

# Annual Report 2018

*Achieving more together*



**Rabobank**

**Growing a  
better world  
together.**



# About this Report

## Our Reporting Approach in 2018

In preparing this Integrated Annual Report, we have taken the principles of the International Integrated Reporting Council (IIRC) into account. For the CSR information included in this report, we follow the Global Reporting Initiative (GRI) Standards - Option: Core (2017: Comprehensive). This report and financial statements have been prepared in accordance with the appropriate reporting standards and guidelines. The statements and report refer to the reporting period January 1, 2018 to December 31, 2018 and were first published on March 14, 2019 on Rabobank's corporate website. The Annual Report takes an integrated approach that highlights Rabobank's contribution to its stakeholders by providing both financial and non-financial information. This approach rests on our value creation model.

Throughout the report we provide detailed performance data.

The Financial Report includes the Financial Statements. We describe our reporting approach in [Appendix 1](#) and discuss our value creation over the short, medium and long term in [Rabobank at a Glance](#).

## Materiality

The materiality analysis provides insight into the choices we made in the reporting year. This is illustrated in a materiality matrix, which indicates topics requiring the most attention due to their significant impact on Rabobank and its stakeholders. We explain the process of determining materiality and the boundaries of the topics in [Appendix 1](#).

## Chairman's Foreword

Chairman's foreword; About this report

[Read more](#)

2



## Management Report

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

[Read more](#)

4

## Appendices

Materiality matrix, Non-financial Key Figures, Sustainability Facts & Figures, dialogue with clients and financial performance.

[Read more](#)

72



## Corporate Governance

Retrospective on 2018 by the Supervisory Board. Explanation of the new governance structure of Rabobank.

[Read more](#)

96

## Consolidated Financial Statements

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

[Read more](#)

119



## Company Financial Statements

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

[Read more](#)

215

# Chairman's Foreword

## A Healthy Foundation for the Cooperative Bank of the Future

In 2018 we worked on becoming the Rabobank we aspire to be in the future. That is, a unique, cooperative bank that makes a difference in society and that contributes to solving the global food issue. Our transition to "cooperative bank of the future" is on schedule. Customer satisfaction went up again in 2018, we once again posted strong financial results, and we further optimized our balance sheet. This creates a stable foundation for the meaningful cooperative we aim to be, both in our home market the Netherlands as well as in the other countries around the world where we are active in the Food & Agri sector. Our mission, 'Growing a better world together', took shape in tangible ways this past year and we are poised to continue these efforts.

We should be proud of what we accomplished in 2018. Three years ago, Rabobank embarked on an enormous transition. It is an intense process that is leading to rapid changes throughout the bank and transforming the work our people do. It finally seems that we have the space to shine again and to show the world what we are doing, like intensifying investments in innovation and digitalization that will greatly benefit our customers and working to realize several UN Sustainable Development Goals.

These are all positive developments. We can look back on 2018 with satisfaction. Of course, we have a long way to go yet, and for that reason, I am pleased and grateful that the Supervisory Board invited me to stay for another four-year term last September. In the next phase, I will be able to dedicate even more attention to the future of cooperative banking in a changing world and to giving further shape to our mission.

We are proud to report that we have made good progress on all four strategic pillars connected to our mission: excellent customer focus, meaningful cooperative, rock-solid bank and empowered employees. The financial markets are again very volatile. Persistently low interest rates also presented obstacles for banks during 2018. Furthermore, the digitalization of our sector is moving ever more swiftly. We are constantly on the lookout for new ways to use technology to simplify banking for our customers, while also making it more enjoyable. This trend is likely to continue for some time.

Customer satisfaction again rose in 2018, as did our reputation scores. The financial sector has not managed to restore public confidence and, collectively, we still have much to do in the way

of structural improvements. As a cooperative bank, we as Rabobank can only change this by showing and convincing the public and our clients how we distinguish ourselves as a mission-driven, rock-solid and reliable organization, with a strong customer focus.

The past year demonstrated that our organization's new management team is up to the task. We have fully incorporated the Dutch banking business in the new top team structure, which has helped to shape the One Rabobank culture. The leadership program is making more and more colleagues co-owners of the change taking place throughout the bank. A significant number of women occupy top positions within the bank. This is still rising. Young people are realizing that we are creating a shared culture, with many opportunities and options.

Petra van Hoeken stepped down as Chief Risk Officer and Member of the Managing Board. I would like to thank her for her leadership, dedication and contribution to raising Rabobank's risk awareness. With decades of international experience, Petra laid a strong foundation and introduced improvements to our risk management system and reporting.

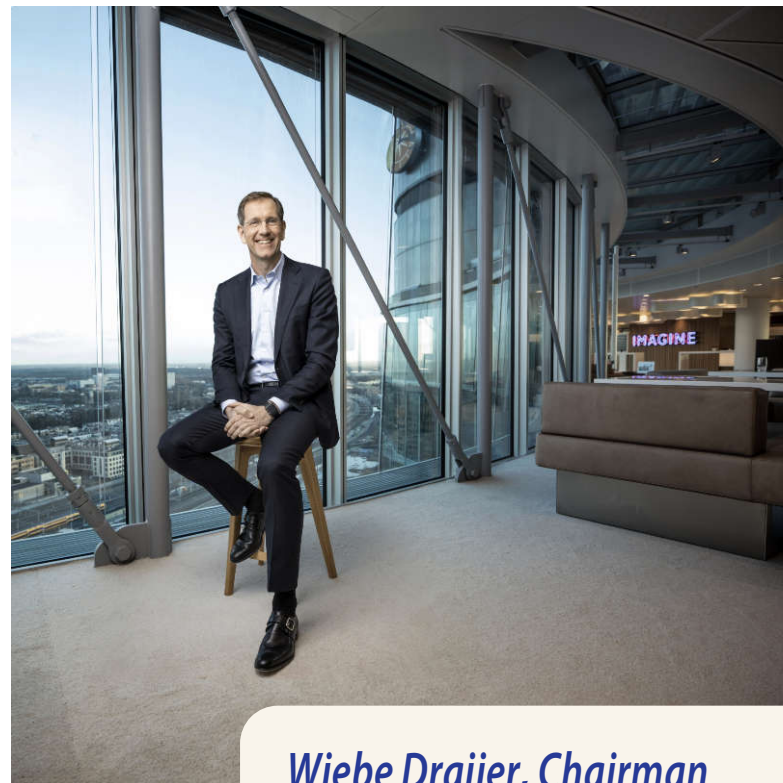
Over all, our results indicate positive development. Our net profit went up and we further strengthened our capital buffers. We are conscious of the fact that we are operating in a very low interest rate environment. Therefore we have to keep reducing costs. Our network in the Netherlands is relatively extensive, compared to other banks. This is a conscious choice: as a bank we want to be close to our customers. Rabobank aims to keep growing its core activities, while also providing new services to address social



themes at the heart of our mission, 'Growing a better world together'. We are a cooperative bank that prioritizes innovation and sustainability. Our dedication to these principles will make our social contribution more and more tangible in all the countries in which we operate.

In the coming year we will continue on our strategic path and be guided by our mission. We will also engage even more with our stakeholders, clients, members, NGO's and the public at large. The fundamental shift to a more sustainable world and global food supply demands this dedication, commitment and engagement.

Wiebe Draijer, Chairman of Rabobank's Managing Board



***Wiebe Draijer, Chairman  
of the Managing Board***

# Management Report



# Contents

Key Figures	6
Rabobank at a Glance	9
Excellent Customer Focus	20
Meaningful Cooperative	32
Empowered Employees	39
Rock-Solid Bank	48
Our Financial Performance	51
<i>Rabobank</i>	51
Financial Results of Rabobank	53
Notes to the Financial Results of Rabobank	53
Developments in the Balance Sheet	55
<i>Capital Developments</i>	56
Risk Management	59
Outlook on 2019	66
Members of the Managing and Supervisory Board	67
Managing Board Responsibility Statement	71
Appendices	72
Corporate Governance	96
Remuneration	102



# Key Figures

Amounts in EUR millions	2018	2017	2016	2015	2014
<b>Non-Financial Key Figures</b>					
Net promotor score Private Customers in the Netherlands	57	53	36	33	17
Net promotor score Private Banking Customers in the Netherlands	61	50	41	37	29
Net promotor score Corporate Customers in the Netherlands	53	43	30	21	10
% online active private customers in the Netherlands	61.8%	-	-	-	-
% online active corporate customers in the Netherlands	80.8%	-	-	-	-
Reprtrak pulse score	70.8	69.5	66.1	-	-
Member engagement score	44%	-	-	-	-
Diversity: % Women in Managing Board	40.0%	40.0%	14.3%	-	-
Diversity: % Women in first level below Managing Board	31.3%	28.9%	-	-	-
Diversity: % Women employed in the Netherlands	52%	-	-	-	-
Employee engagement scan	61	-	-	-	-
<b>Financial Key Figures</b>					
Common equity tier 1 ratio (fully loaded)	16.0%	15.5%	13.5%	12.0%	11.8%
Total capital ratio (transitional)	26.6%	26.2%	25.0%	23.2%	21.3%
Leverage ratio (transitional)	6.4%	6.0%	5.5%	5.1%	4.9%
Risk-weighted assets	200,531	198,269	211,226	213,092	211,870
Wholesale funding	153,223	160,407	188,862	203,218	216,529
Cost/income ratio including regulatory levies	65.9%	71.3%	70.9%	65.2%	66.3%
Underlying cost/income ratio including regulatory levies	63.9%	65.3%	64.8%	64.6%	-
ROIC	7.4%	6.9%	5.2%	6.0%	-
Return on equity	7.3%	6.7%	4.9%	5.5%	-
Return on assets	0.5%	0.4%	0.3%	0.3%	0.3%
<b>Other Financial Figures</b>					
Income	12,020	12,001	12,805	13,014	12,889
Operating expenses	7,446	8,054	8,594	8,145	8,055
Impairment charges on financial assets	190	-190	310	1,033	2,633
Net profit	3,004	2,674	2,024	2,214	1,842
Total assets	590,437	602,991	662,593	678,827	691,278
Private sector loan portfolio	416,025	410,964	424,551	433,927	429,731
Deposits from customers	342,410	340,682	347,712	345,884	336,409
Equity	42,236	39,610	40,524	41,197	38,788
Loan-to-deposit ratio	1.21	1.21	1.22	1.25	1.32
<b>Ratings</b>					
Standard & Poor's	A+	A+	A+	A+	A+
Moody's Investors service	Aa3	Aa2	Aa2	Aa2	Aa2
Fitch ratings	AA-	AA-	AA-	AA-	AA-
DBRS	AA	AA	AA	AA	AA (high)
RobecoSAM	25 <sup>1</sup>	11	7	5	12
Sustainalytics Ranking category diversified banks	2	7	2	11	40
Sustainalytics ESG Risk Rating category diversified banks	1	-	-	-	-
<b>About Rabobank</b>					
Local Rabobanks	101	102	103	106	113
Offices in the Netherlands	409	446	475	506	547
Foreign places of business	393	389	382	403	440
Availability of internet banking	99.9%	99.9%	99.7%	99.8%	98.9%
Availability of mobile banking	99.9%	99.9%	99.7%	99.8%	99.0%
Availability of iDEAL	99.8%	-	-	-	-
Community funds and donations	48.8	45.5	43.3	45	44.8

<i>Amounts in EUR millions</i>	<i>2018</i>	<i>2017</i>	<i>2016</i>	<i>2015</i>	<i>2014</i>
CO2 emissions (tonnes per FTE)	3.4	4.0	3.8	3.5	3.6
<b><i>Sustainable Products &amp; Services</i></b>					
Total sustainable financing	46,607 <sup>2</sup>	17,377 <sup>3</sup>	-	-	-
Total sustainable assets under management and assets held in custody	4,726	4,030	3,835	2,843	2,101
Total sustainable funding	3,941	3,436 <sup>4</sup>	2,985	2,122	2,365
Total financial transactions supervised by Rabobank	7,140	6,236	5,750	6,313	2,383
Client Photo Local Rabobanks in the Netherlands (exposure > EUR 1M) coverage <sup>5</sup>	99%	98%	99%	-	-
Client Photo Local Rabobanks in the Netherlands (exposure > EUR 1M) % A-level	5%	4%	5%	-	-
Client Photo Wholesale offices (exposure > EUR 1M) coverage	87%	73%	85%	-	-
Client Photo Wholesale offices (exposure > EUR 1M) % A-level	24%	21%	26%	-	-
<b><i>Personnel Data</i></b>					
Number of employees (total in FTE)	41,861	43,729	45,567	52,013	53,912
Staff costs	4,278	4,472	4,680	4,787	5,086
Absenteeism in the Netherlands	4.3%	4.0%	3.6%	3.7%	3.7%
Training expenses (EUR per FTE)	1,906	1,841	1,945	1,734	1,604

1 In 2018 RobecoSAM updated its scoring methodology which impacted our score and ranking substantially.

2 In 2018 the sustainable mortgage portfolio has been included in the total sustainable financing. The sustainable mortgages are a substantial part of the total of sustainable financing (EUR 29,161 million). This figure consists of the outstanding balances of all residential properties with a provisional or final energy label A.

3 The figure is restated as the sustainable finance definition have been updated. As such, some specific products (access to finance) are no longer recorded and sustainable loans have been included. The reported 2017-figure was 18,610.

4 The 2017-figure is restated as a small part of the Obvion Green Bonds have been paid off in 2017. The reported 2017-figures was 3,501.

5 Please note that the coverage of Local Rabobank clients with a client photo could not be determined for the full population due to technical reasons. For further details please refer to Appendix 3.

# Rabobank at a glance

## Mission

Growing a better world together

## Almost 8.3 million customers



7.3 million Dutch customers\*

1.0 million international customers\*\*

## The Netherlands

101 Local Rabobanks



### Domestic Retail Banking

**409**  
offices

**1.9**  
million  
members

**6.5**  
million private  
customers

**0.8**  
million corporate  
customers

### What We Offer in the Netherlands (amounts in EUR billions)

**190.0** Dutch Private Mortgages

**81.5** Lending to Trade, Industry and Services\*\*\*

**38.1** Lending to Food & Agri\*\*\*

**1.47** billion point-of-sale terminal transactions

**119.1** Savings

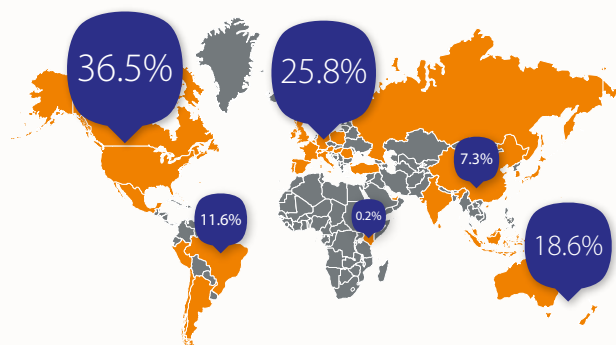
**40.7** Assets Under Management

**1.8** Leasing

**5,470** BPD transactions

## International

38 Countries



### What We Offer Internationally (amounts in EUR billions)

**65.0** Private sector lending to Food & Agri

**36.5** Private sector lending to Trade, Industry, and Services

**2.6** Lending to private individuals

### Example of a Food & Agri Value Chain - The Coffee Chain



\* Local Rabobanks and Obvion

\*\* Wholesale, Rural & Retail

\*\*\* WRR the Netherlands & domestic DLL portfolio included

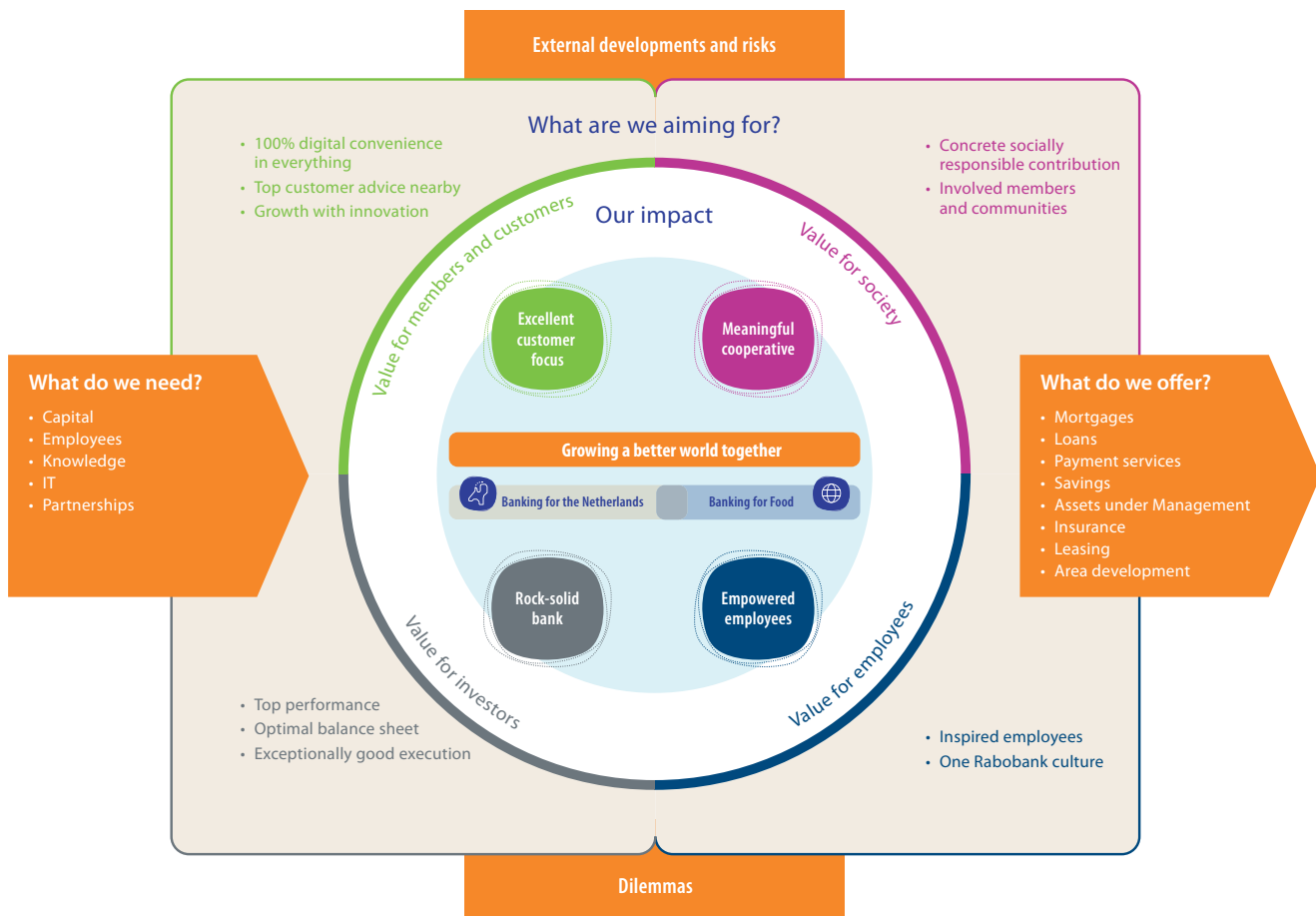


# Rabobank at a Glance

## Adding Value for our Stakeholders

Rabobank is committed to creating value for stakeholders and society at large. Changing client behavior, technological developments and a complex economic environment, mean that

value is created through enduring relationships with all stakeholders, and by responding appropriately to client needs against the backdrop of today's trends and developments.



## Developments and Uncertainties

Every year we analyze trends and developments that affect our work. In 2018 we saw many trends in consumer behavior, technology, innovation, market players, regulations, the economy and society. All present several opportunities and challenges for Rabobank and its customers.

The trends in a nutshell are:

- Client preferences are changing rapidly and significantly. Digital interaction is increasingly replacing face-to-face contact, so we are investing in the quality and further innovation of our (digital) services. Client preferences are also driving changes in the online distribution of goods, with a large impact on food and other chains. In the Food & Agri

sector the consumer's influence is growing and 'from fork to farm' is replacing 'from farm to fork'.

- We see technology impacting our business and those of our customers, varying from on-farm drones to the use of personal data. All this data needs to be kept secure and organized. Digital change, cyber security and IT disruption present a strategic risk. For more information, refer to the [Risk Management chapter](#).
- To meet customer needs, we proactively monitor innovations in and adjacent to the financial (FinTech) and Food & Agribusiness (FoodTech and AgTech) industries and we are entering into strategic partnerships.
- Given the current economy, low interest rate environment and other factors we must continue to operate on a cost-effective basis and improve our cost/income ratio.

- The world of financing and lending is always changing. Plenty of individuals and organizations are prepared to lend risk/venture capital to third parties. For that reason, we are developing crowdfunding initiatives.
- Regulators and new regulations are having a growing impact on the ways banks can provide their services. Regulatory impact is a strategic risk. Refer to the [Risk Management chapter](#).
- We have a diversified loan portfolio in different sectors and countries. Our Risk Appetite Statement sets sector and country limits that we use to closely monitor the sectors and countries in which our clients operate.
- Global population growth, aging and the growing middle class will change demand for food both in volume and quality. This will be an important growth driver for our clients who provide the world with food and we will continue to support them.
- Climate change is a bitter reality. Despite the intentions and ambitions of the Paris climate agreement, the world is warming up, posing risks for the environment and the food security of communities. We use the UN Sustainable Development Goals as guidelines in our efforts to reduce hunger and poverty in the world. Banks have been asked to take responsibility to mitigate these threats. Rabobank is therefore participating in different initiatives such as the World Economic Forum and the Dutch Climate Agreement talks. Sustainability is a strategic risk. For more information, refer to the [Risk Management chapter](#).
- The global trend of urbanization continues unabated, especially in the Netherlands. Some 55% of the world's population currently live in cities and this number is likely to rise to 68% by 2050. This poses the risk of overheating the housing market. As a large mortgage provider in the Netherlands, Rabobank closely monitors this trend.
- Geopolitical unrest is undiminished and trade wars are reshaping the global economy. The economy is a strategic risk. For more information, refer to the [Risk Management chapter](#).
- Vulnerability and uncertainty in society are rising. Society needs the business community in general, and banks in particular, to show social responsibility. To address these issues we kick-started major programs inspired by our mission 'Growing a better world together.'

For more detailed information about Rabobank's Risk Management, please refer to the [Risk Management chapter](#).

### Value Creation Inputs

Our [value creation model](#) shows the key inputs we use: capital (financial capital), employees (human capital), knowledge, IT (intellectual capital) and partnerships (social capital). These are pivotal inputs to our business model, along with our mission,

vision, strategy, and our products and services. Finally, the output and impact section of the value creation model is structured around our strategic cornerstones. For more detailed information, see [the downloads](#).

### Human Capital

In carrying out our strategy, Rabobank remains focused on human capital and empowering employees by encouraging continuous learning (training expenses EUR 1,906 per FTE), craftsmanship and entrepreneurship. Rabobank employs over 41,861 fulltime employees and believes that diversity improves performance and creativity within the bank. For more detailed information, and for risks and dilemmas concerning Human Capital, see the [chapter Empowered Employees](#).

### Social Capital

As a customer-focused cooperative bank with 1.9 million members and 8.3 million customers, Rabobank takes its role as a socially responsible bank seriously. We participate in many local, sector and supply chain initiatives; we support both businesses and private customers and we actively promote sustainability. Rabobank allocated 48.8 million euro of our net profit to local community initiatives on a not-for-profit basis in the Netherlands. On top of that Rabobank announced a partnership with UN Environment ([AGRI3Fund](#)) for clients to stimulate forest protection and sustainable agriculture. We are also a member and co-chair of the Climate Smart Agriculture Working Group of the WBCSD.

We engage with stakeholders who directly and indirectly affect our organization. We are committed to a strategic, constructive and proactive dialogue with all our stakeholders: clients, members, employees, investors, non-government organizations, government agencies, media, politicians, supervisory bodies, other banks, fintechs and start-ups. These are the most influential stakeholder groups connected with our organization. We engage with them through member councils, client feedback platforms, client and employee surveys, participation in sector initiatives, and other means. Our Managing Board Members meet with clients, employees, politicians and other stakeholders to discuss our strategic progress, receive their feedback on our contribution to society and debate developments in the financial sector, both generally and in specific relation to Rabobank. For more detailed information, and for risks and dilemmas concerning Social Capital, see the [Meaningful Cooperative](#) chapter.

### Intellectual Capital

Rabobank's intellectual capital input encompasses more than 120 years of banking knowledge and expertise in Food & Agri and other sectors. We use our knowledge base to offer clients innovative products and services in line with ongoing economic

changes and social trends. Rabobank offers knowledge, financial resources and its network to customers worldwide. To provide customers digital convenience at a consistently high service level, we simplified the bank's systems and can now offer a high overall system availability (99.9% average of Internet and Mobile banking and iDEAL). We will continue to enhance our value creation model as we execute our strategy, allowing us to remain a meaningful cooperative and a rock-solid bank with excellent client focus and empowered employees. For more detailed information, and for risks and dilemmas concerning Intellectual Capital, see the chapters [Excellent Customer Focus](#) and [Meaningful Cooperative](#).

### **Financial Capital**

Rabobank offers financial resources to customers worldwide. Our products and services include banking, lending, capital management, leasing, insurance and real estate services. Rabobank is a rock-solid bank underpinned by high capital levels, sizeable liquidity buffers, sound asset quality and healthy earnings. These are the drivers of our high credit ratings, in conjunction with our strong franchise in the domestic market and in the global Food & Agri sector. For more detailed information, and for risks and dilemmas concerning Financial Capital, see the [chapter Rock-Solid Bank](#).

### **Short, Medium and Long-term Value Creation**

**We need to satisfy customers' day-to-day banking needs and contribute to economic activity in the short term. Our medium-term goal is to help clients achieve their ambitions and promote sustainable entrepreneurship, especially in the Food & Agri sector. We also contribute to prosperity. We aim to facilitate long-term economic growth and contribute to a sustainable society. We are also dedicated to easing the transition to a sustainable, circular and humane economy.**

### **Rabobank's Organization**

Rabobank emerged from small agricultural cooperative banks, first founded by Dutch farmers and horticulturists in the late nineteenth century. They had been eager to improve the future of agriculture and horticulture and make farmers prosperous through a credit cooperative. From 1895 on, several banks modeled on this 'Raiffeisen system' were set up in different parts of the Netherlands. The organizational model centered on self-help, taking individual and mutual responsibility, and the involvement of all stakeholders. Today, our commitment to these principles and to making a difference in society is as strong as ever.

### **Rabobank's Activities**

Our focus is on all-finance services in the Netherlands and on serving our Food & Agri customers internationally. Rabobank creates value with its strategy and the products and services it offers customers in Retail Banking, Wholesale Banking, Rural Banking, Private Banking, Leasing and Real Estate.

### **Rabobank Fundamentals**

Rabobank's mission, vision, strategy and strategic priorities, values and behaviors, KPI's and leadership model form our integral strategic storyline.

#### **Mission**

Our mission is: 'Growing a better world together'. This is what we stand for and what we aim to achieve through boldness, ingenuity and decisiveness.

#### **Vision**

We are committed to making the difference as a cooperative, customer-driven bank, in the Netherlands and in Food & Agri around the world. We aim to be a courageous, socially responsible bank, championing customer issues that have a major impact on society. To achieve this, we have two strategic focus areas: Banking for the Netherlands and Banking for Food. We want to make a substantial contribution to well-being and prosperity in the Netherlands and to feeding the world sustainably. The visions outlined in Banking for the Netherlands and Banking for Food define our focus and explain what it means to be a client focused cooperative. Sustainability forms an integral part of both these visions.

#### **Banking for the Netherlands**

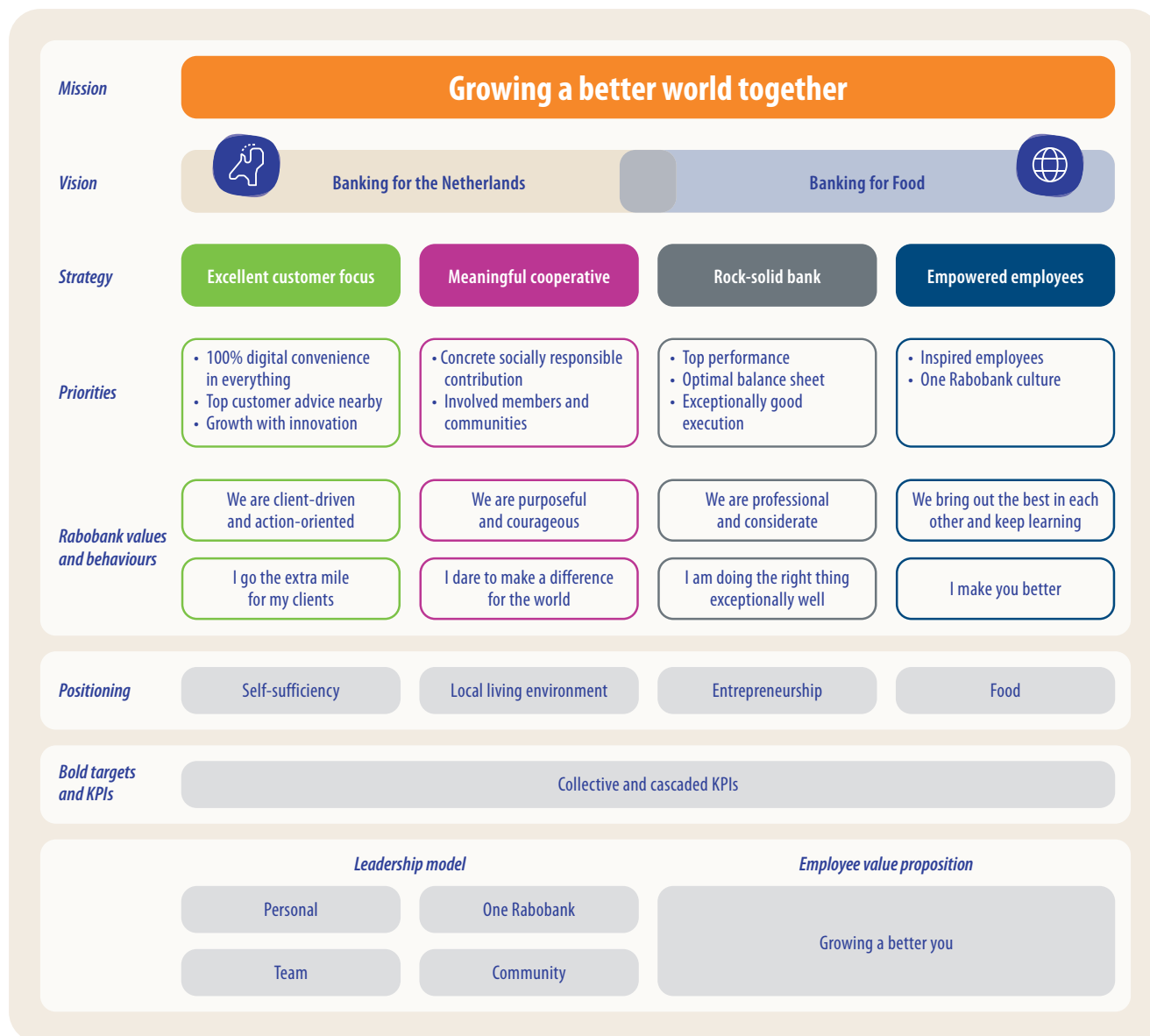
We feel a strong connection with our customers and members. We prosper when our customers prosper. As a cooperative bank, we must help meet the challenges facing the Netherlands in the years to come.

We take a four-pronged approach in Banking for the Netherlands: food, self-reliance, entrepreneurship and local living environment. Our presence at the heart of local society combined with our financial capabilities, network and knowledge, enables us to address relevant local and regional topics. This is how we promote sustainable well-being and prosperity in the Netherlands of the future.

#### **Banking for Food**

Food security concerns us all. In 2050, the world population will have increased by 2 billion people to nearly 10 billion people. Many of them will have twice as much income to spend and we are going to need more food. To satisfy increased food demand, global food production will have to increase by at least 60%. At





the same time available arable land and natural resources are already nearing, or have exceeded their limits. The Food & Agri value chain needs to produce more with less to ensure long-term sustainability and economic viability.

We want to make a contribution to a sustainable food system and reduce food waste by helping increase the availability of and access to food, promoting healthy nutrition, and enhancing stability in the food industry. Our strategy emphasizes access to finance, networks and knowledge, as well as the importance of connecting and uniting producers, consumers, government bodies and the public on food issues.

### Strategic cornerstones

With our knowledge, networks and finance, we strive to enable customers to make independent decisions while remaining flexible. Our strategy is founded on four cornerstones: Excellent Customer Focus, Meaningful Cooperative, Rock-Solid Bank, and Empowered Employees. These are the four cornerstones of all our

actions, priorities, key performance indicators (KPI's), values and behaviors. Before discussing our performance on these strategic cornerstones in the following chapters, we will first outline the four pillars below.

