – and the former directors of Fortis N.V. The VEB states in this summons that investors were misled by the prospectus published by Ageas N.V. in connection with its rights issue in September 2007. The VEB states that the impact and risks of the subprime crisis for Fortis and its liquidity position were misrepresented in the prospectus

and has requested a declaratory judgement stating that the defendants acted illegitimately and must therefore be held liable for the loss allegedly suffered by investors in Fortis. Rabobank maintains the view that the aforementioned loss of EUR 18 billion has not been properly substantiated. The proceedings concern a settlement of collective loss, which means that the court will only rule on the question of whether the defendants (including Rabobank) are liable.

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

On 23 May 2016, the parties to the settlement requested the Amsterdam Court of Appeal to declare the settlement binding for all eligible Fortis shareholders (in accordance with the Dutch Law on the Collective Resolution of Mass Damages ('Wet Collectieve Afwikkeling Massaschade'). The legal proceedings relating to the above VEB claim have been suspended until this specific procedure is finalised. There are two basic potential scenarios:

- (1) In case the Court of Appeal declares the settlement binding, investors may choose to opt out of the settlement during an opt-out period of three to six months. After this period (and provided that the settlement is not annulled because the opt-out ratio exceeds a certain limit), distributions of payments will start. The release of Rabobank (and other underwriters) is subject to satisfaction of the compensation obligations towards the eligible Fortis shareholders. It is expected that it will take at least 18 months from the Court of Appeal judgement on the binding nature of the settlement before the first payments will be made. Investors that choose to opt out of the settlement may still claim damages from Ageas and the defendants (including Rabobank) on an individual basis.
- (2) If the Court of Appeal does not declare the settlement binding for all eligible Fortis shareholders or if Ageas exercises its right to annul the settlement in case the opt-out ratio exceeds a certain limit, the proceedings against the VEB described above, in principle will resume as before the suspension.

On 9 February 2017, mass claim litigant ConsumentenClaim announced that it has filed an objection to having the settlement declared binding with the Court of Appeal. Rabobank Group considers the Fortis case to be a contingent liability. No provision has been made.

Libor/Euribor

Rabobank has received a number of requests in recent years from regulators in various countries to issue documents and other information in relation to various issues, including issues related to its interest rate benchmark submissions. Rabobank is cooperating, and will continue to cooperate, with the regulators and authorities involved in these global investigations.

On 29 October 2013, Rabobank entered into settlement agreements with various authorities in relation to their investigations into the historical Libor and Euribor submission processes of Rabobank. Additional information is available on the bank's corporate website. All amounts payable under these settlement agreements were fully paid and accounted for by Rabobank in 2013. Additionally, some of these settlement agreements required Rabobank to: (i) improve measures or to continue their implementation; and (ii) to cooperate on a continuous basis with ongoing investigations into the conduct of Rabobank and of its current and former employees in respect of the inappropriate conduct relating to interest rate benchmark submissions. Rabobank continues to comply with all its obligations under these settlement agreements.

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

Since the alleged class action suits and civil proceedings listed above, which have been brought before the courts in the US or elsewhere, are intrinsically subject to uncertainties, it is difficult to predict their outcomes. Rabobank takes the stance that it has substantive and convincing legal and factual defences against these claims. Rabobank has the intention to continue to defend itself against these claims. Rabobank Group considers the Libor /Euribor case to be a contingent liability. No provision has been made.

BSA/AML

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

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

Recently the Financial Crimes Enforcement Network (FinCEN) of the Department of the Treasury served a notice of Investigation on RNA. Rabobank understands that FinCEN is investigating essentially the same issues that are the subject of the OCC matter noted above.

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

Also recently, 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. Rabobank understands that the DPP has received the complaint and awaits the DPP's response to it. Rabobank Group considers the BSA/AML case to be a contingent liability. No provision has been made.

Other cases

Rabobank Group is subject to other legal proceedings for which a provision was recognised. These cases are individually less significant in size and are therefore not further described. The total provision for those cases combined amounts to 89. 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 these in detail. The principal amount claimed for those contingent liability cases combined amounts to 61.

Notes to the statement of financial position

Unless otherwise stated, all amounts are in millions of euros.

1 Cash and balances at central banks

This item consists of legal tender, balances available on demand with foreign central banks in countries where Rabobank operates, as well as a balance with De Nederlandsche Bank (the Dutch Central Bank) as required under its minimum reserve policy.

2 Short-term government papers

This item relates to government securities with an original term to maturity of up to two years that the central bank in the country of origin will redeem at a discount or accept as collateral. The cost and market value of short-term government papers are virtually the same.

<i>In millions of euros</i>	2016	2015
Recognised in the trading portfolio	-	19
Recognised in the investment portfolio	801	841
Total short-term government papers	801	860

3 Loans and advances to banks

This item represents loans and advances to other banks, other than in the form of interest-bearing securities.

<i>In millions of euros</i>	2016	2015
Loans and advances to other banks	23,328	34,226
Loans and advances to group companies	24,361	74,211
Total loans and advances to banks	47,689	108,437
Of which subordinated	-	-

The terms of loans and advances to banks can be broken down as follows:

On demand or undated	13,240	50,971
≤ 3 months	16,961	21,239
> 3 months ≤ 1 year	5,930	8,354
> 1 year ≤ 5 years	10,714	15,554
> 5 years	844	12,319
Total loans and advances to banks	47,689	108,437

The fair value of collateral that Rabobank can sell or pledge is 13,015 (2015: 16,720).

4 Loans and advances to customers

This item consists of loans and advances arising in the course of business operations, other than receivables from banks and interest-bearing securities.

<i>In millions of euros</i>	2016	2015
Breakdown of loans and advances to customers:		
Public sector lending	3,099	2,915
Private sector lending	366,544	121,120
Professional securities transactions	16,536	19,783
Total lending	386,179	143,818

Totals include:

Of which to group companies	61,942	66,115
Of which other mortgages	60,890	-
Of which home residential mortgages	170,366	-

Total lending	386,179	143,818
Of which recognised in the trading portfolio	1,049	1,487
Of which recognised in the investment portfolio	5	6
Lending excluding loans which form part of the trading and investment portfolios	385,125	142,325

The terms of loans and advances can be broken down as follows:

On demand	28,762	18,799
≤ 3 months	43,362	38,769
> 3 months ≤ 1 year	27,668	15,089
> 1 year ≤ 5 years	68,484	42,144
> 5 years	216,849	27,524
Lending excluding loans which form part of the trading and investment portfolios	385,125	142,325

The loans (excluding those to the government, reverse repos and share lending) can be classified as follows by their concentration in specific business sectors:

Food & agri	17%	39%
Trade, industry and services	27%	60%
Private individuals	56%	1%
100%	100%	

The fair value of collateral accepted in the form of debt securities is 18,177 (2015: 5,656).

5 Interest-bearing securities

This item represents interest-bearing negotiable bonds and other interest-bearing securities, other than short-term government papers.

<i>In millions of euros</i>	2016	2015
Interest-bearing securities of:		
Public authorities	23,474	25,942
Other issuers	57,674	60,534
Total interest-bearing securities	81,148	86,476
Breakdown of interest-bearing securities:		
Investment portfolio	79,422	82,878
Investment portfolio containing value adjustments through the profit and loss account	89	815
Trading portfolio	1,637	2,783
	81,148	86,476
The portfolio also includes:		
Securities issued by group companies	51,604	52,266
Listed portion of the portfolio	25,129	28,492
Unlisted securities/group companies	56,019	57,984
Total interest-bearing securities	81,148	86,476

6 Shares

This item consists of shares and other non-interest-bearing securities, including temporary other investments.

