# Interim Report 2014

**Rabobank Group**

Rabobank

# Contents



**General note for readers**

Pages 1 to 63 of this interim report are unaudited or have not been subject to a limited review. The independent external auditor has issued a review report on the interim financial information on pages 64 to 100. The interim financial information and the notes to the interim financial information are part of the interim report

# Chairman’s foreword

After an eventful year 2013, Rabobank got off to a sound start in 2014. Our focus on our customers remains our top priority: our almost 59,000 employees are working unitedly on restoring trust. We are seeing great resilience being demonstrated by our employees and our members. We have made good progress, but much remains to be done.

## Customer focus has priority

Rabobank took significant steps in the first half of 2014 to improve its customer service with innovations in the field of virtualisation and advice. When we talk about participation, we are not just paying lip service: it is our duty, and it is why our banks were founded in the first place. This is how we reinforce the living and working environment of our customers and boost the sustainable development of the local communities for which our banks feel a sense of shared responsibility.

The strategic decisions made as part of Vision 2016 enable us to adapt more quickly to our customers’ changing behaviour. They expect excellent service delivery whenever they need it, demand good products at a fair price and insist on systems that are accessible seven days a week, day and night. Unfortunately our customers were recently faced with several disruptions in our internet banking system. Many systems are in transition and we are doing everything within our power to prevent disruptions from reoccurring in the future.

## Banking4Food

In June, we launched our strategy for Banking4Food: the Rabobank vision on feeding the world’s population. The earth is currently inhabited by seven billion people and by no means everyone has enough to eat and to drink every day. The global population is expected to exceed nine billion people by 2050. What does that mean for agriculture and for food supply? In its vision for Banking4Food, Rabobank identifies four dimensions of food security: (1) increasing the availability of food; (2) improving access to food; (3) stimulating balanced, healthy food and (4) increasing stability. Rabobank aims to contribute to feeding the world’s population more sustainably by facilitating the economic success of our customers and contributing to the vitality of the communities in which they operate. In addition, Rabobank seeks to provide access to funding and access to relevant knowledge and networks.

## Organisational transformation

The Rabobank organisation is vigorously transforming itself to adapt to the new reality. Vision 2016 and the integration of Rabobank Nederland and Rabobank International are milestones in our organisational transformation to operate as one bank, in the Netherlands and abroad. Customers will therefore even more clearly experience Rabobank as one bank from now on. At the same time, the unique market mastery of the local Rabobanks will continue to be emphatically to the fore in both face-to-face and virtual contact.

Rinus Minderhoud, Chairman of the Executive Board of Rabobank Nederland

As part of this transformation, we are also asking ourselves the question which governance will best enable Rabobank to face the challenges ahead. A broad constructive dialogue is being conducted internally on this. The guiding principle is that Rabobank will remain faithful to its cooperative philosophy in a contemporary way. We expect to be able to take specific decisions in the first half of 2015.

### Changing culture

The Group-wide culture programme is fully under way. The kick-off for this programme was given by a survey among all our employees. Over 70% of the respondents stated a need for a rejuvenation of our culture. Therefore there is a broad base of support for this.
The culture change has started with the Executive Board and the top management of the organisation, who lead by example in the culture change and have explicitly been tasked with translating the culture change to their own organisational unit and employees.
The culture programme centres on three dimensions: what is my conduct, what is our conduct vis-à-vis customers and how do we embed the desired conduct more deeply within the organisation.

### Statutory and regulatory requirements

Good compliance and sound business practices are preconditions for our entire organisation. Rabobank seeks to maintain a high level of professionalism and integrity. This is crucial to retaining our reputation, and something that customers expect from their bank.
We continued to undertake substantial efforts in the first half of 2014 to comply with the growing statutory and regulatory requirements. This involves considerable transition costs. A very significant change in that regard is that with effect from 4 November 2014, Rabobank will be subject to direct supervision by the European Central Bank.
At the end of 2013, Rabobank announced that we give priority to compliance, integrity and strengthening our corporate culture. To that end we have been pursuing a wide-ranging programme, in which we critically review our activities and identify areas in which management and control mechanisms can be further strengthened. All these improvement processes are closely interwoven and are still fully ongoing. The Executive Board is directly involved in the processes in numerous ways. Regular updates on our progress in these fields are provided to the internal and external supervisory bodies and regulators.

### Composition of the Executive Board

Following the appointment of Jan van Nieuwenhuizen, the Executive Board of Rabobank Nederland is at full strength again. Jan van Nieuwenhuizen is responsible within the Executive Board for the wholesale customers in the Netherlands and abroad. The arrival of a new Chairman of the Executive Board was also announced in the first half year. Wiebe Draijer embarked on an intensive introduction period on 1 July 2014. He will become a member and Chairman of the Executive Board on 1 October 2014.

## Group earnings in the first half year of 2014: net profit of EUR 1,080 million

Rabobank Group achieved net profit of EUR 1,080 million in the first six months of 2014. The result was reduced by EUR 214 million by the resolution levy, a non-recurring Dutch government levy for the banking sector in connection with the nationalisation of SNS Reaal. A significant cost reduction combined with a slight improvement in interest income led to an improvement of the efficiency ratio by 4%-age points to 61.7%. Value adjustments at the group level remained high in the first half of 2014 at EUR 1,188 million, or 54 basis points of average lending; the long-term average is 32 basis points. Higher, early repayments of residential mortgages contributed to a limited decrease of the loan portfolio by EUR 1.5 billion to EUR 433.2 billion. Amounts due to customers decreased by 1% to EUR 323.0 billion. Rabobank Group equity amounted to EUR 39.9 (39.4) billion on 30 June 2014. Profit of EUR 1.1 billion was added to equity. In addition, distributions of EUR 0.6 billion on equity instruments were charged to equity. Solvency remained strong with a common equity tier 1 ratio of 12.6% and a capital ratio of 19.7%. The liquidity position likewise remained strong, with a buffer of EUR 103 billion.

## Domestic retail banking: net profit of EUR 341 million

The net result of the domestic retail banking division fell by 45% to EUR 341 million in the first half year of 2014. Last year the result benefited from the transition to a new pension scheme. This year, the result was adversely affected by the resolution levy. Excluding these non-recurring effects, the result of domestic retail banking improved. Value adjustments remained at a high level at EUR 578 million, or 38 basis points of average lending. In the food and agri sector, the bad debt costs are concentrated in greenhouse horticulture. The first half of 2014 continued to be challenging for businesses in this sector, with prices being pressured by high production. Within trade, industry and services, the bad debt costs were relatively high for the industrial and commercial real estate sectors in particular. Value adjustments on residential mortgages in the Netherlands remained very low, at 5 basis points of the mortgage portfolio.
Many customers made early repayments on part of their mortgage. This contributed to a decrease of the domestic loan portfolio to EUR 298.8 billion. Amounts due to customers fell by 1% to EUR 214.0 billion. The local Rabobanks are fully engaged in the change process Vision 2016, with a significant focus on the virtualisation of services. Vision 2016 also entails a reduction in the number of jobs; the internal employee base in domestic retail banking decreased by 1,807 FTEs to 25,192 FTEs.

## Wholesale banking and international retail banking: net profit of EUR 389 million

The net result of wholesale banking and international retail banking totalled EUR 389 million in the first half of 2014, a decrease of 21% compared with the same period of last year. This decrease was partly due to de-risking. Bad debt costs fell at both rural and retail banking and wholesale banking, to 35 basis points of average lending. The lower gross result and higher taxation led to a decrease in net profit, however. Partly due to currency effects, the loan portfolio increased by EUR 2.1 billion to EUR 89.9 billion. The share of food and agri continued to increase to 57%. The aggregate savings deposits at RaboDirect savings banks increased by EUR 0.6 billion to EUR 29.7 billion.

### Leasing: net profit of EUR 223 million

Net profit of the leasing segment in the first half of 2014, at EUR 223 million, was down 4% from EUR 232 million in the same period of last year. The lease portfolio grew by 4% to EUR 31.3 billion and the share of food and agri in the lease portfolio was further increased to 32%. The Dutch lease portfolio totalled EUR 6.1 billion. The bad debt costs amounted to 47 basis points of average lending, 21 basis points below the long-term average. Partly due to tight risk management and the adequate diversification of the lease portfolio across countries and sectors, bad debt costs fell by 12 basis points compared to last year.

### Real estate: net loss of EUR 90 million

The real estate segment reported a loss of EUR 90 million, a considerable improvement compared to the same period in 2013 when the loss amounted to EUR 189 million. The result was again adversely affected by value adjustments at real estate financier FGH Bank in the first half year of 2014. The bad debt costs amounted to 391 basis points of average lending, compared to a long-term average of 53 basis points. The loan portfolio at FGH Bank remained virtually stable at EUR 19.6 billion. The situation in the Dutch housing market improved. Bouwfonds Property Development sold 2,562 properties, up 46% from the same period of last year.

### Outlook

The potential impact of the Asset Quality Review (AQR) is uncertain, as the European Central Bank and the Dutch Central Bank DNB do not provide any interim updates on outcomes.
We are expecting a cautiously continuing economic recovery in the second half of the year. Private consumption is picking up slightly more vigorously than expected and the movements in the housing market are positive. The consequences of the trade conflict with Russia that has recently flared up represent an uncertain factor, however. The Russian sanctions can have an adverse impact on a number of our business customers and may therefore also adversely affect Rabobank's result to a limited extent. We are assuming that the current trade conflict will not continue to escalate and that the climate of trust will not be further eroded. Should this happen nonetheless, a weaker development of the economy in 2014 and 2015 cannot be excluded.

### Conclusion

Rabobank has a clear mission. In brief, it is to jointly strengthen customers in their living and working environment. This motivates us to act on the basis of customers' interests and from the perspective of their environment. That is what we were founded for, and over 100 years of hard work has brought us to where we now stand: we are a bank that finances a large part of the Dutch economy; a local bank that has close ties with the community of which it is part, and a bank that is leading in food and agri banking both in the Netherlands and abroad.

Rinus Minderhoud,
Chairman of the Executive Board of Rabobank Nederland

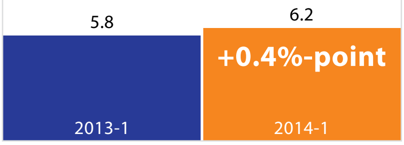
# Key figures

## Net profit

in millions of euros

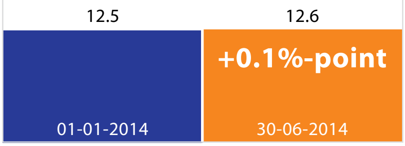

## Return on tier 1 capital

in %



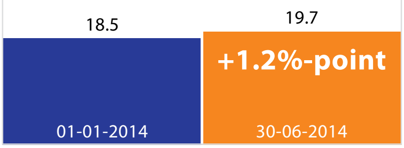

## Common equity tier 1 ratio

in %



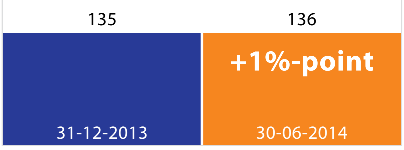

## Capital ratio

in %




## Loan to deposit ratio

in %

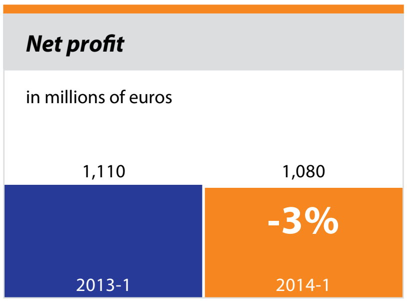



| | 30-06-2014 | 31-12-2013 | 30-06-2013 | 31-12-2012 | 30-06-2012 |
|---|---|---|---|---|---|
| *Amounts in millions of euros* | 2014-I | 2013 | 2013-I | 2012 | 2012-I |
| ***Volume of services*** | | | | | |
| Total assets | 679,513 | 669,404 | 693,371 | 750,710 | 768,820 |
| Private sector loan portfolio | 433,155 | 434,682 | 449,890 | 458,091 | 461,789 |
| Amounts due to customers | 323,035 | 326,222 | 336,491 | 334,271 | 340,935 |
| ***Financial position and solvency*** | | | | | |
| Equity | 39,854 | 39,443 | 40,029 | 42,080 | 43,389 |
| Common equity tier 1 capital* | 27,189 | 28,551 | 28,433 | 29,253 | 29,228 |
| Tier 1 capital* | 32,249 | 35,092 | 37,377 | 38,358 | 38,886 |
| Qualifying capital* | 42,614 | 41,650 | 41,320 | 42,321 | 40,568 |
| Risk-weighted assets | 216,181 | 210,829 | 220,871 | 222,847 | 230,321 |
| ***Profit and loss account*** | | | | | |
| Income | 6,398 | 13,031 | 6,455 | 13,616 | 6,883 |
| Operating expenses | 3,946 | 9,760 | 4,240 | 9,003 | 4,391 |
| Value adjustments | 1,188 | 2,643 | 1,106 | 2,350 | 1,096 |
| Bank tax expense and resolution levy | 214 | 197 | - | 196 | - |
| Taxation | (30) | 88 | 97 | 158 | 180 |
| Net profit | 1,080 | 2,008 | 1,110 | 2,058 | 1,287 |
| ***Ratios*** | | | | | |
| Common equity tier 1 ratio* | 12.6% | 13.5% | 12.9% | 13.1% | 12.7% |
| Tier 1 ratio* | 14.9% | 16.6% | 16.9% | 17.2% | 16.9% |
| Total capital ratio (BIS ratio)* | 19.7% | 19.8% | 18.7% | 19.0% | 17.6% |
| Equity capital ratio | 15.7% | 16.1% | 15.2% | 15.3% | 14.5% |
| Leverage ratio* | 4.6% | 4.8% | 4.6% | 4.7% | - |
| Loan to deposit ratio | 1.36 | 1.35 | 1.35 | 1.39 | 1.38 |
| Return on tier 1 capital | 6.2% | 5.2% | 5.8% | 5.4% | 6.8% |
| Efficiency ratio | 61.7% | 74.9% | 65.7% | 66.1% | 63.8% |
| Net profit growth** | -2.7% | -2.4% | -13.8% | -21.7% | -30.6% |
| ***Nearby*** | | | | | |
| Local Rabobanks | 123 | 129 | 136 | 136 | 139 |
| Branches | 591 | 656 | 802 | 826 | 853 |
| ATM's | 2,352 | 2,524 | 2,735 | 2,886 | 2,898 |
| Members (x 1,000) | 1,954 | 1,947 | 1,931 | 1,918 | 1,895 |
| Number of users of mobile banking services (x 1,000) | 2,005 | 1,784 | 1,438 | 1,086 | 755 |
| Foreign places of business | 766 | 769 | 761 | 759 | 766 |
| ***Market shares (in the Netherlands)*** | | | | | |
| Mortgages | 20% | 26% | 31% | 31% | 28% |
| Savings | 37% | 38% | 39% | 39% | 39% |
| TIS | 42% | 44% | 44% | 43% | 43% |
| ***Ratings*** | | | | | |
| Standard & Poor's | AA- | AA- | AA- | AA- | AA |
| Moody's Investor Service | Aa2 | Aa2 | Aa2 | Aa2 | Aa2 |
| Fitch | AA- | AA- | AA | AA | AA |
| DBRS | AA (high) | AAA | AAA | AAA | AAA |
| ***Personnel data*** | | | | | |
| Number of employees (in FTEs) | 55,055 | 56,870 | 59,506 | 59,628 | 61,103 |

* The CRD IV figures shown in this table exclude interim results as referred to in article 26 of the CRR.

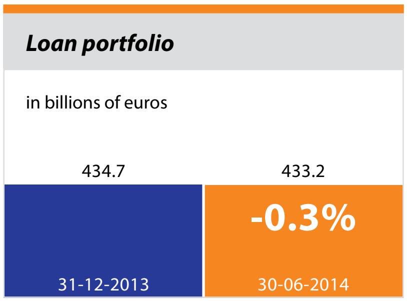
** Compared to the result for the comparative period in the previous year.

# Rabobank Group at a glance



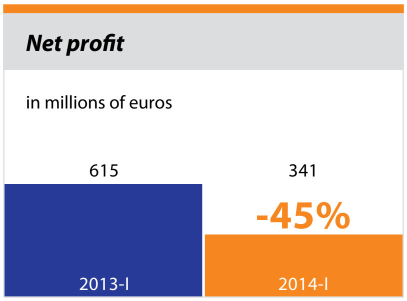

## Rabobank Group

Rabobank Group is an international financial services provider operating on the basis of cooperative principles. It offers retail banking, wholesale banking, private banking, leasing and real estate services. Rabobank, as a cooperative bank, focuses on treating customers fairly with respect to the provision of its services. Its ambition is to be the market leader in the Netherlands, and it focuses internationally on strengthening its leading position as food and agri bank. Rabobank Group is comprised in the Netherlands of autonomous local Rabobanks and the umbrella organisation, which is made up of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland) and its subsidiaries and associates in and outside the Netherlands. Rabobank Group has around 55,100 FTEs and is active in 40 countries.



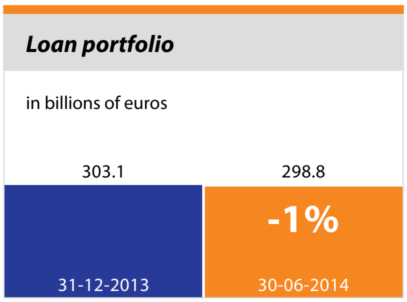

### *Rabobank Group in the first half of 2014*

Rabobank Group's net result for the first six months of 2014 amounted to EUR 1,080 million. The result was adversely affected in 2014 by the resolution levy, a non-recurring levy by the government for the banking sector in connection with the nationalisation of SNS Reaal. Excluding this levy, Rabobank Group's result improved compared with the first half of 2013. Value adjustments remained high and totalled EUR 1,188 million, or 54 basis points of average lending. The return on equity was 6.2%. Higher repayments on residential mortgages contributed to a limited decrease of the private sector loan portfolio to EUR 433.2 billion. Amounts due to customers decreased by 1% to EUR 323.0 billion. Solvency remained strong, with a common equity tier 1 ratio of 12.6% and a capital ratio of 19.7%.




## Domestic retail banking

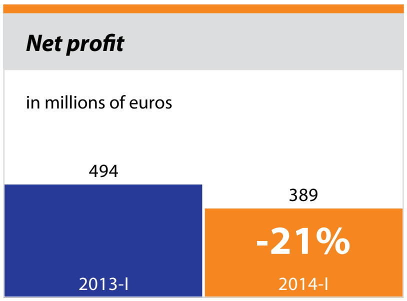
Rabobank Group is a leading player in the Netherlands in the field of mortgages, savings and insurance. It is also an important financial services provider for the SME segment, the food and agri sector and the mid-corporate segment. The 123 autonomous local Rabobanks have 591 branches and 2,352 ATMs, which means that Rabobank has the most finely meshed branch network and the highest number of ATMs of all banks in the Netherlands. They serve around 6.7 (6.7) million retail customers and 800,000 (800,000) corporate customers in the Netherlands, offering a comprehensive range of financial services. In addition to the local Rabobanks, the domestic retail banking division includes Obvion and Roparco. The total employee base of the domestic retail banking division numbers approximately 25,200 FTEs.




### *Domestic retail banking in the first half of 2014*

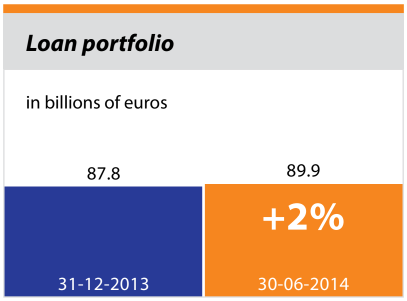
The net result of the domestic retail banking division fell by 45% to EUR 341 million in the first half year of 2014. Last year, the result benefited from the transition to a new pension scheme. This year, the result was moreover adversely affected by the resolution levy. Excluding these non-recurring effects, the result of the domestic retail banking division improved. Bad debt costs at 38 basis points of average lending remained at a high level, compared to the long-term average of 19 basis points. Many customers repaid part of their mortgage. As a result, the domestic loan portfolio decreased to EUR 298.8 billion and amounts due to customers fell by 1% to EUR 214.0 billion.

The local Rabobanks are fully engaged in the change process Vision 2016, with a significant focus on the virtualisation of the services. Vision 2016 also entails a fall in the number of jobs; the internal employee base in domestic retail banking decreased by 1,807 FTEs.



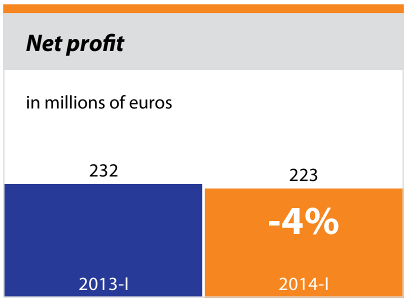

## Wholesale banking and international retail banking

Wholesale banking and international retail banking serve the largest domestic companies. Internationally, Rabobank with its worldwide branch network focuses on a leading position in the food and agri sector, both in the industrial food and agri sector and in the field of financing farms. Businesses in the Netherlands with revenue of up to EUR 250 million are served mainly by the local Rabobanks, with support of regional teams of the Mid-Corporates Rabobank Nederland division. Wholesale, Rural & Retail has an international branch network with branches in 29 countries. In addition, Rabobank has RaboDirect internet savings banks in Belgium, Germany, Ireland, Australia and New Zealand. The total employee base of the wholesale banking and international retail banking division numbers approximately 15,900 FTEs.



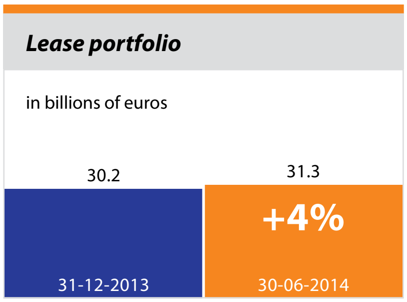

*Wholesale banking and international retail banking in the first half of 2014*

The net result of the wholesale banking and international retail banking division totalled EUR 389 million in the first half of 2014, a decrease of EUR 105 million compared with the same period of last year. This decrease was partly due to de-risking. Bad debt costs fell at both rural and retail banking and wholesale banking, to 35 basis points of average lending. The long-term average is 57 basis points. The lower gross result and the higher taxation led to a fall in net profit, however. Partly due to currency effects, the loan portfolio increased by EUR 2.1 billion to EUR 89.9 billion. The aggregate savings deposits at RaboDirect savings banks increased by EUR 0.6 billion to EUR 29.7 billion.



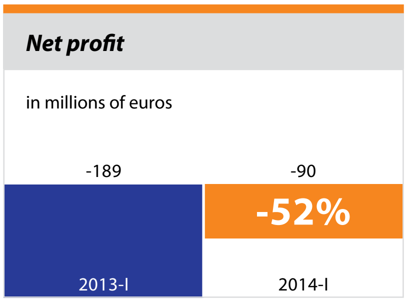

## Leasing

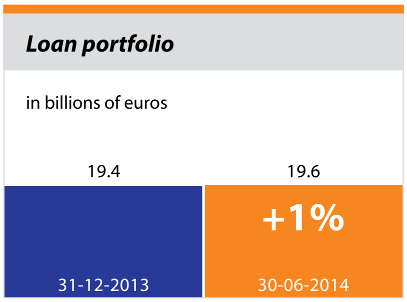
De Lage Landen is responsible for the leasing operations of Rabobank Group. Vendor Finance, which operates throughout the world, supports manufacturers and distributors in selling products and services. Through international car lease subsidiary Athlon, De Lage Landen is active in ten European countries. In the Netherlands, De Lage Landen provides a broad package of lease products and trade and consumer finance products, the latter partly through online lender Freo. De Lage Landen has activities in 36 countries and a workforce of some 5,200 FTEs.




*Leasing in the first half of 2014*

Net profit of the segment leasing in the first half of 2014, at EUR 223 million, was slightly lower than in the same period of last year. The lease portfolio grew by 4% to EUR 31.3 billion and the share of food and agri in the lease portfolio was further increased to 32%. The Dutch lease portfolio totalled EUR 6.1 billion. The bad debt costs amounted to 47 basis points of average lending, 21 basis points below the long-term average. Partly due to tight risk management and the diversification of the lease portfolio across countries and sectors, bad debt costs fell by 12 basis points compared to last year.




## Real estate

Rabo Real Estate Group is Rabobank Group's real estate expertise centre. Rabo Real Estate Group comprises several divisions: Bouwfonds Property Development, MAB Development, which is in the process of being phased out, FGH Bank, Bouwfonds Investment Management and Fondsenbeheer Nederland. The core activities are respectively the development of complete residential areas, financing commercial real estate and providing real-estate-related products for investors. Rabo Real Estate Group has a workforce of around 1,500 FTEs. Rabo Real Estate Group is primarily active in the Netherlands, France and Germany.

### *Real estate in the first half of 2014*

The real estate segment reported a loss of EUR 90 million, an improvement compared to the same period in 2013 when the loss amounted to EUR 189 million. The result was adversely affected by high value adjustments at real estate financier FGH Bank. The bad debt costs amounted to 391 basis points of average lending, compared to a long-term average of 53 basis points. The loan portfolio at real estate financier FGH Bank remained virtually stable at EUR 19.6 billion. The situation in the Dutch housing market improved. Bouwfonds Property Development sold 2,562 properties, up 46% from the same period of last year. Assets managed by Bouwfonds Investment Management rose by EUR 0.1 billion to EUR 6.0 billion.

# Financial developments

## *Rabobank Group records result of EUR 1,080 million*

The economic recovery continued in the first half of 2014 and the economy in the Netherlands grew hesitantly. As consumer spending remained low, this recovery was not yet reflected in higher corporate investments. In combination with higher repayments on residential mortgages, this contributed to a limited decrease of the private sector loan portfolio by EUR 1.5 billion to EUR 433.2 billion. Amounts due to customers decreased by EUR 3.2 billion to EUR 323.0 billion. On balance, this resulted in a loan-to-deposit ratio of 1.36 (1.35). The liquidity position was EUR 103 (121) billion. The net result of Rabobank Group for the first six months of 2014 totalled EUR 1,080 million, a decrease of EUR 30 million. The result for the first half year of 2014 was adversely affected by the resolution levy, a non-recurring government levy for the banking sector in connection with the nationalisation of SNS Reaal. Excluding this levy, the result of Rabobank Group improved compared with the first half of 2013. The return on tier 1 capital was 6.2%. Value adjustments remained at a high level and were concentrated in the Netherlands mainly in commercial real estate and greenhouse horticulture. Value adjustments totalled EUR 1,188 million or 54 basis points of average lending. The long-term average is 32 basis points. Bad debt costs on residential mortgages in the Netherlands remained very low, at 5 basis points of the mortgage portfolio. Solvency remained strong with a common equity tier 1 ratio of 12.6% and a capital ratio of 19.7%.

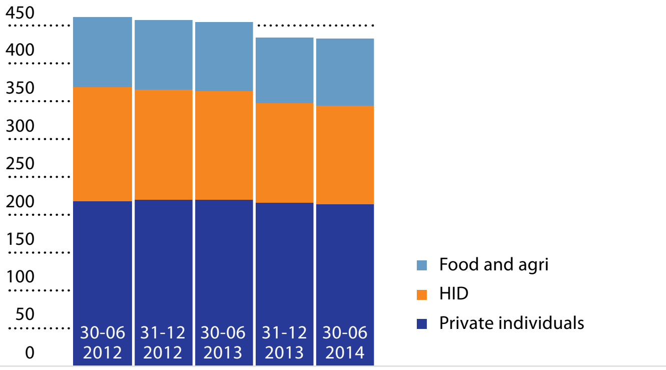
### Progress towards realisation of financial targets

Rabobank Group's progress in the realisation of its strategic financial targets regarding profitability, solvency and liquidity can be summarised as follows:

- The return on tier 1 capital – whereby the net profit is related to the level of tier 1 capital at the beginning of the year – was 6.2% (5.8%). The target for 2016 is 8%. Cost savings and service virtualisation at the local Rabobanks are intended to contribute to an improved return in the years ahead.
- The common equity tier 1 ratio, which expresses the common equity tier 1 capital as a percentage of the risk-weighted assets, was 12.6%. The capital ratio, which relates the qualifying capital to the risk-weighted assets, was 19.7%. Rabobank intends to increase its capital ratios over the coming years by improving its profitability and more specifically managing the volume of its risk-weighted assets. Rabobank Group's target is a common equity tier 1 ratio of 14% and a capital ratio of at least 20% by the end of 2016.
- In percentage terms, the decrease in amounts due to customers in the first half of 2014 outpaced the decrease in lending. As a result, the loan-to-deposit ratio, which reflects the relationship between lending and amounts due to customers, deteriorated slightly, to 1.36 (1.35). An improvement in the loan-to-deposit ratio to 1.30 is being targeted by the end of 2016.

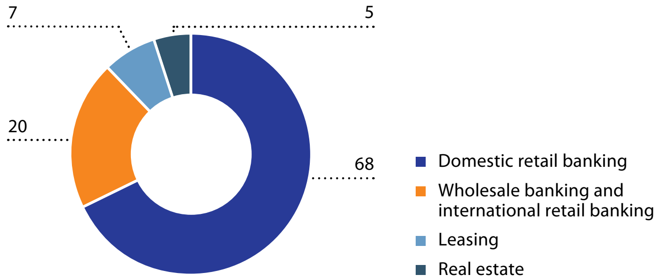
## Loan portfolio by sector

in billions of euros




## Loan portfolio by entity

mid 2014, in %

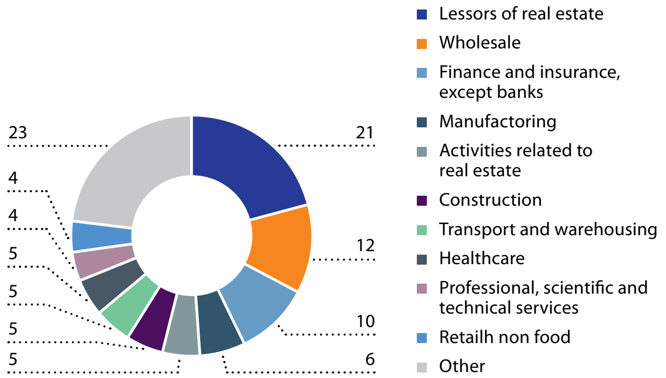



### Limited decrease in private sector loan portfolio

In the first half of 2014, the private sector loan portfolio at Rabobank Group decreased by EUR 1.5 billion to EUR 433.2 (434.7) billion. The loan portfolios of Wholesale, Rural & Retail (formerly known as Rabobank International), De Lage Landen and Obvion grew slightly. The loan portfolio of FGH Bank remained roughly stable and the portfolio of the local Rabobanks declined. Geographically, 76% of the private sector loan portfolio is located in the Netherlands, 9% in North America, 2% in Latin America, 6% in Europe (outside the Netherlands), 5% in Australia and New Zealand, and 2% in other countries.