### Excellent Customer Focus

We aim to be a leading bank where being client-driven is deeply embedded in the culture. Current and future client requirements can best be satisfied through good advice, transparent products and convenient, innovative and digital services.

### Meaningful Cooperative

We translate social developments into specific contributions for the long-term. We feel a responsibility to make a meaningful contribution to achieving the 17 UN Sustainable Development Goals. Cooperative banking means acting as a forward-looking social compass that actively involves members, employees and customers and connects them in a network with each other and

with Rabobank. We take a stance on social issues that matter to our clients and stakeholders.

### Empowered Employees

Our employees are proud and driven; they demonstrate craftsmanship, vitality and adaptability. They feel empowered to represent Rabobank and are inspired by our mission. Top talent wants to work, develop and stay at Rabobank. All our employees want to grow and make each other better, for which learning agility is crucial.

### Rock-Solid Bank

Rabobank remains a model of stability, reliability and solidity. We work hard to deliver our services at competitive cost levels and we are continuing to optimize our balance sheet. We are doing the right things well, or even exceptionally well, with everyone taking ownership, remaining conscious of risks and operating as professionals.

### Contributing to Sustainable Development Goals

Rabobank feels it is our responsibility to make a meaningful contribution to achieving the 17 UN Sustainable Development Goals (SDG's). We do so through our 'Banking for Food' and 'Banking for the Netherlands' visions and our '[Sustainably Successful Together](#)' program help us achieve our contribution to the SDGs. While all the SDGs are important, our capacity to support their individual achievement varies. We focus most on the eight SDGs that our organization can influence: SDGs 2, 7, 8, 11, 12, 13, 15 and 17. These SDGs represented in [the value creation model](#) and also shown in the figure below. Our primary contribution, both domestically and globally, is to the goals that appear enlarged in the infographic (and in the value creation model). The SDGs most relevant to Rabobank are shown in color, while those on which the bank's impact is limited are shown in grey.







Excellent  
Customer  
Focus

We aim to be a leading bank where being client-driven is deeply embedded in the culture. Current and future client requirements can be fully satisfied through good advice, transparent products and convenient, innovative and digital services.



# Excellent Customer Focus

Our improved customer service and the digital convenience of our products have boosted customer satisfaction. Our financing activities and the knowledge and networks we have to offer help our clients make their dreams and ambitions a reality. We also help clients to innovate and become more sustainable to ensure that they remain future-proof. We are also working on sustainability and future-proofing within our own organization (e.g., new operating model for local Rabobanks in the Netherlands, digitalization, IT (incl. security), sustainable procurement, and the mobility program). Our wide regional and sector expertise allows us to offer clients more than financing alone. When difficult times hit, like the 2018 drought, we are there for our clients. We serve as a knowledge partner and a linking pin between different clients and organizations. Examples of this integrated approach in action include the three new programs we started in 2018 based on our mission 'Growing a better world together'. By facilitating daily banking services like payments, we generate economic activity and help keep the economy moving.

Meaningful  
Cooperative

Empowered  
Employees

Rock-Solid  
Bank

# Excellent Customer Focus

## Innovative services

**VISTA**  
vankuyoddy

A specialized **mortgage label** that is distributed through intermediary channels.

**we.trade**  
more trust, more trade.

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

**surepay**

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

**Easytrade**

Facilitates simple **digital currency hedging**.



## Sustainable funding

3,941  
million

+14.7%

2017: 3,436 million

## Sustainable finance\*

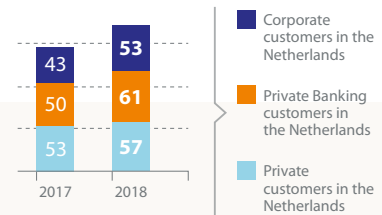
46,607  
million

+268%

2017: 17,377 million

\* The sustainable finance definition has been updated. In 2018 the sustainable mortgage portfolio has been included in the total sustainable financing. The sustainable mortgages are a substantial part of the total of sustainable financing (EUR 29,161 million). This figure consists of the outstanding balances of all residential properties with a provisional or final energy label A.

## KPI Net Promoter Score



"We treat our clients as we would want to be treated. We respond to their requests and real needs."

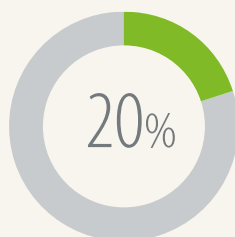


Banking  
at home

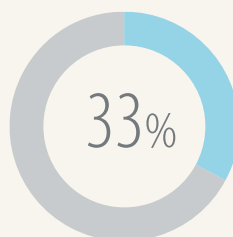
**In 2018, we started 3 new programs based on our mission 'Growing a better world together':**

- Enhancing Dutch consumers financial health
- Stimulating healthy entrepreneurial growth
- Kick-Start Waste, a global program to reduce food waste

## Domestic market shares



Dutch private mortgages  
(up until September)



Private savings





Excellent  
Customer  
Focus

## **Bart Leurs**

### *Member of the Managing Board and Chief Digital Transformation Officer*

The adoption rate of digital banking has soared in the past few years. Digital is the new normal for many of our customers. Our ambition is to satisfy any digital wishes our customers could possibly have, so that anything they would like to do online can be done online. Since most of our customers always have digital devices at hand, they carry their bank around with them. Online banking is actively used by 61.8% of our private customers and 80.8% of our corporate customers.

We are always working on new innovations to help our customers. Many were pitched at our Moonshot campaign, leading to the creation

of new ventures. One of them is Tellow, an app that helps self-employed people manage their bookkeeping and prepare their tax returns. In cooperation with other banks, in 2018 we launched several innovative start-ups, scale-ups, and blockchain platforms that make it easier for our customers to manage their international business.

We help our customers with their own innovations too. For example, we are cooperating with innovation centers like Robo Valley in Delft, where entrepreneurs can benefit from a free Robo-scan courtesy of Rabobank. Our FoodBytes! platform has created an ecosystem of start-ups and scale-ups who share our ambitions for an innovative food value chain. This has already led to interaction with more than 1,200 ventures.

It all fits perfectly with our objective of helping customers, private and wholesale alike, to grow. And at the same time, I also consider this

increased focus on digitalization and innovation as the motor that will bring us closer to achieving our mission, 'Growing a better world together'.

Open Banking and PSD2 will soon change the landscape in which financial institutions operate. New entrants- like those from the tech sector- will create more competition and more choices for customers. Mostly, that is a good thing since it will lead to better products and higher quality. But greater competition also brings new challenges. Customers need to think more carefully about "their" data and who they wish to share it with, especially their financial data. Open Banking is also an opportunity. It gives us room to innovate so we can develop better products and services. That way we can give our customers even better insight and oversight, now and in the future.





Excellent  
Customer  
Focus

## **Mariëlle Lichtenberg**

*Member of the Managing Board  
and responsible for Retail and  
Private Banking in the Netherlands*

For me, the starting point for everything we come up with at the bank is: How do we keep our customers happy? People who actively bank with Rabobank are very loyal. We must always keep that in mind. I want to reward their loyalty, and the best way to do that is to make customers' lives as easy as possible. For instance, through our highly rated Banking App.

In 2018 we examined situations in which we are losing customers. Two important events stood out in customers' lives. The first is around their 18th birthday, when they receive a complicated and not exactly friendly letter from Rabobank. The second is when they decide to move in with their partner. In the

latter case, we hadn't made it easy to open a joint account. We have now simplified the process in both cases and made it all much more accessible. The result was wonderfully positive: without any marketing, over 10,000 joint accounts were opened online. This example perfectly reflects our approach to helping customers create the conditions for good financial health. For me it represents the practical application of our mission 'Growing a better world together' to what we do for customers.

I tend to be pragmatic by nature and certainly when it comes to thinking up and rolling out ideas. It's the "how" that interests me most. As far as I'm concerned, the best possible way to answering this question is to listen carefully to customers. Now and in the future. That is -and always has been- the essence of our bank. You need to be well informed about the problems your customers face and resist the temptation to get to focused on your own solutions. The fact is, they don't always truly solve

customers' problems. For instance, many young people find themselves struggling towards the end of the month when they have almost run out of money. For that target group we developed "Passi," a dedicated website that answers questions and gives advice entirely from the perspective of young people. It's convenient, accessible and totally digital—that's what it's all about, it's what they want.

The bank helps people to become more aware of their financial situation: their pension, costs of care and housing. In February 2018, we started a targeted campaign for this purpose. The only problem is that we are primarily reaching people in a position of privilege. In the Netherlands 1.8 million people struggle with debt problems. We want to reach these people too and help them become financially self-reliant. I think it's wonderful that the Dutch banks have committed to addressing this theme together!



Excellent  
Customer  
Focus

## **Kirsten Konst**

*Member of the Managing Board  
and responsible for Commercial  
Banking in the Netherlands and  
Local Banks*

This was a year of acceleration and implementation. I noticed that we were getting things done much faster than in the past. That's because we adapted the structure of many parts of the bank. We now have a flatter organization and work increasingly in multidisciplinary teams. In short, we are much further down the road to becoming one bank. The mission of 'Growing a better world together' is what connects all the different links in the chain.

At every meeting with our staff, I restate our objective for our commercial clients in the Netherlands: we want to help entrepreneurs to grow sustainably. That's the phrase I repeated most frequently in 2018, and that repetition is having an impact. Everybody is

keenly aware of where our focus lies. We offer our clients financial solutions and access to relevant networks and knowledge. For instance, through our Entrepreneurs Academy, through our circular economy challenges, through our workshops on digitalization across the country, and through the inspirational mini documentaries we make about entrepreneurs sharing their story on the growth of their company. We do all this to support our commercial clients and help them to grow sustainably.

Looking ahead, we will certainly maintain our close connection with clients from all our local Rabobanks. In the summer we presented our Banking 3.0 program. It involves restructuring the local banks and establishing 14 regional specialist teams in knowledge hubs for the benefit of all our clients. This lets us ensure that we have more frequent and better quality customer contacts. The 14 teams are a source of sector knowledge for the whole of the Netherlands.

Innovation and sustainability are important for the economy and society. Rabobank wants to be a supportive bank that is focused on long-term relationships that empower entrepreneurs to innovate and develop their business model for a sustainable future. That is why we are starting a dialogue on innovation and sustainability with all our clients. Some entrepreneurs are leading the change and others are struggling with all the challenges.

It is not always easy to transform a business. And that's when I emphasize the last word in our mission: *together*. As Rabobank, we want to support the change by offering financial solutions and sharing our knowledge and networks. We aim to facilitate the dialogue between entrepreneurs, field experts and other stakeholders. We all need to change if the energy and agri transition in the Netherlands is to be successful. We are keen to contribute by engaging in this discussion with all entrepreneurs. Putting our mission into practice and 'Growing a better world together'.



# Excellent Customer Focus

Rabobank's enhanced focus on offering our customers digital convenience and top advice nearby is paying off. The upward trend in customer satisfaction in the Netherlands has continued, with an average NPS score of 57 for private customers, a +4 increase from December 2017. Among corporate customers in the Netherlands, the NPS rose from 43 to 53, and among Private Banking customers, from 50 to 61. We use NPS to measure Rural client satisfaction and the Greenwich Quality Index to measure Wholesale client satisfaction. Rabobank was named the "most client-friendly bank of the Netherlands" in April 2018 by an independent consumer panel at the CustomerFirst Awards. In 2018 our reputation scores in the RepTrak monitor further improved. We know that we need to keep working actively on building and maintaining customer trust. We have achieved one out of five of our ambitious targets on key reputation drivers.

## Digitalizing Our Traditional Services and Channels

With more and more customer interaction moving to digital channels, we further increased investments in digital customer interaction during 2018. We now have 61.8% active online private customers and 80.8% online corporate customers. On our Rabobank Banking App, the number of active users who logged on at least once in the last three months with their private access code increased by 11% on 2017.

### Ready for Open Banking and PSD2

Our first effort in this area has been the addition of Bunq accounts in the Rabo Banking App. We also launched the Rabobank Developers Portal with expanded application programming interfaces (API's) and platform capabilities for external developers.

### Developing Innovative Services for SME Customers

We launched Google Assistant for our Rabobank customers. We also launched Payment Request for business clients. In the second half of 2018, we achieved an increase of 703% of Rabo Payment Request transactions in reference to the second half of 2017. Rabobank Surepay's IBAN Name-Check successfully processed over 725 million name checks, significantly reducing unintended payments in the Rabo Banking App and online environments of Rabobank, ING, ABN AMRO and De Volksbank. Surepay was integrated in Rabo Banking and has also been incorporated in the payment processes of several organizations.

We also innovate to deliver new services for our business clients. The internal start-up Easytrade, which facilitates simple digital

currency hedging, has helped more than 100 Dutch companies to digitalize their currency hedging. This year they expanded internationally with the Finnish OP Bank which now uses the Easytrade platform for its customers. The we.trade platform was also launched. This innovative trade solution uses blockchain technology developed by Rabobank and 12 other large European banks.

### Supporting Customers' Innovation Ambitions

We are a partner of YES!Delft, a large tech incubator in Europe, and through participating in RoboValley, we are introducing robotics to Dutch companies. We have already invested in we.trade, ProducePay, GoCredible, Facturis, JoinData, Tellow, Komgo and Peaks.

### Digital Security

Cybersecurity is high on our management agenda, because of its continuously changing nature and demands. Rabobank actively participates with the Dutch government, industry, and the scientific community in a cybersecurity committee dedicated to ensuring the digital security of the Netherlands. We worked hard to meet the deadlines for the European General Data Protection Regulation (GDPR) in May 2018. We will further strengthen our privacy governance model across our global organization in 2019. In 2018 we implemented a genuine innovation – pseudonymizing client data – in our testing activities. To provide customers digital convenience at a consistently high level of service, we simplified the bank's systems.

## Top Advice Nearby

We are committed to staying close to our customers, whether they choose to use our digital channels (i.e. desktop or app), our client services call centers ('Rabobank Klantenservice'), our physical branches (the local Rabobanks) or at the farmer's kitchen table. Rabobank has implemented a new operating model, laying the foundation for safeguarding our local presence through market teams that are supported by specialist teams. This model lets us focus on what matters most to us: adding value for our customers. Local market teams provide the best advice for clients in their region. Their active engagement in local communities gives local market teams an insider view on their clients' needs and preferences, so they can quickly address them.

The services that the local Rabobanks provide through our digital channels are backed by robust and efficiently organized client services call centers. Customers can count on us 24 hours a day, 7 days a week. Rabobank Klantenservice is located throughout the Netherlands offering regional employment and local engagement.

## Financial Sector Gatekeeper

As a gatekeeper to the financial system, Rabobank is strongly committed to preventing the use of Rabobank's products and services for Money Laundering (ML) and Terrorist Financing (TF) purposes and prevent violations of Sanctions Regulations. For that purpose, Rabobank has developed a set of measures that together contribute to an effective Anti-Money Laundering (AML), Counter Terrorist Financing (CTF) and Sanctions Framework. This AML/CTF and Sanctions Framework is overseen by a global committee at board level and executed across the first, second and third lines of the Rabobank network.

Driven by our ambition in this context, new regulations and regulatory enforcement actions related to AML in the United States and the Netherlands, including remarks on the quality of our client files, we have started a change program. In addition to improving our ongoing Customer Due Diligence processes we will also conduct remediation work in the Netherlands with a dedicated workforce that will increase to 250 FTE in 2020. The change program further includes other initiatives to globally enhance Rabobank's AML/CTF and Sanctions Framework. As part of the program, Rabobank renewed its policies, is introducing new systems and tooling, and has strengthened its governance. Furthermore, we provided extensive additional training worldwide to all staff to ensure we know our customers inside and out and to enhance our transaction-monitoring capabilities.

Throughout these efforts we remain in constant dialogue with the relevant national and international regulators. Rabobank is investing significantly in its workforce and in new technology to

create a future-proof digitally enabled AML/CTF and Sanctions Framework. This framework will have to anticipate on changes in the industry, from new market participants and service providers in different roles to changing ML/TF methods.

This development requires Rabobank to adapt its own tools and techniques. Rabobank, being one stakeholder is only part of the solution to control AML/CTF risks sector wide. We will work with other market participants and the public sector to explore which form of (increased) cooperation works best to achieve a comprehensive sector wide approach to mitigate AML/CTF risks.

## Stimulating Transparency

We believe it is important to be open to what customers think of our service. We use customer feedback to improve our services and we participate in the Dutch Banking Confidence Monitor ('Vertrouwensmonitor Banken'), a survey that gauges the trust our customers have in us and their opinion of our services and products. Rabobank's 2018 results were stable and comparable to the sector as a whole. Acting on the outcomes of this survey, we prioritized topics for improvement, such as even better customer knowledge in semi-automatic asset management and adjusting revolving credits to better fit their circumstances.

In order to restore and maintain trust of its stakeholders and society in general, the financial sector must grapple with ethical questions about its business activities. Rabobank's Ethics Committee scrutinizes ethical themes and practical cases. It met five times in 2018 and dealt with themes like guidelines for employees who deal professionally with cryptocurrencies, the future of work, the legalization of cannabis in Canada and ethical aspects of the food transition. Concerning cannabis, the Ethics Committee had no objection to financial involvement with cannabis for medicinal use, but for recreational use the Committee preferred to distinguish between edible and drinkable cannabis products with addictive and/or psychoactive effects and those without. Rabobank's decision to withdraw from tobacco manufacturing means that smokable cannabis is a no-go. At the end of 2019 Rabobank intends to review the cannabis issue.

### Dilemma: Interest-Only Mortgage

Rabobank has 775.000 customers with an interest-only mortgage-loan. Some of these customers face the risk of not being able to pay their mortgage after retirement, which depends on a variety of individual life circumstances.

Rabobank has proven effective at contacting these customers, sitting down with them and providing insights. Since October 2018, customers can also do an online check to find out more about their specific situation. Rabobank sees it as its responsibility to point out every possible risk to these customers and persuade them to take action. In the public debate about this problem, banks are likely to be held responsible for preventing customers from being forced to sell their home, for example. But in the end, it is of course up to the customer to actually take action, e.g. increase prepayments or switch to another mortgage etc. A dilemma in which Rabobank will continue to do whatever is necessary to reach out to these customers, help them to become aware of possible risks and take action accordingly.

### Helping Customers Achieve Future-Proof Growth

In 2018 we kick-started three comprehensive programs inspired by our mission, 'Growing a better world together'. The first was in the Netherlands in February: the 'Financial Health for Everyone' program enhances the financial self-reliance of individual retail customers.

We stepped up our efforts to help business clients achieve future-proof growth. Entrepreneurs are going through a period of major transitions. Rabobank wants to help them innovate and grow, and to become more digital, dynamic and sustainable. In 2018 we dedicated a part of our website to sharing best 'growth' practices and relevant insights for entrepreneurs. We offered them workshops and masterclasses, launched a special 'E-team', re-trained our local advisers and continued our academy (Ondernemers Academy). We also helped over 140 companies to successfully transform their business in 7 regional Circular Economy Challenges. We set up different partnerships to enhance our impact, for instance, with MKB Nederland (the Dutch SME sector organization) and LinkedIn, we're organizing 'Digitalization' workshops in every region, and we partnered with EY for the EY Entrepreneur of the Year awards. As financing remains an important part of our business, we developed several new financing propositions, for example, in crowd-funding, leasing and others.



Excellent  
Customer  
Focus

## Berry Marttin

*Member of the Managing Board responsible for Rural & Retail International, Sustainability, Leasing and Banking for Food Inspiration Center.*

For me personally our mission is primarily about how our bank can help to feed the 10 billion people who will be living on this planet in a sustainable manner. We need to change our eating habits *and* change how we produce food. It's vital that we adopt new ways of thinking. I want to find new angles from which to consider specific food chain problems. For example, why don't calculations of the cost of food production include the cost to the planet? I want us to engage in the debate on this important topic. It's at the very heart of our mission. It is a debate we must

hold with businesses *and* clients. But it starts here, inside the bank.

In 2018 we set up a *Food & Agri Leadership Team* in which we join forces and bring all our knowledge to bear for a higher purpose: to discuss the role we as a bank can play to help the Food & Agri industry to improve its ability to feed the world sustainably. The council is where everything comes together. We ask questions like what exactly is involved in calculating the carbon emissions of a product? Wouldn't nutrient content be a better basis for calculating the carbon footprint of food? Together you always gain new insights. Let me give an example from my own experience: as a farmer I know that quickly separating manure into solid and liquid parts almost instantly reduces ammoniac emissions radically. I want to catalyze that sort of new thinking inside the bank. I feel that's my personal contribution to our mission.

Banks are used to viewing the world primarily from a financial perspective. I believe that in the future, banks should create a kind of e-rating to pinpoint where their clients stand from an environmental perspective. They should reward clients with a high e-rating and engage in dialogue with lower-scoring clients. The crucial question would then be: how much risk are banks prepared to take if clients want to improve their e-rating but are finding it hard to finance that shift?

Rabobank is a major international player when it comes to financing farmers and all other major players in the F&A value chain. We engage with them in debate, we set terms for our loans, and we connect parties in our network wherever we think it's useful. This role fits perfectly with our mission and that's why I place so much emphasis on the need to be well informed about what we're dealing with. We must keep asking critical questions. It's the best way to find solutions for the future of our planet.





Excellent  
Customer  
Focus

## **Jan van Nieuwenhuizen** *Member of the Managing Board responsible for Dutch and international Wholesale Banking and Commercial Real Estate*

Last year I got to visit many of our offices throughout the world and share the story behind 'Growing a better world together' with our customers. It was the beginning of several wonderful conversations. Of course, there were lots of questions too. It struck me that many CEOs and their companies are focused on defining their own mission and finding their purpose. When I talk to them, I am curious to hear what it means to them personally. For a mission to really work you have to believe in it. Also, I tell them more about our plans and mission. Our customers often face the same challenges as we do. We are in a good position to support them since we aspire to achieving this mission primarily by working together

with our clients and other stakeholders. I see these inspiring discussions with customers as my personal contribution to our mission in 2018. Change starts by creating awareness and engagement.

The explosion of technological growth, and the plethora of opportunities it brings, is changing the bank rapidly. I am really impressed by blockchain technology. Soon we will be able to use it to massively improve the efficiency and sustainability of trade flows in the food sector. Imagine blockchain as a type of electronic safe that will replace the endless paper flows of contracts and documents. It is also far less prone to fraud; cargo can be shipped faster at a lower price. This technology will soon be able to show customers exactly where supermarket products come from. We are cooperating with supermarkets to develop an app that creates and encourages transparency throughout the food chain, and that promotes a level-playing field. This is especially relevant in developing

regions where farmers often have little leverage in the value chain. Banks and corporates should take responsibility for their important role.

The financial sector has changed considerably in recent years, but the general public still perceives it that changes are happening too slow. The transformation also presents dilemmas. For 10 years, Rabobank has been working on sustainability in the palm oil sector. We have made enormous progress, but so much remains to be done. When a company is slower to make the transition to a sustainable model than you would like, you can do one of two things: close the door on them or invite them to sit down and help them get back on track faster. We prefer the latter option if possible. Our mission inspires us to make clear the urgent need for change and to move it along more swiftly by working together with our customers.



## The Future of Food

As a leading global Food & Agri (F&A) bank, we are committed to making a significant contribution to securing enough healthy and sustainable food for people and planet alike. Overall, our Wholesale, Rural and Retail (WRR) loan portfolio grew steadily, increasing by 7% to EUR 109.0 billion, of which 61% was invested in the F&A sector. Our Wholesale team was involved in a number of landmark deals this year. Our Rural and Retail business also had a successful year, two highlights of which were the opening of the new office in Peru and the start of rural activities in Argentina.

Banks are primarily known for their financial solutions. But Rabobank also sees its knowledge and networks as important sources of value for customers. Building on years of experience organizing regional client meetings, in July 2018 we brought together members of our international F&A Advisory Boards, Client Councils, the Rabobank Foundation and local Rabobank Supervisory Boards to discuss global trends in the F&A sector and how we can further support them.

## Climate Change Risks

We support our clients and staff in times of need. Many of our clients and some of our employees, were confronted with the effects of severe climate conditions last year, including droughts, hurricanes, typhoons and forest fires. To mitigate these risks, we are incorporating more research on the impact of climate changes in our sector analyses. We are working with external parties to quantify and incorporate these risks in our risk models. The first pilots have been performed and the outcomes are currently being analyzed. At the same time, we are integrating sustainability in strategic client dialogues. Our Sustainably Successful Together program is helping more clients adopt more circular economy practices. Innovation and digitalization can play a key role in helping clients deal with the risks of climate change while also creating new market opportunities.

## New F&A Innovations

Innovation is key to Rabobank's future growth and client focus. Our F&A Innovation Fund, which was established in 2017, made four equity investments in the reporting year: Biolumic (New Zealand), Vence (United States), Telesense (United States), and Enko Chem (United Kingdom). Our pitch program for food start-ups, FoodBytes!, has already held 14 events on 3 continents, with more than 1,200 applications from eager start-ups from more than 59 countries, generating 35 award winners. In cooperation with Wageningen University, Rabobank ran the third edition of "F&A Next" in May 2018, a two-day program that brings together investors and start-ups from around the world who are active in the food and agtech space. Our global accelerator program, TERRA, attracts start-ups and corporates from all over the world, and has already hosted two cohorts for a total of 32 food and

agtech start-ups. Cohort III is already underway. We also hosted the 2018 Rabo Sustainability Innovation Prize. Over 350 companies submitted entries. Three companies (Kipster, Peelpioneers and Somnox) each won EUR 20.000 and an intensive coaching program from Rabobank to develop their innovations. Rabobank continues to see potential in blockchain technology for corporate clients. In September, Rabo Frontier Ventures, a subsidiary that invests in high-potential, early-stage financial and food & agricultural companies, participated in the blockchain platform Komgo SA. Komgo was launched by 14 of the world's largest institutions, including banks, 'energy majors', trading companies and an inspection company. Komgo seeks to digitalize the trade and commodities finance sector through a blockchain-based open platform.

## Future-Proofing Our Own Organization

To enhance our innovative capabilities, Rabobank uses an innovation funnel model to investigate a constant feed of tech- and society-driven innovative solutions. A standardized way of working based on Agile and 'Lean Start-up' principles accelerates our innovation and helps us find new areas of business. Several innovations have already emerged from the innovation funnel model.

### *IT Landscape and Data*

We are simplifying our IT landscape. Decoupling and reducing applications will result in cost savings in 2019. A simplified IT landscape allows for a flexible and quick response to changing customer needs. Our data foundation optimizes data use in our services and our internal processes. Once integrated control over data and different programs is established, structural improvement will result in better availability and quality of data. The uptime score for both internet and mobile banking in 2018 was 99.9%.

### *One Digital Workspace*

In 2018 we started the One Digital Workspace (ODW) program. The aim is to make a completely renewed and integrated workplace available for all Rabobank's global branches in the coming years. The main objectives of the ODW program are to integrate Rabobank's international and domestic workplace environments; provide modern workplace functionalities such as Windows 10 and Office365; reduce costs with cloud technology, and massively improve the security of the IT workplace. During the roll-out in 2018, an impressive 80% of our employees switched to ODW. The roll-out will continue in 2019 with a large-scale adoption program to introduce our staff to these new possibilities. The ODW program is crucial to our ambition of facilitating employees' collaboration with each other and our customers.

The bank's transformation has been underway for a while, but since we decided to adopt a new operating model in the Netherlands, momentum has been picking up throughout the organization. In each stage of adapting to meet our customers' expectations, careful attention is paid to risk mitigation to ensure flawless customer service throughout the entire transition.

As part of the process of redesigning and implementing our operating model to fit the present day, Rabobank has also been investigating its members' expectations of a modern meaningful cooperative. Research conducted in 2018 will change our approach to members in 2019 but maintaining a constructive dialogue will remain a central feature.

## Derivatives

In March 2016, the Dutch Minister of Finance appointed an independent committee, which published a recovery framework (the Recovery Framework) on the reassessment of Dutch SME interest rate derivatives on July 5, 2016. Rabobank announced its decision to take part in the Recovery Framework on July 7, 2016. The final version of the Recovery Framework was published by the independent committee on December 19, 2016. With respect to the (re-)assessment of the interest rate derivatives of its Dutch SME business customers and the advance payments already

made, at year-end 2018 Rabobank recognized a provision of 316 (2017: 450) and has provided all qualifying clients clarity on the remuneration of the reassessment of their interest rate derivatives. In 2018, Rabobank's payments to clients under the Recovery Framework amounted to EUR 184 million.

## Fair Finance Guide

Rabobank's investment policy performance is measured by the fair finance guide. The table below provides some examples of our results.

### Fair Finance Guide

	2018	2016	2015
Human rights	8	8	8
Climate change	5	3	5
Labor rights	9	9	9
Remuneration	3	5	4
Corruption	8	8	
Food	8	6	7
Fisheries	6	6	7
Financial sector	3	3	3
Transparency and accountability	5	5	6
Gender equality	2	4	



Excellent  
Customer  
Focus

## ***Ieko Sevinga***

### ***Member of the Managing Board and Chief Information & Operations Officer***

Our mission of 'Growing a better world together' can only be successful if we remain a robust, stable bank. My personal contribution to our mission is to ensure that stability: my CIOO team and I spend every day building the bank of the future.

A few years ago, Rabobank embarked upon a large-scale, comprehensive transformation of its organization in the Netherlands. The entire bank is working on this transition. The changes enable the bank to serve customers more swiftly, flexibly and efficiently. In my domain, IT and Operations, we are

constructing a brand-new IT landscape and the associated infrastructure. Our objective is to significantly reduce the number of IT applications. Another example is "One Digital Workspace:" no matter where they are in the world, Rabobank employees can log in to our system securely and quickly, on any device at any given moment, just like being at the office. This is an enormous boost for efficient global cooperation.

Our efforts to achieve the ambition of being "Always On" are equally important. The objective is to give customers secure access to our online services—anytime, anywhere. We're doing an excellent job too, if I may say so myself. Of all the institutions and organizations that manage data, people have the most confidence in banks. We must do our best to nurture their trust.

Our development teams must be capable of moving an idea to execution within a week. That can only be done if everything is in good shape in the bank and as an employee. We invest a lot in new working methods and new technologies. The innovation process moves a lot faster now and it's great to see this make the whole bank's heart beat with pride.

Rabobank has been dependent on third-party vendors for a long time. Too much so, in my opinion. We have now reduced the size of our vendor pool and will work with only a select few going forward. I've also noticed an improvement in the quality of our in-house staff. That's a very positive development. It's how we ensure the bank remains the rock-solid, stable organization on which our mission depends.





### Meaningful Cooperative

We respond to social developments with specific long-term contributions. Cooperative banking means acting as a forward-looking social compass that actively involves members, employees and customers and connects them in a network, with each other and with Rabobank. We take a stand on social issues that matter to our clients and stakeholders.



# Meaningful Cooperative

Our members form an important pillar for Rabobank. We cooperate with them, our clients and other partners. A percentage of our net profit is reinvested in society. For example, our cooperative dividend and cooperative projects both contribute to growing a better, sustainable world together. Our 'Client Photo' is geared toward aiding clients in the transition to becoming more sustainable. As an international F&A bank with its roots in agriculture, Rabobank wants to help its clients make the switch to sustainable food production and contribute to the global food supply. Rabobank also strives to improve the well-being and prosperity of people in the Netherlands. The involvement of our members is crucial to remaining a Meaningful Cooperative. We are working to innovate cooperative banking and to intensify member involvement. Our cooperative structure helps keep us sharp, since our members provide feedback on our strategic plan and the issues we encounter along the way. We consider their input invaluable to building confidence in our sector.

## Community Funds and Donations

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

48.8

EUR million

Excellent  
Customer Focus

Empowered  
Employees

Rock-Solid  
Bank

Meaningful  
Cooperative



## Client Photo

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

### A-level Clients Local Rabobanks

5%

2017: 4%

### A-level Clients Wholesale

24%

2017: 21%

## Strategies

### Banking for food

#### KICK-START FOOD

Facilitate sufficient sustainably produced and healthy food for the growing world population

Kick-start Earth  
Kick-start Waste  
Kick-start Stability  
Kick-start Nutrition

### Banking for the Netherlands

Kick-start Self-sufficiency

Kick-start Living environment

Kick-start Entrepreneurship

SUSTAINABLE  
DEVELOPMENT  
GOALS

"We want to help build a better and more sustainable world."



We care about the society in which we live.

## Partnerships sustainable development goals



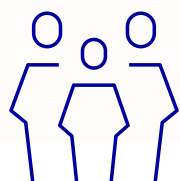
Score of 89 and Industry Leader

## Rep Trak Score Reputation Management

70.8

in 2018

2017: 69.5



44%

Member engagement score 2018

2017: n/a

## Sustainable Development Goal Partnerships



Time for change: **UN Environment** and **Rabobank** announced an ambitious partnership for forest protection, sustainable agriculture and land use.

The **AGRI3 Fund** is the first product resulting from this partnership.