<i>In millions of euros</i>	2016	2015
This breaks down as follows:		
Investment portfolio	459	612
Investment portfolio at fair value through profit or loss	-	8
Trading portfolio	504	158
	963	778
Listed portion of the portfolio	834	487
Non-listed portion of the portfolio	129	291
	963	778

7 Interests in group companies

This item includes the interests held directly in group companies.

<i>In millions of euros</i>	2016	2015
Equity investments in:		
Credit institutions	6,305	7,116
Other	8,874	11,473
Total	15,179	18,589
Changes in equity investments:		
Carrying amount on 1 January	18,589	13,275
Changes due to legal merger	(1,605)	-
Capital contributions during the financial year	1,105	5,364
Sales, disposals and liquidations during the financial year	(1,507)	(170)
Profit	2,025	646
Dividend/capital reimbursements	(3,597)	(391)
Revaluation	231	(135)
Other	(62)	-
Carrying amount on 31 December	15,179	18,589

8 Other equity investments

This item includes participating interests in associates, in particular Achmea B.V.

<i>In millions of euros</i>	2016	2015
Equity investments in:		
Credit institutions	-	97
Other	1,699	2,575
Total other equity investments	1,699	2,672
Changes in equity investments:		
Carrying amount on 1 January	2,672	2,640
Changes due to legal merger	16	-
Acquisitions during the financial year	1	2
Disposals during the financial year	(38)	-
Profit	(94)	118
Revaluation	20	(81)
Dividend	(70)	(7)
Transferred to Other Assets	(108)	-
Impairment	(700)	-
Carrying amount on 31 December	1,699	2,672

9 Goodwill and other intangible assets

This item includes software.

<i>In millions of euros</i>	2016	2015
Goodwill	2	2
Software	475	467
Total goodwill and other intangible assets	477	469

Changes in goodwill and other intangible assets 2016			
<i>In millions of euros</i>	<i>Goodwill</i>	<i>Software</i>	<i>Total</i>
Carrying amount on 1 January	2	467	469
Acquisitions during the financial year	-	141	141
Disposals during the financial year (to group companies)	-	(69)	(69)
Disposals during the financial year	-	(1)	(1)
Depreciation	-	(133)	(133)
Impairment losses	-	(4)	(4)
Exchange differences and other	-	74	74
Carrying amount on 31 December	2	475	477
Accumulated depreciation and impairment losses	-	1,166	1,166

Changes in goodwill and other intangible assets 2015			
<i>In millions of euros</i>	<i>Goodwill</i>	<i>Software</i>	<i>Total</i>
Carrying amount on 1 January	-	443	443
Acquisitions during the financial year	2	414	416
Disposals during the financial year (to group companies)	-	-	-
Disposals during the financial year	-	(239)	(239)
Depreciation	-	(134)	(134)
Impairment losses	-	-	-
Exchange differences and other	-	(17)	(17)
Carrying amount on 31 December	2	467	469
Accumulated depreciation and impairment losses	-	1,110	1,110

10 Tangible fixed assets

This item consists of land and buildings, equipment and other tangible non-current assets, as well as tangible fixed assets not in own use, such as non-current assets acquired under foreclosure.

<i>In millions of euros</i>	<i>2016</i>	<i>2015</i>
Land and buildings in own use	1,393	720
Equipment	361	215
Total tangible fixed assets	1,754	935

Changes in tangible fixed assets 2016			
<i>In millions of euros</i>	<i>Land and buildings in own use</i>	<i>Equipment</i>	<i>Total</i>
Carrying amount on 1 January	720	215	935
Changes due to legal merger	851	192	1,043
Acquisitions during the financial year	86	91	177
Disposals during the financial year	(17)	(16)	(33)
Depreciation	(97)	(112)	(209)
Impairment losses	(112)	-	(112)
Exchange differences and other	(38)	(9)	(47)
Carrying amount on 31 December	1,393	361	1,754
Accumulated depreciation and impairment losses	1,226	661	1,887

Changes in tangible fixed assets 2015			
<i>In millions of euros</i>	<i>Land and buildings in own use</i>	<i>Equipment</i>	<i>Total</i>
Carrying amount on 1 January	716	122	838
Acquisitions during the financial year	46	209	255
Disposals during the financial year	-	(57)	(57)
Depreciation	(43)	(56)	(99)
Impairment losses	-	-	-
Exchange differences and other	1	(3)	(2)
Carrying amount on 31 December	720	215	935
Accumulated depreciation and impairment losses	542	298	840

11 Other assets

This item relates to precious metals, certificates representing precious metals, coins and medals made of precious metals (not being legal tender), goods and warehouse receipts, current and deferred tax assets and assets that cannot be classified under any other heading.

<i>In millions of euros</i>	<i>2016</i>	<i>2015</i>
This item can be broken down as follows:		
Current tax assets	56	-
Deferred tax assets	1,224	1,845
Employee benefits	4	5
Other	3,502	2,528
Other assets	4,786	4,378

Fiscal unit for corporate tax purposes

For corporate tax purposes Rabobank forms a fiscal unit with a number of domestic subsidiaries. Under the fiscal unit, each participating legal entity is jointly and severally liable for the fiscal unit's corporate tax liabilities.

12 Derivatives

The notes to the derivatives are included below.

<i>In millions of euros</i>	<i>2016</i>	<i>2015</i>
Assets		
This item can be broken down as follows:		
Derivative contracts with third parties	42,712	45,177
Derivative contracts with group companies	4,329	12,062
Total derivatives	47,041	57,239
Liabilities		
This item can be broken down as follows:		
Derivative contracts with third parties	47,884	54,491
Derivative contracts with group companies	451	8,933
Total derivatives	48,335	63,424

The table below shows the notional amounts and the positive and negative fair values of Rabobank's derivative contracts with third parties.

In millions of euros	Notional amounts		Fair values	
		Assets	Liabilities	
<i>Balance on 31 December 2016</i>				
<i>Derivatives held for trading</i>				
Interest rate contracts	2,609,169	30,742	28,027	
OTC	2,548,166	30,741	28,027	
Listed	61,003	1	-	
Currency contracts	409,508	6,961	9,189	
OTC	409,508	6,961	9,189	
Listed	-	-	-	
Credit derivatives	3,185	31	10	
Other contracts	2,460	172	279	
OTC	2,460	172	279	
Listed	-	-	-	
<i>Derivatives held as hedges</i>				
<i>Derivatives designated as fair value hedges</i>	125,667	3,858	8,837	
Interest rate contracts	48,654	1,775	8,824	
Currency contracts	77,013	2,083	13	
<i>Derivatives designated as cash flow hedges</i>	7,850	948	1,542	
Currency contracts	7,850	948	1,542	
Total derivative financial contracts with third parties	3,157,839	42,712	47,884	

In millions of euros	Notional amounts		Fair values	
		Assets	Liabilities	
<i>Balance on 31 December 2015</i>				
<i>Derivatives held for trading</i>				
Interest rate contracts	2,378,968	34,579	33,557	
OTC	2,312,801	34,578	33,557	
Listed	66,167	1	-	
Currency contracts	398,381	5,030	7,608	
OTC	396,816	5,017	7,596	
Listed	1,565	13	12	
Credit derivatives	3,340	2	15	
Other contracts	5,633	610	463	
OTC	4,394	515	416	
Listed	1,239	95	47	
<i>Derivatives held as hedges</i>				
<i>Derivatives designated as fair value hedges</i>	132,266	4,017	11,202	
Interest rate contracts	47,687	1,787	11,161	
Currency contracts	84,579	2,230	41	
<i>Derivatives designated as cash flow hedges</i>	15,957	939	1,646	
Currency contracts	15,957	939	1,646	
Total derivative financial contracts with third parties	2,934,545	45,177	54,491	