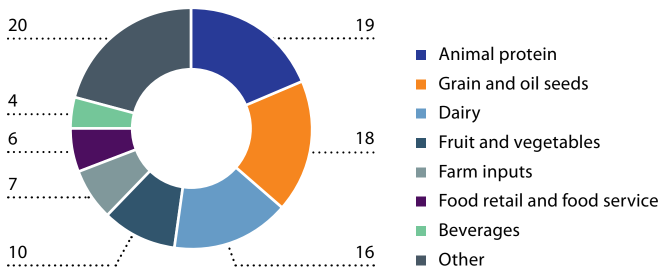
## Loan portfolio TIS by industry

mid 2014, in %




## Loan portfolio food and agri by industry

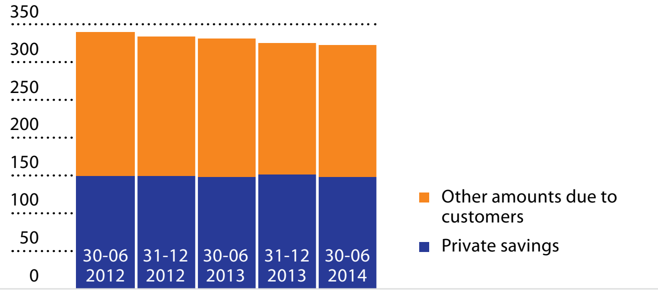
mid 2014, in %




Within the private sector loan portfolio, 49% consists of loans to private individuals, 30% of loans to trade, industry and services (TIS) and 21% of loans to the food and agri sector. Higher private residential mortgage repayments contributed to a decrease of the private sector loan portfolio to EUR 213.8 (216.4) billion. The volume of the TIS portfolio totalled EUR 130.9 (131.3) billion, of which EUR 97.8 (97.8) billion within the Netherlands and EUR 33.1 (33.5) billion outside the Netherlands. Lending to the food and agri sector increased by 2% to EUR 88.5 (87.0) billion, of which EUR 58.9 (57.3) billion was lent to the primary agricultural sector. Within the food and agri portfolio at the group level, loans granted in the Netherlands amounted to EUR 31.8 (32.6) billion and loans in other countries totalled EUR 56.7 (54.4) billion.

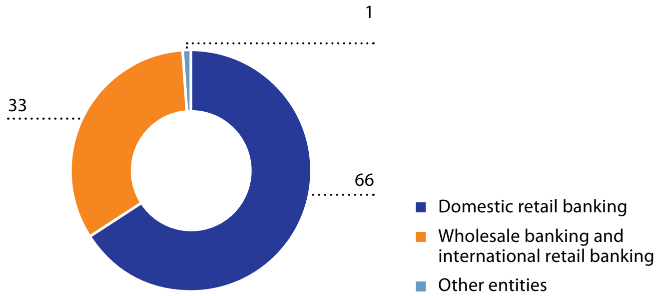
## *Amounts due to customers*

in billions of euros




## *Amounts due to customers by entity*

mid 2014, in %




### Decrease in amounts due to customers

In the first half of 2014, amounts due to customers at Rabobank Group totalled EUR 323.0 (326.2) billion. Amounts due to customers at the domestic retail banking division fell by EUR 1.7 billion to EUR 214.0 (215.7) billion and by EUR 1.2 billion to EUR 107.3 (108.5) billion at wholesale banking and international retail banking. Private savings are the largest component of amounts due to customers, and fell by 2% to EUR 148.4 (151.5) billion at a group level.

## *Amounts due to customers*

| *in billions of euros* | 30-Jun-14 | 31-Dec-13 | Change |
|---|---|---|---|
| **Total amounts due to customers** | **323.0** | **326.2** | -1% |
| ***Private savings*** | 148.4 | 151.5 | -2% |
| Domestic retail banking | 124.5 | 125.2 | -1% |
| Wholesale banking and international retail banking | 23.9 | 26.3 | -9% |
| ***Other amounts due to customers*** | 174.6 | 174.7 | 0% |
| Domestic retail banking | 89.5 | 90.5 | -1% |
| Wholesale banking and international retail banking | 83.4 | 82.2 | 1% |
| Other entities | 1.7 | 2.0 | -15% |

### Development of equity

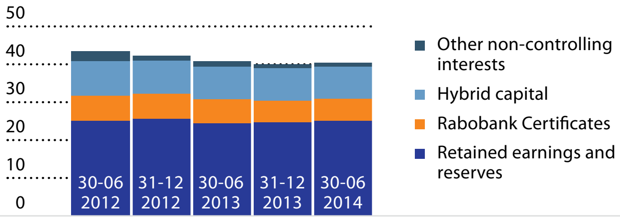
Rabobank Group's equity amounted to EUR 39.9 (39.4) billion on 30 June. An amount of EUR 1.1 billion of profits was added to capital. In addition, the distributions on (equity) instruments of EUR 0.6 billion were charged to equity. Within the total equity amount, 63% consists of reserves and retained earnings, 15% of Rabobank Certificates, 21% of hybrid capital and 1% of other non-controlling interests. Retained earnings and reserves amounted to EUR 25.0 (24.6) billion.

## *Changes in equity*

| *in billions of euros* | | |
|---|---|---|
| **Equity at the end of December 2013** | | **39.4** |
| Net profit | 1.1 | |
| Distributions on certificates, hybrid capital and other non-controlling interests | (0.6) | |
| **Retained earnings** | | **0.5** |
| Issued Rabobank Certificates | | 0.1 |
| Repayment of Capital Securities | | (0.2) |
| **Equity at the end of June 2014** | | **39.9** |

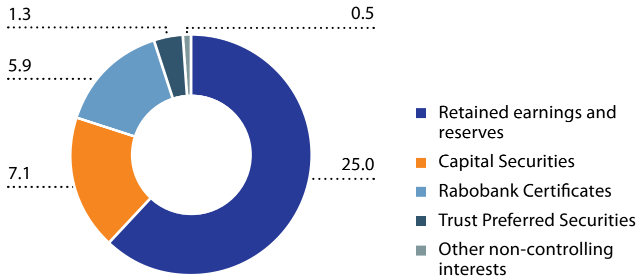
## *Equity*

in billions of euros




## *Composition of equity*

mid 2014, in billions of euros




### Rabobank Certificates

The Rabobank Certificates were listed on Euronext Amsterdam on 27 January 2014. Listing the certificates on the stock exchange made them available for trading to non-members and increased their marketability. The planned minimum distribution on the Rabobank Certificates is 6.5% on an annual basis. Their price rose from 105.00% (EUR 26.25) on 27 January 2014 to 109.68% (EUR 27.42) on 30 June 2014. On average, 8.9 million certificates were traded per day in that period, out of a total of 238 million. The general stock exchange climate was favourable and this benefited the price of the Rabobank Certificates.

### Negative deposit rate

On 5 June 2014, the Governing Council of the European Central Bank (ECB) decided to cut the deposit rate, which had been at 0% since July 2012, to -0.10% with effect from 11 June 2014. This is a very unusual step, as it means that banks, including Rabobank, must pay money if they deposit excess liquidity with the ECB overnight. Until now the negative deposit rate has however not resulted in negative values for Eonia and Euribor, the reference interest rates for the interbank money market in the euro area. This is also not likely to happen in the near future, given the expected development of liquidity conditions in the Eurosystem. The impact of the negative deposit rate on Rabobank and its customers is very limited.

### Development of capital ratios

The Capital Requirements Regulation (CRR) and Capital Requirements Directive IV (CRD IV) jointly constitute the European implementation of the Basel capital and liquidity agreement of 2010. As of 1 January 2014 these rules became effective and are used by Rabobank in its financial reporting. The 2013 figures are based on CRD III, as applicable by then.

The fully loaded common equity tier 1 ratio is the common equity tier 1 ratio when the rules of Basel III are fully applied. The present ratio is at a higher level because various adjustments in capital will, in line with the regulatory requirements, be gradually phased in the coming years.

The leverage ratio at 30 June 2014 was 4.6% (4.8%). The leverage ratio is calculated by dividing the tier 1 capital by the volume of the balance sheet and liabilities not shown on the balance sheet and has been calculated in accordance with the CRD IV definitions. On 30 June, the fully loaded leverage ratio was 3.3%. The fully loaded leverage ratio is the leverage ratio calculated by fully applying the rules of the new regulations. At the moment, the leverage ratio is higher than the fully loaded leverage ratio, since various adjustments to capital will be phased in to equity over the next few years, in line with the regulatory requirements.

| *Impact of implementation CRDIV on qualifying capital* | | | |
|---|---|---|---|
| *amounts in millions of euros* | CRD IV 30-Jun-14 | CRD IV 01-Jan-14 | CRD III 31-Dec-13 |
| Retained earnings | 27,066 | 27,207 | 28,107 |
| Payments capital instruments | - | (1,030) | (1,030) |
| Rabobank Certificates | 5,928 | 5,823 | 5,823 |
| Non-controlling interests | 33 | 33 | 437 |
| Reserves | (3,077) | (3,466) | (1,089) |
| Regulatory adjustments | (6,162) | (5,876) | (3,696) |
| Transitional adjustments | 3,401 | 3,346 | - |
| **Common equity tier 1 capital** | **27,189** | **26,037** | **28,551** |
| Trust preferred securities III-VI | - | - | 1,269 |
| Capital Securities | - | - | 7,265 |
| Grandfathered instruments | 7,283 | 7,283 | - |
| Non-controlling interests | 7 | 7 | - |
| Regulatory adjustments | (2) | - | (1,993) |
| Transitional adjustments | (2,228) | (2,019) | - |
| **Tier 1 capital** | **32,249** | **31,308** | **35,092** |
| Subordinated debt | 10,971 | 7,744 | 7,744 |
| Reserves excluding actuarial reserve | - | - | (301) |
| Non-controlling interests | 9 | 9 | - |
| Regulatory adjustments | - | - | (885) |
| Transitional adjustments | (615) | (440) | - |
| **Total capital** | **42,614** | **38,621** | **41,650** |
| | | | |
| **Risk-weighted assets** | **216,181** | **208,830** | **210,829** |
| | | | |
| Common equity tier 1 ratio | 12.6% | 12.5% | 13.5% |
| Tier 1 ratio | 14.9% | 15.0% | 16.6% |
| Total capital ratio (BIS-ratio) | 19.7% | 18.5% | 19.8% |

The CRD IV figures shown in this table exclude interim results as referred to in article 26 of the CRR.

The tier 1 instruments that were issued by Rabobank before 2014 do not meet the new requirements set in the CRR. For these instruments, grandfathering is applicable. This means that these instruments will, in line with the regulatory requirements, gradually be phased out of equity.

Under the influence of the issue of tier 2 capital, the capital ratio rose by 1.2 percentage points to 19.7% (18.5%). The common equity tier 1 ratio increased by 0.1 percentage points to 12.6% (12.5%) due to an increase in the common equity tier 1 capital. The fully loaded common equity tier 1 ratio was 10.8% on 30 June 2014. The reserve capacity for the first half of 2014 has not been included in the ratios per 30 June 2014.

## Bail-in buffer

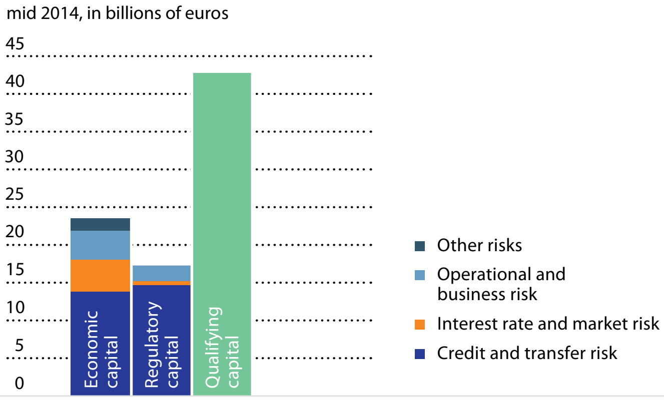
Rabobank Group has a strong capital buffer. The 'bail-in' buffer consists of retained earnings, other reserves, Rabobank Certificates and hybrid and subordinated debt instruments.
The 'bail-in' buffer increased from EUR 48.0 billion to EUR 51.6 billion in the first half of 2014. This corresponds to approximately 24% (23%) of the risk-weighted assets and protects the senior unsecured holders of debt instruments in the unlikely event of a 'bail-in' of senior debt. The increase in this buffer is mainly attributable to the recent issue of subordinated tier 2 paper.

| ***Bail in capital buffer*** | | |
|---|---|---|
| *amounts in billions of euros* | 30-Jun-14 | 31-Dec-14 |
| Retained earnings | 28.1 | 28.1 |
| Other reserves | (3.1) | (3.5) |
| Rabobank Certificates | 5.9 | 5.8 |
| Hybrids | 8.4 | 8.5 |
| Subordinated debt | 11.1 | 7.8 |
| Senior Contingent Notes | 1.2 | 1.2 |
| **Total bail in capital buffer** | **51.6** | **48.0** |
| | | |
| Risk-weighted assets | 216.2 | 210.8 |
| Bail-in capital / risk-weighted assets | 23.9% | 22.8% |

## Regulatory capital, the external capital requirement

The regulatory capital, the external capital requirement, for Rabobank Group was EUR 17.3 (16.9) billion in mid-2014. Within the total regulatory capital, 85% relates to credit and transfer risk, 12% to operational risk and 3% to market risk.

***Capital requirements***




Owing to the implementation of CRR (CRD IV), regulatory capital fell by EUR 0.2 billion in the first half of 2014. This decrease was caused by a decrease in the capital for credit risk, which was partly offset by an increase in capital for market risk. Regulatory capital also increased by EUR 0.6 billion during the first half of 2014 due to an increase in the capital for operational risk. The calculation for operational risk has been brought in line with Rabobank's risk profile by adjusting and optimising the model.

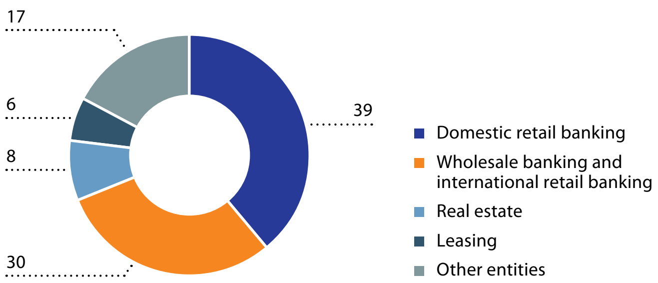
Rabobank Group calculates the regulatory capital, the external required capital for credit risk, for virtually its entire loan portfolio on the basis of the Advanced Internal Rating Approach approved by the Dutch Central Bank DNB. The Standardised Approach is applied, in consultation with DNB, to portfolios with relatively limited exposure and to a few smaller foreign portfolios that are not suited to the Advanced Internal Rating Approach. Operational risk is measured using the internal model approved by DNB that is based on the Advanced Measurement Approach. Regarding market risk, Rabobank has obtained permission from DNB to calculate the general and specific position risk using its own internal value-at-risk (VaR) models, based on the rules of CAD II (Capital Adequacy Directive).

## Economic capital, the internal capital requirement

In addition to regulatory capital, Rabobank Group uses an internal capital requirement based on an economic capital framework. The key difference compared to regulatory capital is that the economic capital takes account of all material risks and assumes a higher confidence level (99.99%) than that assumed for regulatory capital (99.90%). A broad spectrum of risks is measured consistently to gain an understanding of these risks and to enable a rational weighing of risk against return. A series of models has been developed to assess the risks incurred by Rabobank Group.
These are credit, transfer, operational, interest rate and market risk. Market risk breaks down into trading book, private equity, currency, real estate and residual value risk. A separate risk model is used for the participation in Achmea.

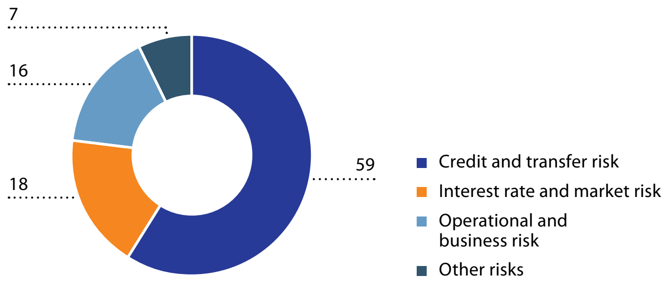
### *Economic capital by entity*

mid 2014, in %




### *Economic capital by risk type*

mid 2014, in %




Compared to year-end 2013, economic capital rose to EUR 23.6 (23.2) billion. The increase was largely due to an increase in capital for operational risk. In addition, capital for market risk increased mainly by extra capital held for counterparty risk (Credit Value Adjustment, CVA) due to the implementation of CRR (CRD IV). The limited decrease in the capital for credit risk is in line with developments in lending.

## Qualifying capital

The available qualifying capital of EUR 42.6 (41.7) billion that is retained to compensate for potential losses is well above the total internal required capital. This extensive buffer underlines the financial solidity of Rabobank Group.

## Ample liquidity position

Rabobank Group has a strong liquidity position, with a buffer of EUR 103 (121) billion. The decline in the buffer is a result of adjusted DNB haircuts. DNB now assigns lower liquidity values to externally held asset-backed securities (ABS) and to internally held securities backed by Rabobank residential mortgages (RMBS). Although these lower assigned liquidity values resulted in a lower absolute buffer size, the risk profile did not increase.

Of the liquidity buffer, 36% consists of deposits, held mainly at the ECB and FED, 37% of government debt and 27% of other financial assets. The net stable funding ratio (NSFR) reflects the liquidity risk in the long term. Based on the most recent proposals by the Basel Committee (January 2014), the NSFR was 119% on 30 June 2014 (114% at year-end 2013). The Basel Committee still has to establish the requirements set for the NSFR in more detail. The liquidity coverage ratio (LCR) reflects the liquidity risk in the short term and amounted to 161% (126%). This increase is mainly attributable to a more favourable liquidity risk profile at the end of June 2014 compared to the risk profie at the end of December 2013. Rabobank already comfortably meets the LCR requirement of 100% that will apply from 1 January 2019.

Encumbered assets are subject to specific claims by investors. The percentage of encumbered assets of the funded assets is very limited and amounted to 4.1% (4.4%) on 30 June. In June 2014, the European Banking Authority (EBA) issued new guidelines on the disclosure of encumbered assets, requiring total encumbered assets, including securities and cash deposited as collateral for derivatives transactions, to be compared with the total balance sheet. Based on these new EBA guidelines, the percentage of encumbered assets at 30 June 2014 is 6.6% (7.4%).

# *Financial results of Rabobank Group*

| ***Results*** | | | |
|---|---|---|---|
| *in millions of euros* | 2014-I | 2013-I | Change |
| Interest | 4,522 | 4,453 | 2% |
| Commission | 931 | 1,046 | -11% |
| Other results | 945 | 956 | -1% |
| **Total income** | **6,398** | **6,455** | -1% |
| Staff costs | 2,471 | 2,632 | -6% |
| Other administrative expenses | 1,252 | 1,351 | -7% |
| Depreciation | 223 | 257 | -13% |
| **Operating expenses** | **3,946** | **4,240** | -7% |
| **Gross result** | **2,452** | **2,215** | 11% |
| Value adjustments | 1,188 | 1,106 | 7% |
| Resolution levy | 214 | - | |
| **Operating profit before taxation** | **1,050** | **1,109** | -5% |
| Taxation | (30) | 97 | |
| **Net profit from continued operations** | **1,080** | **1,012** | 7% |
| Net profit from discontinued operations | - | 98 | |
| **Net profit** | **1,080** | **1,110** | -3% |
| | | | |
| **Bad debt costs** (in basis points) | **54** | **49** | 10% |
| | | | |
| ***Ratios*** | | | |
| Efficiency ratio | 61.7% | 65.7% | |
| Return on equity | 6.2% | 5.8% | |
| RAROC | 9.2% | 9.0% | |
| | | | |
| ***Balance sheet*** *(in billions of euros)* | 30-Jun-14 | 31-Dec-13 | |
| Total assets | 679.5 | 669.4 | 2% |
| Private sector loan portfolio | 433.2 | 434.7 | 0% |
| Amounts due to customers | 323.0 | 326.2 | -1% |
| | | | |
| ***Capital requirements*** *(in billions of euros)* | | | |
| Regulatory capital | 17.3 | 16.9 | 2% |
| Economic capital | 23.6 | 23.2 | 2% |
| Qualifying capital | 42.6 | 41.7 | 2% |
| | | | |
| ***Capital ratios*** | | | |
| Total capital ratio | 19.7% | 19.8% | |
| Tier 1 ratio | 14.9% | 16.6% | |
| Common equity tier 1 ratio | 12.6% | 13.5% | |
| | | | |
| ***Number of employees*** *(in FTEs)* | 55,055 | 56,870 | -3% |

# Notes to the financial results of Rabobank Group

### Net profit of EUR 1,080 million

Rabobank Group's net profit decreased by 3% to EUR 1,080 (1,110) million. The amount remaining after deducting distributions on Rabobank (Member) Certificates and hybrid capital instruments, and payments to other non-controlling interests was EUR 501 (549) million, which has been added to the capital of Rabobank Group. Taxation was EUR -30 (97) million, which corresponds to an effective tax burden of EUR -2.9% (8.7%). The low tax burden mainly reflects deferred tax assets owing to losses incurred in the past at ACC Loan Management.

### Income down 1%

Rabobank Group's total income fell by EUR 57 million to EUR 6,398 (6,455) million in the first six months of 2014. Interest income rose by 2% to EUR 4,522 (4,453) million. Interest income at the domestic retail banking division increased due to a recovery of margins on savings. This increase was partly offset by the decrease in interest income in wholesale banking and international retail banking. Commission income fell by EUR 115 million to EUR 931 (1,046) million. Commission income from insurance and investment products in domestic retail banking was lower than in the first half of 2013. The other results decreased by EUR 11 million to EUR 945 (956) million. On the one hand, the higher result on hedge accounting, the development of the yield curve and the writedowns reported for the first half of 2013 on land positions led to an increase in the other results. On the other hand, the other results decreased compared with the first half of 2013 due to a decrease in Rabobank's credit spread, the decrease in Achmea's result and the gain relating to the pension scheme reported in 2013.

### Operating expenses down 7%

Rabobank Group's total operating expenses decreased by EUR 294 million to EUR 3,946 (4,240) million in the first half of 2014. The workforce continued to decline in the first half of 2014, mainly at the local Rabobanks. This decrease, in conjunction with lower pension costs, contributed to the decrease in staff costs by EUR 161 million to EUR 2,471 (2,632) million. Partly due to lower reorganisation costs at the local Rabobanks and Rabo Real Estate Group, other administrative expenses fell by EUR 99 million to EUR 1,252 (1,351) million. A VAT refund also contributed to the decrease in other operating expenses. In the first half of the year, EUR 23 million was added to the reorganisation provision for Rabobank Nederland. Depreciation and amortisation on intangible fixed assets, software and equipment was lower, and depreciation and amortisation charges therefore fell by 34 million to EUR 223 (257) million.

### Bad debt costs at 54 basis points

The value adjustments to loans of Rabobank Group totalled EUR 1,188 (1,106) million in the first half of 2014, a limited increase compared with the same period of last year. Bad debt costs were 54 (49) basis points of average lending on an annualised basis. This is well above the long-term average of 32 basis points. The first half of 2014 was again very challenging for commercial real estate and greenhouse horticulture at the local Rabobanks. Value adjustments in Wholesale, Rural & Retail declined in wholesale banking in particular. De Lage Landen recorded a limited decrease in the level of value adjustments; value adjustments at Rabo Real Estate Group rose significantly compared with the first half of 2013. Value adjustments for commercial real estate in the Netherlands were again particularly high.

### RAROC up slightly

Risk Adjusted Return on Capital (RAROC) is used to weigh return and risk in a consistent manner. RAROC is also used for pricing at transaction level and in the loan approval process. RAROC is calculated by relating the net profit to the average economic capital. Rabobank Group's RAROC after tax increased by 0.2 percentage points to 9.2% (9.0%) due to a decrease in average economic capital compared with the first half of 2013.

***Economic capital by entity 2014***

| *amounts in billions of euros* | RAROC | | Economic capital | | Average economic capital | |
|---|---|---|---|---|---|---|
| | 30-Jun-14 | 30-Jun-13 | 30-Jun-14 | 31-Dec-13 | 30-Jun-14 | 31-Dec-13 |
| Domestic retail banking | 7.4% | 13.4% | 9.3 | 9.1 | 9.2 | 9.2 |
| Wholesale banking and international retail banking | 10.4% | 12.7% | 7.7 | 7.0 | 7.5 | 7.8 |
| Leasing | 33.2% | 33.8% | 1.3 | 1.4 | 1.3 | 1.4 |
| Real estate | -10.2% | -20.0% | 1.7 | 1.9 | 1.8 | 1.9 |
| **Rabobank Group** | **9.2%** | **9.0%** | **23.6** | **23.2** | **23.5** | **24.7** |

RAROC is calculated by relating the net profit to the average economic capital during the year.

# Cooperative banking

Rabobank is a cooperative bank. That is reflected in the close, long-term relationship the bank seeks to establish with its customers. Rabobank wants to be a solid and stable bank for them on which they can rely for excellent (virtual) services and suitable advice. A continual active dialogue is held with customers and members on the course steered by Rabobank. On the basis of its cooperative mission, Rabobank also seeks to contribute to a sustainable society, at a local, national and global level.

A detailed description of Rabobank and its business model is available on www.rabobank.com.

Situation at 1 July 2014

## 10 million clients

2.0 million members

## 123 local Rabobanks

591 branches

## Rabobank Nederland

**Markets Retail Netherlands**

**Markets Wholesale Netherlands and International**

**Markets Rural & Retail International**

## Subsidiaries and associates

**Payment transactions**
- MyOrder (80%)

**Mortgages**
- Obvion

**Insurance**
- Achmea (29%, Interpolis)

**Wholesale**
- Rembrandt (51%)

**Leasing**
- De Lage Landen (Athlon, Freo)

**Real estate**
- Bouwfonds Property Development
- MAB Development
- FGH Bank
- Bouwfonds Investment Management
- Fondsenbeheer Nederland

**Asset management**
- Robeco (10%)
- Schretlen & Co

**Partner banks**
- Banco Terra (45%)
- Banco Regional (40%)
- BPR (35%)
- NMB (35%)
- Zanaco (46%)
- URCB (9%)
- Banco Sicredi (19%)
- FDCU (28%)

**International retail**
- ACC Loan Management
- Bank BGZ (99%)

Rabobank Group consists of 123 autonomous local Rabobanks and the central organisation Rabobank Nederland with a number of specialised subsidiaries. In total, around 55,100 FTEs work for Rabobank Group in 40 countries, serving around 10 million customers worldwide.

## Treating customers fairly

The services of the cooperative Rabobank are centred on the customer's interest. Rabobank aims to provide suitable advice, good service and good products and be accessible, involved and sustainable. A coherent set of performance indicators has been developed to find out and measure whether customers actually experience its services in this way. These indicators reflect customers' experience of the advice provided and the handling of their day-to-day banking matters. Feedback from customers and employees determines our actions.

### *Accessible, involved and sustainable*

Rabobank is accessible and wants to be a bank among people, contribute to their success and work with others towards sustainable economic development at an individual, local, national and global level.
Rabobank's employees treat customers in accordance with the core values: respect, integrity, professionalism and sustainability and foster long-term relationships with customers.

| Suitable advice | Good service | Good products |
|---|---|---|
| Rabobank will ensure that advice is clear and aligned with customers' knowledge and experience, financial position, objectives and risk appetite. | Rabobank delivers faultless services aligned with customers' requirements. Day-to-day banking matters should require as little time and effort from customers as possible. | Rabobank only develops products and services that cater to a need and are in customers' interest and provides clear information on them. |
| Rabobank is a reliable, long-term financial partner for its customers. | Rabobank conscientiously addresses customers' complaints and uses complaints to improve its services. | Rabobank's fees and commission are a fair reflection of the costs, the risks and the required returns. |

## The online platform DenkMeeMetJeBank

As a cooperative bank, Rabobank sets great store by engaging in dialogue about the organisation and its services with its customers and members. In addition to the many personal meetings organised by the local Rabobanks to pursue this, the online platform DenkMeeMetJeBank was further developed in the first half of 2014. The platform offers members of the local Rabobanks an opportunity to engage in dialogue – both with each other and with the bank – on topical and relevant subjects. The voice and influence of members of the Rabobank are further strengthened via this platform. Another platform, 'RaboVersterkt' (RaboStrengthens), is used to illustrate the local as well as national impact of the numerous local initiatives.

As a bank at the heart of society, Rabobank actively contributes to the economic and social vitality of the local communities. Those initiatives are closely connected with its banking services. The local Rabobanks aim to work with the stakeholders concerned on any particular issue.

Liveability in terms of care is one of the social topics that Rabobank focuses on. For example, Rabobank has developed a care snapshot. This care snapshot provides a concise overview of the present and future need for care and the available care facilities in a specific municipality. The care snapshot also covers the situation in the local and regional labour market and expected developments in terms of pressure on the labour market in the region concerned.

### Future-oriented banking

Dutch banks want to restore trust in the financial sector. To that end the Dutch Banking Association (NVB) launched a package called Future-oriented banking ('Toekomstgericht bankieren'). This plan comprises a Social Charter, an updated Banking Code and a code of conduct in combination with disciplinary law for individual employees. In the Social Charter, the banks describe their view on the role they seek to fulfil in society. The updated Banking Code covers the associated governance principles, compliance and monitoring. The code of conduct, which is included in the oath for the moral and ethical conduct declaration and is enforced by disciplinary law, focus on the suitable conduct of all employees in the sector.

Following the initiative by the Dutch Banking Association, members of the Executive Board held talks with employees of Rabobank in June. These dialogue sessions centred on the question of how the financial sector in general and Rabobank in particular can regain society's trust.

Rabobank launched an ambitious, bank-wide culture programme in 2013. The culture programme aims to change the way in which employees treat each other and work with each other and to make Rabobank's cooperative basis even more visible and express it more clearly in its operations. The outcomes of a large-scale survey among employees on the culture and identity of Rabobank provided important input for this programme. Employees endorse Rabobank's mission and ambition, but also mention numerous points requiring improvement, such as providing honest feedback and reducing the complexity of the organisational structure. As part of the culture process, the first management teams of local Rabobanks and management teams of Rabobank Nederland and Wholesale, Rural & Retail engaged in extensive discussion and work with each other in April on day-to-day attitudes to each other, as teams and as individuals. The next two meetings will centre on the customer and the organisation, respectively. Employees are involved in the process through 'field work'. The last groups will start in early 2015.

### HR transition

The change programme for local Rabobanks, Vision 2016, is on track. In line with this project and the integration of the Dutch activities of Wholesale, Rural & Retail with Rabobank Nederland, the Mars programme was launched at the start of 2014. This programme is designed to ensure that Rabobank Nederland operates with even more awareness, agility and customer focus by 2016. The new, flatter organisation has been operational since 1 July. The redesign will result in job losses both at the local Rabobanks and at Rabobank Nederland. Support is provided to redundant employees on the basis of the existing severance plan (Sociaal plan). This provides for many ways of supporting redundant employees to find a new job, both inside and outside the organisation.

### Gender diversity

Rabobank aims to increase the share of women in senior positions and is actively targeting the recruitment, promotion and retention of talented women. In April, Rabobank, Rabo Real Estate Group and De Lage Landen joined the charter Talent to the Top. This initiative is targeted at increasing the number of appointments of women in senior management positions and the retention of talented women. By signing the charter, the bank is confirming its commitment to an active and effective diversity policy.

