



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

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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

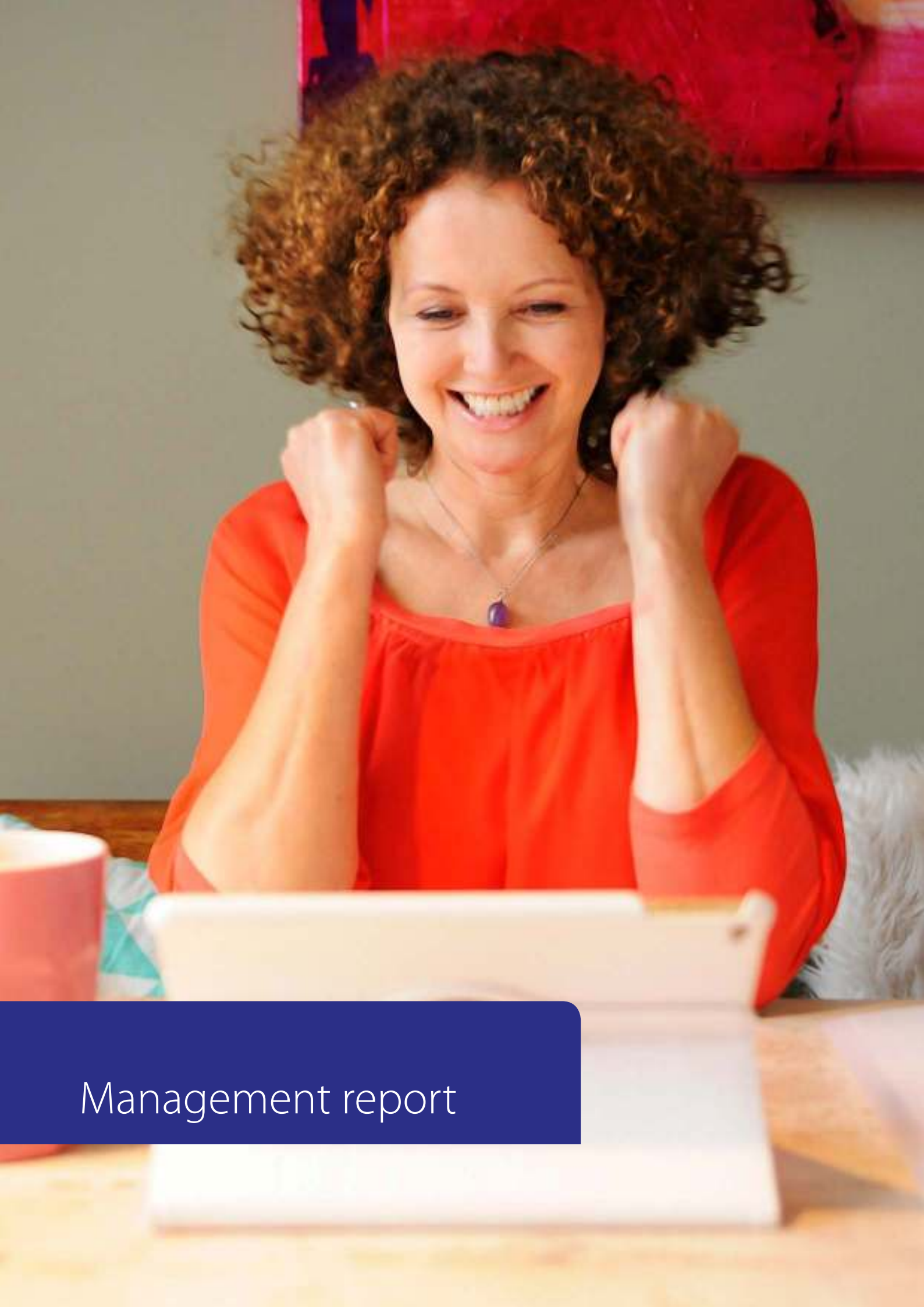
Rabobank commits itself to achieving progress in society and in the Sustainable Development Goals defined by the United Nations, through its Banking for Food and Banking for the Netherlands. We have received many accolades for our efforts on sustainability. In the Dutch Transparency Benchmark, we earned 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.





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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.

