

Loans and advances to banks.

Loans and advances to banks also includes interbank placings and items to be collected. The fair values of floating rate placings, that are re-priced regularly and do not vary significantly in terms of credit risk, and overnight deposits are their carrying amounts. The estimated fair value of fixed-interest deposits is based on the present value of the cash flows, calculated on the basis of appropriate money market interest rates for debts with comparable credit risks and terms to maturity.

Financial assets and derivatives held for trading.

Financial assets held for trading are carried at fair value based on available quoted prices in an active market. If quoted prices in an active market are not available, the fair value is estimated on the basis of discounted cash flow models and option valuation models.

Derivatives are recognised at fair value determined on the basis of listed market prices (with mid-prices being used for EUR, USD and GBP derivatives that have a bid-ask range), prices offered by traders, discounted cash flow models and option valuation models based on current market prices and contract prices for the underlying instruments and reflecting the time value of money, yield curves and the volatility of the underlying assets and liabilities.

For OTC derivatives credit valuation adjustments (CVA) are made to reflect expected credit losses related to the non-performance risk of a given counterparty. A CVA is determined per counterparty and is dependent on expected future exposure taking into account collateral, netting agreements and other relevant contractual factors, default probability and recovery rates. The CVA calculation is based on available market data including credit default swap (CDS) spreads. Where CDS spreads are not available relevant proxies are used. A debit valuation adjustment (DVA) is made to include own credit in the valuation of OTC derivatives. The calculation of DVA is consistent with the CVA framework and is calculated using the Rabobank CDS spread. Another factor that is taken into account are the funding valuation adjustments (FVA). FVA concerns the valuation difference between transactions hedged by securities and transactions not hedged by securities. Collateralised transactions are valued by means of a discounting curve, based on the overnight index spread. Non-collateralised transactions are valued by means of a discounting curve, based on Euribor/Libor plus a spread which reflects the market conditions.

Financial assets designated at fair value.

These financial assets are carried at fair value based on quoted prices on an active market if available. If not, they are estimated from comparable assets on the market, or using valuation methods, including appropriate discounted cash flow models and option valuation models.

Loans and advances to customers.

The fair value of loans and advances to customers is estimated by discounting expected future cash flows using current market rates for similar loans, taking into account the creditworthiness of the counterparty. For the fair valuation of residential mortgage loans, the contractual cash flows are adjusted for the prepayment rate of the portfolio. For variable-interest loans that are re-priced regularly and do not vary significantly in terms of credit risk, the fair value approximates the carrying amount.

Available-for-sale financial assets.

Available-for-sale financial assets are measured at fair value based on listed market prices. If quoted prices on an active market are not available, the fair value is estimated on the basis of discounted cash flow models and option valuation models.

Deposits from banks.

Loans and advances to banks also includes interbank placings, items to be collected and deposits. The fair values of floating rate placings, that are re-priced regularly and do not vary significantly in terms of credit risk, and overnight deposits are their carrying amounts. The estimated fair value of fixed-interest deposits is based on the present value of the cash flows, calculated on the basis of valid money market interest rates for debts with comparable credit risks and terms to maturity.

Deposits from customers.

Deposits from customers includes current accounts and deposits. The fair value of savings and current account balances that have no specific termination date are assumed to be the amount payable on demand on the reporting date i.e. their carrying amount on that date. The fair value of these deposits is estimated from the present value of the cash flows on the basis of current bid rates for interest for similar arrangements and terms to maturity and that match the items to be measured. The carrying amount of variable-interest deposits is a good approximation of their fair value on the reporting date.

Financial liabilities held for trading.

The fair value of financial liabilities held for trading is based on available quoted prices on an active market. If quoted prices on an active market are not available, the fair value is estimated on the basis of valuation models.

Financial liabilities designated at fair value.

The fair value option is used to eliminate the accounting mismatch and valuation asymmetry between these instruments and the hedging derivatives which would occur if these instruments would have been accounted for at amortised cost. The financial liabilities designated at fair value include structured notes and structured deposits which are managed and reported on a fair value basis together with the hedging derivatives. The fair value of these liabilities is determined by discounting contractual cashflows using credit adjusted yield curves based on available market data in the secondary

market as well as appropriate CDS spreads. All other market risk parameters are valued consistently with derivatives used to hedge the market risk in these liabilities. Changes in the fair value that are attributable to changes in own credit risk are reported in 'Other comprehensive income'. The change in fair value that is attributable to changes in own credit risk is calculated by deducting on a note by note basis the current fair value of the structured notes portfolio at the reporting date from the fair value recalculated based on the prevailing credit curve at the time of origination, with all other pricing components unchanged. This calculation reflects the amount that can be attributed to the change in the own credit risk of Rabobank since the origination of these structured notes.

Debt securities in issue.

The fair value of these instruments is calculated using quoted prices on an active market. For debt securities for which no quoted prices on an active market are available, a discounted cash flow model is used on the basis of credit adjusted yield curves appropriate for the term to maturity.

in millions of euros	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and balances at central banks	84,405	84,405	64,943	64,943
Loans and advances to banks	25,444	25,368	32,434	32,553
Loans and advances to customers	452,807	465,278	465,993	473,612
Liabilities				
Deposits from banks	22,006	22,042	19,038	19,077
Deposits from customers	347,712	353,227	345,884	350,519
Debt securities in issue	159,342	163,622	174,991	178,477
Subordinated liabilities	16,861	18,256	15,503	16,558

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

If no quoted prices on an active market are available for fixed-term securities, equity instruments, derivatives and commodity instruments, Rabobank bases the expected fair value on the present value of the future cash flows, discounted at market rates which correspond to the credit ratings and terms to maturity of the investments. A model-based price can also be used to determine fair value.

Rabobank follows a policy of having all models used for valuing financial instruments validated by expert staff who are independent of the staff who determine the fair values of the financial instruments.

In determining market values or fair values, various factors have to be considered. These factors include the time value of money, volatility, underlying options, credit quality of the counterparty and other factors. The valuation process has been designed in such a way that market prices that are available on a periodic basis are systematically used. This systematic valuation process has proved its worth during the credit crisis. Modifications to assumptions might affect the fair value of financial assets and liabilities held for trading and non-trading purposes.

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

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

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

<i>in millions of euros</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
On 31 December 2016				
Assets carried at amortised cost in the statement of financial position				
Cash and balances at central banks	84,379	26	-	84,405
Loans and advances to banks	-	24,554	814	25,368
Loans and advances to customers	263	121,231	343,784	465,278
Assets carried at fair value in the statement of financial position				
Financial assets held for trading	2,011	485	89	2,585
Financial assets designated at fair value	48	759	514	1,321
Derivatives	18	41,819	535	42,372
Available-for-sale financial assets	29,693	4,347	540	34,580
Non-current assets held for sale and discontinued operations	-	-	281	281
Liabilities carried at amortised cost in the statement of financial position				
Deposits from banks	-	14,672	7,370	22,042
Deposits from customers	6,487	59,826	286,914	353,227
Debt securities in issue	1,476	135,078	27,068	163,622
Subordinated liabilities	-	18,256	-	18,256
Liabilities carried at fair value in the statement of financial position				
Derivatives	21	47,479	524	48,024
Financial liabilities held for trading	739	-	-	739
Financial liabilities designated at fair value	9	16,498	13	16,520
On 31 December 2015				
Assets carried at amortised cost in the statement of financial position				
Cash and balances at central banks	64,929	9	5	64,943
Loans and advances to banks	-	31,634	919	32,553
Loans and advances to customers	-	133,323	340,289	473,612
Assets carried at fair value in the statement of financial position				
Financial assets held for trading	2,385	961	126	3,472
Financial assets designated at fair value	24	1,187	985	2,196
Derivatives	39	47,309	765	48,113
Available-for-sale financial assets	33,068	4,111	594	37,773
Non-current assets held for sale and discontinued operations	-	-	155	155
Liabilities carried at amortised cost in the statement of financial position				
Deposits from banks	-	18,209	868	19,077
Deposits from customers	5,017	85,782	259,720	350,519
Debt securities in issue	1,593	152,351	24,533	178,477
Subordinated liabilities	-	16,558	-	16,558
Liabilities carried at fair value in the statement of financial position				
Derivatives	26	53,842	688	54,556
Financial liabilities held for trading	552	21	-	573
Financial liabilities designated at fair value	-	16,967	24	16,991

The potential effect before taxation, if more positive reasonable assumptions are used for the valuation of the financial instruments in level 3 on the income statement, is 70 (2015: 166) and on equity 7 (2015: 50). The potential effect before taxation, if more negative reasonable assumptions are used for the valuation of financial instruments in level 3 on the income statement, is -70 (2015: -167) and on equity -7 (2015: -50).

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

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

The table shows movements in the financial instruments which are stated at fair value in the statement of financial position and which are classified in Level 3. The fair value adjustments in Level 3 which are included in equity are accounted for in the revaluation reserves for available-for-sale financial assets.

In 2016 there were no significant transfers between level 1 and level 2.

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

The amount in total gains or losses recognised in the income statement for the period relating to the assets and liabilities held in Level 3 until the end of the reporting period is given in the following table.

Fair value changes for financial instruments in level 3 recognised in profit or loss			
<i>in millions of euros</i>	<i>Instruments held at the end of reporting period</i>	<i>Instruments not held anymore at the end of reporting period</i>	<i>Total</i>
On 31 December 2016			
Assets			
Financial assets held for trading	(10)	(1)	(11)
Financial assets designated at fair value	(37)	17	(20)
Derivatives	229	191	420
Available-for-sale financial assets	(1)	19	18
Liabilities			
Derivatives	238	289	527
Financial liabilities designated at fair value	(1)	-	(1)
On 31 December 2015			
Assets			
Financial assets held for trading	1	(1)	-
Financial assets designated at fair value	168	12	180
Derivatives	95	345	440
Available-for-sale financial assets	28	115	143
Liabilities			
Derivatives	119	351	470
Financial liabilities designated at fair value	3	(1)	2

Recognition of Day 1 gains

When using fair value accounting at the inception of a financial instrument, any positive difference between the transaction price and the fair value (referred to as 'day 1 gains') is accounted for in the statement of income where the valuation method is based on observable inputs from active markets. In all other cases, the entire day 1 gain is deferred and after initial recognition the deferred day 1 gain is recognised as a gain to the extent it results from a change in a factor (including time effects). The table below summarises the changes of the deferred day 1 gains during the year:

Provision for Day 1 gains		
<i>In millions of euros</i>	<i>2016</i>	<i>2015</i>
Opening balance	3	6
Additions	-	-
Amortisation	(3)	(2)
Changes	-	(1)
Closing balance	-	3

4.10 Legal and arbitration proceedings

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

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

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

The group of cases for which Rabobank Group determines that the risk of future outflows of funds is higher than fifty percent varies over time, as do the number of cases for which the bank can estimate the potential loss. In practice the end results could turn out considerably higher or lower than the estimates of potential losses in those cases where an estimate was made. Rabobank Group can also sustain losses from legal

risks where the occurrence of a loss may not be probable, but is not improbable either, and for which no provisions have been recognised. For those cases where (a) the possibility of an outflow of funds is less likely than not but also not remote or (b) the possibility of an outflow of funds is more likely than not but the potential loss cannot be estimated, a contingent liability is shown.

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

Interest rate derivatives

Rabobank concludes interest rate derivatives, such as interest rate swaps, with Dutch business customers who wish to reduce the interest rate risk associated with variable (e.g., Euribor-indexed) loans. Such an interest rate swap protects customers from rising variable interest rates and helps businesses to keep their interest payments at an acceptable level. In March 2016, the Dutch Minister of Finance appointed an independent committee, which on 5 July 2016, published a recovery framework (the Recovery Framework) on the reassessment of Dutch SME interest rate derivatives. Rabobank announced its decision to take part in the Recovery Framework on 7 July 2016. The final version of the Recovery Framework was published by the independent committee on 19 December 2016. Implementation of the Recovery Framework is expected to be finalised in 2017.

Rabobank is involved in civil proceedings in the Netherlands relating to interest rate derivatives concluded with Dutch business customers. The majority of these concern individual cases. In addition, there is a collective action regarding interest rate derivatives pending before the Court of Appeal. These actions concern allegations relating to alleged misconduct in connection with Rabobank's Euribor submissions (as described below) and / or allegations of misinforming clients with respect to interest rate derivatives. Rabobank will defend itself against all these claims. Furthermore, there are pending complaints and proceedings against Rabobank regarding interest rate derivatives brought before Kifid (Dutch Financial Services Complaints Authority, which, in January 2015, opened a conflict resolution procedure for SME businesses with interest rate derivatives).

With respect to the (re-)assessment of the interest rate derivatives of its Dutch SME business customers, Rabobank has recognised a provision of 699. The main uncertainties in the calculations of the provision stem from assumptions regarding the scoping of clients. Furthermore, the calculations regarding technical recovery are based on a portfolio approach instead of individual contract calculations.

Fortis

In 2011, the Dutch Investors Association (VEB) issued a summons against the company formerly known as Fortis N.V. (currently trading as Ageas N.V.), the underwriters involved – including Rabobank – and the former directors of Fortis N.V. The VEB states in this summons that investors were misled by the prospectus published by Ageas N.V. in connection with its rights issue in September 2007. The VEB states that the impact and risks of the subprime crisis for Fortis and its liquidity position were misrepresented in the prospectus and has requested a declaratory judgement stating that the defendants acted illegitimately and must therefore be held liable for the loss allegedly suffered by investors in Fortis. Rabobank maintains the view that the aforementioned loss of EUR 18 billion has not been properly substantiated. The proceedings concern a settlement of collective loss, which means that the court will only rule on the question of whether the defendants (including Rabobank) are liable. Rabobank has been defending itself against the claim and a final hearing was scheduled to start on 14 March 2016. That day, however, Ageas announced a settlement of EUR 1.2 billion with claimant organisations VEB, Deminor, Stichting FortisEffect and Stichting Investor Claims Against Fortis (SICAF) with respect to all disputes and claims relating to various events in 2007 and 2008 in respect of the former Fortis group (including the VEB claim described above). On 23 May 2016, the parties to the settlement requested the Amsterdam Court of Appeal to declare the settlement binding for all eligible Fortis shareholders (in accordance with the Dutch Law on the Collective Resolution of Mass Damages ('Wet Collectieve Afwikkeling Massaschade'). The legal proceedings relating to the above VEB claim have been suspended until this specific procedure is finalised. There are two basic potential scenarios: (1) In case the Court of Appeal declares the settlement binding, investors may choose to opt out of the settlement during an opt-out period of three to six months. After this period (and provided that the settlement is not annulled because the opt-out ratio exceeds a certain limit), distributions of payments will start. The release of Rabobank (and other underwriters) is subject to satisfaction of the compensation obligations towards the eligible Fortis shareholders. It is expected that it will take at least 18 months from the Court of Appeal judgement on the binding nature of the settlement before the first payments will

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

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

On 9 February 2017, mass claim litigant ConsumentenClaim announced that it has filed an objection to having the settlement declared binding with the Court of Appeal. Rabobank Group considers the Fortis case to be a contingent liability. No provision has been made.

Libor/Euribor

Rabobank has received a number of requests in recent years from regulators in various countries to issue documents and other information in relation to various issues, including issues related to its interest rate benchmark submissions. Rabobank is cooperating, and will continue to cooperate, with the regulators and authorities involved in these global investigations.

On 29 October 2013, Rabobank entered into settlement agreements with various authorities in relation to their investigations into the historical Libor and Euribor submission processes of Rabobank. Additional information is available on the bank's corporate website. All amounts payable under these settlement agreements were fully paid and accounted for by Rabobank in 2013. Additionally, some of these settlement agreements required Rabobank to: (i) improve measures or to continue their implementation; and (ii) to cooperate on a continuous basis with ongoing investigations into the conduct of Rabobank and of its current and former employees in respect of the inappropriate conduct relating to interest rate benchmark submissions. Rabobank continues to comply with all its obligations under these settlement agreements.

Rabobank, along with a large number of other panel banks and inter-dealer brokers, has been named as a defendant in a number of putative class action suits and individual civil court cases brought before the Federal Courts in the United States. These proceedings relate to the US Dollar (USD) Libor, British Pound Sterling (GBP) Libor, Japanese Yen (JPY) Libor, Tibor (note: Rabobank was never a member of the TIBOR panel) and Euribor. In 2014, an Argentinian consumer protection organisation brought an alleged class action suit against Rabobank in Argentina in relation to USD Libor. Rabobank has also been summoned to appear before various Dutch courts in civil proceedings relating to Euribor. Furthermore, various individuals and entities (including two Dutch collective claim foundations of which one was already mentioned above in the paragraph 'Interest Rate Derivatives in the Dutch SME Segment')

have made a number of allegations relating to Euribor and/or other benchmarks in letters to and legal proceedings against Rabobank and/or an Irish subsidiary.

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

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

BSA/AML

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

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

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

Also recently, a criminal complaint was filed with the Dutch Public Prosecutor (DPP) against Rabobank, two group entities and the persons factually in charge of these entities asking for a criminal investigation in relation to the matters related to the DOJ investigation. Rabobank understands that the DPP has received the complaint and awaits the DPP's response to it. Rabobank Group considers the BSA/AML case to be a contingent liability. No provision has been made.

Other cases

Rabobank Group is subject to other legal proceedings for which a provision was recognised. These cases are individually less significant in size and are therefore not further described. The total provision for those cases combined amounts to 89. On top of the contingent liability cases described above for which an assessment regarding a possible outflow is not yet possible, Rabobank Group has identified a number of other, less relevant cases in terms of size as a contingent liability. Because these cases are less significant, Rabobank has chosen not to describe these in detail. The principal amount claimed for those contingent liability cases combined amounts to 61.

5 Business segments

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

Rabobank distinguishes five major business segments: domestic retail banking; wholesale banking and international rural and retail banking; leasing; real estate; and other segments.

Domestic retail banking mainly encompasses the activities of the local Rabobanks, Obvion and Roparco. Wholesale banking and international rural and retail banking supports the Rabobank Group in becoming the market leader in the Netherlands and focuses on the Food & Agri sectors at international level. This segment develops corporate banking activities on a regional basis and in addition controls globally operating divisions such as Treasury, Markets, Acquisition

Finance, Global Corporate Clients, Export Finance & Project Finance, Trade & Commodity Finance and Financial Institutions Group. The segment also actively involves International Direct Retail Banking and Rabo Private Equity. International rural and retail banking operations is part of the Rabobank label, with the exception of ACC Loan Management. In the leasing segment – DLL – is responsible for leasing activities and offers a wide range of leasing, trading and consumer finance products in the Dutch home market. Manufacturers, vendors and distributors are globally supported in their sales with products relevant to asset financing. In 2016 DLL sold the car leasing business Athlon to Mercedes-Benz financial services. Rabobank recognised a gain on the sale of 251 which is presented in the income statement as 'Other net operating income'. As a result total assets have decreased with 4.3 billion euro.

Real estate mainly encompasses the activities of the Rabo Real Estate Group and FGH Bank. The core activities are the development of housing, financing and asset management. In the Dutch market, Rabo Real Estate Group operates through its BPD and Bouwfonds Investment Management brands. The other segments within Rabobank includes various sub-segments of which no single segment can be listed separately. This segment mainly includes the financial results of associates (in particular Achmea B.V.) and head office operations. There are no customers who represent more than a 10% share in the total revenues of Rabobank.

Transactions between the various business segments are conducted under regular commercial terms. Other than from operating activities, there is no other material comprehensive income between the business segments. The financial reporting principles used for the segments are identical to those described in the 'Accounting policies' Section.

<i>Amounts in millions of euros</i>	<i>Domestic retail banking</i>	<i>Wholesale banking and international rural and retail banking</i>	<i>Leasing</i>	<i>Real estate</i>	<i>Other segments</i>	<i>Consolidation effects</i>	<i>Total</i>
For the year ended 31 December 2016							
Net interest income	5,467	1,974	1,086	293	(77)	-	8,743
Net fee and commission income	1,334	538	90	16	(27)	(33)	1,918
Other income	58	1,097	816	379	71	(277)	2,144
Income	6,859	3,609	1,992	688	(33)	(310)	12,805
Staff costs	1,798	1,137	616	215	(76)	831	4,521
Other administrative expenses	3,113	1,023	285	142	245	(1,173)	3,635
Depreciation	117	94	31	4	50	142	438
Operating expenses	5,028	2,254	932	361	219	(200)	8,594
Impairment losses on goodwill and investments in associates	-	-	-	-	700	-	700
Loan impairment charges	25	255	101	(75)	4	-	310
Regulatory levies	279	151	22	13	18	-	483
Operating profit before tax	1,527	949	937	389	(974)	(110)	2,718
Taxation	400	305	197	101	(281)	(28)	694
Net profit	1,127	644	740	288	(693)	(82)	2,024
Cost/income ratio excluding regulatory levies (in %) ¹	73.3	62.5	46.8	52.5	n/a	n/a	67.1
Cost/income ratio including regulatory levies (in %) ²	77.4	66.6	47.9	54.4	n/a	n/a	70.9
Loan impairment charges (in basis points of average private sector loan portfolio) ³	1	26	30	(54)	n/a	n/a	7
Business segment assets	315,470	438,251	39,350	14,958	115,089	(262,942)	660,176
Investments in associates	17	397	24	182	1,797	-	2,417
Total assets	315,487	438,648	39,374	15,140	116,886	(262,942)	662,593
Business segment liabilities	285,564	426,846	34,984	12,671	117,316	(255,312)	622,069
Total liabilities	285,564	426,846	34,984	12,671	117,316	(255,312)	622,069
Investments in property and equipment	59	51	2,044	3	91	-	2,248
Impairment of tangible and intangible assets	112	4	1	-	(1)	-	116
Goodwill	322	136	77	-	2	-	537
Private sector loan portfolio	275,770	105,192	31,772	11,332	485	-	424,551

<i>in millions of euros</i>	<i>Domestic retail banking</i>	<i>Wholesale banking and international rural and retail banking</i>	<i>Leasing</i>	<i>Real estate</i>	<i>Other segments</i>	<i>Consolidation effects</i>	<i>Total</i>
Loan impairment allowances loans and advances to customers							
Balance on 1 January 2016	3,963	2,898	322	1,175	33	-	8,391
Loan impairment charges from loans and advances to customers	91	307	145	(73)	4	-	474
Write-down of defaulted loans during the year	(932)	(203)	(165)	(240)	(7)	-	(1,547)
Interest and other adjustments	125	33	15	12	(15)	-	170
Balance on 31 December 2016	3,246	3,035	317	874	15	-	7,487
Specific allowance	2,176	2,679	128	863	-	-	5,846
Collective allowance	650	11	95	-	-	-	756
IBNR	420	345	94	11	15	-	885
Total	3,246	3,035	317	874	15	-	7,487

1 Operating expenses divided by Income

2 Operating expenses plus regulatory levies divided by Income

3 Loan impairment charges divided by 12-month average private sector loan portfolio

<i>Amounts in millions of euros</i>	<i>Domestic retail banking</i>	<i>Wholesale banking and international rural and retail banking</i>	<i>Leasing</i>	<i>Real estate</i>	<i>Other segments</i>	<i>Consolidation effects</i>	<i>Total</i>
For the year ended 31 December 2015							
Net interest income	5,661	2,270	1,094	348	(234)	-	9,139
Net fee and commission income	1,321	513	57	29	(16)	(12)	1,892
Other income	18	653	568	302	662	(220)	1,983
Income	7,000	3,436	1,719	679	412	(232)	13,014
Staff costs	2,134	1,123	601	196	(38)	770	4,786
Other administrative expenses	2,470	1,101	277	124	102	(1,158)	2,916
Depreciation	116	107	38	7	47	128	443
Operating expenses	4,720	2,331	916	327	111	(260)	8,145
Impairment losses on goodwill and investments in associates	-	612	10	1	-	-	623
Loan impairment charges	343	526	85	90	(11)	-	1,033
Regulatory levies	171	139	19	15	-	-	344
Operating profit before tax	1,766	(172)	689	246	312	28	2,869
Taxation	445	161	191	65	(213)	6	655
Net profit	1,321	(333)	498	181	525	22	2,214
Cost/income ratio excluding regulatory levies (in %) ¹	67.4	67.8	53.3	48.2	n/a	n/a	62.6
Cost/income ratio including regulatory levies (in %) ²	69.9	71.9	54.4	50.4	n/a	n/a	65.2
Loan impairment charges (in basis points of average private sector loan portfolio) ³	12	53	25	56	n/a	n/a	24
Business segment assets	327,909	494,210	40,091	21,939	116,694	(325,688)	675,155
Investments in associates	16	487	32	197	2,940	-	3,672
Total assets	327,925	494,697	40,123	22,136	119,634	(325,688)	678,827
Business segment liabilities	298,883	482,273	35,411	19,865	111,244	(310,046)	637,630
Total liabilities	298,883	482,273	35,411	19,865	111,244	(310,046)	637,630
Investments in property and equipment	90	56	2,124	2	237	-	2,509
Impairment of tangible and intangible assets	-	631	10	1	11	-	653
Goodwill	322	131	448	2	2	-	905
Private sector loan portfolio	284,496	104,014	29,655	15,287	475	-	433,927

<i>in millions of euros</i>	<i>Domestic retail banking</i>	<i>Wholesale banking and international rural and retail banking</i>	<i>Leasing</i>	<i>Real estate</i>	<i>Other segments</i>	<i>Consolidation effects</i>	<i>Total</i>
Loan impairment allowances loans and advances to customers							
Balance on 1 January 2015	4,836	2,816	378	1,270	48	-	9,348
Loan impairment charges from loans and advances to customers	377	509	120	91	(10)	-	1,087
Write-down of defaulted loans during the year	(1,440)	(478)	(167)	(218)	(4)	-	(2,307)
Interest and other adjustments	190	52	(9)	32	(2)	-	263
Balance on 31 December 2015	3,963	2,899	322	1,175	32	-	8,391
Specific allowance	2,615	2,631	151	1,092	32	-	6,521
Collective allowance	884	30	83	-	-	-	997
IBNR	464	238	88	83	-	-	873
Total	3,963	2,899	322	1,175	32	-	8,391

1 Operating expenses divided by Income

2 Operating expenses plus regulatory levies divided by Income

3 Loan impairment charges divided by 12-month average private sector loan portfolio

Geographic information (country-by-country reporting)

Rabobank operates in seven main geographical areas. The country of domicile of Rabobank is the Netherlands. The information below is reported by distinguishable components of Rabobank that provide products and/or services within a particular economic environment within specific geographical locations/areas. The allocation is based on the location of the individual subsidiary from which the transactions are initiated. The prior year table has been changed due to further guidance of the OECD/G20 Base Erosion and Profit Shifting Project on country-by-country reporting and now represents the revenue and the gross numbers before consolidation. Revenue is defined as total income as presented in the statement of income plus interest expense and fee and commission expense.

Per 31 December 2016

in millions of euros								
Geographic location	Country	Name of subsidiary	Type of operations	Revenues	Average number of internal employees in FTE	Operating profit before tax	Income tax	Government subsidies received
The Netherlands	The Netherlands	Rabobank, DLL, Obvion, Friesland Zekerheden Maatschappij NV, Rabohypotheekbank, Rabo Real Estate Group	Domestic retail banking, Wholesale banking and international retail banking, Leasing, Real estate	24,601	31,627	1,128	187	-
Other Eurozone countries	France	DLL, Rabobank, Rabo Real Estate Group	Leasing, Wholesale banking and international retail banking, Real estate	246	553	86	31	-
	Belgium	DLL, Rabobank, Rabo Real Estate Group	Leasing, Wholesale banking and international retail banking, Real estate	176	201	28	8	-
	Germany	DLL, Rabobank, Rabo Real Estate Group	Leasing, Wholesale banking and international retail banking, Real estate	332	664	92	32	-
	Italy	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	81	146	33	6	-
	Luxembourg	DLL, Rabo Real Estate Group	Leasing, Real estate	2	-	-	-	-
	Ireland	DLL, Rabobank, ACC Loan Management	Leasing, Wholesale banking and international retail banking	812	319	265	26	-
	Finland	DLL	Leasing	5	7	2	-	-
	Austria	DLL	Leasing	2	2	1	-	-
	Portugal	DLL	Leasing	6	13	1	-	-
	Spain	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	58	140	21	11	-
Rest of Europe (non-Eurozone)	United Kingdom	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	586	648	85	22	-
	Norway	DLL	Leasing	22	31	7	2	-
	Sweden	DLL	Leasing	48	127	7	3	-
	Denmark	DLL, Rabo Real Estate Group	Leasing, Real estate	17	23	8	1	-
	Switzerland	DLL	Leasing	4	6	1	-	-
	Russia	DLL	Leasing	23	55	8	2	-
	Poland	DLL	Leasing	28	100	10	2	-
	Czech Republic	Rabo Real Estate Group	Real estate	-	1	-	-	-
	Hungary	DLL	Leasing	7	35	3	-	-
	Romania	DLL	Leasing	-	2	-	-	-
	Turkey	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	32	59	14	3	-
North America	United States	DLL, Rabobank, Rabo Real Estate Group	Leasing, Wholesale banking and international retail banking, Real estate	2,849	4,002	431	183	-
	Canada	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	183	213	53	14	-

<i>in millions of euros</i>								
<i>Geographic location</i>	<i>Country</i>	<i>Name of subsidiary</i>	<i>Type of operations</i>	<i>Revenues</i>	<i>Average number of internal employees in FTE</i>	<i>Operating profit before tax</i>	<i>Income tax</i>	<i>Government subsidies received</i>
Latin America	Mexico	DLL	Leasing	16	60	3	1	-
	Cayman Islands	Rabobank	Wholesale banking and international retail banking	-	-	-	-	-
	Curacao	Rabobank	Wholesale banking and international retail banking	7	1	1	1	-
	Brazil	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	607	679	153	58	-
	Chile	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	77	247	(12)	16	-
	Argentina	DLL	Leasing	3	36	(4)	1	-
Asia	India	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	59	161	(20)	(9)	-
	Singapore	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	135	205	(15)	(2)	-
	Indonesia	Rabobank	Wholesale banking and international retail banking	94	797	2	-	-
	Malaysia	Rabobank	Wholesale banking and international retail banking	4	4	1	-	-
	China	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	311	356	27	9	-
	South Korea	DLL	Leasing	8	25	(2)	-	-
	Japan	DLL	Leasing	-	1	-	-	-
Australia	Australia	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	1,204	983	200	57	-
	New Zealand	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	592	313	100	29	-
Other	Mauritius, Kenya	Rabobank	Wholesale banking and international retail banking	-	1	-	-	-
			Consolidation effects	(12,478)	-	-	-	-
				20,759	42,843	2,718	694	-

Per 31 December 2015

<i>in millions of euros</i>								
<i>Geographic location</i>	<i>Country</i>	<i>Name of subsidiary</i>	<i>Type of operations</i>	<i>Revenues</i>	<i>Average number of internal employees in FTE</i>	<i>Operating profit before tax</i>	<i>Income tax</i>	<i>Government subsidies received</i>
The Netherlands	The Netherlands	Local Rabobanks, Rabobank, DLL, Obvion, Friesland Zekerheden Maatschappij NV, Rabohypotheekbank, Rabo Real Estate Group	Domestic retail banking, Wholesale banking and international retail banking, Leasing, Real estate-	25,425	35,041	2,100	224	-
Other Eurozone countries	France	DLL, Rabobank, Rabo Real Estate Group	Leasing, Wholesale banking and international retail banking, Real estate	192	612	73	28	-
	Belgium	DLL, Rabobank, Rabo Real Estate Group	Leasing, Wholesale banking and international retail banking, Real estate	201	295	29	7	-
	Germany	DLL, Rabobank, Rabo Real Estate Group	Leasing, Wholesale banking and international retail banking, Real estate	319	699	101	27	-
	Italy	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	65	165	24	9	-

<i>in millions of euros</i>								
<i>Geographic location</i>	<i>Country</i>	<i>Name of subsidiary</i>	<i>Type of operations</i>	<i>Revenues</i>	<i>Average number of internal employees in FTE</i>	<i>Operating profit before tax</i>	<i>Income tax</i>	<i>Government subsidies received</i>
	Luxembourg	DLL, Rabobank, Rabo Real Estate Group	Leasing, Wholesale banking and international retail banking, Real estate	2	12	-	-	-
	Ireland	DLL, Rabobank, ACC Loan Management	Leasing, Wholesale banking and international retail banking	804	435	39	4	-
	Finland	DLL	Leasing	2	6	2	-	-
	Austria	DLL	Leasing	2	2	1	-	-
	Portugal	DLL	Leasing	3	18	1	-	-
	Spain	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	49	165	20	6	-
Rest of Europe (non-Eurozone)	United Kingdom	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	502	666	26	7	-
	Norway	DLL	Leasing	13	31	6	2	-
	Sweden	DLL	Leasing	35	123	7	2	-
	Denmark	DLL, Rabo Real Estate Group	Leasing, Real estate	11	24	5	(1)	-
	Switzerland	DLL	Leasing	2	6	1	-	-
	Russia	DLL	Leasing	14	55	6	1	-
	Poland	DLL, Rabobank, Bank BGZ	Leasing, Wholesale banking and international retail banking	19	121	8	3	-
	Czech Republic	Rabo Real Estate Group	Real estate	(1)	1	(1)	-	-
	Hungary	DLL	Leasing	6	31	2	-	-
	Romania	DLL	Leasing	-	2	-	-	-
	Turkey	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	26	54	10	3	-
North America	United States	DLL, Rabobank, Rabo Real Estate Group	Leasing, Wholesale banking and international retail banking, Real estate	2,340	3,989	(112)	189	-
	Canada	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	174	212	56	14	-
Latin America	Mexico	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	14	58	5	2	-
	Cayman Islands	Rabobank	Wholesale banking and international retail banking	-	-	-	-	-
	Curacao	Rabobank	Wholesale banking and international retail banking	161	13	53	2	-
	Brazil	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	546	683	156	53	-
	Chile	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	82	304	(51)	(15)	-
	Argentina	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	2	37	(7)	-	-
Asia	India	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	45	126	8	6	-
	Singapore	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	124	199	28	3	-
	Indonesia	Rabobank	Wholesale banking and international retail banking	95	1,112	(15)	1	-
	Malaysia	Rabobank	Wholesale banking and international retail banking	4	2	2	-	-
	China	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	295	353	4	(3)	-
	South Korea	DLL	Leasing	6	24	-	-	-

<i>in millions of euros</i>								
<i>Geographic location</i>	<i>Country</i>	<i>Name of subsidiary</i>	<i>Type of operations</i>	<i>Revenues</i>	<i>Average number of internal employees in FTE</i>	<i>Operating profit before tax</i>	<i>Income tax</i>	<i>Government subsidies received</i>
	Japan	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	-	1	-	-	-
Australia	Australia	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	1,240	967	168	49	-
	New Zealand	DLL, Rabobank	Leasing, Wholesale banking and international retail banking	634	311	113	32	-
Other	Mauritius	Rabobank	Wholesale banking and international retail banking	3	1	1	-	-
		Consolidation effects		(11,753)				
				21,703	46,956	2,869	655	-

<i>in millions of euros</i>	<i>Additions to property and equipment and intangible assets</i>	<i>Additions to property and equipment and intangible assets</i>
	On 31 December 2016	On 31 December 2015
The Netherlands	1,020	1,588
Other Eurozone countries	827	944
Rest of Europe (non-Eurozone)	239	101
North America	251	230
Latin America	1	-
Asia	4	7
Australia	64	77
Total	2,406	2,947

6 Cash and balances at central banks

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Cash	653	861
Deposits at central banks other than mandatory reserve deposits	83,266	63,686
	83,919	64,547
Mandatory reserve deposits at central banks	486	396
Total cash and balances at central banks	84,405	64,943

The average minimum reserve to be held for the Netherlands for the month of December 2016 was 3,135 (December 2015: 3,109).