**wbcscd** Rabobank is member and co-chair of the Climate Smart Agriculture Working Group of the WBCSD



Partner of WWF on sustainable production



Meaningful  
Cooperative

## Wiebe Draijer

### *Chairman of the Managing Board*

I feel positive about the past year. The results of the changes that we set in motion a few years ago are now more clearly visible. We are positioning ourselves more emphatically on the themes which underpin our mission of 'Growing a better world together'. We are committed to being a meaningful cooperative that contributes to achieving welfare and prosperity in the Netherlands. And we are a bank that prioritizes sustainability and innovation. We can use our leading position in the global Food & Agri sector to help resolve the global food issue. I certainly feel a personal commitment to our mission. It's a source of inspiration I draw on every day in my work for the bank.

My wish list for the bank of the future is topped by the desire to increase members'

involvement. Rabobank should be a bank that everyone wants to join. Currently there are too many members who don't feel that sense of belonging. I often compare it to membership of the Dutch Automobile Association (ANWB). They really make you feel like a valued member. You know that someone will come out to help you when your car breaks down, and that your membership entitles you to all kinds of benefits. That's what I'd like to see here as well. It should be fun and enriching to be a member of Rabobank. We need to do a couple of iconic things so that people say: "That's exactly why I joined this bank." I have very positive expectations of the work we're now doing to enhance member involvement.

For years Rabobank kept ahead of the field on innovation in the financial sector. The iDEAL online payment system was originally a Rabobank invention, a fact many people don't remember now. Over the years we've lost some of our innovative image but there are

signs that it's coming back. Take our Banking App, which comes out on top in all the tests. Or the leading role we play in blockchain projects. That's where you see a fast-moving Rabobank working to shape and become the bank of the future.

This trend brings dilemmas too. Rabobank is once again a leading innovative bank because we have accelerated the digitalization of our services. That can only be achieved with substantial changes to the bank. And change doesn't always happen smoothly. While the bank is operating at full speed we are changing it to make multiple services easier for customers to use. It's a difficult task, and there's still a long way to go. But we are on the right road and we have a wonderful mission to achieve. I am happy to lead this bank forward in my second term as Chairman of the Managing Board.

# Meaningful Cooperative

Being a meaningful cooperative is the essence of what Rabobank stands for. We are committed to making a difference as a cooperative, customer-driven bank, in the Netherlands and around the world, by taking a stand on social issues that matter to our clients, such as food, self-reliance, entrepreneurship and the local living environment.

## Involved Members and Communities

We asked our members which ways they might want to engage with us or give substance to their membership. In this survey, in which more than 13,000 of our members participated, 44% said that they feel involved with Rabobank. The results of this survey will help us to improve our vision on membership and to initiate activities that make the benefits of membership more tangible.

## Making a Concrete Socially Responsible Contribution

We believe that a bank should do more than just provide financial services. We invest in local communities with our cooperative dividend, knowledge and networks, and employees volunteer work. All local Rabobanks in the Netherlands have drawn up their own 'Plan for Society' with the aim of making their local contribution to our mission 'Growing a better world together' more specific and concrete. In 2018 Rabobank allocated EUR 48.8 million for future investments in the local community. The initiatives vary from investing in making local associations more sustainable with LED lighting, to projects in primary schools ('Bank voor de klas') and 'Perspectief Groningen 2025'. In the latter, four local Rabobanks in the Groningen region are partnering with public-private initiatives to add financial and management support to activities that strengthen the regional economy and society in the long term. After California was plagued by forest fires, Rabobank N.A. (RNA) donated USD 50,000 to the Red Cross to help the community. RNA also set up a "[GoFundMe](#)" account for employees who lost property in the fires. Worldwide Rabobank employees also made donations.

Local Rabobanks also invest part of their net profit in the Rabobank Foundation. This independent foundation's financials are not included in our consolidated figures. Its mission is to invest in people's self-reliance. In the Netherlands, the Rabobank Foundation works with local Rabobanks, to focus on social entrepreneurship, employability and financial self-reliance. Internationally it supports small-scale farmers and their cooperatives.

Rabobank has a long-standing relationship with many Dutch sports teams and cultural organizations. These associations play a vital role in people's lives and living environments, improve social cohesion and support the discovery of new talent. Rabobank helps these organizations with knowledge, networks and financing. We are one of the largest sponsors of Dutch (sporting) events and we run programs that help organizations become more self-sufficient. We discuss their ambitions and assist in achieving them. We also collaborate with key sports stakeholders like NOC\*NSF/TeamNL and the Royal Dutch Hockey Federation (KNHB).

Art is a barometer of society, offering a view of the world and of the times we live in. We firmly believe in the transformative power of art and in its importance to society. About 100 art works from [our collection](#) are on temporary loan to museums in the Netherlands and abroad. Our Rabo Art-Lab invites artists to become 'artists in residence', giving them the freedom to move and work without restrictions inside our organization during an official residency. In 2018 Arne Hendriks was our artist in residence. He examined the concepts of growth and shrinkage. What is growth? Would 'degrowth' be a desirable concept? An exhibition of Arne's work is on display at Rabobank, and he will speak about these concepts with opinion leaders within and outside the bank.

## Sustainability

Sustainability is a key aspect of being a meaningful cooperative. We were pleased to receive a score of 89 from Sustainalytics for our Environment, Social, and Governance (ESG) performance, which earned Rabobank the title of 'Leader' in the financial sector in 2018. RobecoSAM's sustainability index awarded Rabobank 79 points on a scale of 100, ranking us 25 out of 140 banks. In 2018 RobecoSAM updated its scoring methodology which impacted our score and ranking substantially. The most recent edition of the Sustainable Brand Index for the Netherlands ranked Rabobank as leader among the three Dutch systemically important banks, and third in the financial services industry.

### Dilemma: Palm Oil

In 2018 we felt pressure from NGOs on topics such as palm oil, animal welfare, and biodiversity loss. Our clients likely felt it too. We recognize the importance of these issues and have clear sustainability policies to ensure a transparent and consistent approach in our global activities. We are also proactively developing solutions and improvements through our partnerships with other stakeholders such as UN Environment and the World Wildlife Fund (WWF). Moreover, we participate in the innovative multi stakeholder initiative for a deltaplan aimed at restoring biodiversity in The Netherlands.

### Attention for Climate Change

Climate change is rapidly becoming one of the most important global issues to impact society. It is also an important credit risk, the assessment of which is to be incorporated in risk modelling and risk management. Within our portfolio we will dedicate special attention to the Real Estate sector in the Netherlands and F&A globally because of the relatively large size of these asset categories on our balance sheet. We recognize the urgency of transitioning to a circular economy in these and other sectors. We support them through activities like our Circular Economy Challenge program to help entrepreneurs transition to circular entrepreneurs. Last year, in cooperation with other Dutch banks, we also introduced a set of circular economy financing guidelines.

### Contribution to Climate Goals

Real estate is responsible for about 40% of global energy consumption. Reducing the energy usage of the properties in our real estate loan portfolio will make a valuable contribution to the current Dutch climate goals. The Dutch government has set ambitious targets for the energy efficiency of homes and office buildings. In 2018, Rabobank worked with the government and other stakeholders on the "Sector Table for the Built Environment" and the "Sector Table for Agriculture and Land Use" of the Dutch National Climate Agreement (which was presented in July and will tender a more detailed draft final agreement in December). Rabobank assisted in the conception of a workable road-map to achieving these goals.

To make Rabobanks' real estate loan portfolio more sustainable, we offer the Green Mortgage. We also introduced the Green Construction Depot to incentivize retail clients to invest in energy-saving measures for their homes. In April, we launched a partnership with an energy broker to help our clients transition to local sustainable energy suppliers. We have seen the energy label ratings of our mortgage portfolio improve, as shown in the table below.

### Energy Labels in the Mortgage Portfolio

Energy label	% of houses funded	% of houses funded
	by Rabobank (2018) <sup>1</sup>	by Rabobank (2017) <sup>2</sup>
A	20%	18%
B	15%	15%
C	25%	26%
D	15%	16%
E	10%	10%
F	7%	8%
G	7%	7%
<b>Total</b>	<b>100%</b>	<b>100%</b>

- 1 In 2018 approximately 17% of the mortgage portfolio has a confirmed energy label.
- 2 In 2017 approximately 16% of the mortgage portfolio has a confirmed energy label.

Our real estate loan portfolio has also been analyzed by a specialized agency to ascertain the energy labels. The conclusion was that 55% of commercial real estate buildings have a "C" energy label or higher, the minimum requirement by 2023 according to Dutch legislation, or 30%, including rental property. We are working with our clients to ensure they can meet the 2023 requirements in time. All Rabobank offices in the Netherlands will have a "C" label by 2020 (including an "A" label for all central offices) and we aim for an "A" label by 2027. As of 2019, all our offices in the Netherlands purchase green gas from Suiker Unie and Wabico.

### Launch AGR13 Fund

Rabobank is chair of the World Business Council for Sustainable Development (WBCSD) Climate Smart Agriculture Finance working group. At the 2018 Annual WBCSD meeting in Singapore, we announced the first warehoused investment of the AGR13 Fund, a joint initiative of the Rabobank–UN Environment partnership for Forest Protection and Sustainable Development with support from FMO and IDH. The AGR13 Fund aims to ultimately unlock USD 1 billion in capital for the transition toward sustainable agriculture. Projects and transactions using blended finance solutions will be mostly sourced from Rabobank's Rural and Wholesale customer base, allowing us to strategically engage with our clients while having a positive environmental and social impact.

### Enhancing Sustainability Performance

Rabobank uses its proprietary sustainability scan, the Client Photo, to gain insight into our customers' sustainability approaches and achievements. The Client Photo scan is integrated into our standard lending process. In 2018, 87% of our Wholesale clients completed the annual Client Photo scan, an



increase of 19% on 2017. For the Netherlands as a whole, Rabobank scanned 99% of our clients with an exposure of over EUR 1 million. As of 2018, 24% of our Wholesale clients have achieved the highest possible rating (A-level). By the end of 2018, 5% of our SME and mid-sized clients in the Netherlands achieved this level. In 2019 we will continue to encourage more clients to improve their sustainability performance. We will also keep supporting sustainable frontrunners, by offering, for instance, more advantageous terms for their financing. Please refer to [Appendix 3](#) for more details figures on the client photo for Wholesale clients and clients of local Rabobanks.

To facilitate the transition to a more sustainable and circular economy, we are increasing the scope and number of financial solutions for clients we consider to be sustainable frontrunners. For example, in 2018 we extended our Impact Loan for SMEs with a fourth tranche of EUR 250 million from the European Investment Bank (starting in 2015, the first three tranches were EUR 350 million in total). We also introduced deal coaches who support clients and commercial colleagues in optimizing our lending to circular businesses.

Likewise, we increased the number and total value of the Sustainable and Green Revolving Credit Facilities (RCF), which we mandated in 2018. These syndicated loans embed environmental and social criteria in the credit arrangements. For example, Rabobank has been appointed the Documentation Agent and Sustainability Coordinator for the Sustainable RCF as the first company in the Dutch construction sector that linked sustainability performance to the terms of its banking credit facility.

When clients are not able to comply with our sustainability policies we initiate a client engagement process based on a set of fixed criteria. In 2018, the central Sustainability Department conducted such processes with 69 clients. The aim is to achieve compliance within an ambitious but realistic time frame. Most clients engaged in actions to ensure compliance with our sustainability policies, a few clients were not able to comply, so we terminated those relationships. See [appendix 4](#) for more information.

### Dialogue with Government Authorities

At a policy level we are intensifying our dialogue on climate change with key external stakeholders. Together with the Dutch Banking Association (NVB), the European Association of Cooperative banks (EACB) and the European Banking Federation (EBF) we are closely following and actively engaging in the debate in Brussels on the Sustainable Finance Action Plan launched by the European Commission in March 2018. In the reporting year we also held consultations with the European

Commission, the European Parliament, members of the Dutch Parliament, the Dutch Ministry of Economic Affairs, the Dutch Central Bank and the Dutch employers association VNO NCW. We are also actively involved in the Task Force on Climate-Related Financial Disclosures (TCFD) and the Platform Carbon Accounting Financials (PCAF), in order to explore the possibilities for developing a systematic measurement of the carbon footprint of banks' balance sheets. As such, we are prepared and informed in case of regulation changes regarding transparency requirements for carbon footprints on banks' balance sheets.

### Sustainability Program and Framework Update

Rabobank's sustainability program, Sustainably Successful Together (SST), commits us to integrating sustainability into all relevant policies, processes, products and services. A report detailing our progress can be found [here](#). We have translated the ambitions outlined in SST into [our Sustainable Policy Framework](#), which sets our sustainability standards for our business and financing relationships. The framework covers the implementation of the precautionary principle (GRI 102-11). We also do not offer products or services that are banned in certain markets (GRI 102-2). In 2018, we updated the framework completely. The framework now contains, for instance, a separate and extensive Human Rights Policy, which includes a description of Rabobank's commitment to ensure a mitigation of potential human right risks as much as possible. These risks could be present when engaging with our employees, our suppliers and our customers. Therefore, this policy is also integrated in our Client Photo scan. We respect and uphold international human rights as described in the United Nations Declaration of Human Rights and are guided by the United Nations Guiding Principles on Business and Human Rights. Specific high-risk sectors are being further assessed with other stakeholders in the Dutch Banking Agreement. More details can be found in the [Sustainably Successful Progress Report](#).

### F&A Supply Chains

In 2018, we continued to build on our strong partnership with the Worldwide Fund for Nature. Building on our successes in Chile (farmed salmon), Brazil (soy), India (sugarcane), the Netherlands (dairy) and Indonesia (Palm oil), in 2018 we started defining our new strategy for the coming years. Our shared goal is to find and exploit opportunities to create sustainable F&A supply chains in cooperation with our clients. Read more at [WWF's website](#).



## Empowered Employees

Our employees are proud and driven, manifesting craftsmanship, vitality and adaptability. They feel empowered to represent Rabobank and are inspired by our mission. Top talent wants to work, develop and stay at Rabobank. All our employees want to grow and make each other better. Learning agility is key.



# Empowered Employees

Our people define our bank. It is HR's mission to create the best possible context for our people to excel and continuously develop by providing a human centered culture, leadership programs and a lot of learning opportunities. We believe in empowering people through craftsmanship, vitality and adaptability. Our employees help our customers achieve their ambitions. Increasing the diversity of our own staff is helping us to better understand our business and serve our customers. We focus on employee engagement because we strongly believe that happy people lead to happy customers. Creating One Rabobank culture is essential. Our organization is in transition. We know that we are asking a lot of our employees during this process, while we are also decreasing the number of employees. We take care of staff who are made redundant wherever possible, our SamenWerkt! mobility center helps them find a new job or start their own business.

## Awards

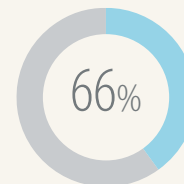


In recognition of its **efforts in labor market disadvantage**, Rabobank received a CTalents Award.

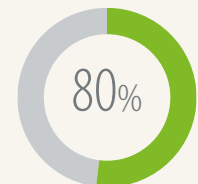
**intermediair**  
op elk in je carrière

Rabobank, favorite employer in the Netherlands.

## % of redundant employees



... that found a job within 6 months



... that started their own business within 6 months

Excellent  
Customer Focus

Meaningful  
Cooperative

Rock-Solid  
Bank

# Empowered Employees



## Human Capital



Our strategic HR pillars are **leadership** and **culture**.

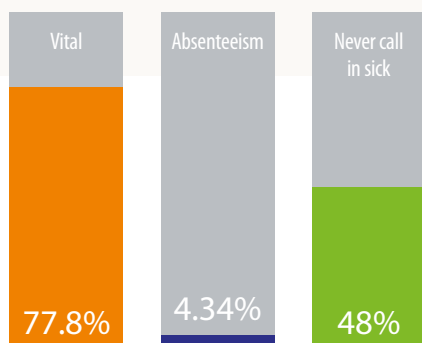
We will accelerate these topics in 2019 as they are of strategic importance for the bank.

"Vital employees have energy to cultivate their adaptability and their craftsmanship. That is why we value and nurture our staff's health and vitality."



Vitality

### % of employees...



Engagement scan

60.8

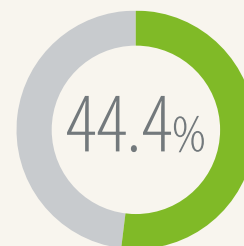
Number of employees worldwide

41,861 FTE

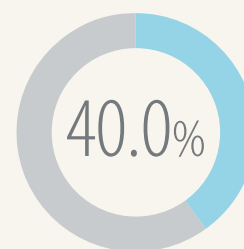


## Gender diversity

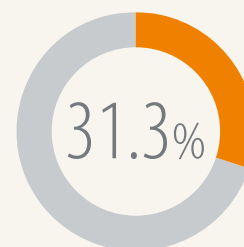
Percentage of women ...



in the Supervisory Board



in the Managing Board



in the first level below the Managing Board





Empowered  
Employees

## Janine Vos

### Member of the Managing Board and Chief Human Resources Officer

When I look at our mission, I like to split it into three parts: it's about "growing," it's about "a better world" and it's about doing that "together." People need a clear goal in order to develop and to understand exactly what they're contributing to. That's why we start with the growth and development of our people first. That benefits our business, growth in craftsmanship, vitality and adaptability. In addition, as a cooperative bank we should ask ourselves the question: what is good for the world? Ultimately, it's about the need to work *together*.

What increasingly sets our bank apart is the debate that we are engaging in thanks to the introduction of our mission 'Growing a better

world together'. We are not there yet, but the fact that we are being held to account on this mission builds both the awareness and the internal momentum needed to achieve this. We want to do this, and we must do this because this is who we are. The aspect I am particularly committed to is involving all employees in this mission.

In the past year we took several steps forward but there is still a lot to do. I would like to see us take a more courageous stance in some respects. When necessary we must engage in the conversation with customers more often and with greater intensity. That is difficult and it demands courage and straight talking, but it is worth it every time. If we manage to do that better, we will grow even more as a bank and as people. We are working hard on this and I am very much looking forward to further developing the human side of our story.

I do realize that not everybody is able or willing to make this transition with Rabobank. Many aspects of work at the bank are changing at lightning speed. There's a great sense of urgency which places huge demands on the adaptability of our employees. The bank is prepared to help and guide them in every way but, at the same time, new jobs are appearing while other jobs are disappearing. That causes tension. When jobs disappear it's vital to help people to go "from work to work." And we are achieving excellent results. Naturally it's hard for people to let go, but it is also great to see the enduring sense of pride people take from all they've learned here.

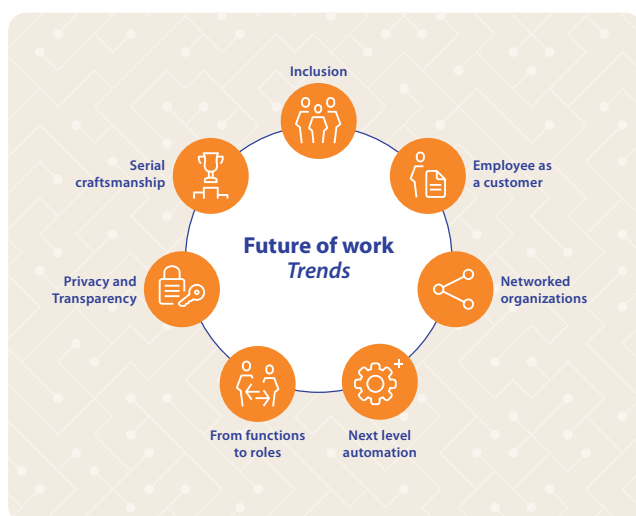
I think that colleagues who really feel the meaning of our mission are also willing and able to grow with it to face the future with their best foot forward. If we succeed in that, we can really do a lot of good together.

# Empowered Employees

## Adaptability

### *The Future of Work*

The world is changing rapidly. This affects the financial industry as a whole, as well as the way we work at Rabobank. In 2018 we identified a set of seven key HR trends that impact our day-to-day operations now and through to 2025.



Based on our trends analysis we identified several improvement areas. We decided to broadly focus our efforts on two concepts: *The Open Network Organization* and *Serial Craftsmanship*. Both concepts also allow us to cater for the other trends.

In 2018 our Future of Work team created awareness about the HR trends. We also professionalized Strategic Resource Planning (SRP) to match these trends. The first domains have started to roll out the new SRP process. They will be translating the business strategy into people tactics in the coming years.

### Self-Reliance

We adjusted the policy to offer our employees a tailor-made financial scan every six years. This policy is available on our HR information portal and accessible for our employees. We also organized a talk show for our employees about (financial) self-reliance.

## Craftsmanship

### *Taking Ownership of Development*

As automation and robotization are being used more frequently in the digitalization of work, we have determined which skills are required for high performance, today and tomorrow.

To reduce the mismatch between current and future skills and to stimulate our employees' personal growth, we offered a personal annual development budget in 2017 and 2018 of EUR 1,500 and EUR 1,000 in 2019 per employee working under the Dutch Collective Labor Agreement (CLA). The annual development budget offers employees the opportunity to work on their personal and professional development at their own discretion. Since 2018 we have offered the training course 'Fit for the Digital Future' where employees learn about blockchain, artificial intelligence and robotics, and receive insight into applications of these technologies in their work.



By the end of 2018, 48% of employees in the Dutch CLA population had fully or partly used their development budget. We will continue to encourage our employees to make the most of this resource.

### Vitality

Vital employees have energy to cultivate their adaptability and craftsmanship. We value and nurture our staff's health and vitality, which is a combination of physical, mental, social-emotional and inspirational factors. Our RaboVitality program activates employees' ability to change their behavior and strengthen their energy. The 2018-2019 theme is Vitality and Food. The program depends on more than 300 RaboVitality Boosters (i.e. vitality ambassadors at many departments of Rabobank). In 2018, we also continued to positively incentivize

the work place, for example, by interventions like vitality rooms at several locations, making the staircases more attractive and promoting healthy nutrition.

### Key Figures

Most of our employees in the Netherlands are vital and energetic: 77.8% of all employees indicate they feel vital and 63.7% report having enough energy. 10.5% of staff indicate they suffer from work stress.

Absenteeism rates in the Netherlands rose to 4.3% in a rolling 12-month period in 2018, exceeding the 2017 figure of 4.0% and the Occupational Health & Safety standard of 3.7%. Of those absent due to sickness, 76% had returned to work fully within a week (78% in 2017). In 2018, 48% of employees never called in sick (50% in 2017).

## Leadership

### Inspiring Leaders

In 2018 a series of events further acquainted managers with the Rabobank Leadership Model. Last spring, we organized a two-day leadership event for approximately 800 employees worldwide. The goal was to inspire and encourage formal and informal leaders to enhance and cultivate their leadership and innovation skills. In September, we took the next step with approximately 209 senior managers at the second edition of 'Unplugged – The Rabo Leadership Experience'. The Rabobank Leadership Model is emphasized in recruitment and talent development as well. In 2019, we will expand our focus from building formal leadership to include agile leadership.

## Talent

### Talent Management

In 2018 the first Future Leadership Journey program was delivered. Participants of the program choose their own learning path. The group consisted of 48 talented colleagues from across the bank, each with their own backgrounds, professional and personal experience. The Journey was framed by Rabobank's Leadership Model.

In 2018 the HR Innohub was created to experiment with using new technology to find, select and utilize talent. HR Innohub has already taken steps to accelerate the adoption of new technologies in HR, like mimicking client conversations with a robot and using blockchain to let employees more easily store and share personal certifications when applying for new roles. The developments in robotization were reported in the media and we were shortlisted for the most innovative Learning Technology products at the LT18Awards.

### Nurturing Employee Growth

With continuous dialogue based on appreciative inquiry techniques, managers can help employees to think about their development, behavior, and their own contribution toward Rabobank's mission. By using the GROW! model (which stands for Goal, Reality, Options and Way forward), we focus on personal employee growth. Employees in various departments have become GROW! ambassadors who share their positive feedback techniques and advice about encouraging open conversations.

## The four dimensions of Rabo Leadership

### Individual Leadership

#### Personal

A Rabobank leader takes full responsibility for his or her actions, and develops through craftsmanship, vitality and adaptability

### Network Leadership

#### One Rabo

A Rabobank leader leads Rabobank as a whole, takes responsibility for the collective and creates maximum impact and results by working together

#### Team

A Rabobank leader creates, facilitates and inspires high-performing teams and is focused on developing the team in order to get results

#### Community

A Rabobank leader recognises and leverages our unique ability to connect clients and stakeholders to build a better world

— RABO  
— LEADERSHIP

Based on the Enterprise Leadership model from CEB Research

## Culture

### Performance & Health

Rabobank believes that organizations striving for long-term success should not limit their focus on performance of the moment. They must also ensure strong performance in the future (health). This Performance & Health approach is designed to enhance our transition to becoming 'One Rabobank' (i.e. merging our Dutch and international infrastructure and creating One Rabobank culture). In January 2018, a cross functional Performance & Health team started working on the implementation of the transformation: one team, one goal. This team implemented initiatives such as a renewed Code of Conduct, the Values Week, and quarterly live events in conjunction with 'Growing a better world together', and masterclasses where top management, controllers and HR business partners discussed how to cascade strategic top priorities and KPI's into team plans and GROW! conversations.

### Engagement

We use the quarterly engagement scan globally to provide short-cyclical measurement of employee engagement and organizational health. In 2018 we saw a slight increase in engagement from 60.6 in the fourth quarter of 2017 up to 60.8 in the fourth quarter of 2018. We are proud of this increase in engagement given the state of transition Rabobank is in. In the fourth quarter of 2018 81.3% of our employees indicated that they like working at Rabobank. Our employees also indicated that their team's contribution to Rabobank's mission and vision is increasingly clear to them.

### Diversity and Inclusion

Rabobank firmly believes that diversity improves performance and increases creativity and innovation in the bank. Employees from different ethnic and cultural backgrounds are better equipped to pinpoint the specific needs of groups of customers with a similar background. We aspire to be an inclusive culture that promotes greater diversity and in which everyone can be themselves. In 2018 we implemented a global policy on Diversity & Inclusion; each region and country formulated their own Diversity & Inclusion plans. This global policy applies to Cooperative Rabobank U.A. and its domestic and foreign branches and representative offices, including the Managing Board and Supervisory Board.

In 2018, Rabobank took on 42 employees with a disability or labor market disadvantage. Rabobank received a CTalents Award and a Raket award in recognition of its efforts in this area.

We promote the inflow of multicultural talents, including participating in the Cultural Diversity campaign (of the Dutch

Social and Economic Council ('SER'), which advises the Dutch government and Parliament on social and economic policy). Rabobank's cultural diversity is monitored by 'Talent to the Top', a foundation which strives to enhance diversity and inclusion at the senior management level of organizations. In the Young Talent Management Program, a Rabobank traineeship for graduate students, 31% of the participants have a multicultural or international background.

### Diversity

	2018	2017	2016	Target
In the Supervisory Board	44%	33%	33%	30%
In the Managing Board	40%	40%	14%	30%
In the first level below the Managing Board	31%	29%	25%	30%

### Rabobank as an Employer

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

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

### Employability

We want happy people, and that means happy leavers too. The GROW! dialogues empower employees, including those who might lose their job or have to change positions. The "Samenwerkt!" Mobility Center supports employees whose jobs are becoming redundant in several ways: finding training courses, advising on the best use of the personal development budget, updating skills when applying for a job – in or outside the bank – and networking. Figures regarding 2018 show that 66% of the employees we had to let go who had also applied for a job, were successful within six months, and 80% of the employees who had wanted to start their own business achieved that goal within six months of being made redundant.



**Dilemma : Ups and Downs of Staff Reduction**  
Unfortunately, we have had to let go members of our staff. Staff reduction takes a huge toll on the employees leaving the bank, as well as those who remain. It also comes with the loss of historical context and knowledge, but by working in teams, we can transfer, share and keep this knowledge in our organization as much as possible.

### Sustainability

Sustainability goes hand in hand with Rabobank's identity and core values. In 2018 we continued our efforts to integrate cooperative and sustainability topics into our recruitment and selection processes. Sustainability is addressed in several training programs and we offer multiple sustainability workshops. Suppliers of educational programs to Rabobank and external employees are expected to comply with our Sustainable Procurement Standard.

### Enhancing Risk Awareness

We continued our worldwide employee training program 'Rabobank Right' in 2018. The program aims to ensure that employees can recognize and deal effectively with operational risks in their day-to-day work by improving their risk awareness and risk assessment skills.

### Speaking Up

Concerns and other issues are preferably addressed in open dialogue. Bureau Speak Up aims to secure a global independent process and uniformity in the handling of reports and provides guidance to management and staff including assistance in invoking any of the following procedures. Bureau Speak Up was established at the end of 2017 (replacing the existing procedure) and handled 71 requests in 2018. The Global Policy on Whistleblowing offers a safe reporting channel for misconduct and irregularities. This Global Whistleblower Policy applies to anyone who works (or worked) at Rabobank, in any role, location, or contract term, as well as anyone who has or had another type of business relationship with Rabobank (such as suppliers). The Trusted Committee handled a total of 31 cases in 2018 (2017: 17), 14 of which led to a formal investigation, 6 cases were addressed by issuing a formal opinion on the follow up to responsible management, 16 were closed and 15 will continue in 2019.

Labor issues can be discussed with an independent advisor under Rabobank's Industrial Relations Disputes Procedure (GRA). In 2018, the GRA handled 218 cases (109 requests for advice, 33 cases of informal conciliation, 30 cases of formal mediation, and 46 requests for a binding decision by the Industrial Relations Disputes Committee. This has resulted in 10 binding decisions so

far. Rabobank Internal Health Services (IHS) Department's trusted persons assist staff who have experienced inappropriate behavior. Both GRA and IHS trusted persons are available pursuant to Rabobank's Dutch collective labor agreement.

### Remuneration

Rabobank has a remuneration policy in order to remain an attractive employer who seeks to hire and retain talent, and to empower its employees in all their diversity. We do this by offering fair remuneration packages and providing a valuable set of employment conditions, such as an attractive working environment, a good pension scheme and attention for employee development. All Rabobank employees receive a salary and a set of employment conditions which corresponds to their responsibilities and contribution. We believe that remuneration is more than just pay. We strive to provide an inspiring working environment in which employees can develop and get the most out of themselves and their talent. Rabobank encourages employees to make a difference both in the local communities where they work and internationally by contributing to our vision to provide a solution to the global food issue.

For more information on Rabobank's remuneration policy [click here](#).



## Rock-Solid Bank

Rabobank remains a model of stability, reliability and solidity. We deliver services efficiently at competitive cost levels and we are continuing to optimize our balance sheet. We are doing the right things well, or even exceptionally well, with everyone taking ownership, remaining conscious of risks and operating as professionals.

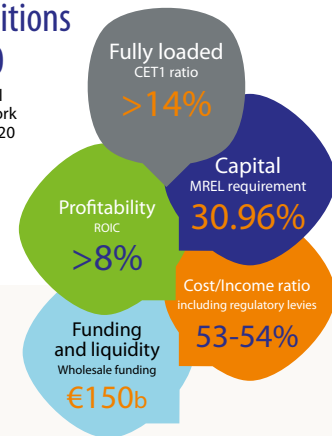


## Rock-Solid Bank

We offer institutional investors relatively safe investment options in the form of bonds and subordinated instruments. Our financial performance has improved (e.g. balance sheet optimization and portfolio management) and our credit ratings are strong. This enables us to ensure Rabobank's continuity. We also do this by focusing on our efficiency to improve our C/I ratio. But not at the expense of everything else. As we are committed to investing in the development of our clients, members and other partners, achieving our C/I objective is a gradual process. We ensure that we are prepared for and in compliance with (future) laws and regulations, and that we are always ready to adapt to our customers evolving needs so that we can continue to create value for all the bank's stakeholders in a changing economy.

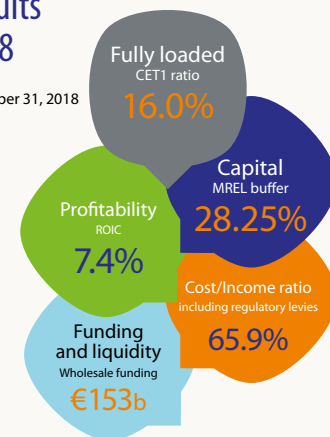
### Ambitions 2020

Financial framework 2016-2020



### Results 2018

As of December 31, 2018



Excellent Customer Focus

Meaningful Cooperative

Empowered Employees

# Rock-Solid Bank

## Financial capital



**42.2 billion**

12-31-2017 39.6 billion

**Equity**



**342.4 billion**

12-31-2017 340.7 billion

**Deposits from customers**



**153.2 billion**

12-31-2017 160.4 billion

**Wholesale funding**

**Net profit**

**3,004**

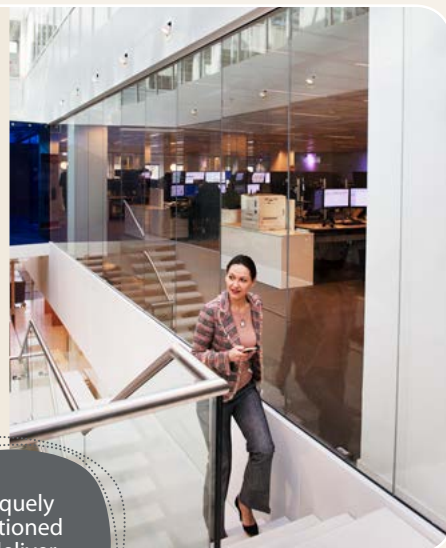
EUR million

**+12%**



12-31-2017 2,674 million

"Being a Rock-Solid Bank is a corner stone of Rabobank's strategy. We strive to do the right things extraordinary well, with everyone taking ownership and remaining conscious of the risks."