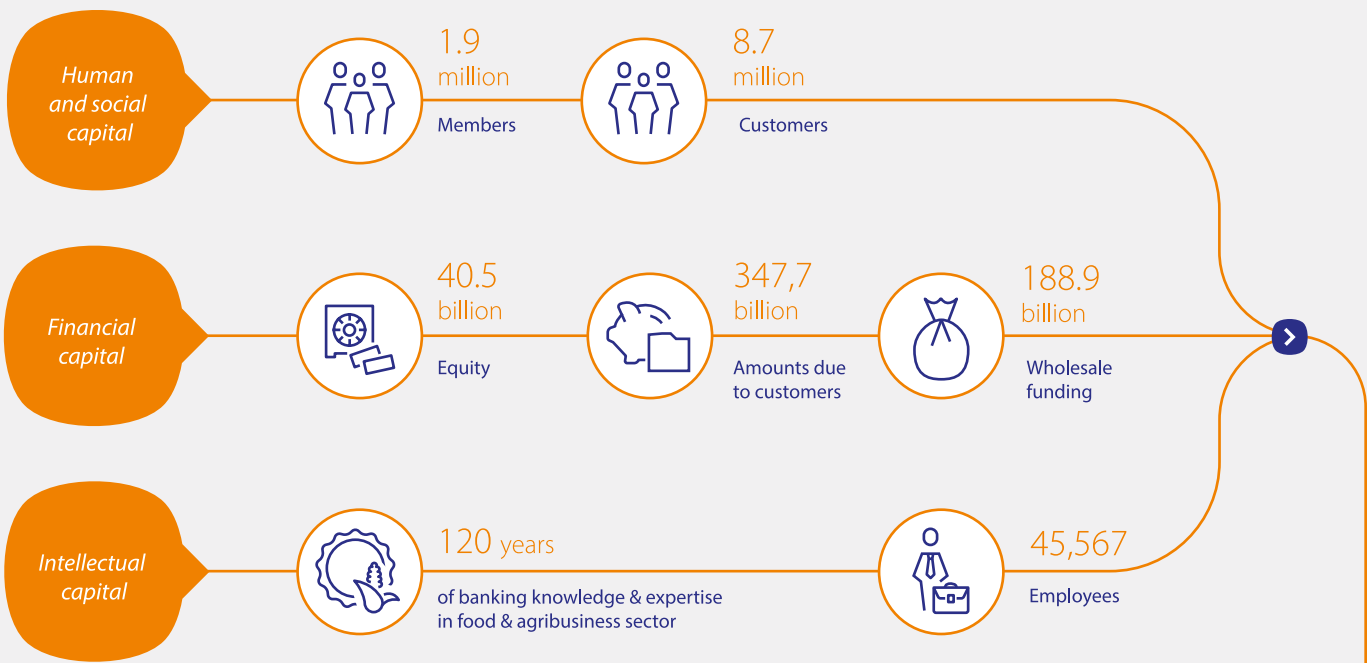
Our environment

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.

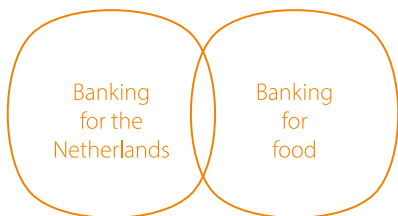
Our conclusions in a nutshell:

- 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.