13 Trading and investment portfolios

Breakdown of trading and investment portfolios		
In millions of euros	2016	2015
<i>Trading portfolio including group companies</i>		
Short-term government papers	-	19
Loans and advances to customers	1,049	1,487
Interest-bearing securities	1,637	2,783
Shares	504	158
	3,190	4,447
<i>Investment portfolio</i>		
Short-term government papers	801	841
Interest-bearing securities	79,422	82,878
Shares	459	612
Loans and advances to customers	5	6
	80,687	84,337
Included in the investment portfolios of group companies	51,573	52,213
<i>Changes in the investment portfolio</i>		
Balance on 1 January	84,337	85,247
Foreign exchange differences	93	362
Acquisitions during the financial year	1,836	2,711
Disposals during the financial year	(5,466)	(3,942)
Fair value changes	(173)	(286)
Depreciation, impairments and reversals over the book year	-	-
Other	60	245
Balance on 31 December	80,687	84,337
<i>The terms of securities included in the investment portfolio other than group companies are as follows:</i>		
On demand or undated	451	603
≤ 3 months	1,934	961
> 3 months ≤ 1 year	2,235	3,209
> 1 year ≤ 5 years	17,473	18,138
> 5 years	58,594	61,426
	80,687	84,337
<i>Investment portfolio containing value adjustments through the profit and loss account including group companies</i>		
Interest-bearing securities	89	815
Shares	-	8
	89	823

14 Due to banks

This item represents amounts owed to credit institutions, other than debt securities and subordinated debt, of which:

<i>In millions of euros</i>	2016	2015
Due to other banks	18,021	15,134
Due to group companies	3,482	26,080
Due to other equity investments	97	128
Total due to banks	21,600	41,342
<i>The terms of amounts owed to other banks other than group companies are as follows:</i>		
On demand	4,545	14,797
≤ 3 months	11,095	12,880
> 3 months ≤ 1 year	2,012	1,805
> 1 year ≤ 5 years	3,269	8,235
> 5 years	679	3,625
Total due to banks	21,600	41,342

15 Due to customers

This item consists of amounts due to customers other than debt securities. Due to customers also includes the investments of central banks amounting to EUR 23 billion (2015: EUR 23 billion).

<i>In millions of euros</i>	2016	2015
Due to other customers	316,045	112,001
Due to group companies	9,438	8,186
Due to other equity investments	7,071	1,176
Total due to customers	332,554	121,363

Savings comprise all deposits and savings accounts of natural persons, non-profit making associations and foundations, as well as non-transferable savings bonds.

The terms of amounts due to customers other than to group companies are as follows:

<i>In millions of euros</i>	2016	2015
On demand or undated	247,234	57,431
≤ 3 months	39,579	42,679
> 3 months ≤ 1 year	9,776	7,160
> 1 year ≤ 5 years	10,949	1,735
> 5 years	25,016	12,358
Total due to customers	332,554	121,363

16 Debt securities in issue

This item relates to non-subordinated bonds and other interest-bearing securities, such as certificates of deposit.

<i>In millions of euros</i>	2016	2015
Tradeable debt securities	101,798	103,942
Other debt securities	48,468	62,559
	150,266	166,501
<i>The terms of debt securities other than of group companies can be broken down as follows:</i>		
On demand or undated	-	153
≤ 3 months	28,651	27,566
> 3 months ≤ 1 year	37,211	48,379
> 1 year ≤ 5 years	53,102	55,393
> 5 years	31,112	35,010
	150,266	166,501

17 Other liabilities

This item includes liabilities that cannot be classified under any other heading, such as short positions for securities and liabilities associated with securitised receivables. Other liabilities also includes liabilities for staff costs, taxes and national insurance contributions. At year-end 2016, approximately EUR 55 billion in Rabobank mortgages were securitised.

<i>In millions of euros</i>	2016	2015
<i>This item can be broken down as follows:</i>		
Liabilities associated with securitised receivables	55,362	54,817
Current tax liabilities	13	187
Other liabilities	3,674	2,916
Total other debt	59,049	57,920

18 Provisions

<i>In millions of euros</i>	2016	2015
Provision for pensions and other post-retirement allowances	152	223
Provision for deferred tax liabilities	2	-
Other provisions	1,327	276
Total provisions	1,481	499

Pension provision

The provision for pensions and other allowances following termination of employment consists of a provision for pensions 41 (2015: 26) and other employee benefits 111 (2015: 197).

Other provisions

<i>in millions of euros</i>	<i>Restructuring provision</i>	<i>Provision for tax and legal issues</i>	<i>Other</i>	<i>Total</i>
Opening balance on 1 January 2016	44	159	73	276
Changes due to legal merger	284	198	11	493
Additions	554	557	124	1,235
Withdrawals	(386)	(36)	(32)	(454)
Releases	(78)	(131)	(14)	(223)
Closing balance on 31 December 2016	418	747	162	1,327
Opening balance on 1 January 2015	38	183	83	304
Additions	63	26	42	131
Withdrawals	(52)	(49)	(6)	(107)
Releases	(5)	(1)	(46)	(52)
Closing balance on 31 December 2015	44	159	73	276

19 Subordinated liabilities

This represents the loans relating to the issue of Trust Preferred Securities and subordinated loans.

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Loans related to the issue of Trust Preferred Securities III, VI	409	1,853
Subordinated loans	16,847	15,479
Balance on 31 December	17,256	17,332

In the following table details of the issues of subordinated liabilities are shown:

Subordinated liabilities				
<i>Notional (in millions)</i>	<i>Currency</i>	<i>Coupon</i>	<i>Year of issuance</i>	<i>Year of maturity</i>
1,500	USD	3.75%	2016	2026
225	AUD	5.00%	2015	2025, early repayment 2020
475	AUD	Variable	2015	2025, early repayment possible 2020
1,500	USD	4.375%	2015	2025
1,250	USD	5.25%	2015	2045
1,000	GBP	4.625%	2014	2029
2,000	EUR	2.50%	2014	2026, early repayment possible in 2019
50,800	JPY	1.429%	2014	2024
1,000	EUR	3.875%	2013	2023
1,750	USD	4.625%	2013	2023
1,250	USD	5.75%	2013	2043
1,000	EUR	4.125%	2012	2022
500	GBP	5.25%	2012	2027
1,500	USD	3.95%	2012	2022
1,000	EUR	3.75%	2010	2020
1,000	EUR	5.875%	2009	2019

20 Equity

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
This item can be broken down as follows:		
Capital	-	600
Premium	-	5,402
Rabobank Certificates	5,948	5,949
Capital Securities	7,821	8,002
Revaluation reserves	431	792
Statutory reserve	752	641
Other reserves	22,678	(3,479)
Profit for the year	1,960	908
Total equity	39,590	18,815

Capital

This section includes the fully issued and paid-up share capital. All shares have been issued to local Rabobanks. As of 1 January 2016, as a consequence of the legal merger between Rabobank and the local Rabobanks, the shares became void.

Capital		
<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Changes during the year:		
Opening balance	600	600
Changes due to legal merger	(600)	-
Closing balance	-	600

Premium

Premium		
<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Changes during the year:		
Opening balance	5,402	5,402
Changes due to legal merger	(5,402)	-
Closing balance	-	5,402

Rabobank Certificates

Rabobank Certificates represent participation rights issued by Rabobank via the foundation Stichting Administratie Kantoor Rabobank Certificaten and belong to the Common Equity Tier 1 capital of Rabobank. The Rabobank Certificates have been listed on Euronext Amsterdam since 27 January 2014.