Uniquely positioned to deliver on mission

## Ratings

S&P Global **A+**

Fitch **AA-**

Moody's **Aa3**

DBRS **AA**

**Underlying profit before tax**

**4,193**

EUR million

12-31-2017 4,465 million

**-6%**

**Private sector loan portfolio**

**416.0**

EUR billion

12-31-2017 411.0 billion

**+1%**

**Volume of loans to F&A**

**103.1**

EUR billion

12-31-2017 97.8 billion

**+5%**

**Volume of loans to Trade, Industry and Services**

**118.0**

EUR billion

12-31-2017 115.2 billion

**+2%**





Rock-Solid  
Bank

## **Bas Brouwers**

### *Member of the Managing Board and Chief Financial Officer*

I experienced 2018 as the year in which we made important steps in preparing the bank for the future. We have been working on the transformation of our bank for a couple of years now. We are taking multiple steps to anticipate on a changing environment and on a different banking landscape. This entails a shift in mindset with more forward looking focus. Our mission, "growing a better world together," adds cohesion to that process. For me it is a real bonus to do our work in that context.

In my view, we achieved the next level in the translation of the four pillars of our strategy (Rock-Solid Bank, Empowered Employees,

Meaningful Cooperative and Excellent Customer Focus) into concrete initiatives and ambitions. This further improved the clarity of our strategic direction, further aligning the mindset across the bank towards our overall mission. To be able to deliver on this mission sustainably in the future, we are committed to remaining the rock-solid bank we are today. I am proud of the progress we made in recent years: we strengthened our capital position, we diversified our funding mix, and we continued to optimize our balance sheet in anticipation of future regulatory requirements.

When working for a bank, the significance of relevant skill sets is in continuous flux. The increasing amount of data enables us to evaluate future scenarios with greater accuracy. These hard facts and the data-driven way of working enable us to deliver more

valuable advice to our colleagues and our customers. It also means that our professionals in the Finance domain need to have different skills and competencies. We are constantly looking for extraordinary data expertise and analytical skills to drive the transformation towards a data-driven organization forward.

One issue which gives us pause for thought is how to strike a balance between investing effectively in a healthy bank for the long term while improving our cost efficiency for the short term. It's a challenging set of considerations and it's important to continuously find the right emphasis at the right time. As far as the cost/income ratio is concerned, we are still falling behind our target. But at the same time, we are investing in a strong, stable bank with a fantastic mission in a digitalizing world.



Rock-Solid Bank

## **Petra van Hoeken**

### *Member of the Managing Board and Chief Risk Officer*

Since I started I have worked hard to bring the knowledge on risk and banking closer together. As we further integrated the risk, legal and compliance disciplines across the globe, our experts now work more closely together in servicing customers and supporting the businesses with advice, decision-making and control. In the challenging market environment, with changing demands of customers and society, the bank takes a multifunctional yet highly integrated approach to risk.

Last year, all employees in the risk and compliance domain dedicated time and effort to improve their knowledge and behavioral skills, worked diligently on the substantial regulatory change agenda, and established company-wide frameworks for risk, legal & compliance governance, policy & decision-making and reporting discipline. We re-

affirmed the 3 lines of defense model for managing risks in the complex world we operate in. This entails a more explicit separation of business and risk responsibilities for risk taking and control, and a more proactive and forward-looking attitude.

Of course, this hasn't always been easy. At times, the risk and compliance officers, myself as CRO included, have had to stand up and say "no". We do encounter and have to balance multiple dilemmas – we have to take transparent decisions in the client's best interest while also respecting the needs of other stakeholders and society. Sometimes this means (1) declining a new credit transaction, as our duty of care for the customer overrules credit needs, or (2) requesting more information from customers on their transaction profile or the source of their wealth so we can adequately fight money laundering. This balancing act also means we have to (3) refrain from using (big) data for innovative services if it conflicts with enhanced privacy laws or (4) that we cannot invest in a circular economy idea as the long-

term sustainability is not warranted. In the end it's the client and society that benefit most from such careful and objective decision-making. We are in it for the long haul!

The past year also brought a huge increase in attention for the bank's societal role as a gatekeeper for client due diligence with respect to anti-money laundering, counter-terrorism financing and the upholding of sanctions. In many respects, a bank's gatekeeper role is comparable to airport security. We must keep global banking and payment traffic clean. My teams spent considerable time, effort and money on continuously improving our knowledge, models, systems and processes in this regard. A must, and underpinning our strategic pillar, being a meaningful cooperative

I am proud of the accomplishments of my teams across the globe. With their dedication, professionalism and leadership we are growing a better world together.

# Rock-Solid Bank

Being a Rock-Solid Bank is a cornerstone of Rabobank's strategy. We strive to do the right things exceptionally well, with everyone taking ownership and remaining conscious of the risks.

## Financial Targets on Track Despite Rapidly Changing Environment

Rabobank is beyond the halfway point of the planning horizon of its Strategic Framework 2016-2020. This framework defines several financial key targets and provides direction for performance improvement and balance sheet optimization in 2020. To maintain our position as a rock-solid bank, we monitor these targets closely and frequently reassess our chosen course. This helps us remain well poised to absorb the impact of forthcoming regulations, such as the reform of Basel III (also known as Basel IV) and the minimum requirement for own funds and eligible liabilities (MREL). The table below presents our ambitions and the actual performance on our financial targets as at December 31, 2018.

### Summary of Financial Targets Within Framework 2016-2020

Amounts in billions of euros		Ambition 2020	12-31-2018	12-31-2017
<b>Capital</b>	Fully loaded CET1 ratio	>14%	16.0%	15.5%
	MREL buffer	-	28.25%	26.82%
<b>Profitability</b>	ROIC	>8%	7.4%	6.9%
	Cost/income ratio (regulatory levies included)	53%-54%	65.9%	71.3%
<b>Funding and liquidity</b>	Wholesale funding	150	153	160

Overall we have made valuable progress on our strategic targets, despite the now drastically different operating environment and customer demand compared to when we set these targets in 2015.

## Comfortable Position to Meet Future Regulatory Requirements

To comply with stricter regulatory requirements, we set clear ambitions for our capital and MREL ratios. In 2018, Rabobank further strengthened its capital ratios. Our fully loaded common equity tier 1 (CET1) ratio, that is, our CET1 capital as a percentage

of our risk-weighted assets,<sup>1</sup> assuming the CRD IV/CRR regulation has been fully adopted, stood at 16.0% (2017: 15.5%) on December 31, 2018. We have already exceeded our 2020 target, which is prudent in the light of the final proposals published by the Basel Committee in December 2017 on new capital requirements for banks, which will result in the gradual inflation of our risk-weighted assets from 2022 onwards.

Adding a part of our net profit to retained earnings further increased our CET1 capital and ultimately resulted in a positive impact of 0.9 percentage points on our CET1 ratio. This effect was partly pressured by the negative impact (14 basis points) of the full adoption of the IFRS 9 accounting standard on January 1, 2018.

Our total capital has been replaced by a MREL requirement that must be met with a combination of own funds and non-preferred senior bonds. The MREL eligible buffer divided by risk-weighted assets further increased in 2018 from 26.82% to 28.25%, mainly due to profit retention and the issuance of new instruments. In the second half of 2018 we issued a tier 1 transaction of EUR 1 billion and three tranches of non-preferred senior bonds: EUR 1 billion, USD 1 billion and USD 0.25 billion.

In anticipation of Basel IV, we will continue to strengthen our capital ratios over the coming years. In 2018, our risk-weighted assets increased to EUR 200.5 (2017: 198.3) billion. Based on pro-forma calculations and balance sheet composition at year-end 2018, we expect the impact of the Basel Committee proposals to lead to an approximate 30%-35% increase in risk-weighted assets on a fully loaded basis. This indication is based on our current interpretation of the proposals (including credit risk, operational risk, market risk, CVA, and the aggregated output floor) and the choices we anticipate in connection with the Basel proposals. The estimate excludes all technical, data-quality, and strategic (balance sheet) management actions to mitigate the ultimate impact, which we expect to remain below 30%.

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

The final impact of Basel IV could be mitigated through:

- Changes in product and portfolio composition and, for example, a reduction of committed credit lines and undrawn headroom in credit lines;
- Distribution of assets;
- Data improvements such as data mapping, improved revenue information storage, collateral information and external ratings, and/or
- Repricing the longer term assets.

The Basel Committee's latest proposals must still be reviewed and approved by the EU and then be enacted into Dutch law and regulations. In the coming period we will continue to maintain an active dialogue with regulators on several topics of uncertainty relating to the Basel framework.

### Realization of Cost/Income Target in 2020 Will Be Unlikely

Realizing our Rabobank's targets for performance improvement will enable future growth. We have already taken several steps to enhance our effectiveness and efficiency, contributing to an ROIC<sup>1</sup> of 7.4% (2017: 6.9%) in 2018. Our cost/income ratio, including regulatory levies, improved by 5.4% point to 65.9% in 2018 (2017: 71.3%). Several exceptional items affected our cost/income ratio. In calculating the underlying cost/income ratio, adjustments were made for these items. On December 31, 2018, the underlying cost/income ratio, including regulatory levies, improved to 63.9% (2017: 65.3%).

Transforming Rabobank's operations continued in 2018. The implementation of our ongoing performance improvement program "Performance Now!" will help us achieve our targets. This program consolidates all initiatives that contribute to performance improvement. Its focus is broader than achieving greater efficiency and effectiveness: it also ensures that our bank is ready for the future. The next step in this transition is to ready the launch of a new omni-channel client service model in our local Rabobanks in the Netherlands in 2019. Our restructuring efforts have brought total staffing levels down by 1,868 FTEs, reducing them to 41,861 FTEs, which also had a downward effect on our staff costs. The FTE reduction was the consequence of lowering staffing levels at Domestic Retail Banking (by 1,523 FTEs) and Real Estate (by 522 FTEs as a result of the sale of BPD Marignan), and expanding the employee base at both WRR (by 361 FTEs through temporary hires for several projects) and Leasing (by 308 FTEs).

Improvement of our cost/income ratios will remain a priority for the coming years, but it will be very challenging to realize the targeted improvements to a level of 53%-54% by 2020 given the continuing low interest rate environment and the acceleration of investments in digitalization and our (data) infrastructure. Nonetheless, we are still committed to bringing our cost/income ratio down to 53%-54% in the medium term. We expect that we need a few more years to see it through, also depending on the evolution of the interest environment over the next couple of years. In the meantime, we will continue to further rationalize our business.

### Dilemma: Investing in Digitalization and Innovation

The implementation of new rules and regulations like PSD2, Basel IV, IFRS9 and privacy regulations (GDPR) present a dilemma. Adopting the new standards is costly and time consuming. The same goes for our transition becoming an even more client-oriented, innovative and digital organization. At the same time, we have set ourselves targets to lower our cost base. We have taken a well-informed decision to continue to invest in initiatives, that we deem necessary to making Rabobank future proof, even if these investments prevent the realization of our targeted cost/income ratio by 2020.

### Balance Sheet Optimization Continued in 2018

In response to the implementation of several regulations, such as Basel IV and MREL requirements, Rabobank decided late in 2015 to further optimize its balance sheet structure. This entails prioritizing core business like selling assets and portfolio selection. As a result, our total outstanding wholesale funding has decreased by EUR 50.0 billion since year-end 2015. In 2018 our total outstanding wholesale funding decreased by EUR 7.2 billion to EUR 153.2 billion, excluding the TLTRO take-up, which remained stable at EUR 5.0 billion. In August 2018 the bank completed the inaugural issue of non-preferred senior bonds, which was well received by investors. Over the coming years, Rabobank will continue to issue non-preferred senior and covered bonds in order to further diversify and optimize our funding composition. The current level of wholesale funding is satisfactory.

Our total liabilities decreased to EUR 548 (2017: EUR 563) billion, which can be attributed to decreases in financial liabilities and debt securities in issue. Our total assets decreased to EUR 590

<sup>1</sup> The ROIC is calculated by dividing the net profit realized after non-controlling interests by the core capital (actual tier 1 capital plus the goodwill in the balance sheet at the end of the reporting period) minus deductions for non-controlling interests in Rabobank's equity.



(2017: EUR 603) billion, driven by a decrease in loans and advances to banks and loans and advances to customers. On the other hand we actively managed down our non-strategic commercial real estate loan portfolio by selling the residual part of FGH Bank's loan portfolio (worth EUR 1.3 billion) to RNHB.

Rabobank announced in March 2018 that it had entered into an agreement to share the risk on part of its Dutch SME loan portfolio with the European Investment Fund (EIF) and the European Investment Bank (EIB). As a result of this transaction, risk-weighted assets decreased by EUR 1.2 billion, which helps to optimize the bank's capital use. In September Rabobank sold a share of its mortgage portfolio worth around EUR 0.8 billion to French investor La Banque Postale. This transaction enabled Rabobank to free up capital and reduce its funding needs. Lastly, BPD Europe B.V. sold its French subsidiary BPD Marignan in November.

### **Credit Ratings Stood Firm in 2018**

Rabobank's credit ratings stood firm and at a relatively high level in 2018, reflecting the organization's creditworthiness and solidity. Rabobank remained one of the highest rated commercial banks worldwide. The ratings remained unchanged with S&P ("A+"), Fitch ("AA-"), and DBRS ("AA"). Rabobank also maintained its outlook with these rating agencies: "Stable" with both Fitch and DBRS, and "Positive" with S&P. Moody's revised our credit rating to Aa3 from Aa2 in March 2018. Simultaneously, they revised the outlook from "Negative" to "Stable".

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

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

# Our Financial Performance

## Rabobank

In 2018 the Dutch economy continued to expand and grew by approximately 3%. The number of jobs increased significantly and house prices hit a new peak. Nonetheless, producer confidence seems to be stabilizing and growth is already slowing down. Slowdown is also visible globally and is even expected to continue apace in the coming years. Rabobank benefited from the positive economic sentiment and realized its all-time high net profit. Higher income and the continued downward trend in operating expenses had a positive impact on Rabobank's net profit, which increased by EUR 330 million to EUR 3,004 million. The current favorable economic conditions are reflected in the impairment charges on financial assets which remained at a low level but increased from a release of EUR 190 million in 2017 to a charge of EUR 190 million this reporting year.<sup>1</sup> This equates to 5 basis points of the average private sector loan portfolio. Calculated over the past 10 years (2008-2017) and including the elevated level of impairment charges over the years 2012 – 2014, the average impairment charges amount to 34 basis points.

Rabobank's private sector loan portfolio increased by EUR 7.9 billion to EUR 416.0 billion mainly caused by increases at Wholesale, Rural and Retail (WRR) and DLL. At the same time, we finalized the run-down of the Dutch part of our non-strategic commercial real-estate loan portfolio with the sale of the residual part of FGH Bank's loan portfolio. Deposits from customers remained relatively stable and landed at EUR 342.4 billion. Private savings increased slightly by EUR 0.3 billion amounting to EUR 142.7 billion on December 31, 2018.

Although impairment charges on financial assets remained low, they were at a higher level than in 2017, which resulted in a lower underlying operating profit before tax. Underlying operating expenses improved in 2018. The underlying operating profit before tax landed at EUR 4,193 (2017: 4,465) million. In calculating the underlying profit for 2018, adjustments were made for fair value items,<sup>2</sup> restructuring costs and the additional provision

taken for the interest rate derivatives framework. In 2017 we made an additional adjustment for the provision taken by Rabobank National Association (RNA). The decrease in staff costs had a positive impact on the cost/income ratio. This resulted in an improvement of the underlying cost/income ratio, including regulatory levies which landed at 63.9% (2017: 65.3%). The return on invested capital (ROIC) amounted to 7.4% (2017: 6.9%).

### Private Sector Loan Portfolio Increased by EUR 7.9 Billion

After a few years of a slightly declining trend in private sector lending, Rabobank's total private sector loan portfolio increased compared to January 1, 2018, by EUR 7.9 billion to EUR 416.0 billion<sup>3</sup>. EUR 0.7 billion of this increase is due to FX fluctuations. On January 1, 2018, as a result of reclassifications due to the full implementation of IFRS 9, lending decreased by EUR 2.9 billion to EUR 408.1 billion compared to EUR 411.0 billion at December 31, 2017. At Domestic Retail Banking (DRB), the

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

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

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

mortgage portfolio decreased slightly due to a still high, though declining level of early repayment. The total private sector loan portfolio of the DRB segment decreased to EUR 276.1 (January 1, 2018: 279.9) billion. The loan portfolio of Wholesale, Rural & Retail (WRR) increased by EUR 9.1 billion and the portfolio of Rabobank's leasing subsidiary DLL increased by EUR 3.2 billion in 2018. The aggregate domestic commercial real estate loan exposure (across all segments) is actively being managed down and amounted to EUR 21.2 (2017: 22.9) billion at December 31, 2018.

### Loan Portfolio

<i>in billions of euros</i>	12-31-2018	1-1-2018	12-31-2017
<b>Total loans and advances to customers</b>	<b>436.6</b>	<b>429.4</b>	<b>432.6</b>
Of which to government clients	1.9	2.3	2.3
Reverse repurchase transactions and securities borrowing	12.9	12.9	12.9
Interest rate hedges (hedge accounting)	5.8	6.1	6.4
<b>Private sector loan portfolio</b>	<b>416.0</b>	<b>408.1</b>	<b>411.0</b>
Domestic Retail Banking	276.1	279.9	280.0
Wholesale, Rural & Retail	109.0	99.9	101.5
Leasing	30.3	27.1	27.2
Real Estate	0.3	0.7	1.8
Other	0.3	0.5	0.5

The decrease in lending due to the implementation of IFRS 9 was mainly caused by two reclassifications. Both at Real Estate (FGH Bank: EUR 1.2 billion) and WRR (ACC Loan Management: EUR 1.1 billion) the portfolio decreased because a large part of the loans was mandatorily reclassified as financial assets at fair value since they were no longer considered strategic to the bank.

The geographical split of the loan portfolio<sup>1</sup> as at December 31, 2018 was as follows: 71% in the Netherlands, 11% in North America, 8% in Europe (outside the Netherlands), 5% in Australia and New Zealand, 3% in Latin America, and 2% in Asia.

### Loan Portfolio by Sector<sup>1</sup>

<i>in billions of euros</i>	12-31-2018		12-31-2017	
Loans to private individuals	194.9	47%	198.0	48%
Loans to trade, industry and services	118.0	28%	115.2	28%
<i>of which in the Netherlands</i>	81.5		81.2	
<i>of which in other countries</i>	36.5		34.0	
Loans to Food & Agri	103.1	25%	97.8	24%
<i>of which in the Netherlands</i>	38.1		36.9	
<i>of which in other countries</i>	65.0		60.9	
<b>Private sector loan portfolio</b>	<b>416.0</b>	<b>100%</b>	<b>411.0</b>	<b>100%</b>

1 In the country where the entity is established.

### Deposits from Customers Remained Relatively Stable

Total deposits from customers amounted to EUR 342.4 (January 1, 2018: 343.2) billion<sup>2</sup>. On January 1, 2018 part of financial liabilities designated at fair value were reclassified as deposits from customers (EUR 2.5 billion) after the result of the full implementation of IFRS 9 (for more information see Interim Report 2018). Deposits from customers were positively influenced by FX fluctuations (EUR 0.6 billion). DRB's total client base deposited an amount of EUR 236.7 (2017: 228.8) billion at Rabobank. Customer deposits placed at other segments decreased to EUR 105.7 (2017: 114.4) billion, mainly due to lower balances from corporate customer, which are by nature more volatile than private savings. At DRB private savings increased by EUR 2.1 billion to EUR 119.1 billion, while the increase in total private savings was tempered by a EUR 3.6 billion decrease of savings at RaboDirect. At RaboDirect in Ireland private savings decreased by EUR 3.1 billion, caused by the withdrawal from the Irish retail market as of May 16, 2018. On balance, total private savings increased by EUR 0.3 billion to EUR 142.7 billion. Excluding the savings of RaboDirect in Ireland, total deposits from customers increased by EUR 2.3 billion.

### Deposits from Customers

<i>in billions of euros</i>	12-31-2018	1-1-2018	12-31-2017
<b>Private savings</b>	<b>142.7</b>	<b>142.4</b>	<b>142.4</b>
Domestic Retail Banking	119.1	117.0	117.0
Other segments	23.7	25.4	25.4
<b>Other deposits from customers</b>	<b>199.7</b>	<b>200.8</b>	<b>198.3</b>
Domestic Retail Banking	117.7	111.8	111.8
Other segments	82.0	89.0	86.5
<b>Total deposits from customers</b>	<b>342.4</b>	<b>343.2</b>	<b>340.7</b>

1 Based on country of establishment of the debtor.

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



## Financial Results of Rabobank

### Results

<i>in millions of euros</i>	12-31-2018	12-31-2017	Change
Net interest income	8,559	8,843	-3%
Net fee and commission income	1,931	1,915	1%
Other results	1,530	1,243	23%
<b>Total income</b>	<b>12,020</b>	<b>12,001</b>	<b>0%</b>
Staff costs	4,278	4,472	-4%
Other administrative expenses	2,780	3,176	-12%
Depreciation	388	406	-4%
<b>Total operating expenses</b>	<b>7,446</b>	<b>8,054</b>	<b>-8%</b>
<b>Gross result</b>	<b>4,574</b>	<b>3,947</b>	<b>16%</b>
Impairment charges on financial assets	190	(190)	-
Regulatory levies	478	505	-5%
<b>Operating profit before tax</b>	<b>3,906</b>	<b>3,632</b>	<b>8%</b>
Income tax	902	958	-6%
<b>Net profit</b>	<b>3,004</b>	<b>2,674</b>	<b>12%</b>

Impairment charges on financial assets (in basis points)	5	(5)
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### Ratios

Cost/income ratio including regulatory levies	65.9%	71.3%
Underlying cost/income ratio including regulatory levies	63.9%	65.3%
ROIC	7.4%	6.9%

### Balance Sheet (in billions of euros)

Total assets	590.4	603.0	-2%
Private sector loan portfolio	416.0	411.0	1%
Deposits from customers	342.4	340.7	0%
Number of internal employees (in FTEs)	35,850	37,089	-3%
Number of external employees(in FTEs)	6,011	6,640	-9%
Total number of employees(in FTEs)	41,861	43,729	-4%

## Notes to the Financial Results of Rabobank

### Net Profit Increased to EUR 3,004 Million

Higher income and lower operating expenses had a positive impact on net profit compared to 2017. As the average staffing level fell further in 2018, subsequently lower staff costs contributed to this. Net profit was also boosted by lower restructuring costs and an improved result on fair value items this year. Impairment charges on financial assets remained at a low level, but was no match for 2017's extremely positive outcome. In 2018 we took a charge of EUR 190 million compared to a net release of EUR 190 million in 2017. The development of this line-item tempered the increase in net profit, which amounted to EUR 3,004 (2017: 2,674) million.

### Underlying Performance Decreased by 6%

Our underlying operating profit before tax decreased by EUR 272 million to EUR 4,193 million. In calculating this underlying profit for 2018, we made adjustments for fair value items, restructuring costs and the additional provision taken for the interest rate derivatives framework. In 2017 we made an additional correction for the provision taken by RNA. In 2018, the underlying cost/income ratio, including regulatory levies, improved to 63.9% (2017: 65.3%).

### Development of Underlying Operating Profit Before Tax

<i>in millions of euros</i>		12-31-2018	12-31-2017
<b>Income</b>		<b>12,020</b>	<b>12,001</b>
<i>Adjustments to income</i>	Fair value items	115	313
<b>Underlying income</b>		<b>12,135</b>	<b>12,314</b>
<b>Operating expenses</b>		<b>7,446</b>	<b>8,054</b>
<i>Adjustments to expenses</i>	Restructuring	120	159
	Derivatives framework	52	51
	Provision RNA	0	310
<b>Underlying expenses</b>		<b>7,274</b>	<b>7,534</b>
Impairment charges on financial assets		190	(190)
Regulatory levies		478	505
<b>Operating profit before tax</b>		<b>3,906</b>	<b>3,632</b>
<b>Total adjustments</b>		<b>287</b>	<b>833</b>
<b>Underlying profit before tax</b>		<b>4,193</b>	<b>4,465</b>

Rabobank retained EUR 1,894 (2017: 1,509) million of its net profit to bolster capital in 2018. Tax amounted to EUR 902 (2017: 958) million, implying an effective tax rate of 23% (2017: 26%). The decrease in effective tax rate was mainly caused by the lower U.S. corporate income tax rate, which was partly offset by the negative effect of the lower Dutch tax rate. As of 2020, the Dutch tax rate will decrease, which resulted in a tax loss in 2018.

### Income Remained Stable

#### Net Interest Income Down 3%

Net interest income totaled EUR 8,559 (2017: 8,843) million. This 3% decrease was the result of the continued low interest rate environment; specifically, it affects margins on savings and current accounts and the expenses incurred by Treasury for managing ample liquidity buffers. New business margins on mortgages and SME lending had a positive effect on net interest income. The average net interest margin, calculated by dividing net interest income by the average balance sheet total over the last 12 months, increased from 1.39% in 2017 to 1.41% in 2018. This improvement came about because the decline in the average balance sheet total outpaced the decrease of net interest income.

### ***Net Fee and Commission Income Increased Slightly***

In 2018, net fee and commission income increased slightly to EUR 1,931 (2017: 1,915) million. Investment management services and insurance policies contributed to a higher net fee and commission income at DRB. Local Rabobanks we saw higher commissions on payment accounts. At WRR, net fee and commission income increased slightly thanks to the strong performance of our Capital Markets division. Also, our Mergers and Acquisitions division performed stronger than in 2017. Net fee and commission income in the Real Estate segment decreased by 83% following the downscaling of activities by Bouwfonds IM. This was more than offset by higher income earned by our core business segments. Net fee and commission income at DLL increased by 41%. This increase comes from higher fee income for syndicated leases as well as a negative one-off adjustment in 2017.

### ***Other Results Up 23%***

The increase in other results to EUR 1,530 (2017: 1,243) million can be partly attributed to the improved result on fair value items. On balance, the gross result on fair value items improved from a negative result of EUR 313 million in 2017 to a negative result of EUR 115 million in 2018. Also, higher results on our equity stake in Achmea contributed to the increase of other results. Other results at WRR decreased by 26% as our Markets division could not match the previous year's strong performance. The Real Estate segment's other results increased by 19% due to gains on the sales of the residual part of FGH Bank's loan portfolio and of BPD's French subsidiary (BPD Marignan), BPD's improved performance in general. At DLL, other results went up by 32%, as a result of the reversal of an impairment taken at year-end 2017 due to a portfolio optimization.

## **Operating Expenses Decreased by 8%**

### ***Staff Costs Down 4%***

In 2018, the total number of employees (including external hires) at Rabobank decreased by 1,868 FTEs to 41,861 (2017: 43,729) FTEs mainly because of the large restructuring programs in the Netherlands. The largest reduction in staff in 2018 was realized at local Rabobanks. At WRR and DLL, staff levels increased as expected. At WRR more (temporary) staff came on board for the execution of several (regulatory) projects, whereas DLL needed more resources to support business growth. Overall staff costs decreased by 4% to EUR 4,278 (2017: 4,472) million, which was tempered by an increase in costs for temporary staff. In 2018 the costs associated with the 2% pension accrual guarantee given in 2013 to the pension fund (covering the years 2014-2020) decreased to EUR 12 (2017: 160) million. This accounts for part of the decrease in staff costs. This guarantee is capped at

EUR 217 million, of which EUR 202 million has already been used up until 2018.

### ***Other Administrative Expenses Decreased by 12%***

Total other administrative expenses decreased to EUR 2,780 (2017: 3,176) million in 2018. This decrease can be largely explained by the EUR 310 million provision taken by RNA in 2017 for compliance program matters. Lower restructuring costs (EUR 120 million versus EUR 159 million in 2017) helped reduce other administrative expenses as well.

### ***Depreciation Down 4%***

Depreciation decreased to EUR 388 (2017: 406) million as a result of our restructuring efforts and the consequential closing down of offices in the Netherlands.

## **Impairment Charges on Financial Assets at 5 Basis Points**

In 2018 impairment charges on financial assets amounted to EUR 190 million. Although higher than in 2017 (a net release of EUR 190 million), they are still at a low level. We again saw favorable developments in most business segments. Relative to the average private sector loan portfolio, impairment charges on financial assets amounted to 5 basis points (2017: minus 5 basis points). Calculated over the past 10 years (2008-2017) and including the elevated level of impairment charges over the years 2012 – 2014, the average impairment charges amount to 34 basis points.

On January 1, 2018 the non-performing loans showed a one-off increase of EUR 1.9 billion to EUR 20.2 (2017: 18.3) billion due to the application of a more prudent "Definition of Default" to our sizable mortgage and SME portfolios. This change is in line with new EBA guidelines, which banks across Europe have to implement by January 1, 2021 at the latest. On December 31, 2018, non-performing loans (on a like-for-like basis) decreased to EUR 18.4 billion. Next to underlying improvements as a result of the favorable economic climate, the sale of a legacy CRE portfolio also resulted in a decrease in the stock of non-performing loans. All in all, as at December 31, 2018 the NPL ratio (non-performing loans and advances as a percentage of the aggregate amount of loans and advances) declined to 3.5% (January 1, 2018: 3.8%). The related NPL coverage ratio (impairment allowances, excluding Stage 1 + 2 allowances, as a percentage of non-performing loans and advances) decreased to 22% (January 1, 2018: 24%). The sale and write-offs of highly provisioned loans (including non-core CRE) resulted in a decline in NPL Coverage Ratio. In more general terms, Rabobank's NPL Coverage Ratio is affected by relatively sizable portfolios in the stock of non-performing loans that are well collateralized and that are generally characterized by a high cure rate and high recovery rate. In addition, the positive economic outlook enable higher expected collateral values.

## Developments in the Balance Sheet

<b>Balance Sheet</b>			
<i>in billions of euros</i>	<i>12-31-2018</i>	<i>1-1-2018</i>	<i>12-31-2017</i>
Cash and cash equivalents	73.3	66.9	66.9
Loans and advances to customers	436.6	429.4	432.6
Financial assets	23.9	34.7	31.6
Loans and advances to banks	17.9	26.9	27.3
Derivatives	22.7	25.5	25.5
Other assets	16.0	19.1	19.1
<b>Total assets</b>	<b>590.4</b>	<b>602.5</b>	<b>603.0</b>
Deposits from customers	342.4	343.2	340.7
Debt securities in issue	130.8	137.0	134.4
Deposits from banks	19.4	18.9	18.9
Derivatives	23.9	28.6	28.1
Financial liabilities	7.0	8.3	14.4
Other liabilities	24.7	27.0	26.9
<b>Total liabilities</b>	<b>548.2</b>	<b>563.0</b>	<b>563.4</b>
Equity	42.2	39.6	39.6
<b>Total liabilities and equity</b>	<b>590.4</b>	<b>602.5</b>	<b>603.0</b>

### Assets

In 2018, total assets decreased by EUR 12.1 billion to EUR 590.4 billion, largely as a result of a decrease in loans and advances to banks (decrease of EUR 9.0 billion)<sup>1</sup>. The private sector loan portfolio grew by EUR 7.9 billion to EUR 416.0 billion as at December 31, 2018.

### Liabilities

On the liabilities side, Rabobank's position in debt securities in issue decreased by EUR 6.2 billion and financial liabilities decreased by EUR 1.3 billion and deposits from customers decreased by EUR 0.8 billion. All in all total liabilities decreased by EUR 14.8 billion to EUR 548.2 billion.

### Equity

The adoption of IFRS 9 and IFRS 15 had a positive impact of EUR 15 million on the opening balance of 2018. In 2018, Rabobank's equity increased to EUR 42.2 (2017: 39.6) billion mainly due to retained earnings of EUR 1.9 (2017: 1.5) billion and an additional tier 1 issue carried out in September.

To limit the impact of FX fluctuations, Rabobank hedges its CET1 ratio instead of its absolute amount of equity. Consequently, the effect of currency fluctuations on Rabobank's capital ratios was limited. Rabobank Group's equity on December 31, 2018 consisted of 64% (2017: 64%) retained earnings and reserves, 18% (2017: 19%) Rabobank Certificates, 17% (2017: 16%) hybrid capital

and subordinated capital instruments, and 1% (2017: 1%) other non-controlling interests.