### Reputation buffer of Rabobank narrowed

On most reputation indicators, Rabobank often had an advantage of more than 10 percentage points over its closest large rival bank. The Libor settlement at the end of 2013 has narrowed this advantage.

| | First half 2014 | Second half 2013 | First half 2013 | Annual average 2012 |
|---|---|---|---|---|
| ***Rabobank as a cooperative*** | | | | |
| Awareness of Rabobank as a cooperative | 77% | 82% | 79% | 76% |
| Positive rating of Rabobank as a cooperative | 52% | 54% | 57% | 57% |
| ***Rabobank's image*** | | | | |
| Involved (No. 1) | 29% | 30% | 33% | 36% |
| Lead over No. 2 | 9 percentage points | 12 percentage points | 16 percentage points | 17 percentage points |
| Nearby (No. 1) | 42% | 44% | 47% | 49% |
| Lead over No. 2 | 8 percentage points | 11 percentage points | 14 percentage points | 14 percentage points |
| Leading (No.1) | 33% | 36% | 38% | 41% |
| Lead over No. 2 | 4 percentage points | 8 percentage points | 9 percentage points | 12 percentage points |
| Trustworthy (No. 1) | 33% | 36% | 42% | 46% |
| Lead over No. 2 | 4 percentage points | 9 percentage points | 15 percentage points | 14 percentage points |
| ***Bank preference*** | | | | |
| Preference for Rabobank (No.1) | 47% | 51% | 53% | 53% |
| Lead over No. 2 | 4 percentage points | 7 percentage points | 11 percentage points | 10 percentage points |

These figures are based on a survey by the research agency No Ties. Every year, over 5,000 people in the Netherlands are interviewed about the reputation of the various banks in the Netherlands. For each indicator they are asked to state with which bank they most strongly associate the indicator concerned (multiple answers are possible). This results in scores for the banks on each of the various reputation indicators.

Rabobank's advantage in terms of reputation has been cut back. The critical stance with regard to the sector now also extends to Rabobank. This means that the bank is more readily held to account for its conduct to all stakeholders.

Rabobank continues to actively engage in dialogue with its customers and other stakeholders. The initiatives referred to earlier concerning DenkMeeMetJeBank, future-oriented banking and the culture programme underline the importance that Rabobank assigns to an open social dialogue.

# Sustainability

Together with its business and retail customers, Rabobank aims to achieve a positive social impact. The focus is on accelerating the greening of agriculture and food supply worldwide and strengthening vital communities.

## Policy

The memorandum 'Sustainably Successful Together' formulates the ambitions for Rabobank's contribution to sustainable development up to 2020. The group-wide sustainability objectives have been formulated as follows:

- Strengthening the vitality of communities: in the Netherlands this concerns topical local social themes such as sustainability, economic vitality and liveability in terms of care and housing.
- Accelerating sustainable agriculture and food supply to improve the sustainability of agricultural value chains on a global scale.
- Working with corporate clients: encouraging and supporting corporate clients to gradually improve their sustainability.
- Advising retail customers: combining the best possible financial advice with a positive contribution to sustainable development.
- Rabobank's contribution to sustainable development is delivered by professional employees for whom sustainability is an integral part of customer service. Sustainability is integrated in internal business operations.

The policy has been embodied in KPIs for each theme that form the basis for internal and external reporting on our progress towards achieving the sustainability objectives.

## Agriculture and food supply

*Banking4Food*

To be able to feed the world's population in 2050, food production needs to be increased by at least 60%. The challenge is to produce more food more sustainably, with reduced inputs, reduced emissions and reduced wastage and with respect for biodiversity and social values. Rabobank has the ambition to be the market leader in the Netherlands and is a leading player internationally in financing the food and agri sector.

Banking4Food is the Rabobank Group's food and agri strategy. It is aimed at delivering a meaningful contribution to resolving the global food issue by providing access to financing, relevant food and agri knowledge and the worldwide chain network. Rabobank thereby seeks to facilitate the economic success of its customers and the vitality of their communities with the goal of sustainably feeding the world.

*Green Bond Principles*

Rabobank is part of a consortium of corporate and investment banks that announced the Green Bond Principles (principles for green corporate bonds) in January. These principles provide guidance on developing and issuing sustainable corporate bonds. Investors, banks and others can use the principles to understand the characteristics of certain green corporate bonds.

This will contribute to greater transparency in the market for green corporate bonds. Rabobank's ambition in using these products is to support the leaders in the field of sustainability in obtaining financing alternatives to bank loans. The Green Bond Principles are an important aid in doing so.

*International greening and chain cooperation*

Rabobank works with various stakeholders in the international production chains with the aim of contributing to the greening of those chains. This is done through means including Round Tables and cooperation with customers and NGOs. For instance, Rabobank is working with the World Wildlife Fund (WWF) to set up projects in five countries. In Chile, one of the world's largest salmon producers, both partners have already been active for a considerable time in a project for the greening of salmon farming. In workshops, customers learn what working according to the new standard for sustainably farmed salmon means. To further promote the move to sustainable salmon farming, various efforts were undertaken in the first half of 2014 to stimulate demand for sustainably farmed salmon. Demand stimulation took place mainly on the retail side, particularly in the United States. Together with major producers, a session was organised during the Boston Seafood Event to discuss the new standard aimed at offering only sustainably farmed salmon by 2020.

A project was launched in India this year that targets improved water management in sugar cane production. A project is being prepared in Brazil to increase sustainability by the integration of crops, livestock farming and forest management. In Indonesia, Rabobank and the WWF will help small palm oil farmers to apply sustainable palm oil production techniques and to improve access to the financing required for this. And in the Netherlands, a project is being set up with dairy farmers in Friesland and a large dairy cooperative to increase biodiversity in dairy farming. Rabobank and the WWF are also working on the development of a tool to measure the sustainability performance in the fishing industry. This tool will be tested this year in cooperation with other banks.

## Vital communities

*Strong together in new cooperatives*

In response to receding government support and a market that often fails to meet their needs, people are taking the initiative themselves across a wide range of areas. This movement is growing rapidly; there are many grassroots initiatives that are organised cooperatively, and Rabobank is responding proactively to this development. Via its Cooperative Desk, Rabobank is involved in more than thirty of these initiatives this year. This desk supports local Rabobanks with specialist knowledge and access to relevant networks. There are various examples of local Rabobanks that financially support new cooperatives from their cooperative or profit distribution fund. The condition applied is that these developments must give rise to new sustainable local economic activities, such as the generation of solar power and fibre-optic networks.

The alliance between Rabobank and Nudge was announced in April. Nudge is an independent sustainable consumer platform that initiates specific local sustainable projects. Working with Nudge, Rabobank aims to increase its positive social impact and visibility. The Drechtsteden, Haarlem, Uden-Veghel and Waterland Rabobanks were connected as Friends of Nudge in the first half of 2014, and several other local Rabobanks are preparing to participate.

*40th anniversary of Rabobank Foundation*

Rabobank Foundation, Rabobank's social fund, is celebrating its 40th anniversary this year. The 'Stichting Steun Rabobanken' was established in 1974; in 2002 the name of the fund changed to Rabobank Foundation. In 40 years' time, Rabobank Foundation has grown into a professional development organisation focusing on investing in people's self-sufficiency worldwide. Rabobank Foundation is active in 25 countries and supports around 200 projects every year with donations, loans, knowledge and expertise.

Most of the projects are in developing countries. The support is aimed at providing access to finance, knowledge and markets for small farmers through cooperatives. Rabobank Foundation thereby contributes both to combating poverty and to addressing the global food issue. In the Netherlands, Rabobank Foundation helps to increase the economic and social self-sufficiency of various groups of underprivileged people, such as people with an intellectual, physical or psychological disability, or children who grow up in poverty.

## Social dialogue

*Social aspects of banking company*

Rabobank engaged in dialogue with Oxfam Novib, Friends of the Earth Netherlands and Eerlijke Bankwijzer (Honest Bank Guide) on social topics such as transparency, ethics in taxation and the circular economy. In the period under review, Rabobank increased the transparency of its external annual reporting on matters such as socially responsible investments, the remuneration package for the Executive Board and dialogue with governments. Rabobank also explained the way in which it deals with its tax obligations and the relationship with the tax authorities.

*Developments in regulation and supervision in the Netherlands*

Four developments in the field of regulation and supervision were particularly important in the first half year of 2014.

- A parliamentary majority in the Netherlands is in favour of increasing the leverage ratio for banks from 3% to 4%, even if other EU Member States do not implement such an increase at the present time.
- In February, the Netherlands Authority for the Financial Markets AFM published the report 'Aanbevelingen Rentederivatendienstverlening' (Recommendations on interest rate derivatives services). Rabobank provided information to the AFM and supports the recommendations of the report. The AFM provided information on the volume of these services to small and medium-sized entities in a news release on 28 May 2014 and the Lower House of the Dutch Parliament held a debate on this on 4 June 2014. Rabobank will discuss its services with customers with an interest rate derivative this year and take appropriate steps if necessary. If the customer and the bank cannot resolve the issues involved, customers will in due course also be able to turn to an independent institution, which will probably be the Financial Services Complaints Tribunal Kifid.
- A round table discussion was held in the Lower House on 21 May on banks' use of customer data, in which Rabobank stated that it does not sell or provide access to customer data to third parties. It sees the greatest scope for innovation in the primary relationship between bank and customer. Further dialogue with the stakeholders involved will take place on this in the period ahead. In addition, the Code of Conduct for the Processing of Personal Data by Banks and Insurers will be extended and expanded if necessary. This Code is set to expire in April 2015.
- The Lower House organised an open round table discussion on 12 March on the future of ATMs in districts and villages. Topics included the social effects of the reduced number of ATMs and a realistic standard distribution. The banks jointly suggested that the National Forum on the Payment System should put forward a distribution proposal. A pilot project to examine where banks can jointly place an ATM in thinly populated areas is currently being developed.

# Broad range of services in the Netherlands

## *Economy recovering and services virtualising*

www.rabobank.nl
www.obvion.nl

There was a hesitant economic recovery in the first half of 2014. Consumer confidence rose and the economy grew. At the same time, the consequences of the economic downturn of the past few years were clearly manifest. Value adjustments totalled EUR 578 million, or 38 basis points of average lending, well above the long-term average of 19 basis points. The net result of the domestic retail banking division fell by 45%, to EUR 341 million, compared with the first half year of 2013. Last year, the result benefited from the transition to a new pension scheme. This year, by contrast, the result was adversely affected by the resolution levy, a non-recurring levy by the government for the banking sector in connection with the nationalisation of SNS Reaal. Excluding these non-recurring effects, the result of the domestic retail banking division improved.
Many private individuals repaid part of their mortgage and the level of corporate investments remained low; the domestic loan portfolio decreased by EUR 4.3 billion to EUR 298.8 billion. In addition, amounts due to customers fell moderately by EUR 1.7 billion to EUR 214.0 billion. The market share in trade, industry and services and the market share of mortgages fell and the market share in the savings market was likewise somewhat pressured.
The local Rabobanks are fully engaged in the change process Vision 2016, with a significant focus on the further virtualisation of the services as desired by customers. This entails a sharp fall in the number of jobs, and many further employees' jobs were eliminated in the first half of 2014.

### Vision 2016: virtually together

Rabobank is faced with incisive changes. Besides simple and transparent financial services, customers want to be able to arrange their banking matters at any time and in any place. At the same time, the limited economic growth means that earnings are stagnating and the level of bad debt costs remains high. Owing to these developments, Rabobank has launched the programme Vision 2016. This programme targets improved customer service and a lower cost base.
Vision 2016 reached the implementation and execution phase at the local Rabobanks in the first six months of this year. This phase is centred on the virtualisation of services and strengthening social involvement by participating together with the customer in physical or virtual networks.

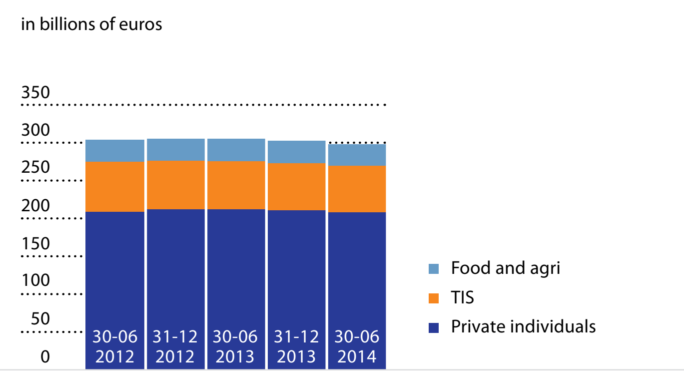
The transition to virtual channels is accompanied by a reduction of the workforce; the internal workforce at the domestic retail banking division fell by 1,807 FTEs to 25,192 FTEs in the first half of 2014. The number of external staff likewise decreased, by 66 FTEs. The workforce reduction resulted in a decrease in staff costs. These costs are expected to decrease further in the years ahead. Redundant employees are given as much support as possible, and new jobs are sought for them in conjunction with mobility centres. In addition, 2014 saw further mergers of local Rabobanks, whose number fell by 6 to 123 on 30 June 2014.

*Financial advice*

Rabobank seeks to be the financial partner of choice for its customers. This is aimed above all at achieving customers' goals and wishes. With its financial advice, Rabobank helps customers to develop an understanding of their financial situation and advises them on the options available to them. Key topics addressed as part of doing so are the available buffers for unforeseen expenditure, the affordability of living expenses, their income at the present time and in the future and customers' wealth creation targets.

Rabobank offers various forms of financial advice. The advice requirements of the customer determine which form of advice is suitable. For example, we can assist retail customers with advice on matters including income for when they retire and on care for surviving dependents. We can also advise businesses on financial planning, as part of which we moreover take account of the financial development of the business. In addition, Rabobank has specialists who can advise customers on estate planning and structuring assets.

**_Loan portfolio by sector_**




## Domestic retail banking division loan portfolio

The Dutch economy is expected to grow slightly in 2014, mainly owing to exports and investments. The increased Dutch exports led to higher capacity utilisation in the manufacturing industry in particular, the industry that manufactures new products from materials, and parts of the transport sector. Household spending meanwhile remained low; consumption volumes contracted in the first half of the year. Accordingly, the improved economic climate only resulted in investments in companies to a limited extent.

The private sector loan portfolio of the domestic banking division fell by EUR 4.3 billion to EUR 298.8 (303.1) billion in the first half of 2014. Lending to private individuals consists almost wholly of mortgages, the volume of which edged down to EUR 208.6 (211.0) billion. Lending to trade, industry and services (TIS) fell by 2% to EUR 61.5 (63.0) billion and lending to the food and agri sector likewise fell by 1% to EUR 28.7 (29.1) billion.

## Home mortgages

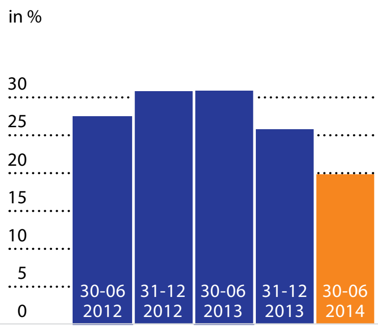
*The housing market*

The Dutch housing market is clearly recovering. The number of residential property sales has been rising since mid-2013 and the average price has increased slightly. Confidence in the housing market is relatively high and the falling mortgage interest rate is helping to make owner-occupied housing relatively affordable.

*Mortgage portfolio*

The market share of Rabobank Group in the Dutch mortgage market for the first half year of 2014 was 20.1% (26.0%) of new mortgage production. The market shares of the local Rabobanks and Obvion fell to 15.9% (19.2%) and 4.2% (6.6%) respectively. At the end of 2013, Friesland Bank still contributed 0.2% to the total market share of Rabobank Group, whereas the market share of Friesland Bank was nil in the first half of 2014; almost all its customers have now been moved to the local Rabobanks.

## *Share of mortgage market*




Due to additional repayments on existing mortgages, the mortgage portfolio of Rabobank Group contracted to EUR 207.6 (209.1) billion in the first half year of 2014. Owing to the problem of residual debt and low interest on savings, a number of customers opted for early repayment. The possibility of gifting up to EUR 100,000 free of tax if the recipient uses the gift to repay the mortgage on his or her owner-occupied home also contributed to this. Within the mortgage portfolio, 20.6% consists of financing with a National Mortgage Guarantee (Nationale Hypotheek Garantie, or NHG). The volume of the NHG portfolio grew by EUR 0.5 billion in the first half year of 2014. The NHG acceptance limit was reduced from EUR 290,000 to EUR 265,000 with effect from 1 July 2014, meaning that the growth of the NHG portfolio will flatten. Due to the changed tax treatment of owner-occupied housing as of 1 January 2013 the share of annuity loans and linear loans in the mortgage portfolio is increasing. Mortgages based on capital growth and interest-only financing have lost some of their attraction due to the change in the tax regime, as a result of which the share of these types of mortgage in the mortgage portfolio declined. Customers with full interest-only financing accounted for 24.7% (25.3%) of the mortgage portfolio in mid-2014.
The weighted average current loan-to-value (LTV) of the mortgage portfolio improved sligthly to 79.4% (80.7%) in the first half year of 2014. This is due to the additional repayments, the increase of pledged savings and the stabilisation of the average price of existing homes. In the first half year of 2014 the LTV exceeds 100% for approximately 20% of the mortgage portfolio excluding NHG. The LTV calculation takes account of pledged assets.

### *The virtualisation of the mortgage process*

Rabobank is a leader in virtualising the mortgage advisory process. The Rabobank Mortgage File, which was introduced in 2013, enables customers to prepare themselves online and to explore their options for mortgage advice. In the coming period, this online service will be gradually expanded into a full cross-channel service. Customers will then choose the channel through which they wish to be advised, online, face-to-face or a combination of the two. By providing this new service, Rabobank is meeting the changing wishes of consumers while at the same time enhancing the speed and efficiency of its customer service. The 100,000th online Rabobank Mortgage File was created in the first half of 2014.

### *Suitable mortgage advice*

Rabobank aims to prevent payment problems for mortgage customers wherever possible. This is in both the customer's interest and in the bank's interest, and obviously begins with suitable advice and an appropriate mortgage. During the term of the mortgage loan, it is followed up by regular assessment of whether the mortgage is still appropriate for the customer's personal circumstances. Mortgage advice includes assessing the affordability of the loan for the residential property, in terms of the customer's ability to continue to repay the loan in a range of situations such as unemployment, divorce or disability. The financial impact of those risks is discussed with customers during the mortgage advice interview. Customers can take out insurance for those risks. Nevertheless, it may become impossible for customers to continue paying their housing costs, due to changes in their circumstances. In mid-2014, 0.57% of the total of over 1.2 million mortgage loan customers of Rabobank had incurred payment arrears of 90 days or more. In most cases, the customer and the bank jointly reach a solution and customers can continue to live in their home. Rabobank wants to consult customers quickly in the event of (possible) arrears to discuss the situation and seek an appropriate solution.

There are options for giving customers additional headroom by means of a repayment schedule or by using a budget coach. Recovery proved not to be feasible for 0.35% of the mortgage loan customers in the first half year of 2014 and there was no prospect of continuing the mortgage loan on a lasting basis. It was decided to sell the property in those cases. Preferably, this is done jointly with the customer by means of a private sale. Public auctions are only used in exceptional cases, 109 in the first half year.

*Bad debt costs and write-downs*

Although unemployment will continue to nudge up this year, there are also hesitant signs of a recovery. This development and the improved situation in the housing market will in due course have further effects on the volume of impaired loans and bad debt costs. Impaired loans fell to EUR 774 million. Value adjustments in the mortgage portfolio amounted to EUR 56 million in the first half year of 2014, but are still very low at 5.5 basis points on an annualised basis. Write-downs on the mortgage portfolio totalled EUR 43 million in the first half year.

**The Dutch residential mortgage portfolio**

| *amounts in millions of euros* | 30-Jun-14 | 31-Dec-13 |
|---|---|---|
| Size of mortgage portfolio | 207,586 | 209,142 |
| Weighted average current loan-to-value | 79.4% | 80.7% |
| Size of portfolio with payment arrears of more than 30 days and less than or equal to 90 days in relation to size of mortgage portfolio | 0.37% | 0.43% |
| Size of portfolio with payment arrears of more than 90 days in relation to size of mortgage portfolio | 0.78% | 0.80% |
| Number of customers with arrears of more than 90 days compared to number of mortgage customers | 0.57% | 0.55% |
| Number of customer recovery procedures compared to number of mortgage customers | 0.35% | 0.28% |
| Sales proceeds from homes sold by private and public sale versus receivables during review period | 89% | 88% |
| Size of NHG portfolio compared to total mortgage portfolio | 20.6% | 20.3% |
| Share of interest-only loans compared to total mortgage portfolio | 24.7% | 25.3% |

**The Dutch residential mortgage portfolio**

| *amounts in millions of euros* | 30-Jun-14 | 31-Dec-13 |
|---|---|---|
| Impaired loans | 774 | 894 |
| Allowance | 207 | 198 |
| Cover rate | 27% | 22% |
| | 2014-I | 2013-I |
| Value adjustments | 56 | 68 |
| Bad debt costs (bp) | 5 | 6 |
| Write-downs | 43 | 48 |

*Greening of housing*

Energy savings in their homes allow private customers to achieve monthly savings on their energy bills while considerably improving the comfort of their homes at the same time. In 2013, Rabobank and ASN Bank, together with the government, established the National Energy Savings Fund (NEF). As of January 2014, homeowners can green their home with the help of an Energy Savings Loan. This fund was spotlighted via online communication on www.rabobank.nl at the time of the launch of this green loan. There are also other low-cost mortgage arrangements that make energy savings in homes more attractive financially. To support local Rabobanks in facilitating these arrangements, the Sustainable Housing programme has been expanded by a pilot project for local Rabobanks; the Smart Renovation event. This event comprises an information market to establish contact between business customers in the building sector and interested private homeowners. It helps Rabobank to strengthen its contribution to local communities and, as a major provider of mortgages, to work on greening the housing market.

*Obvion*

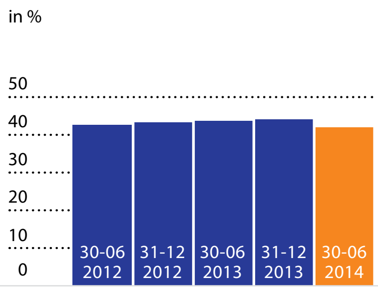
Rabobank is also active in the mortgage market via its wholly-owned subsidiary Obvion. Obvion provides mortgages to some 190,000 customers via the intermediary channel. Partly due to the higher levels of unemployment, there was also an increased focus at Obvion in the first half year of 2014 on customers with payment problems. To prevent customers from sliding deep into debt, they are contacted as soon as they are in arrears in their mortgage payments for a few days. In consultation with the customer, options are sought to enable the customer to meet the payment obligations. In Obvion's experience, customers usually welcome the opportunity to enter into dialogue and do not see this approach as threatening. By further intensifying preventive management, Obvion seeks to help customers with an increased probability of arrears at an early stage by jointly looking at options for preventing actual arrears.

Together with the temporary employment agency Randstad and Vereniging Eigen Huis (Association of (prospective) Homeowners), ways to provide employees on flexible contracts with easier access to mortgages were examined. With a Prospects Statement, such employees can obtain a mortgage on the basis of an assessment of work experience, education and training, their competencies, their position and the employment market situation. Following a successful pilot project among 1,000 employees on flexible contracts, a decision was taken to make the Prospects Statement attainable for an additional 10,000 employees on flexible contracts. The initiative is also supported by the Homeownership Guarantee Fund (SWEW - Stichting Waarborgfonds Eigen Woningen) which provides the NHG.

## Trade, industry and services

The market share of Rabobank Group in trade, industry and services (TIS) in the first half of 2014 was 42% (44%). Lending by the domestic retail banking division to the TIS sector fell by 2% in the first half of 2014 to EUR 61.5 (63.0) billion. The commercial real estate portfolio of domestic retail banking is part of this loan portfolio. Developments within this portfolio are discussed in the Risk management section.

**Market share in TIS**




*Dutch small and medium-sized businesses segment (SME)*

The Dutch small and medium-sized businesses segment has experienced several difficult years, particularly owing to the sharp fall in consumer spending. The Dutch economy came out of the recession in the course of 2013. Consumer confidence improved sharply in the second half of 2013 and the early part of 2014. Purchasing power also improved in 2014, for the first time in four years. Rabobank is nonetheless still expecting a fall in consumer spending this year, as some households will still aim to reduce debt or increase wealth. Accordingly, despite the recovery that appears to be in the offing, part of the small and medium-sized businesses segment will continue to struggle this year. Since the end of 2013, Rabobank has been seeing a slight increase in the number of loan applications up to EUR 500,000.

*SEPA migration*

The transition to a single European payments market continued to be a major focus area in the first half of 2014. At the start of the year, the European Commission decided to introduce an additional transitional period to 1 August. A large portion of our business customers were required to implement substantial adjustments in their financial systems, software and business processes to be able to migrate smoothly to SEPA (Single Euro Payments Area), the new payments standard. Rabobank provided additional SEPA migration assistance and support to customers who had not migrated by 1 February, for instance through migration consultants and an interbank campaign. Partly as a result of Rabobank's support, almost all business customers migrated according to schedule. Alternatives have been provided in a limited number of cases.

*Circular economy*

We are at the start of a shift from the existing 'linear economy' to a 'circular economy'. A circular economy is characterised by a switch in emphasis from product ownership to product use in combination with performance and service and a strong focus on efficient and productive re-use of materials and commodities. Rabobank has responded to this with the Rabobank Circular Economy Challenge. This is a one-year programme in which ten customers (from the food and agri sector and the automotive sector) receive support in switching to a circular product or circular service. This is supported by programmes organised by various local Rabobanks in which they facilitate contact between customers on the theme of the circular economy. Rabobank sets store by discussing the topic of sustainability and/or the circular economy with customers.

*Herman Wijffels Innovation Award*

The number of businesses seeking sustainable solutions in their operations is growing continually. Rabobank promotes this development with its Herman Wijffels Innovation Award. A total of 593 businesses applied for the Herman Wijffels Innovation Award 2014. The award is granted in three categories in which Rabobank is eager to make a sustainable difference: Food & Agri, Healthcare & Welfare and the Circular Economy. The award money of EUR 95,000 is paid to the four winning innovations. Many former finalists are well on their way to becoming successful and apart from the award money greatly appreciate the enormous publicity, the network and the knowledge of Rabobank.

*Integration of sustainability in customer snapshot and knowledge management*
Rabobank has launched a pilot project to make knowledge on sustainability available to its business account managers via four knowledge cards. This provides additional support to account managers in this area, aimed at making it easier to discuss the topic of sustainability with customers. A total of 14 highly detailed sector cards on sustainability have already been made available for mid-corporates account managers. Both initiatives contribute to the further integration of sustainability in the services delivered by Rabobank.

## Food and agri

Lending by the domestic retail banking division to the food and agri sector in the first half of 2014 was EUR 28.7 (29.1) billion. Lending to the food and agri sector accounts for 10% (10%) of the total loan portfolio of the domestic retail banking division. In the Netherlands, Rabobank has for many years had a stable market share in the food and agri sector of around 85% and is clearly the leading financier of this sector. Rabobank has acquired this position by virtue of its agricultural roots and the sector knowledge that it has built up over the course of many years. Rabobank focuses on how it can improve the effectiveness of the agricultural chain based on its role as a bank. In doing so it expressly takes the position of the farmer into account. The scale of agricultural and horticultural businesses in the Netherlands is increasing and the businesses are continually becoming more capital-intensive. These types of businesses are increasingly undertaking major investments in IT and innovations in the field of sustainability. It is sometimes difficult to finance these plans, partly because income was lower than expected in several sectors in the past few years. The added value that Rabobank can offer in those cases is to provide access to a network of financiers, as a result of which a suitable solution can nonetheless be provided for customers.

## Payment services

With its campaign 'Vandaag bankieren zoals morgen' (Banking of tomorrow today) in the first half of 2014, Rabobank highlighted the way in which it is further virtualising its payments services. This campaign centred on the products Rabo OmniRegister and MyOrder. Rabo OmniRegister is an internet cash register enabling Rabobank customers with an online store to accept national and international payment methods and cash register services. The product offers web businesses a stable payment environment. MyOrder makes it possible to place mobile orders and make payments at a growing number of restaurants, petrol stations and parking facilities and also to purchase tickets for amusement parks, theatres and cinemas. This is now possible at more than 12,000 locations.

*Continued strong growth of mobile banking*
In the first half of 2014, the number of customers who actively use mobile banking at Rabobank grew by some 200,000 to over 2 million. This includes both business customers and retail customers. Besides using their phones for checking their balance, customers are also increasingly using them for credit transfers or swiftly and conveniently arranging other banking matters. The Rabo Banking App is used by retail customers for entering or scanning almost half of all giro collection forms, for more than half of all transfers between own accounts and for around 30% of payments to third parties. Various new services were added to the Rabo Banking App in the first half of 2014. Customers can now use the app to block a debit or credit card, to raise their limit at point of sale terminals or ATMs, to change the settings for their card for use outside Europe and to take out travel insurance. The Rabo Investment App was also further expanded and optimised for use with tablets.

## Caring for the customer

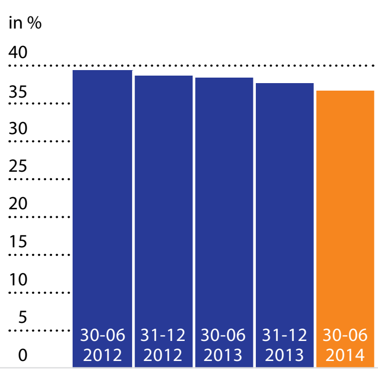
*Financial self-sufficiency*

Rabobank aims to assist young people in making financial decisions. Rabobank does not just help these young customers to become smarter in dealing with money, it also offers tips on financial education to their parents. Children aged between 6 and 10 years can use the KidsGeldWijs (KidsSmartMoney) App that playfully teaches children to deal with money. Together with Rabobank, Klasse TV has developed the free teaching packages 'Leren omgaan met geld' (Learning how to deal with money) and 'Groen en geld' (Green and money), which are used by 30% of primary schools in the Netherlands. Many Rabobank employees acted as guest teachers during the Money Week, delivering as many as around 1,400 guest lessons on 'Banking in the classroom'. For older children, Rabobank has developed www.baasovereigengeld.nl (B.O.E.G.) (in charge of your own money) where they receive advice and information on relevant themes to help them to be more knowledgeable in dealing with money. They can also compare themselves with others and the money coach Yvette will answer financial and other questions. The interactive theatre shows Crisis (young adults) and Credits (parents) contribute to a greater awareness of financial issues and stimulate dialogue between them. In addition, Rabobank carried out a study, together with the National Institute for Family Finance Information Nibud, of financial problems among young adults.

*Special target groups*

Rabobank aims to enable customers to handle their banking matters self-sufficiently for as long as possible and preferably via the internet or mobile banking and offers support if they are no longer able to do this on their own. As part of the further virtualisation of its services, Rabobank is taking measures to safeguard access for customers with a handicap to the greatest extent possible. Since the end of 2013, adjustments and innovations in the virtual environment are tested for accessibility for customers with a handicap. Accordingly, the adjustments in internet banking in connection with SEPA were recently assessed and made more accessible where necessary. This also applies to new credit transfer forms. The service concept 'Banking together' has been introduced for customers for whom these measures are not enough to allow them to handle their own banking matters. The concept comprises extra support from their local Rabobank. Instructions have also been drawn up to better enable employees to identify and report peoples' incapacity to perform legal acts or financial abuse of customers with a handicap. Embodying its care for customers, Rabobank is thereby safeguarding the accessibility of its services for customers who are no longer able to handle their own banking matters without assistance.