The initial opening price on 27 January 2014 amounted to 105.00% (EUR 26.25). On 31 December 2016, the trading price amounted to 114.18% (EUR 28.55). At year-end 2016, the total number of certificates was 237,961,365 with a nominal value of EUR 25 each.

The distribution paid per certificate in 2016 was EUR 1,625 (2015: EUR 1,625). The Executive Board is entitled not to pay the distribution. Unpaid distributions will not be paid at a later date. The amounts listed in the table below are based on the nominal value of EUR 25 per Rabobank Certificate.

Rabobank Certificates		
<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Changes during the year:		
Opening balance	5,949	5,931
Changes Rabobank Certificates during the year	(1)	18
Closing balance	5,948	5,949

Capital Securities

All Capital Securities are perpetual and have no expiry date.

The distribution on Capital Securities per issue is as follows:

Capital securities issued by Rabobank

Issue of EUR 1,250 million

The coupon is 6.625% per year and is made payable every six months in arrears as of the issue date (26 April 2016), for the first time on 29 June 2016. The Capital Securities are perpetual and first redeemable on 29 June 2021. As of 29 June 2021, and subject to Capital Securities not being redeemed early, the distribution is set for a further five-year period, but without a step-up, based on the 5-year euro swap rate + 6.697%.

The coupon is fully discretionary.

Issue of EUR 1,500 million

The coupon is 5.5% per year and is made payable every six months in arrears as of the issue date (22 January 2015), for the first time on 29 June 2015. The Capital Securities are perpetual and first redeemable on 29 June 2020. As of 29 July 2020, and subject to Capital Securities not being redeemed early, the distribution is set for a further five-year period, but without a step-up, based on the 5-year euro swap rate + 5.25%. The coupon is fully discretionary.

Issue of USD 2,000 million

The coupon is 8.40% per year and is made payable every six months in arrears as of the issue date (9 November 2011), for the first time on 29 December 2011. The Capital Securities are perpetual and first redeemable on 29 June 2017. If the Capital Securities are not redeemed early, the distribution is set for a further five-year period, but without a step-up, based on the US Treasury Benchmark Rate plus a 7.49% mark-up. The coupon is fully discretionary.

Issue of EUR 500 million

The coupon is 9.94% per year and is made payable annually in arrears as of the issue date (27 February 2009), for the first time on 27 February 2010. As of 27 February 2019, the coupon will be made payable every quarter based on the three-month Euribor plus an annual 7.50% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Issue of USD 2,868 million

The coupon is 11.0% per year and is made payable every six months in arrears as of the issue date (4 June 2009), for the first time on 31 December 2009. As of 30 June 2019, the coupon will be made payable every quarter based on the three-month USD Libor plus an annual 10.868% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Issue of GBP 250 million

The coupon is 6.567% per year and is made payable every six months in arrears as of the issue date (10 June 2008), for the first time on 10 December 2008. As of 10 June 2038, the coupon will be made payable every six months based on the six-month GBP Libor plus an annual 2.825% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Issue of CHF 350 million

The coupon is 5.50% per year and is made payable annually in arrears as of the issue date (27 June 2008), for the first time on 27 June 2009. As of 27 June 2018, the coupon will be made payable every six months on 27 June and 27 December based on the six-month CHF Libor plus an annual 2.80% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Issue of ILS 323 million

The coupon is 4.15% per year and is made payable annually in arrears as of the issue date (14 July 2008), for the first time on 14 July 2009. As of 14 July 2018, the coupon will be made payable annually based on an index related to the interest rate paid on Israeli government bonds with terms between 4.5 and 5.5 years plus an annual 2.0% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Issue of NZD 900 million

The coupon on the NZD Capital Securities equals the one-year swap interest rate plus an annual 0.76% mark-up and is made payable annually on 8 October, until 8 October 2017. As of 8 October 2017, the coupon will be made payable every quarter based on the 90-day bank bill swap interest rate plus an equivalent mark-up. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Issue of NZD 280 million

Rabobank Capital Securities Limited has issued capital securities, the coupon of which equals the five-year swap interest rate plus an annual 3.75% mark-up and was set at 8.7864% per annum on 25 May 2009. As of the issue date (27 May 2009), the coupon is made payable every quarter in arrears, for the first time on 18 June 2009 (short first interest period). As of 18 June 2014, the coupon will be made payable every quarter based on the five-year swap interest plus an annual 3.75% mark-up. As of 18 June 2019, the coupon will be made payable every quarter based on the 90-day bank bill swap interest rate plus an annual 3.75% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Capital securities issued by Rabobank which were redeemed during the year

Issue of USD 2,000 million

The distribution is 8.375% per year and is made payable every six months in arrears as of the issue date (26 January 2011), for the first time on 26 July 2011. As of 26 July 2016, and subject to Capital Securities not being redeemed early, the distribution is set for a further five-year period, but without a step-up, based on the US Treasury Benchmark Rate plus a 6.425% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply. This issue was redeemed on the earliest redemption date of 26 July 2016.

The level of profit made by Rabobank may influence the distribution on the Capital Securities. Should Rabobank become insolvent, the Capital Securities are subordinate to the rights of all other (current and future) creditors of Rabobank, unless the rights of those other creditors are substantively determined otherwise.

<i>in millions of euros</i>	2016	2015
Movements were as follows:		
Balance on 1 January	8,002	6,530
Issuance of Capital Securities	1,250	1,500
Costs of issuance of Capital Securities	(9)	(12)
Redemption of Capital Securities	(1,437)	-
Other	15	(16)
Balance on 31 December	7,821	8,002

Revaluation reserves

<i>in millions of euros</i>	2016	2015
The revaluation reserves and translation differences can be specified as follows:		
Cash flow hedges	(70)	(39)
Interest-bearing securities	316	214
Equity investments	-	2
Shares and non-interest-bearing securities	185	615
Total revaluation reserves	431	792
Movements were as follows:		
Balance on 1 January	792	964
Exchange rate differences	(6)	(1)
Revaluations	(291)	607
Other	(77)	(1)
Transferred to profit or loss	13	(777)
Balance on 31 December	431	792

Rabobank's cash flow hedges consist mainly of cross-currency interest rate swaps which serve to protect against a potential change in cash flows from financial assets in foreign currencies with floating interest rates.

Rabobank tests the hedge effectiveness on the basis of statistical regression analysis models, both prospectively and retrospectively. At year-end 2016 and 2015, the hedge relations were highly effective within the range set by IAS 39. On 31 December 2016, the net fair value of the cross-currency interest rate swaps, classified as cash flow hedges was -594 (2015: -707).

In 2016, Rabobank accounted for an amount of -87 (2015: 659) after taxation in other comprehensive income as effective changes in the fair value of derivatives in cash flow hedges. In 2016, an amount of 56 (2015: -709) after taxation of cash flow hedge reserves was reclassified to the income statement. On 31 December 2016, the cash flow hedge reserves as part of equity totalled -70 (2015: -39) after taxation. This amount fluctuates along with the fair value of the derivatives in the cash flow hedges and is accounted for in profit over the term of the hedged positions as trading income. The cash flow hedge reserve relates to a large number of derivatives and hedged positions with different terms. The maximum term is 25 years, with the largest concentrations exceeding five years. The IFRS ineffectiveness for the year ended 31 December 2016 was 148 (2015: 181).

Legal reserves

This concerns the reserve for retained earnings of associates, software developed in-house and translation differences.