### Development of Equity

<i>in millions of euros</i>	
<b>Equity at the end of December 2017</b>	<b>39,610</b>
Change in accounting policy IFRS 9	(26)
Change in accounting policy IFRS 15	41
<b>Restated balance on January 1, 2018</b>	<b>39,625</b>
Net profit for the period	3,004
Other comprehensive income	110
Payments on Rabobank Certificates and hybrid capital	(1,059)
Redemption of Capital Securities	(354)
Additional tier 1 issue	1,000
Other	(90)
<b>Equity at the end of December 2018</b>	<b>42,236</b>

### Wholesale Funding

Rabobank is actively reducing its use of wholesale funding. Doing so will make the bank less sensitive to potential future financial market instability. In 2018 the amount of wholesale funding decreased by EUR 7.2 billion to EUR 153.2 (2017: 160.4) billion. Short- and long-term issued debt securities are the main source of wholesale funding.

<sup>1</sup> The figures in this paragraph include the IFRS impact as of January 1, 2018.



## Capital Developments

### Positive Development of Capital Ratios

On December 31, 2018, our fully loaded CET1 ratio amounted to 16.0% (2017: 15.5%). This is well above the 14% target. The increase of this ratio was mainly due to adding net profit for the financial year (after several distributions) to retained earnings.

Our total capital ratio has been replaced by a MREL requirement to be met with a combination of own funds and Non-Preferred Seniors. Rabobank will maintain its best in class total capital ratio to protect NPS holders. The total capital ratio is 26.6% and will trend downward to around 24% in the coming years (subject to RWA development).

Our leverage ratio—that is, our tier 1 capital divided by balance sheet positions and off-balance-sheet liabilities—is calculated based on the definitions provided in the CRR/CRD IV. On December 31, 2018, our leverage ratio was 6.4% (2017: 6.0%), which is well above the minimum leverage ratio of 3% required by Basel III guidelines.

### IFRS 9 Impact on CET 1 Capital on January 1, 2018

The total negative impact of the adoption of IFRS 9 on the fully loaded CET1 ratio was 14 basis points. IFRS 9 impairment calculations have led to higher loan loss allowances as of January 1, 2018. Instead of incurred losses, expected losses are being recognized. Incurred but not reported (IBNR) losses have been replaced by expected one-year losses for Stage 1 assets and expected lifetime losses for Stage 2 assets. The day-one effect was an increase of our loan loss allowances by EUR 227 million. For CET 1 capital calculations the impact of higher loan loss allowances was fully compensated by a decrease in the IRB shortfall.

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

### Capital ratios

<i>in millions of euros</i>	<i>12-31-2018</i>	<i>1-1-2018</i>	<i>12-31-2017</i>
Retained earnings	28,062	26,302	26,777
Expected distributions	(46)	(54)	(54)
Rabobank Certificates	7,445	7,440	7,440
Part of non-controlling interest treated as qualifying capital	0	26	26
Reserves	(798)	(911)	(1,401)
Regulatory adjustments	(2,553)	(2,317)	(2,050)
Transition guidance	12	24	525
<b>Common equity tier 1 capital</b>	<b>32,122</b>	<b>30,510</b>	<b>31,263</b>
Capital securities	3,721	2,728	2,728
Grandfathered instruments	3,325	3,590	3,590
Non-controlling interests	0	6	6
Regulatory adjustments	(100)	(88)	(88)
Transition guidance	0	0	(295)
<i>Additional tier 1 capital</i>	<i>6,946</i>	<i>6,236</i>	<i>5,941</i>
<b>Tier 1 capital</b>	<b>39,068</b>	<b>36,746</b>	<b>37,204</b>
Part of subordinated debt treated as qualifying capital	14,274	14,896	14,896
Non-controlling interests	0	7	7
Regulatory adjustments	(83)	(89)	(89)
Transition guidance	0	0	(95)
<b>Tier 2 capital</b>	<b>14,191</b>	<b>14,814</b>	<b>14,719</b>
<b>Qualifying capital</b>	<b>53,259</b>	<b>51,560</b>	<b>51,923</b>

<b>Risk-weighted assets</b>	<b>200,531</b>	<b>198,207</b>	<b>198,269</b>
Common equity tier 1 ratio (transitional)	16.0%	15.4%	15.8%
Common equity tier 1 ratio (fully loaded)	16.0%	15.4%	15.5%
Tier 1 ratio	19.5%	18.5%	18.8%
MREL buffer	28.25%	26.64%	26.82%
Total capital ratio	26.6%	26.0%	26.2%
Equity capital ratio	17.7%	17.0%	17.3%
Common equity tier 1 ratio of Coöperatieve Rabobank U.A. solo (issuer level)	16.0%	15.4%	15.5%

### The Benefit of Our MREL-Eligible Capital Buffer

Rabobank aims to protect senior creditors and depositors against the unlikely event of a bail-in. Rabobank therefore holds a large buffer of equity and subordinated debt that will first absorb losses in the event of a bail-in.

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

This MREL requirement is based on Rabobank's year-end 2016 figures. The requirement was set at 30.96% of Rabobank's risk-weighted assets (EUR 65 billion) and consists of a loss absorption

amount of 15.25%, a recapitalization amount of 11.65%, and a market confidence amount of 4.06%. The amounts for recapitalization and market confidence include a correction for the expected depletion (loss absorbing amount) of the balance sheet. The 30.96% requirement is based on BRRD I. Future MREL requirements are subject to ongoing political developments (e.g., European Trilogue) concerning the risk reduction package proposed by the European Commission in November 2016.

As under BRRD I, Preferred Senior is MREL eligible, Rabobank already meets its MREL requirement, so a transition period has not been set. Over time, Rabobank intends to use only a combination of own funds and Non-Preferred Senior to meet its MREL requirement. In the second half of 2018, Rabobank issued 3 tranches of Non-Preferred Seniors: EUR 1 billion, USD 1 billion and USD 0.25 billion. With MREL eligible capital of 28.25%, the additional MREL needs are manageable.

We define our MREL eligible capital buffer as qualifying capital plus the non-qualifying part of the grandfathered additional tier 1 instruments, the (amortized part of) tier 2 with a remaining maturity of at least one year and Non-Preferred Senior bonds with a remaining maturity of at least one year. The buffer increased from EUR 53.2 billion to EUR 56.6 billion due to profit retention and the issuance of new instruments. This increase corresponds to 28.25% (2017: 26.82%) of risk-weighted assets.

#### **MREL Eligible Capital and Non-Preferred Senior Bonds Buffer**

<i>in billions of euros</i>	<i>12-31-2018</i>	<i>12-31-2017</i>
Qualifying capital	53.3	51.9
Non qualifying grandfathered additional tier 1 capital	0.0	0.0
Amortized tier 2 >1 year remaining maturity	1.3	1.3
Non-Preferred Senior bonds > 1 year remaining maturity	2.1	-
<b>MREL eligible capital and Non-Preferred Senior bonds buffer</b>	<b>56.6</b>	<b>53.2</b>
Risk-weighted assets	200.5	198.3
MREL eligible capital and Non-Preferred Senior bonds buffer / risk-weighted assets	28.25%	26.82%

### **Regulatory Capital**

Regulatory capital, 8% of our risk-weighted assets, is our external capital requirement. It represents the minimum amount of capital which Rabobank is required to hold under CRR and CRD IV. Our regulatory capital requirement amounted to EUR 16.0 billion (2017: EUR 15.9 billion) at December 31, 2018, of which 84% related to credit and transfer risk, 14% to operational risk and 2% to market risk. This is in line with the regulatory capital at the end of 2017.

Rabobank calculates its regulatory capital for credit risk for almost the entire loan portfolio using the advanced IRB approach approved by our supervisory authority. In consultation with the DNB, Rabobank applies the standardized approach to portfolios with relatively limited exposure and to some smaller portfolios outside the Netherlands which are not suitable for the advanced IRB approach.

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

#### **Regulatory Capital by Business Segment**

<i>in billions of euros</i>	<i>12-31-2018</i>	<i>12-31-2017</i>
Domestic Retail Banking	6.5	6.3
Wholesale, Rural & Retail	6.6	6.0
Leasing	1.5	1.4
Real Estate	0.4	0.8
Other	1.0	1.4
<b>Rabobank</b>	<b>16.0</b>	<b>15.9</b>

### **Renewed Pillar II Capital Framework**

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

In order to adequately assess the capital resources needed to cover the risks inherent in its current activities, Rabobank renewed its Pillar II modeling landscape. The renewed Pillar II capital framework became effective on January 1, 2017. It covers those areas that Rabobank believed either did not address the risk or failed to adequately address the risk. Rabobank developed mostly statistical approaches and methodologies that: (1) challenge regulatory capital requirements; (2) cover risks not addressed in CRR/CRD IV, and (3) identify possible future events or changes in the market conditions that could impact Rabobank's strategic planning. The renewed Pillar II modeling landscape reflects the changing regulatory environment and similar developments in the industry.

The outputs of the renewed Pillar II models are used for various purposes within the bank, such as deal acceptance and pricing, strategy and planning of the company's operations, and performance evaluation. Moreover, the regulators and

supervisors view the level of capitalization as a fundamental supervisory instrument. Therefore, the renewed Pillar II capital framework promotes a sound and effective risk management culture within Rabobank, ensuring adequate capital levels to support business growth, maintain depositor and creditor confidence, while complying with regulatory requirements.



# Risk Management

As part of the overall strategy of Rabobank we have a risk policy to support our strategic goals. Banking for Food and Banking for the Netherlands entails specific risks and exposes the bank in both domestic and international markets to macro-economic, political, regulatory and social developments. Sound risk management enables us to serve our customers and satisfy our stakeholders.

Without taking risks, profitable banking activities are impossible, which is why we must accept a certain degree of risk. Every day Rabobank takes informed risk decisions while engaging with (new) customers, granting credit, entering into interest rate contracts and providing other services. In the customers' interest, we design risk and control processes in order to manage the material risks. We employ a comprehensive approach to risk management, so that we may mitigate the risks we face with a solid risk management framework without quenching our appetite for risk. This framework is yearly evaluated and adopted by the Managing Board. Our risk management activities are designed to help realize the ambitions of the organization, of our customers and of our stakeholders.

## Strengthening Risk Management in 2018

We further strengthened our overall risk management framework front to back by taking a holistic perspective on risk. All risk and risk types are identified to provide an integrated risk profile of the business. We realize this is an ongoing process in a bank that is continually changing and in a demanding external environment. Some of these elements with which we aim to strengthen the risk management framework are:

- Information technology in cloud computing and services, has prompted Rabobank to improve the governance and risk framework of cloud applications. This includes a further analysis of IT architecture and necessitates making strategic choices. The risk assessment process in the cloud computing business also requires careful consideration of regulatory and legal requirements and restrictions.
- Since the UK vote to leave the EU (Brexit) on 23 June 2016 and the British government invoked Article 50 of the Lisbon Treaty (in order to formally exit the EU), Rabobank has been analyzing and monitoring the group-wide consequences through a Group Brexit Committee and a Brexit Oversight Committee. After analyzing multiple scenarios regarding business and processes, we have already taken certain precautionary measures, which are subject to regular monitoring.
- We further improved the Risk Control Framework (RCF). The RCF concerns the execution of organization-wide risk and control activities supported by uniform working methods, tooling, learning programs and the taxonomy of all operational risk expertise areas. Next to the specific risks and controls in each department, we strengthened our RCF by adding oversight themes (e.g. Compliance, Legal, and HR) which apply within (a substantial part of) Rabobank Group to the monitoring cycle. In addition to providing better insights in our risks and controls, the inclusion of these themes also raised awareness throughout the bank.
- Rabobank took part in the 2018 EU-wide stress test conducted by the European Banking Authority (EBA), in cooperation with De Nederlandsche Bank (DNB), the European Central Bank (ECB), and the European Systemic Risk Board (ESRB). The results will assist the competent authorities in assessing Rabobank's ability to meet applicable prudential requirements under stressed scenarios. The outcome confirmed the robustness of our capital position.
- During 2018, we spent considerable effort to strengthen the risk data aggregation in line with the BCBS239 regulations. These capabilities and internal risk reporting practices, will further enhance our (risk) management and decision making processes. A number of initiatives have focused on the overall improvement of data quality, aggregation and risk-reporting timeliness. Such improved reports enable us to make decisions faster, based on more transparent and consistent data, and they allow us to improve the quality of fact-based decisions.
- We further enhanced the strength of our compliance risk management framework. This amongst others includes implementation of measures that build on our capacity to prevent money laundering and the financing of terrorism.
- Our interest rate risk framework has been redesigned amongst others in order to better cope with the continuous low interest rate environment.

Despite our efforts to continually improve our risk management framework losses and incidents cannot always be avoided.

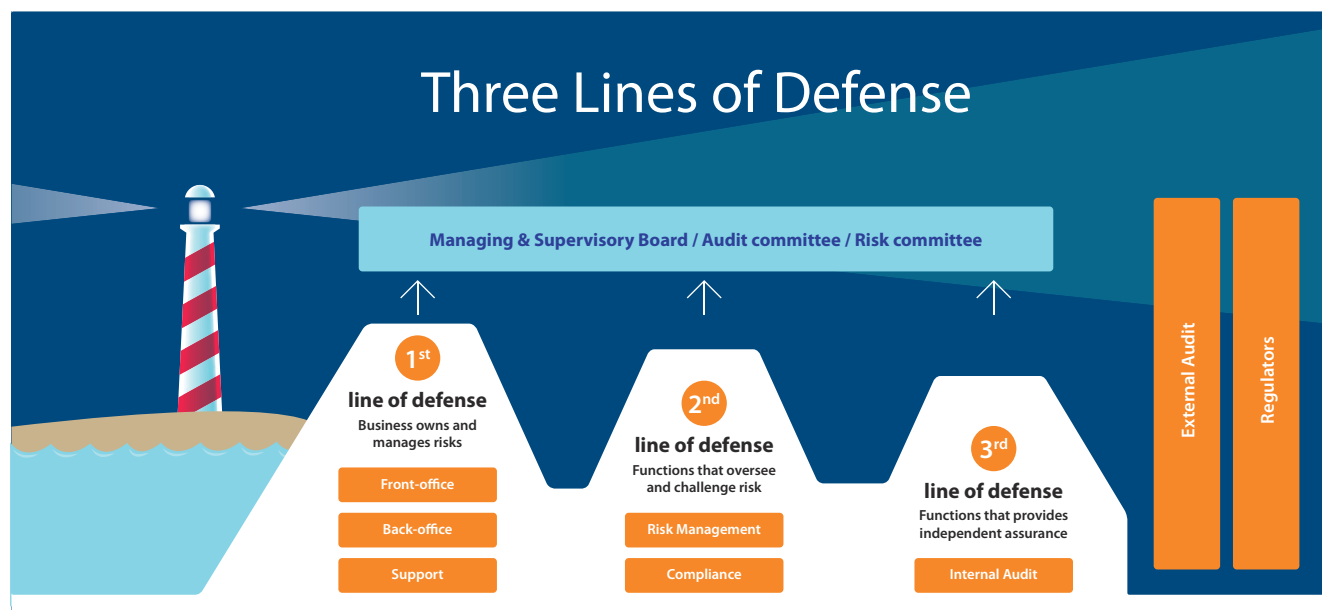
(Operational) losses and incidents are however closely monitored and analyzed in order to reduce the risk of reoccurrence in the future. In this regard we also take into account that in an environment of innovation and change, it is important to ensure clear risk ownership and a correct balance between strategic changes and risk mitigation. Additionally, a number of risks in areas where applicable regulations are unclear, subject to multiple interpretations or under development, are in conflict with each other, or when regulators revise their guidance or when courts set new legal standards.

### Risk Governance

Both the Risk Management Charter and the Compliance Charter define Rabobank's governance and decision framework for both

Financial and Operational Risks. The Charters are in place to support efficient and effective risk management at all levels of the Rabobank Group.

To ensure effectiveness of risk management across the group, Rabobank works with the 'Three Lines of Defense' (3LoD) model. First-line functions own and manage risk within the bank, the second line functions (Risk Management and Compliance) oversee and advise on risk. An independent third-line function (Audit) provides assurance on the effectiveness of the first and second lines of defense. In this way the 3LoD model provides clear division of activities and responsibilities in risk management across the organization. The 3LoD model is represented in the following figure.



The risk management framework covers regular banking risk types, such as credit risks, market risks, interest rate risks in the banking book, liquidity risks, compliance risks and operational risks (including tax risks and legal risks). Risk classification allows for clear definitions and promotes a common understanding of risk management throughout the organization. In addition to the main risk types, the risk management framework also uses a more granular classification for risks such as FX-translation risk and model risk. The risk appetite is determined per risk type to manage risk profile alignment with the Strategic Framework 2016-2020. Generally, the risk teams are firmly at the table in the key management teams of the group. They foster better understanding of and cooperation on risk and business, and they encourage additional informed decision-making. In 2018, we have strengthened the process by establishing 'In Control' meetings at various levels of the organization. We have expanded our policy for new products and material changes (e.g. organizations, strategic refocus) with a new Business Approval

and Review Committee. Moreover, we have enhanced the process around client integrity and financial crime issues such as CDD, AML and Sanctions with a committee now reporting directly to the Managing Board.

### Risk Management Strategy

Rabobank's mission 'Growing a better world together' underlines our cooperative roots and emphasizes our dedication to enabling our customers to achieve their ambitions. Rabobank's strategy defines priorities, objectives and targets including a capital strategy. Rabobank's Risk Strategy supports management in executing the business strategy. Rabobank's Risk Strategy focuses on the following goals:

- **Support the business through the delivery of excellent and appropriate customer focus.** We accomplish this by conducting our business nearby our customers, by meeting high standards, and by keeping process and system errors to

a minimum. We assess the integrity of our customers and of our business objectively, we provide suitable products to our customers and we do not engage in non-sustainable business activities.

- **Protect profit and profit growth.** Rabobank's business strategy is strongly related to its cooperative roots. We aim to generate healthy profits while also realizing the highest standards for our members, customers and for society.
- **Maintain a solid balance sheet.** Sound balance sheet ratios are essential to ensuring continuity in servicing our customers under sustainable and favorable conditions.
- **Protect Rabobank's identity and reputation.** A solid reputation is essential to maintaining stakeholders' fundamental trust in the bank.
- **Make healthy risk-return decisions in line with the strategic objectives.** Make transparent choices based on where capital and resources can be used most efficiently or appropriately with respect to sectors or concentrations.

These priorities are strongly interwoven, and fully depend on maintaining sound governance and risk culture throughout the

organization. Delivering long-term customer value requires a solid balance sheet, cost efficient funding and supporting the bank's profitability and a good reputation. At the same time, maintaining a solid balance sheet requires healthy profitability and a sound reputation.

### **Risks Related to Our Strategy**

Rabobank's risk management activities are an integral part of strategy design and execution. New strategic initiatives may open exciting opportunities, but the expected rewards must be balanced against the related risks. The digitalization of the banking environment does bring along risks not encountered before. Rabobank keeps track of external developments and closely monitors how (future) risks might impact the realization of our strategic objectives. Regular, structural top-down and bottom-up risk assessments are performed to identify various types of risks, and specific stress tests are conducted to calculate the impact of adverse scenarios. An integrated overview of these risks, changes to them and measures taken to address them are discussed periodically in the Managing Board and Supervisory Board:

#### **Top Risks**

<i>Risk</i>	<i>The Risk of</i>	<i>Managed by e.g.</i>
Digital change	Increased competition in financial services enabled by lowered barriers and technical possibilities	Bankieren 3.0, IT Portfolio management, Digital Transformation projects
Cyber Security & IT Disruption	Loss of data or disruption of our services caused by cyber security threats and the changing IT landscape	Group Information Security Office, Cloud Strategy, Cyber Security Threat Elimination Program (STEP), Controlled test attacks on our live critical core systems, Integrated protection for Rabobank websites
Sustainability	Climate events and transition to a more sustainable society	Department Sustainability, Climate Change Oversight Committee, Deep dives Climate Change Impact (Credit),
Economic uncertainties	Economic conditions and (geo)political tensions	Portfolio management, Medium Term Planning (MTP) process, risk appetite, Risk assessments, Limits, Stress testing, Capital and liquidity planning
Regulatory impact	Tightened and additive effect of regulations	Regulatory Oversight, Capital prioritization, MTP, Regulatory Markets Infrastructure (RMI), CARE (incl. COB & CDD), Risk Control Framework (RCF), Enhancing Control, Modelling Landscape
Perception & skills	Dissatisfied customers and outrage in society caused by our own behavior and inadaptability to change	Rabo RIGHT, Speak up, Integrity (SIRA) / culture assessments, Projects: Risk Control Framework (RCF), Performance & Health, XFT Leadership, KPIs, Ethics Office, Diversity & inclusion

### **Risk Appetite**

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

organization's budget planning where it influences day-to-day risk-taking. Entity-specific risk appetite statements further specify the group risk appetite at entity level.

The several material types of risk inherent in the bank's business model and strategic plan are actively identified, assessed, mitigated and monitored. Nevertheless, unforeseen developments could always impede the overall business plan. On an aggregated level however, the risk appetite is articulated for capital, profitability and reputational impact with the following guiding principles:

- We are a strongly capitalized bank, with prudent buffers above regulatory requirements to protect senior bond holders against the (unlikely) event of bail-in. We do this cost-



efficiently and flexibly enough to (re)allocate of capital between different portfolios, products and geographies;

- We achieve a solid performance, with a limited earnings volatility, based on a well-diversified asset portfolio of products, sectors and geographies. We price our risk well, allocate sufficient capital to growth themes and we migrate to more effective (digital) services. Our operational efficiency is competitive, we do the right things well and are conscious of the risks we take;
- We protect the identity and reputation of Rabobank and safeguard the trust customers and investors have in Rabobank. We live up to our community commitments, we do what we say, and we avoid clients, business and risks that could reasonably be assumed to damage our reputation and unique identity;

The risks encountered in the business result in an impact to one or all of these areas with as the main financial indicators:

- Common Equity Tier 1-ratio
- Total Return on Invested Capital
- Score RepTrak Indicator

The risk appetite is embedded across Rabobank Group within principles, policies, indicators, limits and controls. The combination of a breach management process and appropriate governance ensures an adequate and timely response. The risk appetite is reviewed and updated at least once a year, depending on internal or external events with material impact.

### Risk Appetite Statement

Risk Type	Risk Appetite Statement	Examples of KRI's to support our Risk Appetite Statement
Credit Risk	Maintain a credit profitable portfolio with a controllable risk profile in order to limit the impact of bad debt costs on the profitability and reputation and as a means to serve our customers well.	* Average probability of default inflow * Loan impairment charges * Concentration limits
Liquidity Risk	We accept a certain level of liquidity risk, as this is identified as a source of earnings and value creation, but we want to meet expected and unexpected cash flows and collateral needs at any time without materially affecting the bank's daily operations or financial stability. In the baseline Rabobank's internal liquidity risk appetite is more conservative than legislative constraints.	* Liquidity Coverage Ratio * Net Stable Funding Ratio (NSFR) * Loans To Stable Funding (LTSF)
Market Risk	Maintain modest exposure to market movements in the trading environment.	* Event Risk * Value at Risk
Interest Rate Risk in the Banking Book	Accept an appropriate level of interest rate risk, in order to be able to fulfill the above mentioned transformation role in our retail banking business, and to be able to make the optimum decision regarding the investment of our capital, as part of our business strategy. While these activities can be an important profit source, losses due to changes in interest rates should never threaten the bank's financial stability.	* Earnings at Risk * Modified Duration of Equity
Operational Risk (incl. Compliance)	Total operational risk losses may not exceed approximately 1-1,5% of the budgeted annual gross income.	* Number of process execution failures * IT security * Customer Due Diligence

### Credit Risk Management

Rabobank continues the current prudent credit policy and a balanced growth of the credit portfolio that suits the strategy and the reputation of Rabobank. This implies that (i) the credit portfolio maintains an overall acceptable risk profile, (ii) the credit portfolio has limited growth and (iii) capital and funding are used selectively. Rabobank maintains a profitable credit portfolio with an acceptable risk profile in order to limit the impact of impairment charges on financial assets on the profitability and reputation of the bank.

The size of our credit (loan) portfolios is relatively stable and supported by positive local and global economies the quality is much improved, evidenced by low provisioning in the last three years and a slightly reduction to nonperforming loans (NPL). Credit portfolio quality improved despite a simultaneous tightening of standards in our credit risk management process to better reflect portfolio quality. Prudent credit acceptance policy

is typified by careful assessment of clients and their ability to repay the loan we granted them. As a result, the risk profile of the loan portfolio is acceptable even in less-than-favorable economic circumstances. Rabobank forms long-term relationships that benefit both the clients and the bank alike. To further support the pace of portfolio improvements specific sector/country strategies have been designed to further reduce the NPL's. Rabobank continuously monitors its clients' position as a result of (upcoming) events (draughts, Brexit) or of sector issues (dairy) and reconsiders the strategy accordingly.

An important principle in the acceptance policy for business loans is having thorough knowledge of our clients. We understand our clients' sector, business, management, goals, financials, opportunities and challenges and this helps us to manage potential risk in the best possible way. In addition, Rabobank closely monitors developments in the business sectors in which its clients operate so that it can properly assess their financial

performance. Corporate sustainability also means sustainable financing. Sustainability guidelines have been established for the credit process in addition to the use of standard credit risk management models to estimate PD, LGD and EAD parameters. To further strengthen our credit management framework, we have rationalized our credit model landscape in line with the Europe-wide TRIM exercise. Rabobank also uses a wide range of credit mitigation techniques in order to reduce specific counterparty credit risk or country risk. Different modelling methodologies apply to different portfolios; each model accounts for quantitative and qualitative risk drivers. The credit risk parameters are used to calculate the capital requirements. Rabobank applies concentration risk mitigation. It does this, for example, for certain asset classes and at the sector and country level. The risk appetite determined for Rabobank's asset classes is expressed in exposure, percentage of defaults and impairment charges. Furthermore, exposure limits apply at the sector and country level. Single-name concentrations are limited on exposure and on loss at default (LAD) and are monitored closely. Rabobank uses the Basel II default definitions to identify the necessity of an impairment allowance. As of January 1, 2018 the impairment allowances and charges are calculated according to IFRS 9.

## Operational Risk

Exposure to operational risks is an inevitable part of executing business activities; Rabobank minimizes this risk within the boundaries set by the complexity and size of its organization. Operational risks are actively managed and controlled by policies, procedures, limits and controls including areas such as Legal, Compliance, IT, Information Security, Business continuity management and Sustainability. Furthermore, we do not accept that the sum of operational risk losses exceeds approximately 1%-1.5% of the budgeted annual gross income.

Rabobank has developed and implemented a Risk and Control Framework (RCF) which is mandatory for Rabobank Retail NL and WRR activities, CIOO and Support Function and also DLL and Obvion. The RCF ensures that risks resulting from inadequate or failing processes, people, systems and/or external events are managed within the accepted risk levels. To manage operational risks effectively, an integrated, forward-looking view is offered by the first Line of Defense risk owner (client-facing departments), which is then supported by the second Line of Defense (Risk Management and Compliance).

Rabobank performs a structured and integrated risk analysis to integrally manage its risk and control framework. Performing this risk assessment across all entities helps to ensure that Rabobank Group's risk management system is sound and in compliance

with regulatory requirements. Risk Control Activities (RCAs) are included in the following process steps:

- Risk Identification
- Risk Assessment
- Risk Response
- Risk Monitoring
- Risk Reporting
- Risk Finding and Action Management
- Risk Incident Management

Aligned Risk Control Activities result in effective and efficient management of various types of operational risks and creates a good balance between risks and controls throughout the organization. RCF improves the overall efficiency and effectiveness of daily business and helps Rabobank to become a better learning organization.

The primary responsibility for the management of operational risk lies with each business area. It should be fundamentally woven into their strategic and day-to-day decision-making. Within the group entities, the 'In Control' meetings are important to identifying and monitoring the operational risks of the entity.

## Compliance

All our activities must be carried out with honesty, sincerity, care and reliability. They must comply with relevant laws, regulations and Rabobank's Code of Conduct, the Rabobank Compass. It is essential that we conduct our business with integrity. All our stakeholders count on this. It is our ambition to provide customers with the best possible service, while always exercising due care.

Acting with integrity and adhering to relevant laws and regulations is a responsibility of all Rabobank employees. Our global compliance are catalysts, that motivate all entities of the Rabobank Group to live and breathe the desired culture and to behave accordingly.

## Compliance Function

Compliance, as part of the second Line of Defense, has an important role to play in achieving and maintaining integrity and trust. Compliance helps the organization to effectively manage the compliance risks by setting policies and standards, advising the business, creating awareness, monitoring adherence and behavior and by generally being the centre of expertise. The Rabobank Compliance function, has a focus on the following compliance themes:

- Conduct
- Treating customers fairly

- Market inefficiency & misconduct
- Data privacy
- Conflicts of interest
- Anti-fraud & -corruption
- Anti-money laundering (AML)/ counter terrorist financing (CTF)
- Economic sanctions.

### Compliance Risks

Every year, Rabobank performs a Systematic Integrity Risk Analysis (SIRA). This allows for an integrated view on the level of compliance risks pertaining to the organization as well as the level of effectiveness of the risk control framework. The outcome of the SIRA and of ongoing monitoring activities provide further direction to the organization so that it may manage its compliance risks on a day-to-day basis.

Ensuring that our clients receive the most appropriate advice and the most fitting products has our ongoing attention. During 2018, we continued the execution of the recovery framework on reassessment of Dutch SME interest rate derivatives. By the end of 2018, Rabobank has provided all qualifying clients clarity on the outcome.

Rabobank is strongly committed to preventing the use of Rabobank's products and services for Money Laundering and Terrorist Financing purposes and to preventing violations of Sanctions Regulations. In 2018, Rabobank has stepped up its efforts in this area and we will continue this work in 2019. Activities are being undertaken across the organization to ensure that we meet all regulatory standards and that we achieve global oversight on and consistency in our approach. This includes an upgrade of our transaction monitoring capabilities throughout the entire network.

Because it is an international financial institution, Rabobank faces risks relating to bribery and corruption from both inside and outside the organization, which is why conflicts of interest between private and professional interests must be avoided at all times. The control framework which effectively mitigates these risks contains several elements, including our Global Policy on Anti-Corruption and Conflict of interest. In 2018, we updated the policy in order to remain aligned with changing legislation and society's expectations. In our control framework we continuously focus on potential risks related to third parties, with whom we do business and we screen parties in order to mitigate potential risks.

The implementation of these (new) requirements derived from the General Data Protection Regulation (GDPR) came into effect on May 25, 2018. The entire bank recognizes the importance of these new requirements. In view of our digitalization- and data

strategy, privacy will remain a key risk. It will continue to be very important in safeguarding the interests of our clients, our employees and of other stakeholders. Therefore, Rabobank is strengthening its privacy governance model across our global organization, the roll-out of which will continue in 2019.

### Market Risk

The market risk appetite is based on Rabobank's market risk appetite for Markets and Treasury. These are the main Rabobank departments with trading or banking books exposed to market risks. Market risks within other entities are limited. Rabobank aims for a modest exposure to market movements in its trading environment.

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

Market risk in the trading environment is managed and monitored on a daily basis within the trading market risk framework. The risk appetite is the core of the framework and is defined by the Managing Board. The framework further consists of a prudent limit and control infrastructure. Within the trading environment, the most significant types of market risk are: interest rate risk (including basis risk), credit spread risk and currency risk. Risk positions acquired from clients can be either redistributed or managed through risk transformation (hedging). Next to the core task of hedging, the trading desks also act as a market-maker for secondary markets (by providing liquidity and pricing) in a broad selection of products of interest to Rabobank's clients.

The internal VaR model is an important part of Rabobank's market risk framework. Rabobank has opted to apply a VaR model based on a historical simulation that uses one year of historical data. Rabobank recognizes that VaR, due to its underlying statistical assumptions, must be complemented by stress testing to measure events not captured by the VaR model. In addition, an extensive set of complementary parameters and controls is used to monitor market risk in the trading book. These include, but are not limited to, interest rate delta, tenor basis swaps risk, commodity cash delta, notional limits and FX exposure limits.

### Interest Rate Risk

Rabobank's risk appetite for interest rate risk follows from its business strategy. Being a rock-solid bank is one of the key themes of Rabobank's business strategy. In the IRRBB strategy this results in two objectives: we aim to generate predictable net

interest income and to protect the bank in times of stress. Following the transformation role as a retail bank, we accept an appropriate level of interest rate risk as an important driver for the bank's profit. However, losses due to changes in interest rates may never threaten the financial stability of the bank.

Rabobank is mainly exposed to interest rate risk in the banking environment as a result of (1) mismatches between the repricing period of assets and liabilities and (2) embedded optionality in client products. In the banking environment Rabobank is also subject to currency risk, which is mainly translation risk on capital invested in foreign activities.