7 Loans and advances to banks

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Deposits with other banks	10,412	11,220
Reverse repurchase transactions and securities borrowing agreements	13,398	18,495
Loans	1,435	2,494
Other	169	126
Gross due from other banks	25,414	32,335
Less: loan impairment allowance loan and advances to banks	(18)	(16)
	25,396	32,319
Reclassified assets	48	115
Total loans and advances to banks	25,444	32,434
Loan impairment allowance loans and advances to banks		
Balance on 1 January	16	26
Loan impairment charges loans and advances to banks	-	(10)
Write-down of defaulted loans during the year	-	-
Other changes	2	-
Balance on 31 December	18	16

The loan impairment charges of the loans and advances to banks are included in the income statement under 'Loan impairment charges'. The gross carrying amount of 'Loans and advances to banks' whose value adjustments were established on an individual basis is 18 (2015: 18).

8 Financial assets held for trading

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Purchased loans	272	520
Short-term government securities	-	19
Government bonds	603	1,073
Other debt securities	1,123	1,637
Equity instruments	587	223
Total	2,585	3,472

9 Financial assets designated at fair value

<i>in millions of euros</i>	2016	2015
Other debt securities	32	791
Purchased loans	854	1,006
Venture capital (equity instrument)	314	270
Other equity instruments	121	129
Total	1,321	2,196

The change in the current year in the fair value of the loans designated as being at fair value with adjustments in the income statement that is allocable to the changes in the credit risk amounts to 1 (2015: 5). The cumulative change is -28 (2015: -29). Any changes in fair value are calculated by discounting future cash flows. When setting the discount rate, account is taken of expected losses, liquidity mark-ups and the risk margin. No use is made of credit derivatives to hedge the purchased loans designated at fair value.

10 Derivatives

Derivatives are used at Rabobank for the purpose of mitigating at least a portion of the risks arising from the bank's various operations. Examples of this include interest rate swaps used to hedge interest rate risks arising from the difference in maturities between assets and liabilities. Another example are cross-currency swaps, which are used to hedge the currency risk to which the bank is exposed after issuing debt instruments in foreign currencies. The bank's hedging policy is designed to protect its net interest income within the risk appetite framework. Additionally to hedging purposes derivatives are also contracted for the bank's customers.

10.1 Types of derivative instruments used by Rabobank

Forward currency and interest rate contracts are contractual obligations to receive or pay a net amount based on prevailing exchange or interest rates, or to purchase or sell foreign currency or a financial instrument on a future date at a fixed specified price in an organised financial market. Since collateral for forward contracts is provided in the form of cash, cash equivalents or marketable securities, and changes in the value of forward contracts are settled daily, mainly via a central counterparty clearing house, the credit risk is low. The credit risk exposure for Rabobank is represented by the potential cost of replacing the swaps if the counterparties default. The risk is monitored continuously against current fair value, a portion of the notional amount of the contracts and the liquidity in the markets. As part of the credit risk management

process, Rabobank employs the same methods for evaluating counterparties as it does for evaluating its own lending activities.

Forward rate agreements are individually agreed forward interest rate contracts under which the difference between a contractually agreed interest rate and the market rate on a future date has to be settled in cash, based on a notional principal amount.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps entail an economic exchange of currencies or interest rates (such as a fixed rate for one or more variable rates), or a combination (i.e. a cross-currency interest rate swap). Except in certain currency swaps, no transfer of the principal amount takes place. Currency and interest rate options are contracts under which the seller (known as the writer) gives the buyer (known as the holder) the right, entailing no obligation, to purchase (in the case of a call option) or sell (in the case of a put option) a specific amount of foreign currency or a specific financial instrument on or before an agreed date or during an agreed period at a price set in advance. As consideration for accepting the currency or interest rate risk, the writer receives a payment (known as a premium) from the holder. Options are traded on exchanges or between Rabobank and clients (OTC). Rabobank is only exposed to credit risks as an option holder and only up to the carrying amount, which is equivalent to the fair value.

Credit default swaps (CDSs) are instruments by means of which the seller of a CDS undertakes to pay an amount to the buyer. This amount is equal to the loss that would be incurred by holding an underlying reference asset if a specific credit event were to occur (i.e. the materialisation of a risk). The buyer is under no obligation to hold the underlying reference asset. The buyer pays the seller a credit protection fee largely expressed in basis points, with the size of the fee depending on the credit spread of the reference asset.

10.2 Derivatives issued or held for trading

The derivatives held or issued for trading are those used to hedge economic risks but which do not qualify as hedge accounting instruments and derivatives that corporate customers have contracted with Rabobank to hedge interest rate and currency risks. The exposures from derivatives with corporate customers are normally hedged by entering into reverse positions with one or more professional counterparties, within trading limits set.

10.3 Derivatives held as hedges

Rabobank contracts various financial derivatives that serve to hedge economic risks, including interest rate and currency risks, which qualify as a fair value hedge, cash flow hedge or net investment hedge.

Fair value hedges

The main components of the fair value hedge at Rabobank are interest rate swaps and cross-currency interest rate swaps which serve as protection against a potential change in the fair value of fixed-income financial assets and liabilities in both local and foreign currencies, such as mortgages, available-for-sale debt securities and issued debt securities. The net fair value of these interest rate swaps on 31 December 2016 was -6,921 (2015: -9,374). The net fair value of the cross-currency swaps on 31 December 2016 was 2,050 (2015: 2,190). Rabobank tests the hedge effectiveness on the basis of statistical regression analysis models, both prospectively and retrospectively. At year-end 2016, the hedge relations were highly effective within the range set by IAS 39.

The IFRS ineffectiveness for the year ended 31 December 2016 was 118 (2015: 130). The result on the hedging instrument amounted to -850 (2015: 1,466), with the result from the hedged position, allocable to the hedged risk, amounting to 968 (2015: -1,336).

Cash flow hedges

Rabobank's cash flow hedges consist mainly of cross-currency interest rate swaps which serve to protect against a potential change in cash flows from financial assets in foreign currencies with floating interest rates.

Rabobank tests the hedge effectiveness on the basis of statistical regression analysis models, both prospectively and retrospectively. At year-end 2016 and 2015, the hedge relations were highly effective within the range set by IAS 39. On 31 December 2016, the net fair value of the cross-currency interest rate swaps, classified as cash flow hedges was -594 (2015: -707).

In 2016, Rabobank accounted for an amount of -87 (2015: 659) after taxation in other comprehensive income as effective changes in the fair value of derivatives in cash flow hedges. In 2016, an amount of 56 (2015: -709) after taxation of cash flow hedge reserves was reclassified to the income statement. On 31 December 2016, the cash flow hedge reserves as part of equity totalled -70 (2015: -39) after taxation. This amount fluctuates along with the fair value of the derivatives in the cash flow hedges and is accounted for in profit over the term of the hedged positions as trading income. The cash flow hedge reserve relates to a large number of derivatives and hedged positions with different terms. The maximum term is 25 years, with the largest concentrations exceeding five years. The IFRS ineffectiveness for the year ended 31 December 2016 was 148 (2015: 181).

Net investment hedges

Rabobank uses foreign forward-exchange contracts to hedge a portion of the currency translation risk of net investments in foreign operations. The net fair value of these foreign forward-exchange contracts on 31 December 2016 was 20 (2015: 4). On 31 December 2016, forward contracts with a nominal amount of 1,230 (2015: 657) were designated as net investment hedges. These resulted in exchange gains and losses of -6 for the year (2015: -6), which are deferred in equity. A total of 24 was made in withdrawals from equity during the reporting year (2015: 22). For the year ended 31 December 2016, Rabobank reported no ineffectiveness resulting from the net investment hedges.

10.4 Notional amount and fair value

Although the notional amount of certain types of financial instruments provides a basis for comparing instruments that are included in the statement of financial position, it does not necessarily represent the related future cash flows or the fair values of the instruments and therefore the exposure of Rabobank to credit or exchange risks. The nominal value is the amount of the asset, reference rate or index underlying a derivative financial instrument, which represents the basis on which changes in a derivative financial instrument's value are measured. It provides an indication of the volume of transactions executed by Rabobank, but is not a measure of risk exposure. Some derivatives are standardised in terms of notional amount or settlement date and are specifically designed for trading on active markets (stock exchanges). Other derivatives are specifically constructed for individual clients and not for trading on an exchange, even though they can be traded at prices negotiated between buyers and sellers (OTC instruments).

The positive fair value represents the cost for Rabobank to replace all contracts on which it will be entitled to receive payment if all counterparties were to default. This is the standard method in the industry for calculating the current credit risk exposure. The negative fair value represents the cost of all Rabobank contracts on which it will have to make payment if Rabobank defaults. The totals of the positive and negative fair values are disclosed separately in the statement of financial position. Derivatives are positive (assets) or negative (liabilities) as a result of fluctuations in market or exchange rates in relation to their contract values. The total contract amount or notional amount of derivatives held, the degree to which these instruments are positive or negative, and hence the total fair value of the derivative financial assets and liabilities can sometimes fluctuate significantly.

The following table shows the notional amounts and the positive and negative fair values of derivative contracts held by Rabobank.

<i>in millions of euros</i>	<i>Notional amounts</i>	<i>Fair values</i>	
		Assets	Liabilities
Balance on 31 December 2016			
Derivatives held for trading	3,036,696	37,438	37,645
Derivatives held as hedges	133,517	4,934	10,379
Total derivative financial assets/liabilities	3,170,213	42,372	48,024
Derivatives held for trading			
Currency derivatives			
Unlisted tradeable contracts (OTC)			
Currency swaps	405,251	6,986	9,191
Currency options - purchased and sold	5,438	95	63
Listed tradeable contracts			
Currency futures	64	1	10
Total currency derivatives	414,086	7,092	9,276
Interest rate derivatives			
Unlisted tradeable contracts (OTC)			
Interest rate swaps	2,472,881	26,751	24,630
OTC interest rate options	81,784	3,388	3,435
Total OTC contracts	2,554,665	30,139	28,065
Listed tradeable contracts			
Interest rate swaps	62,078	1	0
Total interest rate derivatives	2,616,743	30,140	28,065
Credit derivatives			
Credit default swaps	2,663	1	4
Total return swaps	522	30	7
Total credit derivatives	3,185	31	11
Equity instruments/index derivatives			
Unlisted tradeable contracts (OTC)			
Options - purchased and sold	163	23	6
Total equity instruments/index derivatives	163	23	6
Other derivatives	2,518	153	287
Total derivative financial assets/liabilities held for trading	3,036,695	37,439	37,645
Derivatives held as hedges			
Derivatives designated as fair value hedges			
Currency swaps and cross-currency interest rate swaps	75,783	2,063	13
Interest rate swaps	48,654	1,903	8,824
Derivatives designated as cash flow hedges			
Currency swaps and cross-currency interest rate swaps	7,850	948	1,542
Derivatives classified as net investment hedges			
Currency futures contracts	1,230	20	-
Total derivative financial assets/liabilities designated as hedges	133,517	4,934	10,379

<i>in millions of euros</i>	<i>Notional amounts</i>	<i>Fair values</i>	
		Assets	Liabilities
Balance on 31 December 2015			
Derivatives held for trading	2,819,875	43,152	41,708
Derivatives held as hedges	148,307	4,961	12,848
Total derivative financial assets/liabilities	2,968,182	48,113	54,556
Derivatives held for trading			
Currency derivatives			
Unlisted tradeable contracts (OTC)			
Currency swaps	395,309	5,028	7,626
Currency options - purchased and sold	5,812	87	56
Listed tradeable contracts			
Currency futures	3	-	-
Total currency derivatives	405,186	5,154	7,709
Interest rate derivatives			
Unlisted tradeable contracts (OTC)			
Interest rate swaps	2,236,520	33,238	29,370
Interest rate options	101,210	4,135	4,143
Total OTC contracts	2,337,730	37,373	33,513
Listed tradeable contracts			
Interest rate swaps	67,932	1	1
Total interest rate derivatives	2,405,662	37,374	33,514
Credit derivatives			
Credit default swaps	2,782	1	5
Total return swaps	558	1	10
Total credit derivatives	3,340	2	15
Equity instruments/index derivatives			
Unlisted tradeable contracts (OTC)			
Options - purchased and sold	2,793	162	127
Listed tradeable contracts			
Options - purchased and sold	1,239	95	47
Total equity instruments/index derivatives	4,032	257	174
Other derivatives	1,655	365	296
Total derivative financial assets/liabilities held for trading	2,819,875	43,152	41,708
Derivatives held as hedges			
Derivatives designated as fair value hedges			
Currency swaps and cross-currency interest rate swaps	84,006	2,231	41
Interest rate swaps	47,687	1,787	11,161
Derivatives designated as cash flow hedges			
Currency swaps and cross-currency interest rate swaps	15,957	939	1,646
Derivatives classified as net investment hedges			
Currency futures contracts	657	4	-
Total derivative financial assets/liabilities designated as hedges	148,307	4,961	12,848

11 Loans and advances to customers

<i>in millions of euros</i>	2016	2015 ¹
Loans initiated by Rabobank:		
Loans to government clients:		
- leases	284	227
- other	2,957	3,083
Loans to private clients:		
- overdrafts	21,677	30,758
- mortgages	206,450	212,685
- leases	19,984	25,923
- reverse repurchase transactions and securities borrowing agreements	16,068	18,927
- corporate loans	184,647	173,789
- other	7,809	8,210
Gross loans and advances to customers	459,876	473,620
Less: loan impairment allowance loans and advances to customers	(7,487)	(8,391)
	452,389	465,211
Reclassified assets	418	782
Total loans and advances to customers	452,807	465,993
Loan impairment allowance loans and advances to customers		
Balance on 1 January	8,391	9,348
Loan impairment charges from loans and advances to customers	474	1,087
Write-down of defaulted loans during the year	(1,548)	(2,307)
Interest and other changes	170	263
Total loan impairment allowance loans and advances to customers	7,487	8,391
Specific allowance	5,846	6,521
Collective allowance	756	997
IBNR	885	873
Total loan impairment allowance loans and advances to customers	7,487	8,391
Gross carrying amount of loans whose value adjustments were established on an individual basis	16,564	18,094

1 Prior-year figures adjusted due to changes in presentation and the restatement (see note 2.1).

In 2016, Rabobank sold loans as part of its strategy and normal business operations. Mortgage loans of EUR 1.5 billion were sold to insurance companies. FGH Bank sold real estate loans for an amount of EUR 0.2 billion and Obvion reduced its balance sheet with EUR 1.4 billion through a sale of Dutch mortgages. Rabobank acquired financial and non-financial assets during the year by taking possession of collateral with an estimated value of 61 (2015: 62). It is the policy of Rabobank to sell these assets in the reasonably foreseeable future. Yields are allocated to repay the outstanding amount.

Reclassified assets

In 2008, based on the amendments to IAS 39 and IFRS 7, 'Reclassification of financial assets', Rabobank reclassified a number of 'Financial assets held for trading' and 'Available-for-sale financial assets' to 'Loans and advances to customers' and 'Loans and advances to banks'.

Rabobank has identified assets to which this amendment applies, whereby the intention has clearly shifted from holding the securities for the near future as opposed to selling or trading them in the short term. The reclassifications were effected as of 1 July 2008 at their fair value at the time. This note provides details on the impact of the reclassifications at Rabobank.

The table below shows the carrying amounts and fair values of the reclassified assets.

	31 December 2016		31 December 2015	
<i>in millions of euros</i>	<i>Carrying amount</i>	<i>Fair value</i>	<i>Carrying amount</i>	<i>Fair value</i>
Financial assets held for trading reclassified to loans	41	37	183	174
Available-for-sale financial assets reclassified to loans	425	437	714	678
Total financial assets reclassified to loans	466	474	897	852

If the reclassification had not been made, net profit for the assets held for trading would have been 3 higher (2015: 2 higher). The change in the equity position in 2016 would have been 33 more positive (2015: 43 more negative) if the reclassification of the available-for-sale financial assets had not been carried out.

Following reclassification, the reclassified financial assets made the following contribution to operating profit before taxation:

	<i>For the year ended 31 December</i>	
	2016	2015
Net income	(2)	3
Loan impairment charges	-	-
Operating profit before taxation on reclassified financial assets held for trading	(2)	3
Net income	9	16
Loan impairment charges	-	2
Operating profit before taxation on reclassified available-for-sale financial assets	9	18

Finance leases

Loans and advances to customers also includes receivables from finance leases, which can be broken down as follows:

<i>in millions of euros</i>	2016	2015
Receivables from gross investment in finance leases		
Not exceeding 1 year	7,561	8,872
Longer than 1 year but less than 5 years	13,773	18,775
Longer than 5 years	653	1,183
Total receivables from gross investment in finance leases	21,987	28,830
Unearned deferred finance income from finance leases	1,944	2,967
Net investment in finance leases	20,043	25,863
Not exceeding 1 year	7,321	8,575
Longer than 1 year but less than 5 years	12,180	16,443
Longer than 5 years	542	845
Net investment in finance leases	20,043	25,863

On 31 December 2016, the loan impairment allowance for finance leases amounted to 225 (2015: 287). The unguaranteed residual values accruing to the lessor amounted to 1,884 (2015: 1,705). The contingent lease payments recognised as income in 2016 were nil (2015: nil).

The finance leases mainly relate to the lease of equipment and cars, as well as factoring products.

12 Available-for-sale financial assets

<i>in millions of euros</i>	2016	2015
Short-term government papers	1,602	1,191
Government bonds	27,010	30,053
Other debt securities	5,133	5,594
Equity instruments	835	935
Total available-for-sale financial assets	34,580	37,773

The impairment of available-for-sale financial assets amounted to 0 (2015: 160) and is recognised in the income statement under 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss'.

<i>in millions of euros</i>	2016	2015
Gains/(losses) on available-for-sale financial assets	87	148

The changes in available-for-sale financial assets can be broken down as follows:

<i>in millions of euros</i>	2016	2015
Opening balance	37,773	39,770
Foreign exchange differences	395	703
Additions	5,371	6,219
Disposals (sale and repayment)	(8,768)	(8,431)
Fair value changes	(155)	(335)
Other changes	(36)	(153)
Closing balance	34,580	37,773

13 Investments in associates and joint ventures

The carrying amount of the investments in associates and joint ventures is 2,417 (2015: 3,672).

<i>in millions of euros</i>	2016	2015
Opening balance	3,672	3,807
Foreign exchange differences	3	(33)
Purchases	75	37
Sales	(350)	(44)
Share of profit of associates	44	351
Dividends paid out (and capital repayments)	(101)	(384)
Transferred to held for sale	(187)	-
Revaluation	27	(76)
Impairment	(700)	-
Other	(66)	14
Total investments in associates and joint ventures	2,417	3,672

13.1 Investments in associates

The main associate in terms of the size of the capital interest held by Rabobank is:

<i>On 31 December 2016</i>	Shareholding	Voting rights
The Netherlands		
Achmea B.V.	29%	29%

Achmea is a strategic partner of Rabobank for insurance products and Interpolis, a subsidiary of the Achmea Group, works closely with the local Rabobanks. Achmea's head office is located in Zeist, the Netherlands. No listed market price is available for the interest in Achmea. The interest in Achmea is valued according to the equity method. In 2016, Rabobank received dividend from Achmea for an amount of 43 (2015: nil).

The outlook for the future profitability of Achmea deteriorated during 2016, taken into account the recent developments in the health insurance market and the financial results over the first half year of 2016. These elements, in combination with the deteriorating business environment of Dutch insurers over the last years, gave triggers of potential impairments for the investment in Achmea. The test to establish whether these potential

impairments had occurred, resulted in a downward adjustments of the carrying value of the investment in Achmea of 700 which was recognised in the income statement as 'Impairment losses on goodwill and investments in associates'. Achmea B.V. is part of the operating segment 'Other segments'.

The recoverable amount is based on the estimated value in use and is a level 3 valuation according to the fair value hierarchy.

To determine the value in use for Achmea, Rabobank has undertaken a review of the expected cash flows that Achmea generates for Rabobank discounted at a pre-tax discount rate of 10.49%.

<i>Achmea</i>	2016	2015
Cash and balances at central banks	2,171	2,117
Investments	65,235	63,605
Banking credit portfolio	13,679	14,866
Other assets	11,930	12,851
Total assets	93,015	93,439
Insurance related provisions	61,345	61,061
Loans and funds borrowed	6,994	7,603
Other liabilities	14,894	14,495
Total liabilities	83,233	83,159
Revenues	23,966	23,225
Net profit	(382)	386
Other comprehensive income	109	(250)
Total comprehensive income	(273)	136

<i>Reconciliation carrying amount of interest in Achmea</i>	2016	2015
Total equity Achmea	9,782	10,280
Minus: hybrid capital	1,350	1,350
Minus: preference shares and accrued dividend	350	350
Shareholder's equity	8,082	8,580
Share of Rabobank	29.21%	29.21%
	2,360	2,506
Impairment	(700)	-
Carrying amount	1,660	2,506

<i>Other associates</i>	2016	2015
Result from continuing operations	175	260
Result from discontinued operations after taxation	-	-
Net profit	175	260
Other comprehensive income	(4)	(11)
Total comprehensive income	171	249

equensWorldline SE

On 30 September 2016 Equens SE (Equens) en Wordline completed the transaction that was presented on 3 November 2015. Rabobank's shareholding (classified as an investment in associate) of 15.15% in Equens was reduced to a shareholding of 5.8% in equensWorldline SE (classified as an available-for-sale financial asset). Rabobank realized a gain of 62 which is included in 'Income from investments in associates and joint ventures'.

Arise B.V.

On 27 July 2016 Rabobank entered into a partnership with Norfund and FMO to reaffirm their long-term commitment to Africa's future development, growth potential and the local financial sector. The partners have irrevocably agreed to transfer their stakes in several financial service providers (FSPs) in Sub-Saharan Africa to Arise B.V.. On 31 December 2016 Rabobank holds almost 25% of the shares in Arise, which is considered to be an investment in an associate. The current associate investments, of our stakes in several financial service providers (FSPs) in Sub-Saharan Africa, are classified as held for sale in accordance with IFRS 5 for an amount of 187.

Any dividends and other distributions from holding the current associate investments from 1 January 2016 (but excluding 2015 distributions), classified as held for sale, are for the account of Arise B.V.. The irrevocable obligation to deliver the shares is included under the associated investments, offsetting the equity value of the investment in Arise B.V..

13.2 Investments in joint ventures

Virtually all joint ventures are investments of Rabo Real Estate Group. Their total carrying amount is -36 (2015: -39). Joint ventures are recognised in accordance with the equity method.

Rabo Real Estate Group often has partnerships for the development of integrated residential areas, commercial real estate and the implementation of fund and asset management activities. In the majority of cases, each participating member of the partnership has a decisive vote, and decisions can only be passed by consensus. The majority of these partnerships therefore qualify as 'joint arrangements'.

Each partnership has its own legal structure depending on the needs and requirements of the parties concerned. The legal form (business structure) typically used is the Dutch 'CV-BV' structure (a limited partnership-private limited liability company) or the 'VOF' structure (general partnership) or a comparable structure. In the case of a CV-BV, the risk of a partner is generally limited to the issued capital and partners are only entitled to the net assets of the entity. In the case of general partnerships ('VOF'), each party bears, in principle, unlimited liability and has, in principle, a proportional right to the assets and obligations for the liabilities of the entity. On the basis of the legal form, a CV-BV structure qualifies as a 'joint venture', whereas a VOF structure qualifies as a 'joint operation'. It is important to note that the contractual terms and other relevant facts and circumstances may result in a different classification.

As a separate legal structure is established for each project, projects have different participating partners and individual projects are not of a substantial size, Rabo Real Estate Group did not have material joint arrangements in 2015 and 2016.

Result from joint ventures	2016	2015
Profit or loss from continuing operations	9	(5)
Post-tax profit or loss from discontinued operations	-	-
Net profit	9	(5)
Other comprehensive income	-	-
Total comprehensive income	9	(5)

Contingent assets and liabilities

Rabobank Real Estate Group entered into commitments on 31 December 2016 with regard to real estate projects, commitments with third parties (including subcontractors and architects) for the amount of 27 (2015: 17).

14 Goodwill and other intangible assets

<i>in millions of euros</i>	<i>Goodwill</i>	<i>Software developed in-house</i>	<i>Other intangible assets</i>	<i>Total</i>
Year ended 31 December 2016				
Opening balance	905	428	160	1,493
Foreign exchange differences	1	(1)	2	2
Additions	1	105	52	158
Disposals	-	(1)	(7)	(8)
Changes due to sale of Athlon	(367)	-	-	(367)
Other	(3)	6	-	3
Amortisation	-	(113)	(75)	(188)
Impairments	-	(4)	-	(4)
Closing balance	537	420	132	1,089
Cost	1,227	1,465	564	3,256
Accumulated amortisation and impairments	(690)	(1,045)	(432)	(2,167)
Net carrying amount	537	420	132	1,089
Year ended 31 December 2015				
Opening balance	1,454	421	184	2,059
Foreign exchange differences	79	1	4	84
Additions	4	380	54	438
Disposals	-	(239)	(12)	(251)
Other	(9)	11	7	9
Amortisation	-	(116)	(77)	(193)
Impairments	(623)	(30)	-	(653)
Closing balance	905	428	160	1,493
Cost	1,571	1,450	646	3,667
Accumulated amortisation and impairments	(666)	(1,022)	(486)	(2,174)
Net carrying amount	905	428	160	1,493

Goodwill is reviewed for impairment by comparing the carrying amount of the cash generating unit (including goodwill) with the best estimate of the value in use of the cash generating unit. For this purpose, the best estimate of the value in use determined on the basis of cash flow forecasts is used first, as taken from annual medium-term plans drawn up as part of the annual planning cycle. The plans reflect the management's

best estimates of market conditions, market restrictions, discount rates (before taxation), growth in operations, etc. If the outcome shows that there is no significant difference between the fair value and the carrying amount, the fair value is assessed in more detail, with the relevant share price being used for listed companies. In addition, valuation models are used which are similar to the initial recognition of an acquisition, peer reviews, etc. The valuation models are tested and include the development of the activities since the acquisition, the most recent income and expenses forecasts drawn up by management, as well as updated forecasts, assessments of discount rates, final values of growth rates, etc. Peer reviews include an assessment of the price/earnings ratio and price/carrying amount ratio of similar listed companies, or similar market transactions. Assumptions are generally based on experience, management's best estimates of future developments and, if available, external data.

The carrying amount of the goodwill allocated to RNA in the wholesale banking segment is 136 (2015: 131). The recoverable amount is based on the value in use and determined using cash flow forecasts. The principal assumptions used are a growth rate of after tax earnings expected in the near term of 12.8% (2015: average of 7.5%), the discount rate of 13% (2015: 14%) and the multiplier used for calculating the present value of the discounted cash flows after the forecast period of 16 (2015: 16). As the recoverable amount exceeds the carrying amount, it was concluded that the goodwill allocated to RNA was not impaired. A change of 0.5% in the discount rate does not cause the carrying amount to exceed the recoverable amount.

The goodwill allocated to one of the cash-generating units in the domestic retail segment is significant in comparison with the goodwill's total carrying amount. The carrying amount of this goodwill is 322 (2015: 322) and the cash-generating unit is the collective of local Rabobanks. The recoverable amount is based on the value in use. The value in use is determined using cash flows expected in the near future based on financial forecasts. As the recoverable amount substantially exceeded the carrying amount, it was concluded that the goodwill allocated to this cash-generating unit was not impaired. An increase in the discount rate of 10% or a reduction in the future cashflows of 10% are considered to be a maximum of possible changes in key assumptions. Such a change does not cause the carrying amount to exceed the recoverable amount and would not result in an impairment.

No impairment of goodwill was recognised in 2016 (2015: 623). Impairments of software developed in-house and other intangible assets are not individually material. The total impairments of software developed in-house was 4 (2015: 30). This was mainly caused by the fact that the software is (partly) no longer used.

15 Property and equipment

<i>in millions of euros</i>	<i>Land and buildings</i>	<i>Equipment</i>	<i>Total</i>
Year ended 31 December 2016			
Opening balance	1,945	5,820	7,765
Foreign exchange differences	3	20	23
Purchases	88	2,160	2,248
Disposals	(61)	(656)	(717)
Transfer to held for sale	-	-	-
Changes due to sale of Athlon	-	(3,475)	(3,475)
Impairments	(112)	-	(112)
Depreciation	(109)	(141)	(250)
Depreciation of operating lease assets	-	(969)	(969)
Other	(27)	104	77
Closing balance	1,727	2,863	4,590
Cost	3,140	4,846	7,986
Accumulated depreciation and impairments	(1,413)	(1,983)	(3,396)
Net carrying amount	1,727	2,863	4,590
Year ended 31 December 2015			
Opening balance	1,969	5,179	7,148
Foreign exchange differences	14	105	119
Purchases	109	2,400	2,509
Disposals	(47)	(722)	(769)
Impairments	-	-	-
Depreciation	(109)	(141)	(250)
Depreciation of operating lease assets	-	(1,002)	(1,002)
Other	9	1	10
Closing balance	1,945	5,820	7,765
Cost	3,292	9,285	12,577
Accumulated depreciation and impairments	(1,347)	(3,465)	(4,812)
Net carrying amount	1,945	5,820	7,765

The impairments recognised per 31 december 2016 relate to property for own use of the local Rabobanks. Vacancy of property as a result of the restructuring (decreasing usage of square meters) triggered impairments calculations and resulted in impairment losses for a total amount of 112.

16 Investment properties

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Opening balance	381	452
Purchases	14	4
Sales	(79)	(44)
Transfer to held for sale	(48)	-
Depreciation	(9)	(11)
Impairments	19	(25)
Other	15	5
Closing balance	293	381
Cost	627	774
Accumulated depreciation and impairments	(334)	(393)
Net carrying amount	293	381

The fair value of the investment properties amounts to 303 (2015: approximates the carrying amount). External valuations of investment properties were performed by duly certified external parties in accordance with RICS valuation standards or other equivalent standards. Investment properties are valued, for the determination of fair value, on the basis of the methodologies which are most appropriate for that property. This includes the discounted cash flow valuation method and the capitalisation method based on net initial yields for comparable transactions.

Valuations

	<i>2016</i>	<i>2015</i>
External valuations	100%	100%
Internal valuations	0%	0%

Most investment property is unique. There is often no active market for similar properties in the same location and condition. Appraisals of the different types of investment properties are based on a large number of parameters, which are derived from current contracts and market information as much as possible. A certain degree of judgement and estimation cannot be avoided. As a result, all investment property has been designated as level 3 in line with the fair value classification under IFRS 13. When determining the fair value of investment property, the parameters used include the following, depending on the type of property: current and expected future market rent per m², current and expected future vacancy rates, location of the property, the marketability of the property, the average discount rate, the development budget, and any credit risks.

17 Other assets

<i>in millions of euros</i>	<i>Note</i>	<i>2016</i>	<i>2015</i>
Receivables and prepayments		1,833	2,217
Accrued interest		1,351	1,500
Precious metals, goods and warehouse receipts		1,172	901
Real estate projects		1,963	2,291
Accrued income		672	379
Employee benefits	25	7	7
Other assets		880	559
Total other assets		7,878	7,854

Real estate projects

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Building sites and equalisation funds	1,104	1,206
Work in progress	816	761
Finished goods	43	324
Total real estate projects	1,963	2,291

In 2016, the net realisable value of all current land operations, sites not subject to a zoning plan and equalisation funds was calculated and compared with the carrying amount. This resulted in a transfer to provisions of a total of 7 (2015: -2).

<i>in millions of euros</i>	<i>Balance on 1 January 2016</i>	<i>Additions/release</i>	<i>Withdrawals/ other changes</i>	<i>Balance on 31 December 2016</i>
Movements in provisions for real estate projects				
Building sites and equalisation funds	633	7	(47)	593
Work in progress	153	(9)	(11)	133
Completed developments	4	4	-	8
Total	790	2	(58)	734
<i>in millions of euros</i>	<i>Balance on 1 January 2015</i>	<i>Additions/release</i>	<i>Withdrawals/ other changes</i>	<i>Balance on 31 December 2015</i>
Movements in provisions for real estate projects				
Building sites and equalisation funds	669	(2)	(34)	633
Work in progress	116	5	32	153
Completed developments	60	(21)	(35)	4
Total	845	(18)	(37)	790

Work in progress		
<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Residential property in preparation and under construction	660	686
Commercial property in development and under construction	85	108
Instalments invoiced in advance – residential property	(255)	(276)
Instalments invoiced in advance – commercial property	68	(30)
Total work in progress	558	488

18 Non-current assets held for sale

Total non-current assets held for sale amount to 281 (2015: 155) and mainly comprise of stakes in several financial service providers (FSPs) in Sub-Saharan Africa that will be transferred to Arise B.V. for an amount of 187. More information on Arise B.V. is disclosed in section 13.1 Investments in associates. The other non-current assets held for sale amount to 94 (2015: 155) and comprise of various types of real estate in the segments Domestic retail banking and Real estate. The book value is expected to be realised through sale rather than through continued operation. The real estate classified as held for sale are mostly unique objects. There is often no active market for similar real estate at the same location and in the same condition. A large number of parameters are used for the valuations of the various types of property investments, where possible based on existing contracts and market data. A certain level of assessment and estimation is unavoidable. It is for this reason that all non-current assets classified as 'held for sale' are classified in level 3.

19 Deposits from banks

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Demand deposits	905	2,040
Fixed-term deposits	20,619	16,146
Repurchase agreements	418	581
Miscellaneous liabilities to other banks	64	271
Total deposits from banks	22,006	19,038

20 Deposits from customers

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Current accounts	76,757	77,966
Deposits with agreed maturity	82,909	96,363
Deposits redeemable at notice	175,943	162,083
Repurchase agreements	212	488
Fiduciary deposits	11,857	8,377
Other deposits from customers	34	607
Total deposits from customers	347,712	345,884

Deposits from customers also includes balances at central banks amounting to EUR 23 billion (2015: EUR 23 billion).