<i>in millions of euros</i>	2016	2015
The legal reserves can be specified as follows:		
Retained profits of associates	166	344
Software developed in-house	383	373
Translation differences	203	(76)
Total legal reserves	752	641

<i>in millions of euros</i>	2016	2015
Movements were as follows:		
Balance on 1 January	641	463
From other reserves to legal reserves	(168)	160
Exchange rate differences	279	18
Balance on 31 December	752	641

Other reserves

<i>in millions of euros</i>	2016	2015
The remaining reserves can be specified as follows:		
Recalibration of pensions ¹	(219)	(175)
Fair value changes due to own credit risk on financial liabilities designated at fair value	(303)	-
Retained earnings	23,200	(3,304)
Total other reserves	22,678	(3,479)

<i>in millions of euros</i>	2016	2015
Movements in the recalibration of pensions:		
Balance on 1 January	(175)	(196)
Recalibration of pensions	(44)	21
Balance on 31 December	(219)	(175)
Movements in the fair value changes due to own credit risk on financial liabilities designated at fair value:		
Balance on 1 January	-	-
Adjustment opening balance	62	-
Fair value changes	(365)	-
Realisation at derecognition	-	-
Balance on 31 December	(303)	-

<i>in millions of euros</i>	2016	2015
Movements in retained earnings:		
Balance on 1 January	(3,304)	(3,039)
Changes due to legal merger	26,761	-
Adjustment opening balance ²	(62)	-
Profit for previous financial year	908	1,352
Distribution to third parties	(1,230)	(1,189)
Dividends to local Rabobanks	-	(265)
Transferred to legal reserves	168	(160)
Transferred to revaluation reserves	319	(8)
Redemption of Capital Securities	(316)	-
Other changes	(44)	5
Balance on 31 December	23,200	(3,304)

The reserves cannot be distributed among members.

The consolidated financial statements of Rabobank include the financial information of Rabobank and other group companies. Consolidated net profit for Rabobank was 2,024 (2015: 2,214); net profit of Rabobank in the company financial statements was 1,960 (2015: 908). The difference in 2016 of 64 represents the non-controlling interests. The difference in 2015 of 1,306 represents the profits of local Rabobanks, which were not recognised in the company financial statements and the non-controlling interests.

The table below shows reconciliation between the equity of Rabobank and that of Rabobank Group:

<i>In millions of euros</i>	2016	2015
Equity of Rabobank according to Part 9 of Book 2 of the Dutch Civil Code	39,590	18,815
Capital paid-up by local Rabobanks	-	(600)
Premium	-	(5,402)
A component of the equity of Rabobank Group: Trust Preferred Securities III to VI	409	1,131
A component of the equity of Rabobank Group: Other non-controlling interests	525	492
Equity of local Rabobanks according to Part 9 of Book 2 of the Dutch Civil Code	-	26,761
Total group equity under IFRS, as presented in consolidated financial statements	40,524	41,197

1 Created in accordance with IAS 19.122

2 Opening balance 2016 adjusted due to early adoption of IFRS 9 on fair value of financial liabilities designated at fair value (See note 1 Basis of preparation)

Notes to the statement of income

21 Net interest income

<i>in millions of euros</i>	2016	2015
Interest income		
Cash and balances at central banks	183	94
Loans and advances to banks	573	2,292
Financial assets held for trading	45	71
Financial assets designated at fair value	25	52
Loans and advances to customers	11,340	2,221
Available-for-sale financial assets	1,040	1,230
Derivatives held as economic hedges	1,607	2,835
Interest income on financial liabilities with a negative interest rate	77	16
Other	41	1
Total interest income	14,931	8,812
Interest expense		
Due to banks	421	494
Other trade liabilities	10	17
Due to customers	4,409	3,095
Debt securities in issue	3,250	3,532
Other liabilities	720	597
Financial liabilities designated at fair value	362	466
Interest expense on financial assets with a negative interest rate	258	71
Other	4	8
Total interest expense	9,434	8,280
Net interest income	5,497	532

22 Net fee and commission income

<i>in millions of euros</i>	2016	2015
Fee and commission income		
Insurance commissions	257	-
Lending	559	231
Purchase and sale of other financial assets and handling fees	320	108
Payment services	704	107
Other commission income – group companies	42	19
Other commission income	45	51
Total fee and commission income	1,927	516
Fee and commission expense		
Purchase and sale of other financial assets	1	2
Payment services	20	30
Custodial fees and securities services	10	11
Handling fees	33	15
Other commission expense – group companies	23	114
Other commission expense	125	46
Total fee and commission expense	212	218
Net fee and commission income	1,715	298

23 Income from equity interests

<i>in millions of euros</i>	2016	2015
Dividend income from shares	23	14
Results from interests in group companies	2,025	646
Results from other equity investments	(94)	118
Results from disposed interests	63	18
Total income from equity interests	2,017	796

24 Staff costs

<i>in millions of euros</i>	2016	2015
Wages and salaries	2,283	1,131
Social security contributions and insurance costs	243	99
Pension costs	429	182
Other staff costs	352	146
Total staff costs	3,307	1,558

The average number of internal and external employees was 26,838 (2015: 15,758), of which 3,110 outside the Netherlands (2015: 3,155). Expressed in FTEs, the number of internal and external employees was 25,121 (2015: 15,224).

25 Regulatory levies

The regulatory levies consist of bank tax, contributions to the single resolution fund and the deposit guarantee scheme.

Banks operating in the Netherlands on 1 October of the current year are required to pay bank tax. There are two rates of bank tax: A rate of 0.044% for current liabilities and a rate of 0.022% for long-term liabilities, based on the balance on December 2015. In 2016, Rabobank Group was charged a total of 138 (2015: 68). In 2016, the bank levy in Ireland amounted to 4 (2015: 4).

On 1 January 2016 the European Single Resolution Fund (SRF) was set up. This fund will for a large part replace the National Resolution Funds, including the Dutch National Resolution Fund (NRF) that was set up on the 27 November 2015.

Both funds have been established to improve the effectiveness of resolution instruments. Banks and investment firms that are in the scope of the SRM-regulation are obliged to contribute to the SRF. The NRF is build up exclusively by lump-sum contributions. In 2016, the contribution to the Single Resolution

Fund amounted to 151. In 2015, the contribution to the National Resolution Fund amounted to 66.

Per the end of 2015, the new pre-funded deposit guarantee scheme was introduced. In 2016, banks have to pay a premium on a quarterly basis. Target size of the scheme is 0.8% of total guaranteed deposits of all banks together. In 2016, the contribution to the Deposit Guarantee Scheme amounted to 131.

26 Income tax

The major components of the income tax is included below.

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Income tax		
Reporting period	(34)	(280)
Adjustments of previous years	(6)	(3)
Deferred tax	95	125
Total income tax	55	(158)
Effective tax rate	2.7%	(21.1%)
Applicable tax rate	25.0%	25.0%

The effective tax rate differs from the applicable tax rate in 2016 mainly because of the participation exemption, the deduction of interest payments on Capital Securities and the impairment of Achmea.

Other notes to the financial statements

27 Professional securities transactions and assets not freely available

Professional securities transactions in which Rabobank lent securities.

<i>In millions of euros</i>	2016	2015
Securities lent for use:		
Loans and advances to banks	12,596	17,944
Loans and advances to customers	16,536	19,783
Total	29,132	37,727

Professional securities transactions in which Rabobank lent securities.

<i>In millions of euros</i>	2016	2015
Securities lent:		
Due to banks	418	81
Due to customers	209	486
Total	627	567

The assets referred to in the table below (with exception to professional securities transactions) were provided to counterparties as security for (contingent) liabilities. If Rabobank remains in default the counterparties may use the security to settle the debt.