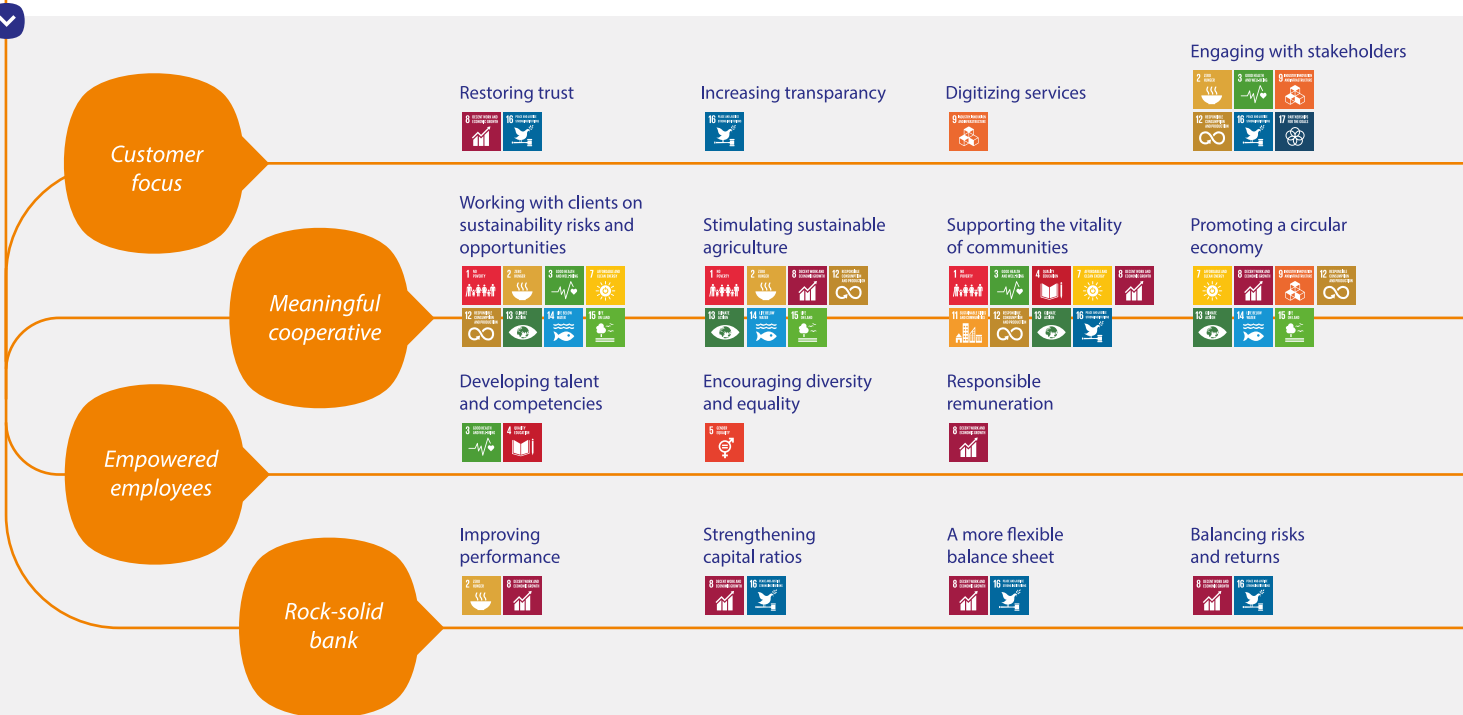
Our vision



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

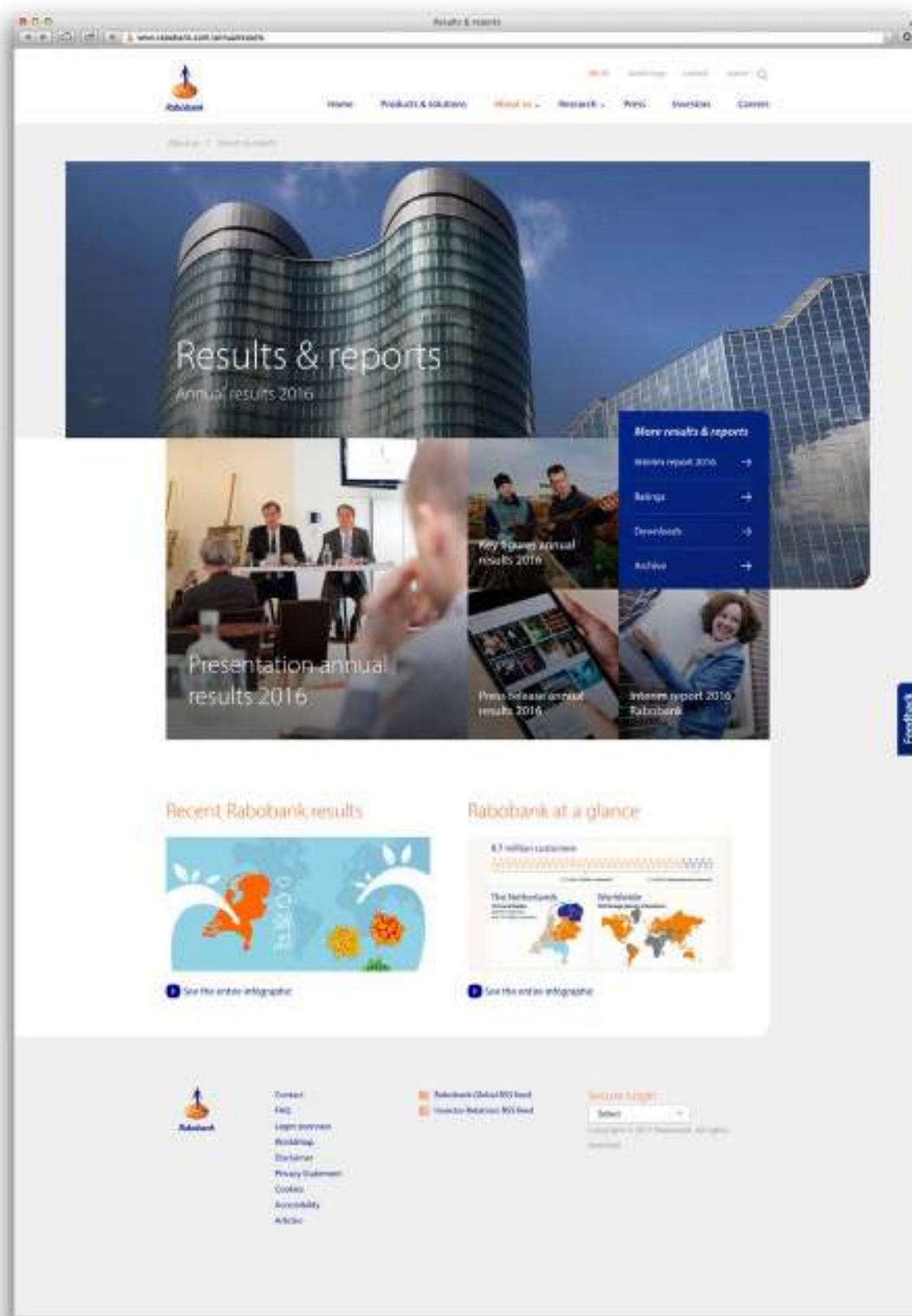
Rabobank offers financial resources to customers worldwide. Our products and services include banking, capital management, leasing, insurance and real estate. With EUR 40.5 billion in equity, EUR 347.7 billion in amounts due to customers and EUR 188.9 billion in wholesale funding, Rabobank is a rock-solid 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>	2016	2015	2014	2013	2012
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	662,593	678,827	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