21 Debt securities in issue

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Certificates of deposit	33,948	38,554
Commercial paper	11,848	14,399
Bonds	102,713	113,415
Other debt securities	10,833	8,623
Total debt securities in issue	159,342	174,991

22 Financial liabilities held for trading

Financial liabilities held for trading are mainly negative fair values of derivatives and delivery obligations that arise on the short selling of securities. Securities are sold short to realise gains from short-term price fluctuations. The securities needed to settle short sales are acquired through securities lending and repurchasing agreements. The fair value of the shares and bonds sold short are amount to 739 (2015: 573).

23 Financial liabilities designated at fair value

<i>in millions of euros</i>	2016	2015
Structured notes	12,608	13,057
Other debt securities	38	353
Deposits	3,874	3,581
Total financial liabilities designated at fair value	16,520	16,991

The cumulative change in fair value of the financial liabilities designated at fair value through profit or loss attributable to changes in the own credit risk of Rabobank amounts to 405 before taxes (2015: -83). Alignment of the calculation of OCA with IFRS 9 definitions has led to another disclosed cumulative change for 2015 which was previously reported at 1,041. The main difference is caused by the previous inclusion of first day profits. In 2016 an amount of 0 has been reclassified from OCI to retained earnings as a result of derecognition of financial liabilities designated at fair value through profit or loss.

The carrying value of the structured notes is 6,236 (2015: 5,104) lower than the amount Rabobank is contractually obliged to repay to the holders of the structured notes.

The change in fair value that is attributable to changes in own credit risk is calculated by deducting on a note by note basis the current fair value of the structured notes portfolio at the reporting date from the fair value recalculated based on the prevailing credit curve at the time of origination, with all other pricing components unchanged. This calculation reflects the amount that can be attributed to the change in the own credit risk of Rabobank since the origination of these structured notes.

24 Other liabilities

<i>in millions of euros</i>	Note	2016	2015
Payables		5,582	6,232
Accrued interest		2,541	2,543
Employee benefits	27	315	356
Other		(6)	(811)
Provision for day 1 gains		-	3
Total other liabilities		8,432	8,323

25 Provisions

<i>in millions of euros</i>	2016	2015
Restructuring provision	461	354
Provision for legal issues	770	347
Provision for tax issues	36	65
Other provisions	279	227
Total provisions	1,546	993

<i>in millions of euros</i>	Restructuring provision	Provision for legal issues	Provision for tax issues	Other provisions	Total
Opening balance on 1 January 2016	354	347	65	227	993
Additions	594	583	1	126	1,304
Withdrawals	(408)	(44)	-	(50)	(502)
Releases	(79)	(116)	(30)	(24)	(249)
Closing balance on 31 December 2016	461	770	36	279	1,546
Opening balance on 1 January 2015	315	211	56	212	794
Additions	285	218	13	102	618
Withdrawals	(207)	(80)	-	(56)	(343)
Releases	(39)	(2)	(4)	(31)	(76)
Closing balance on 31 December 2015	354	347	65	227	993

In the additions of the restructuring provision, an amount of 403 (2015: 183) is included for the reorganisation programme of the local Rabobanks. This reorganisation provision consists of future payments relating to redundancy pay and other costs directly attributable to the reorganisation programme.

These expenses are included when a redundancy scheme is drawn up and communicated to stakeholders. The expected outflow of funds will occur in 2017 and 2018.

An addition of 514 in the provision for legal issues was made in 2016 after Rabobank adopted the SME interest rate derivatives recovery framework. For additional information, please refer to Paragraph 4.10, 'Legal and arbitration proceedings'.

The provision for tax and legal issues is based on the best possible estimates available at year-end, taking into account legal and tax advice. The timing of the cash outflow relating to these provisions is uncertain because the outcome of the disputes and the time involved are unpredictable.

The item 'Other' includes provisions for onerous contracts and credit guarantees.

Maturities of Rabobank Group (excluding provisions for employee benefits and loan impairment allowances)

<i>in millions of euros</i>	<i>Up to one year</i>	<i>1 - 5 years</i>	<i>Longer than 5 years</i>	<i>Total</i>
On 31 December 2016	1,371	175	-	1,546
On 31 December 2015	861	131	1	993

26 Deferred taxes

Deferred tax assets and liabilities are measured for all temporary differences using the 'liability' method. The effective tax rate in the Netherlands for measuring deferred tax is 25% (2015: 25%). There were no changes in deferred tax assets and liabilities resulting from changes in the effective tax rate in the Netherlands. No deferred tax asset has been recognised for unused tax losses totalling 1,628 (2015: 1,648). These carry forward losses relate to various tax authorities and their term to maturity is largely unlimited.

Deferred tax assets recognised in respect of carry forward losses can only be utilised if taxable profits are realised in the future.

On 31 December 2016, Rabobank expects that sufficient taxable profits would be generated within the applicable periods.

	<i>Deferred tax assets</i>	<i>Deferred tax liabilities</i>	<i>Deferred tax charges</i>	<i>Tax on other comprehensive income</i>
<i>in millions of euros</i>				
For the year ended 31 December 2016				
Pensions and other post-employment benefits	53	(2)	(2)	2
Loan impairment allowance	403	(15)	(147)	-
Financial liabilities designated at fair value	-	-	(229)	-
Provisions	39	(10)	(3)	-
Hedging of interest rate risk	(14)	-	114	-
Carry forward losses	1,104	(21)	499	-
Goodwill and other intangible assets	19	2	(5)	-
Revaluation reserves for available-for-sale financial assets	(129)	1	-	(20)
Revaluation reserves – Cash flow hedges	20	-	-	10
Revaluation reserve – Fair value changes due to own credit risk on financial liabilities designated at fair value	101	-	-	122
Property and equipment, including leases	100	617	(98)	-
Other temporary differences	664	46	45	-
Total	2,360	618	174	114
<i>in millions of euros</i>				
For the year ended 31 December 2015				
Pensions and other post-employment benefits	55	-	7	9
Loan impairment allowance	255	(17)	122	-
Financial liabilities designated at fair value	(250)	-	42	-
Provisions	41	(1)	(10)	-
Hedging of interest rate risk	100	-	83	-
Carry forward losses	1,559	(76)	(52)	-
Goodwill and other intangible assets	14	-	(13)	-
Revaluation reserves for available-for-sale financial assets	(107)	2	-	2
Revaluation reserves – Cash flow hedges	10	-	-	16
Property and equipment, including leases	77	706	64	-
Other temporary differences	636	(39)	(122)	-
Total	2,390	575	121	27

27 Employee benefits

<i>in millions of euros</i>	2016	2015
Employee benefits – assets	(7)	(7)
Employee benefits – liabilities	315	356
Total employee benefits	308	349
Pension plans	158	110
Other employee benefits	150	239
Total employee benefits	308	349

27.1 Pension plans

Rabobank has placed its Dutch pension plan with Rabobank Pension Fund. The scheme is a collective defined contribution plan with a pensionable age of 67 and a target accrual percentage of 2. Each year Rabobank deposits pension contributions into the Rabobank Pension Fund based on a fixed system in an attempt to achieve the target pension accrual for services provided during the year of service based on a conditional career-average plan with a conditional indexation. Rabobank complies with all its pension obligations by paying the annual pension premium. Rabobank therefore has no more financial liabilities with regard to underlying membership years and already accrued pension rights. In the context of the risks transferred, Rabobank made a one-off payment in 2013 to the amount of 500 towards the creation of an index deposit. In addition, Rabobank will act as a guarantor during the period 2014-2020 for the realisation of the target pension accrual for the services provided during this period up to a maximum amount of 200 (2015: 250).

The new pension plan qualifies as a defined contribution plan under IAS 19. Rabobank's obligation is limited to the premium payments owed, less previously made payments.

As of 31 December 2016, a few small plans still qualify as defined benefit pension plans. These are career-average defined benefit pension plans, administered by a fund or otherwise that are related to the remuneration of employees upon retirement and which mostly pay annual pensions. Annual contributions are paid to the funds at a rate necessary to adequately finance the accrued liabilities of the plans calculated in accordance with local legal requirements. The assets related to the plans maintained in a fund are held independently of Rabobank assets in separate funds managed by trustees. The obligations are valued each year by independent actuaries based on the method prescribed by the IFRS. The most recent actuarial valuations were performed at the end of 2016. The tables relating to the weighted averages of the main actuarial assumptions and the future premium payments in 2016 relate to the pension plan of Friesland Bank and ACC Loan management. The table showing investments in plan assets are based on the pension plan of ACC Loan Management.

<i>In millions of euros</i>	2016	2015
Defined benefit obligation	758	679
Fair value of plan assets	600	569
Net defined benefit obligation	158	110

Movements in plan assets and liabilities:

<i>in millions of euros</i>	2016	2015
Defined benefit obligation		
Opening balance on 1 January	679	673
Exchange rate differences	(16)	9
Interest cost	17	18
Current service cost	-	6
Contributions paid by employees	-	-
Benefits paid	(25)	(22)
Pension plan amendment	-	-
Curtailments	-	-
Other	-	8
Experience adjustments	(3)	-
Actuarial gains and losses arising from changes in demographic assumptions	4	2
Actuarial gains and losses arising from changes in financial assumptions	102	(15)
Defined benefit obligation on 31 December	758	679
Fair value of plan assets		
Opening balance	569	557
Exchange rate differences	(13)	5
Interest income	14	15
Contributions paid by employer	10	7
Contributions paid by employees	-	-
Benefits paid	(25)	(22)
Administrative costs	-	(2)
Other	(4)	1
Experience adjustments	(2)	-
Remeasurements arising from changes in financial assumptions plan assets	51	8
Fair value of plan assets on 31 December	600	569

The costs recognised in profit and loss are shown in the table below.

<i>In millions of euros</i>	2016	2015
Interest cost on liabilities	17	18
Interest income on plan assets	(14)	(15)
Current service cost	-	6
Pension plan amendment	-	-
Losses/(gains) on curtailments, settlements and costs	-	1
Total cost of defined benefit pension plans	3	10

Main actuarial assumptions

The main actuarial assumptions for the valuation of the defined benefit obligation as at 31 December are the discount rate, the salary increases, the price inflation. Recent mortality tables have also been used for the valuation of the respective plans. The weighted averages of the actuarial financial assumptions are shown in the table below (in % per year):

	2016	2015
Discount rate	1.7%	2.5%
Salary increases	1.7%	1.6%
Price inflation	1.7%	1.6%

Sensitivity analysis

Rabobank is exposed to risks regarding their defined benefit plans related to the assumptions disclosed in the table below. The sensitivity analysis of these most significant assumptions has been determined based on changes of the assumptions occurring at the end of the reporting period that are deemed reasonably possible.

In millions of euros	Change in assumption	Effect on defined benefit obligation of increase		Effect on defined benefit obligation of decrease	
		2016	2015	2016	2015
Discount rate	0.25%	(25)	(21)	27	23
Salary increases	0.25%	18	14	(17)	(14)
Price inflation	0.25%	9	8	(7)	(8)
Mortality	1 year	21	17	(20)	(17)

Asset-liability matching strategy

The assets that would provide the closest match to the cashflows of the ACC Loan management defined benefit plan are a combination of fixed interest and index-linked bonds. Below is a comparison of the asset allocation at 31 December against the scheme's target asset allocation. The assets are all quoted in an active market.

	Asset allocation		Target asset allocation	
	2016	2015	2016	2015
Shares and alternatives	10%	10%	10%	10%
Interest-bearing securities	47%	45%	45%	45%
Alternatives	41%	41%	42.5%	40%
Other	2%	4%	2.5%	5%
Total	100%	100%	100%	100%

The alternatives are investments such as commodities, absolute return investments and hedge funds.

Estimated contribution

The estimated contributions to pension plans for 2017 are approximately 6 (2016: 6).

27.2 Other employee benefits

Other employee benefits mainly comprise liabilities for future long-service awards for an amount of 35 (2015: 95).

28 Subordinated liabilities

in millions of euros	2016	2015
Rabobank	16,847	15,479
Other	14	24
Total subordinated liabilities	16,861	15,503

In the following table details of the issues of subordinated liabilities are shown:

Subordinated liabilities				
Notional (in millions)	Currency	Coupon	Year of issuance	Year of maturity
1,500	USD	3.75%	2016	2026
225	AUD	5.00%	2015	2025, early repayment 2020
475	AUD	Variable	2015	2025, early repayment possible 2020
1,500	USD	4.375%	2015	2025
1,250	USD	5.25%	2015	2045
1,000	GBP	4.625%	2014	2029
2,000	EUR	2.50%	2014	2026, early repayment possible in 2019
50,800	JPY	1.429%	2014	2024
1,000	EUR	3.875%	2013	2023
1,750	USD	4.625%	2013	2023
1,250	USD	5.75%	2013	2043
1,000	EUR	4.125%	2012	2022
500	GBP	5.25%	2012	2027
1,500	USD	3.95%	2012	2022
1,000	EUR	3.75%	2010	2020
1,000	EUR	5.875%	2009	2019

29 Contingent liabilities

Credit related off balance sheet commitments

Loan commitments represent the unused portions of funds authorised for the granting of credit in the form of loans, financial guarantees, letters of credit and other lending related financial instruments. With regard to the credit risk exposure from loan commitments, Rabobank is potentially exposed to losses amounting to the unused portion of the authorised funds. The total expected loss is lower than the total of the unused funds. This is because loan commitments are subject to the clients in question continuing to meet specific standards of creditworthiness. Financial guarantees represent irrevocable undertakings that, provided certain conditions are met, Rabobank will make payments on behalf of clients if they are unable to meet their financial obligations to third parties. Rabobank also enters into credit arrangements in the form of credit facilities made available to safeguard clients' liquidity requirements, but which have not yet been drawn upon.

<i>In millions of euros</i>	2016	2015
Financial guarantees	11,595	10,402
Loan commitments	44,889	46,674
Letters of credit	6,276	4,980
Credit related off balance sheet commitments	62,760	62,056

The contractual commitments relating to the acquisition, construction and development of work in progress and investment properties amounts to 735 (2015: 678).

Contingent liabilities related to litigation

Rabobank is involved in a number of legal and arbitration proceedings in the Netherlands and other countries, including the United States, in connection with claims brought by and against Rabobank Group arising from its operations. The maximum amount of non-remote contingent liabilities relating to claims is 61. For additional information, please refer to Paragraph 4.10, 'Legal and arbitration proceedings'.

Contingent liabilities related to income tax

The European Commission has addressed questions to the Dutch government about article 29a of the Dutch Corporate Income Tax Code. If the European Commission would decide to start a formal investigation and ultimately would conclude that this is a case of state aid, Rabobank may have to repay tax benefits it enjoyed from 2015 onwards.

Article 29a of the Dutch Corporate Income Tax Code was included in the Dutch Corporate Income Tax Code so that capital instruments issued by credit institutions and which are covered by EU regulation 575/2013 would be considered tax deductible. In this context, Rabobank issued Capital Securities in January 2015 and in April 2016, amounting respectively to EUR 1.5 billion at a fixed interest rate of 5.5%, and EUR 1.25 billion at a fixed interest rate of 6.625%. The contingent liability related to this matter amounts to 54.

Liabilities relating to operating leases

Rabobank has concluded various operating lease contracts as lessee, mainly with respect to properties, information systems and cars. The future net minimum lease payments under non-cancellable operating leases can be broken down as follows:

<i>in millions of euros</i>	2016	2015
Not later than 1 year	145	103
Later than 1 year but not later than 5 years	332	308
Later than 5 years	375	185
Total liabilities relating to operating leases	852	596

The expected future minimum lease payments receivable from sub-leases are 0 (2015: 3). The operating lease expenses are 98 (2015: 73). These are included in 'Other administrative expenses' in the statement of income.

Payments receivable from operating leases

Rabobank has concluded various operating lease contracts as lessor. The future minimum lease payments receivable from non-cancellable operating leases can be broken down as follows:

<i>in millions of euros</i>	2016	2015
Not later than 1 year	796	1,340
Later than 1 year but not later than 5 years	1,551	2,050
Later than 5 years	83	38
Total payments receivable from operating leases	2,430	3,428

No contingent lease payments were recognised as assets during the current year.

30 Reserves and retained earnings

<i>in millions of euros</i>	2016	2015 ¹
Foreign currency translation reserves	203	(76)
Revaluation reserves – Available-for-sale financial assets	571	512
Revaluation reserve – Cash flow hedges	(70)	(39)
Revaluation reserve – Other	-	2
Revaluation reserve – Assets held for sale	(70)	-
Remeasurement reserve – Pensions	(219)	(175)
Revaluation reserve – Fair value changes due to own credit risk on financial liabilities designated at fair value	(303)	-
Retained earnings	25,709	25,399
Total reserves and retained earnings at year-end	25,821	25,623

1 Prior-year figures adjusted due to the restatement (see note 2.1).

Changes in the reserves were as follows:

<i>in millions of euros</i>	2016	2015 ¹
Foreign currency translation reserves		
Opening balance	(76)	(94)
Exchange rate differences emerging during the year	393	108
Changes at associates and joint ventures	(19)	(23)
Transferred to profit or loss	(165)	(67)
Transferred to Revaluation reserve – Assets held for sale	70	-
Closing balance	203	(76)
Revaluation reserves – Available-for-sale financial assets		
Opening balance	512	643
Foreign exchange differences	(4)	(1)
Changes at associates and joint ventures	39	(56)
Fair value changes	76	(124)
Amortisation of reclassified assets	2	6
Transferred to profit or loss	(41)	44
Transferred to Revaluation reserve – Assets held for sale	(4)	-
Other	(9)	-
Closing balance	571	512
Revaluation reserve – Cash flow hedges		
Opening balance	(39)	11
Fair value changes	(87)	659
Transferred to profit or loss	56	(709)
Closing balance	(70)	(39)
Revaluation reserve – Other		
Opening balance	2	2
Fair value changes	(2)	-
Closing balance	-	2
Revaluation reserve – Assets held for sale		
Opening balance	-	-
Transfers from revaluation reserves	(68)	-
Changes at associates and joint ventures	(2)	-
Closing balance	(70)	-
Remeasurement reserve – Pensions		
Opening balance	(175)	(196)
Changes at associates and joint ventures	7	3
Remeasurements defined benefit plans	(53)	18
Transferred to Revaluation reserve – Assets held for sale	2	-
Closing balance	(219)	(175)
Revaluation reserve – Fair value changes due to own credit risk on financial liabilities designated at fair value		
Opening balance	-	-
Adjustment opening balance ²	62	-
Fair value changes	(365)	-
Realisation at derecognition	-	-
Closing balance	(303)	-
Retained earnings		
Opening balance	25,399	24,445
Adjustment opening balance ²	(62)	-
Net profit	1,960	2,139
Payments on equity instruments	(1,278)	(1,252)
Redemption of Capital Securities	(316)	-
Other	6	67
Closing balance	25,709	25,399
Total reserves and retained earnings	25,821	25,623

31 Rabobank Certificates

Rabobank Certificates represent participation rights issued by Rabobank via the foundation Stichting Administratie Kantoor Rabobank Certificaten and belong to the Common Equity Tier 1 capital of Rabobank. The Rabobank Certificates have been listed on Euronext Amsterdam since 27 January 2014.

The initial opening price on 27 January 2014 amounted to 105.00% (EUR 26.25). On 31 December 2016, the trading price amounted to 114.18% (EUR 28.55). At year-end 2016, the total number of certificates was 237,961,365 with a nominal value of EUR 25 each.

The distribution paid per certificate in 2016 was EUR 1,625 (2015: EUR 1,625). The Executive Board is entitled not to pay the distribution. Unpaid distributions will not be paid at a later date. The amounts listed in the table below are based on the nominal value of EUR 25 per Rabobank Certificate. Cash flows arising from changes during the year in the Rabobank Certificates are included in the consolidated statement of cash flows.

Rabobank Certificates		
<i>in millions of euros</i>	2016	2015
Changes during the year:		
Opening balance	5,949	5,931
Change in Rabobank Certificates during the period	(1)	18
Closing balance	5,948	5,949

32 Capital Securities and Trust Preferred Securities III to IV

Capital Securities and Trust Preferred Securities III to IV can be broken down as follows:

<i>in millions of euros</i>	2016	2015
Capital Securities issued by Rabobank	7,636	7,826
Capital securities issued by subsidiaries	185	176
Trust Preferred Securities III to IV	409	1,131
Total Capital Securities and Trust Preferred Securities III to IV	8,230	9,133

- 1 Prior-year figures adjusted due to the restatement (see note 2.1).
- 2 Opening balance 2016 adjusted due to early adoption of IFRS 9 on fair value of financial liabilities designated at fair value. Prior-year figures adjusted due to the restatement (see both note 2.1)

Capital Securities

All Capital Securities are perpetual and have no expiry date. The distribution on Capital Securities per issue is as follows:

Capital securities issued by Rabobank

Issue of EUR 1,250 million

The coupon is 6.625% per year and is made payable every six months in arrears as of the issue date (26 April 2016), for the first time on 29 June 2016. The Capital Securities are perpetual and first redeemable on 29 June 2021. As of 29 June 2021, and subject to Capital Securities not being redeemed early, the distribution is set for a further five-year period, but without a step-up, based on the 5-year euro swap rate + 6.697%. The coupon is fully discretionary.

Issue of EUR 1,500 million

The coupon is 5.5% per year and is made payable every six months in arrears as of the issue date (22 January 2015), for the first time on 29 June 2015. The Capital Securities are perpetual and first redeemable on 29 June 2020. As of 29 July 2020, and subject to Capital Securities not being redeemed early, the distribution is set for a further five-year period, but without a step-up, based on the 5-year euro swap rate + 5.25%. The coupon is fully discretionary.

Issue of USD 2,000 million

The coupon is 8.40% per year and is made payable every six months in arrears as of the issue date (9 November 2011), for the first time on 29 December 2011. The Capital Securities are perpetual and first redeemable on 29 June 2017. If the Capital Securities are not redeemed early, the distribution is set for a further five-year period, but without a step-up, based on the US Treasury Benchmark Rate plus a 7.49% mark-up. The coupon is fully discretionary.

Issue of EUR 500 million

The coupon is 9.94% per year and is made payable annually in arrears as of the issue date (27 February 2009), for the first time on 27 February 2010. As of 27 February 2019, the coupon will be made payable every quarter based on the three-month Euribor plus an annual 7.50% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Issue of USD 2,868 million

The coupon is 11.0% per year and is made payable every six months in arrears as of the issue date (4 June 2009), for the first time on 31 December 2009. As of 30 June 2019, the coupon will

be made payable every quarter based on the three-month USD Libor plus an annual 10.868% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Issue of GBP 250 million

The coupon is 6.567% per year and is made payable every six months in arrears as of the issue date (10 June 2008), for the first time on 10 December 2008. As of 10 June 2038, the coupon will be made payable every six months based on the six-month GBP Libor plus an annual 2.825% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Issue of CHF 350 million

The coupon is 5.50% per year and is made payable annually in arrears as of the issue date (27 June 2008), for the first time on 27 June 2009. As of 27 June 2018, the coupon will be made payable every six months on 27 June and 27 December based on the six-month CHF Libor plus an annual 2.80% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Issue of ILS 323 million

The coupon is 4.15% per year and is made payable annually in arrears as of the issue date (14 July 2008), for the first time on 14 July 2009. As of 14 July 2018, the coupon will be made payable annually based on an index related to the interest rate paid on Israeli government bonds with terms between 4.5 and 5.5 years plus an annual 2.0% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Issue of NZD 900 million

The coupon on the NZD Capital Securities equals the one-year swap interest rate plus an annual 0.76% mark-up and is made payable annually on 8 October, until 8 October 2017. As of 8 October 2017, the coupon will be made payable every quarter based on the 90-day bank bill swap interest rate plus an equivalent mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Capital securities issued by Rabobank which were redeemed during the year

Issue of USD 2,000 million

The distribution is 8.375% per year and is made payable every six months in arrears as of the issue date (26 January 2011), for the first time on 26 July 2011. As of 26 July 2016, and subject to Capital Securities not being redeemed early, the distribution is set for a further five-year period, but without a step-up, based on the US Treasury Benchmark Rate plus a 6.425% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply. This issue was redeemed on the earliest redemption date of 26 July 2016.

The level of profit made by Rabobank may influence the distribution on the Capital Securities. Should Rabobank become insolvent, the Capital Securities are subordinate to the rights of all other (current and future) creditors of Rabobank, unless the rights of those other creditors are substantively determined otherwise.

Capital securities issued by subsidiaries

Issue of NZD 280 million

Rabo Capital Securities Limited has issued capital securities, the coupon of which equals the five-year swap interest rate plus an annual 3.75% mark-up and was set at 8.7864% per annum on 25 May 2009. As of the issue date (27 May 2009), the coupon is made payable every quarter in arrears, for the first time on 18 June 2009 (short first interest period). As of 18 June 2014, the coupon will be made payable every quarter based on the five-year swap interest plus an annual 3.75% mark-up. As of 18 June 2019, the coupon will be made payable every quarter based on the 90-day bank bill swap interest rate plus an annual 3.75% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Trust Preferred Securities III to IV

In 2004, the following tranches of non-cumulative Trust Preferred Securities were issued.

- Rabobank Capital Funding Trust III, Delaware, a group company of Rabobank, issued 1.5 million non-cumulative Trust Preferred Securities. The coupon is 5.254% up to and including 21 October 2016. For the period 21 October 2016 to 31 December 2016 inclusive, the coupon is equal to the interpolated USD Libor rate for the period, plus 1.5900%. The coupon is payable at the issuer's discretion. Thereafter, the distribution is equal to the three-month USD Libor rate plus 1.5900%. The total proceeds from this issue amounted

to USD 1,500 million. This issue was redeemed on the earliest redemption date of 21 October 2016.

- Rabobank Capital Funding Trust IV, Delaware, a group company of Rabobank, issued 350,000 non-cumulative Trust Preferred Securities. The coupon is 5.556% up to and including 31 December 2019. Thereafter, the coupon is equal to the six-month GBP Libor rate plus 1.4600%. The coupon is payable at the issuer's discretion.

The total proceeds from this issue amounted to GBP 350 million. As of 31 December 2019, these Trust Preferred Securities can be repurchased on each distribution date (which is once every half-year).

Trust Preferred Securities

<i>in millions of euros</i>	2016	2015
Changes during the year:		
Opening balance	1,131	1,043
Redemption	(716)	-
Exchange rate differences and other	(6)	88
Closing balance	409	1,131

33 Other non-controlling interests

This item relates to shares held by non-controlling interests in Rabobank subsidiaries.

<i>In millions of euros</i>	2016	2015
Opening balance	492	473
Net profit	64	75
Exchange rate differences	20	(10)
Entities included in consolidation/ deconsolidated	(1)	8
Dividends	(50)	(61)
Other	-	7
Closing balance	525	492

The Rabobank subsidiaries with the largest non-controlling interests are De Lage Landen Participacoes Limitada and AGCO Finance SNC. Both entities are accounted for in the segment Leasing.

De Lage Landen Participacoes Limitada is based in Porto Alegre, Brazil, and Rabobank has a capital and voting right interest of 72.88%. The non-controlling interests with regard to this entity amount to 79 (2015: 65). The following financial data apply:

De Lage Landen Participacoes Limitada	2016	2015
Revenues	70	82
Net profit	26	25
Other comprehensive income	-	-
Total comprehensive income	26	25
Profit attributable to non-controlling interests	9	12
Dividends paid to non-controlling interests	20	13
Financial assets	1,322	1,088
Other assets	118	82
Financial liabilities	1,095	931
Other liabilities	38	32

AGCO Finance SNC is located in Beauvais, France, and Rabobank has a capital and voting right interest of 51.0%. The non-controlling interests with regard to this entity amount to 89 (2015: 78). The following financial data apply:

AGCO Finance SNC	2016	2015
Revenues	41	39
Net profit	20	20
Other comprehensive income	-	-
Total comprehensive income	20	20
Profit attributable to non-controlling interests	10	10
Dividends paid to non-controlling interests	9	7
Financial assets	1,333	1,311
Other assets	51	41
Financial liabilities	1,182	1,179
Other liabilities	18	13

34 Net interest income

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Interest income		
Cash and balances at central banks	190	103
Loans and advances to banks	293	338
Financial assets held for trading	45	75
Financial assets designated at fair value	25	52
Loans and advances to customers	16,207	17,271
Available-for-sale financial assets	861	938
Derivatives held as economic hedges	(1,345)	(1,266)
Interest income on financial liabilities with a negative interest rate	74	16
Other	88	66
Total interest income	16,438	17,593
Interest expense		
Due to banks	422	452
Financial liabilities held for trading	10	17
Due to customers	2,445	3,033
Debt securities in issue	3,467	3,796
Other liabilities	727	603
Financial liabilities designated at fair value	362	466
Interest expense on financial assets with a negative interest rate	249	72
Other	13	15
Total interest expense	7,695	8,454
Net interest income	8,743	9,139

Capitalised interest attributable to qualifying assets amounted to 20 (2015: 21). The average interest rate applied in determining interest charges to be capitalized ranges between 1.0% and 5.5% (2015: between 1.0% and 5.5%). The interest income on impaired financial assets accrued is 201 (2015: 85).

35 Net fee and commission income

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Fee and commission income		
Asset management	25	44
Insurance commissions	259	325
Lending	581	545
Purchase and sale of other financial assets and handling fees	391	326
Payment services	734	740
Custodial fees and securities services	2	7
Other commission income	185	140
Total fee and commission income	2,177	2,127
Fee and commission expense		
Purchase and sale of other financial assets	16	8
Payment services	23	35
Custodial fees and securities services	10	11
Handling fees	50	35
Other commission expense	160	146
Total fee and commission expense	259	235
Net fee and commission income	1,918	1,892

36 Income from investments in associates and joint ventures

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Rabobank share of profit of associates and joint ventures	44	351
Result on disposal of investments in associates and joint ventures	62	-
Income from investments in associates and joint ventures	106	351

37 Gains/ (losses) on financial assets and liabilities at fair value through profit or loss

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Gains/ (losses) on financial assets and liabilities held for trading and from derivatives held or issued for trading	288	164
Gains/ (losses) on other financial assets designated at fair value through profit or loss	19	30
Gains/ (losses) on other financial liabilities designated at fair value through profit or loss and derivatives used to hedge the interest rate risk of those financial liabilities	240	569
Impairments	-	(160)
Total gains/ (losses) on financial assets and liabilities at fair value through profit or loss	547	603

Gains/ (losses) on other financial liabilities designated at fair value through profit or loss and derivatives used to hedge the interest rate risk of those financial liabilities mainly relates to fair value changes of the structured notes portfolio attributable to changes in i) market interest rates and ii) day-one gains that are directly recognised in profit or loss for an amount of 263. The results related to fair value changes of the structured notes due to changes in market interest rates are largely offset by the fair value changes of the derivatives used to hedge this interest rate risk. In 2015, a gain of 367 is included in 'Gains/ (losses) on other financial liabilities designated at fair value through profit or loss and derivatives used to hedge the interest rate risk of other financial liabilities designated at fair value' as the change in the fair value of the financial liabilities designated at fair value, that is attributable to changes in the credit risk of Rabobank itself.

<i>In millions of euros</i>	2016	2015
Gains/ (losses) on interest rate instruments	166	639
Gains/ (losses) on equity instruments	28	(99)
Gains/ (losses) on foreign currency	359	64
Other	(6)	(1)
Gains/ (losses) on financial assets and liabilities at fair value through profit or loss	547	603

The net foreign exchange gains/ (losses) included in line item Gains/ (losses) on foreign currency amount to 329 (2015: -346).

38 Other net operating income

<i>in millions of euros</i>	2016	2015
Project income real estate activities	1,653	1,495
Project expenses and impairments real estate activities	(1,319)	(1,213)
Net income real estate activities	334	282
Operational lease income	1,371	1,373
Depreciation and impairments operational lease	(980)	(1,011)
Net income from operational lease activities	391	362
Rental income from investment property	10	50
Depreciation and impairments investment property	6	(43)
Net income from investment property	16	7
Result on sale of group companies	242	15
Other	421	215
Other net operating income	1,404	881

DLL sold the car leasing business Athlon to Mercedes-Benz financial services. Rabobank recognised a gain on the sale of 251.

39 Staff costs

<i>in millions of euros</i>	2016	2015
Wages and salaries	3,101	3,194
Social security contributions and insurance costs	355	394
Pension costs - defined contribution plans	489	500
Pension costs - defined benefit pension plans	3	9
Release of other post-employment provisions	(76)	(65)
Other staff costs	649	754
Staff costs	4,521	4,786

Expressed in FTEs, the number of internal and external employees in Rabobank was 45,567 (2015: 52,013).

In 2011, following the implementation of CRD III and the regulations governing restrained remuneration policy, Rabobank Group adopted an amended remuneration policy: the Group Remuneration Policy. This policy is updated on a regular basis and has, as of 1 January 2015, been adjusted to include the provisions under the Dutch Act on Remuneration Policies for Financial Companies. Insofar as employees in the Netherlands are still eligible for variable remuneration, it never amounts to more than (on average over group employees) 20% of the fixed income. Outside the Netherlands, any variable remuneration never amounts to more than 100% of the fixed income. Insofar as identified staff (employees who can have a material influence on the risk profile of Rabobank Group) are eligible for variable remuneration, it is awarded for such a period that the risks associated with the underlying business activities are adequately taken into account. Payment of a significant portion of variable remuneration is therefore deferred. The immediate portion of variable remuneration is unconditional, whereas the deferred portion is conditional. The deferred portion vests after three years if the conditions are met. Among other things, it is assessed whether there has been a significant reduction in financial performance or a significant change in risk management at Rabobank Group and/or business unit that puts the circumstances assessed when the relevant variable remuneration was awarded in a different perspective. In principle, the right to any provisionally allocated remuneration lapses when the staff member's employment ends. 50% of both the direct and the deferred portion of the variable remuneration is allocated in cash. The cash component of the direct portion is immediately awarded following allocation. The cash component of the deferred portion is awarded to employees only after vesting (after a period of three years). 50% of the direct and the deferred portion of the variable remuneration is allocated in the form of an instrument (instrument component) i.e. the Deferred Remuneration Note (DRN). The value of a DRN is linked directly to the price

of a Rabobank Certificate (RC) as listed on the NYSE Euronext. The instrument component is converted into DRNs at the time of allocation on completion of the performance year. The number of DRNs is determined on the basis of the closing rates for Rabobank Certificates, as traded on the NYSE Euronext during the first five trading days of February of each year. This therefore represents both the instrument component of the direct and the deferred portion of the variable remuneration. The final number of DRNs relating to the deferred portion is established on vesting (after a period of three years). The payment of the instrument component is subject to a one year retention period. After the end of the retention period, the employee receives, for each DRN (or a portion thereof) an amount in cash that corresponds with the value of the DRN at that moment. Payment of the variable remuneration is measured in accordance with IAS 19 Employee benefits. The immediate portion of the variable remuneration is recognised in the performance year, whereas the deferred portion is recognised in the years before vesting.