<i>In millions of euros</i>		2016	2015
Assets not freely available:	Related to type of liabilities:		
Loans and advances to banks	Derivatives	4,702	5,178
Loans and advances to customers	Due to customers	5,978	6,758
Interest-bearing securities	Due to customers	6,276	450
Total		16,956	12,386

28 Contingent liabilities

This item relates to transactions in which Rabobank stands surety for obligations of third parties.

<i>In millions of euros</i>	2016	2015
Contingent liabilities consist of:		
Guarantees	19,415	14,126
Letters of credit	6,196	4,744
Other	747	100
Total contingent liabilities	26,358	18,970
Of which:		
Contingent liabilities of group companies	8,194	6,710

Liabilities relating to operating leases

Rabobank has concluded various operating lease contracts as lessee, mainly with respect to properties, information systems and cars. The future net minimum lease payments under non-cancellable operating leases can be broken down as follows:

<i>in millions of euros</i>	2016	2015
Not later than 1 year	124	22
Later than 1 year but not later than 5 years	279	74
Later than 5 years	346	84
Total liabilities relating to operating leases	749	180

The gross minimum lease payments The expected future minimum lease payments receivable from sub-leases are nil (2015: nil). The operating lease expenses are 52 (2015: 24). These are included in 'Other administrative expenses' in the statement of income.

Contingent liabilities related to income tax

The European Commission has addressed questions to the Dutch government about article 29a of the Dutch Corporate Income Tax Code. If the European Commission would decide to start a formal investigation and ultimately would conclude that this is a case of state aid, Rabobank may have to repay tax benefits it enjoyed from 2015 onwards.

Article 29a of the Dutch Corporate Income Tax Code was included in the Dutch Corporate Income Tax Code so that capital instruments issued by credit institutions and which are covered by EU regulation 575/2013 would be considered tax deductible. In this context, Rabobank issued Capital Securities in January 2015 and in April 2016, amounting respectively to EUR 1.5 billion at a fixed interest rate of 5.5%, and EUR 1.25 billion at a fixed interest rate of 6.625%. The contingent liability related to this matter amounts to 54.

Liability undertakings

Pursuant to Section 403 of Book 2 of the Dutch Civil Code, Rabobank has assumed liability for the debts arising from the legal transactions of the following Group companies:

- Bodemgoed B.V.
- De Lage Landen America Holdings B.V.
- De Lage Landen Corporate Finance B.V.
- De Lage Landen Facilities B.V.

- De Lage Landen Financial Services B.V.
- De Lage Landen Financiering B.V.
- De Lage Landen International B.V.
- De Lage Landen Trade Finance B.V.
- De Lage Landen US Participations B.V.
- De Lage Landen Vendorlease B.V.
- FGH Bank N.V.
- Rabo Groen Bank B.V.
- Rabo Merchant Bank N.V.
- Rabo Mobiel B.V.
- Rabobank International Holding B.V.

A liquidity guarantee was issued by Rabobank for Rabo Groen Bank B.V.

In the past, Rabobank has guaranteed the liabilities of a number of group companies. Even though these guarantees have come to an end, Rabobank remains liable for the fulfilment of obligations entered into by the group companies during the term of the guarantees.

In connection with the Trust Preferred Securities, Rabobank guarantees the Trust concerned, on a subordinated basis, that the payments from the LLC to the Trust will be made and - in the event that the LLC goes into liquidation - that the LLC Class B Preferred Securities will be repaid and the associated payments on the Trust Preferred Securities will be made (the 'Guarantees'). Under the so-called Contingent Guarantee, Rabobank guarantees the LLC that it will pay the amounts owed under the Guarantees, if these amounts have been due and unpaid for more than 180 days.

Internal liability (cross-guarantee system)

In accordance with the Dutch Financial Supervision Act (Wet op het financieel toezicht), various legal entities belonging to Rabobank Group are internally liable under an intra-group mutual keep well system. Under this system the participating entities are bound, in the event of a lack of funds of a participating entity to satisfy its creditors, to provide the funds necessary to allow the deficient participant to satisfy its creditors.

As on 31 December 2016, the participants are:

- Coöperatieve Rabobank U.A., Amsterdam
- Rabohypothekbank N.V., Amsterdam
- Raiffeisenhypothekbank N.V., Amsterdam
- De Lage Landen International B.V., Eindhoven
- De Lage Landen Financiering B.V., Eindhoven
- De Lage Landen Trade Finance B.V., Eindhoven
- De Lage Landen Financial Services B.V., Eindhoven

On 1 January 2016, the local Rabobanks and the Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. entered into a legal merger. Furthermore, on 1 January 2016, the name of the Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. was changed into Coöperatieve Rabobank U.A.

Fiscal unit for corporate tax purposes

For corporate tax purposes Rabobank forms a fiscal unit with a number of domestic subsidiaries. Under the fiscal unit, each participating legal entity is jointly and severally liable for the fiscal unit's corporate tax liabilities.

29 Irrevocable facilities

This item relates to all irrevocable facilities that could lead to lending.

<i>In millions of euros</i>	2016	2015
Unused credit facilities	42,881	42,701
Other	2,321	2,748
Total irrevocable commitments	45,202	45,449
Of which group companies	10,779	12,853

30 Main subsidiaries

All subsidiaries listed in the table are consolidated. In 2016, none of the subsidiaries experienced any significant restrictions in the payment of dividends or the redemption of loans and repayment of advances. The option of subsidiaries to pay dividend to Rabobank depends on various factors, including local regulatory requirements, statutory reserves and financial performance.

On 31 December 2016	Share	Voting rights
Main subsidiaries		
The Netherlands		
DLL International B.V.	100%	100%
Rabo Vastgoedgroep N.V.	100%	100%
FGH Bank N.V.	100%	100%
Obvion N.V.	100%	100%
Rabohypothekbank N.V.	100%	100%
North America		
Rabobank Capital Funding LCC III	100%	100%
Rabobank Capital Funding Trust IV	100%	100%
Utrecht America Holdings Inc.	100%	100%
Australia and New Zealand		
Rabobank Australia Limited	100%	100%
Rabobank New Zealand Limited	100%	100%

31 Remuneration of the Supervisory Board and the Executive Board

In 2016, the remuneration of members and former members of the Executive Board amounted to 7.5 (2015: 6.4). The increase is related to the expansion of the board with one extra member.

<i>in thousands of euros</i>	<i>Short-term employee benefits</i>	<i>Post-employment benefits</i>		<i>Other</i>	<i>Total</i>
		Pension scheme	Individual pension contribution		
W. Draijer	980	25	212	-	1,217
B.C. Brouwers	884	25	189	-	1,098
R.J. Dekker	884	25	189	3	1,101
P.C. van Hoeken	663	19	142	-	824
B.J. Marttin	884	25	189	-	1,098
H. Nagel	884	25	189	-	1,098
J.L. van Nieuwenhuizen	884	25	189	-	1,098
Total 2016	6,063	169	1,299	3	7,534
Members Executive Board	4,257	128	908	5	5,298
Former members Executive Board	884	26	189	1	1,100
Total 2015	5,141	154	1,097	6	6,398

At year-end 2016, there were a total of 486 DRNs (liability of 16) outstanding with members of the Executive Board (year-end 2015: 11,647 pieces of which 5,503 regarding former members). The pension scheme for the members of the Executive Board is classified as a collective defined contribution scheme. As of 1 January 2015, the maximum income on the basis of which the members of the Executive Board can build up a pension amounts to a maximum, for 2016 EUR 96,000. Any income exceeding this amount is not pensionable. As of 1 January 2015, the members of the Executive Board therefore receive an individual pension contribution.