### ***Developments related to benchmarks regulation and reforms***

Benchmark rates like the London Interbank Offered Rate (LIBOR), the Euro-zone inter-bank offered rate (EURIBOR) are the subject of ongoing regulatory reform (as a result of the Benchmarks Regulation, among other reasons, which entered into force on January 1, 2018). Following the implementation of any such potential reforms, the manner of administration of benchmarks may change. As a result, benchmarks may perform differently than they have in the past, or they could be eliminated entirely, or there could be other consequences, some of which cannot be predicted. For example, the UK Financial Conduct Authority announced in July 2017 that it will not endeavor to sustain LIBOR beyond 2021 and urged users to plan the transition to alternative reference rates.

Rabobank has significant contractual rights and obligations referenced to benchmark rates. Discontinuance of, or changes to, benchmark rates as a result of these developments or other initiatives or investigations, as well as uncertainty about the timing and manner of implementation of such changes or discontinuance, may require adjustments to agreements that are referenced to current benchmarked rates by us, our clients and other market participants as well as to our systems and processes. This all increases the conduct/litigation risk, reputational and financial risks for Rabobank.

### **Liquidity Risk**

In order to optimize funding availability and funding costs for our customer requirements, Rabobank has high quality and robust liquidity buffers. It also has a diversified global funding base in terms of retail versus wholesale funds and in terms of investors, instruments, maturities, countries and currencies.

Liquidity risk is defined as a major risk type at Rabobank. Rabobank's policy is to finance client assets using stable funding, by which we mean funds that have been entrusted by clients as well as long-term wholesale funding. The Treasury department is responsible for managing the day-to-day liquidity position, the

generation of professional funding on the money and capital markets, and the structural position. Liquidity risk management rests on three pillars.

- The first pillar sets strict limits on the maximum outgoing cash flows for different maturities within the wholesale banking business. Rabobank measures and reports the incoming and outgoing cash flows expected during the next 12 months on a daily basis. Limits and controls govern these outgoing cash flows, including per currency-specific ones. Detailed contingency funding plans are in place to ensure the bank is prepared for potential crisis situations. These plans are subject to periodic operational tests.
- The second pillar of liquidity risk management is our substantial high-quality buffer of liquid assets. Besides cash balances held at central banks, liquid securities can also be pledged to central banks, used in repo transactions or be sold directly in the market to generate immediate cash. The size and quality of the liquidity buffer is aligned with the risk to which Rabobank is exposed as a result of its balance sheet. In addition, a portion of the mortgage loan portfolio has been securitized internally. By pledging the notes to the central bank, this retained securitization serves as an additional liquidity buffer, but it is not reflected on the consolidated balance sheet.
- The third pillar is our maintenance of a solid credit rating, of adequate capital levels and of a prudent funding policy. Rabobank takes various measures to create a balanced source of funding. These measures include the balanced diversification of funding sources with respect to maturity, currencies, investors, geographies and markets, as well as a high degree of unsecured funding (and therefore of limited asset encumbrance), and an active and consistent investor relations policy.



# Outlook on 2019

## Strategic priorities for 2019

The Managing Board has set 10 strategic priorities for 2019 and beyond. Growth and top line development are high on the list of priorities, along with digitalization and virtualization of the entire bank, coupled with wide-scale innovation, operational excellence and efficiency. Our positioning and the clear direction we have taken will serve as a guiding principle for our employees and our clients and form the basis of the choices we make in the future. Rediscovering local community banking with specific propositions for the future and the more active involvement of clients, members and stakeholders are part and parcel of this process. As one Rabobank, we take responsibility for the performance of the group as a whole. Making the bank an agile learning organization will to achieving the adaptivity we need to take us forward. Continued performance improvements and the implementation of complex IT improvement processes will equip us to provide the services our customers demand.

## Financial outlook

The global economic growth is decreasing slightly. There are still some significant risks which require caution in 2019. The trade war between the United States and China could negatively impact the growth of the global economy. Brexit and difficulties around the government budget in Italy are growing downside risks. In the Eurozone, growth is gradually easing further. RaboResearch expects the global economy to grow between 3% and 4% in 2019.

Dutch economic growth is expected to decline to around 2% in 2019. Labor scarcity is starting to hinder production, especially housing investments. In 2019, the household consumption will continue to be an important driver for the Dutch economy. Lower income tax will help households, but this will be offset to some extent by the VAT increase. Wages are growing slowly, which, combined with higher inflation, is limiting the increase in consumer purchasing power. Furthermore, the international uncertainties are undermining confidence and business investments.

As in 2018, Rabobank will have to remain prepared in 2019 for what is expected to remain a low interest rate environment. Improving our income is challenging in such conditions, when investing liabilities (such as current account balances) and equity with zero or very low interest rates is less profitable.

Further execution of restructuring measures will reduce the workforce more, lowering operating expenses in 2019.

Impairment charges on financial assets are expected to increase but remain below the long-term average. Higher capital requirements are lowering returns on equity in the banking sector. Long-term measures are being taken to manage operating costs and improve net profit, but efficiency and effectiveness must undergo further improvement to reach our performance targets in 2019.

# Members of the Managing and Supervisory Board

## Members of the Managing Board<sup>1</sup>

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

Dirk Duijzer, *Company Secretary*

### **Wiebe Draijer (W.) (Male, 1965, Dutch nationality)**

Appointed with effect from October 1, 2014, current appointment term expires on October 1, 2022.

*Chair, portfolio:*

- Communication & Corporate Affairs
- Audit Rabobank
- RaboResearch
- Corporate Secretariat & Cooperative
- Corporate Strategy Office

### **Bas Brouwers (B.C.) (Male, 1972, Dutch nationality)**

Appointed with effect from January 1, 2016, current appointment term expires on January 1, 2020.

*Chief Financial Officer (CFO), portfolio:*

- Control
- Finance
- Portfolio Management
- Treasury
- Investor Relations and Rating Agencies
- Group Tax

### **Petra van Hoeken (P.C.) (Female, 1961, Dutch nationality)**

Appointed with effect from April 1, 2016, current appointment term expires on February 1, 2019.

### **Els de Groot (E.A.) (Female, 1965, Dutch nationality)**

Appointed with effect from February 1, 2019, current appointment term expires on February 1, 2023.

*Chief Risk Officer (CRO), portfolio:*

- Risk, including Credit, Operational and Integrated Risk
- ALM & Analytics
- Compliance
- Legal
- Financial Restructuring & Recovery

The Supervisory Board communicated in October 2018 that it proposes to appoint Els de Groot as CRO of the Managing Board, conditional to all formal requirements. As of 1 February 2019 Els de Groot has succeeded Petra van Hoeken in her role as CRO to the Managing Board. Petra van Hoeken remains active for Rabobank.

### **Kirsten Konst (C.M.) (Female, 1974, Dutch nationality)**

Appointed with effect from September 1, 2017, current appointment term expires on September 1, 2021.

*Portfolio:*

- Commercial Banking in the Netherlands including:
  - Local banks
  - Sales & Risk Management
  - Corporate Clients
  - Food & Agri NL
  - Rabo Real Estate Finance
  - Product Management Payments, Financing, Insurance & Pensions
  - Financial Solutions DLL

<sup>1</sup> The Managing Board (Groepsdirectie) consists of statutory members (marked with \*) and non-statutory members. The statutory members also make up Rabobank's Executive Board (raad van bestuur). References in this report to the Managing Board and its duties and responsibilities, also refer to the Executive Boards duties and responsibilities.

**Bart Leurs (B.) (Male, 1971, Dutch nationality)**

Appointed with effect from September 1, 2017, current appointment term expires on September 1, 2021.

*Digital Transformation Officer (DTO), portfolio:*

- Digital Transformation Office
- Fintech & Innovation
- Digital Bank

**Mariëlle Lichtenberg (M.P.J.) (Female, 1967, Dutch nationality)**

Appointed with effect from September 1, 2017, current appointment term expires on September 1, 2021.

*Portfolio:*

- Retail & Private Banking in the Netherlands including:
  - Rabo Schretlen Wealth Management
  - Sales & Risk Management
  - Mortgages & Consumer Loans
  - FREO
  - Customer Services
  - Savings & Investments
  - Marketing

**Berry Marttin (B.J.) (Male, 1965, Dutch and Brazilian nationalities)**

Appointed with effect from July 1, 2009, current appointment term expires on July 1, 2021.

*Portfolio:*

- Rural and Retail International including:
  - Global Rural and Retail Clients
  - Region Australia/New Zealand
  - Region South America
  - Region North America
- Sustainability
- Banking for Food Inspiration Center
- Leasing

**Jan van Nieuwenhuizen (J.L.) (Male, 1961, Dutch nationality)**

Appointed with effect from March 24, 2014, current appointment term expires on March 24, 2022.

*Portfolio:*

- Wholesale Netherlands/International including:
  - Global Wholesale Products Clients
  - Global Corporate Clients
  - Region Netherlands & Africa
  - Region Europe
  - Region Asia
- Commercial Real Estate

**Ieko Sevinga (I.A.) (Male, 1966, Dutch nationality)**

Appointed with effect from September 1, 2017, current appointment term expires on September 1, 2021.

*Chief Information & Operations Officer (CIOO), portfolio include:*

- IT Systems
- IT Infrastructure
- IT Strategy, Data & Architecture
- IT Risk, Reporting & Security
- Operations

**Janine Vos, (B.J.) (Female, 1972, Dutch nationality)**

Appointed with effect from September 1, 2017, current appointment term expires on September 1, 2021.

*Chief Human Resources Officer (CHRO), portfolio:*

- Center of expertise
- Talent Management
- Organization Development
- HR Strategic Business Partners
- HR Support

## Members of the Supervisory Board<sup>1,2</sup>

<i>Members of the Supervisory Board (as of December 31, 2018)</i>							
<i>Name</i>	<i>Gender</i>	<i>Year of birth</i>	<i>Nationality</i>	<i>Position</i>	<i>Year of first appointment</i>	<i>Current appointment term expires in</i>	<i>Relevant additional positions</i>
Ron Teerlink (R.)	Male	1961	Dutch	Chair since September 14, 2016	2013	2021	<ul style="list-style-type: none"> <li>Member Supervisory Board Takeaway.com</li> <li>Chair Supervisory Board VU University of Amsterdam</li> </ul>
Marjan Trompetter (M.)	Female	1963	Dutch	Vice-chair	2015	2019	<ul style="list-style-type: none"> <li>Vice-chair Supervisory Board Rijnstaete Hospital, Arnhem</li> <li>Member Supervisory Boards Salvation army Welfare &amp; Health Care Foundation and Salvation Army Youth Care &amp; Rehabilitation Foundation</li> <li>Owner Corona Consultancy</li> </ul>
Irene Asscher-Vonk (I.P.)	Female	1944	Dutch	Member	2009	2019	<ul style="list-style-type: none"> <li>Member Supervisory Board Philip Morris Holland B.V.</li> <li>Member Board Foundation Dudok Quartet</li> <li>Chair Museumassociation</li> <li>Employee Labour Law Department University of Amsterdam</li> <li>Chair Disputes Committee WMS</li> <li>Chair Disputes Committee CAO Sport</li> </ul>
Leo Degle (L.N.)	Male	1948	German	Member	2012	2020	<ul style="list-style-type: none"> <li>Member Supervisory Board Sakroon B.V./Ten Kate B.V.</li> <li>Board Member FINCA Microfinance</li> <li>Board Member Wasser für die Welt</li> <li>Board Member Foundation Social Investment Innovation</li> </ul>
Petri Hofsté (P.H.M.)	Female	1961	Dutch	Member	2016	2020	<ul style="list-style-type: none"> <li>Member Supervisory Board of Fugro N.V.</li> <li>Member Supervisory Board Achmea B.V. and of several subsidiaries</li> <li>Member of the supervisory Board of Kasbank N.V.</li> <li>Board Member Foundation Nyenrode</li> <li>Juror Kristal Price Dutch Ministry of Economical Affairs and Climate Policy</li> <li>Board Member Hendrik de Keyser Association</li> </ul>
Arian Kamp (A.A.J.M.)	Male	1963	Dutch	Member	2014	2022	<ul style="list-style-type: none"> <li>Chair Supervisory Board Koninklijke Coöperatie Agrifirm UA</li> <li>Owner Partnership A.A.J.M. Kamp and W.D. Kamp-Davelaar</li> </ul>
Jan Nooitgedagt (J.J.)	Male	1953	Dutch	Member	2016	2020	<ul style="list-style-type: none"> <li>Chair Supervisory Board Telegraaf Media Group</li> <li>Vice-chair Supervisory Board BNG Bank</li> <li>Chair Supervisory Board PostNL N.V.</li> <li>Board Member Fiep Westendorp Foundation</li> <li>Chair Foundation Nyenrode</li> </ul>
Pascal Visée (P.H.J.M.)	Male	1961	Dutch	Member	2016	2020	<ul style="list-style-type: none"> <li>Member Supervisory Board of Mediq B.V.</li> <li>Member Supervisory Board of Plus Retail B.V.</li> <li>Member Supervisory Board of Royal Flora Holland</li> <li>Chair Supervisory Board Foundation Stedelijk Museum Schiedam</li> <li>Member Supervisory Board Erasmus University</li> <li>Member Board Foundation Prince Claus Fund</li> </ul>
Annet Aris (A.P.)	Female	1958	Dutch	Member	2018	2022	<ul style="list-style-type: none"> <li>Member Supervisory Board Randstad N.V.</li> <li>Member Supervisory Board ASML N.V.</li> <li>Member Supervisory Board Jungheinrich AG</li> <li>Member Supervisory Board Thomas Cook PLC<sup>1</sup></li> <li>Member Supervisory Board a.s.r. Nederland N.V.<sup>2</sup></li> <li>Senior Affiliate Professor of Strategy INSEAD</li> </ul>

<sup>1</sup> This role will be terminated by Annet Aris on February 6, 2019

<sup>2</sup> This role will be terminated by Annet Aris on May 22, 2019

<sup>1</sup> The Supervisory Board in its current composition meets principle 2.1.7 of the Dutch Corporate Governance Code.

<sup>2</sup> Information about the profession, the main position and the additional positions of Supervisory Board members can be found on [www.rabobank.com/en/about-rabobank/profile/organization/board/supervisory-board-members.html](http://www.rabobank.com/en/about-rabobank/profile/organization/board/supervisory-board-members.html)



The members of the Supervisory Board committees are listed in [the Report of the Supervisory Board](#).

# Managing Board Responsibility Statement

The Managing Board of Cooperative Rabobank U.A. (Rabobank) hereby declares that, to the best of its knowledge:

- The Financial Statements give sufficient insights into the assets, liabilities, financial position and profit of Rabobank, and the companies included in the consolidation at a going concern basis;
- The management report gives sufficient insights into shortcomings in the effectiveness of the internal risk and control systems.
- Information about internal control over financial reporting is provided in note 55 of the Consolidated Financial Statements.
- The management report gives sufficient insights into the state of affairs on the reporting date, and of the course of affairs during the financial year at Rabobank and those affiliated entities whose information is included in the Financial Statements;
- The management report describes the principal risks and uncertainties that Rabobank faces which may impact Rabobank's going concern in the coming 12 months and other future risks.

# Appendices



# Contents

Appendix 1 About this Report	74
Appendix 2 Methodology & Definitions of Non-Financial Key Figures	78
Appendix 3 Sustainability Facts & Figures	80
Appendix 4 Dialogues with Clients	84
Appendix 5 Our Financial Performance & Segment Reporting	87
<i>Domestic Retail Banking</i>	<i>87</i>
Highlights	87
Financial Results	87
Notes to the Financial Results	87
<i>Wholesale, Rural and Retail</i>	<i>90</i>
Highlights	90
Financial Results	90
Notes to the Financial Results	90
<i>Leasing</i>	<i>92</i>
Highlights	92
Financial Results	92
Notes to the Financial Results	92
<i>Real Estate</i>	<i>94</i>
Highlights	94
Financial Results	94
Notes to the Financial Results	94



# Appendix 1 About this Report

The Rabobank Annual Report 2018 has been prepared in accordance with the legal requirements of section 2:391 of the Dutch civil code and the Dutch legal guidelines for management board reports, RJ 400 and the Global Reporting Initiative (GRI) Standards: Core option. This report also meets the requirements of [the EU directive](#). The GRI Content Index is presented in the download at [www.rabobank.com](http://www.rabobank.com). Financial information in the report has been derived from the financial statements. The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS). The Integrated Reporting Framework of the IIRC (International Integrated Reporting Council) served as a foundation in the preparation of the content and outline of our management report. In addition, specific guidelines have been followed for certain performance indicators such as the Greenhouse Gas protocol for CO<sub>2</sub> emissions. If specific guidelines have been used, this is explained in [appendix 2](#).

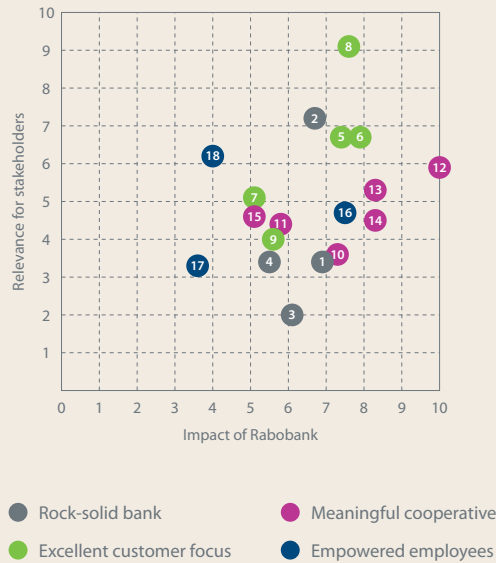
## Scope and Boundaries

The 2018 Rabobank Annual Report relates to the reporting period January 1, 2018 to December 31, 2018 and was published on March 14, 2019 on Rabobank's corporate website. The materiality analysis ensures that we cover all material economic, social and environmental topics within our Annual Report. The information Rabobank chooses to disclose concerns our progress on the most relevant material topics for 2018, no. 2, 5, 6, 8, 12, 13, 14 and 16 which are described in the connection table below. The information set forth in this report relates to Rabobank Group as a whole; it presents consolidated data for all Rabobank's entities and divisions. All operating information relates to the reporting period except for that on our climate footprint, which is based on the period from October 1, 2017 to September 30, 2018. The Annual Report includes the data of newly acquired businesses as of the year following acquisition. Rabobank no longer reports on divested units for the whole reporting year. The 2018 Rabobank Annual Report aims to provide a complete, concise and accurate view of our performance. The report indicates explicitly whether reporting is limited to a selection of the group divisions within or outside of the Netherlands, or if a less comprehensive view is being presented.

## Materiality

Determining the topics for this year's report began with an analysis of the material themes identified in 2017. We defined a list of 18 topics on the basis of this evaluation. A materiality matrix was used to determine the relevance of topics for both Rabobank and our stakeholders. As such, the impact of each topic on Rabobank was determined based on Rabobank's strategic documents and validated by the Managing Board. The impact of each topic on stakeholders was validated by a thorough process of desk research and a big data analysis. The Materiality Connection Table provides insight into how the most relevant material topics connects to the four strategic cornerstones. It also includes references to the chapter describing the management approach and performance per topic.

### Rabobank materiality analysis Situation on December 31, 2018



- | #  | Topic  |
|----|--|
| 1  | Strong capital position  |
| 2  | Improving performance  |
| 3  | Flexible balance sheet   |
| 4  | Conscious and careful risk return trade off                      |
| 5  | Increasing customer satisfaction                                 |
| 6  | Restoring trust  |
| 7  | Stimulating transparency   |
| 8  | Digitizing and innovating services                               |
| 9  | Big data & Privacy   |
| 10 | Strengthen stakeholder engagement                                |
| 11 | Supporting clients in sustainable development                    |
| 12 | Stimulating sustainable food and agriculture                     |
| 13 | Supporting vital communities                                     |
| 14 | Encouraging entrepreneurship                                     |
| 15 | Facilitate transition to a more sustainable and circular economy |
| 16 | Developing human capital and talent management                   |
| 17 | Stimulating diversity and equality                               |
| 18 | Fair remuneration and education                                  |

### Continuous Stakeholder Dialogue

We are committed to a strategic, constructive and proactive dialogue with all our stakeholders. We base the list of material reporting topics on specific dialogues we conducted during 2018 with the following stakeholder groups: clients, members, employees, non-governmental organizations, government

agencies, politicians and supervisory bodies. Continuous dialogue with stakeholders provides us a clear view of which issues our stakeholders believe are important. Knowing that aids us in determining the material topics described above and is useful strategic input.

### Materiality Connection Table

Strategic Pillar	no	Material Topic	Goal	Target 2018	Result 2018	Target 2019	Reference
Rock-Solid Bank	2	Improving Performance	Cost-income ratio (including regulatory levies)	62.4%	65.9%	62.5%	Rock-Solid Bank
Excellent Customer Focus	5	Increasing Customer Satisfaction	Net promotor score	NPS Corporate customers 53 NPS Private customers 56 NOS Private Banking customers 56	NPS Corporate customers 53 NPS Private customers 57 NOS Private Banking customers 61	n/a	Excellent Customer Focus
Excellent Customer Focus	6	Restoring Trust	RepTrak Pulse Score	67.3	70.8	72.3	Excellent Customer Focus
Excellent Customer Focus	8	Digitizing and Innovating Services	% Online active private customers % Online active corporate customers	n/a	61.8% Online active private customers 80.8% Online active corporate customers	63% of online active private customers 82% of online active corporate customers	Excellent Customer Focus
Meaningful Cooperative	12	Stimulating Sustainable Food & Agri	- Total sustainable products & services - % of clients with A-level client photo (sustainability performance)	Increase % A-level clients	5% Local Rabobanks 24% Wholesale clients	Increase % A-level clients	Meaningful Cooperative & Excellent Customer Focus
Meaningful Cooperative	13	Supporting Vital Communities	Community funds and donations	More than € 2.525.000 <sup>1</sup>	€ 48.8 million	At least EUR 25,000 per local Rabobank	Meaningful Cooperative
Meaningful Cooperative	14	Encouraging Entrepreneurship	- Total sustainable products & services	Doubling of sustainable products & services in the period 2013-2020	Sustainable financing € 46,607 million	Doubling of sustainable products & services in the period 2013-2020	Excellent Customer Focus
Empowered Employees	16	Developing Human Capital and Talent Management	- Average hours of training per year per employee - Training expenses (EUR) per FTE	Full usage of the development budget	48%	Full usage of the development budget	Empowered Employees (Talent)

<sup>1</sup> EUR 25,000 per local Rabobank.

## Material Topics and Boundaries

The table below gives insights in the material topics, indicates whether Rabobank's influence is direct or indirect, and shows where our impact is felt.

<b>Material Topics and Boundaries</b>						
no	Material topic	Definition	Scope and boundary			Management responsibility
			Influence by Rabobank activities	Service lines	Location of impact	
2	Improving Performance	Describes how Rabobank performed financially compared with target.	Direct	All service lines	Value chain	Bas Brouwers
5	Increasing Customer Satisfaction	Satisfied customers are our highest priority. Rabobank focusses on meeting or surpassing customer expectations	Direct	All service lines	Value chain	Kirsten Konst Mariëlle Lichtenberg Berry Marttin Jan van Nieuwenhuizen
6	Restoring Trust	Activities developed by Rabobank in order to restore trust at stakeholders. Refers to a fair, transparent and moral code of conduct to the strategic and operational management of business	Direct	All service lines	Rabobank	Wiebe Draijer
8	Digitizing and Innovating Services	Developing innovative products and services targeted at the changing customer preferences (i.e. financial-technological innovations to respond to the exponential increase in mobile equipment).	Direct	All service lines	Rabobank & Value chain	Bart Leurs
12	Stimulating Sustainable Food & Agri	In order to feed the world's population in a sustainable way, Rabobank focusses on improving Food & Agri value chains. This encompasses focus on increase food availability, improving access to food, promoting healthy food and increase stability.	Direct & Indirect through business relationships, customers, investments	Domestic Retail Banking, WRR & Leasing	Value chain	Kirsten Konst Berry Marttin Jan van Nieuwenhuizen
13	Supporting Vital Communities	As a cooperative bank, Rabobank aims to increase the vitality of local communities, from an economic, social and environmental perspective, both within the Netherlands and abroad.	Direct	All service lines	Value chain	Wiebe Draijer
14	Encouraging Entrepreneurship	Activities Rabobank develops to support and stimulate entrepreneurs. Rabobank focusses on increasing the earning power, well-being and prosperity of the Netherlands.	Direct	Domestic Retail Banking (NL only)	Value chain	Kirsten Konst
16	Developing Human Capital and Talent Management	Rabobank's employees are given every opportunity within an inspiring work environment and use their talents and develop.	Direct	All service lines	Rabobank	Janine Vos

## Managing our Material Topics

The most material topics are relevant to the success of our organization. The table Material Topics and Boundaries indicates per material topic, where and how we can influence performance and who has management responsibility. Specifically formulated indicators are used to measure our performance. These indicators are part of our general governance cycle. They are evaluated periodically and are externally communicated at least once a year. Most indicators are part of the quarterly review, except for customer satisfaction, which is measured by the NPS score, and reviewed annually. We use these periodic reviews to identify and pursue evaluative action, disclose relevant results of our evaluation in our annual report.

For the headings *Restoring Trust* and *Increasing Customer Satisfaction* our performance shows significant improvement compared to 2017. Our efforts to maintain and further optimize this performance is presented in the chapters [Excellent Customer Focus](#) and [Rock-Solid Bank](#). In 2018, we have completely updated our sustainability framework regarding the material topics

*Encouraging Entrepreneurship* and *Stimulating Sustainable Food and Agriculture*. The framework now contains, for instance, a separate extensive Human Rights Policy including a description of Rabobank's commitment to ensure the mitigation of potential human right risks as much as possible. This policy is also integrated into our Client Photo scan. For the material topic *Digitizing and Innovating Services*, we have only begun to measure the percentage of customers active online since 2018, so we have not yet identified any evaluative actions.

## Data Collection of Non-Financial Information

The collection of non-financial information is coordinated centrally within Rabobank Group. The Sustainability department is responsible for sustainability data collection, in cooperation with Finance & Control. Other non-financial information of Rabobank Group divisions and local Rabobanks is obtained via Rabobank's automated central management information system. Data that is not recorded in the central system is collected via qualitative and quantitative questionnaires (which are based on internal business principles, policies and external guidelines that

are approved by Rabobank Group) or received from external parties. The coordinator of the respective Group division/ local Rabobank is responsible for collecting and reporting the non-financial information. Finance & Control and the Sustainability department perform plausibility checks after submission, where after appropriate actions are taken in order to optimize the data quality.

The data concerning Rabobank's internal business operations is mostly based on Rabobank's automated central management information system and on invoices from our providers. Reliable sources and established protocols are used for conversion factors. The climate footprint is calculated according to the most recent directives of the Greenhouse Gas Protocol (GHG). The associated CO<sub>2</sub> conversion factors originate from, among others, DEFRA and the IEA.

Most data is gathered on a regular basis in the central management information system. Some information is gathered only once a year as part of the annual reporting process.

### Preparation of the Annual Report

The production process of Rabobank's Annual Report and Interim Report is as follows: the Managing Board appoints an Annual Report Steering Group, which appoints an Annual Report Working Group. The following disciplines are represented in both the Steering Group and the Working Group: Managing Board Secretariat, Finance & Control, HR, Investor Relations & Rating Agencies, Sustainability, Integrated Risk Management, Audit, and Communications and Corporate Affairs. The Annual Report Steering Group agrees on the different tasks, roles and responsibilities relating to the production of the Annual Report and Interim Report. Before any work commences on gathering information and writing the Annual Report, the chair of the Annual Report Steering Group and the Managing Board decided on the report's structure and key messages. The Working Group transforms these guidelines into drafts, which are subsequently reviewed by a committee of members from the Working Group, the Steering Group and other key employees. The draft texts of the Annual and Interim reports are discussed twice in the respective meetings of the Managing Board, the Supervisory Board and the Audit Committee.

### Assurance

We believe that the reliability of the information included in this report is crucial for us and for our stakeholders. For that reason, assurance is provided for the Rabobank Annual Report 2018 by PwC (the texts on our external website are outside of the scope of assurance). For more information on PwC assurance, we refer to the Independent Auditor's Report.



# Appendix 2 Methodology & Definitions of Non-Financial Key Figures

## Our Commitment

The table below shows a number of Non-Financial Key Figures. Progress on these key figures is measured with information

obtained from both inside and outside the organization. A number of Key figures have an absolute target. Others, especially the outcomes of client and employee surveys, are relative targets.

<b>NPS</b>	<i>The Net Promotor Score indicates the level of client satisfaction</i>
Methodology/ Terminology	The NPS score is an outcome of an online client satisfaction survey which clients in the Netherlands (private customers and private banking and corporate customers with a net revenue under EUR 30 million) receive after an advisory service with local Rabobank offices. The measurement is therefore transactional based. We measure and report NPS by the widely used methodology in which scores from 0 to 6 are classified as 'detractor' scores, 7 or 8 are classified as 'passive' and only scores 9 or 10 are classified as 'promoters'. The result is calculated by the percentage of promoters minus the percentage of detractors, giving the NPS. The NPS can range from 100% to -100%. The NPS is measured over a 12 month period, from the 1st of January to the 31st of December each year. Each respondent carries the same weight in the score. A client can only fill in the NPS survey once every six months. One of the four cornerstones of our strategy is excellent customer focus. Increasing client satisfaction is, therefore, important to Rabobank.
<b>% Online Active</b>	<i>Percentage of customers that logged in at least once in the last three months to the Rabobank Banking App or online banking</i>
Methodology/ Terminology	The unit of measurement is all individual customers and for Commercial banking all commercial groups that have logged on at least once in the last three months in the Rabobank Banking App or online banking. Customers logging on to the Rabobank Banking App using TIN code, Touch ID and Face ID are included.
<b>RepTrak</b>	<i>RepTrak measures the overall reputation across seven key dimensions, based on customers' perception of esteem, admiration, trust, and overall feeling</i>
Methodology/ Terminology	We measure and report reputation by using the RepTrak monitor, which is a tool of the Reputation Institute. In 2018 Rabobank participated in the RepTrak Reputation study which tracks 23 reputation attributes assigned to seven reputation dimensions the Reputation Institute has found to be the most effective in getting stakeholders to support a company. Rabobank's reputation was measured four times in 2018 through an online survey taken among a representative sample of the general public in the Netherlands. The reported score entails the Q4 results.  RepTrak is the gold standard for reputation measurement. RepTrak's rankings are based on each company's Pulse- the emotional connection consumers have to a brand.
<b>Member Engagement Score</b>	<i>The percentage of members classed as proactive, active and informed in relation to the total number of members surveyed</i>
Methodology/ Terminology	Members answer questions and are allocated to 5 categories according to their answers: · Proactive members: Members who take part in (or have taken part in) a member council or market team. · Active members: Members who occasionally attend a substantive member event or have at some time alerted Rabobank to a problem relating to livability in the community. · Informed members: Members who have a good/reasonable idea of Rabobank's mission and are aware of the opportunities to undertake activities with the support of Rabobank on social themes in their community. · Aware members: Members who are aware of their membership · Non-aware members: Members who are not aware of their membership. Member involvement is a key figure that is newly reported this year because it's an important strategic topic for the Rabobank. We measure and report this KPI through the Member Engagement Score. A specialized external data survey agency has been commissioned to work together in developing the score. The outcome of the survey is determined in such a way that every local Rabobank has the same weight in the results, regardless size or number of members.
<b>Employee Engagement Scan</b>	<i>Rabobank's Management Board requires management information on how the organization is developing and how employees are feeling and realizing their goals. Monitoring work perception on a regular basis allows Rabobank to effectively manage and make adjustments in a timely manner. The Engagement Scan has been developed for this purpose.</i>
Methodology/ Terminology	We measure and report employee engagement through the Engagement Scan. HR commissioned a specialized external data survey agency to work with them to develop the scan. The survey consists of 23 questions/statements, supplemented by three optional closed-ended questions provided by employees themselves. How employees respond to these questions describes the extent to which they feel engaged in their work at that particular point in time. Since Q4 2017 the Engagement Scan has been conducted quarterly throughout Rabobank worldwide. The score given in this report is based on the Q4 2018 results. The Engagement Scan is not compared to external benchmarks.
<b>Gender Diversity</b>	<i>Diversity is a vital and integral part of our strategic objectives. To enhance career opportunities for women, Rabobank offers diverse internal and external activities. These include sponsorship of talented women by senior executives, cross-mentoring and coaching programs. Our Diversity Board meets each quarter to monitor policy compliance and progress on our targets.</i>
Methodology/ Terminology	We report and measure the number of males and females based upon headcount as reported from Rabobank's human resource information management system at the end of the year. Gender diversity is the percentage of women in the Managing Board, the first level below the Managing Board, who have a Managing Board Member as manager and is a manager (excluding Business Managers), and the percentage of women in the Netherlands excluding DLL and BPD. Gender diversity is measured for internal employees.