The same system also applies, in broad terms, to non-identified staff, although no deferral policy applies to the first one hundred thousand euros and both the immediate and the deferred portion are paid fully in cash, which means that no DRNs are awarded.

On 31 December 2016, the costs of equity instrument-based payments were 13 (2015: 8). On 31 December 2016, a liability of 30 was recognised (2015: 26) of which 10 (2015: 11) was vested. The costs of variable remuneration paid in cash were 175 (2015: 190). The number of DRNs outstanding is presented in the following table.

<i>in thousands</i>	2016	2015
Opening balance	1,037	1,014
Awarded during the year	531	249
Paid during the year	(362)	(126)
Changes from previous year	171	(100)
Closing balance	1,377	1,037

The value of a DRN is linked directly to the price of a Rabobank Certificate. The estimated payments to be made for the variable remuneration are shown in the following table.

On 31 December 2016		<i>Year of payment</i>				
<i>in millions of euros</i>	2017	2018	2019	2020	2021	Total
Variable remuneration, excluding DRNs	173.3	6.6	8.4	9.9	-	198.3
DRNs	10.9	10.6	3.8	7.2	8.4	40.9
Total	184.2	17.3	12.2	17.1	8.4	239.2

On 31 December 2015		<i>Year of payment</i>				
<i>in millions of euros</i>	2016	2017	2018	2019	2020	Total
Variable remuneration, excluding DRNs	189.7	6.2	7.0	7.0	-	209.9
DRNs	11.7	7.9	4.5	3.9	3.7	31.7
Total	201.4	14.1	11.6	10.8	3.7	241.6

40 Other administrative expenses

<i>in millions of euros</i>	2016	2015
Additions and releases of provisions	1,063	506
IT expenses and software costs	718	634
Consultants fees	371	322
Training and travelling expenses	168	176
Publicity expenses	160	172
Result on derecognition and impairments on (in)tangible assets	96	32
Other expenses	1,059	1,074
Other administrative expenses	3,635	2,916

41 Depreciation

<i>in millions of euros</i>	2016	2015
Depreciation of property and equipment	250	250
Depreciation of intangible assets	188	193
Depreciation	438	443

42 Loan impairment charges

<i>in millions of euros</i>	2016	2015
Loans and advances to banks	-	(10)
Loans and advances to customers	474	1,087
Recoveries following write-downs	(157)	(101)
Credit related contingent liabilities	(7)	57
Loan impairment charges	310	1,033

In 2016 loan impairment charges were at a lower level compared to 2015, especially for the Dutch portfolio. The is mainly caused by the recovery of the economy which leads to a limited number of new defaults, recovery of existing defaults and adequate allowances for existing impaired clients.

43 Regulatory levies

The regulatory levies consist of bank tax, contributions to the single resolution fund and the deposit guarantee scheme. Banks operating in the Netherlands on 1 October of the current year are required to pay bank tax. There are two rates of bank tax: A rate of 0.044% for current liabilities and a rate of 0.022% for long-term liabilities, based on the balance on December 2015. In 2016, Rabobank Group was charged a total of 166 (2015: 168). In 2016, the bank levy in Ireland amounted to 4 (2015: 4).

On 1 January 2016 the European Single Resolution Fund (SRF) was set up. This fund will for a large part replace the National Resolution Funds, including the Dutch National Resolution Fund (NRF) that was set up on the 27 November 2015. Both funds have been established to improve the effectiveness of resolution instruments. Banks and investment firms that are in the scope of the SRM-regulation are obliged to contribute to the SRF. The NRF is build up exclusively by lump-sum contributions. In 2016, the contribution to the Single Resolution Fund amounted to 180. In 2015, the contribution to the National Resolution Fund amounted to 172.

Per the end of 2015, the new pre-funded deposit guarantee scheme was introduced. In 2016, banks have to pay a premium on a quarterly basis. Target size of the scheme is 0.8% of total guaranteed deposits of all banks together. In 2016, the contribution to the Deposit Guarantee Scheme amounted to 133.

44 Taxes

<i>in millions of euros</i>	2016	2015
Income tax		
Reporting period	527	555
Adjustments of previous years	(6)	(17)
Recognition of previously unrecognised tax losses	(1)	(4)
Deferred tax	174	121
Total income tax	694	655

The effective tax rate was 25.5% (2015: 22.8%) and differs from the theoretical rate that would arise using the Dutch corporate tax rate. This difference is explained as follows:

<i>in millions of euros</i>	2016		2015	
Operating profit before taxation		2,718		2,869
Applicable tax rate 25.0% (2015: 25.0%)	25.0%	680	25.0%	717
Increase/(decrease) in taxes resulting from:				
Tax-exempt income	(4.2%)	(116)	(3.7%)	(105)
Tax rate differences	2.6%	73	3.6%	104
Non-deductible expenses	2.6%	72	2.1%	60
Recognition of previously unrecognised tax losses	(0.1%)	(1)	(0.1%)	(4)
Other permanent differences	(0.4%)	(12)	(2.5%)	(72)
Adjustments of previous years	(0.2%)	(6)	(0.6%)	(17)
Other non-recurring tax items	0.2%	4	(1.0%)	(28)
Total income tax	25.5%	694	22.8%	655

The other permanent differences mainly comprise of the deduction of interest payments on Capital Securities and the impairment of Achmea.

45 Transactions with related parties

Two parties are considered related if one party exercises control or has significant influence over the other party with regard to financial or operating decisions. In the normal course of business, Rabobank conducts a wide variety of transactions with related entities which involve different types of loans, deposits and transactions in foreign currencies. Transactions between related parties also includes transactions with associates, pension funds, joint ventures, the Executive Board and the Supervisory Board. These transactions are conducted against commercial terms and conditions and market prices. In accordance with IAS 24.4, transactions within Rabobank Group are not disclosed in the consolidated financial statements.

In the normal course of Rabobank's business operations, banking transactions are carried out with related parties. These involve loans, deposits and transactions in foreign currencies. These transactions are conducted against commercial terms and conditions and market prices. The volumes of related party transactions, year-end outstanding balances and the corresponding income and expenses during the year are presented in the following table. Transactions and balances outstanding with members of the Executive Board and members of the Supervisory Board are disclosed in Section 47. Transactions with pension funds are disclosed in Section 27.

	<i>Investments in associates</i>		<i>Other related parties</i>	
<i>in millions of euros</i>	2016	2015	2016	2015
Loans				
Outstanding at beginning of year	361	360	-	-
Provided during the year	178	9	-	-
Redeemed during the year	(88)	(8)	-	-
Other	52	-	-	-
Gross loans as of 31 December	503	361	-	-
Less: loan impairment allowance	(68)	(58)	-	-
Total loans as of 31 December	435	303	-	-
Deposits from banks and deposits from customers				
Outstanding at beginning of the year	7,269	6,822	-	-
Received during the year	411	829	29	-
Repaid during the year	(576)	(382)	-	-
Other	77	-	-	-
Debts as of 31 December	7,181	7,269	29	-
Other assets	6	39	-	-
Credit guarantees and other guarantees issued by Rabobank	70	28	-	-
Income				
Net interest income	12	10	-	-
Fee and commission income	227	234	-	-
Trading income	-	-	-	-
Other	-	-	-	-
Total income from transactions with related parties	239	244	-	-
Expenses				
Interest expense	331	347	-	-
Fee and commission expense	-	-	-	-
Impairments	11	25	-	-
Total expenses from transactions with related parties	342	372	-	-

46 Costs of external auditor

Expenses for services provided by Rabobank's independent auditor, PricewaterhouseCoopers Accountants N.V. ('PwC') and its member firms and/ or affiliates to Rabobank and its subsidiaries in 2016 are specified as follows:

<i>in millions of euros</i>	2016		<i>Total</i>
	<i>PwC Netherlands</i>	<i>Other PwC network firms</i>	
Audit fees	6.2	8.0	14.2
Audit related fees	0.5	0.1	0.6
Tax advisory fees	-	0.8	0.8
Other non-audit services	-	2.4	2.4
Total	6.7	11.3	18.0

The audit fees listed above relate to the procedure applied to Rabobank and its consolidated group entities by PwC and other member firms in the global PwC network, including their tax services and advisory groups. These audit fees relate to the audit of the financial statements, regardless of whether the work was performed during the financial year.

In 2015, the audit firm Ernst & Young Accountants LLP in the Netherlands invoiced the below amounts to Rabobank, its subsidiaries and other companies it consolidates, within the meaning of section 382a of Book 2 of the Dutch Civil Code. These amounts do not include fees for financial statements audits, other audit engagements, tax consultancy services and other non-audit services charged by other auditors and other Ernst & Young business units

<i>in millions of euros</i>	2015
Financial statements audit	7
Other audit engagements	1
Other non-audit services	-
Total	8

47 Remuneration of the Supervisory Board and the Executive Board

The members of the Supervisory Board and the Executive Board are listed in Section 53 of these consolidated financial statements. Rabobank regards the members of the Executive Board and the Supervisory Board as key management personnel. The members of the Executive Board are among the identified staff as disclosed in Section 39. In 2016, the remuneration of members and former members of the Executive Board amounted to 7.5 (2015: 6.4). The increase is related to the expansion of the board with one extra member.

<i>in thousands of euros</i>	<i>Short-term employee benefits</i>	<i>Post-employment benefits</i>		<i>Other</i>	<i>Total</i>
		<i>Pension scheme</i>	<i>Individual pension contribution</i>		
W. Draijer	980	25	212	-	1,217
B.C. Brouwers	884	25	189	-	1,098
R.J. Dekker	884	25	189	3	1,101
P.C. van Hoeken	663	19	142	-	824
B.J. Martin	884	25	189	-	1,098
H. Nagel	884	25	189	-	1,098
J.L. van Nieuwenhuizen	884	25	189	-	1,098
Total 2016	6,063	169	1,299	3	7,534
Members Executive Board	4,257	128	908	5	5,298
Former members Executive Board	884	26	189	1	1,100
Total 2015	5,141	154	1,097	6	6,398

At year-end 2016, there were a total of 486 DRNs (liability of 16) outstanding with members of the Executive Board (year-end 2015: 11,647 pieces of which 5,503 regarding former members). The pension scheme for the members of the Executive Board is classified as a collective defined contribution scheme. As of 1 January 2015, the maximum income on the basis of which the members of the Executive Board can build up a pension amounts to a maximum, for 2016 ninety-six thousand euros. Any income exceeding this amount is not pensionable. As of 1 January 2015, the members of the Executive Board therefore receive an individual pension contribution.

Expenses related to members and former members of the Supervisory Board total 1.2 (2015: 1.2 of which former members 0.6). This includes VAT and employer's contributions payable. In addition to the role of Member of the Supervisory Board of Rabobank, the remuneration also depends on the roles in the various committees. The composition of these committees is detailed in the Annual Report. The remuneration structure as of 1 October 2016 (exclusive of VAT and other charges) is:

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

The table below shows the remuneration (excluding VAT and other charges) for individual members of the Supervisory Board.

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

At Rabobank, the Chairman of the Supervisory Board holds a number of roles which are related to the cooperative. These roles are specified in the Annual Report.

<i>in millions of euros</i>	<i>Executive Board</i>		<i>Supervisory Board</i>	
<i>Loans, advances and guarantees</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
Outstanding on 1 January	4.3	4.9	1.4	2.6
Provided during the year	-	1.2	-	-
Redeemed during the year	(0.8)	(1.8)	(0.1)	(0.7)
Reduction on account of leaving office	-	-	-	(0.9)
Increase on account of taking office	0.6	-	-	0.4
Outstanding on 31 December	4.1	4.3	1.3	1.4

The loans, advances and guarantees of the members of the Executive Board in office and the average interest rates were as follows:

<i>in millions of euros</i>	<i>2016</i>	
	<i>Outstanding loans</i>	<i>Average interest rate (in %)</i>
Loans, advances and guarantees		
B.C. Brouwers	0.5	2.6
R.J. Dekker	1.0	2.1
B.J. Marttin	0.4	5.8
H. Nagel	1.0	2.2
J.L. van Nieuwenhuizen	1.2	2.0

<i>in millions of euros</i>	<i>2015</i>	
	<i>Outstanding loans</i>	<i>Average interest rate (in %)</i>
Loans, advances and guarantees		
R.J. Dekker	1.2	1.6
B.J. Marttin	0.4	4.4
H. Nagel	1.0	1.9
J.L. van Nieuwenhuizen	1.7	3.3

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

<i>in millions of euros</i>	<i>Outstanding loans</i>		<i>Average interest rate (in %)</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
Loans, advances and guarantees				
A.A.J.M. Kamp	0.9	1.0	2.6	2.7
M. Trompetter	0.4	0.4	4.0	4.9

At year-end 2016, the members of the Supervisory Board not listed in the table had not received any loans, advances or guarantees. These transactions with members of the Executive Board and Supervisory Board were completed in person on the basis of employee terms and conditions and/or market rates for the Supervisory Board. The rates depend in part on the currency, the agreed fixed-interest period and the time the transaction was completed or the time a new fixed-interest term becomes effective.

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

	<i>Number of Rabobank Certificates</i>	
On 31 December 2016		
I.P. Asscher-Vonk	6,894	
L.N. Degle	4,836	in pension B.V.
S.L.J. Graafsma	4,050	in pension B.V.

48 Main subsidiaries

At the year-end 2016, Rabobank Group is comprised of Coöperatieve Rabobank U.A. and its consolidated subsidiaries in the Netherlands and abroad.

<i>On 31 December 2016</i>	<i>Share</i>	<i>Voting rights</i>
Main subsidiaries		
The Netherlands		
DLL International B.V.	100%	100%
Rabo Vastgoedgroep N.V.	100%	100%
FGH Bank N.V.	100%	100%
Obvion N.V.	100%	100%
Rabohypotheekbank N.V.	100%	100%
North America		
Rabobank Capital Funding LCC III	100%	100%
Rabobank Capital Funding Trust IV	100%	100%
Utrecht America Holdings Inc.	100%	100%
Australia and New Zealand		
Rabobank Australia Limited	100%	100%
Rabobank New Zealand Limited	100%	100%

All subsidiaries listed in the table are consolidated. In 2016, none of the subsidiaries experienced any significant restrictions in the payment of dividends or the redemption of loans and repayment of advances. The option of subsidiaries to pay dividend to Rabobank depends on various factors, including local regulatory requirements, statutory reserves and financial performance.

Rabobank will not consolidate several structured entities in the 'Wholesale banking and international retail banking business', even if it does retain more than half of the voting rights. These structured entities are not consolidated because the relevant activities are managed by a third party subject to a contract.

Rabobank does have control over several entities in the segment 'Leasing' as part of its vendor leasing operations, even though it retains less than half of the voting rights because control is not determined based on such rights, but rather on management participation.

49 Transfer of financial assets and financial assets provided as collateral

49.1 Reverse repurchase transactions and securities borrowing agreements

Reverse repurchase transactions and securities borrowing agreements concluded by Rabobank are included under 'Loans and advances to banks' or 'Loans and advances to customers' and as per 31 December amount to:

<i>in millions of euros</i>	2016	2015
Loans and advances to banks	13,398	18,495
Loans and advances to customers	16,068	18,927
Total reverse repurchase transactions and securities borrowing agreements	29,466	37,422

Under the terms of the reverse repurchase transactions and securities borrowing agreements, Rabobank receives collateral under conditions that enable it to re-pledge or resell the collateral to third parties. On 31 December 2016, the total fair value of the securities received under the terms of the agreements was 29,931 (31 December 2015: 37,853). In accordance with the agreement terms, a portion of the securities was re-pledged or sold as collateral. These transactions were effected subject to the normal conditions for standard reverse repurchase transactions and securities borrowing agreements. The securities are not recognised in the statement of financial position because almost all the associated risks and benefits accrue to the counterparty. A receivable is recognised at a value equivalent to the amount paid as collateral.

49.2 Repurchase transactions and securities lending agreements

Repurchase transactions and securities lending agreements concluded by Rabobank are included under 'Deposits from banks' and 'Deposits from customers' as of 31 December totalled:

<i>in millions of euros</i>	2016	2015
Deposits from banks	418	581
Deposits from customers	212	488
Total repurchase and securities lending	630	1,069

On 31 December 2016, interest-bearing securities with a carrying amount of 616 (2015: 1,075) were provided as collateral for repurchase agreements. The counterparty retains the right to sell or re-pledge the securities. These transactions were performed subject to the normal conditions for standard repurchase transactions and securities lending agreements. The bank may provide or receive securities or cash as collateral if the value of the securities changes. The securities are not

de-recognised because almost all the associated risks and benefits accrue to Rabobank, including credit and market risks. A liability is recognised at a value equivalent to the amount received as collateral.

49.3 Securitisations

As part of the financing activities and liquidity management of Rabobank Group, and in order to reduce credit risk, cash flows from certain financial assets are transferred to third parties (true sale transactions). Most of the financial assets subject to these transactions are mortgages and other loan portfolios that are transferred to a special purpose vehicle that is subsequently consolidated. After securitisation, the assets continue to be recognised in the statement of financial position of Rabobank Group, mainly under 'Loans and advances to customers'. The securitised assets are measured in accordance with the accounting policies referred to in Paragraph 2.15. The carrying amount of the transferred financial assets related to own-asset securitisation is 77,894 (2015: 75,805) with the corresponding liability amounting to 74,897 (2015: 75,707). Approximately 74% (2015: 75%) of the transferred assets are securitised internally for liquidity purposes. The carrying amount of the assets where Rabobank acts as a sponsor (Nieuw-Amsterdam) is 4,125 (2015: 5,218) with the corresponding liability amounting to 4,125 (2015: 5,218). Reference is made to section 50 Structured entities.

49.4 Carrying amount of financial assets provided as security for (contingent) liabilities

The assets referred to below have been pledged as security for (contingent) liabilities (with exception to repo transactions, securities lending and securitisations) with the objective of providing security for the counterparty. If Rabobank remains in default the counterparties may use the security to settle the debt.

<i>in millions of euros</i>	2016	2015
Cash and balances at central banks	130	54
Financial assets held for trading	134	-
Loans and advances to banks	4,704	5,186
Loans and advances to customers	12,759	13,838
Available-for-sale financial assets	7,693	2,563
Total	25,420	21,641

50 Structured entities

50.1 Consolidated structured entities

A structured entity is an entity which is structured such that voting rights or comparable rights do not constitute the dominant factor in determining who exercises control over the entity. Rabobank uses structured entities in order to securitise

mortgages and other loan portfolios as part of its financing activities, liquidity management and in order to reduce credit risk. The loans are actually transferred to the structured entities. Own-asset securitisation is handled by RaboAgri Finance (Harvest), Obvion (STORM and STRONG) and DLL (LEAP). As well as having provided cash facilities, Rabobank also acts as a swap counterparty for all own-asset securitisations.

Rabobank acts as a sponsor in Nieuw Amsterdam Receivables Corporation. Nieuw Amsterdam issues ABCP in various currencies and provides Rabobank customers access to liquidity through the commercial paper market. Rabobank provides advice and manages the programme, markets ABCP, provides cash facilities and/or credit risk enhancements and other facilities for the underlying transactions and the programme itself. Rabobank consolidates the own-asset securitisation vehicles and Nieuw Amsterdam because it is exposed to or entitled to fluctuating income in respect of its involvement in these

entities. In addition, Rabobank also has the option to influence the amount of the investor's income by virtue of having control over the entities.

50.2 Non-consolidated structured entities

Non-consolidated structured entities refers to all structured entities over which Rabobank has no control. These interests are comprised mainly of debt securities in a securitisation vehicle, including RMBS, ABS and CDO and private equity interests. The amount of these debt securities is almost always limited when compared to the vehicle's total assets. Those securitization vehicles are usually refinanced by issued debt securities or credit facilities.

The following table shows the nature and risks of Rabobank's interests in non-consolidated structured entities. The size of non-consolidated structured entities generally reflects the carrying amount of the assets and the contingent liabilities. The maximum exposure equals the carrying amount disclosed in the table below.

<i>in millions of euros</i>						
	On 31 December 2016			On 31 December 2015		
Assets recognised by Rabobank	<i>Securitisations</i>	<i>Other</i>	<i>Total</i>	<i>Securitisations</i>	<i>Other</i>	<i>Total</i>
Financial assets held for trading	38	83	121	1	100	101
Financial assets designated at fair value	-	92	92	255	72	327
Derivatives	418	-	418	463	-	463
Loans and advances to customers	712	-	712	1,011	-	1,011
Available-for-sale financial assets	180	41	221	670	61	731
Investments in associates	-	322	322	-	395	395
Total financial assets recognised by Rabobank	1,348	538	1,886	2,400	628	3,028
Liabilities recognised by Rabobank						
Derivatives	4	-	4	3	-	3
Deposits from customers	260	-	260	393	-	393
Total liabilities recognised by Rabobank	264	-	264	396	-	396

Income from sponsored, non-consolidated structured entities in which Rabobank holds no interest:

<i>in millions of euros</i>	<i>Fee and commission income</i>	<i>Interest income</i>	<i>Other results</i>	<i>Total income</i>	<i>Carrying amount of transferred assets</i>
On 31 December 2016					
Securitisations	-	5	-	5	-
Asset management	-	-	-	-	-
Total	-	5	-	5	-
On 31 December 2015					
Securitisations	1	46	64	111	-
Asset management	-	-	-	-	-
Total	1	46	64	111	-

51 Events after the reporting period

In January 2017, Rabobank announced the offering of newly issued Rabobank Certificates. The nominal issued amount was EUR 1.5 billion. Rabobank issued 60 million new Rabobank Certificates; each of these newly issued Certificate was priced at 108% of the nominal value of EUR 25. After the issuance, a total nominal amount of approximately EUR 7.4 billion in Rabobank Certificates was outstanding.

52 Management report on internal control over financial reporting

The management of Rabobank is responsible for establishing and maintaining adequate internal control over financial reporting. Management is also responsible for the preparation and fair presentation of the consolidated financial statements. Rabobank's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with International Financial Reporting Standards as adopted by the European Union.

All internal control systems, no matter how well designed, have inherent limitations. Due to the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. At the same time, future projections on the basis of any evaluation of the effectiveness of internal control are subject to the risk that the control measures may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The management has assessed the effectiveness of the internal control over financial reporting in Rabobank as of 31 December 2016 based on the framework set out in 2013 by the Committee of Sponsoring Organisations of the Treadway Commission (COSO), as defined in Internal Control - Integrated Framework. On the basis of that assessment, management concluded that, as of 31 December 2016, the internal controls on the internal financial reporting in Rabobank provide a reasonable measure of certainty based on the criteria established by COSO.

PricewaterhouseCoopers Accountants N.V., which has audited the consolidated financial statements of Rabobank for the financial year ended 31 December 2016, also examined management's assessment of the effectiveness of the internal control over financial reporting in Rabobank. The report of PricewaterhouseCoopers Accountants N.V. is included on page 241.

W. Draijer

B.C. Brouwers

Utrecht, 8 March 2017

53 Approval of the Supervisory Board

The publication of these financial statements was approved by the Supervisory Board on 8 March 2017. The financial statements will be presented to the General Meeting, to be held on 19 April 2017, for adoption. With regard to the adoption of the financial statements of Rabobank, the Articles of Association state: 'The resolution to adopt the financial statements will be passed by an absolute majority of the votes validly cast by the General Members' Council'.

On behalf of the Executive Board

W. Draijer, *Chairman*

B.C. Brouwers, *CFO*

R.J. Dekker, *COO*

P.C. van Hoeken, *CRO*

B.J. Marttin, *Member*

H. Nagel, *Member*

J.L. van Nieuwenhuizen, *Member*

On behalf of the Supervisory Board

R. Teerlink, *Chairman*

M. Trompetter, *Vice Chairman*

I.P. Asscher-Vonk, *Secretary*

L.N. Degle

S.L.J. Graafsma

A.A.J.M. Kamp

J.J. Nooitgedagt

P.H.M. Hofsté

P.H.J.M. Visée

Independent auditor's report

To: The General Members Council and Supervisory Board of Coöperatieve Rabobank U.A.

Report on the financial statements 2016

Our opinion

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of Coöperatieve Rabobank U.A. as at 31 December 2016 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the accompanying company financial statements give a true and fair view of the financial position of Coöperatieve Rabobank U.A. as at 31 December 2016 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2016 of Coöperatieve Rabobank U.A., Amsterdam ('Rabobank' or 'the Bank' or 'company'). The financial statements include the consolidated financial statements of Coöperatieve Rabobank U.A. and its subsidiaries (together: 'the Group') and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the following statements for 2016: the consolidated statement of income, the consolidated statements of comprehensive income, changes in equity and cash flows; and
- the notes, comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company statement of financial position as at 31 December 2016;
- the company statement of income for the year then ended;
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the financial statements' of our report.

Independence

We are independent of Coöperatieve Rabobank U.A. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO) and other relevant independence requirements in the Netherlands. During 2016, a PwC team outside The Netherlands, not involved in the audit of the financial statements 2016 of Coöperatieve Rabobank U.A., conducted an assurance related (Agreed-upon-Procedures) engagement at the joint request of, and for, a branch of Coöperatieve Rabobank U.A. and a foreign bank, with a contracted fee value of less than 0.1% of PwC's audit fees for the consolidated financial statements 2016. Under the Dutch independence rules this assurance related engagement is a non-permissible service, and should therefore not have been commenced. Upon identification, the assurance related engagement was immediately terminated and the related fees were not billed to Coöperatieve Rabobank U.A. We consulted with the Audit Committee and reported the incident to the Dutch regulator. The Audit Committee agreed with our conclusion that due to the nature and the limited size of the engagement our independence was not compromised, to which the Dutch regulator has not objected. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview and context of the 2016 audit

Rabobank is an international financial services provider operating on the basis of cooperative principles. Rabobank operates globally in 40 countries with focus on banking in the Netherlands and food and agri financing in the Netherlands and abroad. Its operations include domestic retail banking, wholesale banking and international rural and retail banking, leasing and real estate. Rabobank is in the midst of a transformation. During 2016 Rabobank started executing its 'Strategic Framework 2016-2020'. The strategic objectives that impact the financial statements directly are focussed on balance sheet reduction and further improving financial performance.

In particular, we looked at where the Executive Board made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In paragraph 'Judgements and estimates' in note 2.1 to the financial statements the company describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty in the impairment of loans and advances to customers, valuation of financial instruments, litigation, regulatory and client care, valuation of equity investments and restructuring related provisions we considered these to be key audit matters as set out in the key audit matter section of this report. Furthermore, we identified hedge accounting and asset and disposal portfolios as key audit matter because they require more complex judgements in the application of International Financial Reporting Standards adopted by the European Union (EU-IFRS). Lastly the continuity and reliability of information processing was identified as key audit matter since this is significant to the Bank's operational, regulatory and financial reporting processes.

The group comprises of multiple components and therefore we considered our group audit scope and approach as set out in the scope of our group audit section. We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statement.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by senior management that may represent a risk of material misstatement due to fraud.

We ensured that the audit teams, both at group and at component levels, collectively contain the appropriate skills and competences which are needed for the audit of a bank.

We therefore included specialists in the areas of IT, tax, real estate, hedge accounting, financial instruments, employee benefits and valuation in our team.

PwC's first year as auditor of Rabobank

Prior to becoming the Bank's auditor, we developed a comprehensive transition plan commencing in July 2015 to understand the connection between the Bank's strategy, the related business risks and the way they impact the Bank's financial reporting and internal controls framework. Our transition plan included amongst others:

- Close interaction with the previous auditor, including a process of file reviews and formal hand over procedures as prescribed by our professional standards;
- Active knowledge sharing and discussions with the Finance, Risk and Internal Audit functions ('Audit Rabobank') to understand their perspectives on the business and audit risks;
- Attendance as observers of a number of meetings between the previous auditors with senior management and the Audit Committee during the 2015 year-end financial closing process;
- Evaluation of key accounting positions and audit matters from prior years.
- Performed walkthrough procedures, to understand the design effectiveness of processes and internal controls, in the first half year of 2016 to support our knowledge and understanding at the early stage of our audit; and
- Introduction meetings with the European Central Bank as key regulator of the Bank.

We discussed and agreed our audit plan with the Bank's Audit Committee in April 2016 and we reported status, progress and key findings from our half year review and audit process during the year.



Materiality

The scope of our audit is influenced by the application of materiality which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	EUR 135 million
Benchmark applied	5% of profit before tax
Rationale for benchmark	This benchmark is a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. On this basis we believe that profit before tax is an important metric for the financial performance of the company.
Component materiality	To each component in our audit scope, we allocate, based on our judgement, materiality that is less than our overall group materiality. The range of materiality allocated across components was between EUR 18.5 million and EUR 45 million.

Next to the quantitative considerations as outlined above we have also focused in our audit on the accuracy and completeness of the fair value disclosure, which is an example of taking into account misstatements and/or possible misstatements, that in our judgement, are material for qualitative reasons.

We agreed with the Supervisory Board that we would report to them misstatements identified during our audit above EUR 6.25 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit

Coöperatieve Rabobank U.A. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of Coöperatieve Rabobank U.A.

Rabobank has an internal audit department ('Audit Rabobank') that performs operational audits, compliance audits, IT audits, loan (valuation) audits, culture and behaviour audit and a full financial statement audit. Audit Rabobank issues an audit opinion on the financial statements of Rabobank (for internal purposes only) to the Supervisory Board, Audit Committee and Executive Board. We considered, in the context of audit standard 610 'Using the work of internal auditors', whether we could

make use of the work of Audit Rabobank and we concluded that this was appropriate. To arrive at this conclusion, we evaluated the competence, objectivity and level of systematic and disciplined approach applied by Audit Rabobank, and more specific the financial audit team of Audit Rabobank. Subsequently we developed a detailed approach and model to make use of the work of Audit Rabobank in our 2016 financial statement audit. We were substantially and independently involved in the higher risk areas and or in areas or procedures that require significant judgement. During the audit process we worked closely with Audit Rabobank, had frequent status meetings and reviewed and reperformed some of their work which confirmed our initial assessment and reliance approach.

The group audit focused on the significant components: Domestic Retail Banking Netherlands (not including Obvion and other associated entities), Wholesale Banking Netherlands and Treasury (WRR) and De Lage Landen (DLL).

These three components were subject to audits of their complete financial information as those components are individually financially significant to the group. Additionally, 17 components were selected for full scope audit procedures to achieve appropriate coverage on financial statement line items in the financial statements. And another six components were subjected to specific audit procedures on certain financial statement line items only to achieve appropriate overall coverage on financial statement line items.

Group entities in the Netherlands included the significant components Domestic Retail Banking Netherlands, WRR and DLL, but also included Real Estate Group, FGH Bank, Obvion and some other smaller components. The group engagement team utilized the work of component teams for these entities. For components in the USA, Australia, Brazil, the UK, Ireland, Hong Kong and Indonesia, we used component auditors who are familiar with the local laws and regulations to perform the audit work.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

Total assets	97%
Profit before tax	94%
Revenue	94%

None of the remaining components represented individually more than 1% of total group assets, profit before tax or revenues. For these remaining components we performed, amongst other procedures, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within these components.

In the current year the group engagement team visited the Netherlands, USA, the UK, Australia and Brazil at least once. During these visits the group engagement team met with the component teams and with local management. Where the work was performed by component auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole.

The group consolidation, financial statement disclosures and a number of complex items are audited by the group engagement team at the head office. By performing the procedures above at components, combined with the additional procedures at group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the group. These procedures in totality provided a basis for our opinion on the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance to the audit of the financial statements. We have communicated the key audit matters to the Supervisory Board, however these should not be regarded as a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters or on specific elements of the financial statements. Any comments we make on the results of our procedures should be read in this context.