***Market share for savings***




## Savings

The Dutch private savings market grew 3% to EUR 335.0 (325.3) billion in the first half of 2014. The market share of Rabobank Group in this market was 36.8% (37.8%). The local Rabobanks accounted for 35.9% (36.7%) and Roparco for 0.9% (1.0%) within that total. As a result of the migration that has basically been completed, the share of Friesland Bank is virtually zero. At the end of 2013, Friesland Bank contributed 0.1% to the market share. Amounts due to customers in domestic retail banking fell 1% to EUR 214.0 (215.7) billion. Amounts due to customers consist, to a large extent, of private savings; this category decreased by 1% to EUR 124.5 (125.2) billion.

### *Rabo PeriodSavings*

Rabobank introduced a new savings account in the first half of 2014: Rabo PeriodSavings. With a Rabo PeriodSavings account, the customer is required to announce a withdrawal in advance via internet banking or mobile banking. The period of advance notice is 30 or 90 days, depending on the customer's choices. The benefit for customers is that they receive interest at a higher rate with Rabo PeriodSavings than on the Rabo InternetSavings account, where daily withdrawals are possible.

### *Rabo Groen Bank*

Rabo Groen Bank provided some EUR 80 million in financing for sustainable projects in the first half of 2014. A special feature in this context was the nationwide campaign for solar panels in the agricultural sector, as part of which solar panels worth EUR 7 million were financed in the past six months. Wind energy and organic farming are other categories which received significant green funds. The Private Banking relations of local Rabobanks enthusiastically welcomed the opportunity to visit green projects together with Rabo Groen Bank as part of the Groentour. The e-magazine (www.rabobank.nl/groen) that was published in April describes the activities of Rabo Groen Bank and the effectiveness of the green investment scheme in detail.
It became clear in April that interest in Rabo GreenSavings was so great that an investment and opening block was introduced until further notice. This was necessary so as to be able to guarantee the tax-privileged nature of Rabo GreenSavings.

### *Investments*

Customers have various options for investing at Rabobank; independently with Rabo Direct Investments, supported by advice with Rabo Advisory Investments and Rabo Select Investments, or they can have investments made for them through Rabo Managed Investments and Rabo Rendemix. Rabobank helps its customers to engage in socially responsible investments as much as possible. Over 90% of portfolios of Rabo Select Investments, for instance, consist of investments in securities that comply with the criteria for socially responsible investments.

## Insurance

Rabobank Group has an interest of 29% in Achmea. Achmea is the strategic partner of choice for Rabobank in the field of insurance products. Through its Interpolis brand, Achmea is the exclusive supplier to Rabobank in the field of insurance. Private insurance is offered at the local Rabobanks through the Interpolis All in one Policy. The Interpolis non-life propositions ZekerVanJeZaak (SureOfYourBusiness) and the Business Compact Policy are offered for business customers. Due to the phasing-out of the policies of other companies, insurance commission at the local Rabobanks fell to EUR 148 (160) million in the first half of 2014.

| ***Insurance*** | | |
|---|---|---|
| *number of policies* | 30-Jun-14 | 31-Dec-13 |
| All-in one Policy | 1,309,000 | 1,324,000 |
| SureOfYourBusiness and Business Compact Policies | 209,000 | 210,000 |
| ZorgActief | 212,000 | 223,000 |

# *Financial results of domestic retail banking*

| ***Results*** | | | |
|---|---|---|---|
| *in millions of euros* | 2014-I | 2013-1 | Change |
| Interest | 2,718 | 2,579 | 5% |
| Commission | 655 | 705 | -7% |
| Other results | 129 | 526 | -75% |
| **Total income** | **3,502** | **3,810** | -8% |
| Staff costs | 1,126 | 1,206 | -7% |
| Other administrative expenses | 1,068 | 1,092 | -2% |
| Depreciation | 64 | 70 | -9% |
| **Operating expenses** | **2,258** | **2,368** | -5% |
| **Gross result** | **1,244** | **1,442** | -14% |
| Value adjustments | 578 | 629 | -8% |
| Resolution levy | 183 | - | |
| **Operating profit before taxation** | **483** | **813** | -41% |
| Taxation | 142 | 198 | -28% |
| **Net profit** | **341** | **615** | -45% |
| | | | |
| **Bad debt costs** (in basis points) | **38** | **41** | -7% |
| | | | |
| ***Ratios*** | | | |
| Efficiency ratio | 64.5% | 62.2% | |
| RAROC | 7.4% | 13.4% | |
| | | | |
| ***Balance sheet*** *(in billions of euros)* | 30-Jun-14 | 31-Dec-13 | |
| Total assets | 363.4 | 376.3 | -3% |
| Private sector loan portfolio | 298.8 | 303.1 | -1% |
| Amounts due to customers | 214.0 | 215.7 | -1% |
| | | | |
| ***Capital requirements*** *(in billions of euros)* | | | |
| Regulatory capital | 6.5 | 6.6 | -2% |
| Economic capital | 9.3 | 9.1 | 2% |
| | | | |
| ***Number of employees*** *(in FTEs)* | 25,192 | 26,999 | -7% |

## *Notes to financial results of domestic retail banking*

### Income down 8%

Total income of the domestic banking division amounted to EUR 3,502 (3,810) million in the first half of 2014. The recovery of margins on savings contributed to a 5% increase in interest income to EUR 2,718 (2,579) million. Commission income fell by 7% to EUR 655 (705) million; commission income on insurance and investment products in particular was lower in the first half of 2014. The result for the first half of last year benefited from the transition to a new pension scheme, while, by contrast to 2013, the local Rabobanks again received dividend distributions from Rabobank Nederland in 2014. On balance, these effects contributed to a fall of the other results by 75% to EUR 129 (526) million.

### Operating expenses down 5%

In the first half of 2014, total operating expenses at domestic retail banking decreased by 5% to EUR 2,258 (2,368) million. The lower number of employees as a result of the implementation of Vision 2016 at the local Rabobanks led to a fall in staff costs by 7% to EUR 1,126 (1,206) million. In addition to the decrease at the local Rabobanks, the number of employees at Friesland Bank also fell significantly due to the migration. The costs of innovation, which Rabobank Nederland recharges to the local Rabobanks, were again high in the first half of 2014. Reorganisation costs were slightly lower and this contributed to a decrease of other administrative expenses by EUR 24 million to EUR 1,068 (1,092) million. As a result of lower amortisation on software, amortisation costs fell by 9% to EUR 64 (70) million.

### Bad debt costs at 38 basis points

Value adjustments for domestic retail banking amounted to EUR 578 (629) million in the first half of 2014, or 38 (41) basis points of average lending, compared to a long-term average of 19 basis points. In the food and agri sector, value adjustments are concentrated mainly in greenhouse horticulture. The first half of 2014 continued to be challenging for businesses in this sector; prices were pressured by high production. Within trade, industry and services, bad debt costs were at a relatively high level for the sectors commercial real estate and industry in particular.

### Regulatory capital down by 2%

In calculating the capital requirement, risks associated with loans to private individuals and businesses are estimated using internal rating and risk models. The regulatory capital for the domestic retail banking division was down to EUR 6.5 (6.6) billion in mid-2014. The decline in credit risk was partly offset by an increase in operational risk. The decrease in credit risk is in line with developments in lending. The increase in economic capital to EUR 9.3 (9.1) billion was mainly due to the increase in operational risk.

# International: leading food and agri bank

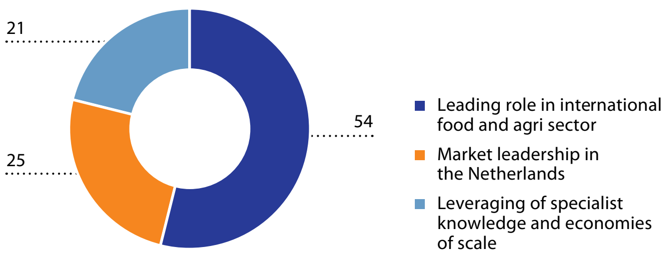
## *Continued focus in the Netherlands on market leadership and internationally on food and agri*

www.rabobank.com

The net result of wholesale banking and international retail banking amounted to EUR 389 million in the first half of 2014, down EUR 105 million from the first half of 2013. This decrease was partly due to de-risking. The level of value adjustments decreased by EUR 50 million to EUR 178 million, or 35 basis points of average lending. The long-term average is 57 basis points. Bad debt costs fell at both international rural and retail banking and at wholesale banking. The lower gross result and higher taxation led to a decrease in net profit, however. Partly owing to currency effects, the loan portfolio increased by EUR 2.1 billion to EUR 89.9 billion. The share of food and agri in the total loan portfolio grew to 57%, an increase of 1 percentage point compared to the end of 2013. Amounts due to customers decreased by 1% to EUR 107.3 billion and the aggregate savings deposits at RaboDirect savings banks increased by 2% to EUR 29.7 billion.

***Distribution of wholesale banking income***

by area, in first half 2014, in %




### Strategy for Wholesale, Rural & Retail

Since 2014, Rabobank Nederland and Wholesale, Rural & Retail (formerly Rabobank International) are managed on an integrated basis. Rabobank operates as one bank in the Netherlands and internationally. The international banking strategy is unchanged. For the international wholesale banking division, strengthening market leadership in the Netherlands and playing a leading role in the international food and agri sector remain the principal objectives. In addition, there is a focus on synergy between business lines. The rural and retail banking division has a strict focus on food and agri; the principle for the rural banks is that at least 95% of the portfolio should consist of food and agri, and for the retail banks, that 40-50% of the portfolio should consist of food and agri. A certain degree of scale is needed to ensure an optimal cost and quality standard for the products concerned. Specialist knowledge will therefore be deployed for a wider customer group.

### Market leadership in the Netherlands

In the early part of 2014, the Central Delegates Assembly issued advice in favour of organising services for mid-corporate customers with revenue of up to EUR 250 million on a more customer-focused and efficient basis in the future. While account management and customer contact currently often still take place from the local Rabobanks as well as Mid-Corporates Rabobank Nederland, these customers will have a single designated contact in the future.

There will be three categories of local Rabobanks: (1) banks that independently serve the category up to EUR 30 million; (2) banks that themselves serve all customers with revenue up to EUR 100 million, unless a customer in this category is to be designated as complex; and (3) banks that independently serve the entire mid-corporate segment up to EUR 250 million. Dutch mid-corporate customers with revenues in excess of EUR 250 million are served centrally from Rabobank Nederland. A strategic dialogue is entered into with these customers and solutions are offered for financing issues on the basis of in-depth customer knowledge.

## Leading role in the worldwide food and agri sector

*Wholesale*

Rabobank is a leading financial services provider for food and agri businesses at the international level. Informed by a clear vision for the future, Rabobank facilitates the strategic dialogue with large, internationally operating food and agri businesses. Rabobank sets itself apart by its in-depth knowledge of the food and agri sectors. Outside the Netherlands, the main food and agri countries for Rabobank are the USA, Australia, New Zealand and Brazil.

*New branch offices in Kenia and Turkey*

To expand its presence on the African continent, Rabobank opened a branch office in Kenia in the first half of 2014. This is in line with the trend for increasing numbers of food and agri customers. Kenia will be used as a basis for serving the East-African region, which is seen as a food and agri growth market. The primary focus is on trade and commodity customers who are active in this region.
Rabobank is also expanding its presence in Turkey by establishing the subsidiary Rabobank Anonim Sirketi (Rabobank A.S.), through which Rabobank aims to serve mid-corporate customers who are active in the food and agri sector. Rabobank expects to leverage its expertise to play an important role in the continued development of the food and agri sector in Turkey.
The past few years have seen further growth of the share of food and agri in the international customer portfolio and food and agri currently account for 57% of the total loan portfolio of wholesale banking and international retail banking. Lending to wholesale customers outside the Netherlands rose by EUR 0.1 billion to EUR 44.7 (44.6) billion in the first half of 2014.

*Rural & Retail*

The Rural & Retail division focuses on financing agricultural businesses and on ‘community banking’ abroad. Lending to rural and retail customers increased in the first half of 2014, partly due to currency effects, by 4% to EUR 32.4 (31.1) billion. A large part of these loans have been granted to customers in Australia and New Zealand, where Rabobank has had a strong position for many years and where lending grew significantly in the first half of 2014. The portfolio increased by 12% to EUR 16.1 (14.3) billion. Rabobank is active in the United States through the community bank Rabobank N.A., which serves not just agricultural customers but also retail customers, and through Rabo AgriFinance, which focuses entirely on the agri segment. Lending to agricultural businesses increased in Brazil, but lending decreased in North America. The following entities are part of Rural & Retail:

| **Loan portfolio** | | |
|---|---|---|
| *in billions of euros* | 30-Jun-14 | 31-Dec-13 |
| Rabobank, N.A. (United States) | 6.7 | 6.9 |
| Rabo AgriFinance (United States) | 4.6 | 4.7 |
| ACC Loan Management | 2.2 | 2.4 |
| Rabobank Chile | 1.1 | 1.1 |
| Rabobank Brazil | 1.7 | 1.6 |
| Rabobank New Zealand | 5.7 | 5.3 |
| Rabobank Australia | 10.4 | 9.1 |
| **Total Rural & Retail** | **32.4** | **31.1** |

*Sale of Bank BGZ*

Agreement was reached in December 2013 on the sale of the 98.5% equity interest in the Polish Bank BGZ to BNP Paribas Group for an amount of approximately EUR 1 billion. Rabobank Polska and Bank BGZ merged in the first half of 2014. The sale of Bank BGZ includes the activities of Rabobank Polska. Completion of the sale of Bank BGZ to BNP Paribas is conditional on the required regulatory approvals, and is expected to take place before the end of this year and to have a positive effect of around 40 basis points on Rabobank Group's common equity tier 1 ratio.

*ACC Loan Management*

In 2013, a decision was taken to proceed with a further reorganisation of the activities of the Irish ACCBank, and ACCBank discontinued its regular financial service provision to customers. As of 2014, it is no longer possible to open a current account or savings account. Its retail banking licence was relinquished and its name was changed to ACC Loan Management. The loan portfolio of ACC Loan Management amounted to EUR 2.2 (2.4) billion in mid-2014.

*Specialist knowledge and economies of scale*

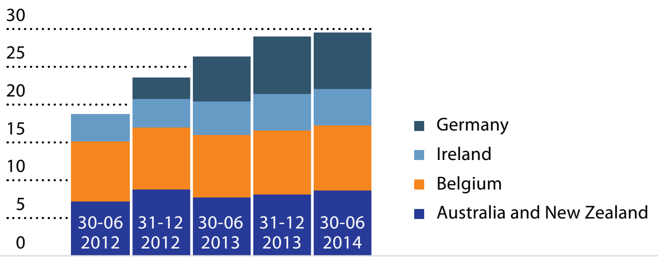
In serving Dutch customers and international food and agri customers, Rabobank provides high-quality professional financial products and services in fields such as Global Financial Markets, Acquisition Finance, Global Client Solutions, Project Finance and Trade & Commodity Finance. As a certain economy of scale is necessary to guarantee cost and quality optimisation for those products, the specialist knowledge is used for a broader customer group.

Global Financial Markets offers customers products that are aimed at risk management and capital market transactions relating to the worldwide financial markets. In 2013, Global Financial Markets decided to discontinue its Equity Derivatives activities and in 2014 the FX Prime Brokerage activities were likewise discontinued. These specific activities are insufficiently aligned with the group strategy and moreover their economic contribution is limited in relation to the risk profile.

Acquisition Finance, often in alliance with a financial sponsor, offers financial services to customers faced with a merger or acquisition. Global Client Solutions provides customised financial solutions for businesses and financial institutions for which expert knowledge is required in areas such as lending, legislation, financial reporting standards and/or tax law. Project Finance focuses on financial solutions for customers with a strong focus on sustainable energy, on infrastructure projects and on businesses in the international food and agri industry. Together with Rabobank Noordoostpolder-Urk, it invested in Windpark Noordoostpolder, the largest wind farm in the Netherlands, in the first half of 2014. Trade & Commodity Finance serves customers in international physical commodities trading. It uses its knowledge of the commodities markets and the corresponding financial products for Dutch customers, for international food and agri customers and for customers operating in the energy and metals sectors. In addition, Rabobank operates through Rabo Private Equity, Rabobank's investment arm. It acquires equity interests in businesses via specialised labels and on the basis of specialised sector knowledge. Rabo Private Equity does not only invest directly in majority interests, but also in non-controlling interests, often by means of preference shares. Rabo Private Equity's investments of this type in the first half of 2014 included investments in Bergmann Clinics, the Dutch market leader for independent treatment centres, and in IHC Sealing Solutions BV, a division of IHC. Rabo Capital, which is part of Rabo Private Equity, also sold its interest in D.O.R.C. Holding B.V., a producer of medical equipment for ocular surgery.

### *Distribution of savings of Rabo Direct*

in billions of euros




*Amounts due to customers*

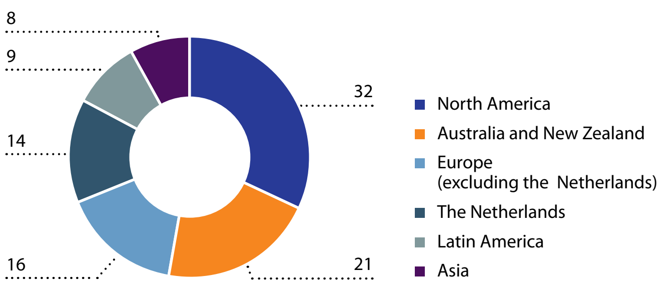
Total amounts due to customers at wholesale banking and international retail banking decreased by EUR 1.2 billion to EUR 107.3 (108.5) billion. Private savings are part of the amounts due to customers. In the first half of 2014 these savings at the RaboDirect-savings banks rose by 2% to EUR 29.7 (29.1) billion and the number of customers amounted to 776,000 (751,000). The private savings from RaboDirect activities are used to fund lending in Rural & Retail and other divisions of Rabobank Group. On 30 June 2014, the private savings from RaboDirect activities accounted for 20% (19%) of savings at a group level.

## Wholesale banking and international retail banking loan portfolio

The total private sector loan portfolio of wholesale banking and international retail banking increased by 2% to EUR 89.9 (87.8) billion in the first six months of 2014, partly owing to currency effects. Lending to the food and agri sector amounted to EUR 50.8 (49.5) billion and accounted for 57% (56%) of the total loan portfolio. Total loans provided to trade, industry and services (TIS) amounted to EUR 35.7 (34.7) billion and lending to private individuals amounted to EUR 3.4 (3.6) billion.
Lending to Dutch companies increased by 6% to EUR 12.8 (12.1) billion. The remainder of the loan portfolio was provided to companies outside the Netherlands, with EUR 44.7 (44.6) billion lent to wholesale customers and EUR 32.4 (31.1) billion to rural and retail customers.

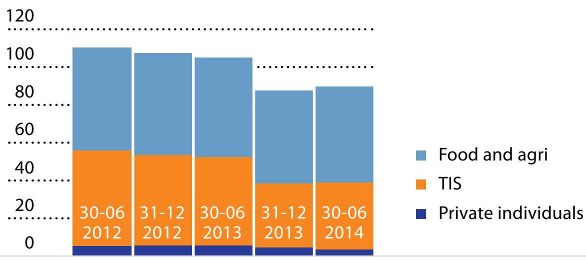
### *Loan portfolio by region*

mid 2014, in %




### *Loan portfolio by sector*

in billions of euros



### Rabo Development: reaching the unbanked

Rabo Development's mission is to include all sections of selected developing countries into the financial system, including the low income segments living in rural areas, while employing cooperative principles and banking expertise. Financial inclusion is one of the main building blocks for inclusive growth, growth that leads to improved living standards for the poor and other vulnerable groups within a developing country.

In line with its unique business model, Rabo Development is creating a network of partner banks in emerging markets. As of end-June 2014, the network includes eight partner banks: National Microfinance Bank in Tanzania, United Rural Cooperative Bank of Hangzhou in China, Zambia National Commercial Bank in Zambia, Banco Terra in Mozambique, Banque Populaire du Rwanda in Rwanda, Banco Regional in Paraguay, Banco Cooperativo Sicredi in Brazil and the Development Finance Company of Uganda Bank in Uganda. These banks provide financial services to around 7 million customers, including individuals, farmers, small and medium enterprises and corporates. In total these eight partner banks employ almost 25,000 people and operate a network of around 2,000 outlets. The partner banks have a special focus on customers in rural areas, where most people remain unbanked, and are also well-equipped to finance agriculture.

Rabo Development offers three types of support to these partner banks: capital, management services and technical assistance. The approach is to act as a minority shareholder. Rabo Development also provides candidates for certain management positions within these banks, bringing in valuable expertise in areas such as risk management and agri finance. In the first half year of 2014, Rabo Development had 22 managers and long-term consultants working overseas.

With regard to technical assistance, Rabo Development uses the knowledge and experience of Rabobank staff from all parts of the organization. This type of assistance is also supplied to non-partner banks, especially within the strategic regions of Rabo Development, Africa, Latin America and Asia and in countries of interest for the Rabobank Group. Rabo Development's agribusiness expert team assists banks in improving their agri finance capacity and continued its active role in enhancing the sustainability of food and agri value chains. In the first half year of 2014, consultants from Rabo and other banking specialists worked the equivalent of around 50 man-months at partner and non-partner banks.

## *Financial results of wholesale banking and international retail banking**

| ***Results*** | | | |
|---|---|---|---|
| *in millions of euros* | 2014-I | 2013-I | Change |
| Interest | 1,231 | 1,329 | -7% |
| Commission | 273 | 326 | -16% |
| Other results | 431 | 313 | 38% |
| **Total income** | **1,935** | **1,968** | -2% |
| Staff costs | 620 | 633 | -2% |
| Other administrative expenses | 494 | 430 | 15% |
| Depreciation | 48 | 63 | -24% |
| **Operating expenses** | **1,162** | **1,126** | 3% |
| **Gross result** | **773** | **842** | -8% |
| Value adjustments | 178 | 228 | -22% |
| **Operating profit before taxation** | **595** | **614** | -3% |
| Taxation | 206 | 120 | 72% |
| **Net profit** | **389** | **494** | -21% |
| | | | |
| **Bad debt costs** (in basis points) | **35** | **44** | -20% |
| | | | |
| ***Ratios*** | | | |
| Efficiency ratio | 60.1% | 57.2% | |
| RAROC | 10.4% | 12.7% | |
| | | | |
| ***Balance sheet*** *(in billions of euros)* | 30-Jun-14 | 31-Dec-13 | |
| Total assets | 489.7 | 498.4 | -2% |
| Private sector loan portfolio | 89.9 | 87.8 | 2% |
| Amounts due to customers | 107.3 | 108.5 | -1% |
| | | | |
| ***Capital requirements*** *(in billions of euros)* | | | |
| Regulatory capital | 6.7 | 6.2 | 8% |
| Economic capital | 7.7 | 7.0 | 10% |
| | | | |
| ***Number of employees*** *(in FTEs)* | 15,901 | 15,941 | 0% |

* The results of Rabo Development are not included in the results of wholesale banking and international retail banking.

# *Notes to financial results of wholesale banking and international retail banking*

## Income down 2%

Total income from wholesale banking and international retail banking fell by 2% to EUR 1,935 (1,968) million in the first half of 2014. Partly due to the depreciation of the US dollar and the Australian dollar, this contributed to the decrease in interest income by EUR 98 million to EUR 1,231 (1,329) million. Commission income fell by EUR 53 million to EUR 273 (326) million. The depreciation of various foreign currencies also played a part in the decrease in commission income. Further phasing-out and a positive revaluation of illiquid assets contributed to the increase in other results by EUR 118 million to EUR 431 (313) million in the first half of the year.

## Operating expenses up 3%

Total operating expenses at wholesale banking and international retail banking increased by 3% to EUR 1,162 (1,126) million in the first six months of 2014. Staff costs declined by 2% to EUR 620 (633) million, mainly due to the depreciation of the US dollar and the Australian dollar. The other administrative expenses increased by 15% to EUR 494 (430) million. This is because as of 2014, the costs incurred by Rabobank Nederland for the group activities are reported in the segments in the other administrative expenses. Lower amortisation of intangible assets and software led to a decrease of amortisation charges by 24% to EUR 48 (63) million.

## Bad debt costs at 35 basis points

The value adjustments at wholesale banking and international retail banking fell by 22% to EUR 178 (228) million in the first half of 2014. Value adjustments decreased at wholesale banking in particular. Additions for ACC Loan Management were slightly lower, with value adjustments at this division amounting to EUR 97 (100) million. The bad debt costs represent 35 (44) basis points of average lending and were therefore below the long-term average of 57 basis points.

## Regulatory capital up 8%

The regulatory capital at wholesale banking and international retail banking rose in the first half of 2014 by 8% to EUR 6.7 (6.2) billion, mainly due to an increase in market risk owing to a changed calculation of capital further to the implementation of the CRR (CRD IV) and an increase in operational risk. The economic capital was EUR 7.7 (7.0) billion. This increase was largely a result of the increase in the capital for market risk.

# High level of creditworthiness: risk management

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Rabobank Group pursues a prudent risk policy aimed at maintaining a moderate risk profile. Rabobank has a strong capital position and a comfortable liquidity position. Rabobank Group has issued over EUR 18 billion of long-term funding in the first half of 2014, and has thereby largely achieved its long-term funding target for the year.
Despite this strong position, Rabobank Group remains susceptible to the effects of the current economic situation in the Netherlands and abroad. The costs of loan losses and impaired loans rose slightly, mainly in the commercial real estate portfolio. However, the international part of this portfolio showed an improvement.
The European Central Bank (ECB) will start fully exercising its new supervisory role in November 2014. In preparation, the ECB is assessing the quality of the assets held by banks in a Comprehensive Assesment (CA). The findings of this assessment are expected to be published in the fourth quarter of this year.

### Risk appetite

Rabobank makes use of an integrated risk management model and a clearly defined risk management cycle. This consists of determining the risk appetite, preparing integrated risk assessments and measuring and monitoring risks. Risk management is applied to each group division and for the Group as a whole, both top-down as well as bottom-up. The risk strategy is designed to ensure continuity as a going concern and has three main objectives: protecting earnings, maintaining solid balance sheet ratios and protecting the bank's identity and reputation. Moreover, a process of measurement and reporting of the risk-return profile at both group level and within the group entities is in place. In this way, risk is embedded in the management information.

### Risk management organisation

In line with the new organisational structure of Rabobank Nederland, the risk management organisation has been transformed into a strong second-line function. The first line remains responsible for entering into, identifying and mitigating risks. Risk management has clear tasks in this regard and the responsibility in providing advice and support to all entities with respect to national and international activities.
The Group Risk Management (GRM) organisation, effective from 1 July 2014, consists of three groups:

I. Chief Risk Officers (CROs):
   The CRO Aangesloten Banken Bedrijf (Local Member Banks Business), the CRO Wholesale, and the CRO Rural & Retail. CROs are responsible for the risk management organisation within their business segment. They are physically part of the business segment for the performance of their activities, while retaining their independent second-line responsibilities.

II. Risk teams:

There are three highly specialised functional teams:

- The Credit Risk team, which manages the credit portfolio at aggregate group level and sets policy and limits, performance analyses, models and reporting.
- The Non-Financial Risk team, which records, analyses and reports on the operational risk framework, including the responsibility for business continuity management, IT risk and Group insurance.
- The Balance Sheet Risk team, which establishes the policies and the limits framework and measures the risk profile for balance sheet management (Asset & Liability Management), liquidity, funding, market risk and Funds Transfer Pricing.

These risk-teams work together with the Integrated Risk Team, which takes a holistic view of Rabobank's risk profile based on a strong risk organisation and culture, strategic planning and prudential legislation.

III. Support teams:

Specialist support and other teams for cross-functional and cross-business support in relation to:

- Projects, data, processes and systems for the management of risk-related systems and data collection for risk projects and process optimisation.
- Management support for strategic planning (such as Human Resources and budget).
- Model validation for the independent validation of risk management models and organisation.

This structure ensures close involvement with sales, functional expertise in the risk disciplines and professional supporting functions. It is also an important step in the preparation for the high demands of the new European supervisory regime.

### European regulation

The European Central Bank (ECB) begins its new supervisory role in November 2014, with the Single Supervisory Mechanism, or 'SSM'. The aim of the SSM is to safeguard the security and solidity of the European banking system. In cooperation with national authorities, the ECB will exercise direct supervision of the largest credit institutions in the eurozone. Rabobank will be subject to the prudential supervision by the ECB.

Before taking over the supervision of the largest banks in Europe, the ECB is assessing their quality. This exercise, known as the Comprehensive Assessment (CA), consists of three elements: a Supervisory Risk Assessment (the risk assessment), an Asset Quality Review (AQR, the assessment of the financial position) and a stress test. The assessments of policy, procedures and data flows will be combined with individual assessments on a large number of customer files, as well as with valuations of collateral by external experts. This intensive exercise will provide a strong basis for the new supervisory regime.
In the meantime the ECB will not reveal any provisional results, and accordingly no account has been taken of the potential impact of the AQR in the preparation of the interim financial statements. The results of the AQR are expected early in the fourth quarter.

The stress test and the AQR are being conducted simultaneously. The stress test will consider the effects of a number of external scenarios on Rabobank's capital position. The ECB will combine the result of the AQR with the stress test results supplied by Rabobank. Banks are required to meet a common equity tier 1 capital ratio of at at least 8%, and a ratio of at least 5.5% in the most severe stress scenario.

## Stress testing

At Rabobank, stress testing forms an essential part of the risk management framework.
Stress tests are used to measure the impact of extreme, yet plausible events on Rabobank.
Where necessary, measures are taken on the basis of the results of the stress tests that are in line with Rabobank's risk appetite.
In addition to group-wide stress tests, tests are also performed for specific portfolios and risk types. The various scenarios take account of macro-economic factors such as economic growth, unemployment, inflation, interest rates, share prices and real estate prices.
A number of scenarios will be developed as part of the Supervisory Review and Evaluation Process (SREP) in the second half of the year.

## Credit risk

Credit risk management at Rabobank Group is robust and organised so as to ensure an acceptable risk profile even in less favourable economic conditions. Applications for new loans are carefully assessed and only accepted if the applicant has sufficient prospect of continuing as a going concern. Loans already granted are managed and monitored rigorously.
In its loan approval process, Rabobank Group observes the Basel II parameters and RAROC, so that loan application officers and credit committees are even better positioned to make well-considered credit decisions. The Rabobank Risk Rating is a system that shows the probability of default (PD) of a borrower within a period of one year, with the rating being non-cyclical in principle. At 30 June 2014, the EAD (exposure at default) weighted average PD of Rabobank Group's total performing Advanced IRB loan portfolio was 1.08% (1.12%). It should be noted that the PD only reflects the extent to which customers are expected to be able to meet their obligations. The PD does not give any indication regarding the potential losses, because in many cases Rabobank Group has secured additional collateral. This is reflected in the loss given default (LGD), which also takes the possibility of restructuring into consideration. The LGD is defined as the best estimate of the economic loss the bank would incur if the debtor defaults, expressed as a percentage of the EAD. At 30 June 2014, the LGD percentage of Rabobank Group's total Advanced IRB loan portfolio was 22.2% (21.8%). The EAD of Rabobank Group's Advanced IRB loan portfolio stood at EUR 560 (574) billion at 30 June 2014. The EAD includes the expected future take-up of unused credit facilities.