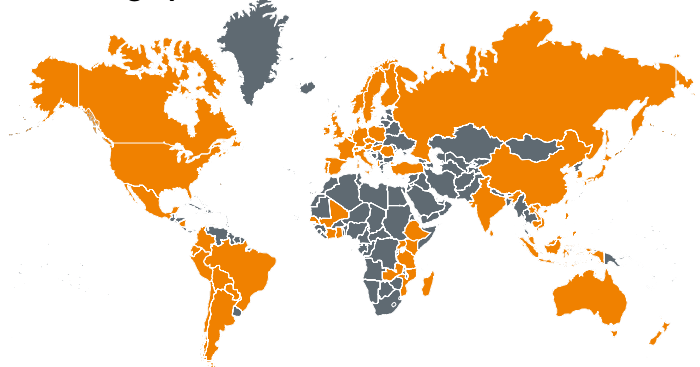
The Netherlands

103 local banks
with 475 branches
and 1.9 million members



Worldwide

382 foreign places of business



Market shares in the Netherlands



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 conversation**
- 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

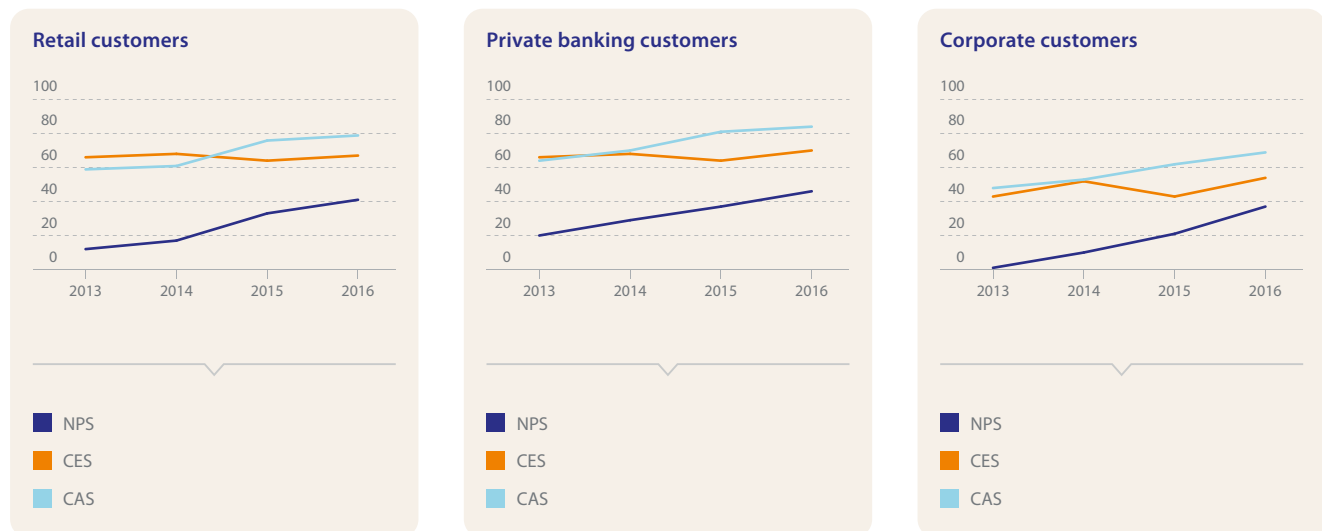
Our output and impact

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%).