Key audit matter	How our audit addressed the matter
Impairment of loans and advances to customers Refer to note 2.15 'Loans and advances to customers and loans and advances to banks' and note 11 'Loans and advances to customers'. We focused on this area because management makes complex and subjective judgements over both timing of recognition and the estimation of the size of any such impairment. Within Rabobank the impairment consists out of three different components being: • Impairments for specifically identifiable individually impaired loans or advances ('specific allowance'); • Model based impairments for Incurred But Not Reported losses (referred to by the Bank as 'general allowance'); and • Model based impairments to cover impairment risks in impaired loans with individually low exposures ('collective allowance'). The judgements and estimation uncertainty is primarily linked to the following: • The identification and follow-up of impairment triggers and the underlying calculation of the allowances; • Regarding the specific allowance the valuation of the future cash flows based on the appropriate use of key parameters and the assessment of the recoverable amount; • The models that support the general and collective allowance; • Post model adjustments that management applies because the models do not take into account the groups consolidated market-, sector- and industry risk as well as latest macro-economic trends so that the provisions reflect conditions at the balance sheet date.	Internal controls We understood, evaluated and tested the operating effectiveness of key controls and focused on: • Credit management including the identification of impairment triggers; • The governance over impairment models, including the continuous reassessment of management that the impairment models are still calibrated in a way that addresses the impairment risk in accordance with the IFRS standards; • The completeness and accuracy of transfer of data from the underlying source systems to the impairment models; and • The review and approval process that management has in place for the outputs of the impairment models, and the adjustments that are applied to modelled outputs. We found that these key controls where designed and implemented. Most of these controls operated effectively. For certain controls remedial action was taken by management. Based on the testing of controls and additional testing of remedial actions we determined that we could place reliance on these controls for the purpose of our audit. Substantive audit procedures For a sample of individually impaired loans, we took note of the latest developments at the borrowers' and considered whether key judgements were appropriate. We challenged management's inputs including the future cash flows, the valuation of collateral and tested the key parameters. In addition we selected a sample of individual loans from the 'performing book' and the so called 'watch list'. Our procedures did not identify any material differences. We tested the impairment models for the general and collective allowance. We performed backtesting procedures on a sample of key model parameters and we challenged management and they provided us with reasonable explanations and evidence supporting the key model parameters, in line with market and industry practice. We challenged management on the post model adjustments to provide objective evidence that these adjustments were necessary to balance the Bank's sector, industry or macro economical exposure, and we found the provided support reasonable

Key audit matter	How our audit addressed the matter
Valuation of financial instruments Refer to note 2 'Accounting policies' and note 4.9 'Fair value of financial assets and liabilities'. The financial instruments that are measured at fair value and are significant for the financial statements are: • Trading positions • Derivatives • Liabilities at fair value. For financial instruments that are actively traded and for which quoted market prices or market parameters are available, there is less judgement involved in the determination of fair values (level 1 instruments). However, when observable market prices or market parameters are not available the fair value is subject to significant judgement. This is relevant for derivatives and liabilities at fair value. The fair value of these financial instruments is determined through the application of valuation techniques and estimates which involve management judgement (level 2 and level 3 instruments). In particular we focused on the significant estimation uncertainties in: • The valuation of derivatives that include bilateral credit valuation adjustments (BCVA); and • The valuation of liabilities at fair value that include own credit adjustments (OCA). BCVA is sensitive to the value of uncollateralised derivative financial instruments and their expected future market volatility. The liabilities at fair include own debt securities in issue, debt securities in issue structured and subordinated liabilities. For OCA Rabobank values its own liabilities using valuation models. Since the market for own funding of Rabobank is not highly active, management utilizes other observable market data points. In 2016 Rabobank decided to early adopt and retrospectively apply the IFRS 9 accounting provision for the OCA.	Internal controls We understood, evaluated and tested the operating effectiveness of key controls and focused on: • The governance over models, including the support and approval process of the models and any subsequent changes to these models; • Controls over the completeness and accuracy of data inputs; • The Bank's independent price verification process that reviews the reasonableness of models and outputs; and • The governance, review and approval process that management has in place for BCVA, and OCA. We determined that we could place reliance on these controls for the purpose of our audit. Substantive audit procedures We evaluated the assumptions, methodologies and models used by Rabobank for derivatives and financial liabilities at fair value. We have performed sensitivity testing on key assumptions, and reconciled model inputs to actual market transactions as far as possible. For key data inputs for which no market data were available we challenged management's judgement. These key data inputs relate mostly to: • Value of uncollateralised derivative financial instruments; • Expected future market volatility; and • Creditworthiness of the Bank's counterparties. We challenged management on the (right) use of comparable market transactions to demonstrate their appropriateness of these key data inputs. Based upon our work performed on these inputs we view the outcome of management's estimates and judgement as reasonable. Next to the procedures outlined above we performed an independent valuation of a sample of derivative positions. In some cases our independent valuation resulted in different values as compared to those calculated by management. We have assessed that those differences fell within the range of reasonable outcomes, in the context of the inherent uncertainties and use of models and assumptions. Disclosures We assessed the Bank's application of OCA under the early adopted IFRS 9 standard and noted that the impact amounts to EUR 365 million for 2016 and is appropriately presented in other comprehensive income instead of the statement of income. In our procedures we focused on the accurate presentation of financial instruments at fair value into level 1-3 and noted no material exceptions.
Hedge accounting Refer to note 2.3 'Derivatives and hedging' and note 10 'Derivatives'. The Bank manages its structural interest rate risk as well as exchange rate risk through hedges. If the hedge relationship meets the requirements of IAS 39, hedge accounting is applied. Hedge accounting is a technique that modifies the normal basis for recognising gains and losses (or revenues and expenses) on associated hedging instruments and hedged items, so that both are recognised in the statement of income (or OCI) in the same accounting period. The application of hedge accounting is judgemental and requires detailed calculations and documentation and that is why we determined this to be a key audit matter.	Internal controls We understood, evaluated and tested the operating effectiveness of key controls and focused on: • The operating effectiveness of controls over the designation and ongoing management of hedge accounting relationships, including the periodic testing of hedge effectiveness; • Management's model validation controls that calculates the fair value of hedging relationships; • Checks and balances on the reasonableness of these fair values through independent source calculations of the fair values; and • Validation of controls around the appropriate monitoring and elimination of inter group hedging instruments. We determined that we could place reliance on these controls for the purpose of our audit. Substantive audit procedures Testing has been performed over all key year-end reconciliations between source systems and the hedge accounting systems that maintain the hedging models to calculate the hedge effectiveness. Substantive procedures were focused on the application of hedge accounting which included, examining hedge accounting documentation to assess whether the documentation complied with the EU-IFRS requirements. The hedge accounting documentation appropriately supports the use of hedge accounting by the Bank.
Valuation of equity investments Refer to note 2.2.2 'Investments in associates and joint ventures' and note 13.1 'Investments in associates'. Rabobank has a 29.21% ownership in the equity of Achmea B.V. ('Achmea'), a Dutch non-public insurance company. In the fall of 2016 Rabobank identified a number of triggers to perform impairment assessments on its equity investment in Achmea. These triggers included the increasing uncertainties in the Dutch health insurance market, the deteriorating business environment for Dutch insurers, market transactions and press releases issued by Achmea. Management determined the value in use and fair value less cost to sell ('fair value'). The value in use calculation is sensitive to assumptions as the future cash flow projection, the cost of equity and access capital distributions. The fair value method utilizes market multiples as price to book or price to earnings. Management compared the highest of value in use and fair value to the carrying value of the investment resulted in an aggregated impairment of EUR 700 million.	Substantive audit procedures We independently assessed the value in use and fair value of Achmea. We challenged and assessed: • Cost of capital • Future cash flow projections • Access capital distributions in combination with target solvency levels We based our assessment of these elements on the historical performance of Achmea, market practice data, and experience of valuation techniques. We used price to book and price to earnings multiples for most comparable peers in the Netherlands and Europe for the fair value calculation. We benchmarked the outcome with market prices in the Netherlands. We performed sensitivity testing on management's key assumptions and the output of the value in use and fair value calculation for Achmea. Overall we believe the key assumptions are reasonable and that the outcome falls within our range of possible outcomes.

Key audit matter	How our audit addressed the matter
Litigation, regulatory and client care Refer to note 2.21 'Provisions', note 4.10 'Legal and arbitration proceedings' and note 25 'Provisions'. Given the continued regulatory focus on the financial services industry, there is a risk that claims and/or regulatory investigations emerge that could impact the financial statements. There is an inherent risk across the Bank that emerging compliance or litigation areas have not been identified and or addressed by management for financial statement purposes. This includes the consideration whether there is a need for the recognition of a provision or a contingent liability disclosure. The recognition and measurement of provisions and the disclosure of contingent liabilities requires considerable management judgement. We were informed that the Bank decided to adopt the Uniform Recovery Framework for SME Interest Rate Derivatives. As at 31 December 2016 the Bank included, in the aggregate, EUR 699 million in the SME provision.	Internal controls We understood, evaluated and tested the operating effectiveness of controls of the Bank to identify litigation and regulatory exposures within the group. We determined that we could place reliance on these controls for the purpose of our audit. Substantive audit procedures We met with different members of the Executive Board on a regular basis to understand the emerging and potential exposures that they had identified. We challenged management's view on these exposures based upon our knowledge and experience of emerging industry trends and the regulatory environment. We assessed customer complaints received and the analysis prepared by management of these complaints. We tested a sample of complaints to ensure this analysis was properly prepared. We used the analysis to understand whether there were indicators of more systematic exposures being present for which provisions or disclosures should be made in the financial statements. We read the Bank's relevant correspondence with the AFM, DNB and ECB. We met on a trilateral and bilateral basis with the DNB and ECB during the year. We read the minutes of the Executive Board and the Supervisory Board meetings and attended all Risk- and Audit committee meeting throughout the year. We held regular bilateral meetings with the Chairs of the Supervisory Board, Audit committee and Risk committee. We obtained legal letters from the external lawyers to validate the identified exposures. The majority of our detailed audit work was on the significant provision for SME interest rate derivatives. We assessed the reasonableness of assumptions and interpretations of the SME framework by management in relation to their calculations supporting the recorded provision and expenses. Disclosures Given the inherent uncertainty and the judgemental nature of contingent liabilities and provisions, we evaluated the disclosures made in the financial statements. In particular we focused on disclosures regarding SME interest rate derivatives, Libor/Euribor and Bank Secrecy Act/Anti-Money Laundering) framework For Rabobank, N.A. (RNA). We challenged management that the disclosures were significantly clear in highlighting the exposures and significant uncertainties that exist.
Audit implications of Rabobank's strategy execution Refer to note 2 'Accounting policies', note 15 'Property and equipment' and note 25 'Provisions'. Rabobank is in the midst of a transformation. Rabobank's strategic objectives have a direct and indirect impact on its financial statements. The direct impact in the financial statements relates to: • Asset and portfolio disposals • Restructuring and related provisions The accounting of asset and portfolio transactions are complex from a legal and accounting perspective and require judgements and estimates. The effects of the restructuring decisions involves judgement and estimates in the timing and recognition of the amounts involved.	Audit procedures We assessed the following significant asset disposals: • Athlon car lease • RNHB Hypotheekbank • Mortgage portfolios For these transactions we read the contracts, assessed the Bank's accounting paper and reviewed the presentation in the financial statements. For mortgage portfolios we assessed in particular whether the majority of the risk and rewards are transferred to the buyer and as a result the assets could be derecognized from the balance sheet. Based on these procedures we concur with management's position. The restructuring provision at 31 December 2016 amounts to EUR 461 million. We assessed the reasonableness of assumptions, calculations management provided and validated the appropriate application of IAS 37 requirements. On the property in own use we performed sample testing to validate the value at the lower of cost or market value. Overall we believe the assumptions used are reasonable and that the outcome falls within the range of reasonable outcomes.
Reliability and continuity of the information technology The Bank relies on the continuity and reliability of information technology (IT) for its operational, regulatory and financial reporting processes. The Bank's accounting and reporting processes, including automated and IT dependent manual controls, are heavily dependent on the continuity and reliability of information technology. Deficiencies in IT general controls as such could have a persuasive impact across the Bank's internal control framework. Therefore we identified the continuity and reliability of information technology of the Bank as a key audit matter.	Audit procedures Our efforts relating to understanding, evaluating and testing the operating effectiveness of IT General Controls (ITGCs) focused on: • Access to programs and data - Logical access to applications, operating systems and data; - Security of the IT infrastructure; and - Physical access to datacenters. • Change Management - Centralized change management process; - Implementation of changes; and - Security testing of changes. • Computer Operations - Batch monitoring; - Continuity management; - Incident management; - Problem management; and - Vulnerability management. We focused on the ITGCs to the extend relevant for the purpose our audit of the financial statements. We noticed that these key controls where designed and implemented. Our test procedures indicated that most of these controls operated effectively. For certain of the controls, in particular relating to logical access, remedial actions were carried out by the Bank. Based on the testing of controls and additional testing of the remedial actions we determined that we could place reliance on these controls for the purpose of our audit.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the chairman's foreword
- the management report;
- the corporate governance report
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains all information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures were substantially less than the scope of those performed in our audit of the financial statements.

The Executive Board is responsible for the preparation of the other information, including the management report and the other information pursuant to Part 9 Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of Coöperatieve Rabobank U.A. on 18 June 2015 by the Supervisory Board following the passing of a resolution by the members at the General Members Council held on 18 June 2015 for a total period of uninterrupted engagement appointment of 4 calendar years, 2016, 2017, 2018 and 2019. This resolution is subject to be renewed annually by members.

Responsibilities for the financial statements and audit

Responsibilities of the Executive Board and the Supervisory Board for the financial statements

The Executive Board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the Executive Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Executive Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Executive Board should prepare the financial statements using the going-concern basis of accounting unless the Executive Board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Executive Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements. The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 8 March 2017

PricewaterhouseCoopers Accountants N.V.

Original has been signed by P.J. van Mierlo RA

Appendix to our auditor's report on the financial statements 2016 of Coöperatieve Rabobank U.A.

In addition to what is included in our auditor's report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things, of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Board.
- Concluding on the appropriateness of the Executive Board's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the Bank's financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Independent Auditor's Assurance Report

To: The General Members Council and Supervisory Board of Coöperatieve Rabobank U.A.

Scope

We have performed an assurance engagement to report on the effectiveness of internal control over the consolidated financial reporting of Coöperatieve Rabobank U.A. (hereafter 'Rabobank') as at 31 December 2016, based on criteria established in 'Internal Control – Integrated Framework' issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) ('the COSO criteria').

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with the applicable financial reporting framework. A company's internal control over financial reporting includes those policies and procedures that:

1. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
2. provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with International Financial Reporting Standards as adopted in the European Union and Part 9 of Book 2 of the Dutch Civil Code, and that receipts and expenditures of the company are being made only in accordance with authorisations of management of the company; and
3. provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Executive Board's responsibility

The Executive Board of Rabobank is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying executive board's report on internal control over financial reporting.

The statement of the Executive Board regarding its assessment of the effectiveness of internal over financial reporting is included in note 52 of the consolidated financial statements.

Auditor's responsibility

Our procedures were designed to enable us to express a reasonable assurance opinion on the effectiveness of the Rabobank's internal control over consolidated financial reporting as at 31 December 2016. We conducted our assurance engagement in accordance with Dutch Law, including the Dutch Standard 3000 'Assurance-engagements other than audits or reviews of historical financial information' based on the COSO criteria. This requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our assurance engagement included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk and other procedures as we considered necessary in the circumstances. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Inherent Limitations

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

Our opinion is provided based on the matters as explained in this assurance report.

In our opinion, Rabobank maintained, in all material respects, effective internal control over the consolidated financial reporting as of 31 December 2016, based on the COSO criteria.

Amsterdam, 8 March 2017

PricewaterhouseCoopers Accountants N.V.

Original has been signed by P.J. van Mierlo RA



Company Financial Statements

Contents

Annual figures	252	Notes to the statement of income	285
Statement of financial position (before profit appropriation)	252	21 Net interest income	285
Statement of income	253	22 Net fee and commission income	285
Notes to the company financial statements	254	23 Income from equity interests	285
Accounting policies	254	24 Staff costs	285
1 Basis of preparation	254	25 Regulatory levies	285
2 Other accounting policies	260	26 Income tax	286
3 Risk exposure on financial instruments	269	Other notes to the financial statements	287
Notes to the statement of financial position	276	27 Professional securities transactions and assets not freely available	287
1 Cash and balances at central banks	276	28 Contingent liabilities	287
2 Short-term government papers	276	29 Irrevocable facilities	288
3 Loans and advances to banks	276	30 Main subsidiaries	288
4 Loans and advances to customers	276	31 Remuneration of the Supervisory Board and the Executive Board	289
5 Interest-bearing securities	277	32 Approval of the Supervisory Board	290
6 Shares	277	Other information	291
7 Interests in group companies	277	Events after the reporting date	292
8 Other equity investments	277		
9 Goodwill and other intangible assets	277		
10 Tangible fixed assets	278		
11 Other assets	278		
12 Derivatives	278		
13 Trading and investment portfolios	279		
14 Due to banks	280		
15 Due to customers	280		
16 Debt securities in issue	280		
17 Other liabilities	280		
18 Provisions	280		
19 Subordinated liabilities	281		
20 Equity	281		

Annual figures

Statement of financial position (before profit appropriation)

Statement of financial position			
<i>Amounts in millions of euros</i>	<i>Note</i>	<i>31 December 2016¹</i>	<i>31 December 2015</i>
Assets			
Cash and balances at central banks	1	83,568	63,403
Short-term government papers	2	801	860
Professional securities transactions		12,596	17,944
Other loans and advances to banks		35,093	90,493
Loans and advances to banks	3	47,689	108,437
Public sector lending		3,099	2,915
Private sector lending		366,544	121,120
Professional securities transactions		16,536	19,783
Loans and advances to customers	4	386,179	143,818
Interest-bearing securities	5	81,148	86,476
Shares	6	963	778
Interests in group companies	7	15,179	18,589
Other equity investments	8	1,699	2,672
Goodwill and other intangible assets	9	477	469
Tangible fixed assets	10	1,754	935
Other assets	11	4,786	4,378
Derivatives	12	47,041	57,239
Prepayments and accrued income	13	1,200	1,381
Total assets		672,484	489,435
Liabilities			
Professional securities transactions		418	81
Other liabilities to banks		21,182	41,261
Due to banks	14	21,600	41,342
Savings		134,180	21,098
Professional securities transactions		209	486
Other due to customers		198,165	99,779
Due to customers	15	332,554	121,363
Debt securities in issue	16	150,266	166,501
Other liabilities	17	59,049	57,920
Derivatives	12	48,335	63,424
Accruals and deferred income		2,353	2,239
Provisions	18	1,481	499
Subordinated liabilities	19	17,256	17,332
		632,894	470,620
Capital		-	600
Premium		-	5,402
Rabobank Certificates		5,948	5,949
Capital Securities		7,821	8,002
Revaluation reserves		431	792
Legal reserves		752	641
Other reserves		22,678	(3,479)
Profit for the year		1,960	908
Equity	20	39,590	18,815
Total equity and liabilities		672,484	489,435
Contingent liabilities	28	26,358	18,970
Irrevocable facilities	29	45,202	45,449

1 For the consequences of the legal merger, please refer to paragraph 'Legal merger'

Statement of income

Statement of income			
	<i>For the year ended 31 December</i>		
<i>Amounts in millions of euros</i>	<i>Note</i>	<i>2016</i>	<i>2015</i>
Interest income	21	14,931	8,812
Interest expense	21	9,434	8,280
Net interest income	21	5,497	532
Fee and commission income	22	1,927	516
Fee and commission expense	22	212	218
Net fee and commission income	22	1,715	298
Income from equity interests	23	2,017	796
Net income from financial transactions			
Trading portfolio		40	147
Investment portfolio		214	533
Other results		514	1,948
Income		9,997	4,254
Staff costs	24	3,307	1,558
Other administrative expenses		3,054	1,381
Depreciation		342	233
Operating expenses		6,703	3,172
Impairment losses on investments in associates		700	-
Loan impairment charges		155	194
Regulatory levies	25	424	138
Operating profit before taxation		2,015	750
Income tax	26	55	(158)
Net profit		1,960	908

Notes to the company financial statements

Accounting policies

1 Basis of preparation

The company financial statements of Rabobank, a credit institution as referred to in Section 1:1 of the Financial Supervision Act, have been prepared in accordance with accounting policies generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. With one exception, these accounting policies are the same as those used in preparing the consolidated financial statements of Rabobank Group, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The exception is the valuation of participating interests (and joint ventures). The participating interests are valued at net asset value.

The hedge accounting entries used in the consolidated financial statements are also applied in the company financial statements. Due to the legal merger, the vast majority of the hedged items used for consolidated hedge accounting became part of the statement of financial position of the company financial statements. The hedge accounting adjustment in the company financial statements is therefore no longer applied to the intercompany loans but to the hedged items itself using combination 3 (Option 3 RJ). The impact of this application is shown in paragraph 'Legal merger'.

Rabobank Group, the Coöperatieve Rabobank U.A. (Rabobank) and the legal entities and companies that form part of the group, is an international financial services provider operating on the basis of cooperative principles. On 1 January 2016, the local Rabobanks and the Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. entered into a legal merger. Furthermore, on 1 January 2016, the name of the Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. was changed into Coöperatieve Rabobank U.A. Rabobank has its registered office in Amsterdam.

Legal merger

After discussions between:

1. Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., Amsterdam;
2. The cooperative member banks of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.

it was decided at the respective meetings of the members' councils of the banks concerned (2) on 2 December 2015 and at the General Meeting of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. on 9 December 2015 to enter into a legal merger as of 1 January 2016.

One of the consequences of the decisions taken was that the former bank (1) received the assets of the banks referred to (2) under universal title and the banks referred to (2) ceased to exist.

During the aforementioned General Meeting, the bank (1), in connection with the merger, decided to change its name to Coöperatieve Rabobank U.A. as of 1 January 2016. Until 1 January 2016, each of the banks (2) was a 'U.A.' (cooperative with limited liability whereby the members are not liable for any deficit). Until that date, the bank (1) was a 'B.A.' (cooperative with limited liability where the members are liable for the deficit up to the level specified in the Articles of Association) with the banks as the only members (2). As a result of the merger the banks' members (2) became the only members of the merged bank (1). By changing the members' liability regime from B.A. to U.A. in the bank's (1) Articles of Association the liability regime remained de facto unchanged for the members who were members of the banks (2) before the merger and members of the merged bank (1) after the merger.

The local Rabobanks' assets and liabilities are included in the company financial statements as of 1 January 2016 at the book value at which they were included in the consolidated financial statements of Rabobank Group. Find below the statement of financial position as per 1 January 2016 and the consequences of the legal merger.

Impact of the legal merger		
	1 January 2016	31 December 2015
<i>Amounts in millions of euros</i>		
Assets		
Cash and balances at central banks	64,001	63,403
Short-term government papers	860	860
Loans and advances to banks	75,759	108,437
Loans and advances to customers	392,853	143,475
Interest-bearing securities	86,476	86,476
Shares	780	778
Interests in group companies	16,984	18,589
Other equity investments	2,688	2,672
Goodwill and other intangible assets	470	469
Tangible fixed assets	1,978	935
Other assets	4,383	4,721
Derivatives	57,580	57,239
Prepayments and accrued income	1,290	1,381
Total assets	706,102	489,435
Liabilities		
Due to banks	25,930	41,342
Due to customers	331,538	121,363
Debt securities in issue	166,501	166,501
Other liabilities	58,410	57,920
Derivatives	63,424	63,424
Accruals and deferred income	2,397	2,239
Provisions	996	499
Subordinated liabilities	17,332	17,332
	666,528	470,620
Equity	39,574	18,815
Total equity and liabilities	706,102	489,435

New and amended standards issued by the International Accounting Standards Board (IASB) and adopted by the European Union, that are applicable to the current financial year

Early adoption of a specific part of IFRS 9 on fair value of financial liabilities designated at fair value through profit or loss

According to paragraph 7.1.2 of IFRS 9 ('Financial Instruments'), an entity may early adopt the requirement to present changes in the fair value of financial liabilities designated at fair value through profit or loss that are attributable to changes in credit risk in other comprehensive income ('OCI'). Rabobank has elected to early adopt this requirement in IFRS 9 for the own credit adjustment included in the valuation of financial liabilities designated at fair value through profit or loss, which mainly consists of the structured notes portfolio. Excluding fair value changes resulting from changes in own credit risk from the statement of income means that Rabobank will no longer report profits or losses when the creditworthiness of Rabobank changes. As a result of early adopting this requirement in IFRS 9, the fair value changes resulting from own credit risk are accounted for in OCI in equity (net of tax) as opposed to the statement of income. When financial liabilities designated at

fair value through profit or loss are derecognised (for instance due to buy-backs) the cumulative own credit risk adjustment remains in equity and is reclassified from OCI to retained earnings at the end of each reporting period, without being recycled to the statement of income.

The early adoption to report own credit adjustment on financial liabilities designated at fair value through profit or loss in OCI has been applied by Rabobank as from 1 January 2016. Comparative figures have not been restated. Differences have been recorded in the opening balance sheet as at 1 January 2016 as follows:

Impact of early adoption of IFRS 9 at 1 January 2016	
<i>Amounts in millions of euros</i>	
Revaluation reserve – Fair value changes due to own credit risk on financial liabilities designated at fair value	
Closing balance as at 31 December 2015	-
Reclassification from retained earnings	62
Opening balance as at 1 January 2016	62
Retained earnings	
Closing balance as at 31 December 2015	(3,304)
Reclassification of own credit adjustment on financial liabilities designated at fair value	(62)
Opening balance as at 1 January 2016	(3,366)

In 2016 Rabobank recognised a loss of 365 (net of tax) in OCI relating to fair value changes in financial liabilities designated at fair value through profit or loss resulting from changes in own credit risk. As a result net profit in 2016 would have decreased by 365 if Rabobank would not have elected to early adopt this element of IFRS 9. In 2016 0 has been reclassified from OCI to retained earnings as a result of derecognition of financial liabilities designated at fair value through profit or loss. There were no other changes to the classification and measurement of financial liabilities designated at fair value.

Improvements to International Financial Reporting Standards cycle 2012-2014

On 25 September 2014, the International Accounting Standards Board (IASB), in the context of its periodic improvement process, which is intended to streamline and clarify standards, proceeded to publish the Annual improvements in International Financial Reporting Standards cycle 2012-2014 ('the annual improvements'). The objective of the improvements is to address non-urgent, but necessary issues, discussed by the IASB during the project cycle, on areas of inconsistencies in International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) or ambiguous wording. These improvements became effective on 1 January 2016 and have no impact on profit or equity.

Amendments to IAS 1: Disclosure initiative

The purpose of the amendments was to achieve a more efficient provision of information and to encourage companies to seek professional advice for determining which information needs to be provided in the annual financial statements when they apply IAS 1. This amendment became effective on 1 January 2016 and has no impact on profit or equity.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

On 12 May 2014, the International Accounting Standards Board (IASB) published amendments to IAS 16 Tangible fixed assets and to IAS 38 Intangible assets. These amendments were introduced under the title Clarification of acceptable depreciation methods. As there are various different practices, it needs to be clarified whether it is appropriate to implement methods based on revenues for the calculation of the depreciation of an asset. This amendment became effective on 1 January 2016 and has no impact on profit or equity.

Amendments to IFRS 10, IFRS 12 and IAS 28: Investment entities: Applying the Consolidation Exception

These are narrow-scope clarifications of guidance, specifically related to investment entities. Because Rabobank is not an investment entity these amendments do not have an effect on the consolidated financial statements.

Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations

These amendments offer new guidelines on the administrative processing of an acquisition of an interest in a joint business operation, where this operation of the joint business operation constitutes a company. This amendment became effective on 1 January 2016 and has no impact on profit or equity.

IFRS 9 Financial Instruments

In July 2014, the IASB published IFRS 9 Financial Instruments as the replacement for IAS 39 Financial Instruments: Recognition and Measurement. The new standard becomes effective on 1 January 2018 and is endorsed by the EU on 22 November 2016. IFRS 9, in particular the impairment requirements, will lead to significant changes in the accounting for financial instruments.

Classification and measurement

Financial assets are classified and measured in two ways: how Rabobank manages them, and the type of contractual cash flows in these assets. Both are used to determine whether the financial assets are included at amortised cost, fair value with adjustments in the values thereof processed through other comprehensive income (FVOCI), or through the profit

and loss account (FVTPL). In many cases, the classification and measurement will be in line with IAS 39, but may deviate with respect to embedded derivatives and equity instruments. There are almost no changes in the processing of financial liabilities with the exception of certain liabilities at fair value where the results have to be included in other comprehensive income because of changes to Rabobank's own credit risk. Rabobank has elected to early adopt this specific part of IFRS 9 on fair value of financial liabilities designated at fair value through profit or loss.

Impairments - Requirements

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

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

Impairments – Differences with current IAS 39 methodology

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

Impairments – Key concepts and their implementation at Rabobank

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

a) Methodology to determine expected credit losses (ECL's)

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

b) Stage determination criteria

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

Impairments – Expected impact

With the introduction of IFRS 9, allowance levels are expected to increase due to the addition of Stage 1 and Stage 2 categories which are recognised on financial instruments that did not previously meet the criteria for having an allowance assigned under IAS 39. This subsequently also leads to a decrease in equity (net of income tax). However, the increase in allowance levels due to the addition of Stage 1 and 2 is offset by the release of the current IAS 39 allowance for Incurred But Not Reported (IBNR) losses, which partly compensates the overall increase. Rabobank is currently still in the process of developing ECL models. At this point in time these are not yet completed and validated for the majority of the portfolio it is currently not possible to make a reliable estimate on the quantitative impact of IFRS 9 on profit or equity at adoption date. We expect to disclose a quantitative impact on IFRS 9 in our 2017 Interim Financial Statements.

Impairments – Expected impact - Capital Planning

As IFRS equity, including retained earnings, is the basis for determining Common Equity Tier 1 (CET1) any decrease in IFRS equity is also expected to have a negative impact on Common Equity Tier 1. However, for Advanced-IRB banks the relationship between IFRS Equity and Common Equity Tier 1 is effected by the current regulations on the 'IRB Expected Loss Shortfall'. This IRB shortfall represents the difference between 1) the provisions determined for accounting purposes and 2) the provisions (or expected losses) determined under the IRB approach. Where (1) is lower than (2) a Shortfall exists and an additional deduction is made from IFRS equity in order to arrive at Common Equity Tier 1. Note, the reason for a IRB Shortfall lies to a large extent in the conservatism applied in the IRB approach, such as applying economic downturn factors to collateral values (also named Loss Given Default Downturn Factor). The decrease in IFRS Equity (due to the introduction of IFRS 9) and the resulting impact that this decrease has on Common Equity Tier 1 is partly compensated by the corresponding lower IRB shortfall deduction. For Rabobank the IRB shortfall is expected to limit the impact on Common Equity Tier 1 – based on the 2016 IRB Shortfall levels and the end 2016 general economic environment.

The regulations regarding the regulatory treatment of accounting provisions, including the phase-in of a negative capital impact, are currently being revisited by the Basel Committee for Banking Supervision.

Hedge accounting - Requirements

Hedge accounting is an option IFRS offers to mitigate P&L swings caused by measurement and classification differences between granted loans and issued debt measured at amortised cost, assets measured on fair value through OCI (hedged items)

and relating hedging derivatives measured at fair value through P&L (hedging derivatives).

The assets and liabilities measured at amortised cost are revalued for the fair value changes due to the hedged risk. For assets measured at fair value through OCI the fair value changes due to the hedged risk on the assets recognised in OCI is reclassified to P&L. In a cash flow hedge the fair value changes of the derivative are booked in the cash flow hedge reserve (effective part only).

Hedge accounting – Differences with current IAS 39 methodology

The main differences between IAS 39 and IFRS 9 for micro hedge accounting are that IFRS 9 does not permit voluntary de-designation of the hedge relationship and does not prescribe a specific effectiveness testing range anymore (IAS 39: 80-125%).

Additionally IAS 39 does not have a specific accounting solution for hedge accounting with cross-currency swaps (currency basis) when used as hedging instruments, while IFRS 9 does. Under IFRS 9 the currency basis spreads are considered as costs of hedging and fair value changes caused by currency basis spread can be recognised through OCI.

Hedge accounting – Expected impact

At the moment Rabobank is in the process of exploring whether to continue with IAS 39 or to move on to IFRS 9 for the micro hedge accounting to benefit from the specific treatment of currency basis in IFRS 9 per 1 January 2018.

We expect to be able to designate more effective micro hedge accounting relationships with cross currency swaps under IFRS 9 and reduce the P&L volatility caused by currency basis, which will be recorded in OCI.

IFRS 9 does not offer a solution for portfolio hedge accounting and Rabobank will use the option IFRS 9 provides to continue to apply IAS 39 for portfolio hedge accounting.

Application

The rules governing classification, measurement and impairments will be applied retrospectively by amending the opening balance sheet on 1 January 2018. There is no obligation to amend the comparative figures.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The original effective date of IFRS 15 has been delayed by one year and the standard is now effective for annual periods beginning on or after 1 January 2018 with early application permitted. IFRS 15 provides a principles-based

approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied.

The standard should be applied retrospectively, with certain practical expedients. The standard does not apply to financial instruments, insurance contracts or lease contracts. Rabobank has not finalized the investigation of the impact on the financial statements and the practical expedients but the current assessment is that this new standard will not have a significant impact on profit or equity.

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

IFRS 16 Leases

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

IFRS 14 Regulatory Deferral Accounts

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

Other amendments to IFRS

There have been minor amendments to IFRS 2, IFRS 15, IAS 12 and IAS 7.

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

Other changes in accounting principles and presentation

Changes in presentation

IAS 32 'Financial Instruments: Presentation' prescribes that a financial asset and a financial liability shall be offset when there is a simultaneous legally enforceable right to set off and an 'intention to settle on a net basis'. Rabobank has both the legally enforceable right (by contract) to set off the amounts under a notional cash pooling arrangement as well as the intention to settle on a net basis. IFRS is principle based and does not prescribe how the intention to settle on a net basis

is evidenced. Rabobank applies certain practices to evidence that the requirement of 'intention to settle net' is met. In April 2016, an Agenda Rejection Notice was published by the IFRS Interpretations Committee ('IFRIC') on balance sheet offsetting of notional cash pooling products. The issue relates to the question whether certain cash pooling arrangements would meet the requirements for offsetting under IAS 32. The IFRIC provided further clarification that the transfer of balances into a netting account should occur at the period end to demonstrate an intention to settle on a net basis. As a result of the Agenda Rejection Note, the comparable figures have been adjusted by reversing the netting that took place in 2015. The Loans and advances to customers and Deposits from customers have been increased by EUR 5,466 million per December 2015. In the second half 2016 Rabobank re-assessed its cashpooling contracts also in light of the IFRIC clarification and the IFRS requirements around unit of accounts. This analysis showed that the contracts qualify for unit of accounts accounting. The amount involved as per 31 December 2016 is EUR 4,989 million.

Structured inventory products have been reclassified from other assets to loans to customers as per 31 December 2015 for an amount of 418. This change results in a better alignment with the extent to which the risks and rewards of the underlying commodities are transferred.

As per 1 January 2016, it is no longer allowed to draw up the statement of income for OOBs (organisaties van openbaar belang) in accordance with Section 402, Book 2 of the Dutch Civil Code.

Going concern

The Executive Board considers it appropriate to adopt the going concern basis of accounting in preparing these financial statements.

Judgements and estimates

In preparing these financial statements management applied judgement with respect to estimates and assumptions that affect the amounts reported for assets and liabilities, the reporting of contingent assets and liabilities on the date of the consolidated financial statements, and the amounts reported for income and expenses during the reporting period. The accounting principles listed below require critical estimates that are based on assessments and assumptions. Although management estimates are based on the most careful assessment of current circumstances and activities on the basis of available financial data and information, the actual results may deviate from these estimates.

Loan impairment allowance

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

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

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

See section 7 'Loans and advances to banks' and section 11 'Loans and advances to customers' of the consolidated financial statements for an analysis of the loan impairment allowances on loans to customers and banks.

Fair value of financial assets and liabilities

Information regarding the determination of the fair value of financial assets and liabilities is included in paragraph 4.9 'Fair value of financial assets and liabilities' and paragraph 10 'Derivatives' of the consolidated financial statements.

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

Goodwill and other intangible assets are assessed for impairment – at least once a year – by comparing the recoverable value to the carrying amount, while investments in associates and joint ventures are tested for impairment when specific triggers are identified. The determination of the recoverable amount in an impairment assessment of these assets requires estimates based on quoted market prices, prices of comparable businesses, present value or other valuation techniques, or a combination thereof, necessitating

management to make subjective judgments and assumptions. Because these estimates and assumptions could result in significant differences to the amounts reported if underlying circumstances were to change, these estimates are considered to be critical. The important assumptions for determining recoverable value of goodwill are set out in Section 14 and for investments in associates and joint ventures are set out in Section 13 of the consolidated financial statements.

Taxation

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

Other provisions

In applying IAS 37 judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. More information on judgements regarding the provision for SME derivatives and the restructuring provision is included in section 25 Provisions of the consolidated financial statements.

The consolidation of structured entities is a critical estimate that requires judgement and is described in section 50 Structured entities of the consolidated financial statements.