<b>System Availability</b>	<i>System availability refers to the opportunity for users to do their banking through Rabobank online banking or Rabobank mobile banking.</i>
<b>Methodology/ Terminology</b>	By availability we mean that users are able to log on during primetime (daily between 06.00h and 01.00h), that they can access information on their balance and their payment transactions, and that they are able to make payments. The data used to measure system availability comes from IT incident reports. We measure availability on all relevant incidents based on the number of minutes actually registered in the monitoring systems. The system availability statistics include all incidents involving a downtime of >3 minutes. They also indicate if the system was fully (100%) or partially (50%) unavailable, expressed as a percentage of total primetime minutes. Incidents identified using this methodology are subject to further analysis. For 'making payments' we do further analysis if the number of signings per minute is lower than 100.
<b>Availability of iDEAL</b>	
<b>Methodology/ Terminology</b>	Specific availability standards have been set for iDEAL by the brand owner Currence. DNB has included these standards in the agreements it makes with banks on the availability of iDEAL. These agreements make a distinction between primetime availability (06:30h-01:00h) and non-primetime availability (01:00h - 06:30h). The primetime availability standard is 99.76%, the non-primetime availability standard is 98.5%. The latter standard is lower since it is a maintenance window. Banks are allowed to conduct necessary maintenance during non-primetime in order to safeguard service to customers and to comply with changing regulations. The data used to measure system availability comes from IT incident reports. All availability incidents lasting >2 minutes and >5 minutes are included in availability statistics, using a three-month average as the standard. The statistics also reflect full or partial non-availability.
<b>Sustainable products and services</b>	<i>We measure and report the total of sustainable finance, sustainable assets under management and assets held in custody, sustainable funding and financial transactions supervised. Giving priority to sustainable leaders is a rule of conduct which is not measured in a reporting value. We aim to double the volume of sustainable financing between 2013 and 2020.</i>
<b>Methodology/ Terminology</b>	<p>Sustainable products and services include products and services that besides a positive economic impact, foster a positive or mitigate a negative social and/or environmental impact/outcome. We do report on 4 different sustainable products and services figures:</p> <ul style="list-style-type: none"> <li>- Sustainable financing relates to products and services that finance sustainable sectors, asset classes or certified companies that have a net positive impact. The reported figure is the maximum outstanding balance that the bank has towards its clients based on all financial facilities that can be withdrawn by the client. As of 2018 we included sustainable syndicated loans and sustainable mortgages. The sustainable mortgages are a substantial part of the total of sustainable financing. This figure consists of the outstanding balances of all residential properties with a provisional or final energy label A.</li> <li>- Sustainable assets under management and assets held in custody relate to assets that meet our sustainability investment criteria.</li> <li>- Sustainable funding includes funding products with a sustainability earmark. This includes green savings, sustainable deposits and sustainable bonds issued by Rabobank and subsidiaries.</li> <li>- Financial transactions related to financial transactions supervised by Rabobank (mostly in combination with other banks) and include Green bonds and syndicated sustainable financing solutions. The transactions supervised also comprise transactions that are included in sustainable finance and sustainable funding.</li> </ul>
<b>Client Photo</b>	<i>The client photo measures the sustainability performance of our clients. We have defined 5 performance level categories (A, B, C, D+, and D). A definition of the categories is included in the legend following the detailed figures in client photo.</i>
<b>Methodology/ Terminology</b>	<p>We first implemented the client photo in 2015 in the Netherlands and expanded the client photo to our international wholesale clients in 2016. We monitor clients with an exposure &gt; EUR 1 million. In the Annual Report we include a table that shows the number of client photos in the Netherlands and with an exposure (&gt; EUR 1 million) for each client photo category per sector, the table regarding the wholesale offices also includes client photos of subsidiaries (but only if the exposure on group level is &gt;EUR 1 million). This is a change in methodology from previous years. Only clients with a client photo &lt;3 years are included. In the Netherlands clients that are subject to Financial Restructuring &amp; Recovery are excluded, currently these client do not receive a Client Photo. In the Netherlands we assess clients always on group level, at our wholesale offices it is also possible that clients are assessed on a subsidiary level when due to local regulation or specific local circumstances.</p> <p>The reported figures on exposure for clients of local Rabobanks include only the exposure of parent companies, even in the situation that the client photo is applicable for the whole group. The exposure of clients of Wholesale offices include both the exposure of parent companies and subsidiaries. The scope of the reported exposure is the nominal obligo measured by the available facility of loans, overdraft facilities and guarantees to be withdrawn.</p>
<b>Absenteeism</b>	<i>Absenteeism is measured in a 12-month rolling period.</i>
<b>Methodology/ Terminology</b>	Absenteeism is measured based on the number of calendar days employees called in sick in the period, divided by the total number of calendar days employees are employed during that same period taking into account a part time or full time employment contract. This concerns all persons in active employment who actually perform work in the Netherlands excluding DLL and BPD. The reported figure is for an entire year.
<b>CO<sub>2</sub> reduction</b>	<i>By increasing energy efficiency and by reducing and making mobility and other services more sustainable, we aim to further reduce carbon emissions per FTE per year by 2020 by 10% from 2013</i>
<b>Methodology/ Terminology</b>	<p>The climate footprint is calculated according to the most recent directives of the Greenhouse Gas Protocol (GHG) and the associated CO<sub>2</sub> conversion factors originate from, amongst others, DEFRA and the IEA. The operating information for the climate footprint report is based on the period from October 1, 2017 to September 30, 2018. Increasing energy efficiency means that we are committed to reduce our energy consumption as much as possible, for example by facilitating teleworking in order to reduce employee travel time. Rabobank is also as sustainable as possible in its purchasing policies, attempting to use renewable raw materials and contracts based on circular economic principles wherever we can.</p> <ul style="list-style-type: none"> <li>- The data with regard to Rabobank's internal business operations is mostly based on Rabobank's automated central management information system and on invoices from our providers. In preparing the footprint, estimations, assumptions and extrapolations were made. This was done when data was unavailable or incomplete. Although these estimates and assumptions were made, based on the most careful assessment of current circumstances and activities available consumption data and information, the actual results may deviate from these estimates.</li> <li>- Our climate footprint consists solely out of CO<sub>2</sub> emissions and no other emissions (e.g. CH<sub>4</sub>, N<sub>2</sub>O and other gasses).</li> </ul>
<b>Community funds and donations</b>	<i>We invest our annual profit in social initiatives on a not-for-profit basis throughout the Rabobank Group.</i>
<b>Methodology/ Terminology</b>	<p>We measure and report this key figure by the granted financial donations done by Rabobank Group. The main component of the total amount is the amount of donations by our local Rabobanks. Manpower and knowledge invested in local communities are measured and monitored as well, but not included in the KPI report.</p> <p>Terminology: Cooperative dividend - the part of the profit that is reinvested back into the community whereby investments consist of granted donations.</p>

# Appendix 3 Sustainability Facts & Figures

## Equator Principles

The Equator Principles (EP) is a framework for risk management by financial institutions for determining, assessing and managing social and environmental risks in projects and project financing. Rabobank was one of the first banks to subscribe to the EP when it was adopted in 2003. For those financial products that fall within the scope of the EP, in addition to complying with our sustainability policy, we ask clients to bring into focus and address relevant environmental and social risks according to the associated standards outlined in the EP.

Within Rabobank the relationship managers and the central sustainability department are responsible for the correct implementation of the EP. As part of the sustainability assessment of our clients, all transactions are checked for applicability of the EP. When clients apply for a new transaction, a checklist is completed to ensure the correct application of the principles. This checklist must be signed by the Sustainability Department before the transaction can be executed.

We conduct a Social and Environmental Assessment for each proposed project. The terminology used to categorize the projects is based on the International Finance Corporation's categorization process, which classifies projects into high, medium and low (environmental and social) risk.

The categories are:

Category A – Projects with potential significant adverse social or environmental impacts which are diverse, irreversible or unprecedented;

Category B – Projects with few potentially limited adverse social or environmental impacts, generally site-specific, largely reversible and readily addressed through mitigation measures;

Category C – Projects with minimal or no social or environmental impacts.

The total number of project loans granted in 2018 was 17 which was distributed as follows:

	Category A	Category B	Category C
<b>Sector</b>			
Mining			
Infrastructure		1	
Oil & Gas			
Power		15	1
Others			
<b>Region</b>			
Americas		6	
Europe, Middle East & Africa		10	1
Asia Pacific			
<b>Country Designation</b>			
Designated		16	1
Non-Designated			
<b>Independent Review</b>			
Yes		15	1
No		1	
<b>Totals</b>		<b>16</b>	<b>1</b>

<b>Project Names</b>
Zonnepark Budel
Valhalla
Eurus Spui
Levvel
Blauwwind
Big Zlatan
W2C
BLAFA
Northwester
SeaMade
Windpark Deil
Trishe Wind
Invenergy Pine River
Canadian Breaks
Phoebe
Grasshopper
Santa Rita East

## Rabobank Carbon Footprint

### Greenhouse Gas Emissions and Climate Footprint (in tons of CO<sub>2</sub>)

Emission source	2018	2017	2016	2015
<b>Scope 1</b>				
Use of natural gas	10,564	12,747	12,269	13,998
Use of other fuels	60	76	48	62
Use of air conditioning	1,962	2,006	2,218	2,419
Lease mileage driven	21,742	25,527	33,944	36,484
<b>Scope 2</b>				
Use of electricity	87,491	110,540	108,679	102,128
Use of heat	1,009	1,401	1,951	1,803
<b>Scope 3</b>				
Business car mileage driven	5,231	4,726	5,092	5,378
Business air mileage	18,110	16,645	16,425	18,873
Use of paper	922	706	837	922
Climate footprint, Total CO <sub>2</sub> emissions:	147,091	174,374	181,465	182,067
Climate footprint per fulltime equivalent:	3.4	4.0	3.8	3.5
Use of electricity in accordance with market-based calculation method	18,080	38,729	29,072	26,066
Climate footprint in accordance with market-based calculation method	77,680	102,563	101,857	106,004
Climate footprint per fulltime equivalent in accordance with market-based calculation method	1.8	2.3	2.1	2.0

Rabobank is actively reducing CO<sub>2</sub> emissions related to its own operations. We are also involved in the development of reporting standards on carbon disclosure and climate change reporting (amongst which are TCFD and PCAF). This is because we recognize that the potential impact of climate change and carbon reporting through our client base is much larger than our own footprint. Rabobank continues efforts to reduce its CO<sub>2</sub> emissions per FTE by 10% between 2013 and 2020. Rabobank had a large decrease of CO<sub>2</sub> emissions compared to 2017. Rabobank reduced its CO<sub>2</sub> emissions per FTE with 15%. In 2018, we continued to publicly disclose data on our energy use and our emissions reduction efforts through the Carbon Disclosure Project.

Rabobank purchases green electricity as well as green gas and compensates the remaining emissions, which are emitted through our usage of fuels, paper and non-green electricity. We do so by purchasing CO<sub>2</sub> credits after we have determined our climate footprint in 2018 in accordance with the market-based method - 77,680 tons. As such, Rabobank was climate neutral once again in 2018.

The data with regard to Rabobank's internal business operations is mostly based on Rabobank's automated central management information system and on invoices from our providers. In preparing the footprint, estimations, assumptions and extrapolations were made. This was done when data was unavailable or incomplete. Although these estimates and assumptions were made, based on the most careful assessment of current circumstances and activities available consumption data and information, the actual results may deviate from these estimates. The footprint data refers to the period October to September (whereas the latest figures cover the period October 1, 2017 till September 30, 2018).

We use reliable sources and established protocols for conversion factors. The climate footprint is calculated according to the most recent directives of the Greenhouse Gas Protocol (GHG) and the associated CO<sub>2</sub> conversion factors originate from, among others, DEFRA and the IEA. Our climate footprint consists solely out of CO<sub>2</sub> emissions and no other emissions (e.g. CH<sub>4</sub>, N<sub>2</sub>O and other gases).



### Consumption Figures Rabobank Group by Source and Activity

	Change in % compared to 2017	2018	2017	2016	2015	Unit
Energy	-18%	866	1,082	1,100	1,134	Terajoules
Total electricity	-18%	659	834	820	823	Terajoules
Green electricity	-6%	535	571	629	652	Terajoules
Grey electricity	-45%	124	263	190	171	Terajoules
Total gas	-17%	206	248	240	274	Terajoules
Green gas	96%	101	51	37	29	Terajoules
Grey gas	-47%	105	197	203	244	Terajoules
District heating	-3%	28	29	40	37	Terajoules
Electricity per fulltime equivalent	-17%	4,290	5,306	4,717	4,343	kWh/FTE
Green electricity inside the Netherlands	19%	96%	78%	88%	95%	Percentage
Green electricity outside the Netherlands	11%	29%	26%	42%	29%	Percentage
Water in the Netherlands	-14%	268	312	312	301	x1000m <sup>3</sup>
A4 paper	30%	23	17	18	19	kg/FTE
Paper and cardboard waste in the Netherlands	-60%	18	45	35	35	kg/FTE
Residual waste in the Netherlands	-40%	18	30	42	25	kg/FTE

### Client Photo

Please note that in total 15,776 clients of Local Rabobank in The Netherlands have an exposure larger than EUR 1 million. Due to technical reasons we are only able to extract the results of 13,122 clients which have been summarized in the table below and in the

Key Figures, page 6. From this number 109 clients do not have a Client Photo hence the 99% coverage figure as reported. We aim to improve the process and to report on all eligible client of Local Rabobanks in the Netherlands in the Annual Report 2019.

### Client Photo

	Number	%	2020 target	%A-level
Local Rabobanks	13,013	99%	100%	5%
Wholesale offices	1,258	87%	100%	24%
Other Group divisions	n/a	n/a	100%	n/a

### Sustainability Performances of Clients of Local Rabobanks in the Netherlands (exposure larger than EUR 1M)

Number of clients per sector	Total	A	B	C	D+	D
Food & Agri	5,328	235	4,983	103	5	2
Trade, industry and services	5,357	277	4,887	186	2	5
Other and unclassified	2,328	187	2,106	32	2	1
Total in numbers	13,013	699	11,976	321	9	8
Total in %	100%	5%	92%	2%	0%	0%

### Receivables from Clients

In millions of euros	Total	A	B	C	D+	D
Total loans and advances	42,954	3,348	38,527	1,020	14	45
Total in %	100%	8%	90%	2%	0%	0%

### Sustainability Performances of Clients of Wholesale Offices in the Netherlands (exposure larger than EUR 1 M)

Number of clients per sector	Total	A	B	C	D+	D
Food & Agri	651	140	460	43	6	2
Trade, industry and services	596	154	394	46	1	1
Other and unclassified	11	2	9			
Total in numbers	1,258	296	863	89	7	3
Total in %	100%	24%	69%	7%	1%	0%

### Receivables from Clients

In millions of euros	Total	A	B	C	D+	D
Total loans and advances	116,822	31,179	79,161	6,121	116	246
Total in %	100%	27%	68%	5%	0%	0%

### Sustainability Ratings

#### RobecoSAM

	2018	2017	2016	2015
<b>Ranking</b>	25	11	7	5
Overall score	79	89	91	87
Economic dimension	75	90	94	88
Environmental dimension	85	88	93	90
Social dimension	80	88	87	85

In 2018 RobecoSAM updated its scoring methodology which impacted our score and ranking substantially.

#### Sustainalytics

	2018	2017	2016	2015
<b>Relative position</b>	2 out of 341	7 out of 342	2 out of 396	11 out of 422
	89 (industry leader)	86 (industry leader)	85 (industry leader)	80 (industry leader)
Overall ESG-score				
Environment	91	91	92	84
Social	88	87	86	81
Government	88	80	78	76

#### Sustainalytics ESG Risk Rating

	2018	2017	2016	2015
<b>Relative position (diversified banks)</b>	1 out of 294	n/a	n/a	n/a
ESG risk rating	9.5/100 (Negligible)	n/a	n/a	n/a

#### VBDO Tax Transparency Benchmark

	2018	2017	2016	2015
position	5-7 out of 76	3 out of 76	20 out of 68	18 out of 64
Overall score	21	24	20	18

### Social Indicators

The reported data only refers to the Netherlands, excluding DLL and BPD.

#### Number of Employees\*

	male	female	total
GRI Standard 102-8			
Permanent	11,547	12,441	23,988
Temporary	593	695	1,288
Full-time	11,616	5,941	17,557
Part-time	524	7,195	7,719
Internal	12,140	13,136	25,276
External	3,908	1,735	5,643

#### New Hires and Personnel Turnover in Numbers and Ratio

	Age	Gender	Numbers	Ratio
New personnel	<35	male	564	2%
		female	589	2%
	35-54	male	345	1%
		female	296	1%
Turnover	>54	male	38	0%
		female	19	0%
	<35	male	442	2%
		female	520	2%
	35-54	male	734	3%
		female	954	4%
	>54	male	265	1%
		female	171	1%

#### Training

GRI Standard 404-1	Hours			
	salary scale	male	female	total
Average number of training hours	1-7		33	25
	8-11		17	21
	SK		7	8
	EK		4	6
	Total		21	23

#### Other Information

GRI Standard 102-41	% employees under collective labor agreement	100%
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# Appendix 4 Dialogues with Clients

## Dialogues with Clients in 2018

Rabobank engages with clients on material sustainability controversies and alleged issues regarding the environment, human rights, labor rights and governance. These can be addressed by the responsible banker, but in some cases specialist advice is given by the central sustainability department. In 2018, the sustainability department presided 55 such engagements under management. The table below provides a short description of the topics of discussion as well as of the industry and the region in which the issues arose. Colleagues of local Rabobank offices closer to the respective clients play an important role in conducting these dialogues. The sustainability department decides which engagements to hold, track and monitor, and it contacts the colleagues who are responsible for the client

relationship in order to discuss a course of action. Progress and interim results of the engagements are agreed upon, monitored and aggregated by the sustainability department. Some engagements can take several years before they are brought to an end. Of the dialogues listed below 38 have been carried over from last year. During 2018 we added 12 new engagements. We concluded a total of 14 engagements, as indicated in the table. Details on the nature of the allegations' 'issue type', the current status of the issue and the status of the engagement complete this overview. Furthermore, the Rabobank Issue Table 2018 shows the categories of issues we use and provides the number of engagements in which the respective issue plays a role. One engagement can encompass more than one issue. The table Status Category provides a description of the categories we use.

<i>Dialogues with Clients in 2018</i>					
<i>Industry</i>	<i>Region</i>	<i>Issue type</i>	<i>Short issue description</i>	<i>Issue status</i>	<i>Status Category</i>
Animal protein	Europe	G - P1	Client active in restricted activity, agreed to change to alternative, subsequently to divest	open	Client relationship terminated
Beverages	Asia	S - H1 S - L5	Welfare, health and working conditions on plantation insufficient; improvement progress on track	closed	Engagement stopped
Beverages	South America	S - L4	Fatalities during maintenance work	open	Client is taking action
Cocoa	Africa	S - L2	Child labor vs poverty reduction dilemma	open	Client is taking action
Cotton	Europe	S - L1 S - L2	Child labor vs poverty reduction dilemma	open	Client is taking action
Energy / metals	South America	S - H1	Allegations of abusing public security forces to remove protestors	open	Client has resolved issue
Energy / metals	Africa	E - E4	Allegations of negative impacts to environment in supply chain	open	Client is taking action
Energy / metals	Africa	E - E4	Allegations of negative impacts to environment in supply chain	open	Client is taking action
Energy / metals	Africa	E - E4	Allegations of negative impacts to environment in supply chain	open	Client is taking action
Energy / metals	Africa	E - E4	Allegations of negative impacts to environment in supply chain	open	Client is taking action
Energy / metals	South America	G - P1	Suspected non-compliance with policy	closed	Client has resolved issue
Energy / metals	Europe	G - P1	Suspected non-compliance with policy	closed	Engagement stopped
Farm inputs	North America	E - E2 S - H2	Alleged negative impacts to people and environment	open	Authorities involved
Farm inputs	North America	G - P1	Suspected non-compliance with policy	open	Investigation
Farming	Europe	G - P1	Allegations of negative impacts to environment in supply chain	open	Client is taking action
Farming	Europe	G - P1 E - E4	Suspected non-compliance with policy	open	Client is taking action
Farming	Europe	G - G4	Allegations of negative impacts to environment in supply chain	open	Client is taking action
Farming	South America	E - E2	damage to HCV	open	Client is taking action
Farming	South America	E - E2 S - L5	Quality employee facilities and environmental issues	closed	Client is taking action
Farming	South America	E - E2	Handling of chemical products and packaging	closed	Client is taking action
Farming	South America	E - E2 S - L5	Quality employee facilities and environmental issues	open	Client is taking action

Industry	Region	Issue type	Short issue description	Issue status	Status Category
Farming	South America	E - E2	mapping of reserve and protection areas	open	Client is taking action
Farming	South America	S - L5	Facilities improvement	open	Client is taking action
Farming	South America	S - L5	Facilities improvement	open	Client is taking action
Farming	South America	G - G2	Legal requirements	open	Client is taking action
Farming	South America	S - L5	Facilities improvement	open	Client is taking action
Farming	South America	G - G2	Legal requirements	open	Client is taking action
Food	South America	S - L3	Allegations of hindering unionization	open	Client is taking action
Food	Europe	G - G1	Tax avoidance	closed	Engagement stopped
Grains	Asia	E - E2	Allegations of burning to clear land	open	Authorities involved
Services	South America	E - E2 H - H2	Allegations of use of violence to relocate people and of damage to environment	open	Authorities involved
Sugar	Asia	S - H2	Legal claim	open	Authorities involved
Wholesale	Asia	S - L1 S - L2	Allegations of forced and child labor	closed	Insufficient evidence
Wholesale	Asia	S - L1 S - L2	Allegations of forced and child labor	closed	insufficient evidence
Palm oil	Africa	S - H2	Alleged insufficient information/compensation to communities	open	Client has resolved issue
Palm oil	Asia	S - H3	Conflicting claims of communities on land. Dispute on sharing the agreed compensation sum with new claimants	open	Client has resolved issue
Palm oil	Asia	S - H2	FPIC and settlement issues in part-owned plantation	closed	Engagement stopped
Palm oil	Asia	S - L5	labor conditions not in breach of policy or applicable law, but room for improvement	closed	Engagement stopped
Palm oil	Asia	S - H2	Allegations of primary forest destruction and no FPIC applied	open	Client is taking action
Palm oil	Asia	S - H2 E - E2	Allegations of insufficient FPIC, legal compliance and HCV assessments. Breaches convincingly refuted by client yet above and beyond measures agreed	open	Client is taking action
Palm oil	Asia	S - H3	Issues with land rights and legal requirements to operate that mutually exclude	closed	Client has resolved issue
Palm oil	Asia	E - E2	Allegations of destruction of HCV	closed	Engagement stopped
Palm oil	Asia	E - E2 S - H2 S - H3	Allegations of insufficient EIA and insufficient share to land rights holders	open	Client is taking action
Palm oil	Asia	E - E3 S - H2	Potential issue of insufficient consultation	open	Engagement stopped
Palm oil	Asia	E - E3	Insufficient traceability	open	Client is taking action
Palm oil	Asia	E - E3	Insufficient traceability	open	Client is taking action
Palm oil	Asia	S - L2 S - L3 S - L4	Allegations of worker exploitation	open	Engagement stopped
Palm oil	Asia	E - E3	Allegations of deforestation of primary forest	closed	Client relationship terminated
Palm oil	Asia	E - E4 S - H2	Environmental and social issues in supply chain	closed	Client has improved policy/behavior
Palm oil	Asia	S - L2 S - L4 S - L5 S - L6	Allegations of illegal and abusive labor practices	open	Client has improved policy/behavior
Palm oil	Asia	E - E2 S - H2	Allegations of peat clearance and land conflicts	open	Investigation
Palm oil	Asia	G - G3	Allegations of deforestation in supply chain through related companies	open	Client is taking action
Palm oil	Africa	S - H2	Issues due to insufficient procedures re FPIC	open	Client is taking action



### Rabobank Issue Table 2018

Environment	#	Society	#	Society	#	Governance	#
		Human rights		Labor rights			
E1. Cruelty to animals	# 0	H1. Human rights abuses	# 2	L1. Forced labor	# 3	G1. Integrity (corruption, bribery, money laundering, fraud, tax evasion, anti-competitive practices)	# 2
E2. Impacts on ecosystems and landscapes	# 13	H2. Impacts on communities and indigenous peoples	# 12	L2. Child labor	# 6	G2. Lack of transparency	# 2
E3. Overuse of natural capital resources or waste of resources	# 4	H3. Participation issues	# 3	L3. Freedom of association and collective bargaining	# 2	G3. Misleading communication and 'greenwashing'	# 1
E4. Pollution	# 6	H4. Social discrimination	# 0	L4. Health and safety of employees	# 3	G4. Products or services that pose health and safety risks to consumers	# 1
				L5. Poor employment conditions	# 8	P1. Non-compliance Rabobank policy	# 6
				L6. Employee discrimination	# 1		

### Status Category

Status Category	Description
Investigation	An investigation is required to better understand the nature and extend of the problem and to gain more insight into the necessary or desired improvement
Client acknowledges issue	There is agreement on the facts of the issue
Insufficient evidence	There is insufficient certainty that the client is causing the problem or can contribute to reducing or resolving it
Client willing to improve policy/behavior	There is agreement on how an improvement can be achieved
Client is taking action	-
Client has resolved issue	-
Client has improved policy/behavior	-
Authorities involved	A dispute between parties is under consideration by or requires the action or decision of a government agency or court of law; the dialogue is suspended
Client relationship terminated	The client has shown insufficient progress and the bank has taken steps to end the relationship
Client relationship terminated (other)	The client relationship has been terminated for other reasons
Engagement stopped	In case of prospective clients: the prospect is unwilling to act in accordance with our policies; in case of a client relationship: the link between Rabobank and the client or the issue no longer exists

# Appendix 5 Our Financial Performance & Segment Reporting

## Domestic Retail Banking

### Highlights

Operating expenses at the Domestic Retail Banking segment decreased by 5% in 2018, largely caused by lower staff costs following the reduction of the workforce.

In 2018 impairment charges on financial assets amounted to a release of EUR 150 million as the economic climate in the Netherlands remains favorable.

Deposits from customers increased in 2018 by EUR 7.9 billion and amounted to EUR 236.7 billion.

### Financial Results

<b>Results</b>			
<i>in millions of euros</i>	12-31-2018	12-31-2017	Change
Net interest income	5,575	5,581	0%
Net fee and commission income	1,434	1,398	3%
Other results	92	74	24%
<b>Total income</b>	<b>7,101</b>	<b>7,053</b>	<b>1%</b>
Staff costs	1,158	1,430	-19%
Other administrative expenses	3,025	2,959	2%
Depreciation	84	98	-14%
<b>Total operating expenses</b>	<b>4,267</b>	<b>4,487</b>	<b>-5%</b>
<b>Gross result</b>	<b>2,834</b>	<b>2,566</b>	<b>10%</b>
Impairment charges on financial assets	(150)	(259)	-
Regulatory levies	237	270	-12%
<b>Operating profit before tax</b>	<b>2,747</b>	<b>2,555</b>	<b>8%</b>
Income tax	712	659	8%
<b>Net profit</b>	<b>2,035</b>	<b>1,896</b>	<b>7%</b>
Impairment charges on financial assets (in basis points)	(5)	(9)	

### Ratios

Cost/income ratio including regulatory levies	63.4%	67.4%
Underlying cost/income ratio including regulatory levies	61.7%	66.0%

### Balance Sheet (in billions of euros)

External assets	280.7	285.9	-2%
Private sector loan portfolio	276.1	280.0	-1%
Deposits from customers	236.7	228.8	3%
Number of internal employees (in FTEs)	10,943	12,466	-12%
Number of external employees (in FTEs)	1,126	1,169	-4%
<b>Total number of employees (in FTEs)</b>	<b>12,069</b>	<b>13,635</b>	<b>-11%</b>

### Notes to the Financial Results

<b>Development of Underlying Operating Profit Before Tax</b>			
<i>in millions of euros</i>	12-31-2018	12-31-2017	
<b>Income</b>	<b>7,101</b>	<b>7,053</b>	
<b>Operating expenses</b>	<b>4,267</b>	<b>4,487</b>	
Adjustments to expenses	Restructuring	69	52
	Derivatives framework	52	51
<b>Underlying expenses</b>	<b>4,146</b>	<b>4,384</b>	
Impairment charges on financial assets	(150)	(259)	
Regulatory levies	237	270	
<b>Operating profit before tax</b>	<b>2,747</b>	<b>2,555</b>	
<b>Total adjustments</b>	<b>121</b>	<b>103</b>	
<b>Underlying profit before tax</b>	<b>2,868</b>	<b>2,658</b>	

### Underlying Performance Improved by 8%

The underlying performance of Domestic Retail Banking (DRB) improved in 2018 compared to 2017. The underlying profit before tax amounted to EUR 2,868 million compared to EUR 2,658 million in 2017. In calculating the underlying profit before tax, adjustments were made for restructuring costs and the additional provision taken for the interest rate derivatives framework. Total income increased slightly, while operating expenses decreased by EUR 220 million, boosting net profit despite EUR 109 million lower releases of impairment charges on financial assets.

### Income Increased Slightly

The total income of Rabobank's DRB business increased slightly to EUR 7,101 (2017: 7,053) million. As was the case in 2017, we again observed a positive impact in our lending book from new business margins. At the same time, the volume of early interest rate revisions in our mortgage book remained high. Net interest

income was pressured due to lower margins on savings and current accounts as a result of the low interest rate environment. The increased volume of payment accounts had a positive impact on net interest income. All in all, the total net interest income of EUR 5,575 million still matched the level of 2017 (EUR 5,581 million). Higher commissions on payment accounts helped to lift the net fee and commission income to EUR 1,434 (2017: 1,398) million. Other results came to EUR 92 (2017: 74) million at December 31, 2018. The increase in other results can be partly explained by the premium on the sale of a share of Rabobank's mortgage portfolio to the French investor La Banque Postale in September.

### Operating Expenses Down by 5%

Total operating expenses of DRB decreased to EUR 4,267 (2017: 4,487) million. Staff costs fell to EUR 1,158 (2017: 1,430) million as a consequence of the digitalization and centralization of services reduced the size of the workforce. The number of internal and external employees in the segment decreased to 12,069 (2017: 13,635) FTEs on December 31, 2018, partly due to employees moving from local Rabobanks to the central organization in order to create economies of scale. The decrease in staff costs was further caused by lower costs associated with the pension accrual guarantee given to the pension fund which amounted to EUR 9 (2017: 116) million. Other administrative expenses landed at EUR 3,025 (2017: 2,959) million and were negatively impacted by higher restructuring costs, which amounted to EUR 69 (2017: 52) million and by costs related to the accelerated depreciation of authentication devices for internet banking. The project expenses for the execution of the interest rate derivatives framework were somewhat lower than in 2017. The additional provision taken for the interest rate derivatives framework was in line with 2017 and amounted to EUR 52 (2017: 51) million. The revaluation decrease of property for own use was somewhat higher than in 2017 due to lower occupancy rates, amounting to EUR 61 (2017: 49) million. As a result of our restructuring activities, several offices were closed and consequently, depreciation fell to EUR 84 (2017: 98) million.

### Impairment Charges on Financial Assets Remained Negative

The impairment charges on financial assets increased in 2018, but are still at an exceptionally low rate as a result of the favorable economic climate. Impairment charges on financial assets amounted to minus EUR 150 (2017: minus 259) million in 2018, which translates to minus 5 (2017: minus 9) basis points of the average private sector loan portfolio – far below the long-term average of 21 basis points. Releases were mainly in the sea and

coastal shipping sector, while additions were observable in industry sectors. The net additions on mortgages amounted to minus 2 basis points. This illustrates the strong Dutch residential real estate market, where large numbers of houses are being sold and prices increase enormously.

### Loan Portfolio Decreased by 1%

The persisting low interest rate on savings continued to encourage clients to make supplementary repayments on their loans. In 2018, clients' extra mortgage repayments – all those on top of the mandatory repayments – at local Rabobanks and Obvion totaled approximately EUR 19.2 (2017: 19.8) billion. Of this amount EUR 3.5 (2017: 3.6) billion was due to partial repayments. Full mortgage repayments, which are mainly caused by borrowers moving house, slightly decreased to EUR 15.7 (2017: 16.2) billion. This is a reflection of the Dutch housing market, which witnessed a decline in the number of houses sold in 2018. DRB's total loan portfolio (including business lending) decreased to EUR 276.1 (2017: 280.0) billion. On January 1, 2018, as a result of reclassifications due to the full implementation of IFRS 9, lending decreased by EUR 0.1 billion to EUR 279.9 billion. These figures include Obvion's loan portfolio, valued at EUR 28.5 (2017: 28.5) billion. Lending to the SME business segment amounted to EUR 83.8 (2017: 84.7) billion.