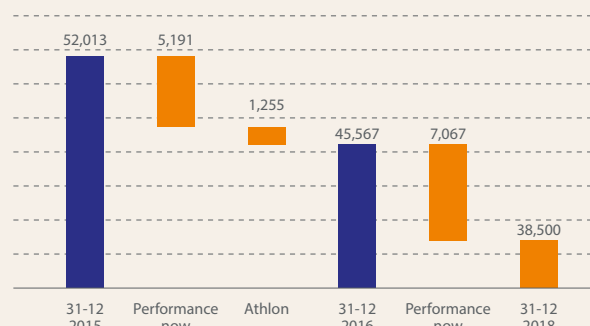
Development of underlying operating profit before tax		
<i>Amounts in millions of euros</i>	2016	2015
Operating profit before tax	2,718	2,869
Impairment Rabobank's stake in Achmea and goodwill impairment RNA	700	604
Book profit on the sale of Athlon	(251)	-
Provision for interest rate derivatives	514	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>		Actual 2016	Target 2016
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.

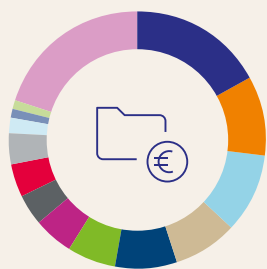
Rabobank's underlying operating profit before tax was EUR 4,090 (3,592) million, an increase of EUR 498 million compared to 2015. In calculating this underlying profit a correction was made for the impairments on Rabobank's stake in Achmea, the book profit on the sale of Athlon, the provision for interest 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

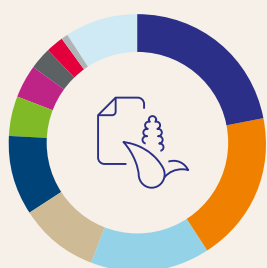
also sold to investors, resulting in off-balance sheet treatment. At real estate financier FGH Bank, the commercial real estate portfolio was further reduced and the sale of the real estate financing activities of RNHB contributed to a decrease of the loan portfolio. More information on these transactions 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

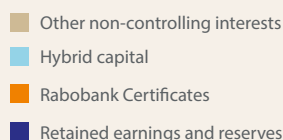
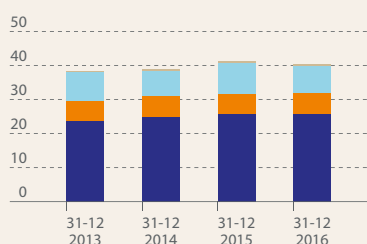
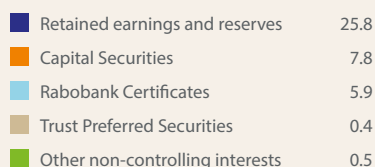
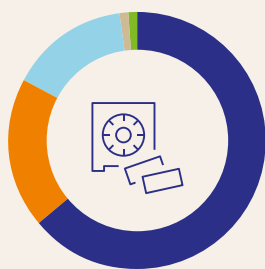
47% of the loan portfolio was lent to private individuals, 29% to TIS, and 24% to F&A. The figures alongside represent the breakdown of the TIS and F&A portfolios by industry.

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	662.6	678.8	-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 (245) 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

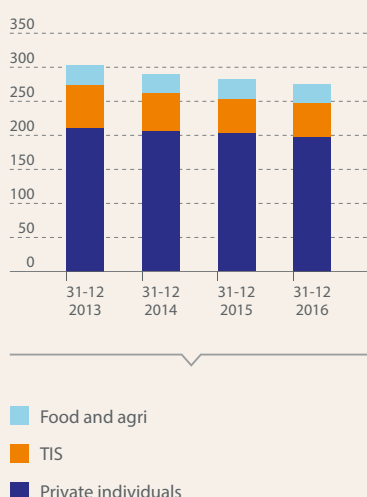
In the Netherlands, Rabobank is a leading player in providing loans in the residential mortgage market, as well as in the savings, payments, investment and insurance markets. It is also an important financial services provider for the SME segment, the F&A industry, and the corporate segment. At the end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

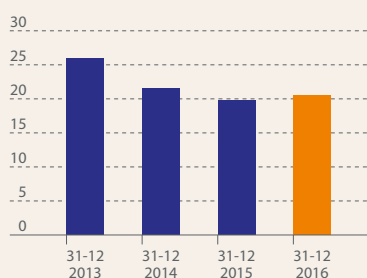
In March 2016, Rabobank sold a share of its mortgage loan portfolio worth EUR 1 billion to insurance company VIVAT Verzekeringen (read more about this sale [here](#)). In July 2016, Rabobank sold another share worth EUR 500 million to Delta Lloyd (read more about this sale [here](#)). Also in July 2016, 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