Rabobank developed a policy in 2013 in order to be able to monitor its forbearance portfolio on a quarterly basis with effect from year-end 2014. Forbearance can be described as clemency. The forbearance portfolio consists of customers of Rabobank for whom forbearance measures have been granted. These measures concern concessions to borrowers with imminent or current financial difficulties, and include deferral of repayments and extension of the term of the facility.

For the corporate portfolio, forbearance measures will be identified using the current Loan Quality Classification framework, whereby the forbearance measures only apply to the designated portfolio. If forbearance measures are permitted for a debtor, this debtor will automatically be passed to the Special Accounts department within the bank [Bijzonder Beheer]. All debtors in the retail portfolio receiving forbearance measures will also be passed to the non-performing loans portfolio. Items for which forbearance has been granted will continue to be reported for two years after returning to normal status.

## Country risk

Since the heightened uncertainty surrounding the euro, the bank's outstanding country risk and also its debtor risk to governments (its sovereign risk) in relevant countries has been reported on a monthly basis. Rabobank Group's exposure to government bonds issued by Ireland, Italy and Spain was EUR 108 (174) million at 30 June 2014. The exposure to bonds issued by banks in these countries are mainly Spanish covered bonds with a value of EUR 1,414 (1,390) million, backed by additional collateral provided by the issuer.
The outstanding country risk in the countries under most intense scrutiny as at 30 June 2014 was very limited.

## Allowance for loan losses

The Dutch economy slowly emerged from recession in 2014, with growth forecast to achieve around 0.5%. There is a recovery in confidence, government policy has stabilised and the European government debt problem has receded to the background. There are still risks to economic development, the most important of which would seem to be a further escalation of tensions with Russia in connection with the developments in the Ukraine. The evolution of the risk profile of Rabobank Group's loan portfolio has two aspects: the Dutch portfolio has deteriorated further (mainly with respect to commercial real estate), while the international portion has improved. The table below shows the development of the allowances of the first half of 2014 for Rabobank Group. At group level, value adjustments were high at EUR 1,188 (1,106) million, which on an annual basis corresponds to 54 (49) basis points of the average lending. The 10-year average (period 2004-2013) of the value adjustments is 32 basis points.
The allowance for loan losses in mid-2014 was EUR 4,422 (4,306) million.

***Development of allowance for loan losses***

*in millions of euros*

| 31-Dec-13 Allowance | 2014-I Write-down | 2014-I (Net) addition | 2014-I Other | 30-Jun-14 Allowance | 2014-I Received after write-down | 2014-I P&L |
|---:|---:|---:|---:|---:|---:|---:|
| 4,306 | (1,196) | 1,262 | 51 | 4,422 | (74) | 1,188 |

When an allowance is formed, the one-obligor principle is applied, which means that the exposure to all counterparties associated with the debtor is taken into account. In addition, the full exposure to the customer is subsequently qualified as impaired, notwithstanding adequate coverage having been provided in the form of collateral, so that the risk of loss is of course lower. The table below shows the impaired loans and allowances for the total lending to the private sector. Impaired loans amounted to EUR 13,737 (12,809) million at 30 June 2014. The allowance for loan losses covered 32% (34%) of the impaired loans. For several years now, the allowances on portfolios deemed to have very little chance of recovery have been written off at group level. The ratio of impaired loans to the private sector loan portfolio was 3.2% (2.9%) at 30 June 2014.

| Impaired loans and allowance for loan losses | | | | |
|---|---|---|---|---|
| *amounts in millions of euros* | 30-Jun-14 | | | |
| | Impaired loans | Impaired loans in % of loan portfolio | Allowance | Allowances in % of impaired loans |
| Domestic retail banking | 6,492 | 2.2% | 2,033 | 31% |
| Wholesale banking en international retailbanking | 2,666 | 3.0% | 678 | 25% |
| Leasing | 687 | 2.7% | 448 | 65% |
| Real estate | 3,892 | 21.5% | 1,262 | 32% |
| **Rabobank Group** | **13,737** | **3.2%** | **4,422** | **32%** |

| Impaired loans and allowance for loan losses | | | | |
|---|---|---|---|---|
| *amounts in millions of euros* | 31-Dec-13 | | | |
| | Impaired loans | Impaired loans in % of loan portfolio | Allowances | Allowances in % of impaired loans |
| Domestic retail banking | 6,651 | 2.2% | 2,275 | 34% |
| Wholesale banking and international retail banking | 2,670 | 2.9% | 708 | 27% |
| Leasing | 721 | 2.9% | 480 | 67% |
| Real estate | 2,767 | 15.1% | 842 | 30% |
| **Rabobank Group** | **12,809** | **2.9%** | **4,306** | **34%** |

### Commercial real estate portfolio

Rabobank's portfolio of commercial real estate in the Netherlands is managed primarily by FGH Bank and the local Rabobanks.

The commercial real estate market deteriorated further, particularly in the offices and retail segments. Long-term trends like the ageing population, 'the new way of working' and online shopping are important factors. Due to the current market conditions, in which there is a clear distinction between properties with little or no prospect of viability and those with a chance of success, the quality of the commercial real estate loan portfolio has declined. In particular, less marketable properties are declining in value. The review and valuation policy and the non-performing loans policy are based on a risk-oriented approach. Where reviews reveal that the assumed value may no longer reflect the market value, the value is reassessed. Valuations are performed by an independent valuer. Rabobank thereby complies with the requirements set by DNB for valuation, and the validity of valuations.

As a result of the report by the Valuers and Accountants Platform (Platform Taxateurs en Accountants, or 'PTA') on the valuation of real estate, Rabobank brought its valuation process in line with the recommendations made in connection with the banking process in 2013 where this was not already the case.

At Rabobank Group, management of the commercial real estate portfolio in the Netherlands has been intensified. The Commercial Real Estate Task Force was set up for this specific purpose in mid-2010. The Task Force frequently reports to the Executive Board on developments in the size of the Dutch portfolio and the level of risk it contains, and it will continue to keep a close eye on developments in the market and in the portfolio for the next few years. Steps to tighten the financing, revision and valuation policy have already been taken in recent years.

The table below gives various information on the commercial real estate loan portfolio in the Netherlands at 30 June 2014. The Property Development segment is moreover presented separately, since this segment is also experiencing longer processing times and a stagnating real estate market. Rabobank's lending in this segment is relatively low, at EUR 2.9 billion.

| ***Commercial real estate loan portfolio in the Netherlands*** | | | | | |
|---|---|---|---|---|---|
| *in millions of euros* | Loan portfolio | Impaired loans | Allowances | Write-downs | Value adjustments |
| | 30-Jun-14 | | | | 2014-I |
| Investment real estate domestic retail banking | 8,843 | 1,452 | 649 | 58 | 160 |
| Investment real estate Rabo Real Estate Group | 15,771 | 3,761 | 1,195 | 23 | 345 |
| **Total investment real estate** | **24,614** | **5,213** | **1,844** | **81** | **505** |
| Property development domestic retail banking | 1,828 | 597 | 339 | 21 | 21 |
| Property development Rabo Real Estate Group | 1,034 | 131 | 41 | 1 | 11 |
| **Total property development** | **2,862** | **728** | **380** | **22** | **32** |

| ***Commercial real estate loan portfolio in the Netherlands*** | | | | | |
|---|---|---|---|---|---|
| *in millions of euros* | Loan portfolio | Impaired loans | Allowances | Write-downs | Value adjustments |
| | 31-Dec-13 | | | | 2013-I |
| Investment real estate domestic retail banking | 9,910 | 1,104 | 516 | 35 | 49 |
| Investment real estate Rabo Real Estate Group | 16,163 | 2,632 | 788 | 23 | 163 |
| **Total investment real estate** | **26,073** | **3,736** | **1,304** | **58** | **212** |
| Property development domestic retail banking | 1,942 | 793 | 396 | 48 | 79 |
| Property development Rabo Real Estate Group | 1,041 | 135 | 30 | 11 | 2 |
| **Total property development** | **2,983** | **928** | **426** | **59** | **81** |

The comparative figures have been adjusted for changes in the classification in investment real estate and property development.

Rabobank's commercial real estate portfolio in the Netherlands declined again in the first half of 2014 mainly due to repayments and a lower risk appetite. The developments in the market caused a deterioration in the quality of the portfolio, as can be seen from the higher level of impaired loans, and therefore also the costs of loan losses in recent years. Rabobank's focus on relationship banking and the fact that its financing policy is customer-driven rather than property-driven is an important factor in the quality of the loan portfolio. Since some of the difficulties in the commercial real estate market are structural in nature, loan losses in the real estate portfolio are nonetheless expected to remain high in the years to come. The majority, EUR 1 billion of the commercial real estate portfolio outside the Netherlands is provided by ACC Loan Management. This is a run-off portfolio. Although property values in prime locations in Ireland are stabilising to some extent, in other locations values are still under pressure. Further contributions amounting to EUR 60 million were accordingly made to the allowances for this portfolio in the first half of 2014. We expect to make further contributions in the coming year, albeit at a lower level than in previous years.

## Funding and liquidity risk

In line with CRR/CRD IV, the policy is aimed at financing the long-term loan portfolio with stable funding in the form of funds entrusted by customers and long-term wholesale funding. Rabobank uses three pillars to manage liquidity risk. The first pillar strictly limits the maximum cash outflow within the wholesale banking division. Through the second pillar, an extensive and high-quality buffer of liquid assets is maintained. The third pillar in limiting liquidity risk is a prudent funding policy.

*Ample liquidity position*

The total liquidity buffer at 30 June 2014 stood at EUR 103 (121) billion. The decline (in absolute terms) is due to an increase in the DNB haircuts on external ABS and retained RMBS. The new haircuts took effect at the beginning of the year. The liquidity position did not materially change. The position, measured in terms as the LCR and NSFR, stays well above current (and future) limits. Furthermore, the available liquidity was on average 32% above the minimum DNB requirement. In 2013, based on the previous guidelines, this was 41%.

*Composition of the liquidity buffer*

**Liquidity buffer, after DNB stress haircuts**

| *in billions of euros* | based on new rules | | based on old rules |
|---|---|---|---|
| | 30-Jun-14 | 31-Dec-13 | 31-Dec-13 |
| Central bank reserves (excluding mandatory reserves) | 36.6 | 38.7 | 38.7 |
| Bonds | | | |
| Central bank and government bonds* | 38.3 | 39.0 | 38.9 |
| The Netherlands | 16.8 | 16.8 | 16.8 |
| France | 4.8 | 4.9 | 4.9 |
| Germany | 0.2 | 3.4 | 3.4 |
| Other | 16.5 | 13.9 | 13.8 |
| Covered bonds | 0.5 | 0.3 | 0.3 |
| External ABS | 1.1 | 1.9 | 3.0 |
| Retained RMBS | 21.6 | 21.6 | 34.6 |
| Other bonds | 4.6 | 5.2 | 5.8 |
| **Liquidity buffer** | **102.7** | **106.7** | **121.3** |

* 'The item 'Central bank and government bonds' in this table is an aggregation of central bank and government paper, including public sector agencies and multilateral development banks.

Of the liquidity buffer 36% consists of deposits at central banks, mainly held at the ECB and the FED, 37% consists of government debt and 27% consists of other financial assets, mainly securities held by Rabobank itself for liquidity purposes with residential mortgages provided by Rabobank as collateral. In addition to this liquidity buffer, there is a significant portfolio of short-term (covered) loans to professional parties.

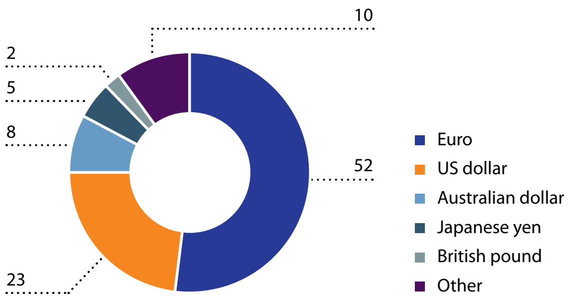
*Excellent access to funding*

| ***Access to funding*** | | |
|---|---|---|
| *in billions of euros* | 30-Jun-14 | 31-Dec-13 |
| Funds entrusted | 323.0 | 326.2 |
| **Netherlands retail** | **214.0** | **215.7** |
| • Private customers | 137.6 | 138.2 |
| • Businesses | 76.4 | 77.5 |
| **Netherlands non-retail** | **46.4** | **46.1** |
| • Private customers | 0.0 | 0.0 |
| • Businesses | 46.4 | 46.1 |
| **International*** | **62.6** | **64.4** |
| • Private customers | 25.4 | 26.4 |
| • Businesses | 37.2 | 38.0 |
| **Wholesale funding** | **221.3** | **219.3** |
| Short-term wholesale funding | 57.6 | 54.4 |
| • CD | 44.1 | 42.8 |
| • CP/ABCP | 13.5 | 11.6 |
| Long-term wholesale funding | **163.7** | **164.9** |
| • Of which subordinated | 11.1 | 7.8 |

* EUR 29.7 (29.1) billion of the international funds entrusted originates from International Direct Retail Banking activities.

## *Unsecured long-term wholesale funding*

by currency, issued in first half 2014, in %

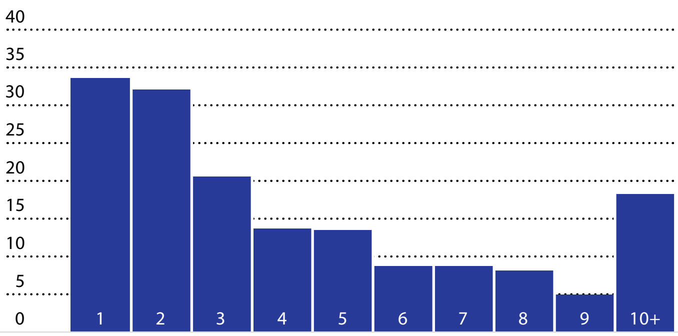



The domestic retail banking business raises most of the funds it needs for lending through funds deposited by retail customers. Funds entrusted by customers of the domestic retail banking business declined slightly in 2014. The decline in funds entrusted by international businesses was mainly due to a decrease in funds entrusted by central banks. Partly due to this, the dependency on wholesale funding increased slightly.

Rabobank Group issued EUR 18 billion in unsecured long-term bonds in 16 different currencies in the first half of 2014. The bank operates on a global scale, also to avoid becoming too reliant on a single source of funding. The average maturity of the newly issued unsecured long-term bonds is just over 4.2 years.

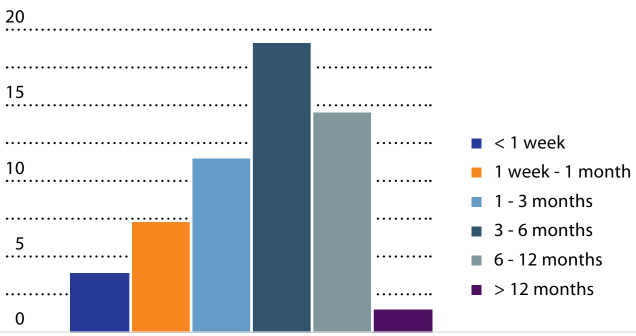
## *Maturity date calender, long-term wholesale funding*

mid 2014, in billions of euros (remaining maturity in years)




## *Maturity date calender, short-term wholesale funding*

mid 2014, in billions of euros



Of the total wholesale funding excluding commercial paper and certificates of deposit, more than EUR 62 billion has a remaining maturity of at least five years.

Rabobank is a frequent and flexible issuer of short-term debt securities and has seen a solid inflow of funds, reflecting its excellent creditworthiness. The maturity and quality of its short-term debt improved in the past six months. The average life to maturity of the short-term funding increased in 2014 to 136 (122) days.

### Interest rate risk in the banking book

Interest rate risk is the risk that the bank's financial result and/or economic value, given the composition of its balance sheet, will be negatively affected by movements in money and capital markets interest rates. Rabobank uses Income at Risk (IatR) and Equity at Risk (EatR) as the main measures for this risk.
The IatR analysis shows the effect on net interest income of a gradual parallel decline in interest rates by 200 basis points and a similar increase in the next 12 months compared to a scenario in which market interest rates and tariffs remain unchanged. The IatR is equal to the most negative effect of these two scenarios on net interest income. In the first half of 2014, Rabobank's net interest income was exposed to a decline in interest rates. The IatR in the first six months amounted to up to EUR 55 million and on 30 June 2014 it was EUR 26 million. This low level was partly due to the internal assumption that interbank money market rates and swap rates cannot fall below 0%. As a result, the assumed decline in euro interest rates as at 30 June was 2 basis points instead of 200 basis points. In the previous five months, this had been 10 basis points.
The EatR expresses the number of percentage points by which the economic value of equity will decline in case of a parallel 1 percentage point upward shift of the yield curve. In the first half of 2014, the EatR fell from 2.3% to 0.8%. The increase in the EatR due to lending was very limited, due to the low number of new mortgages and commercial loans. At the same time, the volume of bank savings products with long terms to maturity increased, which reduces the EatR. Furthermore, the EatR fell in the first half of 2014, due mainly to the decline in market interest rates. This decline led in turn to a reduction in quotation risk and an upward effect on the economic value of equity.

### Operational risk

Rabobank defines operational risk as the risk of losses caused by inadequate or failing internal processes, people or systems or by external events. Rabobank Group operates within the frameworks of the most advanced Basel II approach, the Advanced Measurement Approach, as regards measuring and managing operational risk.
Rabobank Group strives to continuously improve risk management in its organisation, both on the basis of its own experience and developments in standard practices in the industry. In the period under review for instance, much attention was devoted to the redevelopment of the methodology used for risk analysis, with the aim of improving the identification and recording of risks to which the organisation is exposed.

Since 2008, Rabobank has been permitted by the regulatory agencies to apply the most advanced method for the determination of its capital requirement for operational risk, known as the Advanced Measurement Approach. The model is updated on the basis of experience gained in both the modelling of operational risk and of operational risk management in general, as well as the developments in industry standards in the field. The main components are that the chance of operational incidents occurring is determined using internally gathered loss data per entity, while the impact of operational losses is determined using consortium data together with internally gathered scenario data. The combination of these two components, taking the correlation between different kinds of loss into account, determines the basis for the Group capital. Changes in the incident data and in the structure of the organisation have led to further adjustment and optimisation of the model in the past period. This has been reported to DNB in accordance with the guidelines, and the changes are effective for the capital requirements in mid-2014.

### Legal and arbitration proceedings

Rabobank Group 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 business operations.

Rabobank has over the course of the last several years received requests for information and documentation from regulators in several countries related to a variety of issues, including benchmark issues. 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 connection with their investigations into Rabobank's historical LIBOR and EURIBOR submission processes. Additional information is available on the corporate website. All financial penalties associated with those settlement agreements have been fully paid and accounted for by Rabobank in 2013.

Along with numerous other panel banks and interdealer brokers, Rabobank has been named in a number of putative class-action and individual civil litigations pending in federal court in the US. The lawsuits concern US Dollar (USD) LIBOR, Japanese Yen (JPY) LIBOR, TIBOR (Rabobank has never been a member of the TIBOR Panel), and EURIBOR.

In 2014, an Argentine consumer protection organization filed a putative class action lawsuit against Rabobank in Argentina relating to USD LIBOR. Rabobank has received several complaints from customers in the Netherlands alleging exposure to interest rate benchmark-tied products. Rabobank has been summoned to appear before Dutch courts in three civil proceeding relating to EURIBOR.

The above-mentioned putative class-action suits and civil proceedings, along with any future proceedings conducted in the United States or elsewhere are by their nature subject to uncertainty, making their outcomes difficult to predict. Rabobank nevertheless maintains that it has substantive and persuasive legal and factual defenses to these claims. Rabobank intends to continue defending itself against these claims.

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

In addition to listing key events that occurred in the first half of 2014 and their impact on the interim financial information, this interim report also describes the principal risks and uncertainties affecting the second half of 2014. No significant events or transactions occurred during the first half of 2014, other than those disclosed elsewhere in this report. Details of Rabobank's expectations for the six months ahead can be found in this section and also in the 'Chairman's foreword'.

### Principal risks and uncertainties in the six months ahead

There are a number of risks and uncertainties in the second half of 2014 that may have a material effect on Rabobank Group's earnings, capital and/or liquidity position. Rabobank expects its retail customer loan portfolio to remain more or less stable in the second half of 2014. Amounts due to customers are expected to decline to a limited extent. The bank tax will involve an additional expense in the second half of 2014, as was the case in 2013, although this is expected to be somewhat lower than in 2013. Rabobank will also have to pay the resolution levy in 2014, in three instalments. Two-thirds of the resolution levy of EUR 320 million has been recognised in the first half of the year, leaving one third to be paid in the second half.

The European Central Bank is currently carrying out an assessment on the solidity of significant banks in the eurozone, including Rabobank. The assessment, known as the Comprehensive Assessment, will examine the quality of the assets of Rabobank by means of a so-called Asset Quality Review (AQR). A stress test will then be conducted to determine the extent to which Rabobank could survive a new crisis. The interim financial statements prepared for 2014 do not take account of a potential effect of the AQR, since there will be no communication of results by the ECB and DNB in the meantime.

The consequences of the trade conflict with Russia that has recently flared up represent an uncertain factor. The Russian sanctions may adversely affect Rabobank's result.

There are other risks associated with the economic climate in which Rabobank conducts its banking business. Rabobank expects to see moderate economic growth in the Netherlands in 2014, and global economic growth is also expected to pick up slightly. Should the economy contract or if sentiment in the financial markets were to deteriorate, this could affect lending, the valuation of less liquid assets and the potential for raising customer deposits, issuing debt paper, or raising or redeeming hybrid equity. An economic downturn could lead to a substantial decline in interest income, increased write-downs of (illiquid) assets and an increase in value adjustments.

# Our specialised subsidiaries

## *Leasing*

www.delagelanden.com

### Strong results and growth of food and agri portfolio

The lease portfolio of De Lage Landen grew by 4% to EUR 31.3 billion in the first half of 2014 and the share of food and agri in the lease portfolio was further increased to 32%. The Dutch lease portfolio totalled EUR 6.1 billion. The bad debt costs decreased to 47 basis points of average lending, 21 basis points below the long-term average. The leasing segment achieved a net profit of EUR 223 million in the first half of 2014, which was slightly lower than in the same period of last year.

### De Lage Landen

De Lage Landen is a globally active financial services provider. In the Netherlands, the activities of De Lage Landen support the group strategy of providing a wide range of financial services. It is the market leader in the Netherlands with its leasing activities. The support it provides to Rabobank's worldwide food and agri strategy is reflected in the substantial share of food and agri in the loan portfolio of De Lage Landen. De Lage Landen is pursuing further expansion of this share. In addition to food and agri, it focuses on the following market segments: Construction, Transportation & Industrial, Healthcare & Clean Technology, Office Technology and Mobility. The financing solutions offered by De Lage Landen encompass Vendor Finance, (Car) leasing, Factoring and Consumer financing.

### Vendor Finance

Vendor Finance forms the heart of De Lage Landen's international operations and helps manufacturers and distributors to sell their products and services. Vendor Finance forges alliances in specific sectors in the lease market. It builds long-term relationships with customers and explores which financial solutions can be offered to provide the best support for customers in achieving their business objectives. Knowledge of the market and customers is cardinal to the potential solutions offered by De Lage Landen.

In addition, De Lage Landen stands out from its competitors because it offers integrated asset management services both in concluding a lease agreement and during its term and on its termination. Besides defining the value of an asset over its useful life, this discipline also identifies its use. Increasingly, it then provides advice on the asset's proper deployment and on the options for financing maintenance and spare parts. Leases are increasingly being combined with service contracts for leased products, with De Lage Landen settling all financial movements related to the contracts. De Lage Landen China won the Asia Pacific Vendor Finance Provider of the Year award in 2014 for its leading role in the Vendor Finance market in the region. In the USA, De Lage Landen was recently ranked first among the top 25 Vendor Finance companies by the publication 'Monitor', a recognised benchmark in the sector.

## (Car) leasing and factoring

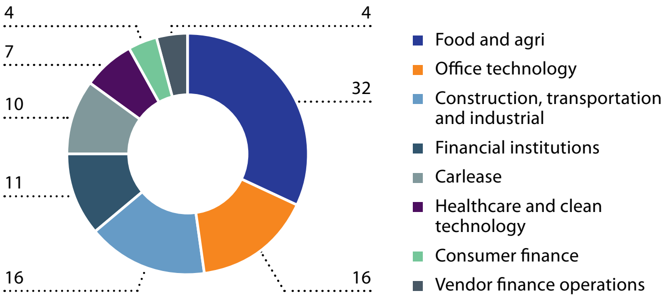
The leasing activities of De Lage Landen in the Netherlands are offered via the local Rabobanks, via www.leaseloket.nl or directly via De Lage Landen. Besides leasing solutions, De Lage Landen also offers factoring services in its home market. Factoring enables customers to free up additional working capital from their debtor portfolio to finance growth or strengthen their financial position.
The subsidiary Athlon Car Lease is the market leader in the Netherlands in the field of car leasing and mobility, with a car fleet of more than 110,000 cars. It also has operations in nine other European countries. In total, Athlon has a lease portfolio of around 241,000 contracts. The primary goal of Athlon is to promote the mobility of its customers by offering innovative, sustainable and cost-effective solutions.

## Consumer financing

Besides financial solutions for the business market, De Lage Landen also offers consumer financing (Consumer Finance) in the Netherlands. It is active in the consumer financing market with the brands Rabobank, Freo and Athlon Auto Financiering. De Lage Landen Consumer Finance supports Rabobank centrally and locally in marketing consumer credit. Freo is the online provider of consumer credit and stands for responsible, fair and conscientious lending. The volume of the overall consumer credit portfolio totalled EUR 1.4 (1.4) billion.

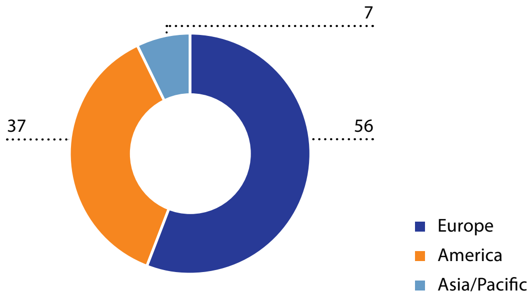
### *Lease portfolio by division*

mid 2014, in %




### *Lease portfolio by region*

mid 2014, in %




## Lease portfolio grows by 4%

The lease portfolio of De Lage Landen grew by 4% to EUR 31.3 (30.2) billion in the first half of 2014. The loan portfolio for private customers of De Lage Landen (which is the lease portfolio excluding operational lease) amounted to EUR 25.7 (24.7) billion. In line with the strategy, De Lage Landen pursued further growth of the share of food and agri in the lease portfolio. That focus is reflected in the growth of this share to EUR 10.1 (9.1) billion, with which food and agri accounts for 32% (30%) of the overall lease portfolio. The Dutch lease portfolio amounted to EUR 6.1 (6.1) billion or 19% (20%) of the total lease portfolio.

# *Financial results of leasing*

| ***Results*** | | | |
|---|---|---|---|
| *in millions of euros* | 2014-I | 2013-I | Change |
| Interest | 500 | 509 | -2% |
| Commission | 19 | 25 | -24% |
| Other results | 258 | 257 | 0% |
| **Total income** | **777** | **791** | -2% |
| Staff costs | 250 | 260 | -4% |
| Other administrative expenses | 113 | 99 | 14% |
| Depreciation | 25 | 24 | 4% |
| **Operating expenses** | **388** | **383** | 1% |
| **Gross result** | **389** | **408** | -5% |
| Value adjustments | 69 | 85 | -19% |
| **Operating profit before taxation** | **320** | **323** | -1% |
| Taxation | 97 | 91 | 7% |
| **Net profit** | **223** | **232** | -4% |
| | | | |
| **Bad debt costs** (in basis points) | **47** | **59** | -20% |
| | | | |
| ***Ratios*** | | | |
| Efficiency ratio | 49.9% | 48.4% | |
| RAROC | 33.2% | 33.8% | |
| | | | |
| ***Balance sheet*** *(in billions of euros)* | 30-Jun-14 | 31-Dec-13 | |
| Loan portfolio | 31.3 | 30.2 | 4% |
| | | | |
| ***Capital requirements*** *(in billions of euros)* | | | |
| Regulatory capital | 1.3 | 1.3 | 0% |
| Economic capital | 1.3 | 1.4 | -7% |
| | | | |
| ***Number of employees*** *(in FTEs)* | 5,183 | 5,117 | 1% |

# *Notes to financial results of leasing*

### Income down 2%

Total income from the leasing segment amounted to EUR 777 (791) million, a slight decrease compared to the same period of last year. Partly due to the depreciation of the US dollar in particular, interest income was 2% lower at EUR 500 (509) million. Commission income had been high in the first half of 2013, reflecting strong growth of the portfolio in Brazil. The depreciation of the US dollar also contributed to the decrease in commission income by 24% to EUR 19 (25) million. Residual value gains on the sale of leased assets were stable and other income was therefore little changed at EUR 258 (257) million.

### Operating expenses up 1%

Total operating expenses of the leasing segment rose by 1% to EUR 388 (383) million in the first six months of 2014. Staff costs fell by 4% to EUR 250 (260) million. Besides the depreciation of the US dollar, lower spending on temporary staff also contributed to this decrease. As of 2014, the costs incurred by Rabobank Nederland for the group activities are reported in the segments under other administrative expenses. This contributed to a 14% rise of other administrative expenses in the leasing segment to EUR 113 (99) million. Depreciation remained virtually stable at EUR 25 (24) million.

### Bad debt costs at 47 basis points

Value adjustments in the leasing segment totalled EUR 69 (85) million, which corresponds to 47 (59) basis points of average lending, and were therefore lower than the long-term average of 68 basis points. De Lage Landen is active in 36 countries throughout the world. This diversification of the lease portfolio across numerous countries and sectors in combination with strict risk management contributed to containing bad debt costs.

### Regulatory capital unchanged

The regulatory capital of De Lage Landen was unchanged in the first half of 2014 at EUR 1.3 (1.3) billion. The lower credit risk due to the introduction of the CRR (CRD IV) was offset by an increase in operational risk. Economic capital decreased to EUR 1.3 (1.4) billion.