2 Other accounting policies

2.1 Subsidiaries

The participating interests over which Rabobank has control are its subsidiaries. Control is exercised over a participating interest if the investor is entitled to receive variable returns from its involvement in the participating interest and has the ability to influence these returns through its control over the participating interest. The subsidiaries are stated at net asset value.

2.2 Investments in associates and joint ventures

Investments in associates and joint ventures are initially recognised at cost and subsequently accounted for using the equity method of accounting. Its share of post-acquisition profits and losses are recognised in the income statement

and its share of post-acquisition movements in reserves are recognised directly in other comprehensive income.

The cumulative post-acquisition movements are included in the carrying amount of the investment.

Associates are entities over which Rabobank can exercise significant influence and in which it generally holds between 20% and 50% of the voting rights but does not have control.

A joint venture is an agreement between one or more parties under which the parties jointly have control and are jointly entitled to the net assets under the agreement. Unrealised profits on transactions between Rabobank and its associates and joint ventures are eliminated in proportion to Rabobank's interest in the respective associates and joint ventures.

Unrealised losses are also eliminated unless the transaction indicates that an impairment loss should be recognised on the asset(s) underlying the transaction.

Investments in associates include the goodwill acquired.

Where the share of an associate's losses is equal to or exceeds its interest in the associate, losses are recognised only where Rabobank has given undertakings to, or made payments on behalf of, the associate.

2.3 Derivatives and hedging

Derivatives generally comprise foreign exchange contracts, currency and interest rate futures, forward rate agreements, currency and interest rate swaps and currency and interest rate options (written or acquired). Derivatives are recognised at fair value determined on the basis of listed market prices (with mid-prices being used for EUR, USD and GBP derivatives that have a bid-ask range), prices offered by traders, discounted cash flow models and option valuation models based on current market prices and contract prices for the underlying instruments and reflecting the time value of money, yield curves and the volatility of the underlying assets and liabilities. Derivatives are included under assets if their fair value is positive and under liabilities if their fair value is negative. If their risks and characteristics are not closely related to those of the underlying non-derivative host contract and the contract is not classified as at fair value, derivatives that are embedded in other financial instruments are bifurcated and measured separately with unrealised profits and losses being recognised in profit and loss in 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss'.

2.4 Financial assets and liabilities held for trading

Financial assets held for trading are financial assets acquired with the objective of generating profit from short-term fluctuations in prices or trading margins or they are financial assets that form part of portfolios characterised by patterns of short-term profit participation. Financial assets held for trading are recognised at fair value based on listed bid prices

and all realised and unrealised results therefrom are recognised under 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss'. Interest earned on financial assets is recognised as interest income. Dividends received from financial assets held for trading are recognised as 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss'.

Financial liabilities held for trading are mainly negative fair values of derivatives and delivery obligations that arise on the short selling of securities. Securities are sold short to realise gains from short-term price fluctuations. The securities needed to settle short sales are acquired through securities lending and repurchasing agreements. Securities sold short are recognised at fair value on the reporting date.

2.5 Other financial assets and liabilities designated at fair value

On initial recognition, certain financial assets (including direct and indirect investments in venture capital and excluding assets held for trading) and certain liabilities are included as 'Financial assets and liabilities at fair value through profit or loss' where any of the following criteria are met:

- This accounting eliminates or substantially reduces any inconsistent treatment that would otherwise have arisen upon measurement of the assets or liabilities or recognition of profits or losses on the basis of different accounting policies;
- The assets and liabilities belong to a group of financial assets and/or financial liabilities that are managed and assessed on the basis of their fair value in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly affect the cash flows or if it is evident that separate recognition is not required.

Interest earned and due on such assets and liabilities is recognised as interest income and expense, respectively. Other realised and unrealised gains and losses on the revaluation of these financial instruments to fair value are included under 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss' except for fair value changes due to own credit risk of financial liabilities designated at fair value. These fair value changes after tax are presented in other comprehensive income under line item 'Fair value changes due to own credit risk on financial liabilities designated at fair value'. Purchases and sales of all other financial assets and liabilities designated at fair value and which are required to be delivered within a regulatory-prescribed period or in accordance with market conventions are recognised on the transaction date.

2.6 Day 1 gains

When using fair value accounting at the inception of a financial instrument, any positive difference between the transaction price and the fair value (referred to as 'day 1 gain') is accounted for immediately under 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss' where the valuation method is based on observable inputs from active markets. In all other cases, the entire day 1 gain is deferred and accounted for as 'Other liabilities'. After initial recognition the deferred day 1 gain is recognised as a gain to the extent it results from a change in a factor (including time effects).

2.7 Available-for-sale financial assets

Financial assets are classified on the date of acquisition, with the classification dependent on the purpose for which the investments are acquired. Financial assets are classified as available for sale if they are intended to be held for an indefinite period of time and could be sold for liquidity purposes or in response to changes in interest rates, exchange rates or share prices.

Available-for-sale financial assets are initially recognised at fair value, including transaction costs, based on quoted bid prices or at values derived from cash flow models. The fair values of unlisted equity instruments are estimated on the basis of appropriate price/earnings ratios, adjusted to reflect the specific circumstances of the respective issuer. Any unrealised gains and losses from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income unless they relate to amortised interest or exchange rate differences on monetary assets, in which case they are taken through profit and loss. As and when such financial assets are disposed of, the adjustments to fair value are transferred to the statement of Income.

Debt instruments are impaired if there are objective indications that the fair value has fallen to such a degree that it is reasonable to assume that the value will not recover to the carrying amount in the foreseeable future. On each reporting date, management determines whether there are objective indications of impairment of available-for-sale assets. Examples of objective evidence of impairment are:

- Significant financial difficulties on the part of the issuer
- Default in making interest or redemption payments
- Disappearance of active markets for the financial asset due to financial difficulties.

In the event of impairment, the cumulative loss is determined as the difference between cost and current fair value, reduced by any previously recognised impairment. This is transferred from the revaluation reserves in other comprehensive

income to the statement of income. If the impairment of a debt instrument subsequently reverses and the reversal can objectively be attributed to an event after the impairment, the impairment is reversed through the statement of income.

Equity instruments are impaired if cost (initial recognition) is unlikely to be recovered in the long term or if there is a significant or prolonged decline in the fair value below its cost. The recoverable amount and/or fair value of investments in unlisted equity instruments are determined using generally accepted valuation methods. The recoverable amount of listed financial assets is determined on the basis of market value. Impairment of equity instruments is never subsequently reversed through the statement of income.

2.8 Repurchase agreements and reverse repurchase agreements

Financial assets that are sold subject to related sale and repurchase agreements are included in the financial statements under 'Financial assets held for trading' or 'Available-for-sale financial assets', as applicable. The liability to the counterparty is included under 'Deposits from banks' or 'Deposits from customers', as applicable.

Financial assets acquired under reverse sale and reverse repurchase agreements are recognised as 'Loans and advances to banks' or 'Loans and advances to customers', as applicable. The difference between the sales and repurchasing prices is recognised as interest income/expense over the term of the agreement using the effective interest method.

2.9 Securitisations and (de)recognition of financial assets and liabilities

Recognition of financial assets and liabilities

Purchases and sales of financial assets and liabilities classified as fair value through profit or loss and available-for-sale financial assets which are required to be delivered within a regulatory-prescribed period or in accordance with market conventions are recognised on the transaction date. Financial instruments carried at amortised cost are recognised on the settlement date.

Securitisations and derecognition of financial assets and liabilities

Rabobank securitises, sells and carries various financial assets. Those assets are sometimes sold to a special purpose entity (SPE) which then issues securities to investors. Rabobank has the option of retaining an interest in these assets in the form of subordinated interest-only strips, subordinated securities, spread accounts, servicing rights, guarantees, put and call options or other constructions.

A financial asset (or a portion thereof) is derecognised where:

- The rights to the cash flows from the asset expire;
- The rights to the cash flows from the asset and substantially all the risks and rewards of ownership of the asset are transferred;
- A commitment has been made to transfer the cash flows from the asset and a substantial portion of the risks and rewards have been transferred; or
- Not substantially all the risks and rewards are transferred but where control over the asset is not retained.

A financial liability or a part thereof is derecognised if it ceases to exist, i.e. after the contractual obligation has been fulfilled or cancelled or has expired. Continuing involvement is recognised if Rabobank neither retains nor transfers substantially all the risks and rewards and control has retained. The asset is recognised to the extent of Rabobank's continuing involvement in it.

Where a transaction does not meet these conditions for derecognition, it is recognised as a loan for which security has been provided. To the extent that the transfer of a financial asset does not qualify for derecognition, Rabobank's contractual rights are not separately recognised as derivatives if recognition of these instruments and the transferred asset, or the liability arising from the transfer, were to result in the double recognition of the same rights and obligations.

Profits and losses on securitisations and sale transactions depend partly on the carrying amounts of the assets transferred. The carrying amounts of these assets are allocated to the interests sold and retained using the relative fair values of these interests on the date of sale. Any gains and losses are recognised through profit and loss at the time of transfer. The fair value of the interests sold and retained is determined on the basis of listed market prices or as the present value of the future expected cash flows based on pricing models that involve a number of assumptions regarding, for instance, credit losses, discount rates, yield curves, payment frequency and other factors.

2.10 Cash and balances at central banks

Cash equivalents are highly liquid short-term assets held to meet current cash obligations rather than for investment or other purposes. These assets have terms of less than 90 days from inception. Cash equivalents are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

2.11 Offsetting financial assets and liabilities

Where there is legal right to offset recognised amounts and it is intended to settle the expected future cash flows on a net basis or to realise the asset and settle the liability simultaneously, financial assets and liabilities are offset and the net amount is recognised in the statement of financial position. This relates mainly to current accounts and derivatives. The offsetting of taxes is addressed in Paragraph 2.24.

2.12 Foreign currency

Foreign entities

Transactions and balances included in the financial statements of individual entities within Rabobank Group are reported in the currency that best reflects the economic reality of the individual entity's underlying operating environment (the functional currency).

The consolidated financial statements are presented in euros, which is the parent company's functional currency. The statements of income and cash flows of foreign operations are translated into Rabobank's presentation currency at the exchange rates prevailing on the transaction dates, which approximate the average exchange rates for the reporting period, and the statements of financial position are translated at the rates prevailing at the end of the reporting period. Exchange differences arising on net investments in foreign operations and on loans and other currency instruments designated as hedges of these investments are recognised in other comprehensive income. On sale of a foreign operation, these translation differences are transferred to the statement of income as part of the profit or loss on the sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are recognised as the assets and liabilities of the foreign entity, and are translated at the rate prevailing at the end of the reporting period.

Foreign-currency transactions

Transactions in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction dates. Differences arising on the settlement of transactions or on the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income and differences that qualify as net investment hedges are recognised in other comprehensive income. Translation differences on debt securities and other monetary financial assets carried at fair value are included under foreign exchange gains and losses. Translation differences on non-monetary items such as equity instruments held for trading are recognised as part of the fair value gains or losses.

Translation differences on non-monetary available-for-sale items are included in the revaluation reserves for available-for-sale financial assets.

2.13 Interest

Interest income and expense arising on interest-bearing instruments is recognised in the statement of income on an accruals basis using the effective interest method. Interest income includes coupons relating to fixed interest financial assets and financial assets held for trading, as well as the cumulative premiums and discounts on government treasury securities and other cash equivalent instruments. Impaired loans are written down to their recoverable amounts, and interest income thereon is recognised, based on the discount rate used in the original calculation of the present value of future cash flows (excluding future credit losses) for determining the recoverable amounts. Interest on derivatives held for economic hedging purposes are shown under interest income, both the receive and pay leg of the derivative. This amount is presented as negative interest income because the net interest-risk position of the banking book is a long receiver-position.

2.14 Fees and commissions

Rabobank earns fee and commission income from a diverse range of services it provides to its customers. Commissions earned for the provision of services are generally recognised on an accrual basis. Commission received for negotiating a transaction or for involvement in negotiations on behalf of third parties (for example the acquisition of a portfolio of loans, shares or other securities or the sale or purchase of companies) is recognised upon completion of the underlying transaction.

2.15 Loans and advances to customers and loans and advances to banks

Loans and advances to customers and banks are non-derivatives with fixed or definable payments and are not listed on an active market, except for assets that Rabobank classifies as held for trading or that were initially recognised at fair value and for which value adjustments are recognised in the statement of income or as available-for-sale financial assets. Loans and advances to customers and banks are initially recognised at fair value (including transaction costs) and thereafter at amortised cost (including transaction costs).

Loans are subject to either individual or collective impairment analyses. A loan impairment allowance is recognised if there is objective evidence that not all amounts due under the original terms of the contract will be recoverable. The amount of the allowance is the difference between the carrying amount

and the recoverable amount (the present value of expected future cash flows), including any expected interest income and repayments and amounts recoverable under guarantees and securities discounted to present value at the original effective interest rate. For individual impaired loans a specific allowance is determined and for retail exposures a collective assessment is made if it is not economically justified to recognise the loss on an individual basis. In these cases the collective assessment is made based on homogenous groups of loans with a similar risk profile with the purpose of identifying the need to recognise an allowance for loan losses.

Examples of objective evidence for value adjustments are the following:

- Significant financial difficulties on the part of the borrower
- Default in making interest and/or redemption payments on the part of the borrower
- Loan renegotiations
- Potential bankruptcy of, or financial reorganisation, within the borrower
- Changes in the borrower's payment history
- Changes in economic circumstances that could cause the borrower to default.

Losses are estimated on the basis of the borrowers' credit ratings and the value of the collateral provided and reflecting the economic environment in which the borrowers operate. The carrying amount of loans is reduced by allowances based on the most-likely-case scenarios, and losses are recognised in the statement of income. The assets and impairment allowances are eliminated as and when the foreclosure process has been completed, the security provided has been realised, virtually no other means of recovery are available and in the event of any formal cancellation of debt. Any amounts subsequently collected are included in 'Loan impairment charges' in the statement of income. Expected future cash flows on renegotiated loans are regularly monitored for ongoing validity.

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

- Loans that are past due by more than 90 days;
- It is likely that the borrower will default on all or part of the debt (including principal, interest and fees) if the bank were not to enforce its security interests, irrespective of the amount or period of the delay of payments.

As and when prospects for continuity recover and delays on payment have been cleared as previously agreed, the loan is no longer considered impaired and the impairment is reversed.

A general provision is made for impairment in the remaining element of the portfolio which has not been specifically identified as impaired within the bank's risk systems (IBNR; incurred but not reported). Basel II parameters, adjusted to the IFRS guidelines and to current developments, are used to determine the provision, together with what is known as the Loss Identification Period (LIP), the period between the occurrence of a loss event and the recording of the event in the bank's risk systems. The LIP is expressed in months and varies between portfolios.

Exposures classified as corporate exposures under Capital Requirements Directive CRD IV are measured in accordance with the 'one debtor' principle. This principle requires that the approved limit for a debtor applies to the sum of all exposures (including derivatives, guarantees and the like) of the debtor group into which the debtor has been classified. Debtor groups include all debtors that are part of the economic entity with which the borrower is affiliated, including any majority shareholders of the economic entity. The 'one debtor' principle applies across all entities and group divisions.

2.16 Goodwill and other intangible assets

Goodwill

Goodwill is the amount by which the acquisition price paid for a subsidiary exceeds the fair value on the date on which the share of net assets and contingent liabilities of the entity was acquired. With each acquisition, the other non-controlling interests are recognised at fair value or at its share of the identifiable assets and liabilities of the acquired entity. Tests are performed annually, or more frequently if indications so dictate, to determine whether there has been impairment.

Other intangible assets, including software development costs

Costs directly incurred in connection with identifiable and unique software products over which Rabobank has control and that will likely provide economic benefits exceeding the costs for longer than one year are recognised as other intangible assets. Direct costs include the personnel costs of the software development team, financing costs and an appropriate portion of the relevant overhead.

Expenditures that improve the performance of software as compared with their original specifications are added to the original cost of the software. Software development costs are recognised as other intangible assets and amortised on a linear basis over a period not exceeding five years. Costs related to the maintenance of software are recognised as an expense at the time they are incurred.

Other intangible assets also include those identified through business combinations, and they are amortised over their expected useful lives.

Impairment losses on goodwill

Goodwill is allocated to cash-generating units for the purpose of impairment testing, which is undertaken at the lowest level of assets that generate largely independent cash inflows. During the fourth quarter of each financial year, or more frequently if there are indications of impairment, goodwill is tested for impairment and any excess of carrying amount over recoverable amount is provided. The recoverable amount is the higher of the value in use and the fair value less selling costs. The value in use of a cash flow generating unit is determined as the present value of the expected future pre-tax cash flows of the cash flow generating unit in question. The key assumptions used in the cash flow model depend on the input data and they reflect various judgemental financial and economic variables, such as risk-free interest rates and premiums reflecting the risk inherent in the entity concerned. Impairments of goodwill are included under 'Impairment losses on goodwill' in the statement of income.

Impairment losses on other intangible assets

At each reporting date, an assessment is made as to whether there are indications of impairment of other intangible assets. If there are such indications, impairment testing is carried out to determine whether the carrying amount of the other intangible assets is fully recoverable. The recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash generating unit to which the asset belongs is determined. An impairment loss is recognised if the carrying amount exceeds the recoverable amount. Impairment losses and impairment reversals are included in 'Other administrative expenses' in the statement of income.

2.17 Property and equipment

Property and equipment for own use

Property for own use consists mainly of office buildings and is recognised at cost less accumulated depreciation and impairment, as is equipment for own use. Assets are depreciated to their residual values over the following estimated useful lives:

<i>Property</i>	
- Land	Not depreciated
- Buildings	25 - 40 years
<i>Equipment</i>	
- Computer equipment	1 - 5 years
- Other equipment and vehicles	3 - 8 years

An annual assessment is made as to whether there are indications of impairment of property and equipment. If the carrying amount of an asset exceeds its estimated recoverable amount, the carrying amount is written down to the recoverable amount. Impairment losses and impairment reversals are included under 'Other administrative expenses' in the statement of income. Gains and losses on the disposal of property and equipment are determined on the basis of their carrying amounts and are recognised in operating results.

Repair and maintenance work is charged to the statement of income at the time the costs are incurred. Expenditures to extend the economic life or increase the economic value of land and buildings as compared with their original economic value are capitalised and subsequently depreciated.

2.18 Investment properties

Investment properties, primarily office buildings, are held for their long-term rental income and are not used by Rabobank or its subsidiaries. Investment properties are recognised as long-term investments and included in the statement of financial position at cost net of accumulated depreciation and impairment. Investment properties are depreciated to their residual values over an estimated useful life of 40 years.

2.19 Other assets

Structured inventory products

Rabobank offers several products that relate to financing commodities. Some of these products are recognised as loans with commodities as collateral, others as loans with embedded derivatives and others as commodities. The classification is mainly dependent on the transfer of risk and rewards of the commodity from the client to Rabobank.

Building sites and equalisation funds

Building sites are carried at cost, including allocated interest and additional expenses for purchasing the sites and making them ready for construction or, if lower, the net realisable value. Interest is not recognised in the statement of financial position for land which has not been zoned for a particular purpose if there is no certainty that the land will be built on. Possible downsides that depend on a future change of designated use of the relevant land are not included in the cost of land, but are included in the determination of the net realisable value. The net realisable value of all building sites is reviewed at least once a year or if there are any indications an earlier review. The net realisable value for building sites is the direct realisable value or, if higher, the indirect realisable value. The direct realisable value is the estimated value upon sale less the estimated costs for achieving the sale. The indirect realisable value is the estimated sale price within the context of normal

operations less the estimated costs of completion and the estimated costs necessarily incurred to realise the sale, in which respect the expected cash flows are discounted at the weighted average cost of capital. The calculation of the indirect realisable value is based on an analysis of scenarios that includes as many site-specific aspects and company-specific parameters and conditions as possible. A downward revaluation is recognised if the carrying value exceeds the realisable value.

The equalisation funds relate to building rights purchased from third parties recognised in the statement of financial position, as well as building rights which arose on the sale of building sites to municipal authorities or other parties, and these are stated as the balance of the cost of the sites and the sales proceeds. The equalisation funds, which are stated net of any necessary depreciations, should be recovered from future building projects.

Work in progress

Work in progress concerns sold and unsold commercial property projects, as well as sold and unsold residential projects under construction or in preparation. Work in progress is carried at the costs incurred plus allocated interest or, if lower, the net realisable value. If the project qualifies as an agreement for the construction of real estate commissioned by a third party, the result is also recognised in work in progress according to the stage of completion. Expected losses on projects are immediately deducted from the work in progress. If the buyer has no or only limited influence, but the risk is gradually transferred to the buyer during construction, the result is also recognised in work in progress according to the stage of completion. If there is no such gradual transfer of risk, the result is recognised on the date of completion. Progress instalments invoiced to buyers and principals are deducted from work in progress. If the balance of a project is negative (progress instalments invoiced exceed the costs recognised in the statement of financial position), the balance of that project, including any provision for the project, is transferred to 'Other liabilities'.

The carrying amount of unsold work in progress is annually reviewed for indications of any decline in value. If there is such an indication, the indirect realisable value of the work in progress is estimated; in most cases this is done by means of an internal or external appraisal. The indirect realisable value is the estimated sale price within the context of normal operations less the estimated costs of completion and the estimated costs necessarily incurred to realise the sale. A downward value adjustment is recognised if the carrying value exceeds the expected indirect realisable value, to the extent that this difference must be borne by Rabobank.

Finished properties

Unsold commercial and residential properties developed in-house are carried at cost or, if lower, the net realisable value. The net realisable value of finished properties is reviewed at least once a year or if there are any indications for an earlier review. For finished properties, the net realisable value is generally equal to the direct realisable value, which is mostly determined by means of an internal or external appraisal. A downward value adjustment is recognised if the carrying value exceeds the expected direct realisable value, to the extent that the difference must be borne by Rabobank.

2.20 Leasing

Rabobank as lessee

Leases relating to property and equipment under which virtually all risks and rewards of ownership vest with Rabobank are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Lease payments are apportioned between the lease liability and the finance charges so as to achieve a constant rate of interest on the remaining balance of the liability. The corresponding lease liabilities are included under 'Other liabilities' after the deduction of finance charges. The interest components of the finance charges are charged to the statement of income over the term of the lease. A tangible fixed asset acquired under a lease agreement is depreciated over the shorter of the useful life of the asset and the term of the lease.

Leases under which a considerable portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments (less any discounts granted by the lessor) are charged to the statement of income on a linear basis over the term of the lease.

Rabobank as lessor

Finance leases

A finance lease is recognised as a receivable under 'Loans and advances to banks' or 'Loans and advances to customers', as applicable, at an amount equal to the net investment in the lease. The net investment in the lease is the present value of the nominal minimum lease payments and the unguaranteed residual value. The difference between the gross investment and the net investment in the lease is recognised as unearned finance income. Lease income is recognised as interest income over the term of the lease using the net investment method, which results in a constant rate of return on the investment.

Operating leases

Assets leased under operating leases are included in the statement of financial position under 'Property and equipment'. The assets are depreciated over their expected useful lives in line with those of comparable items of property and equipment. Rental income (less write-downs and discounts granted to lessees) is recognised under 'Other net operating income' on a linear basis over the term of the lease.

2.21 Provisions

Provisions are recognised for obligations (both legal and constructive) arising as a result of a past event where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If Rabobank expects a provision to be reimbursed, for example under an insurance policy, the reimbursement is recognised as a separate asset but only if the reimbursement is virtually certain. The provisions are carried at the discounted value of the expected future cash flows. The additions to and releases of provisions are recognised in the statement of income under 'Other administrative expenses'.

Restructuring

Restructuring provisions comprise payments under redundancy schemes and other costs directly attributable to restructuring programmes. These costs are recognised during the period in which the legal or actual payment obligation arises, a detailed plan has been prepared for redundancy pay and there are realistic expectations among the parties concerned that the reorganisation will be implemented.

Tax and legal issues

The provision for tax and legal issues is based on the best estimates available at the end of the reporting period, taking into account legal and tax advice. The timing of the cash outflow of these provisions is uncertain because the outcome of the disputes and the time involved are unpredictable.

Other provisions

Other provisions include provisions for onerous contracts, credit guarantees and obligations under the terms of the deposit guarantee scheme.

2.22 Employee benefits

Rabobank has various pension plans in place based on the local conditions and practices of the countries in which it operates. In general, the plans are financed by payments to insurance companies or to trustee administered funds determined by periodic actuarial calculations. A defined benefit pension plan is one that incorporates an obligation to pay an agreed amount of pension benefit, which is usually based on several factors such

as age, number of years' service and remuneration. A defined contribution plan is one in which fixed contributions are paid to a separate entity (a pension fund) with no further legal or constructive obligation on the part of the employer should the fund have insufficient assets to settle its obligations to employee-members of the plan.

Pension obligations

The obligation under defined benefit pension plans is the present value of the defined benefit pension obligation at the end of the reporting period reduced by the fair value of the fund investments. The defined benefit obligation is calculated annually by independent actuaries based on the projected unit credit method. The present value of the defined benefit obligation is determined as the estimated future outflow of cash funds based on the interest rates of high-quality corporate bonds with terms that approximate those of the corresponding obligation. The majority of pension plans are career-average plans. The costs of these plans (being the net pension charge for the period after deducting employee contributions and interest) are included under 'Staff costs'. Net interest expense/income is determined by applying the discount rate at the beginning of the reporting period to the asset or liability of the defined benefit pension plan.

Actuarial gains and losses arising from events and/or changes in actuarial assumptions are recognised in the statement of comprehensive income.

Defined contribution plans

Under defined contribution plans, contributions are paid into publicly or privately managed pension insurance plans on a compulsory, contractual or voluntary basis. These regular contributions are recognised as expense in the year in which they are due and they are included under 'Staff costs'.

Other post-employment obligations

Some of Rabobank's business units provide other post-employment benefits. To become eligible for such benefits, the usual requirement is that the employee remains in service until retirement and has been with the company for a minimum number of years. The expected costs of these benefits are accrued during the years of service, based on a system similar to that for defined benefit pension plans. The obligations are calculated annually by independent actuaries.

Variable remuneration

Variable remuneration payable unconditionally and in cash is recognised in the year in which the employee renders the service. Conditional cash remuneration is included, on a straight line basis, in staff costs in the statement of income over the

period of the year in which the employee's services are received and the remaining three years of the vesting period (i.e. over four years). The liability is recognised in 'Other liabilities'. The accounting treatment of payments based on equity instruments is disclosed in Paragraph 2.23.

2.23 Equity instrument-based payments

For certain identified staff, remuneration for services rendered is settled in the form of cash payments based on equity instruments that are similar to, and have the same characteristics as, Rabobank Certificates. The costs of the services received are based on the fair value of the equity instruments on the award date and are restated annually to fair value at the time. The costs related to the award of equity instruments during the period of the employee's contract are included in staff costs in the statement of income over the period of the year of award and the remaining three years of the vesting period of the equity instruments (i.e. over four years). The liability is recognised in other liabilities.

2.24 Tax

Current tax receivables and payables are offset where there is a legally enforceable right to offset and where simultaneous treatment or settlement is intended. Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset and where they relate to the same tax authority and arise within the same taxable entity.

Provisions are made, using the liability method, for deferred tax liabilities arising on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. These temporary differences arise primarily on depreciation of tangible fixed assets, revaluation of certain financial assets and liabilities (including derivatives), provisions for pensions and other post-employment benefits, provisions for loan losses and other impairment, tax losses and fair value adjustments to net assets acquired in business combinations. Deferred income tax assets and liabilities are measured at the tax rates that have been enacted or substantively enacted as at the reporting date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the losses can be utilised.

Provisions are made in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, unless the timing of the reversal of the temporary differences is within Rabobank's control and it is probable that the temporary differences will not reverse in the foreseeable future.

Taxes on profit are calculated in accordance with the tax legislation of the relevant jurisdictions in which Rabobank operates and are recognised as an expense in the period in which the profit is realised. The tax effects of loss carry forwards are recognised as an asset if it is probable that future taxable profits will be available against which the losses can be utilised.

Deferred tax assets and liabilities are recognised on the revaluation of available-for-sale financial assets and cash flow hedges that are taken directly to other comprehensive income. When realised, they are recognised in the income statement at the same time as the respective deferred gain or loss is recognised.

2.25 Deposits from banks, deposits from customers and debt securities in issue

These borrowings are initially recognised at fair value, being the issue price less directly allocable and non-recurring transaction costs, and thereafter at amortised cost including transaction costs.

Own debt instruments that are repurchased are derecognised, with the difference between the carrying amount and the consideration paid being recognised in the income statement.

2.26 Rabobank Certificates

The proceeds of the issue of Rabobank Certificates are available to Rabobank in perpetuity and are subordinate to all liabilities and to the Trust Preferred Securities and the Capital Securities. As the payment of distributions is wholly discretionary, the proceeds received and dividends paid on them are recognised in equity.

2.27 Capital Securities

As there is no formal obligation to (re)pay the principal or to pay a dividend, the Capital Securities are recognised as 'Equity' and dividends paid on these instruments are recognised directly in equity.

2.28 Financial guarantees

Financial guarantee contracts require the issuer to compensate the holder for losses incurred when the debtor fails to meet its obligations under the terms of the related debt instrument. The guarantees are initially recognised at fair value and subsequently measured at the higher of the discounted best estimate of the obligation under the guarantee and the amount initially recognised less cumulative amortisation.

3 Risk exposure on financial instruments

3.1 Solvency and capital management

Rabobank aims to maintain a proper level of solvency. For this purpose a number of solvency ratios are utilised. The principal ratios are the common equity tier 1 ratio (CET1), the tier 1 ratio, the total capital ratio and the equity capital ratio. Rabobank uses its own internal objectives that extend beyond the minimum requirements of the supervisors. It takes market expectations and developments in legislation and regulations into account. Rabobank manages its solvency position based on policy documents. The solvency position and the objectives are periodically reviewed by the Risk Management Committee and the Asset Liability Committee of the Executive Board and the Supervisory Board.

The 'Capital Requirements Regulation (CRR)' and 'Capital Requirements Directive IV (CRD IV)' together constitute the European implementation of the Basel Capital and Liquidity Accord of 2010. These rules, which became effective on 1 January 2014, are applied by Rabobank.

Coöperatieve Rabobank U.A. solo (local Rabobank Group) must comply with a number of minimum solvency positions as stipulated under law. The solvency position is determined on the basis of ratios. These ratios compare the qualifying capital (total capital ratio), the tier 1 capital (tier 1 ratio) and the corecapital (common equity tier 1 ratio) with the total of the risk-adjusted assets. Effective 1 January 2014, the minimum required percentages are determined on the basis of CRD IV/CRR. The legal buffers below are applicable as from 2016. These buffers will gradually increase until the year 2019. Rabobank is already allowing for these changes in its capital planning. The table below shows the minimum legal buffers based on the planned final situation under CRD IV/CRR.

Minimum capital buffer				
		CET 1	Tier 1	Total capital
Pillar 1		4.5%	6.0%	8.0%
Pillar 2		1.75%	1.75%	1.75%
Capital conservation buffer¹	2016-2019	2.5%	2.5%	2.5%
Countercyclical buffer¹	2016-2019		0% - 2.5%	

1 These buffers will phase in during the years 2016-2019.

The countercyclical buffer is capped at a maximum of 2.5%. In most countries, including the Netherlands, the countercyclical buffer for 2016 has been set at 0%.

The CET1-ratio of Coöperatieve Rabobank U.A. solo (local Rabobank Group) is 16.4% (2015: 16.0%).

3.2 Risk organisation

Rabobank Group manages risks at various levels within the organisation. At the highest level, the Executive Board (under the supervision of the Supervisory Board) determines the risk strategy it will pursue, the risk appetite, the policy framework as well as the limits. The Supervisory Board regularly assesses the risks attached to the activities and portfolio of Rabobank Group. The Chief Risk Officer, as Member of the Executive Board, is responsible for the risk management policy within Rabobank Group.

Risk appetite

Identifying and managing risks for its organisation is an ongoing process at Rabobank. For this purpose an integrated risk management strategy is applied. The risk management cycle includes determining risk appetite, preparing integrated risk analyses, and measuring and monitoring risk. Throughout this process Rabobank uses a risk strategy aimed at continuity and designed to protect profitability, maintain solid balance-sheet ratios and protect its identity and reputation.

3.3 Strategy for the use of financial instruments

Rabobank's activities are inherently related to the use of financial instruments, including derivatives. As part of the services it offers, Rabobank takes deposits from customers at varying terms and at both fixed and variable interest rates. Rabobank attempts to earn interest income by investing these funds in high-value assets as well as by making loans to commercial and retail borrowers. Rabobank also aims to increase these margins through a portfolio approach of short-term funds at lower interest rates and the allocation to loans for longer periods at higher interest rates, maintaining sufficient cash resources in hand to meet obligations as they fall due. Rabobank improves its interest income by achieving rental margins after deduction of provisions and by issuing loans with a variety of credit ratings and inherent risk profiles. Not only is Rabobank exposed to credit risk on the on-balance sheet loans, it is also exposed to credit risk on the off-balance sheet guarantees it provides, such as letters of credit, letters of performance and other guarantee documents.

3.4 Credit risk

Credit risk is the risk that a counterparty is unable to meet a financial or other contractual obligation vis-à-vis the bank. Credit risk is inherent to granting loans. Positions in tradeable assets such as bonds and shares are also subject to credit risk. Rabobank restricts its credit risk exposure by setting limits for loans to an individual counterparty, or a group of counterparties, as well as for loans to countries. The four-eyes principle is also a key factor when granting loans. A multi-level committee structure is put in place to make decisions on major

loan applications. The competent committee is chosen on the basis of the size of the loan. Decisions on the largest loans are made by the highest level committee, the Central Credit Committee Rabobank Group (CCCRG).

The credit risk exposure relating to each individual borrower is further restricted by the use of sub-limits to hedge amounts at risk, not all of which are disclosed in the statement of financial position, and the use of daily delivery risk limits for trading items such as forward currency contracts. Most of the resulting items are tested against the limits every day.

Once a loan has been granted, it is continually subject to credit management as part of which new information, financial and other, is reviewed. The credit limits are adjusted where necessary. Rabobank obtains collateral or guarantees for the majority of loans.

3.4.1 Derivatives

Rabobank sets strict limits for open positions, in amounts as well as in terms. If ISDA (International Swaps and Derivatives Association) standards apply or a master agreement including equivalent terms has been concluded with the counterparty, and if the jurisdiction of the counterparty permits offsetting, the net open position is monitored and reported. This credit risk is managed as part of the general lending limits for clients. Where needed, Rabobank obtains collateral or other safeguards to mitigate credit risks inherent in these transactions. The credit risk exposure represents the current fair value of all open derivative contracts showing a positive market value, taking into account master netting agreements enforceable under law.