Expenses related to members and former members of the Supervisory Board total 1.2 (2015: 1.2 of which former members 0.6). This includes VAT and employer's contributions payable. In addition to the role of Member of the Supervisory Board of Rabobank, the remuneration also depends on the roles in the various committees. The composition of these committees is detailed in the Annual Report. The remuneration structure as of 1 October 2016 (exclusive of VAT and other charges) is:

<i>As of 1 October 2016 the fee structure (in euros):</i>	<i>Fee</i>
Member	90,000
Chairman of Audit Committee, Risk Committee, Cooperative Issues Committee, additional	20,000
Chairman of Appointments Committee together with HR Committee, additional	20,000
Vice chairman, additional	30,000
Chairman	220,000

The table below shows the remuneration (excluding VAT and other charges) for individual members of the Supervisory Board.

<i>in thousands of euros</i>	<i>Remuneration</i>
W. Dekker (in office until 15 September 2016)	242
R. Teerlink	131
I.P. Asscher-Vonk	98
M. Trompetter	104
L.N. Degle	86
S.L.J. Graafsma	110
P.H.M. Hofsté (in office from 14 December 2016)	4
A.A.J.M. Kamp	91
E.A.J. van de Merwe (in office until 15 September 2016)	73
J.J. Nooitgedagt (in office from 14 September 2016)	32
P.H.J.M. Visée (in office from 14 December 2016)	4
Total 2016	975
Total 2015	1,030

At Rabobank, the Chairman of the Supervisory Board holds a number of roles which are related to the cooperative. These roles are specified in the Annual Report.

<i>in millions of euros</i>	<i>Executive Board</i>		<i>Supervisory Board</i>	
<i>Loans, advances and guarantees</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
Outstanding on 1 January	4.3	4.9	1.4	2.6
Provided during the year	-	1.2	-	-
Redeemed during the year	(0.8)	(1.8)	(0.1)	(0.7)
Reduction on account of leaving office	-	-	-	(0.9)
Increase on account of taking office	0.6	-	-	0.4
Outstanding on 31 December	4.1	4.3	1.3	1.4

The loans, advances and guarantees of the members of the Executive Board in office and the average interest rates were as follows:

<i>in millions of euros</i>	<i>2016</i>	
	<i>Outstanding loans</i>	<i>Average interest rate (in %)</i>
Loans, advances and guarantees		
B.C. Brouwers	0.5	2.6
R.J. Dekker	1.0	2.1
B.J. Marttin	0.4	5.8
H. Nagel	1.0	2.2
J.L. van Nieuwenhuizen	1.2	2.0

<i>in millions of euros</i>	<i>2015</i>	
	<i>Outstanding loans</i>	<i>Average interest rate (in %)</i>
Loans, advances and guarantees		
R.J. Dekker	1.2	1.6
B.J. Marttin	0.4	4.4
H. Nagel	1.0	1.9
J.L. van Nieuwenhuizen	1.7	3.3

The loans, advances and guarantees of the members of the Supervisory Board in office on 31 December 2016 and the average interest rates were as follows:

<i>in millions of euros</i>	<i>Outstanding loans</i>		<i>Average interest rate (in %)</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
Loans, advances and guarantees				
A.A.J.M. Kamp	0.9	1.0	2.6	2.7
M. Trompetter	0.4	0.4	4.0	4.9

At year-end 2016, the members of the Supervisory Board not listed in the table had not received any loans, advances or guarantees. These transactions with members of the Executive Board and Supervisory Board were completed in person on the basis of employee terms and conditions and/or market rates for the Supervisory Board. The rates depend in part on the currency, the agreed fixed-interest period and the time the transaction was completed or the time a new fixed-interest term becomes effective.

Several members of the Supervisory Board have invested in Rabobank Certificates in person and/or through their own pension B.V. At year-end 2016, this involved in total 15,780 certificates.

<i>On 31 December 2016</i>	<i>Number of Rabobank Certificates</i>	
I.P. Asscher-Vonk	6,894	
L.N. Degle	4,836	in pension B.V.
S.L.J. Graafsma	4,050	in pension B.V.

32 Approval of the Supervisory Board

The publication of these financial statements was approved by the Supervisory Board on 8 March 2017. The financial statements will be presented to the General Meeting, to be held on 19 April 2017, for adoption. With regard to the adoption of the financial statements of Rabobank, the Articles of Association state: 'The resolution to adopt the financial statements will be passed by an absolute majority of the votes validly cast by the General Members' Council'.

On behalf of the Executive Board

W. Draijer, *Chairman*

B.C. Brouwers, *CFO*

R.J. Dekker, *COO*

P.C. van Hoeken, *CRO*

B.J. Marttin, *Member*

H. Nagel, *Member*

J.L. van Nieuwenhuizen, *Member*

On behalf of the Supervisory Board

R. Teerlink, *Chairman*

M. Trompetter, *Vice Chairman*

I.P. Asscher-Vonk, *Secretary*

L.N. Degle

S.L.J. Graafsma

A.A.J.M. Kamp

J.J. Nooitgedagt

P.H.M. Hofsté

P.H.J.M. Visée

Other information

Statutory provisions

Profit can be used under an Executive Board resolution to pay distributions on participation rights and distributions on additional tier 1 instruments.

The remainder of the profit is added to the general reserves held by Rabobank. The Executive Board can also decide to make interim distributions to holders of participation rights and the holders of additional tier 1 instruments from the profit and/or the result. While Rabobank still exists, the reserves cannot be distributed to the members, neither in full, nor in part.

The Executive Board has the right to make a distribution from the reserves on participation rights and/or additional tier 1 instruments. If the decision is taken at any time to dissolve Rabobank in order to have its business continued by another legal entity or institution, the reserves will be transferred to said other legal entity or institution.

Proposals regarding the appropriation of available profit for Rabobank

Of the profit of 1,960, 1,164 is payable to the holders of Capital Securities and Rabobank Certificates in accordance with Executive Board resolutions. It is proposed that the remainder of the profit be added to the general reserve held by Rabobank.

Events after the reporting date

In January 2017, Rabobank announced the offering of newly issued Rabobank Certificates. The nominal issued amount was EUR 1.5 billion. Rabobank issued 60 million new Rabobank Certificates; each of these newly issued certificate was priced at 108% of the nominal value of EUR 25. After the issuance, a total nominal amount of approximately EUR 7.4 billion in Rabobank Certificates was outstanding.

Glossary of terms

Annual Report 2016 Rabobank

BPV (basis point value):	BPV represents the absolute loss of the market value of equity if the yield curve as a whole changes in parallel by one basis point.
Carbon footprint:	The total of greenhouse gas emissions expressed in tonnes of carbon dioxide for Scope 1, 2 and 3.
Cash flow:	Inflows and outflows of cash and cash equivalents.
Circular economy:	Economic system where products and services are traded in closed loops. It's characterized as an economy which is regenerative by design, with the aim to retain as much value as possible of products, parts and materials.
Clean technology:	Technology regarding renewable energy, energy efficiency, lighting, water and waste management.
Common equity tier 1 capital:	This capital is determined based on the regulator's requirements. For Rabobank, this constitutes the sum of retained earnings, Rabobank Certificates, share of non-controlling interests, reserves and transitional provisions, less estimated dividends and deductions.
Common equity tier 1 ratio:	Common equity tier 1 capital related to the risk-weighted assets.
Corporate governance:	The system of rules, practices and processes by which a company is directed and controlled. The term refers to how a company is to be managed effectively, efficiently and soundly and to the management's responsibility to account for its policies to its stakeholders.
Cost/income ratio:	Operating expenses related to income.
Country risk:	With respect to country risk, a distinction is drawn between transfer risk and collective debtor risk. Transfer risk relates to the possibility of foreign governments placing restrictions on funds transfers from debtors in their own country to creditors in other countries. Collective debtor risk is the risk that a large number of debtors in a particular country will all be unable to fulfil their obligations owing to the same cause.
Credit risk:	The risk of loss if the bank's counterparties are unable to meet their loan obligations to the bank.
EAD (Exposure At Default):	The bank's expected exposure in the event and at the time of a counterparty's default.