# Our specialised subsidiaries

## *Real estate*

www.rabovastgoedgroep.nl

### Late-cyclical nature of real estate financing market reflected in results

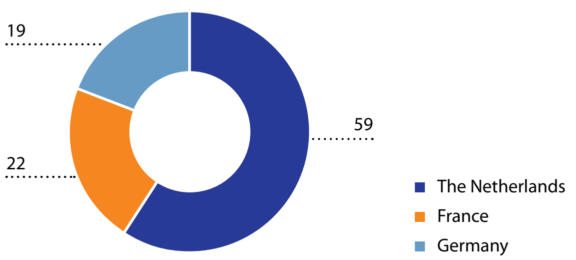
The late-cyclical nature of the real estate financing market was again reflected in the results of Rabo Real Estate Group in the first half of 2014. Whereas the housing market in the Netherlands appears to be on the road to recovery, real estate financing operations are still faced with high value adjustments. The value adjustments were 391 basis points of average lending, compared to a long-term average of 53 basis points. The loss incurred by the real estate segment decreased from EUR 189 million in the comparative period in 2013 to a loss of EUR 90 million in the first half of 2014. Due to the high level of value adjustments, this has not yet led to a net profit, despite the improvement compared to 2013. The loan portfolio at real estate financier FGH Bank remained roughly stable at EUR 19.6 billion. The situation in the Dutch housing market improved. Bouwfonds Property Development sold 2,562 properties, up 46% from the same period of last year. Purchase and sales transactions within existing portfolios of funds of Bouwfonds Investment Management resulted in net growth of assets managed of EUR 0.1 billion, to EUR 6.0 billion.

### The Dutch housing market: out of the trough

Following a considerable number of difficult years, the situation in the Dutch housing market improved in the first half of 2014. The number of residential property sales has been increasing since mid-2013 and the average residential property price has edged up. Despite the tighter financing criteria, the affordability of residential properties has improved, as house prices have fallen since 2008 and mortgage interest rates are at historically low levels. In addition, the Dutch economy emerged from the recession in the course of 2013, contributing to increased consumer confidence.

***Number of residential property transactions***

by country, in first half 2014, in %

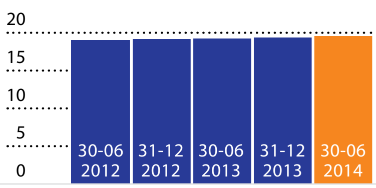



### Bouwfonds Property Development

The favourable developments in the housing market were also reflected in the sales of new housing of Bouwfonds Property Development. It develops complete residential areas in the Netherlands, France and Germany. In the Netherlands, Bouwfonds Property Development operates under the name Bouwfonds Ontwikkeling. It completed 849 more residential property transactions than in the same period of last year, bringing the total number of its residential property transactions in the Netherlands to 1,512 (663). The number of residential property transactions in the French market remained low due to protracted uncertainties concerning social housing rents and investors' rental yields and consequently declining consumer spending. In the German housing market, which continued to perform strongly, an increase in the number of transactions to 483 (423) was recorded. In the first half of 2014, Bouwfonds Property Development completed a total of 2,562 (1,749) residential property transactions.

**_Loan portfolio of FGH Bank_**

in billions of euros




## FGH Bank

FGH Bank is a commercial real estate financier. It focuses on funding office space, retail space, business premises and property investments, particularly in the Netherlands. Besides investments in commercial real estate FGH Bank also finances new-build, renovation and transformation projects. The bank serves local property markets from eight regional branches across the country. FGH Bank works closely with the local Rabobanks in the areas of financing, valuations and relationship management. It aims to intensify its cooperation with other group divisions, for instance for the valuation process at local Rabobanks, managing real estate investments with local Rabobanks and the overall coordination for real estate financing contracted within Rabobank Group. In the first half of 2014, FGH Bank's loan portfolio amounted to EUR 19.6 (19.4) billion. FGH Bank publishes the annual FGH Real Estate Report, a market report on key trends and developments in the real estate market. According to the FGH Real Estate Report 2014, the emphasis will shift to flexibility in the years ahead. There is currently a disequilibrium in the property stock, with a surplus of buildings for some activities and a shortfall for others. As a result, supply and demand are mismatched, and part of the stock will have to be put to other uses. In addition, alternative options for using properties should be considered from the outset of their development.

## Bouwfonds Investment Management

Bouwfonds Investment Management focuses on investment products in the categories real estate, infrastructure and natural resources. Within these categories, Bouwfonds Investment Management focuses specifically on five sectors: commercial real estate, residential properties, multi-storey car parks, communications infrastructure and agriculture and farms. Bouwfonds European Residential Fund expanded its portfolio in 2014 with acquisitions in Germany and France, bringing it to a total of EUR 728 million. In addition, Bouwfonds European Student Housing Fund acquired various properties in Germany, the UK and the Netherlands in 2014. Total assets managed by Bouwfonds Investment Management rose by EUR 0.1 billion to EUR 6.0 (5.9) billion in the first half of 2014 and a range of fund initiatives are currently being prepared.

## MAB Development

The projects of MAB Development are usually intended for mixed use with a strong emphasis on retail. A decision was taken in 2013 to phase down the project development activities for commercial real estate. No more new projects will be initiated. Agreement was reached with Neinver in 2014 on the transfer of the shares in the joint venture established with Neinver in 2010 for the development of outlet centres in France, Germany and the Netherlands. The phase-down of the organisation is generally progressing according to schedule. The foreign locations have been closed.

### Fondsenbeheer Nederland

Fondsenbeheer Nederland is an independent not-for-profit organisation that invests in the quality of the physical environment by supporting various community funds, which provide financial and other support to social goals ranging from public housing to nature conservation projects and conservation of cultural and industrial heritage. The National Energy Savings Fund was officially launched in 2014. This fund, which is financed by contributions from Rabobank, ASN Bank and the Dutch government, provides low-interest Energy Savings Loans to enable homeowners to invest in energy-saving measures for their homes.

## *Financial results of real estate*

| ***Results*** | | | |
|---|---|---|---|
| *in millions of euros* | 2014-I | 2013-I | Change |
| Interest | 176 | 167 | 5% |
| Commission | 19 | 14 | 36% |
| Other results | 206 | (79) | |
| **Total income** | **401** | **102** | |
| Staff costs | 100 | 95 | 5% |
| Other administrative expenses | 44 | 68 | -35% |
| Depreciation | 4 | 9 | -56% |
| **Operating expenses** | **148** | **172** | -14% |
| **Gross result** | **253** | **(70)** | |
| Value adjustments | 358 | 164 | |
| **Operating result before taxation** | **(105)** | **(234)** | -55% |
| Taxation | (15) | (45) | -67% |
| **Net result** | **(90)** | **(189)** | -52% |
| | | | |
| **Bad debt costs** (in basis points) | **391** | **180** | |
| | | | |
| **Number of residential property transactions** | **2,562** | **1,749** | 46% |
| | | | |
| ***Balance sheet*** *(in billions of euros)* | 30-Jun-14 | 31-Dec-13 | |
| Loan portfolio | 19.6 | 19.4 | 1% |
| Assets under management | 6.0 | 5.9 | 2% |
| | | | |
| ***Capital requirements*** *(in billions of euros)* | | | |
| Regulatory capital | 1.5 | 1.6 | -6% |
| Economic capital | 1.7 | 1.9 | -11% |
| | | | |
| ***Number of employees*** *(in FTEs)* | 1,506 | 1,554 | -3% |

# *Notes to financial results of real estate*

### Income up by EUR 299 million

The total income of the real estate segment rose by EUR 299 million to EUR 401 (102) million in the first half of 2014. Margins on new loans and extensions improved and interest income accordingly increased by 5% to EUR 176 (167) million. Commission income at EUR 19 (14) million was slightly higher than in the first half of last year due to a non-recurring gain. The first half of 2013 had included substantial impairments of land holdings and negative revaluations of land operations, which did not feature in the first half of 2014. Other results therefore increased by EUR 285 million to EUR 206 (-79) million.

### Operating expenses fall by EUR 24 million

The total operating expenses of the real estate segment fell by 14% to EUR 148 (172) million in the first six months of 2014. Partly due to higher expenses for hiring temporary staff and higher pension costs, staff costs rose 5% to EUR 100 (95) million. In the first half of 2013, a reorganisation provision was formed for the phasing-out of the activities of MAB Development. The associated expense was recorded in other administrative expenses. No comparable item was recorded in the first half of this year and this was the main factor contributing to a fall of the other administrative expenses by 35% to EUR 44 (68) million. Depreciation fell by 5 million to EUR 4 (9) million, partly due to lower depreciation on hardware.

### Bad debt costs at 391 basis points

Despite the improved economic conditions in the Netherlands, value adjustments at Rabo Real Estate Group for commercial real estate were still at a high level. This is partly attributable to the fact that the market for real estate financing is positioned intrinsically late in the economic cycle. Any economic recovery is therefore only reflected in the results of the property financier with some delay. The value adjustments at the real estate segment amounted to EUR 358 (164) million. Expressed in basis points of average lending, bad debt costs corresponded to 391 (180) basis points, compared to a long-term average of 53 basis points.

### Regulatory capital down 6%

Regulatory capital at Rabo Real Estate Group fell to EUR 1.5 (1.6) billion in the first half year. The fall in credit risk was partly offset by an increase in operational risk. Credit risk fell as a result of the increase in value adjustments. Economic capital decreased to EUR 1.7 (1.9) billion.

# Interim financial information

## *Consolidated statement of financial position*

| *in millions of euros* | 30 June 2014 | 31 December 2013 | 30 June 2013 |
|---|---|---|---|
| ***Assets*** | | | |
| Cash and cash equivalents | 40,612 | 43,039 | 45,181 |
| Due from other banks | 40,980 | 40,787 | 34,036 |
| Financial assets held for trading | 5,184 | 5,289 | 6,843 |
| Other financial assets at fair value through profit or loss | 4,247 | 4,939 | 5,351 |
| Derivative financial instruments | 45,335 | 39,703 | 47,774 |
| Loans to customers | 462,739 | 455,909 | 474,651 |
| Available-for-sale financial assets | 43,778 | 46,552 | 51,365 |
| Investments in associates and joint ventures | 3,591 | 3,747 | 3,666 |
| Intangible assets | 2,033 | 1,991 | 2,279 |
| Property and equipment | 6,998 | 6,901 | 7,058 |
| Investment properties | 385 | 1,055 | 1,368 |
| Current tax assets | 104 | 170 | 1,039 |
| Deferred tax assets | 2,178 | 1,910 | 893 |
| Other assets | 10,884 | 8,339 | 10,289 |
| Non-current assets held for sale and discontinued operations | 10,465 | 9,073 | 1,578 |
| **Total assets** | **679,513** | **669,404** | **693,371** |

Amounts for 2013 have been restated to reflect the change in accounting policy as disclosed in the section ‘Changes in accounting policies and presentation’.

| *in millions of euros* | 30 June 2014 | 31 December 2013 | 30 June 2013 |
|---|---|---|---|
| ***Liabilities*** | | | |
| Due to other banks | 17,715 | 14,745 | 19,118 |
| Due to customers | 323,035 | 326,222 | 336,491 |
| Debt securities in issue | 194,414 | 195,361 | 197,891 |
| Derivative financial instruments and other trade liabilities | 55,611 | 50,171 | 59,247 |
| Other liabilities | 8,542 | 7,149 | 11,556 |
| Other financial liabilities at fair value through profit or loss | 19,384 | 19,069 | 21,785 |
| Provisions | 934 | 1,050 | 812 |
| Current tax liabilities | 296 | 266 | 221 |
| Deferred tax liabilities | 292 | 288 | 337 |
| Subordinated debt | 11,056 | 7,815 | 5,203 |
| Liabilities held for sale and discontinued operations | 8,380 | 7,825 | 681 |
| **Total liabilities** | **639,659** | **629,961** | **653,342** |
| | | | |
| **Equity** | | | |
| Equity of Rabobank Nederland and local Rabobanks | 25,041 | 24,640 | 24,403 |
| *Equity instruments issued directly* | | | |
| - Rabobank Certificates | 5,928 | 5,823 | 6,243 |
| - Capital Securities | 6,857 | 7,029 | 7,040 |
| | **12,785** | **12,852** | **13,283** |
| *Equity instruments issued by subsidiaries* | | | |
| - Capital Securities | 236 | 236 | 229 |
| - Trust Preferred Securities III to VI | 1,322 | 1,269 | 1,315 |
| | **1,558** | **1,505** | **1,544** |
| Other non-controlling interests | 470 | 446 | 799 |
| **Total equity** | **39,854** | **39,443** | **40,029** |
| **Total equity and liabilities** | **679,513** | **669,404** | **693,371** |

Amounts for 2013 have been restated to reflect the change in accounting policy as disclosed in the section 'Changes in accounting policies and presentation'.

# Condensed consolidated statement of income

| *in millions of euros* | First half 2014 | First half 2013 |
|---|---|---|
| Interest | 4,522 | 4,453 |
| Commission | 931 | 1,046 |
| Other results | 945 | 956 |
| **Total income** | **6,398** | **6,455** |
| | | |
| Staff costs | 2,471 | 2,632 |
| Other administrative expenses | 1,252 | 1,351 |
| Depreciation | 223 | 257 |
| **Operating expenses** | **3,946** | **4,240** |
| Value adjustments | 1,188 | 1,106 |
| Bank tax and resolution levy | 214 | - |
| **Operating profit before taxation** | **1,050** | **1,109** |
| Taxation | (30) | 97 |
| **Net profit from continuing operations** | **1,080** | **1,012** |
| Net profit from discontinued operations | - | 98 |
| **Net profit** | **1,080** | **1,110** |
| | | |
| Of which attributable to Rabobank Nederland and local Rabobanks | 501 | 549 |
| Of which attributable to holders of Rabobank Certificates | 192 | 161 |
| Of which attributable to Capital Securities | 325 | 340 |
| Of which attributable to Trust Preferred Securities III to VI | 35 | 34 |
| Of which attributable to other non-controlling interests | 27 | 26 |
| **Net profit for the period** | **1,080** | **1,110** |

Amounts for 2013 have been restated to reflect the change in accounting policy as disclosed in the section 'Changes in accounting policies and presentation'.

# *Consolidated statement of comprehensive income*

| *in millions of euros* | First half 2014 | First half 2013 |
|---|---|---|
| **Net profit for the period** | **1,080** | **1,110** |
| Unrealised profit after taxation arising in the period transferred to profit or loss if specific conditions are met: | | |
| *Foreign currency translation reserves* | | |
| Currency translation differences | 125 | (98) |
| *Revaluation reserve - Available-for-sale financial assets* | | |
| Currency translation differences | 1 | (12) |
| Changes in associates | 56 | (45) |
| Fair value changes | 359 | (55) |
| Amortisation of reclassified assets | 9 | 22 |
| Transferred to profit or loss | (122) | (20) |
| *Revaluation reserve - Associates* | | |
| Fair value changes | - | (4) |
| *Non-controlling interests* | | |
| Currency translation differences | 11 | (5) |
| *Revaluation reserve – Cash flow hedges* | | |
| Fair value changes | 377 | (767) |
| Transferred to profit or loss | (397) | 765 |
| Unrealised profit after taxation arising in the period not transferred to profit or loss: | | |
| *Revaluation of the net liability arising from pension entitlements* | | |
| Revaluations | (18) | (479) |
| **Total other comprehensive income** | **401** | **(698)** |
| **Total comprehensive income** | **1,481** | **412** |
| | | |
| Of which attributable to Rabobank Nederland and local Rabobanks | 891 | (144) |
| Of which attributable to holders of Rabobank Certificates | 192 | 161 |
| Of which attributable to Capital Securities | 325 | 340 |
| Of which attributable to Trust Preferred Securities III to VI | 35 | 34 |
| Of which attributable to other non-controlling interests | 38 | 21 |
| **Total comprehensive income** | **1,481** | **412** |

Amounts for 2013 have been restated to reflect the change in accounting policy as disclosed in the section 'Changes in accounting policies and presentation'.

# Condensed consolidated statement of changes in equity

| *in millions of euros* | Equity of Rabobank Nederland and local Rabobanks | Equity instruments issued directly | Equity instruments issued by subsidiaries | Other non-controlling interests | Total |
|---|---|---|---|---|---|
| **At 1 January 2014** | **24,640** | **12,852** | **1,505** | **446** | **39,443** |
| Total comprehensive income | 891 | 503 | 49 | 38 | 1,481 |
| Payment on Rabobank Certificates, Trust Preferred Securities III to VI and Capital Securities | - | (503) | (49) | - | (552) |
| Rabobank Certificates issued during the year | - | 105 | - | - | 105 |
| Redemption of Capital Securities | (4) | (158) | - | - | (162) |
| Other | (486) | (14) | 53 | (14) | (461) |
| **At 30 June 2014** | **25,041** | **12,785** | **1,558** | **470** | **39,854** |
| | | | | | |
| **At 1 January 2013** | **25,311** | **13,786** | **1,576** | **1,407** | **42,080** |
| Change in accounting policy IFRS 10 and 11 | - | - | - | (629) | (629) |
| | **25,311** | **13,786** | **1,576** | **778** | **41,451** |
| Total comprehensive income | (144) | 493 | 42 | 21 | 412 |
| Payment on Rabobank Certificates, Trust Preferred Securities III to VI and Capital Securities | - | (493) | (42) | - | (535) |
| Rabobank Certificates redeemed during the year | - | (429) | - | - | (429) |
| Redemption of Capital Securities | (14) | (83) | - | - | (97) |
| Other | (750) | 9 | (32) | - | (773) |
| **At 30 June 2013** | **24,403** | **13,283** | **1,544** | **799** | **40,029** |

Amounts for 2013 have been restated to reflect the change in accounting policy as disclosed in the section 'Changes in accounting policies and presentation'.

# Condensed consolidated statement of cash flows

| *in millions of euros* | First half 2014 | First half 2013 |
|---|---|---|
| Operating profit before taxation from continuing operations | 1,050 | 1,109 |
| Operating profit before taxation from discontinued operations | - | 156 |
| | | |
| Non-cash items recognised in operating profit before taxation | 1,251 | 1,116 |
| Net change in operating assets | (9,481) | 17,086 |
| Net change in liabilities relating to operating activities | 695 | (39,217) |
| Other | (1,651) | 291 |
| **Net cash flow from operating activities** | **(8,136)** | **(19,459)** |
| | | |
| **Net cash flow from investing activities** | **3,214** | **(2,164)** |
| **Net cash flow from financing activities** | **2,885** | **(1,147)** |
| **Net change in cash and cash equivalents** | **(2,037)** | **(22,770)** |
| | | |
| Cash and cash equivalents at 1 January | 43,039 | 68,103 |
| Net change in cash and cash equivalents | (2,037) | (22,770) |
| Foreign exchange differences on cash and cash equivalents | (390) | (152) |
| **Cash and cash equivalents at 30 June** | **40,612** | **45,181** |

Amounts for 2013 have been restated to reflect the change in accounting policy as disclosed in the section 'Changes in accounting policies and presentation'.

# Notes to the interim financial information

## General

The consolidated interim financial information of Rabobank Group has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and is presented in conformity with IAS 34 Interim Financial Reporting. Unless otherwise stated, all amounts are in millions of euros.
For the publication of its interim financial information, Rabobank Group has opted for the alternative of presenting condensed versions of its consolidated statement of financial position, its consolidated statement of income, its consolidated statement of changes in equity and its consolidated statement of cash flows.

## Basis for consolidation

Rabobank Group ('Rabobank') comprises the local Rabobanks ('Members') in the Netherlands, the central cooperative Rabobank Nederland and other specialised subsidiaries. Together, they form Rabobank Group. Rabobank Nederland advises the Members and supports them in the provision of their services. Rabobank Nederland also advises the Members and supervises them in the context of the Dutch Financial Supervision Act. In addition, under the Financial Supervision Act Rabobank Nederland is designated by the Ministry of Finance as a holder of a collective licence with respect to conduct supervision.
Rabobank's cooperative structure has several executive levels, each with its own tasks and responsibilities.
For the purposes of annual reporting, Rabobank Nederland exercises control over the local Rabobanks. The interim financial information of Rabobank includes the financial information of Rabobank Nederland and that of the Members and other Group companies.

## Accounting policies

Taking due account of the new and amended IFRSs, the significant accounting policies used in preparing the consolidated financial statements for 2013 and the present interim financial information have been summarised below. The condensed presentation of the primary financial statements may cause certain terms in the accounting policies set out below to be inconsistent with the primary statements.

### New and amended standards issued by the IASB and endorsed by the European Union, applicable to the current financial year

*IFRS 10 Consolidated Financial Statements*
This standard supersedes the consolidation rules of the current IAS 27 and SIC 12. IFRS 10 has important consequences for the consideration as to when a company has control over another entity. The effect on the result and equity is shown in the section 'Changes in accounting policies and presentation'. The standard applies effective 1 January 2014.

*IFRS 11 Joint Arrangements*

In May 2011, the IASB issued a standard relating to joint ventures, which supersedes IAS 31 and SIC 13. IFRS 11 prescribes that joint ventures may no longer be proportionally consolidated, and requires that all interests in joint ventures be recognised using the equity method of accounting. In making this change, the standard achieves convergence with US GAAP. Most other rules are the same as those of IAS 31. The effect on the result and equity is shown in the section 'Changes in accounting policies and presentation'. The standard applies effective 1 January 2014.

*IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 aims to enable users of financial statements to assess the purpose and associated risks of interests held in other entities, as well as the effects of those interests on the financial position, results and cash flows. This pertains to additional annual disclosures and has no effect on results or equity. The standard applies effective 1 January 2014.

*Amendments to IFRS 10, IFRS 11 and 12 – Transitional Provisions*

These amendments to IFRS 10 – Consolidated financial statements, IFRS 11 – Joint arrangements and IFRS 12 – Disclosure of interests in other entities, are intended to clarify the IASB's intention on initial publication of the transition guideline in IFRS 10. The changes moreover provide additional support for the transition in IFRS 10, IFRS 11 and IFRS 12 and limit the requirement to the provision of comparative information only for the previous comparative period. Furthermore, as a result of the changes regarding the provision of information on unconsolidated structured entities, the requirement to provide comparative information for periods prior to initial application of IFRS 12 has been removed. The amendment applies effective 1 January 2014.

*Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities*

IFRS 10 has been amended to more closely reflect the business model of investment entities. Under the standard, investment entities are obliged to measure their subsidiaries at fair value through profit and loss instead of consolidating them. IFRS 12 has been amended to make the provision of specific information on such subsidiaries of investment entities compulsory. As a result of the changes to IAS 27, investment enterprises no longer have the option of measuring their investments in certain subsidiaries at either cost or fair value in their separate financial statements. This change does not affect Rabobank and applies effective 1 January 2014.

*IAS 27 Separate Financial Statements*

This is a reissue of IAS 27. The consolidation requirements formerly included in IAS 27 are now included in IFRS 10. The amended standard is intended for the separate financial statements of entities also preparing consolidated financial statements. This standard does not affect Rabobank's consolidated financial statements and applies effective 1 January 2014.

*IAS 28 Investments in Associates*

IAS 28 sets accounting requirements for investments in associates and describes the requirements for recognising investments in associates and joint ventures in accordance with the equity method of accounting. This standard does not affect the result or equity and applies effective 1 January 2014.

*IAS 32 Financial Instruments: Presentation*

The amendment to IAS 32 seeks to provide additional guidance, thereby removing practical inconsistencies. This change does not affect the result or equity and applies effective 1 January 2014.

*Amendments to IAS 39 Financial Instruments: Novation of derivatives and continuation of hedge accounting*

These amendments are intended to provide a solution in situations where a counterparty to a derivative instrument that is designated as a hedging instrument is replaced by a central counterparty by novation. This allows the hedge accounting to be continued despite the novation, which without this change would not be permitted. This standard does not affect the result or equity and applies effective 1 January 2014.

*Amendments to IAS 36 Impairments of Assets*

These changes are intended to make clear that the scope of the information to be provided on the recoverable value of assets remains limited to assets that are subject to impairment, if this recoverable value is based on fair value less the costs of disposal. The amendment applies effective 1 January 2014.

*IFRIC Interpretation 21: Levies*

This interpretation concerns the administrative processing of an obligation to pay a levy if this obligation falls within the scope of IAS 37. It also concerns the administrative processing of an obligation to pay a levy for which the timing and amount are known.

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

- IFRS 14 Regulatory Deferral Accounts
- Amendments to IAS 19 Employee Benefits: Employee Contributions
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- Improvements to International Financial Reporting Standards 2010-2012 cycle
- Improvements to International Financial Reporting Standards 2011-2013 cycle

Although these new requirements are currently being analysed and their impact is as yet unknown, Rabobank does not expect the introduction of these amended standards to have a significant impact on results or equity.

*IFRS 9 Financial Instruments*

The International Accounting Standards Board published IFRS 9: Financial Instruments in July 2014. The effective date of IFRS 9 is 1 January 2018, however this date may be subject to change as a result of the process of adoption by the European Union. IFRS 9 may have a significant impact on results and equity; a matter which is currently being assessed.

The interim financial statements have been prepared on the basis of the accounting policies outlined below. The remaining assets and liabilities are accounted for on a historical cost basis, unless otherwise stated. Unless otherwise stated, all amounts in these interim financial statements are in millions of euros.

*Changes in accounting policies and presentation*

The new standard IFRS 11 has been applied for the first time in 2014 and the comparative figures have been adjusted accordingly. The effect of IFRS 11 is that some joint ventures in the real estate segment will no longer be proportionally consolidated. These joint ventures are recognised as 'Investments in associates and joint ventures'. The effect on the figures reported in the consolidated financial statements for 2013 and the interim financial statements for 2013 respectively is as follows:

| *in millions of euros* | 31 December 2013 | 30 June 2013 |
|---|---|---|
| ***Assets*** | | |
| Due from other banks | (38) | (42) |
| Other financial assets at fair value through profit or loss | (8) | (6) |
| Loans to customers | 48 | 50 |
| Investments in associates and joint ventures | 102 | 109 |
| Investment properties | (18) | (25) |
| Current tax assets | (20) | (17) |
| Deferred tax assets | (1) | - |
| Other assets | (255) | (372) |
| Non-current assets held for sale and discontinued operations | (107) | (17) |
| | | |
| **Total assets** | **(297)** | **(320)** |
| | | |
| ***Liabilities*** | | |
| Due to other banks | (171) | (162) |
| Other liabilities | (199) | (225) |
| Provisions | 78 | 70 |
| Current tax liabilities | (2) | - |
| Deferred tax liabilities | (2) | (2) |
| **Total liabilities** | **(296)** | **(319)** |
| **Equity** | **(1)** | **(1)** |
| **Total equity and liabilities** | **(297)** | **(320)** |

| *in millions of euros* | First half 2013 |
|---|---|
| Interest | 4 |
| Commission | (2) |
| Other income | 11 |
| **Total income** | **13** |
| | |
| Staff costs | (1) |
| Other administrative expenses | (1) |
| Depreciation | - |
| **Operating expenses** | **(2)** |
| Value adjustments | - |
| Bank tax and resolution levy | - |
| **Operating profit before taxation** | **15** |
| Taxation | 15 |
| **Net profit from continuing operations** | **-** |
| Net profit from discontinued operations | - |
| **Net profit** | **-** |

The new standard IFRS 10 is applied for the first time in 2014 and has led to the deconsolidation of three entities in the wholesale banking and International retail banking segment. The comparative figures have been adjusted. The effect on the figures reported in the consolidated financial statements for 2013 and the interim financial statements for 2013 respectively is as follows:

| *in millions of euros* | 31 December 2013 | 30 June 2013 |
|---|---|---|
| ***Assets*** | | |
| Due from other banks | (19) | (13) |
| Other financial assets at fair value through profit or loss | (24) | (24) |
| Loans to customers | (4,341) | (4,579) |
| Available-for-sale financial assets | 141 | 147 |
| Investments in associates and joint ventures | 16 | 16 |
| Other assets | (211) | (245) |
| **Total assets** | **(4,438)** | **(4,698)** |
| | | |
| ***Liabilities*** | | |
| Due to other banks | (580) | (612) |
| Due to customers | (3,178) | (3,353) |
| Other liabilities | (89) | (105) |
| Current tax liabilities | 1 | - |
| **Total liabilities** | **(3,846)** | **(4,070)** |
| **Equity** | **(592)** | **(628)** |
| **Total equity and liabilities** | **(4,438)** | **(4,698)** |

| *in millions of euros* | First half 2013 |
|---|---|
| Interest | (6) |
| Commission | 2 |
| Other income | 1 |
| **Total income** | **(3)** |
| | |
| Staff costs | (1) |
| Other administrative expenses | - |
| Depreciation | - |
| **Operating expenses** | **(1)** |
| Value adjustments | - |
| Bank tax and resolution levy | - |
| **Operating profit before taxation** | **(2)** |
| Taxation | - |
| **Net profit from continuing operations** | **(2)** |
| Net profit from discontinued operations | - |
| **Net profit** | **(2)** |

### *Judgements and estimates*

The preparation of the interim financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities, the reporting of contingent assets and liabilities at the date of the interim financial statements, as well as the amounts reported for income and expenses during the reporting period. This mainly concerns the determination of the provisions, taxes, consolidation, the fair value of assets and liabilities and impairments. The situations are assessed on the basis of available financial data and information. Although management based their estimates on the most careful assessment of the current circumstances and activities, the actual results may deviate from these estimates. As a result of the less favourable market conditions for both residential and commercial property and the limited number of transactions, the uncertainties regarding the measurement of property (land holdings, work in progress, finished product and property investments) and property financing have increased. The measurement of property involves various assumptions and valuation techniques. Due to their subjective nature, the use of various assumptions and techniques may lead to different results. These interim financial statements have been prepared on the basis of the going concern assumption as there are no indications of Rabobank's inability to continue as a going concern.

## Group interim financial information

*Subsidiaries*

The entities over which Rabobank exercises control are subsidiaries (including structured entities), and are consolidated. Control over an entity is exercised if the investor is exposed to or entitled to variable income as a result of its involvement with the entity, and has the possibility of influencing this income due to its control over the entity. The assets, liabilities and results of these entities are consolidated in full.

Subsidiaries are consolidated from the date on which Rabobank obtains control, and cease to be consolidated on the date that this control ends. All intra-Group transactions, balances and unrealised gains and losses on transactions between Rabobank Group subsidiaries are eliminated for consolidation purposes.

*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.

The participating entities are:

- The local member banks of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.
- Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland), Amsterdam
- Rabohypotheekbank N.V., Amsterdam
- Raiffeisenhypotheekbank N.V., Amsterdam
- Schretlen & Co 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

*Investments in associates and joint ventures*

Investments in associates and joint ventures are recognised in accordance with the equity method. With this method, Rabobank's share of the profits and losses of an associate, after its acquisition and subject to Rabobank's accounting policies, is recognised in profit or loss, and its share of the changes in reserves, after the acquisition, is recognised in reserves. The cumulative changes after acquisition are adjusted to the cost of the investment.

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

A joint venture is an agreement whereby the parties that exercise shared control of the agreement are entitled to the net assets of the agreement. Unrealised gains on transactions between Rabobank and its associates and joint ventures are eliminated in proportion to the size of Rabobank's interest in the associates and joint ventures. Unrealised losses are also eliminated unless the transaction indicates that the asset transferred is subject to impairment.

Investments by Rabobank in associates include the goodwill acquired. If Rabobank's share in the losses of an associate equals or exceeds its interest in the associate, Rabobank will not recognise any more losses of the associate unless Rabobank has given undertakings or made payments on behalf of this associate.

## Derivative financial instruments and hedging

*General*

Derivative financial instruments 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 as well as acquired).

Derivative financial instruments may be traded on an exchange or as over-the-counter (OTC) instruments between Rabobank and a client. All derivative financial instruments are recognised at fair value. The fair value is determined using listed market prices, prices offered by traders, cash flow discounting models and option valuation models based on current market prices and contracted prices for the underlying instruments, as well as the time value of money, yield curves and the volatility of the underlying assets and liabilities. All derivative financial instruments are included under assets if their fair value is positive and under liabilities if their fair value is negative.