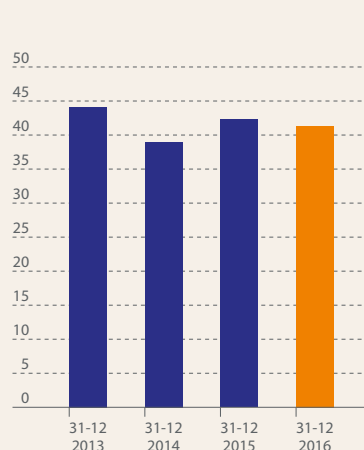
As of 1 July 2016, customers wishing to profit from the lower mortgage rate can apply for interest rate averaging. To that end, the current interest rate and the remaining term of the customer's current interest rate contract are averaged with the prevailing fixed-interest rate and the tenor of the fixing 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

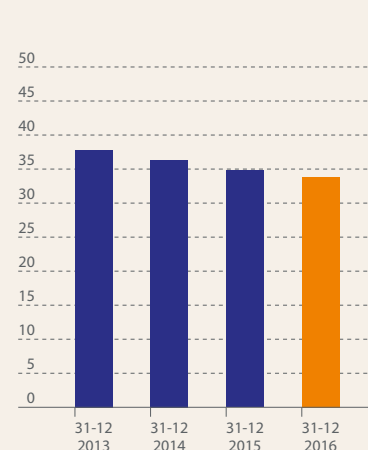
Rabobank Group's market share of lending to the TIS sectors amounted to 41.3% (42.3%) in 2016 (measured by Rabobank's own surveys). Domestic retail banking loans to these sectors remained stable at EUR 51.1 (51.1) billion in 2016. The reduction of the commercial real estate loan portfolio influenced 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 (183) 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.

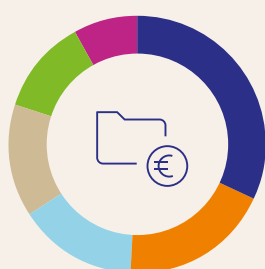
Dutch and international wholesale

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

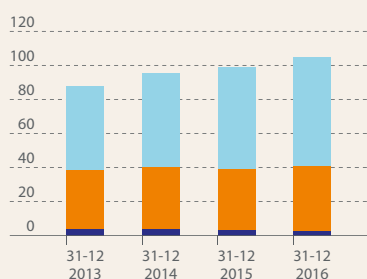
The loan portfolio to rural and retail clients amounted to EUR 39.6 (37.6) billion in 2016. In the main markets for rural banking, the loan portfolio totalled EUR 10.3 (9.8) billion in Australia, EUR 6.5 (6.1) billion in New Zealand, EUR 7.5 (6.9) billion in the United States, EUR 2.9 (2.5) billion in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

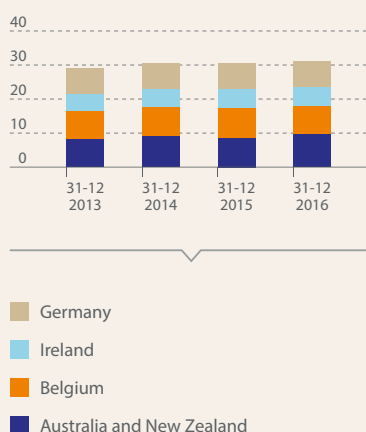
Amounts due to customers from WRR decreased to EUR 123.7 (129.8) billion at year-end 2016. It should be noted that amounts due to customers at year-end 2015 was restated from EUR 124.4 billion to EUR 129.8 billion as a result of a change in accounting principles related to the netting of cash pools. 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.

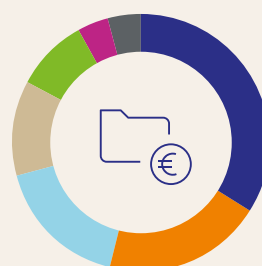
Clean technology: Financing energy efficiency and alternative energy use

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%

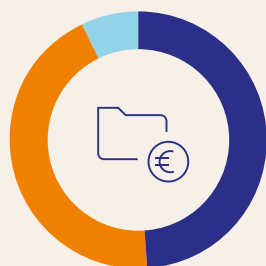
Excluding the sale of Athlon Car Lease, which reduced the total portfolio by EUR 3.5 billion, DLL experienced strong year over year portfolio growth of 7.7% in its core vendor finance business. A similar level of growth (7.9%) was realised within the portfolio of leases with Rabobank customers, as well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

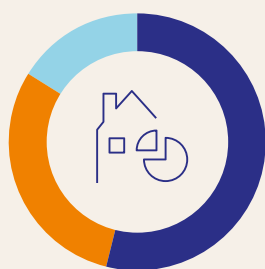
Sale of 'De Rotterdam'

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

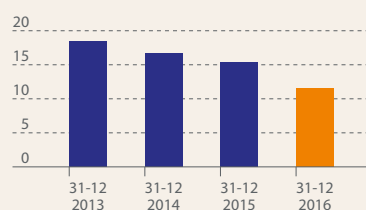
Rabo Real Estate Finance focuses on the financing of commercial real estate. The loan portfolio of the real estate segment, provided almost entirely by FGH Bank, further declined to EUR 11.3 (15.3) billion. In July 2016, FGH Bank sold a portion of a portfolio of real estate loans. In September, FGH Bank 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

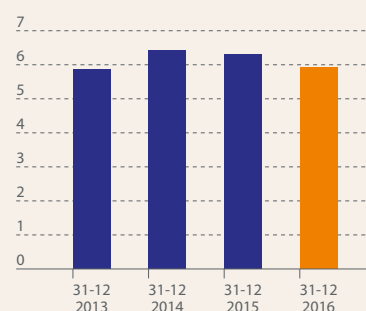


■ The Netherlands	54%
■ France	30%
■ Germany	16%

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.