EaR (Equity at Risk):	Measure indicating the percentage by which the market value of equity will decrease if the yield curve increases (in parallel) by one percentage point.
Economic capital or internal capital requirement:	This refers to the minimum capital buffer required in order to offset all unexpected losses caused by the various risks to which a bank is exposed during a specific time period (one year), assuming a specific reliability interval.
Engagement:	<p>Have a two-way dialogue with key stakeholders, such as our employees, business partners, clients and society to learn and understand the challenges they face, the innovations in the market, and developments in sustainability frames of reference. Engagement contributes to ongoing learning and improvement by enabling Rabobank to:</p> <ul style="list-style-type: none"> • identify and create commercial opportunities; • to identify and appraise risks; • have the opportunity to remedy grievances among the Group's stakeholders; • share our knowledge and networks with our clients to motivate them to deal responsibly with their sustainability issues.
Ethics Committee:	Rabobank Committee established in 1998 which assesses practical situations that have an underlying ethical dilemma and weighs them against Rabobank's norms and values.
Equity capital ratio:	Retained earnings and Rabobank Certificates related to risk-weighted assets.
Funding:	Funds used by the bank to finance its lending operations.
Green Bond:	Fund allocated to the financing of renewable energy projects (solar and wind).
Green Mortgage:	Mortgage that encourages customers to opt for an energy efficient new home by giving them a discount (0.5%) on the interest.
Hybrid capital:	Capital including components of equity and liabilities, forming part of the bank's tier 1 capital.
IaR (Income at Risk):	This measure indicates, with some degree of reliability, the maximum loss of interest profit caused by a sharp increase or decline in money market interest rates over the next 12 months.
Impact Loan:	Loan with a significant interest account introduced by the European Investment Bank (EIB) and Rabobank for sustainability frontrunners in the Netherlands with a positive social impact.
Impaired loans:	Loans for which a provision has been made.
Interest rate risk:	The risk that the bank's financial performance and/or economic value, based on the balance sheet structure, is negatively affected by trends in the money market.
LGD (Loss Given Default):	Estimate of economic loss in the event of default on the part of the debtor. The LGD is expressed as a percentage of the EAD.

Liquidity risk:	The risk that a bank will not be able to fulfil all its payment and repayment obligations on time, as well as the risk that it will at some time be unable to fund increases in assets at a reasonable price, if at all.
Loan impairment charges:	Costs consisting of the amounts added to the loan impairment allowance and charged to the profit and loss account. Loan impairment charges represent the balance of addition, release and earnings after write-offs. Loan impairment charges are generally expressed in basis points of average lending.
Loan-to-deposit ratio:	Ratio of lending related to due to customers.
Materiality:	Relevant topics that may reasonably be considered important for reflecting the organisation's economic, environmental and social impacts, or influencing the decisions of stakeholders.
Market risk:	Risk related to value changes in the trading portfolio due to price changes in the market which affect factors such as interest rates, shares, credit spreads, currencies and certain types of goods.
Operational risk:	The probability of loss caused by inadequate or deficient internal processes, people or systems, or by external events.
PD (Probability of Default):	The likelihood that a counterparty will default within one year.
Qualifying capital:	Capital determined based on the regulator's requirements. For Rabobank, this represents the sum of the tier 1 capital, subordinated debts and share of non-controlling interests less transitional provisions.
RAROC (Risk Adjusted Return On Capital):	Risk-based profitability measurement framework which ensures that earnings and risks can be consistently weighted against each other.
Regulatory capital or external capital requirement:	The total capital classified by the regulator as risk-bearing capital, consisting of the tier 1 and tier 2 capital.
Return on tier 1 capital:	Net profit related to the tier 1 capital as at 31 December of the previous financial year.
Risk-weighted assets:	The assets of a financial institution multiplied by a weighting factor, set by the regulatory authorities, reflecting the relative risk related to these assets. The minimum capital requirement is calculated based on the risk-weighted assets.
Solvency:	A company's ability to meet its financial obligations.
Sustainable agriculture:	Agriculture with a focus on sustainability and innovations. Innovations that will ultimately result in structural increases of sustainable food supply.
Sustainable development:	Sustainable development is development which meets the needs of current generations without comprising the ability of future generations to meet their own needs (UN Brundtland Commission Report, 1987).
Sustainability Bond:	Funds allocated to loans provided to SMEs with sustainability certifications on products, processes or buildings.

Sustainability photo:

Customer profile to identify whether a customer is a sustainability leader in its industry or an average or below-average performer.

Tier 1 capital:

This capital is determined based on the regulator's requirements. For Rabobank, this represents the sum of the common equity tier 1 capital, grandfathered instruments and share of non-controlling interests less transitional provisions and deductions.

Tier 1 ratio:

Tier 1 capital as related to the risk-weighted assets.

Total capital ratio:

Regulatory capital divided by risk-weighted assets.

Transfer risk:

Transfer risk relates to the possibility of foreign governments placing restrictions on funds transfers from debtors in their own country to creditors in other countries.

Value at Risk (VaR):

Value at Risk (VaR) is used in calculating market risk, indicating the maximum loss to be incurred for a given confidence level and horizon and based on 'normal' market conditions and on one year of historical market trends. For day-to-day control, a confidence level of 97.5% and 1-day horizon are applied.

Colophon

Published by

Rabobank

Communications & Corporate Affairs

About the Rabobank Annual Report and online review

Rabobank has integrated both the financial information and the key corporate social responsibility reporting information in the Annual Report 2016. We also publish an online review.

The Annual Report 2016 is based on, among other things, the financial statements and other information about Rabobank as required under Part 9 of Book 2 of the Dutch Civil Code.

As required by law, these reports have been/will be filed at the offices of the Trade Registry under number 30.046.259 after the adoption of the financial statements of Rabobank Nederland by the Annual General Meeting. The Annual General Meeting is scheduled for 19 April 2017.

An independent auditor's report has been issued for the financial statements of Rabobank, as required under Article 2:393, Paragraph 5 of the Dutch Civil Code. This report takes the form of an unqualified opinion. In its report, the external auditor has not emphasised any specific matters. The section 'Report of the Supervisory Board' does not form part of the statutory Annual Report.

This Annual Report has been prepared in accordance with the G4 Guidelines of the Global Reporting Initiative, based on the comprehensive option. The contents of Rabobank's reporting on corporate social responsibility have been full verified by KPMG Sustainability, and provided with an assurance report classified as having a reasonable degree of certainty. The section of the Annual Report that deals with corporate social responsibility forms an integral part of the Annual Report.

Annual Reporting

In 2017, Rabobank is publishing the following documents as part of its annual reporting in English:

- Annual Report 2016
- Online review 2016
- Consolidated Financial Statements 2016
- Financial Statements 2016
- Capital Adequacy and Risk Management Report 2016/Pillar 3
- Interim Report 2017

The Annual Report will also be published in Dutch and is available from 13 April 2017.

The Annual Report 2016, our online review 2016, the (Consolidated) Financial Statements 2016, the Capital Adequacy and Risk Management Report (Pillar 3) will be available online at www.rabobank.com from 21 March 2017.

Rabobank's annual reporting is available online at the corporate website: www.rabobank.com/annualreports and www.rabobank.com/jaarverslagen.

Materials used

Rabobank uses environmentally-friendly materials when printing this document.

Contact

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

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