Derivative financial instruments that are embedded in other financial instruments are treated separately if their risks and characteristics are not closely related to those of the underlying derivative contract and this contract is not classified as at fair value through profit or loss.

*Instruments not used for hedging*

If Rabobank takes positions in derivative instruments for trading purposes, realised and unrealised gains and losses are recognised in 'Results of financial assets and liabilities at fair value through profit or loss'.

*Hedging instruments*

Rabobank also uses derivative financial instruments as part of asset and liability management to manage its interest rate risks, credit risks and foreign currency risks. Rabobank makes use of the possibilities provided by the EU through the carve-out in IAS 39. The carve-out facilitates the application of fair value portfolio hedge accounting to certain positions.

On the date of concluding a derivative contract, Rabobank can designate certain derivative financial instruments as (1) a hedge of the fair value of an asset or liability in the statement of financial position (fair value hedge), as (2) a hedge of future cash flows attributable to an asset or liability in the statement of financial position, an expected transaction or a firm commitment (cash flow hedge), or as (3) a hedge of a net investment in a foreign entity (net investment hedge). Hedge accounting can be applied for derivative financial instruments designated in this manner if certain criteria are met.

The criteria derivative financial instruments must satisfy to be recognised as hedging instruments include the following:

- formal documentation of the hedging instrument, the hedged item, the objective of the hedge, the hedging strategy and the hedge relationship before applying hedge accounting;
- the hedge is expected to be effective (in a range of 80% to 125%) in offsetting changes in the hedged item's fair value or cash flows attributable to the hedged risks during the entire reporting period;
- the hedge is continuously effective from inception onwards.

Changes in the fair value of derivative financial instruments that are designated as fair value hedges and are effective in relation to the hedged risks are recognised in profit or loss, together with the corresponding changes in the fair value of the assets or liabilities hedged against the risks in question.

If the hedge no longer meets the criteria for hedge accounting (according to the fair value hedge model), any adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised through profit or loss until the end of the hedged period.

Any adjustment to the carrying amount of a hedged equity instrument is recognised as equity until disposal of the equity instrument.
Changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges and that are effective in relation to the hedged risks are recognised in the hedging reserve included under Equity (see Section 10). The non-effective part of the changes in the fair values of the derivative financial instruments is recognised in profit or loss.
If the forecast transaction or the non-current liability results in the recognition of a non-financial asset or a non-financial liability, any deferred gain or loss included in equity is restated to the initial carrying amount (cost) of the asset or the liability. In all other cases, deferred amounts included in equity are taken to the statement of income and are classified as income or expenses in the periods in which the hedged non-current liability or the forecast transaction had an effect on profit or loss.
Certain derivative contracts, although they are economic hedges in relation to the managed risk positions taken by Rabobank, do not qualify for hedge accounting under the specific IFRS rules. These contracts are therefore treated as derivative financial instruments held for trading.

*Trade liabilities*
Trade liabilities are mainly negative fair values of derivative financial instruments and delivery obligations arising on short selling of securities. Securities are sold short to realise gains from short-term price fluctuations. The securities needed to settle the short selling are acquired through securities leasing or sale and securities repurchase agreements. Securities sold short are recognised at fair value at the reporting date.

### Financial assets held for trading
Financial assets held for trading are acquired to realise gains from short-term fluctuations in the prices or margins of traders, or form part of a portfolio that regularly generates short-term gains. These assets are stated at fair value based on quoted bid prices. All related realised and unrealised gains and losses are recognised in 'Results of financial assets and liabilities at fair value through profit or loss'. Interest earned on financial assets held for trading is recognised as interest income.
Dividends received on financial assets held for trading are recognised as 'Results of financial assets and liabilities at fair value through profit or loss'.
All purchases and sales of financial assets held for trading that have to be delivered within a period prescribed by regulations or market convention are recognised at the transaction date.

### Other financial assets and liabilities at fair value through profit or loss
Rabobank has opted to classify financial instruments not acquired or entered into for the purpose of realising gains from short-term fluctuations in traders' prices or margins at fair value through profit or loss. These financial assets, including venture capital, are carried at fair value. Management designates financial assets and liabilities to this category upon initial recognition if any or all of the following criteria are met:
- such designation 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; or
- 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 financial instrument, unless the embedded derivative financial instrument does not significantly affect the cash flows or if it is evident, after limited analysis or no analysis at all, that separate recognition is not required.

Interest earned on assets with this classification is recognised as interest income and interest due on liabilities with this classification is recognised as interest expense. Any other realised and unrealised gains and losses on revaluation of these financial instruments at fair value are included under 'Results of financial assets and liabilities at fair value through profit or loss'.
All purchases and sales of other financial assets and liabilities at fair value through profit or loss that have to be delivered within a period prescribed by regulations or market convention are recognised at the transaction date.

### Day 1 profit

Discrepancies between the transaction price and fair value may arise if valuation techniques are applied at the time of the transaction. Such a discrepancy is referred to as 'Day 1 profit'. Rabobank recognises this profit directly under 'Other income', provided that the valuation technique is based on observable data inputs (from active markets). If unobservable data inputs were used, the Day 1 profit is amortised over the term of the transaction and recognised under 'Other liabilities'. Profit is subsequently accounted for if the financial instrument in question is sold or if the data input has subsequently become observable.

### Available-for-sale financial assets

Management determines the classification of financial assets on the date of acquisition, depending on the purpose for which the investments are acquired.
Financial assets that are intended to be held indefinitely and that could be sold for liquidity purposes or in response to changes in interest rates, exchange rates or share prices are classified as available for sale.
Available-for-sale financial assets are initially recognised at fair value, including transaction costs, based on quoted bid prices or values derived from cash flow models. The fair values of unlisted equity instruments are estimated based on appropriate price/earnings ratios, adjusted to reflect the specific circumstances of the respective issuers. Any unrealised gains and losses from changes in the fair value of available-for-sale financial assets are recognised in equity unless they relate to amortised interest. If such financial assets are disposed of, the adjustments to fair value are recognised in profit or loss.
At each reporting date, management assesses whether there are objective indications of impairment of available-for-sale assets. Examples of objective evidence of potential impairment are:

- significant financial difficulties on the part of the issuer;
- default in making interest and/or redemption payments;
- the disappearance of active markets for the financial asset caused by financial difficulties.

Equity instruments are considered to be impaired if their cost permanently exceeds their recoverable amount. In other words, the fair value is permanently or significantly lower than their cost. The recoverable amount of investments in unlisted equity instruments is determined using approved valuation methods, whereas the recoverable amount of listed financial assets is determined on the basis of market value. Impairment of equity instruments is never subsequently reversed through profit or loss.
Debt instruments are impaired if there are objective indications that the fair value has decreased to such a degree that no reasonable assumptions can be made that the value will recover to the carrying amount in the foreseeable future.
In the event of impairment, the cumulative loss is determined as the difference between cost and current fair value, less any previously recognised impairment transferred from the revaluation reserve in equity to profit or loss. If the impairment of a debt instrument diminishes in a subsequent period and the diminution can be objectively attributed to an event that occurred after the impairment, the impairment is reversed through profit or loss.

All purchases and sales made in accordance with standard market conventions for available-for-sale financial assets are recognised at the transaction date. All other purchases and sales are recognised at the settlement date.

### Repurchase agreements and reverse repurchase agreements

Financial assets that are sold subject to related sale and repurchase agreements are included in the interim financial information under 'Financial assets held for trading' and 'Available-for-sale financial assets'. The liability to the counterparty is included under 'Due to other banks' or 'Due to customers', depending on the application.
Financial assets acquired under reverse sale and reverse repurchase agreements are recognised as 'Due from other banks', or 'Loans to customers', depending on the application. The difference between the sale price and repurchasing price is recognised as interest income or interest expense over the term of the agreement, based on the effective interest method.

### Securitisations and other derecognition constructions

Rabobank securitises, sells and carries various financial assets. Those assets are sometimes sold to special purpose entities ('SPEs'), which then issue securities to investors. Rabobank has the option of retaining an interest in sold securitised financial assets in the form of subordinated interest-only strips, subordinated securities, spread accounts, servicing rights, guarantees, put options and call options, and other constructions.
A financial asset (or a portion of it) is derecognised if:
- the rights to the cash flows from the asset expire;
- the rights to the cash flows from the asset and a substantial portion of the risks and benefits of ownership of the asset are transferred;
- a commitment to transfer the cash flows from the asset is presumed and a substantial portion of the risks and benefits are transferred;
- not all the economic risks and benefits are retained or transferred; however, control over the asset is transferred.

A financial liability or part thereof is derecognised if it ceases to exist, i.e. after the contractual obligation has been fulfilled or cancelled or has expired.
If Rabobank retains control over the asset but does not retain a substantial portion of the risks and benefits, the asset is recognised in proportion to the continuing involvement of Rabobank. A related liability is also recognised to the extent of Rabobank's continuing involvement. The recognition of changes in the value of the liability corresponds to the recognition of changes in the value of the asset.
If a transaction does not meet the above 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, the transfer does not result in Rabobank's contractual rights being separately recognised as derivative financial instruments if recognition of these instruments and the transferred asset, or the liability arising on the transfer, were to result in double recognition of the same rights or obligations.
Gains and losses on securitisations and sale transactions depend partly on the previous carrying amounts of the financial assets transferred. These are allocated to the sold and retained interests based on the relative fair values of these interests at the date of sale. Any gains and losses are recognised through profit or loss at the time of transfer.
The fair value of the sold and retained interests is based on quoted market prices or calculated as the present value of the future expected cash flows, using pricing models that take into account various assumptions such as credit losses, discount rates, yield curves, payment frequency and other factors.

Rabobank decides whether the SPE should be included in the consolidated interim financial information. For this purpose, it performs an assessment of the SPE by taking a number of factors into consideration, including the activities, decision-making powers and the allocation of the benefits and risks associated with the activities of the SPE.

### Cash and cash equivalents

Cash equivalents are highly liquid short-term investments held to meet current obligations in cash rather than as investments or for other purposes. Their remaining terms is less than 90 days at inception. Cash equivalents are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

### Netting of financial assets and liabilities

Financial assets and liabilities are set off and the net amount is transferred to the statement of financial position if a legal right to set off the recognised amounts exists 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. This mainly concerns netting of current account balances and derivative financial instruments. The set-off of taxes is discussed in the 'Tax' section.

### Foreign currencies

*Foreign entities*

Items included in the interim financial information of each entity in Rabobank Group are carried in the currency that best reflects the economic reality of the underlying events and circumstances that are relevant for the entity ('the functional currency').
The consolidated interim financial statements are presented in euros, which is the parent company's functional currency.
Gains, losses and cash flows of foreign entities are translated into the presentation currency of Rabobank at the exchange rates ruling at the transaction dates, which is approximately equal to the average exchange rates and the balance is translated at rates on 31 December. Translation differences arising on the net investments in foreign entities and on loans and other currency instruments designated as hedges of these investments are recognised in equity. If a foreign entity is sold, any such translation differences are recognised in profit or loss as part of the gain or loss on the sale.
Goodwill and fair value adjustments arising on the acquisition of a foreign entity are recognised as assets and liabilities of the foreign entity and are translated at the closing rate.

*Transactions in foreign currencies*

Transactions in foreign currencies are translated into the functional currency at the exchange rates ruling at the transaction dates. Translation differences arising on the settlement of such transactions or on the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Translation differences qualifying as net investment hedges are recognised in equity.
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 available-for-sale non-monetary items are included in the revaluation reserve reported under 'Equity'.

### Interest

Interest income and expense for all interest-bearing instruments is recognised in profit or loss on an accrual basis, with the effective interest method being applied. 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. If any loans are subject to impairment, they are written down to their recoverable amounts and the interest income recognised subsequently is based on the original discount rate for calculating the present value of the future cash flows used to determine the recoverable amounts. Interest income on derivative financial instruments held for economic hedging purposes is presented separately under interest income.

### Commission

Income from asset management activities consists mainly of unit trust, fund management commission and administration. Income from asset management and insurance brokerage is recognised as earned once the services have been provided.
Commission is generally recognised on an accrual basis. Commission received for negotiating a transaction, or taking part in the 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 at completion of the underlying transactions.

### Loans to customers and Due from other banks

The items Loans to customers and Due from other banks are non-derivative financial assets with fixed or defined payments that are not listed on an active market, apart from such assets that Rabobank classifies as held for trading purposes, or on initial recognition as measured at fair value with changes recognised through profit or loss, or as available for sale. Loans to customers and receivables are initially recognised at fair value, including transaction costs, and subsequently carried at amortised cost, including transaction costs.
Loans are subject to either individual or collective impairment analysis. A value adjustment, a provision for expected losses on loans, is recognised if there is objective evidence that Rabobank will not be able to collect all amounts due under the original terms of the contract. The size of the provision is the difference between the carrying amount and the recoverable amount, which is the present value of the expected cash flows, including – in addition to the expected interest income and redemptions - amounts recoverable under guarantees and sureties, discounted at the original effective interest rate of the loans.
The provision for loans includes losses if there is objective evidence that losses are attributable to some portions of the loan portfolio at the reporting date.
Examples of objective evidence of potential impairment are:

- 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;
- possibility of bankruptcy of or financial reorganisation at the borrower;
- changes in borrowers' payment status; and
- changes in economic circumstances that could cause the borrower to default.

For each separate business unit, the losses are estimated based on the credit ratings of the borrowers and the value of the collateral provided to the bank, and taking into account the actual economic conditions under which the borrowers conduct their activities. The carrying amount of the loans is reduced through the use of a provision account based on the scenario considered to be most likely by the bank, and the loss is taken to the statement of income.

Write-offs of provisions for expected loan losses are made as soon as the enforcement process is completed, the security provided has been realised, when virtually no other means of recovery are available and in the event of a formal cancellation of a debt. If there is virtually no perspective of the debtor being able to continue as a going concern, a provision for expected loan losses is written off at portfolio level, up to the amount deemed uncollectible. Any amounts subsequently collected are included under the item 'Value adjustments' in the statement of income. As soon as the prospects for continuity have recovered and arrears have been cleared as agreed, the loan is no longer considered impaired (not fully collectible). Management continually assesses these renegotiated loans to ensure that all criteria are satisfied with a view to expected future cash flows.
At each reporting date, management assesses whether there is objective evidence that reclassified loans previously recognised as available-for-sale assets have been impaired.
All loans other than residential mortgages and consumer credit are measured using the one obligor principle. This principle means that the approved limit for one debtor applies to the total of all loans – including derivative instruments, guarantees and the like – taken out by the debtor group to which the debtor belongs. A debtor group includes all the debtors in the economic entity in which legal entities and companies are organisationally linked. The economic entity furthermore includes the majority shareholders. The one obligor principle surpasses the entity level; the loans of the debtor group across all group elements are included.

## Intangible assets

*Goodwill*

Goodwill is the amount by which the acquisition price paid for a subsidiary exceeds the fair value on the acquisition date of Rabobank's share of the net assets and the contingent liabilities of the entity acquired. Upon each acquisition, the other minority interests are recognised at fair value or at the proportion of the identifiable assets and liabilities of the acquired entity. Impairment tests are performed annually or - if indications so dictate - more frequently to determine whether impairment has occurred.

*Software development costs*

Costs related to the development or maintenance of software are recognised as an expense at the time they are incurred. Costs directly incurred in connection with identifiable and unique software products over which Rabobank has control and that will probably provide economic benefits exceeding the costs for longer than a year are recognised as intangible assets.
Direct costs include the employee expenses of the software development team, financing and an appropriate portion of the relevant overhead.
Expenditures that improve the performance of software compared with their original specifications are added to the original cost of the software. Software development costs are recognised as assets and amortised on a straight-line basis over a period not exceeding five years.

*Other intangible assets*

Other intangible assets are mainly those identified upon business combinations. They are amortised over their terms.
Each year, Rabobank performs an impairment test based on expected future cash flows.
An impairment is recognised if the expected future profits do not justify the carrying amount of the asset.

*Impairments of goodwill*

Each year, during the fourth quarter of the financial year, or more frequently if indications of impairment exist, goodwill is tested for impairment by comparing the recoverable amount with the carrying amount. The recoverable amount is determined by either the value in use or the fair value less selling costs, whichever is the higher. The definition of cash flow generating units depends on the type of company acquired.

The value in use of a cash flow generating unit is arrived at by determining the present value of the expected future cash flows of the cash flow generating unit in question at the interest rate before tax.

The major assumptions used in the cash flow model depend on the input data which reflect different financial and economic variables, such as the risk-free interest rate in a country and a premium reflecting the inherent risk of the entity concerned. The variables are determined subject to review by management. Impairments of goodwill are included in 'Other income' in the statement of income.

*Impairment of other intangible assets*

At each reporting date, Rabobank assesses whether there are indications of impairment of other intangible assets. If such indications exist, impairment testing is carried out to determine whether the carrying amount of the other intangible assets is fully recoverable. An impairment is recognised if the carrying amount exceeds the recoverable amount. Goodwill and software under development are tested for impairment each year at the reporting date or more frequently if indications of impairment exist. Impairments and reversed impairments of other intangible assets are included in 'Other administrative expenses' in the statement of income.

## Property and equipment

*Property and equipment for own use*

Equipment (for own use) is recognised at historical cost net of accumulated depreciation and impairments if applicable. Property (for own use) represents mainly offices and is also recognised at cost less accumulated depreciation and impairments if applicable.

Straight-line deprecation is applied to these assets in accordance with the schedule below. Each asset is depreciated to its residual value over its estimated useful life:

| | |
|---|---|
| • Land | Not depreciated |
| • Buildings | 25 - 40 years |
| Equipment, including | |
| • Computer equipment | 1 - 5 years |
| • Other equipment and vehicles | 3 - 8 years |

Each year, Rabobank assesses 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 immediately. Impairments and reversed impairments of property and equipment are included in 'Other administrative expenses' in the statement of income. Gains and losses on the disposal of items of property and equipment are determined in proportion to their carrying amounts and taken into account when determining the operating result.

Repair and maintenance work is charged to profit or loss at the time the relevant costs are incurred. Expenditures on extending or increasing the benefits from land and buildings compared with their original benefits are capitalised and subsequently depreciated.

## Investment properties

Investment properties, mainly 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 over a term of 40 years.

## Other assets

*Work in progress*

Work in progress is included in 'Other assets'. Work in progress relates to commercial real estate projects as well as sold and unsold housing projects under construction or planned and is carried at cost plus allocated interest, net of provisions as necessary. Instalments invoiced to buyers and customers are deducted from work in progress. If the balance for a project is negative (the amount of the invoiced instalments exceeds the capitalised costs), the balance of that project is recognised under 'Other liabilities'.

Gains and losses are recognised based on the percentage of completion method given the continuous transfer of ownership involved. In the course of the construction work, Rabobank transfers the control and the material risks and benefits of the ownership of the work in progress in its current state to the buyer as construction progresses.

*Construction sites*

Construction sites are recognised at cost, including attributed interest and additional costs of purchasing and preparing sites for construction. No interest is attributed to land without special designated use according to the zoning plan if it is not certain that the land will be built on. The cost of land does not include the contingent liability that depends on the future designated use of the land in question. An impairment is applied to the carrying amount of land if a loss is expected to be realised on sale.

## Leasing

*Rabobank as lessee*

Leases relating to property and equipment under which virtually all risks and benefits of ownership are transferred to Rabobank are classified as finance leases. Finance leases are capitalised at the inception of the lease at the fair value of the leased assets or at the present value of the minimum lease payments if the present value is lower. 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 loans', after deduction of finance charges. The interest components of the finance charges are recognised in profit or loss over the term of the lease. An item of property and equipment acquired under a finance lease is depreciated over the useful life of the asset or, if shorter, the term of the lease.

Leases under which a considerable portion of the risks and benefits of ownership of the assets is retained by the lessor are classified as operating leases. Operating lease payments (less any discounts by the lessor) are charged to profit or loss on a straight-line basis over the term of the lease.

*Rabobank as lessor*

Finance leases

If assets are leased under a finance lease, the present value of the lease payments is recognised as a receivable under 'Due from other banks' or 'Loans to customers'. The difference between the gross receivable and the present value of the receivable 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 discounts granted to lessees and write-downs) is recognised under 'Other income' on a straight-line basis over the term of the lease.

## Provisions

Provisions are recognised if Rabobank has a present obligation (legal or constructive) as a result of a past event, if it is probable that an outflow of resources will be required to settle the obligation and if 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 contract, the reimbursement is recognised as a separate asset if the reimbursement is virtually certain. The provisions are carried at the discounted value of the expected future cash flows.

*Restructuring*

Restructuring provisions comprise payments under redundancy schemes and other costs directly attributable to restructuring programmes. The costs are recognised in the period in which a legal or constructive obligation arises for Rabobank and a detailed redundancy scheme is in place, and a valid expectation has been raised amongst those concerned that the reorganisation will take place.

*Tax and legal issues*

The provision for tax and legal issues is based on the best possible estimates available at the reporting date, 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*

This item includes provisions for onerous contracts, credit guarantees and obligations under the terms of the deposit guarantee system.

## 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 trustee administered funds. The payments are calculated actuarially at regular intervals. A defined benefit plan is one that incorporates a promise to pay an amount of pension benefit, which is usually based on several factors such as age, number of years in service and remuneration. A defined contribution plan is one under which Rabobank pays fixed contributions to a separate entity (a pension fund) and acquires no legal or constructive obligation if the fund has insufficient assets to pay all the benefits to employee-members of the plan in respect of service in current and past periods.

*Pension obligations*
The defined benefit liability is the present value of the defined benefit obligation at the reporting date, reduced by the fair value of the plan assets. The defined benefit obligation is calculated by independent actuaries each year using the projected unit credit method. The present value of the defined benefit obligation is calculated by discounting the estimated future cash outflows at rates of interest on prime corporate bonds with terms approximating those of the related obligations. Most of the pension plans are career average pension plans and the net costs after deduction of employees' contributions and interest are included under 'Staff costs'. The net interest expense or income is calculated by applying the discount rate at the beginning of the year to the defined benefit asset or liability.
Actuarial gains or losses from adjustments to actual developments or actuarial assumptions are recognised in the Consolidated statement of comprehensive income.

*Defined contribution plans*
Under defined contribution plans, Rabobank pays contributions to publicly or privately managed insured pension plans on a compulsory, contractual or voluntary basis. Once the contributions have been made, Rabobank has no further payment obligations. The regular contributions are costs for the year in which they are due and are included on this basis under 'Staff costs'.

*Other post-employment obligations*
Some Rabobank 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 a minimum number of years. The expected costs of these benefits are accrued over the years of service, based on a system similar to that for defined benefit plans. The obligations are valued each year by independent actuaries.

*Variable remuneration*
The costs of variable remuneration paid unconditionally and in cash are recognised in the year in which the employee renders the services. The costs of conditional payments in cash are included in staff costs in the statement of income in the period during which the employee's services are received, which equals the vesting period of the cash payment (in total four years). The liability is recognised in 'Other liabilities'. Payments based on equity instruments are explained under 'Equity instrument-based payments' below.

### Equity instrument-based payments
Remuneration for services rendered by identified staff is made in the form of cash-settled payments based on equity instruments that are similar to, and have the same characteristics as, Rabobank Member Certificates or Rabobank Certificates. The costs of the services received are based on the awarded equity instruments' fair value on the award date and are recalculated annually at the value applicable at the time. The costs of the awarded equity instruments are included in staff costs in the statement of income in the period during which the employee's services are received, which equals the vesting period of the equity instruments (in total four years). The liability is recognised in 'Other liabilities'.

### Tax
Current tax receivables and payables are set off if there is a legally enforceable right to set off such items and if simultaneous treatment or settlement is intended. Deferred tax assets and liabilities are set off if there is a legally enforceable right to set off such items and if they relate to the same tax authority and arise from the same tax group.

Provisions are formed in full for deferred tax liabilities, using the liability method, arising from temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the interim financial statements.
The main temporary differences relate to the depreciation of property and equipment, the revaluation of certain financial assets and liabilities, including derivative financial instruments, provisions for pensions and other post-employment benefits, provisions for loan losses and other impairment and tax losses, and, in connection with business combinations, the fair values of the net assets acquired and their tax bases. Deferred income tax assets and liabilities are measured at the tax rates that have been enacted or substantively enacted 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 temporary differences can be utilised.
Provisions are formed 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 can be controlled 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 jurisdiction and recognised in the period in which the profit is realised. The tax effects of the carry-forward of unused tax losses 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 or deferred tax liabilities are included for the revaluation of available-for-sale financial assets and cash flow hedges that are directly taken to equity. Upon realisation, they are recognised in profit or loss together with the respective deferred gain or loss.
Income tax is recognised in each interim period on the basis of the best estimate of the weighted average annual rate of income tax expected for the full financial year.

### Due to other banks, Due to customers and Debt securities in issue

These borrowings are initially recognised at fair value, i.e. the issue price less directly attributable and non-recurring transaction costs, and subsequently carried at amortised cost, including transaction costs.
If Rabobank repurchases one of its own debt instruments, it is derecognised, with the difference between the carrying amount of a liability and the consideration paid being recognised in the statement of income.

### Rabobank Member Certificates and Rabobank Certificates

The proceeds of the issue of Rabobank Member Certificates and Rabobank Certificates are available to Rabobank Group on a perpetual basis, subordinated to all liabilities (also subordinate to the Trust Preferred Securities and the Capital Securities). As the payment of planned distributions is fully discretionary, the proceeds of the issue of Rabobank Member Certificates and Rabobank Certificates are recognised as equity. Accordingly, planned distributions are accounted for in the profit appropriation.

### Trust Preferred Securities and Capital Securities

Trust Preferred Securities, which pay a non-discretionary dividend and are redeemable on a specific date or at the option of the holder, are classified as financial liabilities and included under 'Subordinated debt'. The distributions on these preferred securities are recognised in profit or loss as interest expense based on amortised cost using the effective interest method.
The remaining Trust Preferred Securities and Capital Securities are recognised as equity, as there is no formal obligation to repay the principal or to pay the dividend.

### Financial guarantees

Financial guarantee contracts require that the issuer compensate the holder up to a certain amount for a loss the latter incurs because a specified debtor fails to meet its obligations in accordance with the terms of a debt security. Such financial guarantees are initially recognised at fair value and subsequently measured at the value of the discounted liability under the guarantee or the value on initial recognition if higher, less the amount of previously recognised cumulative gains or losses, thus reflecting the revenue recognition principles.

### Segment information

A segment is a distinguishable component of Rabobank (a business segment) that engages in providing products or services and is subject to risks and returns that are different from those of other segments. The business segments Rabobank uses in its reporting are defined from a management viewpoint, meaning they are the segments that are reviewed by the management as part of Rabobank's strategic management and for the purpose of making business decisions, and have different risks and returns. Rabobank's primary reporting format is by business segment; the secondary format is by geographical segment.

### Business combinations

Business combinations are recognised on the basis of the acquisition method. The price of an acquisition is defined as the monetary sum or equivalent thereof agreed for the acquisition of the business combination, plus any costs directly attributable to the acquisition. Goodwill is the difference between the acquisition price and Rabobank's share in the fair value of the assets, liabilities and contingent liabilities acquired. Goodwill is capitalised and carried as an intangible asset. For each business combination, the non-controlling interests are measured as the share of the company purchased in the identifiable net assets. Direct acquisition costs are recognised in profit or loss.

### Groups of assets to be divested and classified as held for sale, and discontinued operations

Groups of assets that are to be divested and classified as held for sale are measured at the carrying amount or at fair value less expected costs of sale if lower. A group of assets (or a single non-current asset) to be divested qualifies as held for sale if the carrying amount will mainly be realised by means of a sale transaction and not through continued use. This is only the case if a sale is very likely and the group of assets (or single non-current asset) to be divested is available for sale immediately in its current condition. Furthermore, the management must have undertaken to effect the sale and the sale is expected to be effected within one year of the date of classification as held for sale. If a group of assets classified as held for sale represents an important business activity or geographical region, this group of assets is classified as discontinued operations. The income and expenses of discontinued operations are presented separately from the income and expenses of continuing operations in the consolidated statement of income.

### Statement of cash flows

'Cash and cash equivalents' comprises cash resources, money market deposits and deposits at central banks. The statement of cash flows is prepared in accordance with the indirect method of calculation and provides details of the source of the cash and cash equivalents that became available during the year as well as their application during the year. Operating profit before taxation in the net cash flow from operating activities is adjusted for items in the statement of income and changes in items in the statement of financial position which do not actually generate cash flows during the year.

The cash flows from operating, investing and financing activities are stated separately. Changes in loans, interbank deposits, amounts due to customers and debt securities in issue are accounted for under cash flows from operating activities. Investing activities relate to acquisitions and disposals and repayments on financial investments, as well as the acquisition and disposal of subsidiaries and property and equipment. The proceeds from the issue and payments on Rabobank Member Certificates and Rabobank Certificates, Trust Preferred Securities, Capital Securities, Senior Contingent Notes, Rabo Extra Member Notes and subordinated debts qualify as financing activities. Changes on account of currency translation differences are eliminated, as are the consolidation effects of acquisitions of associates. The difference between the net change presented in the statement of cash flows and the change in Cash and cash equivalents presented in the statement of financial position is due to currency translation differences. These are presented separately as part of the reconciliation between these two amounts.

## *Non-current assets and liabilities held for sale*

The non-current assets and liabilities held for sale mainly concern the assets and liabilities of Bank BGZ. Certain real estate investments are also classified as held for sale.

### Sale of Bank BGZ

In December 2013, agreement was reached regarding the sale of the 98.5% shareholding in Bank BGZ of Poland to the BNP Paribas Group for a sum of approximately EUR 1 billion. The agreement regarding the sale of Bank BGZ includes the operations of Rabobank Polska. A merger between Rabobank Polska and Bank BGZ was effected in the first half of 2014. Completion of the sale of Bank BGZ to BNP Paribas is subject to the required statutory approvals. The additional impairment of the goodwill is 26. The financial settlement of the sale is expected to take place in the second half of 2014. This will mean that the reserves held in equity in relation to Bank BGZ will be released to the result, leading to an expected income item of approximately 21 after tax.

The following assets and liabilities are presented under non-current assets and liabilities held for sale in relation to BGZ:

| *in millions of euros* | 30 June 2014 |
|---|---|
| ***Assets*** | |
| Cash and cash equivalents | 341 |
| Due from other banks | 70 |
| Loans to customers | 6,976 |
| Available-for-sale financial assets | 1,573 |
| Other assets | 481 |
| **Total assets** | **9,441** |
| | |
| ***Liabilities*** | |
| Due to other banks | 1,038 |
| Due to customers | 6,843 |
| Other liabilities | 499 |
| **Total liabilities** | **8,380** |

## Disclosures required under IAS 34.15, 15B and 16A

Besides the events and transactions referred to elsewhere in this report, no significant events or transactions occurred during the first half of 2014.