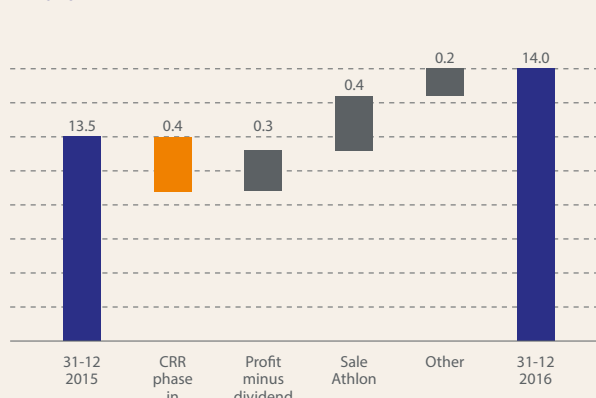
Retained earnings

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

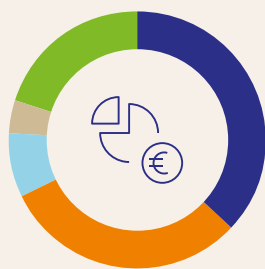
<i>Amounts in billions of euros</i>	<i>31-12-2016</i>	<i>31-12-2015</i>
Domestic retail banking	6.4	6.7
Wholesale banking and international rural and retail banking	6.5	6.4
Leasing	1.7	1.7
Real estate	1.2	1.1
Other	1.1	1.1
Rabobank Group	16.9	17.0

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.

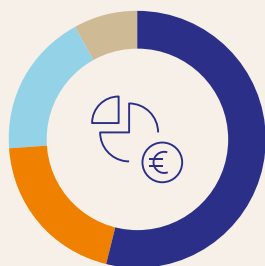
A broad spectrum of risks is measured consistently to gain an understanding of these risks and to enable a rational assessment of risk against return. We use a series of models to assess the risks incurred by Rabobank Group. These include credit, transfer, operational, business, interest rate and market 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	19.1	24.0
Total assets	662.6	678.8
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	28.6	25.6
Equity	40.5	41.2
Total liabilities and equity	662.6	678.8

Assets

In 2016, the balance sheet total decreased by EUR 16.2 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 7.9 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 an 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.

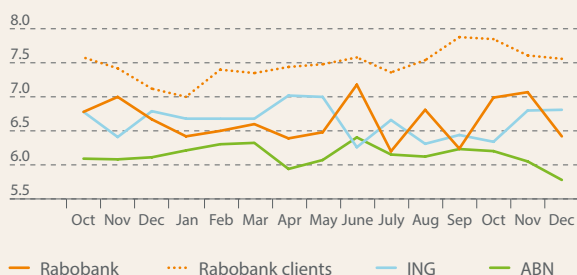
Reputation

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.

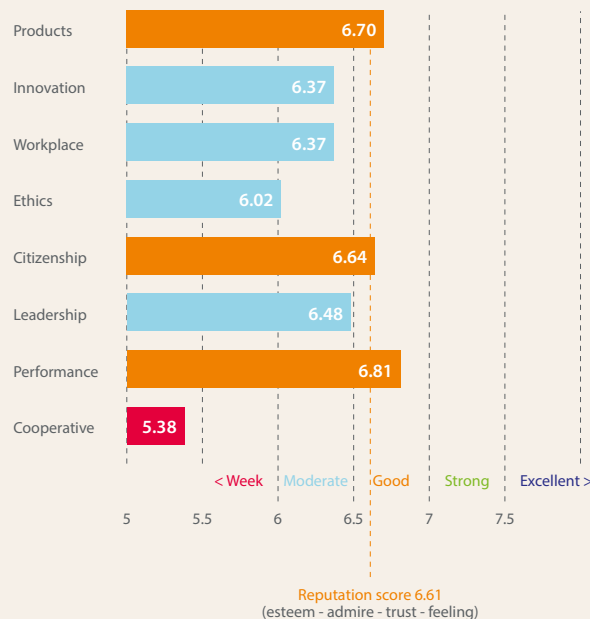
In 2015 Rabobank participated in the RepTrak® reputation study of the Reputation Institute. RepTrak® measures the overall reputation and eight reputation drivers and awards marks for each attribute. On a monthly basis, the reputation of Rabobank fluctuated widely in the last six months. Among Rabobank 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	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. 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'.	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)	- 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	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 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
Cocoa		- 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)	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. 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.
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	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
Forestry	Banking Environment Initiative https://www.rabobank.com/nl/about-rabobank/in-society/sustainability/vision-and-policy/vision-sustainably-successful-together.html	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.
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	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
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	In 2016 we shared our views on the Global Salmon Initiative. http://globalsalmoninitiative.org/wp-content/uploads/2016/11/AquaSur-Rabobank-2016.pdf Rabobank supports the ASC through its Impact Loan initiative with EIB. https://www.rabobank.nl/images/overzicht-duurzaamheidskeurmerken_29800042.pdf With WWF we support a project on ASC and salmon in Chile. See monitoring plan 2016 Steering Group WWF/Rabo partnership
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	Chair of the 11th annual conference of RTRS http://www.responsiblesoy.org
Sugar Cane	Bonsucro http://bonsucro.com/site/members/list-of-members/	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/