3.4.2 Collateral and credit management

Rabobank's credit risk exposure is partly mitigated by obtaining collateral where necessary. The amount and nature of the collateral required depends partly on the assessment of the credit risk of the loan to the counterparty. Rabobank has guidelines in place for the purpose of accepting and valuing different types of collateral. The major types of collateral are:

- Residential mortgage collateral;
- Mortgage collateral on immovable property, pledges on movable property, inventories and receivables, mainly for business loans;
- Cash and securities, mainly for securities lending activities and reverse repurchase transactions.

The management monitors the market value of collateral obtained and requires additional collateral where necessary. Rabobank also uses credit derivatives to manage credit risks and it further mitigates its exposure to credit risk by entering into master netting arrangements with counterparties for

a significant volume of transactions. In general, master netting arrangements do not lead to the offsetting of assets and liabilities included in the statement of financial position because transactions are usually settled gross. The credit risk is limited by master netting arrangements, but only to the extent that if an event or cancellation occurs, all amounts involving the counterparty are frozen and settled net. The total credit risk exposure from derivatives to which offsetting arrangements apply is highly sensitive to the closure of new transactions, the expiry of existing transactions and fluctuations in market interest and exchange rates.

3.4.3 Off-balance-sheet financial instruments

The guarantees and standby letters of credit that Rabobank provides to third parties in the event of a client being unable to fulfil its obligations to these third parties, are also exposed to credit risk. Documentary and commercial letters of credit and written undertakings by Rabobank on behalf of clients authorise third parties to draw bills against Rabobank up to a fixed amount and subject to specific conditions. As these transactions are secured by the delivery of the underlying goods to which they relate, the risk exposure of such an instrument is less than that of a direct loan.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions and are included in credit related contingent liabilities. Rabobank is exposed to credit risk when it promises to grant loans. The amount of any losses is likely to be less than the total of the unused commitments because the commitments are made subject to the clients meeting certain loan conditions. Rabobank monitors the term to the expiry of loan commitments because long-term commitments generally involve higher risk than short-term commitments.

3.4.4 Forbearance

Rabobank has a policy for monitoring its forbearance portfolio every quarter. This portfolio consists of the customers of Rabobank for whom forbearance measures have been put in place. The measures under that name comprise concessions to debtors facing or about to face difficulties in meeting their financial commitments. A concession refers to either of the following actions:

- A modification of the previous terms and conditions of a contract the debtor is unable to comply with due to its financial difficulties ('bad debt') in order to allow for sufficient debt serviceability. A modification that would not have been granted had the debtor not been in financial difficulty.
- A total or partial refinancing of a bad debt contract, which would not have been granted had the debtor not been in financial difficulty.

Examples include postponements of repayments and extensions of the term of a facility. The rationale for the focus on this portfolio derives from the concerns of European regulators about the deterioration of the quality of the portfolio; it is feared that forbearance measures might camouflage this deterioration of the portfolio as debtors are able to meet their financial obligations for longer periods as a result of the concessions. The identification of forbearance measures for the corporate portfolio is based on the current Loan Quality Classification framework, with forbearance measures only applying to the classified portfolio. If forbearance measures are applied to a debtor, the debtor falls, by definition, under the supervision of the Special Asset Management department. Lastly, items in the forbearance category must be reported for up to two years after their recovery from 'non-performing' to 'performing'. This period of two years is referred to as 'Forborne under probation'. For the accounting policy regarding derecognition of financial assets please refer to section 2.9 'Securitisations and (de)recognition of financial assets and liabilities'.

3.5 Currency risk in the banking environment

Currency risk is the risk that the bank's financial result and/or economic value will be negatively affected by changes in exchange rates.

Rabobank is exposed to the effect of fluctuations in exchange rates on its financial position and cash flows. In the trading environment, currency risk, like other market risks, is managed on the basis of Value at Risk (VaR) limits set by the Executive Board. In the banking environment, there is a currency risk in the banking books and a translation risk.

Currency risk in the banking books is the risk that manifests itself at the moment receivables and liabilities are not covered, due to which currency fluctuations may have a negative impact on the financial results of the bank. Rabobank's policy is to fully hedge the material currency risk on the banking books.

Translation risk becomes evident when the bank's consolidated balance sheet and results are prepared, whereby all items in foreign currencies must be valued in euros. This makes the financial data sensitive to exchange rate fluctuations. Translation risk manifests itself in two different ways within Rabobank:

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

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

3.6 Interest rate risk in the banking environment

'Interest rate risk in the banking environment' refers to the risk that the financial results and/or the economic value of the banking book are adversely affected by changes in market interest rates.

Interest rate risk at Rabobank arises as a result of repricing and maturity mismatches between loans and funding, and optionality in client products. Customer behaviour is an important determining factor with respect to interest rate risk in the banking environment. The modelling of customer behaviour is therefore one of the core elements of the interest rate risk framework. There are behavioural models in place for mortgage prepayments, savings accounts and current accounts. Movements in interest rates may also affect the creditworthiness of customers. Higher interest rates might for example lead to higher borrowing costs and, hence, have a negative impact on the creditworthiness of a customer. Any such effects are however regarded as credit risk rather than interest rate risk.

Rabobank accepts a certain amount of interest rate risk in the banking environment; this is a fundamental part of banking. But at the same time the bank also aims to avoid unexpected material fluctuations in the financial result and the economic value as a result of interest rate fluctuations. The Executive Board, overseen by the Supervisory Board, therefore annually approves the interest rate risk appetite and the corresponding interest rate risk limits.

At group level, Rabobank's interest rate risk is managed by the Asset and Liability Committee Rabobank Group chaired by the Chief Financial Officer. The Treasury is responsible for implementing the decisions of this committee, while Risk Management is responsible for measuring and reporting the interest rate risk position.

The definition used for managing interest rate risk varies from the IFRS definition of equity. For interest rate risk management, the economic value of equity is defined as the present value of the assets less the present value of the liabilities together with the present value of the off-balance-sheet items. Through the use of hedge accounting and because a large proportion of the balance sheet is carried at amortised cost (in IFRS terms) and (except from the inherent counterparty risk) is therefore not exposed to value changes, the effects of the value changes on IFRS capital will largely impact only interest income.

As part of its interest rate risk policy, Rabobank uses the following two key indicators for managing and controlling interest rate risk:

- Equity at risk, duration of equity; and
- Income at risk; the sensitivity of net interest income to gradual increases or decreases in interest rates during the coming 12 months.

3.7 Market risk in the trading environment

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

Market risk in the trading environment is monitored daily within the market risk framework, which is put in place to measure, monitor and manage market risk in the trading books. An important part of the framework is an appropriate system of limits and trading controls. The relevant risk appetite limits are translated into limits and trading controls at book level and are monitored on a daily basis by the market risk departments. Due to Rabobank's strategy of client risk redistribution, risk transformation (hedging) and the low secondary market activity, the real market risk exposure of the trading portfolio is well within the risk appetite boundaries. If limits are breached, remedial actions will be stipulated which decrease the chance of large actual losses. The risk position is reported to senior management and discussed in the various risk management committees each month.

3.8 Liquidity risk

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

The liquidity risk policy focuses on financing assets using stable funding, i.e., funds entrusted by customers and long-term wholesale funding. Liquidity risk is managed on the basis of

three pillars. The first of these sets strict limits for the maximum outgoing cash flows within the wholesale banking business. Among other things, Rabobank measures and reports on a daily basis what incoming and outgoing cash flows can be expected during the next twelve months. Limits have been set for these outgoing cash flows, including for each currency and each location. Detailed plans (the contingency funding plans) have been drawn up for contingency funding to ensure the bank is prepared for potential crisis situations. Periodic operational tests are performed for these plans.

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

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

Furthermore, scenario analyses are performed each month to determine the potential consequences of a wide range of stress scenarios. The analyses cover market-specific scenarios, Rabobank-specific scenarios and a combination of both. Monthly reports on the Group's overall liquidity position are submitted to the Dutch Central Bank. These reports are prepared in accordance with the guidelines drawn up by this supervisory authority.

3.9 Operational risk

Rabobank defines operational risk as the risk of losses being incurred as a result of inadequate or dysfunctional internal processes, people and systems or as a result of external trends and developments, including legal and reputational risks. In measuring and managing operational risk, Rabobank operates within the parameters of the most advanced Basel II approach, the Advanced Measurement Approach, and follows the 'three lines of defence model' as prescribed by the EBA. The bank's operational risk policy is based on the principle that the primary responsibility for managing operational risk lies with the first line and that this must be integrated into

the strategic and day-to-day decision-making processes. The purpose of operational risk management is to identify, assess, mitigate and monitor the various types of operational risk. The operational risk measurement supports those responsible for operational risk prioritisation and deployment of people and resources.

Within Rabobank Group, the departments involved in the primary processes of the bank form the 'first line of defence'. They are fully responsible for day-to-day risk acceptance and for integrated risk management and mitigation within the approved risk appetite. The Compliance, Legal and Risk (CLR) functions together constitute the 'second line of defence'. The second line functions have a monitoring role with regard to all types of operational risk and they monitor the way in which 'the first line of defence' manages these risks. In addition and independently from the first line, they report on the risk profile and appetite breaches to senior management and the Executive Board. Internal Audit forms the 'third line of defence'. At group level, the Risk Management Committee (RMC) is responsible for formulating policy and setting parameters. Compliance, Legal and Risk also report quarterly to the RMC on changes in operational risks at group level. Delegated risk management committees have been established within the group's entities. Their responsibilities include monitoring all operational risks at entity level (amongst others: Conduct risk, continuity risk, Information Security risk, Fraud risk including the legal and reputational impact thereof).

The annual risk management cycle consists of a group-wide Scenario programme and Risk Self-Assessment that identifies the more material operational risks of Rabobank Group. After assessment, if and when risks fall outside the defined risk appetite, mitigating measures are taken by first line and monitored by second line.

3.10 Legal and arbitration proceedings

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

an outflow of funds, Rabobank Group takes several factors into account. These include (but are not limited to) the type of claim and the underlying facts; the procedural process and history of each case; rulings from legal and arbitration bodies; Rabobank Group's experience and that of third parties in similar cases (if known); previous settlement discussions; third-party settlements in similar cases (where known); available indemnities; and the advice and opinions of legal advisers and other experts.

The estimated potential losses, and the existing provisions, are based on the information available at the time and are for the main part subject to judgements and a number of different assumptions, variables and known and unknown uncertainties. These uncertainties may include the inaccuracy or incompleteness of the information available to Rabobank Group (especially in the early stages of a case). In addition, assumptions made by Rabobank Group about the future rulings of legal or other instances or the likely actions or attitudes of supervisory bodies or the parties opposing Rabobank Group may turn out to be incorrect. Furthermore, estimates of potential losses relating to the legal disputes are often impossible to process using statistical or other quantitative analysis instruments that are generally used to make judgements and estimates. They are then subject to a still greater level of uncertainty than many other areas where the group needs to make judgements and estimates. The group of cases for which Rabobank Group determines that the risk of future outflows of funds is higher than fifty percent varies over time, as do the number of cases for which the bank can estimate the potential loss. In practice the end results could turn out considerably higher or lower than the estimates of potential losses in those cases where an estimate was made. Rabobank Group can also sustain losses from legal risks where the occurrence of a loss may not be probable, but is not improbable either, and for which no provisions have been recognised. For those cases where (a) the possibility of an outflow of funds is less likely than not but also not remote or (b) the possibility of an outflow of funds is more likely than not but the potential loss cannot be estimated, a contingent liability is shown.

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

Interest rate derivatives

Rabobank concludes interest rate derivatives, such as interest rate swaps, with Dutch business customers who wish to reduce the interest rate risk associated with variable (e.g., Euribor-indexed) loans. Such an interest rate swap protects customers from rising variable interest rates and helps businesses to keep their interest payments at an acceptable level. In March 2016, the Dutch Minister of Finance appointed an independent committee, which on 5 July 2016, published a recovery framework (the Recovery Framework) on the reassessment of Dutch SME interest rate derivatives. Rabobank announced its decision to take part in the Recovery Framework on 7 July 2016. The final version of the Recovery Framework was published by the independent committee on 19 December 2016. Implementation of the Recovery Framework is expected to be finalised in 2017.

Rabobank is involved in civil proceedings in the Netherlands relating to interest rate derivatives concluded with Dutch business customers. The majority of these concern individual cases. In addition, there is a collective action regarding interest rate derivatives pending before the Court of Appeal. These actions concern allegations relating to alleged misconduct in connection with Rabobank's Euribor submissions (as described below) and / or allegations of misinforming clients with respect to interest rate derivatives. Rabobank will defend itself against all these claims. Furthermore, there are pending complaints and proceedings against Rabobank regarding interest rate derivatives brought before Kifid (Dutch Financial Services Complaints Authority, which, in January 2015, opened a conflict resolution procedure for SME businesses with interest rate derivatives). With respect to the (re-)assessment of the interest rate derivatives of its Dutch SME business customers, Rabobank has recognised a provision of 699. The main uncertainties in the calculations of the provision stem from assumptions regarding the scoping of clients. Furthermore, the calculations regarding technical recovery are based on a portfolio approach instead of individual contract calculations.

Fortis

In 2011, the Dutch Investors Association (VEB) issued a summons against the company formerly known as Fortis N.V. (currently trading as Ageas N.V.), the underwriters involved – including Rabobank – and the former directors of Fortis N.V. The VEB states in this summons that investors were misled by the prospectus published by Ageas N.V. in connection with its rights issue in September 2007. The VEB states that the impact and risks of the subprime crisis for Fortis and its liquidity position were misrepresented in the prospectus

and has requested a declaratory judgement stating that the defendants acted illegitimately and must therefore be held liable for the loss allegedly suffered by investors in Fortis. Rabobank maintains the view that the aforementioned loss of EUR 18 billion has not been properly substantiated. The proceedings concern a settlement of collective loss, which means that the court will only rule on the question of whether the defendants (including Rabobank) are liable.

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

On 23 May 2016, the parties to the settlement requested the Amsterdam Court of Appeal to declare the settlement binding for all eligible Fortis shareholders (in accordance with the Dutch Law on the Collective Resolution of Mass Damages ('Wet Collectieve Afwikkeling Massaschade'). The legal proceedings relating to the above VEB claim have been suspended until this specific procedure is finalised. There are two basic potential scenarios:

- (1) In case the Court of Appeal declares the settlement binding, investors may choose to opt out of the settlement during an opt-out period of three to six months. After this period (and provided that the settlement is not annulled because the opt-out ratio exceeds a certain limit), distributions of payments will start. The release of Rabobank (and other underwriters) is subject to satisfaction of the compensation obligations towards the eligible Fortis shareholders. It is expected that it will take at least 18 months from the Court of Appeal judgement on the binding nature of the settlement before the first payments will be made. Investors that choose to opt out of the settlement may still claim damages from Ageas and the defendants (including Rabobank) on an individual basis.
- (2) If the Court of Appeal does not declare the settlement binding for all eligible Fortis shareholders or if Ageas exercises its right to annul the settlement in case the opt-out ratio exceeds a certain limit, the proceedings against the VEB described above, in principle will resume as before the suspension.

On 9 February 2017, mass claim litigant ConsumentenClaim announced that it has filed an objection to having the settlement declared binding with the Court of Appeal. Rabobank Group considers the Fortis case to be a contingent liability. No provision has been made.

Libor/Euribor

Rabobank has received a number of requests in recent years from regulators in various countries to issue documents and other information in relation to various issues, including issues related to its interest rate benchmark submissions. Rabobank is cooperating, and will continue to cooperate, with the regulators and authorities involved in these global investigations.

On 29 October 2013, Rabobank entered into settlement agreements with various authorities in relation to their investigations into the historical Libor and Euribor submission processes of Rabobank. Additional information is available on the bank's corporate website. All amounts payable under these settlement agreements were fully paid and accounted for by Rabobank in 2013. Additionally, some of these settlement agreements required Rabobank to: (i) improve measures or to continue their implementation; and (ii) to cooperate on a continuous basis with ongoing investigations into the conduct of Rabobank and of its current and former employees in respect of the inappropriate conduct relating to interest rate benchmark submissions. Rabobank continues to comply with all its obligations under these settlement agreements.

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

Since the alleged class action suits and civil proceedings listed above, which have been brought before the courts in the US or elsewhere, are intrinsically subject to uncertainties, it is difficult to predict their outcomes. Rabobank takes the stance that it has substantive and convincing legal and factual defences against these claims. Rabobank has the intention to continue to defend itself against these claims. Rabobank Group considers the Libor /Euribor case to be a contingent liability. No provision has been made.

BSA/AML

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

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

Recently the Financial Crimes Enforcement Network (FinCEN) of the Department of the Treasury served a notice of Investigation on RNA. Rabobank understands that FinCEN is investigating essentially the same issues that are the subject of the OCC matter noted above.

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

Also recently, a criminal complaint was filed with the Dutch Public Prosecutor (DPP) against Rabobank, two group entities and the persons factually in charge of these entities asking for a criminal investigation in relation to the matters related to the DOJ investigation. Rabobank understands that the DPP has received the complaint and awaits the DPP's response to it. Rabobank Group considers the BSA/ALM case to be a contingent liability. No provision has been made.

Other cases

Rabobank Group is subject to other legal proceedings for which a provision was recognised. These cases are individually less significant in size and are therefore not further described. The total provision for those cases combined amounts to 89. On top of the contingent liability cases described above for which an assessment regarding a possible outflow is not yet possible, Rabobank Group has identified a number of other, less relevant cases in terms of size as a contingent liability. Because these cases are less significant, Rabobank has chosen not to describe these in detail. The principal amount claimed for those contingent liability cases combined amounts to 61.

Notes to the statement of financial position

Unless otherwise stated, all amounts are in millions of euros.

1 Cash and balances at central banks

This item consists of legal tender, balances available on demand with foreign central banks in countries where Rabobank operates, as well as a balance with De Nederlandsche Bank (the Dutch Central Bank) as required under its minimum reserve policy.

2 Short-term government papers

This item relates to government securities with an original term to maturity of up to two years that the central bank in the country of origin will redeem at a discount or accept as collateral. The cost and market value of short-term government papers are virtually the same.

<i>In millions of euros</i>	2016	2015
Recognised in the trading portfolio	-	19
Recognised in the investment portfolio	801	841
Total short-term government papers	801	860

3 Loans and advances to banks

This item represents loans and advances to other banks, other than in the form of interest-bearing securities.

<i>In millions of euros</i>	2016	2015
Loans and advances to other banks	23,328	34,226
Loans and advances to group companies	24,361	74,211
Total loans and advances to banks	47,689	108,437
Of which subordinated	-	-

The terms of loans and advances to banks can be broken down as follows:

On demand or undated	13,240	50,971
≤ 3 months	16,961	21,239
> 3 months ≤ 1 year	5,930	8,354
> 1 year ≤ 5 years	10,714	15,554
> 5 years	844	12,319
Total loans and advances to banks	47,689	108,437

The fair value of collateral that Rabobank can sell or pledge is 13,015 (2015: 16,720).

4 Loans and advances to customers

This item consists of loans and advances arising in the course of business operations, other than receivables from banks and interest-bearing securities.

<i>In millions of euros</i>	2016	2015
Breakdown of loans and advances to customers:		
Public sector lending	3,099	2,915
Private sector lending	366,544	121,120
Professional securities transactions	16,536	19,783
Total lending	386,179	143,818

Totals include:

Of which to group companies	61,942	66,115
Of which other mortgages	60,890	-
Of which home residential mortgages	170,366	-

Total lending	386,179	143,818
Of which recognised in the trading portfolio	1,049	1,487
Of which recognised in the investment portfolio	5	6
Lending excluding loans which form part of the trading and investment portfolios	385,125	142,325

The terms of loans and advances can be broken down as follows:

On demand	28,762	18,799
≤ 3 months	43,362	38,769
> 3 months ≤ 1 year	27,668	15,089
> 1 year ≤ 5 years	68,484	42,144
> 5 years	216,849	27,524
Lending excluding loans which form part of the trading and investment portfolios	385,125	142,325

The loans (excluding those to the government, reverse repos and share lending) can be classified as follows by their concentration in specific business sectors:

Food & agri	17%	39%
Trade, industry and services	27%	60%
Private individuals	56%	1%
100%	100%	

The fair value of collateral accepted in the form of debt securities is 18,177 (2015: 5,656).

5 Interest-bearing securities

This item represents interest-bearing negotiable bonds and other interest-bearing securities, other than short-term government papers.

<i>In millions of euros</i>	2016	2015
Interest-bearing securities of:		
Public authorities	23,474	25,942
Other issuers	57,674	60,534
Total interest-bearing securities	81,148	86,476
Breakdown of interest-bearing securities:		
Investment portfolio	79,422	82,878
Investment portfolio containing value adjustments through the profit and loss account	89	815
Trading portfolio	1,637	2,783
	81,148	86,476
The portfolio also includes:		
Securities issued by group companies	51,604	52,266
Listed portion of the portfolio	25,129	28,492
Unlisted securities/group companies	56,019	57,984
Total interest-bearing securities	81,148	86,476

6 Shares

This item consists of shares and other non-interest-bearing securities, including temporary other investments.

<i>In millions of euros</i>	2016	2015
This breaks down as follows:		
Investment portfolio	459	612
Investment portfolio at fair value through profit or loss	-	8
Trading portfolio	504	158
	963	778
Listed portion of the portfolio	834	487
Non-listed portion of the portfolio	129	291
	963	778

7 Interests in group companies

This item includes the interests held directly in group companies.

<i>In millions of euros</i>	2016	2015
Equity investments in:		
Credit institutions	6,305	7,116
Other	8,874	11,473
Total	15,179	18,589
Changes in equity investments:		
Carrying amount on 1 January	18,589	13,275
Changes due to legal merger	(1,605)	-
Capital contributions during the financial year	1,105	5,364
Sales, disposals and liquidations during the financial year	(1,507)	(170)
Profit	2,025	646
Dividend/capital reimbursements	(3,597)	(391)
Revaluation	231	(135)
Other	(62)	-
Carrying amount on 31 December	15,179	18,589

8 Other equity investments

This item includes participating interests in associates, in particular Achmea B.V.

<i>In millions of euros</i>	2016	2015
Equity investments in:		
Credit institutions	-	97
Other	1,699	2,575
Total other equity investments	1,699	2,672
Changes in equity investments:		
Carrying amount on 1 January	2,672	2,640
Changes due to legal merger	16	-
Acquisitions during the financial year	1	2
Disposals during the financial year	(38)	-
Profit	(94)	118
Revaluation	20	(81)
Dividend	(70)	(7)
Transferred to Other Assets	(108)	-
Impairment	(700)	-
Carrying amount on 31 December	1,699	2,672

9 Goodwill and other intangible assets

This item includes software.

<i>In millions of euros</i>	2016	2015
Goodwill	2	2
Software	475	467
Total goodwill and other intangible assets	477	469

Changes in goodwill and other intangible assets 2016			
<i>In millions of euros</i>	<i>Goodwill</i>	<i>Software</i>	<i>Total</i>
Carrying amount on 1 January	2	467	469
Acquisitions during the financial year	-	141	141
Disposals during the financial year (to group companies)	-	(69)	(69)
Disposals during the financial year	-	(1)	(1)
Depreciation	-	(133)	(133)
Impairment losses	-	(4)	(4)
Exchange differences and other	-	74	74
Carrying amount on 31 December	2	475	477
Accumulated depreciation and impairment losses	-	1,166	1,166

Changes in goodwill and other intangible assets 2015			
<i>In millions of euros</i>	<i>Goodwill</i>	<i>Software</i>	<i>Total</i>
Carrying amount on 1 January	-	443	443
Acquisitions during the financial year	2	414	416
Disposals during the financial year (to group companies)	-	-	-
Disposals during the financial year	-	(239)	(239)
Depreciation	-	(134)	(134)
Impairment losses	-	-	-
Exchange differences and other	-	(17)	(17)
Carrying amount on 31 December	2	467	469
Accumulated depreciation and impairment losses	-	1,110	1,110

10 Tangible fixed assets

This item consists of land and buildings, equipment and other tangible non-current assets, as well as tangible fixed assets not in own use, such as non-current assets acquired under foreclosure.

<i>In millions of euros</i>	<i>2016</i>	<i>2015</i>
Land and buildings in own use	1,393	720
Equipment	361	215
Total tangible fixed assets	1,754	935

Changes in tangible fixed assets 2016			
<i>In millions of euros</i>	<i>Land and buildings in own use</i>	<i>Equipment</i>	<i>Total</i>
Carrying amount on 1 January	720	215	935
Changes due to legal merger	851	192	1,043
Acquisitions during the financial year	86	91	177
Disposals during the financial year	(17)	(16)	(33)
Depreciation	(97)	(112)	(209)
Impairment losses	(112)	-	(112)
Exchange differences and other	(38)	(9)	(47)
Carrying amount on 31 December	1,393	361	1,754
Accumulated depreciation and impairment losses	1,226	661	1,887

Changes in tangible fixed assets 2015			
<i>In millions of euros</i>	<i>Land and buildings in own use</i>	<i>Equipment</i>	<i>Total</i>
Carrying amount on 1 January	716	122	838
Acquisitions during the financial year	46	209	255
Disposals during the financial year	-	(57)	(57)
Depreciation	(43)	(56)	(99)
Impairment losses	-	-	-
Exchange differences and other	1	(3)	(2)
Carrying amount on 31 December	720	215	935
Accumulated depreciation and impairment losses	542	298	840

11 Other assets

This item relates to precious metals, certificates representing precious metals, coins and medals made of precious metals (not being legal tender), goods and warehouse receipts, current and deferred tax assets and assets that cannot be classified under any other heading.

<i>In millions of euros</i>	<i>2016</i>	<i>2015</i>
This item can be broken down as follows:		
Current tax assets	56	-
Deferred tax assets	1,224	1,845
Employee benefits	4	5
Other	3,502	2,528
Other assets	4,786	4,378

Fiscal unit for corporate tax purposes

For corporate tax purposes Rabobank forms a fiscal unit with a number of domestic subsidiaries. Under the fiscal unit, each participating legal entity is jointly and severally liable for the fiscal unit's corporate tax liabilities.

12 Derivatives

The notes to the derivatives are included below.

<i>In millions of euros</i>	<i>2016</i>	<i>2015</i>
Assets		
This item can be broken down as follows:		
Derivative contracts with third parties	42,712	45,177
Derivative contracts with group companies	4,329	12,062
Total derivatives	47,041	57,239
Liabilities		
This item can be broken down as follows:		
Derivative contracts with third parties	47,884	54,491
Derivative contracts with group companies	451	8,933
Total derivatives	48,335	63,424

The table below shows the notional amounts and the positive and negative fair values of Rabobank's derivative contracts with third parties.

In millions of euros	Notional amounts		Fair values	
		Assets	Liabilities	
<i>Balance on 31 December 2016</i>				
<i>Derivatives held for trading</i>				
Interest rate contracts	2,609,169	30,742	28,027	
OTC	2,548,166	30,741	28,027	
Listed	61,003	1	-	
Currency contracts				
OTC	409,508	6,961	9,189	
Listed	-	-	-	
Credit derivatives				
	3,185	31	10	
Other contracts				
OTC	2,460	172	279	
Listed	-	-	-	
<i>Derivatives held as hedges</i>				
<i>Derivatives designated as fair value hedges</i>				
	125,667	3,858	8,837	
Interest rate contracts	48,654	1,775	8,824	
Currency contracts	77,013	2,083	13	
<i>Derivatives designated as cash flow hedges</i>				
	7,850	948	1,542	
Currency contracts	7,850	948	1,542	
Total derivative financial contracts with third parties	3,157,839	42,712	47,884	

In millions of euros	Notional amounts		Fair values	
		Assets	Liabilities	
<i>Balance on 31 December 2015</i>				
<i>Derivatives held for trading</i>				
Interest rate contracts	2,378,968	34,579	33,557	
OTC	2,312,801	34,578	33,557	
Listed	66,167	1	-	
Currency contracts				
OTC	398,381	5,030	7,608	
Listed	396,816	5,017	7,596	
Credit derivatives				
	3,340	2	15	
Other contracts				
OTC	4,394	515	416	
Listed	1,239	95	47	
<i>Derivatives held as hedges</i>				
<i>Derivatives designated as fair value hedges</i>				
	132,266	4,017	11,202	
Interest rate contracts	47,687	1,787	11,161	
Currency contracts	84,579	2,230	41	
<i>Derivatives designated as cash flow hedges</i>				
	15,957	939	1,646	
Currency contracts	15,957	939	1,646	
Total derivative financial contracts with third parties	2,934,545	45,177	54,491	

13 Trading and investment portfolios

Breakdown of trading and investment portfolios		
In millions of euros	2016	2015
<i>Trading portfolio including group companies</i>		
Short-term government papers	-	19
Loans and advances to customers	1,049	1,487
Interest-bearing securities	1,637	2,783
Shares	504	158
	3,190	4,447
<i>Investment portfolio</i>		
Short-term government papers	801	841
Interest-bearing securities	79,422	82,878
Shares	459	612
Loans and advances to customers	5	6
	80,687	84,337
Included in the investment portfolios of group companies	51,573	52,213
<i>Changes in the investment portfolio</i>		
Balance on 1 January	84,337	85,247
Foreign exchange differences	93	362
Acquisitions during the financial year	1,836	2,711
Disposals during the financial year	(5,466)	(3,942)
Fair value changes	(173)	(286)
Depreciation, impairments and reversals over the book year	-	-
Other	60	245
Balance on 31 December	80,687	84,337
<i>The terms of securities included in the investment portfolio other than group companies are as follows:</i>		
On demand or undated	451	603
≤ 3 months	1,934	961
> 3 months ≤ 1 year	2,235	3,209
> 1 year ≤ 5 years	17,473	18,138
> 5 years	58,594	61,426
	80,687	84,337
<i>Investment portfolio containing value adjustments through the profit and loss account including group companies</i>		
Interest-bearing securities	89	815
Shares	-	8
	89	823

14 Due to banks

This item represents amounts owed to credit institutions, other than debt securities and subordinated debt, of which:

<i>In millions of euros</i>	2016	2015
Due to other banks	18,021	15,134
Due to group companies	3,482	26,080
Due to other equity investments	97	128
Total due to banks	21,600	41,342
<i>The terms of amounts owed to other banks other than group companies are as follows:</i>		
On demand	4,545	14,797
≤ 3 months	11,095	12,880
> 3 months ≤ 1 year	2,012	1,805
> 1 year ≤ 5 years	3,269	8,235
> 5 years	679	3,625
Total due to banks	21,600	41,342

15 Due to customers

This item consists of amounts due to customers other than debt securities. Due to customers also includes the investments of central banks amounting to EUR 23 billion (2015: EUR 23 billion).

<i>In millions of euros</i>	2016	2015
Due to other customers	316,045	112,001
Due to group companies	9,438	8,186
Due to other equity investments	7,071	1,176
Total due to customers	332,554	121,363

Savings comprise all deposits and savings accounts of natural persons, non-profit making associations and foundations, as well as non-transferable savings bonds.

The terms of amounts due to customers other than to group companies are as follows:

<i>In millions of euros</i>	2016	2015
On demand or undated	247,234	57,431
≤ 3 months	39,579	42,679
> 3 months ≤ 1 year	9,776	7,160
> 1 year ≤ 5 years	10,949	1,735
> 5 years	25,016	12,358
Total due to customers	332,554	121,363

16 Debt securities in issue

This item relates to non-subordinated bonds and other interest-bearing securities, such as certificates of deposit.

<i>In millions of euros</i>	2016	2015
Tradeable debt securities	101,798	103,942
Other debt securities	48,468	62,559
	150,266	166,501
<i>The terms of debt securities other than of group companies can be broken down as follows:</i>		
On demand or undated	-	153
≤ 3 months	28,651	27,566
> 3 months ≤ 1 year	37,211	48,379
> 1 year ≤ 5 years	53,102	55,393
> 5 years	31,112	35,010
	150,266	166,501

17 Other liabilities

This item includes liabilities that cannot be classified under any other heading, such as short positions for securities and liabilities associated with securitised receivables. Other liabilities also includes liabilities for staff costs, taxes and national insurance contributions. At year-end 2016, approximately EUR 55 billion in Rabobank mortgages were securitised.

<i>In millions of euros</i>	2016	2015
<i>This item can be broken down as follows:</i>		
Liabilities associated with securitised receivables	55,362	54,817
Current tax liabilities	13	187
Other liabilities	3,674	2,916
Total other debt	59,049	57,920

18 Provisions

<i>In millions of euros</i>	2016	2015
Provision for pensions and other post-retirement allowances	152	223
Provision for deferred tax liabilities	2	-
Other provisions	1,327	276
Total provisions	1,481	499

Pension provision

The provision for pensions and other allowances following termination of employment consists of a provision for pensions 41 (2015: 26) and other employee benefits 111 (2015: 197).

Other provisions

<i>in millions of euros</i>	<i>Restructuring provision</i>	<i>Provision for tax and legal issues</i>	<i>Other</i>	<i>Total</i>
Opening balance on 1 January 2016	44	159	73	276
Changes due to legal merger	284	198	11	493
Additions	554	557	124	1,235
Withdrawals	(386)	(36)	(32)	(454)
Releases	(78)	(131)	(14)	(223)
Closing balance on 31 December 2016	418	747	162	1,327
Opening balance on 1 January 2015	38	183	83	304
Additions	63	26	42	131
Withdrawals	(52)	(49)	(6)	(107)
Releases	(5)	(1)	(46)	(52)
Closing balance on 31 December 2015	44	159	73	276

19 Subordinated liabilities

This represents the loans relating to the issue of Trust Preferred Securities and subordinated loans.

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Loans related to the issue of Trust Preferred Securities III, VI	409	1,853
Subordinated loans	16,847	15,479
Balance on 31 December	17,256	17,332

In the following table details of the issues of subordinated liabilities are shown:

Subordinated liabilities				
<i>Notional (in millions)</i>	<i>Currency</i>	<i>Coupon</i>	<i>Year of issuance</i>	<i>Year of maturity</i>
1,500	USD	3.75%	2016	2026
225	AUD	5.00%	2015	2025, early repayment 2020
475	AUD	Variable	2015	2025, early repayment possible 2020
1,500	USD	4.375%	2015	2025
1,250	USD	5.25%	2015	2045
1,000	GBP	4.625%	2014	2029
2,000	EUR	2.50%	2014	2026, early repayment possible in 2019
50,800	JPY	1.429%	2014	2024
1,000	EUR	3.875%	2013	2023
1,750	USD	4.625%	2013	2023
1,250	USD	5.75%	2013	2043
1,000	EUR	4.125%	2012	2022
500	GBP	5.25%	2012	2027
1,500	USD	3.95%	2012	2022
1,000	EUR	3.75%	2010	2020
1,000	EUR	5.875%	2009	2019

20 Equity

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
This item can be broken down as follows:		
Capital	-	600
Premium	-	5,402
Rabobank Certificates	5,948	5,949
Capital Securities	7,821	8,002
Revaluation reserves	431	792
Statutory reserve	752	641
Other reserves	22,678	(3,479)
Profit for the year	1,960	908
Total equity	39,590	18,815

Capital

This section includes the fully issued and paid-up share capital. All shares have been issued to local Rabobanks. As of 1 January 2016, as a consequence of the legal merger between Rabobank and the local Rabobanks, the shares became void.