The disclosures required under IAS 34.16A are presented below:

- The same accounting policies and methods of computation are followed in the interim financial information as in the 2013 consolidated financial statements, with the exception of the changed policies stated in the section 'Changes in accounting policies and presentation'.
- There are no items other than those set out in this report that affect assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence.
- The estimates in general do not vary from those stated in the 2013 consolidated financial statements, other than the statement that the uncertainties with respect to the measurement of property and property finance have increased.
- Rabobank made various issues, repurchases and repayments of bonds, however these are part of Rabobank's ordinary operations.
- Rabobank's interim operations are not of a seasonal or cyclical nature.
- Rabobank made payments to owners of equity instruments as set out in the condensed consolidated statement of changes in equity.
- The 'Business segments' section has been prepared in conformity with the requirements of IFRS 8.
- Other than as described in the section 'Events after the reporting date', there have been no events after the reporting date that provide additional information regarding the actual situation at the reporting date.
- There were no changes during the interim period in obtaining or losing control of subsidiaries and long-term investments, and discontinued operations.
- The disclosures required under IFRS 13 and IFRS 7 are presented in the section below.

## Fair value of financial assets and liabilities

The table below shows the fair value of financial instruments based on the stated valuation methods and assumptions. This table is included since not all financial instruments in the interim financial statements are recognised at fair value. The fair value is the price that would be received on sale of an asset or that would be paid on the transfer of a liability in a normal transaction between market participants on the measurement date.
For measurement at fair value, Rabobank considers that the transaction to dispose of the asset or transfer the liability takes place in the main market for the asset or liability concerned. If there is no main market, the most favourable market is used.
Market prices are not available for a large number of the financial assets and liabilities that Rabobank holds or issues. Hence, for financial instruments for which no market prices are available, the fair values shown in the table below have been estimated using the present value or the results of other estimation and valuation methods, based on the market conditions at the reporting date. The values produced using these methods are significantly affected by the underlying assumptions used for both the amounts and the timing of future cash flows, the discount rates applied and possible market illiquidity. The following methods and assumptions have been used.

**Cash and cash equivalents**. The fair value of cash and cash equivalents is assumed to be almost equal to their carrying amount. This assumption is also used for highly liquid investments and the current component of all other financial assets and liabilities.
**Due from other banks**. The item 'Due from other banks' comprises interbank placements and items to be collected. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed-interest deposits is based on the present value of the cash flows, calculated using appropriate money market interest rates for debts with comparable credit risk and terms to maturity.
**Financial assets and derivative financial instruments held for trading**. Financial assets and derivative financial instruments held for trading are carried at fair value based on available quoted market prices, where these are available. If quoted market prices are not available, the fair value is estimated from discounted cash flow models and option valuation models. In the case of derivative instruments, account is taken of counterparty risk. To estimate this risk, Rabobank uses the most recent market information such as CDS curves and Monte Carlo simulations, also taking account of the bank's own credit rating.
**Other financial assets at fair value through profit or loss**. These financial assets are carried at fair value based on quoted market prices if available. If quoted market prices are not available, they are estimated from comparable assets in the market, or using valuation methods, including appropriate discounted cash flow models and option valuation models.
**Loans to customers**. The fair value of issued loans is estimated from the present value of the cash flows, using current market rates for similar loans. For variable-interest loans that are reviewed regularly and do not vary significantly in terms of credit risk, the fair value is based on the carrying amount until maturity.
**Available-for-sale financial assets**. Financial assets available for sale are stated at fair value based on quoted market prices. If quoted market prices are not available, the fair value is estimated from discounted cash flow models and option valuation models.
**Other financial assets**. For almost all other financial assets, the carrying amount is a good approximation of fair value.
**Due to other banks**. The item 'Due to other banks' comprises interbank placements, items to be delivered and deposits. The fair value of floating rate placements and overnight deposits is the carrying amount. The estimated fair value of fixed-interest deposits is based on the present value of the cash flows, calculated using prevailing money market interest rates for debts with comparable credit risk and terms to maturity.
**Trade liabilities**. The fair value of trade liabilities is based on quoted market prices, if available. If quoted market prices are not available, the fair value is estimated from valuation models.
**Other financial liabilities at fair value through profit or loss**. The fair value of these liabilities is based on quoted market prices, if available. If quoted market prices are not available, the fair value is estimated from discounted cash flow models and option valuation models.
**Due to customers**. The item 'Due to customers' includes current accounts and deposits. The fair value of savings and current accounts that have no specific termination date is assumed to be the amount payable on demand at the reporting date, i.e. their carrying amount on that date. The fair value of the deposits is estimated from the present value of the cash flows, based on current bid rates of interest for similar arrangements with terms to maturity that match the items to be measured. The carrying amount of variable-interest deposits is a good approximation of their fair value at the reporting date.
**Debt and other instruments issued by Rabobank**. The fair value of these instruments is calculated using quoted market prices. For notes for which no quoted market prices are available, a discounted cash flow model is used, based on a current yield curve appropriate for the term to maturity.

| | 30 June 2014 | | 30 June 2013 | |
|---|---|---|---|---|
| *in millions of euros* | Carrying amount | Fair value | Carrying amount | Fair value |
| ***Assets*** | | | | |
| Cash and cash equivalents | 40,612 | 40,612 | 45,181 | 45,181 |
| Due from other banks | 40,980 | 41,019 | 34,036 | 34,049 |
| Financial assets held for trading | 5,184 | 5,184 | 6,843 | 6,843 |
| Other financial assets at fair value through profit or loss | 4,247 | 4,247 | 5,351 | 5,351 |
| Derivative financial instruments | 45,335 | 45,335 | 47,774 | 47,774 |
| Loans to customers | 462,739 | 469,657 | 474,651 | 491,222 |
| Available-for-sale financial assets | 43,778 | 43,778 | 51,365 | 51,365 |
| **Total financial assets** | **642,875** | **649,832** | **665,201** | **681,785** |
| | | | | |
| ***Liabilities*** | | | | |
| Due to other banks | 17,715 | 17,930 | 19,118 | 19,157 |
| Due to customers | 323,035 | 327,865 | 336,491 | 340,528 |
| Debt securities in issue | 194,414 | 203,196 | 197,891 | 199,756 |
| Derivative financial instruments and other trade liabilities | 55,611 | 55,611 | 59,247 | 59,247 |
| Other financial liabilities at fair value through profit or loss | 19,384 | 19,384 | 21,785 | 21,785 |
| Subordinated debt | 11,056 | 13,606 | 5,203 | 6,329 |
| **Total financial liabilities** | **621,215** | **637,592** | **639,735** | **646,802** |

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

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

Rabobank's policy is to have 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, such as the time value of money, volatility, underlying options, warrants and derivative financial instruments. Other factors include liquidity and the creditworthiness of the counterparty. The valuation process has been designed such 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 may affect the fair value of both financial assets and liabilities held for trading purposes and financial assets and liabilities not held for trading purposes.

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

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

For recurring valuations of financial instruments at fair value when transfers between the various categories of the fair value hierarchy have occurred, Rabobank's determination of the fair value includes a reassessment of the category at the end of each reporting period.

| *in millions of euros* | Category 1 | Category 2 | Category 3 | Total |
|---|---|---|---|---|
| At 30 June 2014 | | | | |
| ***Assets*** | | | | |
| Financial assets held for trading | 3,432 | 1,575 | 177 | 5,184 |
| Other financial assets at fair value through profit or loss | 339 | 2,754 | 1,154 | 4,247 |
| Derivative financial instruments | 302 | 44,964 | 69 | 45,335 |
| Available-for-sale financial assets | 41,659 | 1,666 | 453 | 43,778 |
| | | | | |
| ***Liabilities*** | | | | |
| Derivative financial instruments and other trade liabilities | 1,921 | 53,666 | 24 | 55,611 |
| Other financial liabilities at fair value through profit or loss | 897 | 18,436 | 51 | 19,384 |

| *in millions of euros* | Category 1 | Category 2 | Category 3 | Total |
|---|---|---|---|---|
| At 30 June 2013 | | | | |
| ***Assets*** | | | | |
| Financial assets held for trading | 5,100 | 1,671 | 72 | 6,843 |
| Other financial assets at fair value through profit or loss | 580 | 3,524 | 1,247 | 5,351 |
| Derivative financial instruments | 661 | 46,995 | 118 | 47,774 |
| Available-for-sale financial assets | 46,368 | 4,902 | 95 | 51,365 |
| | | | | |
| ***Liabilities*** | | | | |
| Derivative financial instruments and other trade liabilities | 3,500 | 55,635 | 112 | 59,247 |
| Other financial liabilities at fair value through profit or loss | 2,574 | 19,195 | 16 | 21,785 |

***Financial instruments at fair value in category 3***

*in millions of euros*

| | At 1 January 2014 | Changes in fair value recognised in profit or loss | Changes in fair value recognised in equity | Purchases | Sales | Settlements | Transfers to or from category 3 | At 30 June 2014 |
|---|---|---|---|---|---|---|---|---|
| At 30 June 2014 | | | | | | | | |
| ***Assets*** | | | | | | | | |
| Financial assets held for trading | 175 | 1 | - | - | (13) | - | 14 | 177 |
| Other financial liabilities at fair value through profit or loss | 1,606 | 53 | - | 38 | (654) | (9) | 120 | 1,154 |
| Derivative financial instruments | 347 | 3 | - | - | - | (281) | - | 69 |
| Available-for-sale financial assets | 310 | - | 148 | - | (5) | - | - | 453 |
| ***Liabilities*** | | | | | | | | |
| Derivative financial instruments and other trade liabilities | 74 | (47) | - | - | - | (3) | - | 24 |
| Other financial liabilities at fair value through profit or loss | 54 | (3) | - | 1 | - | (1) | - | 51 |

| *Financial instruments at fair value in category 3* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *in millions of euros* | | | | | | | | |
| | At 1 January 2013 | Changes in fair value recognised in profit or loss | Changes in fair value recognised in equity | Purchases | Sales | Settlements | Transfers to or from category 3 | At 30 June 2013 |
| At 30 June 2013 | | | | | | | | |
| ***Assets*** | | | | | | | | |
| Financial assets held for trading | 83 | - | - | 4 | (14) | (1) | - | 72 |
| Other financial liabilities at fair value through profit or loss | 1,657 | (32) | - | 67 | (355) | (90) | - | 1,247 |
| Derivative financial instruments | 245 | (65) | - | - | (62) | - | - | 118 |
| Available-for-sale financial assets | 98 | (1) | (2) | - | - | - | - | 95 |
| ***Liabilities*** | | | | | | | | |
| Derivative financial instruments and other trade liabilities | 121 | (9) | - | - | - | - | - | 112 |
| Other financial liabilities at fair value through profit or loss | 16 | 3 | - | - | - | (3) | - | 16 |

The fair value changes in category 3 recognised in equity are included in the revaluation reserve for available-for-sale financial assets.
The amount in total gains or losses presented in the statement of income for the period relating to the assets and liabilities held until the end of the reporting period is presented in the table below.

| *Financial instruments in category 3 – fair value changes recognised in other income in the statement of income* | | | |
|---|---|---|---|
| *in millions of euros* | Recognised | Derecognised | Total |
| At 30 June 2014 | | | |
| ***Assets*** | | | |
| Financial assets held for trading | 1 | - | 1 |
| Other financial assets at fair value through profit or loss | 57 | (4) | 53 |
| Derivative financial instruments | 3 | - | 3 |
| Available-for-sale financial assets | - | - | - |
| ***Liabilities*** | | | |
| Derivative financial instruments and other trade liabilities | (45) | (2) | (47) |
| Other financial liabilities at fair value through profit or loss | (3) | - | (3) |

| *Financial instruments in category 3 – fair value changes recognised in other income in the statement of income* | | | |
|---|---|---|---|
| *in millions of euros* | Recognised | Derecognised | Total |
| At 30 June 2013 | | | |
| ***Assets*** | | | |
| Financial assets held for trading | - | - | - |
| Other financial assets at fair value through profit or loss | (51) | 19 | (32) |
| Derivative financial instruments | (21) | (44) | (65) |
| Available-for-sale financial assets | (1) | - | (1) |
| ***Liabilities*** | | | |
| Derivative financial instruments and other trade liabilities | (4) | (5) | (9) |
| Other financial liabilities at fair value through profit or loss | 3 | - | 3 |

The potential effect before taxation if more favourable reasonable assumptions are used for the measurement of financial instruments in category 3 on the statement of income is 123 (2013: 112) and the direct effect on equity is 18 (2013: nil).
The potential effect before taxation if less favourable reasonable assumptions are used for the measurement of financial instruments in category 3 on the statement of income is -120 (2013: -99) and the direct effect on equity is -18 (2013: nil).

## Notes to the primary financial statements

*Income down 1%*

Rabobank Group's total income fell by EUR 57 million to EUR 6,398 (6,455) million in the first six months of 2014. Interest income rose by 2% to EUR 4,522 (4,453) million. Interest income at the domestic retail banking division increased due to a recovery of margins on savings. This increase was partly offset by the decrease in interest income in wholesale banking and international retail banking. Commission income fell by EUR 115 million to EUR 931 (1,046) million. Commission income from insurance and investment products in domestic retail banking was lower than in the first half of 2013. The other results decreased by EUR 11 million to EUR 945 (956) million. On the one hand, the higher result on hedge accounting, the development of the yield curve and the writedowns reported for the first half of 2013 on land positions led to an increase in the other results. On the other hand, the other results decreased compared with the first half of 2013 due to a decrease in Rabobank's credit spread, the decrease in Achmea's result and the gain relating to the pension scheme reported in 2013.

*Operating expenses down 7%*

Rabobank Group's total operating expenses decreased by EUR 294 million to EUR 3,946 (4,240) million in the first half of 2014. The workforce continued to decline in the first half of 2014, mainly at the local Rabobanks. This decrease, in conjunction with lower pension costs, contributed to the decrease in staff costs by EUR 161 million to EUR 2,471 (2,632) million. Partly due to lower reorganisation costs at the local Rabobanks and Rabo Real Estate Group, other administrative expenses fell by EUR 99 million to EUR 1,252 (1,351) million. A VAT refund also contributed to the decrease in other operating expenses. In the first half of the year, EUR 23 million was added to the reorganisation provision for Rabobank Nederland. Depreciation and amortisation on intangible fixed assets, software and equipment was lower, and depreciation and amortisation charges therefore fell by 34 million to EUR 223 (257) million.

*Bad debt costs at 54 basis points*

The value adjustments to loans of Rabobank Group totalled EUR 1,188 (1,106) million in the first half of 2014, a limited increase compared with the same period of last year. Bad debt costs were 54 (49) basis points of average lending on an annualised basis. This is well above the long-term average of 32 basis points. The first half of 2014 was again very challenging for commercial real estate and greenhouse horticulture at the local Rabobanks. Value adjustments in Wholesale, Rural & Retail declined in wholesale banking in particular. De Lage Landen recorded a limited decrease in the level of value adjustments; value adjustments at Rabo Real Estate Group rose significantly compared with the first half of 2013. Value adjustments for commercial real estate in the Netherlands were again particularly high.

*Effective tax rate*

A tax credit in the amount of 331 is recognised in 2014 due to the application of Section 13d of the Dutch Corporate Income Tax Act. This tax credit is fully recognised as of 30 June 2014, and does not form part of the weighted average annual rate of income tax used for the determination of income tax in the first half of 2014.

*Equity*

The equity of Rabobank Nederland and local Rabobanks can be broken down as follows:

| *in millions of euros* | 30 June 2014 | 31 December 2013 | 30 June 2013 |
|---|---|---|---|
| Foreign currency translation reserves | (450) | (575) | (261) |
| Revaluation reserve – Available-for-sale financial assets | 585 | 282 | 310 |
| Revaluation reserve – Associates | 29 | 29 | 46 |
| Hedging reserve – Cash flow hedges | 28 | 49 | 39 |
| Revaluation reserve – Pensions | (3,269) | (3,251) | (2,972) |
| Retained earnings | 28,118 | 28,106 | 27,241 |
| **Total** | **25,041** | **24,640** | **24,403** |

*Issuance of (lower) Tier 2 instruments*

Rabobank Nederland issued two subordinated bonds, one denominated in GBP and one in EUR, in 2014. The EUR bond has a principal of 2 billion and matures in May 2026, and has a coupon of 2.50%. Rabobank has the right but not the obligation to redeem this bond early in 2019. The GBP bond has a principal of 1 billion and matures in May 2028, and has a coupon of 4.625%.

## Commercial real estate portfolio

Rabobank's portfolio of commercial real estate in the Netherlands is managed primarily by FGH Bank and the local Rabobanks.

The commercial real estate market deteriorated further, particularly in the offices and retail segments. Long-term trends like the ageing population, 'the new way of working' and online shopping are important factors. Due to the current market conditions, in which there is a clear distinction between properties with little or no prospect of viability and those with a chance of success, the quality of the commercial real estate loan portfolio has declined. In particular, less marketable properties are declining in value. The review and valuation policy and the non-performing loans policy are based on a risk-oriented approach. Where reviews reveal that the assumed value may no longer reflect the market value, the value is reassessed. Valuations are performed by an independent valuer. Rabobank thereby complies with the requirements set by DNB for valuation, and the validity of valuations.

As a result of the report by the Valuers and Accountants Platform (Platform Taxateurs en Accountants, or 'PTA') on the valuation of real estate, Rabobank brought its valuation process in line with the recommendations made in connection with the banking process in 2013 where this was not already the case.

At Rabobank Group, management of the commercial real estate portfolio in the Netherlands has been intensified. The Commercial Real Estate Task Force was set up for this specific purpose in mid-2010. The Task Force frequently reports to the Executive Board on developments in the size of the Dutch portfolio and the level of risk it contains, and it will continue to keep a close eye on developments in the market and in the portfolio for the next few years. Steps to tighten the financing, revision and valuation policy have already been taken in recent years.

The table below gives various information on the commercial real estate loan portfolio in the Netherlands at 30 June 2014. The Property Development segment is moreover presented separately, since this segment is also experiencing longer processing times and a stagnating real estate market. Rabobank's lending in this segment is relatively low, at EUR 2.9 billion.

***Commercial real estate loan portfolio in the Netherlands***

| *in millions of euros* | Loan portfolio | Impaired loans | Allowances | Write-downs | Value adjustments |
|---|---|---|---|---|---|
| | 30-Jun-14 | | | | 2014-I |
| Investment real estate domestic retail banking | 8,843 | 1,452 | 649 | 58 | 160 |
| Investment real estate Rabo Real Estate Group | 15,771 | 3,761 | 1,195 | 23 | 345 |
| **Total investment real estate** | **24,614** | **5,213** | **1,844** | **81** | **505** |
| Property development domestic retail banking | 1,828 | 597 | 339 | 21 | 21 |
| Property development Rabo Real Estate Group | 1,034 | 131 | 41 | 1 | 11 |
| **Total property development** | **2,862** | **728** | **380** | **22** | **32** |

***Commercial real estate loan portfolio in the Netherlands***

| *in millions of euros* | Loan portfolio | Impaired loans | Allowances | Write-downs | Value adjustments |
|---|---|---|---|---|---|
| | 31-Dec-13 | | | | 2013-I |
| Investment real estate domestic retail banking | 9,910 | 1,104 | 516 | 35 | 49 |
| Investment real estate Rabo Real Estate Group | 16,163 | 2,632 | 788 | 23 | 163 |
| **Total investment real estate** | **26,073** | **3,736** | **1,304** | **58** | **212** |
| Property development domestic retail banking | 1,942 | 793 | 396 | 48 | 79 |
| Property development Rabo Real Estate Group | 1,041 | 135 | 30 | 11 | 2 |
| **Total property development** | **2,983** | **928** | **426** | **59** | **81** |

The comparative figures have been adjusted for changes in the classification in investment real estate and property development.

Rabobank's commercial real estate portfolio in the Netherlands declined again in the first half of 2014 mainly due to repayments and a lower risk appetite. The developments in the market caused a deterioration in the quality of the portfolio, as can be seen from the higher level of impaired loans, and therefore also the costs of loan losses in recent years. Rabobank's focus on relationship banking and the fact that its financing policy is customer-driven rather than property-driven is an important factor in the quality of the loan portfolio. Since some of the difficulties in the commercial real estate market are structural in nature, loan losses in the real estate portfolio are nonetheless expected to remain high in the years to come. The majority, EUR 1 billion of the commercial real estate portfolio outside the Netherlands is provided by ACC Loan Management. This is a run-off portfolio. Although property values in prime locations in Ireland are stabilising to some extent, in other locations values are still under pressure. Further contributions amounting to EUR 60 million were accordingly made to the allowances for this portfolio in the first half of 2014. We expect to make further contributions in the coming year, albeit at a lower level than in previous years.

*Forbearance*

In its role as relationship bank, Rabobank will try to prevent the risk of default of payment on the part of the customer through adequate credit management, regular consultations with the customer and taking timely action. If despite these efforts a customer gets into financial difficulties, Rabobank will attempt to restructure the loan instead of executing the collateral as long as it sees a realistic prospect of continuity. This approach, known as forbearance, involves concessions by the bank to customers that are unable to meet their current obligations to the bank as a result of financial difficulties.

Rabobank has developed a policy so as to be able to report its forbearance portfolio in accordance with the requirements of EBA on a quarterly basis with effect from year-end 2014. If new agreements with customers are identified as involving forbearance, this will lead to additional measures including designation as a classified loan. It should be noted here that the classification of vulnerable continuity includes both performing and non-performing debtors. If forbearance measures are permitted, the debtor will automatically be passed to the Special Administration department within the bank.

The new regulations entail significant effort in order to enable the detailed recording of these measures in the bank's reporting systems. If debtors return to normal continuity, they will continue to be reported as part of the forbearance portfolio for a period of two years after the date on which this occurs.

## Legal proceedings

Rabobank Group 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 business operations.

Rabobank has over the course of the last several years received requests for information and documentation from regulators in several countries related to a variety of issues, including benchmark issues. 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 connection with their investigations into Rabobank's historical LIBOR and EURIBOR submission processes. Additional information is available on the corporate website. All financial penalties associated with those settlement agreements have been fully paid and accounted for by Rabobank in 2013.

Along with numerous other panel banks and interdealer brokers, Rabobank has been named in a number of putative class-action and individual civil litigations pending in federal court in the US. The lawsuits concern US Dollar (USD) LIBOR, Japanese Yen (JPY) LIBOR, TIBOR (Rabobank has never been a member of the TIBOR Panel), and EURIBOR.

In 2014, an Argentine consumer protection organization filed a putative class action lawsuit against Rabobank in Argentina relating to USD LIBOR. Rabobank has received several complaints from customers in the Netherlands alleging exposure to interest rate benchmark-tied products. Rabobank has been summoned to appear before Dutch courts in three civil proceeding relating to EURIBOR.

The above-mentioned putative class-action suits and civil proceedings, along with any future proceedings conducted in the United States or elsewhere are by their nature subject to uncertainty, making their outcomes difficult to predict. Rabobank nevertheless maintains that it has substantive and persuasive legal and factual defenses to these claims. Rabobank intends to continue defending itself against these claims.

There have been no developments in the other proceedings mentioned in the consolidated financial statements for 2013 that suggest a materially different picture with regard to the expected outcome of these proceedings.

## Business segments

The business segments Rabobank uses in its reporting are defined from a management viewpoint, meaning they are the segments that are reviewed by management as part of Rabobank's strategic management and for the purpose of making business decisions, and have different risks and returns.

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

The domestic retail banking segment mainly comprises the operations of the local Rabobanks, Obvion, Roparco and Friesland Bank. The wholesale banking and international retail banking segment provides support to Rabobank Group in achieving market leadership in the Netherlands. Internationally, it concentrates on the food & agri sector. This segment undertakes regional corporate banking operations while also including entities operating globally, such as Global Financial Markets, Structured Finance, Leveraged Finance, Renewable Energy & Infrastructure Finance, International Direct Retail Banking, Trade & Commodity Finance and Rabo Private Equity. It conducts its international retail banking operations under the Rabobank label, with the exceptions of ACC Loan Management and Bank BGZ. Due to the disposal of Robeco in the second half of 2013, the asset management segment is no longer presented separately. The operations of Schretlen & Co. are now presented under other segments. The leasing segment – De Lage Landen – is responsible for the lease operations, offering a wide range of lease, trade finance and consumer finance products in its Dutch home market. Across the globe, it supports sales of manufacturers, vendors and distributors, offering them its asset finance products. In Europe, De Lage Landen operates the car lease company Athlon Car Lease. The real estate segment – Rabo Real Estate Group – performs Rabobank's real estate operations. Its core business is in developing residential and commercial real estate, as well as providing finance and asset management services. Rabo Real Estate Group operates under the labels Bouwfonds Ontwikkeling, MAB Development, FGH Bank and Bouwfonds REIM. Other segments comprise a variety of Rabobank segments, none of which requires separate reporting. They chiefly reflect the figures for the associates (notably Achmea B.V.) and head office operations. There are no customers representing more than 10% of Rabobank's total revenue.

Inter-segment transactions are conducted in accordance with normal commercial terms and market conditions. The domestic retail banking segment includes the dividend distributed to local Rabobanks under 'Other income' of 109 (2013: nil).

No material income or expense items other than from operating activities arise between business segments. The assets and liabilities of a segment comprise operating assets and operating liabilities; in other words, a substantial part of the statement of financial position, but excluding items such as tax. The accounting policies used for reporting are the same as those described in the section on the main accounting policies used in the financial reporting.

| *in millions of euros* | Domestic retail banking | Wholesale banking and international retail banking | Leasing | Real estate | Other segments | Consolidation effects/ hedge accounting | Total |
|---|---|---|---|---|---|---|---|
| For the half-year ended 30 June 2014 | | | | | | | |
| Interest | 2,718 | 1,231 | 500 | 176 | (103) | - | 4,522 |
| Commission | 655 | 273 | 19 | 19 | (17) | (18) | 931 |
| Other income | 129 | 431 | 258 | 206 | (425) | 346 | 945 |
| **Total income** | **3,502** | **1,935** | **777** | **401** | **(545)** | **328** | **6,398** |
| Segment expense | 2,258 | 1,162 | 388 | 148 | (24) | 14 | 3,946 |
| Value adjustments | 578 | 178 | 69 | 358 | 5 | - | 1,188 |
| Bank tax and resolution levy | 183 | - | - | - | 31 | - | 214 |
| **Operating profit before taxation** | **483** | **595** | **320** | **(105)** | **(557)** | **314** | **1,050** |
| Taxation | 142 | 206 | 97 | (15) | (539) | 79 | (30) |
| **Net profit from continuing operations** | **341** | **389** | **223** | **(90)** | **(18)** | **235** | **1,080** |
| Net profit from discontinued operations | - | - | - | - | - | - | - |
| **Net profit** | **341** | **389** | **223** | **(90)** | **(18)** | **235** | **1,080** |
| | | | | | | | |
| Total assets | 363,408 | 489,720 | 34,234 | 27,027 | 97,399 | (332,275) | 679,513 |
| Total liabilities | 335,885 | 476,827 | 30,131 | 25,628 | 85,912 | (314,724) | 639,659 |

| *in millions of euros* | Domestic retail banking | Wholesale banking and international retail banking | Asset management | Leasing | Real estate | Other segments | Consolidation effects/ hedge accounting | Total |
|---|---|---|---|---|---|---|---|---|
| For the half-year ended 30 June 2013 | | | | | | | | |
| Interest | 2,579 | 1,329 | (2) | 509 | 167 | (129) | - | 4,453 |
| Commission | 705 | 326 | 2 | 25 | 14 | (8) | (18) | 1,046 |
| Other income | 526 | 313 | - | 257 | (79) | 520 | (581) | 956 |
| **Total income** | **3,810** | **1,968** | **-** | **791** | **102** | **383** | **(599)** | **6,455** |
| Segment expense | 2,368 | 1,126 | - | 383 | 172 | 201 | (10) | 4,240 |
| Value adjustments | 629 | 228 | - | 85 | 164 | - | - | 1,106 |
| **Operating profit before taxation** | **813** | **614** | **-** | **323** | **(234)** | **182** | **(589)** | **1,109** |
| Taxation | 198 | 120 | - | 91 | (45) | (122) | (145) | 97 |
| **Net profit from continuing operations** | **615** | **494** | **-** | **232** | **(189)** | **304** | **(444)** | **1,012** |
| Net profit from discontinued operations | - | - | 98 | - | - | - | - | 98 |
| **Net profit** | **615** | **494** | **98** | **232** | **(189)** | **304** | **(444)** | **1,110** |
| | | | | | | | | |
| Total assets | 378,958 | 498,371 | 2,691 | 33,177 | 27,524 | 81,232 | (328,582) | 693,371 |
| Total liabilities | 351,993 | 485,688 | 1,962 | 29,460 | 25,837 | 68,499 | (310,097) | 653,342 |

## Events after the reporting date

No events occurred after the reporting date that provide further information on the actual situation as at the reporting date.

# Review report

To the Executive Board and Supervisory Board of Rabobank Nederland

## Introduction

We have reviewed the condensed consolidated interim financial information as set out in the interim report 2014 on pages 64 to 100 of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland), Amsterdam, which comprises the consolidated statement of financial position as at 30 June 2014, the condensed consolidated statement of income, consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six month period then ended and the notes to the interim financial information. The executive board of Rabobank Nederland is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim financial reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

## Scope

We conducted our review in accordance with Dutch law including standard 2410, 'Review of interim financial Information performed by the independent auditor of the entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Dutch auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information for the six months period ended 30 June 2014 is not prepared, in all material respects, in accordance with IAS 34 'Interim financial reporting', as adopted by the European Union.

Amsterdam, 18 August 2014

Ernst & Young Accountants LLP

/s/ C.B. Boogaart

# Executive Board responsibility statement

The Executive Board of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland) hereby declares that, to the best of its knowledge:

- the interim financial information gives a true and fair view of the assets, liabilities, financial position and results of operations of Rabobank Nederland and its consolidated entities;
- the interim report gives a true and fair view of the situation at the reporting date, and of developments in activities of Rabobank Nederland and of its consolidated entities in the first half of the year, and of the principal risks and uncertainties for the other six months of 2014, with special focus being placed, unless detrimental to the bank's vital interests, on capital expenditures and on circumstances affecting developments in revenue and profitability.

M. Minderhoud, *Chairman*
A. Bruggink, *CFRO*
B.J. Marttin MBA, *member*
R.J. Dekker, *member*
H. Nagel, *member*
J.L. van Nieuwenhuizen, *member*

Utrecht, the Netherlands, 18 August 2014

# Colophon

## Published by

Rabobank Nederland Communications & Corporate Affairs Department

## Disclaimer

This Interim Report is a translation of the Dutch Interim Report. In the event of any conflict in interpretation, the Dutch original takes precedence.

Annual Reporting

In 2014, Rabobank Group has published the following annual reporting documents, both in English and in Dutch:

- Annual Summary 2013 Rabobank Group - Jaarbericht 2013 Rabobank Groep
- Annual Report 2013 Rabobank Group - Jaarverslag 2013 Rabobank Groep
- Consolidated Financial Statements 2013 Rabobank Group - Geconsolideerde jaarrekening 2013 Rabobank Groep
- Financial Statements 2013 Rabobank Nederland - Jaarrekening 2013 Rabobank Nederland
- Interim Report 2014 Rabobank Group - Halfjaarverslag 2014 Rabobank Groep

Rabobank Group's annual reporting is available online on www.rabobank.com/annualreports and www.rabobank.com/jaarverslagen.

## Materials used

Rabobank Group uses environmentally friendly materials printing this document.

## Contact

Rabobank Group has exercised the utmost care in compiling the information contained in this Interim Report. If you have any questions or wish to suggest any improvements to our reporting, please contact us at webmaster@rn.rabobank.nl.


## Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland)

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