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.

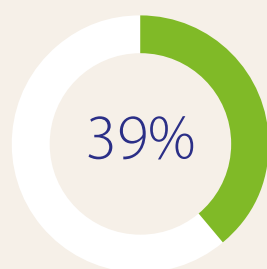
GlobalFarmers.com connects Rabobank's farmers around the world

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.

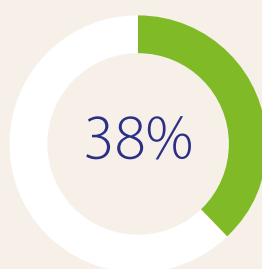
Customer



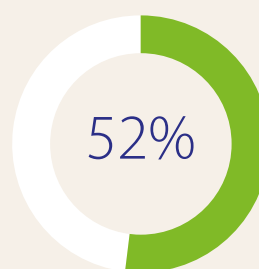
Rural

7.1
million

Credit

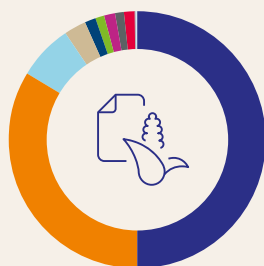


to farmers

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				
In % of profit	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					
In millions of euros	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

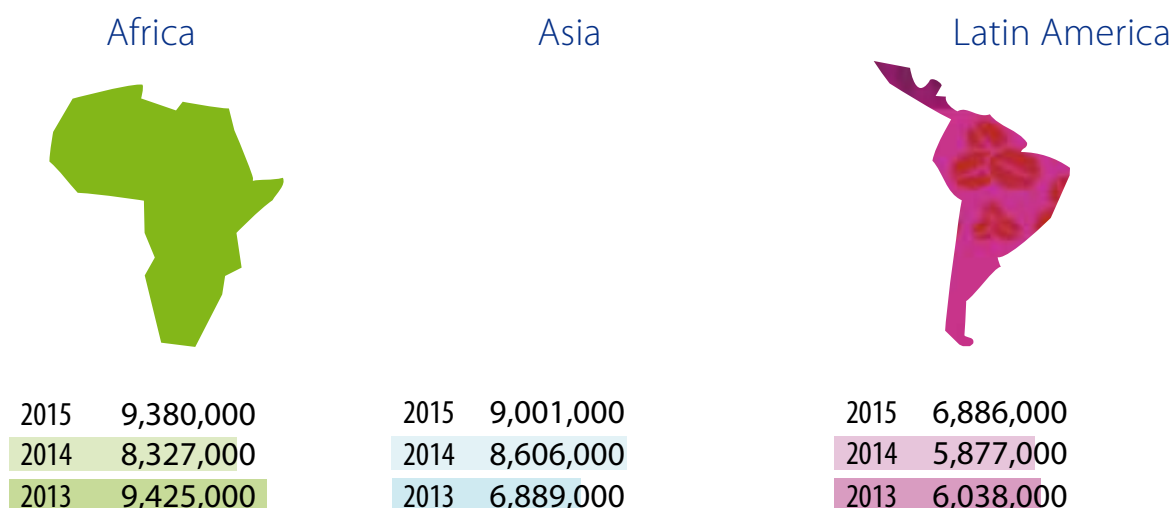
By forging links between local Rabobanks, staff, customers and our project partners, we are able to emphasise the cooperative nature of our bank. In 2015, 94.5% of all local Rabobanks supported the Rabobank Foundation with funds. In 2016, this 97% did so. But the local Rabobanks support Rabobank Foundation 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 (€)



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 million 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 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 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 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.

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.