Capital		
<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Changes during the year:		
Opening balance	600	600
Changes due to legal merger	(600)	-
Closing balance	-	600

Premium

Premium		
<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Changes during the year:		
Opening balance	5,402	5,402
Changes due to legal merger	(5,402)	-
Closing balance	-	5,402

Rabobank Certificates

Rabobank Certificates represent participation rights issued by Rabobank via the foundation Stichting Administratie Kantoor Rabobank Certificaten and belong to the Common Equity Tier 1 capital of Rabobank. The Rabobank Certificates have been listed on Euronext Amsterdam since 27 January 2014.

The initial opening price on 27 January 2014 amounted to 105.00% (EUR 26.25). On 31 December 2016, the trading price amounted to 114.18% (EUR 28.55). At year-end 2016, the total number of certificates was 237,961,365 with a nominal value of EUR 25 each.

The distribution paid per certificate in 2016 was EUR 1,625 (2015: EUR 1,625). The Executive Board is entitled not to pay the distribution. Unpaid distributions will not be paid at a later date. The amounts listed in the table below are based on the nominal value of EUR 25 per Rabobank Certificate.

Rabobank Certificates		
<i>in millions of euros</i>	2016	2015
Changes during the year:		
Opening balance	5,949	5,931
Changes Rabobank Certificates during the year	(1)	18
Closing balance	5,948	5,949

Capital Securities

All Capital Securities are perpetual and have no expiry date.

The distribution on Capital Securities per issue is as follows:

Capital securities issued by Rabobank

Issue of EUR 1,250 million

The coupon is 6.625% per year and is made payable every six months in arrears as of the issue date (26 April 2016), for the first time on 29 June 2016. The Capital Securities are perpetual and first redeemable on 29 June 2021. As of 29 June 2021, and subject to Capital Securities not being redeemed early, the distribution is set for a further five-year period, but without a step-up, based on the 5-year euro swap rate + 6.697%.

The coupon is fully discretionary.

Issue of EUR 1,500 million

The coupon is 5.5% per year and is made payable every six months in arrears as of the issue date (22 January 2015), for the first time on 29 June 2015. The Capital Securities are perpetual and first redeemable on 29 June 2020. As of 29 July 2020, and subject to Capital Securities not being redeemed early, the distribution is set for a further five-year period, but without a step-up, based on the 5-year euro swap rate + 5.25%. The coupon is fully discretionary.

Issue of USD 2,000 million

The coupon is 8.40% per year and is made payable every six months in arrears as of the issue date (9 November 2011), for the first time on 29 December 2011. The Capital Securities are perpetual and first redeemable on 29 June 2017. If the Capital Securities are not redeemed early, the distribution is set for a further five-year period, but without a step-up, based on the US Treasury Benchmark Rate plus a 7.49% mark-up. The coupon is fully discretionary.

Issue of EUR 500 million

The coupon is 9.94% per year and is made payable annually in arrears as of the issue date (27 February 2009), for the first time on 27 February 2010. As of 27 February 2019, the coupon will be made payable every quarter based on the three-month Euribor plus an annual 7.50% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Issue of USD 2,868 million

The coupon is 11.0% per year and is made payable every six months in arrears as of the issue date (4 June 2009), for the first time on 31 December 2009. As of 30 June 2019, the coupon will be made payable every quarter based on the three-month USD Libor plus an annual 10.868% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Issue of GBP 250 million

The coupon is 6.567% per year and is made payable every six months in arrears as of the issue date (10 June 2008), for the first time on 10 December 2008. As of 10 June 2038, the coupon will be made payable every six months based on the six-month GBP Libor plus an annual 2.825% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Issue of CHF 350 million

The coupon is 5.50% per year and is made payable annually in arrears as of the issue date (27 June 2008), for the first time on 27 June 2009. As of 27 June 2018, the coupon will be made payable every six months on 27 June and 27 December based on the six-month CHF Libor plus an annual 2.80% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Issue of ILS 323 million

The coupon is 4.15% per year and is made payable annually in arrears as of the issue date (14 July 2008), for the first time on 14 July 2009. As of 14 July 2018, the coupon will be made payable annually based on an index related to the interest rate paid on Israeli government bonds with terms between 4.5 and 5.5 years plus an annual 2.0% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Issue of NZD 900 million

The coupon on the NZD Capital Securities equals the one-year swap interest rate plus an annual 0.76% mark-up and is made payable annually on 8 October, until 8 October 2017. As of 8 October 2017, the coupon will be made payable every quarter based on the 90-day bank bill swap interest rate plus an equivalent mark-up. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Issue of NZD 280 million

Rabo Capital Securities Limited has issued capital securities, the coupon of which equals the five-year swap interest rate plus an annual 3.75% mark-up and was set at 8.7864% per annum on 25 May 2009. As of the issue date (27 May 2009), the coupon is made payable every quarter in arrears, for the first time on 18 June 2009 (short first interest period). As of 18 June 2014, the coupon will be made payable every quarter based on the five-year swap interest plus an annual 3.75% mark-up. As of 18 June 2019, the coupon will be made payable every quarter based on the 90-day bank bill swap interest rate plus an annual 3.75% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

Capital securities issued by Rabobank which were redeemed during the year

Issue of USD 2,000 million

The distribution is 8.375% per year and is made payable every six months in arrears as of the issue date (26 January 2011), for the first time on 26 July 2011. As of 26 July 2016, and subject to Capital Securities not being redeemed early, the distribution is set for a further five-year period, but without a step-up, based on the US Treasury Benchmark Rate plus a 6.425% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply. This issue was redeemed on the earliest redemption date of 26 July 2016.

The level of profit made by Rabobank may influence the distribution on the Capital Securities. Should Rabobank become insolvent, the Capital Securities are subordinate to the rights of all other (current and future) creditors of Rabobank, unless the rights of those other creditors are substantively determined otherwise.

<i>in millions of euros</i>	2016	2015
Movements were as follows:		
Balance on 1 January	8,002	6,530
Issuance of Capital Securities	1,250	1,500
Costs of issuance of Capital Securities	(9)	(12)
Redemption of Capital Securities	(1,437)	-
Other	15	(16)
Balance on 31 December	7,821	8,002

Revaluation reserves

<i>in millions of euros</i>	2016	2015
The revaluation reserves and translation differences can be specified as follows:		
Cash flow hedges	(70)	(39)
Interest-bearing securities	316	214
Equity investments	-	2
Shares and non-interest-bearing securities	185	615
Total revaluation reserves	431	792
Movements were as follows:		
Balance on 1 January	792	964
Exchange rate differences	(6)	(1)
Revaluations	(291)	607
Other	(77)	(1)
Transferred to profit or loss	13	(777)
Balance on 31 December	431	792

Rabobank's cash flow hedges consist mainly of cross-currency interest rate swaps which serve to protect against a potential change in cash flows from financial assets in foreign currencies with floating interest rates.

Rabobank tests the hedge effectiveness on the basis of statistical regression analysis models, both prospectively and retrospectively. At year-end 2016 and 2015, the hedge relations were highly effective within the range set by IAS 39. On 31 December 2016, the net fair value of the cross-currency interest rate swaps, classified as cash flow hedges was -594 (2015: -707).

In 2016, Rabobank accounted for an amount of -87 (2015: 659) after taxation in other comprehensive income as effective changes in the fair value of derivatives in cash flow hedges. In 2016, an amount of 56 (2015: -709) after taxation of cash flow hedge reserves was reclassified to the income statement. On 31 December 2016, the cash flow hedge reserves as part of equity totalled -70 (2015: -39) after taxation. This amount fluctuates along with the fair value of the derivatives in the cash flow hedges and is accounted for in profit over the term of the hedged positions as trading income. The cash flow hedge reserve relates to a large number of derivatives and hedged positions with different terms. The maximum term is 25 years, with the largest concentrations exceeding five years. The IFRS ineffectiveness for the year ended 31 December 2016 was 148 (2015: 181).

Legal reserves

This concerns the reserve for retained earnings of associates, software developed in-house and translation differences.

<i>in millions of euros</i>	2016	2015
The legal reserves can be specified as follows:		
Retained profits of associates	166	344
Software developed in-house	383	373
Translation differences	203	(76)
Total legal reserves	752	641

<i>in millions of euros</i>	2016	2015
Movements were as follows:		
Balance on 1 January	641	463
From other reserves to legal reserves	(168)	160
Exchange rate differences	279	18
Balance on 31 December	752	641

Other reserves

<i>in millions of euros</i>	2016	2015
The remaining reserves can be specified as follows:		
Recalibration of pensions ¹	(219)	(175)
Fair value changes due to own credit risk on financial liabilities designated at fair value	(303)	-
Retained earnings	23,200	(3,304)
Total other reserves	22,678	(3,479)

<i>in millions of euros</i>	2016	2015
Movements in the recalibration of pensions:		
Balance on 1 January	(175)	(196)
Recalibration of pensions	(44)	21
Balance on 31 December	(219)	(175)
Movements in the fair value changes due to own credit risk on financial liabilities designated at fair value:		
Balance on 1 January	-	-
Adjustment opening balance	62	-
Fair value changes	(365)	-
Realisation at derecognition	-	-
Balance on 31 December	(303)	-

<i>in millions of euros</i>	2016	2015
Movements in retained earnings:		
Balance on 1 January	(3,304)	(3,039)
Changes due to legal merger	26,761	-
Adjustment opening balance ²	(62)	-
Profit for previous financial year	908	1,352
Distribution to third parties	(1,230)	(1,189)
Dividends to local Rabobanks	-	(265)
Transferred to legal reserves	168	(160)
Transferred to revaluation reserves	319	(8)
Redemption of Capital Securities	(316)	-
Other changes	(44)	5
Balance on 31 December	23,200	(3,304)

The reserves cannot be distributed among members.

The consolidated financial statements of Rabobank include the financial information of Rabobank and other group companies. Consolidated net profit for Rabobank was 2,024 (2015: 2,214); net profit of Rabobank in the company financial statements was 1,960 (2015: 908). The difference in 2016 of 64 represents the non-controlling interests. The difference in 2015 of 1,306 represents the profits of local Rabobanks, which were not recognised in the company financial statements and the non-controlling interests.

The table below shows reconciliation between the equity of Rabobank and that of Rabobank Group:

<i>In millions of euros</i>	2016	2015
Equity of Rabobank according to Part 9 of Book 2 of the Dutch Civil Code	39,590	18,815
Capital paid-up by local Rabobanks	-	(600)
Premium	-	(5,402)
A component of the equity of Rabobank Group: Trust Preferred Securities III to VI	409	1,131
A component of the equity of Rabobank Group: Other non-controlling interests	525	492
Equity of local Rabobanks according to Part 9 of Book 2 of the Dutch Civil Code	-	26,761
Total group equity under IFRS, as presented in consolidated financial statements	40,524	41,197

¹ Created in accordance with IAS 19.122

² Opening balance 2016 adjusted due to early adoption of IFRS 9 on fair value of financial liabilities designated at fair value (See note 1 Basis of preparation)

Notes to the statement of income

21 Net interest income

<i>in millions of euros</i>	2016	2015
Interest income		
Cash and balances at central banks	183	94
Loans and advances to banks	573	2,292
Financial assets held for trading	45	71
Financial assets designated at fair value	25	52
Loans and advances to customers	11,340	2,221
Available-for-sale financial assets	1,040	1,230
Derivatives held as economic hedges	1,607	2,835
Interest income on financial liabilities with a negative interest rate	77	16
Other	41	1
Total interest income	14,931	8,812
Interest expense		
Due to banks	421	494
Other trade liabilities	10	17
Due to customers	4,409	3,095
Debt securities in issue	3,250	3,532
Other liabilities	720	597
Financial liabilities designated at fair value	362	466
Interest expense on financial assets with a negative interest rate	258	71
Other	4	8
Total interest expense	9,434	8,280
Net interest income	5,497	532

22 Net fee and commission income

<i>in millions of euros</i>	2016	2015
Fee and commission income		
Insurance commissions	257	-
Lending	559	231
Purchase and sale of other financial assets and handling fees	320	108
Payment services	704	107
Other commission income – group companies	42	19
Other commission income	45	51
Total fee and commission income	1,927	516
Fee and commission expense		
Purchase and sale of other financial assets	1	2
Payment services	20	30
Custodial fees and securities services	10	11
Handling fees	33	15
Other commission expense – group companies	23	114
Other commission expense	125	46
Total fee and commission expense	212	218
Net fee and commission income	1,715	298

23 Income from equity interests

<i>in millions of euros</i>	2016	2015
Dividend income from shares	23	14
Results from interests in group companies	2,025	646
Results from other equity investments	(94)	118
Results from disposed interests	63	18
Total income from equity interests	2,017	796

24 Staff costs

<i>in millions of euros</i>	2016	2015
Wages and salaries	2,283	1,131
Social security contributions and insurance costs	243	99
Pension costs	429	182
Other staff costs	352	146
Total staff costs	3,307	1,558

The average number of internal and external employees was 26,838 (2015: 15,758), of which 3,110 outside the Netherlands (2015: 3,155). Expressed in FTEs, the number of internal and external employees was 25,121 (2015: 15,224).

25 Regulatory levies

The regulatory levies consist of bank tax, contributions to the single resolution fund and the deposit guarantee scheme.

Banks operating in the Netherlands on 1 October of the current year are required to pay bank tax. There are two rates of bank tax: A rate of 0.044% for current liabilities and a rate of 0.022% for long-term liabilities, based on the balance on December 2015. In 2016, Rabobank Group was charged a total of 138 (2015: 68). In 2016, the bank levy in Ireland amounted to 4 (2015: 4).

On 1 January 2016 the European Single Resolution Fund (SRF) was set up. This fund will for a large part replace the National Resolution Funds, including the Dutch National Resolution Fund (NRF) that was set up on the 27 November 2015.

Both funds have been established to improve the effectiveness of resolution instruments. Banks and investment firms that are in the scope of the SRM-regulation are obliged to contribute to the SRF. The NRF is build up exclusively by lump-sum contributions. In 2016, the contribution to the Single Resolution

Fund amounted to 151. In 2015, the contribution to the National Resolution Fund amounted to 66.

Per the end of 2015, the new pre-funded deposit guarantee scheme was introduced. In 2016, banks have to pay a premium on a quarterly basis. Target size of the scheme is 0.8% of total guaranteed deposits of all banks together. In 2016, the contribution to the Deposit Guarantee Scheme amounted to 131.

26 Income tax

The major components of the income tax is included below.

<i>in millions of euros</i>	<i>2016</i>	<i>2015</i>
Income tax		
Reporting period	(34)	(280)
Adjustments of previous years	(6)	(3)
Deferred tax	95	125
Total income tax	55	(158)
Effective tax rate	2.7%	(21.1%)
Applicable tax rate	25.0%	25.0%

The effective tax rate differs from the applicable tax rate in 2016 mainly because of the participation exemption, the deduction of interest payments on Capital Securities and the impairment of Achmea.

Other notes to the financial statements

27 Professional securities transactions and assets not freely available

Professional securities transactions in which Rabobank lent securities.

<i>In millions of euros</i>	2016	2015
Securities lent for use:		
Loans and advances to banks	12,596	17,944
Loans and advances to customers	16,536	19,783
Total	29,132	37,727

Professional securities transactions in which Rabobank lent securities.

<i>In millions of euros</i>	2016	2015
Securities lent:		
Due to banks	418	81
Due to customers	209	486
Total	627	567

The assets referred to in the table below (with exception to professional securities transactions) were provided to counterparties as security for (contingent) liabilities. If Rabobank remains in default the counterparties may use the security to settle the debt.

<i>In millions of euros</i>		2016	2015
Assets not freely available:	Related to type of liabilities:		
Loans and advances to banks	Derivatives	4,702	5,178
Loans and advances to customers	Due to customers	5,978	6,758
Interest-bearing securities	Due to customers	6,276	450
Total		16,956	12,386

28 Contingent liabilities

This item relates to transactions in which Rabobank stands surety for obligations of third parties.

<i>In millions of euros</i>	2016	2015
Contingent liabilities consist of:		
Guarantees	19,415	14,126
Letters of credit	6,196	4,744
Other	747	100
Total contingent liabilities	26,358	18,970
Of which:		
Contingent liabilities of group companies	8,194	6,710

Liabilities relating to operating leases

Rabobank has concluded various operating lease contracts as lessee, mainly with respect to properties, information systems and cars. The future net minimum lease payments under non-cancellable operating leases can be broken down as follows:

<i>in millions of euros</i>	2016	2015
Not later than 1 year	124	22
Later than 1 year but not later than 5 years	279	74
Later than 5 years	346	84
Total liabilities relating to operating leases	749	180

The gross minimum lease payments The expected future minimum lease payments receivable from sub-leases are nil (2015: nil). The operating lease expenses are 52 (2015: 24). These are included in 'Other administrative expenses' in the statement of income.

Contingent liabilities related to income tax

The European Commission has addressed questions to the Dutch government about article 29a of the Dutch Corporate Income Tax Code. If the European Commission would decide to start a formal investigation and ultimately would conclude that this is a case of state aid, Rabobank may have to repay tax benefits it enjoyed from 2015 onwards.

Article 29a of the Dutch Corporate Income Tax Code was included in the Dutch Corporate Income Tax Code so that capital instruments issued by credit institutions and which are covered by EU regulation 575/2013 would be considered tax deductible. In this context, Rabobank issued Capital Securities in January 2015 and in April 2016, amounting respectively to EUR 1.5 billion at a fixed interest rate of 5.5%, and EUR 1.25 billion at a fixed interest rate of 6.625%. The contingent liability related to this matter amounts to 54.

Liability undertakings

Pursuant to Section 403 of Book 2 of the Dutch Civil Code, Rabobank has assumed liability for the debts arising from the legal transactions of the following Group companies:

- Bodemgoed B.V.
- De Lage Landen America Holdings B.V.
- De Lage Landen Corporate Finance B.V.
- De Lage Landen Facilities B.V.

- De Lage Landen Financial Services B.V.
- De Lage Landen Financiering B.V.
- De Lage Landen International B.V.
- De Lage Landen Trade Finance B.V.
- De Lage Landen US Participations B.V.
- De Lage Landen Vendorlease B.V.
- FGH Bank N.V.
- Rabo Groen Bank B.V.
- Rabo Merchant Bank N.V.
- Rabo Mobiel B.V.
- Rabobank International Holding B.V.

A liquidity guarantee was issued by Rabobank for Rabo Groen Bank B.V.

In the past, Rabobank has guaranteed the liabilities of a number of group companies. Even though these guarantees have come to an end, Rabobank remains liable for the fulfilment of obligations entered into by the group companies during the term of the guarantees.

In connection with the Trust Preferred Securities, Rabobank guarantees the Trust concerned, on a subordinated basis, that the payments from the LLC to the Trust will be made and - in the event that the LLC goes into liquidation - that the LLC Class B Preferred Securities will be repaid and the associated payments on the Trust Preferred Securities will be made (the 'Guarantees'). Under the so-called Contingent Guarantee, Rabobank guarantees the LLC that it will pay the amounts owed under the Guarantees, if these amounts have been due and unpaid for more than 180 days.

Internal liability (cross-guarantee system)

In accordance with the Dutch Financial Supervision Act (Wet op het financieel toezicht), various legal entities belonging to Rabobank Group are internally liable under an intra-group mutual keep well system. Under this system the participating entities are bound, in the event of a lack of funds of a participating entity to satisfy its creditors, to provide the funds necessary to allow the deficient participant to satisfy its creditors.

As on 31 December 2016, the participants are:

- Coöperatieve Rabobank U.A., Amsterdam
- Rabohypothekbank N.V., Amsterdam
- Raiffeisenhypothekbank N.V., Amsterdam
- De Lage Landen International B.V., Eindhoven
- De Lage Landen Financiering B.V., Eindhoven
- De Lage Landen Trade Finance B.V., Eindhoven
- De Lage Landen Financial Services B.V., Eindhoven

On 1 January 2016, the local Rabobanks and the Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. entered into a legal merger. Furthermore, on 1 January 2016, the name of the Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. was changed into Coöperatieve Rabobank U.A.

Fiscal unit for corporate tax purposes

For corporate tax purposes Rabobank forms a fiscal unit with a number of domestic subsidiaries. Under the fiscal unit, each participating legal entity is jointly and severally liable for the fiscal unit's corporate tax liabilities.

29 Irrevocable facilities

This item relates to all irrevocable facilities that could lead to lending.

<i>In millions of euros</i>	2016	2015
Unused credit facilities	42,881	42,701
Other	2,321	2,748
Total irrevocable commitments	45,202	45,449
Of which group companies	10,779	12,853

30 Main subsidiaries

All subsidiaries listed in the table are consolidated. In 2016, none of the subsidiaries experienced any significant restrictions in the payment of dividends or the redemption of loans and repayment of advances. The option of subsidiaries to pay dividend to Rabobank depends on various factors, including local regulatory requirements, statutory reserves and financial performance.

On 31 December 2016	Share	Voting rights
Main subsidiaries		
The Netherlands		
DLL International B.V.	100%	100%
Rabo Vastgoedgroep N.V.	100%	100%
FGH Bank N.V.	100%	100%
Obvion N.V.	100%	100%
Rabohypothekbank N.V.	100%	100%
North America		
Rabobank Capital Funding LCC III	100%	100%
Rabobank Capital Funding Trust IV	100%	100%
Utrecht America Holdings Inc.	100%	100%
Australia and New Zealand		
Rabobank Australia Limited	100%	100%
Rabobank New Zealand Limited	100%	100%

31 Remuneration of the Supervisory Board and the Executive Board

In 2016, the remuneration of members and former members of the Executive Board amounted to 7.5 (2015: 6.4). The increase is related to the expansion of the board with one extra member.

<i>in thousands of euros</i>	<i>Short-term employee benefits</i>	<i>Post-employment benefits</i>		<i>Other</i>	<i>Total</i>
		Pension scheme	Individual pension contribution		
W. Draijer	980	25	212	-	1,217
B.C. Brouwers	884	25	189	-	1,098
R.J. Dekker	884	25	189	3	1,101
P.C. van Hoeken	663	19	142	-	824
B.J. Marttin	884	25	189	-	1,098
H. Nagel	884	25	189	-	1,098
J.L. van Nieuwenhuizen	884	25	189	-	1,098
Total 2016	6,063	169	1,299	3	7,534
Members Executive Board	4,257	128	908	5	5,298
Former members Executive Board	884	26	189	1	1,100
Total 2015	5,141	154	1,097	6	6,398

At year-end 2016, there were a total of 486 DRNs (liability of 16) outstanding with members of the Executive Board (year-end 2015: 11,647 pieces of which 5,503 regarding former members). The pension scheme for the members of the Executive Board is classified as a collective defined contribution scheme. As of 1 January 2015, the maximum income on the basis of which the members of the Executive Board can build up a pension amounts to a maximum, for 2016 EUR 96,000. Any income exceeding this amount is not pensionable. As of 1 January 2015, the members of the Executive Board therefore receive an individual pension contribution.

Expenses related to members and former members of the Supervisory Board total 1.2 (2015: 1.2 of which former members 0.6). This includes VAT and employer's contributions payable. In addition to the role of Member of the Supervisory Board of Rabobank, the remuneration also depends on the roles in the various committees. The composition of these committees is detailed in the Annual Report. The remuneration structure as of 1 October 2016 (exclusive of VAT and other charges) is:

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

The table below shows the remuneration (excluding VAT and other charges) for individual members of the Supervisory Board.

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

At Rabobank, the Chairman of the Supervisory Board holds a number of roles which are related to the cooperative. These roles are specified in the Annual Report.

<i>in millions of euros</i>	<i>Executive Board</i>		<i>Supervisory Board</i>	
<i>Loans, advances and guarantees</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
Outstanding on 1 January	4.3	4.9	1.4	2.6
Provided during the year	-	1.2	-	-
Redeemed during the year	(0.8)	(1.8)	(0.1)	(0.7)
Reduction on account of leaving office	-	-	-	(0.9)
Increase on account of taking office	0.6	-	-	0.4
Outstanding on 31 December	4.1	4.3	1.3	1.4

The loans, advances and guarantees of the members of the Executive Board in office and the average interest rates were as follows:

<i>in millions of euros</i>	<i>2016</i>	
	<i>Outstanding loans</i>	<i>Average interest rate (in %)</i>
Loans, advances and guarantees		
B.C. Brouwers	0.5	2.6
R.J. Dekker	1.0	2.1
B.J. Marttin	0.4	5.8
H. Nagel	1.0	2.2
J.L. van Nieuwenhuizen	1.2	2.0

<i>in millions of euros</i>	<i>2015</i>	
	<i>Outstanding loans</i>	<i>Average interest rate (in %)</i>
Loans, advances and guarantees		
R.J. Dekker	1.2	1.6
B.J. Marttin	0.4	4.4
H. Nagel	1.0	1.9
J.L. van Nieuwenhuizen	1.7	3.3

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

<i>in millions of euros</i>	<i>Outstanding loans</i>		<i>Average interest rate (in %)</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
Loans, advances and guarantees				
A.A.J.M. Kamp	0.9	1.0	2.6	2.7
M. Trompetter	0.4	0.4	4.0	4.9

At year-end 2016, the members of the Supervisory Board not listed in the table had not received any loans, advances or guarantees. These transactions with members of the Executive Board and Supervisory Board were completed in person on the basis of employee terms and conditions and/or market rates for the Supervisory Board. The rates depend in part on the currency, the agreed fixed-interest period and the time the transaction was completed or the time a new fixed-interest term becomes effective.

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

<i>On 31 December 2016</i>	<i>Number of Rabobank Certificates</i>	
I.P. Asscher-Vonk	6,894	
L.N. Degle	4,836	in pension B.V.
S.L.J. Graafsma	4,050	in pension B.V.

32 Approval of the Supervisory Board

The publication of these financial statements was approved by the Supervisory Board on 8 March 2017. The financial statements will be presented to the General Meeting, to be held on 19 April 2017, for adoption. With regard to the adoption of the financial statements of Rabobank, the Articles of Association state: 'The resolution to adopt the financial statements will be passed by an absolute majority of the votes validly cast by the General Members' Council'.

On behalf of the Executive Board

W. Draijer, *Chairman*

B.C. Brouwers, *CFO*

R.J. Dekker, *COO*

P.C. van Hoeken, *CRO*

B.J. Marttin, *Member*

H. Nagel, *Member*

J.L. van Nieuwenhuizen, *Member*

On behalf of the Supervisory Board

R. Teerlink, *Chairman*

M. Trompetter, *Vice Chairman*

I.P. Asscher-Vonk, *Secretary*

L.N. Degle

S.L.J. Graafsma

A.A.J.M. Kamp

J.J. Nooitgedagt

P.H.M. Hofsté

P.H.J.M. Visée

Other information

Statutory provisions

Profit can be used under an Executive Board resolution to pay distributions on participation rights and distributions on additional tier 1 instruments.

The remainder of the profit is added to the general reserves held by Rabobank. The Executive Board can also decide to make interim distributions to holders of participation rights and the holders of additional tier 1 instruments from the profit and/or the result. While Rabobank still exists, the reserves cannot be distributed to the members, neither in full, nor in part.

The Executive Board has the right to make a distribution from the reserves on participation rights and/or additional tier 1 instruments. If the decision is taken at any time to dissolve Rabobank in order to have its business continued by another legal entity or institution, the reserves will be transferred to said other legal entity or institution.

Proposals regarding the appropriation of available profit for Rabobank

Of the profit of 1,960, 1,164 is payable to the holders of Capital Securities and Rabobank Certificates in accordance with Executive Board resolutions. It is proposed that the remainder of the profit be added to the general reserve held by Rabobank.

Events after the reporting date

In January 2017, Rabobank announced the offering of newly issued Rabobank Certificates. The nominal issued amount was EUR 1.5 billion. Rabobank issued 60 million new Rabobank Certificates; each of these newly issued certificate was priced at 108% of the nominal value of EUR 25. After the issuance, a total nominal amount of approximately EUR 7.4 billion in Rabobank Certificates was outstanding.



Pillar 3 report

Contents

Forward-looking statements	296
1. Summary analysis	298
2. Introduction	300
3. About Rabobank	301
4. Risk management	309
5. Capital management	316
6. Credit Risk	321
7. Securitisation	339
8. Operational risk	343
9. Market risk	347
10. Liquidity risk	355
11. Remuneration	361
12. Global systemically important banks - 12 indicators	365
13. Declaration Executive Board	366
14. Appendices	367

Forward-looking statements

This document contains certain forward-looking statements with respect to the business, strategy and plans of Rabobank Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Rabobank Group or its directors' and/or management's beliefs and expectations, are forward-looking statements. Words such as 'believes', 'anticipates', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'estimate' and variations of these words and similar future or conditional expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future.

Examples of such forward-looking statements include, but are not limited to: projections or expectations of the Group's future financial position including profit attributable to provisions, economic profit, dividends, capital structure, expenditures or any other financial items or ratios; statements of plans, objectives or goals of the Group or its management including in respect of certain synergy targets; statements about the future business and economic environments in the Netherlands and elsewhere including, but not limited to, future trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments; statements about competition, regulation, disposals and consolidation or technological developments in the financial services industry; and statements of assumptions underlying such statements.

Factors that could cause actual business, strategy, plans and/or results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the Netherlands and internationally; inflation, deflation, interest rates and policies of the Dutch Central Bank, the European Central Bank and other G8 central banks; fluctuations in exchange rates, stock markets and currencies; the ability to access sufficient funding to meet the Group's liquidity needs; changes to the Group's credit ratings; the ability to derive cost savings and other benefits; changes in customer preferences; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating

downgrade or other sovereign financial issues; technological changes and risks to cyber security; natural and other disasters, adverse weather and similar contingencies outside the Group's control; inadequate or failed internal or external processes, people and systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; changes in laws, regulations, taxation, accounting standards or practices; regulatory capital or liquidity requirements and similar contingencies outside the Group's control; the policies and actions of governmental or regulatory authorities in the Netherlands, the European Union (EU), the US or elsewhere including the implementation of key legislation and regulation; the implementation of the draft EU crisis management framework directive and banking reform, following the recommendations made by the Independent Commission on Banking; the ability to attract and retain senior management and other employees; actions or omissions by the Group's directors, management or employees including industrial action; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; market-related trends and developments; exposure to regulatory or competition scrutiny, legal proceedings, regulatory or competition investigations or complaints; changes in competition and pricing environments; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including nonbank financial services and lending companies; and the success of the Group in managing the risks of the foregoing.

Rabobank Group may also make or disclose written and/or oral forward-looking statements in reports filed with or furnished to the US Securities and Exchange Commission, Rabobank Group annual reviews, half-year announcements, proxy statements, offering circulars, prospectuses, press releases and other written materials, and in oral statements made by the directors, officers or employees of Rabobank Group to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward-looking statements contained in this document are made as of the date hereof, and Rabobank Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any change in Rabobank Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

1. Summary analysis

**Transitional Common Equity
Tier 1 ratio (CET1)**
(2015: 13.5%)

14.0%

Transitional Tier 1 Capital Ratio
(2015: 16.4%)

17.6%

Transitional Total Capital Ratio
(2015: 23.2%)

25.0%

Leverage ratio
(2015: 5.1%)

5.5%

**Total Risk Weighted Exposure
Amounts**
(2015: EUR 213.1 bn)

211.2 bn

Loans impairment charges
(2015: 24 bps)

7 bps

14%

2016

13.5%

2015

COMMON EQUITY TIER 1

COMMENTARY

Per 1 January 2016 the CET1-ratio decreased from 13.5% to 13.1% due the phase-in of CRD IV. In the remainder of 2016 the CET1 increased 0.9% mainly due to the inclusion of net profit (after payments on capital instruments) and the sale of Athlon. The fully loaded CET1 ratio was 13.5% on 31 December 2016.

25%

2016

23.2%

2015

TOTAL CAPITAL RATIO

COMMENTARY

The total capital-ratio increased 1.8% in 2016 from 23.2% to 25.0%, mainly as a consequence of the issuance of Tier 1 and Tier 2 capital instruments and the higher CET1 capital. This increase is in line with Rabobank's ambition to further increase its loss-absorbing capital.

Risk Weighted Exposure Amounts

Risk weighted exposure amounts as at 31 December 2016 amounted to EUR 211,226 million. A summary breakdown of total risk weighted exposure amounts by risk type and division is provided in the table below.

Risk weighted Exposure Amounts		
<i>in millions of euros</i>	<i>At 31 December 2016</i>	<i>At 31 December 2015</i>
IRB approach		
Central governments and central banks	1,198	1,109
Financial Institutions	6,667	6,637
Corporates	83,223	85,282
Retail	44,750	41,102
Equities in the banking book	10,263	13,465
Other non-credit obligations and transfer risk	11,912	15,088
Securitisation positions	1,806	2,219
Total IRB approach	159,819	164,902
Standardised approach		
Central governments and central banks	4,247	3,734
Institutions	288	137
Corporates	7,748	8,445
Retail	3,698	3,130
Secured by mortgages immovable property	1,505	2,335
Exposures in default	1,418	894
Exposures associated with particularly high risk	55	55
Total standardised approach	18,959	18,730
Total credit risk and transfer risk	178,778	183,632
Market risk	5,340	4,948
Operational risk	27,108	24,512
Total	211,226	213,092

Credit Risk Exposures

Total credit risk exposures as at 31 December 2016 amounted to EUR 607,392 million under the IRB approach (2015: EUR 593,660 million) and EUR 21,656 million under the standardised approach (2015: EUR 19,626 million). A summary of credit risk exposures is provided in the table below. Information regarding exposures of equities in the banking book and securitisation positions can be found in paragraph 6.6 and 7.5 respectively.

Summary Credit Risk Exposures		
<i>in millions of euros</i>	<i>At 31 December 2016</i>	<i>At 31 December 2015</i>
IRB approach		
Central governments and central banks	114,871	94,381
Financial Institutions	18,255	19,643
Corporates	218,983	220,365
Retail	255,283	259,271
Total IRB approach	607,392	593,660
Standardised approach		
Central governments and central banks	3,168	1,596
Institutions	1,277	354
Corporates	7,841	8,482
Retail	5,032	4,537
Secured by mortgages immovable property	3,079	3,853
Exposures in default	1,223	765
Exposures associated with particularly high risk	37	37
Total standardised approach	21,656	19,626