#### Loan Portfolio by Sector

<i>in billions of euros</i>	<i>12-31-2018</i>	<i>12-31-2017</i>
Volume of loans to private individuals	192.3	195.4
Volume of loans to trade, industry & services	57.7	57.7
Volume of loans to Food & Agri	26.1	27.0
<b>Private sector loan portfolio</b>	<b>276.1</b>	<b>280.0</b>

### Mortgage Loan Portfolio

Following record house sales in 2017, 2018 saw transaction activity decline by almost 10%. Prices kept rising, however, resulting in 9% more expensive residential properties in the Netherlands compared to the year before. This is the strongest growth since 2001. Rabobank's share of the Dutch mortgage market decreased to 19.9% (2017: 22.0%) of new mortgage production in 2018<sup>1</sup>. The local Rabobanks' market share dropped to 16.7% (2017: 18.0%) and Obvion's decreased to 3.2% (2017: 4.0%). The quality of Rabobank's residential mortgage loan portfolio remained high because of positive developments in the Dutch economy and the strong domestic housing market. The total volume of Rabobank's residential mortgage loan portfolio declined in the reporting year to EUR 190.0 (2017: 193.1) billion, partly due to a whole loan sale transaction to La Banque Postale. In 2018, financing backed by the National Mortgage Guarantee

<sup>1</sup> Source: Dutch Land Registry Office (Kadaster); following data issues at CBS the September mortgage shares are the most recent ones available.

(*Nationale Hypotheek Garantie*, (NHG)) slightly decreased, at 19.4% of the mortgage loan portfolio. The weighted average indexed loan-to-value (LTV) of the mortgage loan portfolio was 64% at the end of 2018. Net additions relating to residential mortgages amounted to minus EUR 29 million (minus 2 basis points) in 2018, which is lower than the previous year.

### Residential Mortgage Loans

<i>in millions of euros</i>	<i>12-31-2018</i>	<i>12-31-2017</i>
Mortgage portfolio	190,008	193,110
Weighted-average LTV	64%	69%
Non-performing loans (amount)	2,057	1,112
Non-performing loans (in % of total mortgage loan portfolio)	1.08%	0.58%
More-than-90-days arrears	0.30%	0.34%
Share NHG portfolio	19.4%	20.0%
Impairment allowances on financial assets	209	169
Coverage ratio based on non-performing loans	10%	15%
Net additions	(29)	12
Net additions (in basis points)	(2)	1
Write-offs	42	77

The non-performing loans of the mortgage portfolio were higher than at year-end 2017. This is the result of the introduction of the new Definition of Default, which recognizes possible default situations earlier. Aside from this one-off increase, the underlying trend of the credit quality is positive.

### Deposits from Customers Increased by EUR 7.9 Billion

The private savings market in the Netherlands increased by 4% to EUR 353.7 (2017: 341.0) billion as of December 31, 2018. Rabobank's market share was 33.3% (2017: 33.4%).<sup>1</sup> Deposits from customers rose by 3% to EUR 236.7 (2017: 228.8) billion. Private savings deposited at DRB increased by EUR 2.1 billion to EUR 119.1 (2017: 117.0) billion, despite the fact that clients applied excess savings to deleverage their mortgage debt, prompted by the low interest rates on savings. Other deposits from customers went up by EUR 5.9 billion mainly due to an increase in current accounts.

<sup>1</sup> Source: Statistics Netherlands (Centraal Bureau voor de Statistiek)

## Wholesale, Rural and Retail

### Highlights

The performance of Wholesale, Rural & Retail improved in 2018, as illustrated by the development of net profit, which increased to EUR 710 million. This is an increase of EUR 123 million compared to 2017.

Impairment charges on financial assets increased to EUR 300 million, but are still below the long term average.

Compared to January 1, 2018, the loan portfolio of the WRR segment increased by 9%, to EUR 109.0 billion.

### Financial Results

<b>Results</b>			
<i>in millions of euros</i>	<i>12-31-2018</i>	<i>12-31-2017</i>	<i>Change</i>
Net interest income	2,388	2,367	1%
Net fee and commission income	461	432	7%
Other results	486	655	-26%
<b>Total income</b>	<b>3,335</b>	<b>3,454</b>	<b>-3%</b>
Staff costs	938	939	0%
Other administrative expenses	845	1,194	-29%
Depreciation	40	56	-29%
<b>Total operating expenses</b>	<b>1,823</b>	<b>2,189</b>	<b>-17%</b>
<b>Gross result</b>	<b>1,512</b>	<b>1,265</b>	<b>20%</b>
Impairment charges on financial assets	300	95	216%
Regulatory levies	169	171	-1%
<b>Operating profit before tax</b>	<b>1,043</b>	<b>999</b>	<b>4%</b>
Income tax	333	412	-19%
<b>Net profit</b>	<b>710</b>	<b>587</b>	<b>21%</b>
Impairment charges on financial assets (in basis points)	29	9	
<b>Ratios</b>			
Cost/income ratio including regulatory levies	59.7%	68.3%	
Underlying cost/income ratio including regulatory levies	59.5%	59.4%	
<b>Balance Sheet (in billions of euros)</b>			
External assets	140.2	131.9	6%
Private sector loan portfolio	109.0	101.5	7%
Number of internal employees (in FTEs)	7,211	6,966	4%
Number of external employees (in FTEs)	473	357	32%
<b>Total number of employees (in FTEs)</b>	<b>7,684</b>	<b>7,323</b>	<b>5%</b>

### Notes to the Financial Results

<b>Development of Underlying Operating Profit Before Tax</b>			
<i>in millions of euros</i>	<i>12-31-2018</i>	<i>12-31-2017</i>	
<b>Income</b>	<b>3,335</b>	<b>3,454</b>	
<b>Operating expenses</b>	<b>1,823</b>	<b>2,189</b>	
Adjustments to expenses	Restructuring	7	(2)
	Impairment RNA	0	310
<b>Underlying expenses</b>	<b>1,816</b>	<b>1,881</b>	
Impairment charges on financial assets	300	95	
Regulatory levies	169	171	
<b>Operating profit before tax</b>	<b>1,043</b>	<b>999</b>	
<b>Total adjustments</b>	<b>7</b>	<b>308</b>	
<b>Underlying profit before tax</b>	<b>1,050</b>	<b>1,307</b>	

#### Income Down by 3%

WRR's total income decreased to EUR 3,335 (2017: 3,454) million in 2018. Adjusted for FX effects income increased by 1%. At WRR, underlying commercial interest margins were stable and net interest income improved to EUR 2,388 (2017: 2,367) million. Excluding FX effects net interest income increased by 7% due to growth of the loan portfolio. Australia, North America and the Netherlands had the strongest growth in net interest income (in local currencies). Net fee and commission income showed a 7% increase to EUR 461 (2017: 432) million as our Mergers and Acquisitions division performed stronger than in 2017. Other results decreased by EUR 169 million to EUR 486 (2017: 655) million as our Markets division could not match the strong performance from 2017 because results were negatively impacted by market volatility in the final quarter of 2018. Other results were positively influenced by a stronger performance of our Corporate Investments division.

#### Operating Expenses Decreased by 17%

Operating expenses at WRR went down to EUR 1,823 (2017: 2,189) million. Excluding FX effects, operating expenses decreased by 14%. In 2018, staffing levels at WRR increased by 361 FTEs mainly because of (temporary) staff hired for several



strategic projects. Despite the increase in staff levels, staff costs remained stable at EUR 938 (2017: 939) million, which can be largely explained by FX effects. Other administrative expenses decreased to EUR 845 (2017: 1,194) million, largely caused by the fact that these expenses were lifted in 2017, due to the EUR 310 million provision taken by RNA. The decrease was partly tempered by an increase in project expenses in 2018.

Depreciation was down to EUR 40 (2017: 56) million, largely caused by lower depreciation on software.

### **Impairment Charges on Financial Assets Increased to EUR 300 Million**

WRR impairment charges on financial assets increased to EUR 300 (2017: 95) million in 2018. This was the result of defaults of some large clients, mainly in Asia and Brazil. Total impairment charges on financial assets went up to 29 (2017: 9) basis points of the average private sector loan portfolio, well below the long-term average of 58 basis points.

### **WRR Loan Portfolio Saw 9% Growth**

In 2018, WRR's total loan portfolio increased to EUR 109.0 (2017: 101.5) billion. On January 1, 2018, as a result of reclassifications due to the full implementation of IFRS 9, lending decreased by EUR 1.6 billion to EUR 99.9 billion. Including this IFRS 9 impact the WRR loan portfolio increased by 9%. Reflecting our Banking for Food strategy, the volume of lending to the Food & Agri sector increased to EUR 66.5 (2017: 60.9) billion, accounting for 61% (2017: 60%) of WRR's total loan portfolio. Loans to the trade, industry, and services (TIS) sectors increased to EUR 40.4 (2017: 38.4) billion. Lending to private individuals landed at EUR 2.0 (2017: 2.2) billion.

### **Dutch and International Wholesale**

WRR's wholesale portfolio totaled EUR 70.9 (2017: 64.5) billion. Lending to the largest Dutch companies increased in 2018 to EUR 17.9 (2017: 17.1) billion. Of WRR's loan portfolio, EUR 53.0 (2017: 47.4) billion was granted to wholesale clients outside of the Netherlands. This increase of EUR 5.6 billion was mainly realized in North America.

### **International Rural and Retail Banking**

The loan portfolio to Rural and Retail clients amounted to EUR 38.0 (2017: 36.9) billion on December 31, 2018. The main markets for rural banking are Australia, New Zealand, the United States, Brazil, Chile and Peru. In Australia the loan portfolio totaled EUR 10.2 (2017: 10.2) billion, in New Zealand EUR 6.4 (2017: 6.1) billion, in the United States EUR 7.9 (2017: 7.1) billion, in Brazil EUR 3.2 (2017: 2.9) billion and in Chile and Peru EUR 0.9 (2017: 0.9) billion.

Rabobank operates international retail banking activities through subsidiaries in two countries: in the U.S., Rabobank is active through Rabobank National Association (RNA) and in Indonesia, through Rabobank International Indonesia (RII). RNA's portfolio increased to EUR 9.0 (2017: 8.3) billion, whereas the Indonesian portfolio only amounts to EUR 0.4 (2017: 0.4) billion.

### **Private Savings at RaboDirect Decreased by 13%**

RaboDirect is Rabobank's online bank, which operates in Belgium, Germany, Ireland, Australia, and New Zealand. Private savings entrusted by clients to RaboDirect are used for funding the international Rural and Retail banking business and other divisions of Rabobank Group. The savings balances of RaboDirect decreased to EUR 24.7 (2017: 28.3) billion at December 31, 2018, representing 17% (2017: 20%) of the total private savings held at Rabobank. The number of internet savings bank clients also decreased to approximately 750,000 (2017: 934,000). The main driver behind the reduction of private savings and of the number of clients with RaboDirect is our withdrawal from the Irish retail market as of May 16, 2018.

## Leasing

### Highlights

DLL had a strong year with a net profit of EUR 399 million and a portfolio growth of 9%.

DLL's Food & Agri portfolio equals almost EUR 13 billion, representing 38% of DLL's total portfolio. The growth of the Food & Agri portfolio was most notable in Europe and Australia.

Income tax increased by EUR 165 million as the 2017 results were heavily impacted by the U.S. tax reform, resulting in a significant one-off benefit.

### Financial Results

<b>Results</b>			
<i>in millions of euros</i>	12-31-2018	12-31-2017	Change
Net interest income	986	1,008	-2%
Net fee and commission income	106	75	41%
Other results	274	207	32%
<b>Total income</b>	<b>1,366</b>	<b>1,290</b>	<b>6%</b>
Staff costs	487	487	0%
Other administrative expenses	224	208	8%
Depreciation	27	28	-4%
<b>Total operating expenses</b>	<b>738</b>	<b>723</b>	<b>2%</b>
<b>Gross result</b>	<b>628</b>	<b>567</b>	<b>11%</b>
Impairment charges on financial assets	105	106	-1%
Regulatory levies	25	22	14%
<b>Operating profit before tax</b>	<b>498</b>	<b>439</b>	<b>13%</b>
Income tax	99	(66)	-
<b>Net profit</b>	<b>399</b>	<b>505</b>	<b>-21%</b>
Impairment charges on financial assets (in basis points)			
	34	36	
<b>Ratios</b>			
Cost/income ratio including regulatory levies	55.9%	57.8%	
Underlying cost/income ratio including regulatory levies	55.3%	57.8%	
<b>Balance Sheet (in billions of euros)</b>			
Lease portfolio	33.5	30.8	9%
Number of internal employees (in FTEs)			
	4,610	4,302	7%
Number of external employees (in FTEs)			
	416	335	24%
Total number of employees (in FTEs)			
	5,026	4,637	8%

### Notes to the Financial Results

<b>Development of Underlying Operating Profit Before Tax</b>			
<i>in millions of euros</i>	12-31-2018	12-31-2017	
<b>Income</b>	<b>1,366</b>	<b>1,290</b>	
<b>Operating expenses</b>	<b>738</b>	<b>723</b>	
Adjustments to expenses	Restructuring	7	(1)
<b>Underlying expenses</b>	<b>731</b>	<b>724</b>	
Impairment charges on financial assets	105	106	
Regulatory levies	25	22	
<b>Operating profit before tax</b>	<b>498</b>	<b>439</b>	
<b>Total adjustments</b>	<b>7</b>	<b>-1</b>	
<b>Underlying profit before tax</b>	<b>505</b>	<b>438</b>	

#### Income Increased by 6%

Total income from the Leasing segment increased by 6% to EUR 1,366 (2017: 1,290) million in 2018. Net interest income decreased by 2% to EUR 986 (2017: 1,008) million, as the result of somewhat lower margins on new business compared to 2017. Net fee and commission income increased to EUR 106 (2017: 75) million, caused by higher fee income for syndicated leases as well as a negative one-off adjustment in 2017. Other results mainly consist of income from operational leases as well as results from sales of end-of-lease assets and increased to EUR 274 (2017: 207) million. This improvement can be attributed to the release of a provision for foreign activities of DLL that was taken late 2017.

#### Operating Expenses Up by 2%

Total operating expenses in the Leasing segment increased to EUR 738 (2017: 723) million. Despite the higher number of employees, staff costs remained stable at EUR 487 (2017: 487) million, which can be partly explained by the lower costs related to the pension accrual guarantee given to the pension fund. Staff levels in the Leasing segment showed an increase of 8% to 5,026 FTEs on December 31, 2018. Other administrative expenses increased to EUR 224 (2017: 208) million in line with the

increase in the portfolio and due to higher restructuring costs. Depreciation remained almost stable at EUR 27 (2017: 28) million.

### **Impairment Charges on Financial Assets Remained Stable**

Impairment charges on financial assets for the Leasing segment remained stable at EUR 105 (2017: 106) million in 2018, corresponding with 34 (2017: 36) basis points of the average loan portfolio, well below the long-term average of 58 basis points. As DLL's lease portfolio is spread over more than 30 countries and 8 industries, the associated credit risk is geographically diverse and well balanced across all industry sectors. In 2018, there were no new significant individual default cases.

### **Income Tax Increased by EUR 165 Million**

Income tax in the Leasing segment increased from minus EUR 66 million to EUR 99 million. The 2017 results were heavily impacted by tax reform in the United States, which resulted in a significant one-off tax benefit.

### **Lease Portfolio Increased by 9%**

The lease portfolio increased to EUR 33.5 (2017: 30.8) billion. DLL supports manufacturers, distributors, and end-user clients within the Food & Agri sector, both internationally and domestically. In 2018, DLL's Food & Agri share of the portfolio increased to EUR 12.8 (2017: 11.8) billion; representing 38% (2017: 38%) of the DLL portfolio. The growth of the Food & Agri portfolio was most notable in Europe and Australia.

## Real Estate

### Highlights

Net profit of the Real Estate segment increased by 4%, despite the downscaling of activities of Bouwfonds Investment Management (BIM) and the integration of FGH Bank in Rabobank. The cost/income ratio of the Real Estate segment improved to 36.6%.

The net profit improvement can be largely attributed to the strong performance of Bouwfonds Property Development (BPD). Its net profit increased by 85% on the back of favorable developments in the housing market and the sale of its French subsidiary BPD Marignan.

The loan portfolio of the Real Estate segment decreased by 57% (compared to January 1, 2018), a result of the sale of the residual part of FGH Bank's loan portfolio.

### Financial Results

<b>Results</b>			
<i>in millions of euros</i>	12-31-2018	12-31-2017	<i>Change</i>
Net interest income	(7)	57	-112%
Net fee and commission income	10	59	-83%
Other results	571	479	19%
<b>Total income</b>	<b>574</b>	<b>595</b>	<b>-4%</b>
Staff costs	131	180	-27%
Other administrative expenses	73	151	-52%
Depreciation	5	7	-29%
<b>Total operating expenses</b>	<b>209</b>	<b>338</b>	<b>-38%</b>
<b>Gross result</b>	<b>365</b>	<b>257</b>	<b>42%</b>
Impairment charges on financial assets	(15)	(116)	-
Regulatory levies	2	4	-50%
<b>Operating profit before tax</b>	<b>378</b>	<b>369</b>	<b>2%</b>
Income tax	70	74	-5%
<b>Net profit</b>	<b>308</b>	<b>295</b>	<b>4%</b>
<i>BPD</i>	<i>240</i>	<i>130</i>	<i>85%</i>
<i>Rabo Real Estate Group</i>	<i>29</i>	<i>101</i>	<i>-71%</i>
<i>Other</i>	<i>39</i>	<i>64</i>	<i>-39%</i>
Impairment charges on financial assets (in basis points)	(287)	(521)	
<b>Ratios</b>			
Cost/income ratio incl. regulatory levies	36.8%	57.5%	
Underlying cost/income ratio incl. regulatory levies	35.4%	52.6%	
<b>Balance Sheet (in billions of euros)</b>			
Loan portfolio	0.3	1.8	-83%
Number of houses sold	10,142	10,897	-7%
Number of internal employees (in FTEs)	569	1,091	-48%
Number of external employees (in FTEs)	49	87	-44%
<b>Total number of employees (in FTEs)</b>	<b>618</b>	<b>1,178</b>	<b>-48%</b>

### Notes to the Financial Results

<b>Development of Underlying Operating Profit Before Tax</b>			
<i>in millions of euros</i>	12-31-2018	12-31-2017	
<b>Income</b>	<b>574</b>	<b>595</b>	
<b>Operating expenses</b>	<b>209</b>	<b>338</b>	
Adjustments to expenses	Restructuring	8	29
<b>Underlying expenses</b>	<b>201</b>	<b>309</b>	
Impairment charges on financial assets	(15)	(116)	
Regulatory levies	2	4	
<b>Operating profit before tax</b>	<b>378</b>	<b>369</b>	
<b>Total adjustments</b>	<b>8</b>	<b>29</b>	
<b>Underlying profit before tax</b>	<b>386</b>	<b>398</b>	

#### Income Decreased by 4%

In 2018, total income of the Real Estate segment decreased to EUR 574 (2017: 595) million. FGH Bank's<sup>1</sup> loan portfolio was further integrated within Rabobank and the final part of its non core loan portfolio was sold to RNHB. As a result, FGH Bank's loan portfolio shrank and its net interest income dropped. Consequently, net interest income of Real Estate turned negative (i.e. to EUR 7 million), as BPD has to pay interest on the funding raised to finance its activities. Net fee and commission income decreased to EUR 10 (2017: 59) million as the activities of BIM were phased out. The sale of the remaining part of FGH Bank's loan portfolio to RNHB and higher results at BPD<sup>2</sup> had an upward effect on other results in the Real Estate segment, which increased by 19% to EUR 571 (2017: 479) million.

#### Operating Expenses Down by 38%

Total operating expenses in the Real Estate segment decreased to EUR 209 (2017: 338) million in 2018. Staff costs decreased by EUR 49 million to EUR 131 (2017: 180) million following the

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

2 As of July 2017 the results of BPD are reported separately. Up until June 2017 the BPD results were reported as part of Rabo Real Estate Group.

downscaling of activities at FGH Bank and BIM. The sale of BPD Marignan is reflected in the 48% decrease in staff levels to 618 FTEs. These developments also impacted other administrative expenses, which decreased to EUR 73 (2017: 151) million in 2018 due to lower expenses in all divisions. Depreciation landed at EUR 5 (2017: 7) million.

### **Impairment Charges on Financial Assets Remained Negative**

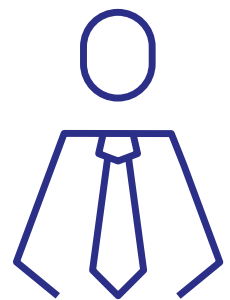
Just as in 2017, favorable economic developments in the Netherlands had a positive impact on impairment charges on financial assets in the Real Estate segment. As was the case in 2017, impairment charges on financial assets were negative in 2018, meaning that releases from the allowance for problem loans exceeded new additions. However, net releases in 2018 were EUR 101 million lower than in 2017 (i.e. EUR 15 million versus EUR 116 million). This was mainly due to the wind-down of FGH Bank's loan portfolio and subsequent integration of this company into Rabobank. Impairment charges on financial assets amounted to minus 287 (2017: minus 521) basis points of average lending. The long-term average is 69 basis points.

### **Loan Portfolio Decreased by 57%**

The loan portfolio of the Real Estate segment decreased by EUR 1.5 billion to EUR 0.3 (2017: 10,897) billion, largely due to the sale of the residual part of FGH Bank's loan portfolio. On January 1, 2018, as a result of reclassifications due to the full implementation of IFRS 9, lending decreased by EUR 1.1 billion to EUR 0.7 billion. Including this IFRS 9 impact the loan portfolio of the Real Estate segment decreased by 57%.



# Corporate Governance



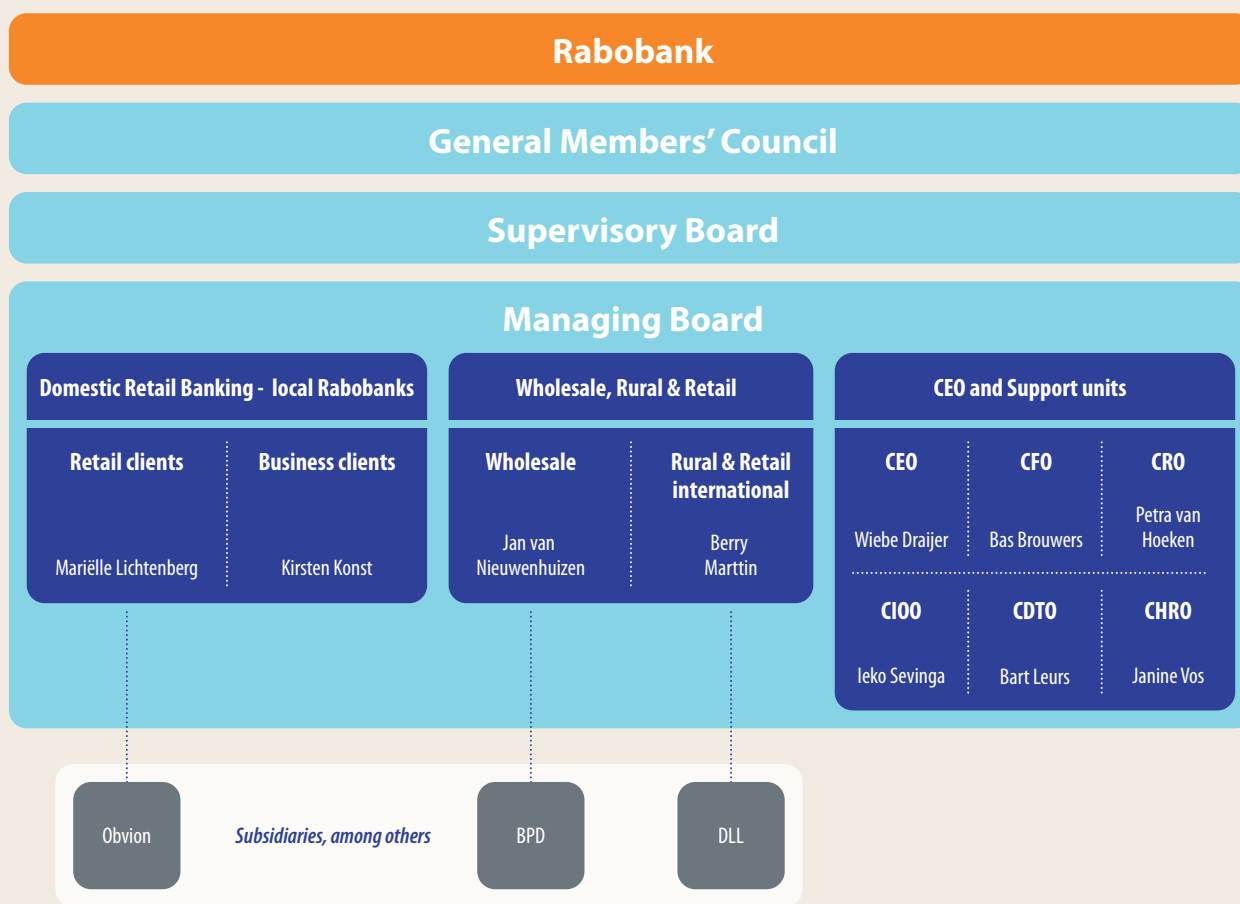
# Contents

Corporate Governance	98
Corporate Governance Codes	101
Remuneration	102
Report of Rabobank's Supervisory Board	107

# Corporate Governance

In January 2016, Rabobank switched to a new governance structure. All local cooperative Rabobanks and Rabobank Nederland now operate as one cooperative bank with one banking license and one set of financial statements. Although the new configuration has taken some getting used to, members of local and collective governance bodies have noted their overall satisfaction with the way the new regime is functioning in questionnaires taken over the past three years. During this time, the new structure has proven its value, strength and flexibility. The unique features of the member-based governance, however, have never changed. These include the bottom-up decision-making process, the associated focus on retail banking with its relatively stable income streams and retained earnings as the primary source of capital building. These features have safeguarded Rabobank's special position in the financial sector, its long-standing focus on servicing the real economy and last, but not least, its ambition to contribute to the sustainable development of local communities.

## Rabobank organization chart



## The Governance Bodies in Short

The governance of Rabobank has always been adaptive. Since the establishment of the first credit cooperative in the Netherlands in 1895, Rabobank has been able to change in response to strategic considerations, to trends in society, as well as to developments in banking and regulation. As with previous governance regimes, the new governance structure is founded on a balanced system of closely interrelated and interacting bodies. This new structure was designed by an internal Governance Committee created at the beginning of 2014. The Committee consisted of representatives of local supervisory bodies and chairs of local management teams, as well as Managing Board members of Rabobank Nederland. Its ultimate proposals had to satisfy several shared principles and rectify shortcomings in the previous framework. The governance review process took approximately two years.

A defining feature of the new governance is that the cooperative division remains inextricably linked with the tactical and operational banking business. The figure below shows the cooperative governance bodies (LHS) and the banking business (RHS). Bottom-up decision-making entails that member representatives ultimately approve the bank's strategic frameworks. In the following section we will elaborate on the main roles and responsibilities of the two sides of the new governance.

## Cooperative Governance

Cooperatives are distinguished by the fact that clients can become members, and members give cooperatives legitimacy. Currently, more than 25% of our clients are members of a local Rabobank. Their representatives in governance bodies exert an important influence on the course of the local Rabobank as well as of the entire organization. As a core feature of the cooperative governance, membership has always led to divergent internal dynamics and a different – strategic – orientation compared to financial institutions with different ownership structures.

Members are divided into roughly 100 member departments at the local level. Each department is assigned to one or more delegates' election assemblies which appoint, suspend or dismiss the members of the Local Members' Councils (LMCs). These councils consist of 30 to 50 members who act as the eyes and ears of the management teams of the local Rabobanks. By bringing the outside world to the table, the members serving on these councils help keep the local Rabobank firmly on track. LMCs have an important say in how cooperative funds are used. They act as a sparring partner for the management teams of the local Rabobanks, and have a number of formal duties and responsibilities, such as the right to approve the merger or demerger of a local Rabobank or to advise the chair of the local

Rabobank's management team on members' policy plan. LMCs monitor the financial performance of local Rabobanks, the policies as implemented by the chairmen of local Rabobanks' management teams, as well as the supervision exercised by the members of the Local Supervisory Body (LSB).

LSB members are appointed by and accountable to their LMCs. An LSB does not derive its authority from law. The Managing Board has instead delegated the LSBs specific local governance powers under the Articles of Association of Rabobank.

LSB chairmen are key players in the collective governance as they represent local members in the General Members' Council (GMC). At the local level, the LSB supervises the execution of the strategy. In this light, the general state of affairs and (social) performance of the local Rabobank, including its internal financial reporting, must feature periodically on the LSB agenda. The internal financial reporting of individual local Rabobanks are also compiled in the new governance structure to enable LSBs to perform their roles accurately and adequately. Furthermore, this body is authorized to supervise the degree to which the local Rabobank complies with external laws and regulations and the Articles of Association.

Local supervisors are required to actively assess whether the quality of the offered services meets the needs of clients and members. They judge the extent to which the local management team chair carries out his or her local responsibility to focus on clients' long-term interests, to contribute to the sustainable development of the local community and to strengthen ties between the bank and the local community. The LSB is further responsible for the local management team chair. This comprises appointing, assessing and suspending the chair. The LSB is also authorized to approve a number of important local decisions. It must ensure that the local management team chair heeds its advice in local policy making. Furthermore, the LSB has an advisory role with regard to the management of the local Rabobank and fulfills an intermediary position between the community and the local Rabobank. Lastly, it has a duty towards contributing to the sustainable development of the district and to strengthen its connection to the community.

In 2018, specific programs were developed and employed to stimulate the diversity of LSBs. We consider it important that the collective of local supervisors is an adequate reflection of our customer and member base. Judged by the decline of the average age of all local supervisors and the percentage increase in the inflow of female supervisors, these measures already seem to meet with success. In addition, special training is put in place for young supervisors. New tools were developed to assess and improve the functioning of individual LSBs.

The GMC is the highest decision-making body in the Rabobank governance. It consists of chairmen of all local supervisory bodies, who represent the members of their local Rabobanks in the GMC. The GMC has around 100 members and meets at least twice a year. It focuses on the strategic framework and on the basic premises of the identity of Rabobank, from the cooperative to local Rabobanks and all other group entities. The GMC has three permanent committees: the Urgency Affairs Committee, the Coordination Committee and the Committee on Confidential Matters.

On behalf of the members, the GMC safeguards continuity while also acting as a custodian of collective values. The GMC evaluates the governance and the banking business on the basis of commonly agreed strategic principles. It appoints members of the Supervisory Board of Rabobank on the recommendation of the Supervisory Board, who appoint the statutory members of the Managing Board. The Supervisory Board supervises the Managing Board and both the Supervisory Board and the Managing Board are accountable to the GMC.

To perform these functions, the GMC has several formal tasks and responsibilities. The GMC has the power to amend the articles of association or change the legal status of Rabobank. It adopts the annual accounts and has advisory and approval rights for major decisions taken by the Managing Board. The GMC determines, for instance, the basic premises of Rabobank's identity and strategic frameworks and the main points of the annual strategy and budget. Considerable changes in domestic retail banking and the increasing digitalization of financial services prompted the GMC to initiate an internal discussion on the renewal of the cooperative as well as on the revitalization of Rabobank's membership. To this end, it established a special, temporary committee to explore these possibilities.

The transformation of governance has reinforced our awareness that member engagement and involvement are essential to a cooperative bank. These aspects are what set us apart from our competitors. The regime shift has, moreover, triggered new initiatives to solidify cooperative aspects. It has, for example, initiated our new Youth Forum, which includes a young member representative from each local Rabobank. Rabobank believes that permanent dialogue with this member category is very important for the future development of the bank.

Since the new governance became effective, the management teams at the local Rabobanks are entrusted with the important task of acting in harmony with the cooperative spirit, and of offering corresponding financial services. They have important local responsibilities as laid down in the internal local Rabobank rules. The chairs of local management teams have a mandate

position from the Managing Board to safeguard their local orientation and firmly anchor their local Rabobanks in these communities. Chairmen of the local management team can exercise their authority in order to provide high quality local banking services. They can also transform the concept of cooperative identity from idea into reality at the local level. In this respect, local staff participate actively in social and virtual networks in order to maintain close connections to the local community.

### Banking Business

Tactical, operational and policy-related banking are addressed in the Directors' Conference. This body is composed of the chairmen of local management teams, the Managing Board and the directors of divisions which support local Rabobanks. The Directors' Conference is an important and influential platform with a preparatory, informative and advisory role for proposals and policies concerning local Rabobanks. The Conference also fulfills an intermediary position between the highest echelons of the bank and its local divisions, especially with regard to safeguarding clients' interests and needs.



# Corporate Governance Codes

## The Dutch Corporate Governance Code

The Dutch Corporate Governance Code 2016 applies to listed companies and contains principles and best practice provisions for what is generally regarded as good corporate governance. Because of its cooperative structure, Rabobank is not required to comply with the Dutch Corporate Governance Code, it has nevertheless, committed itself to comply to the code as much as possible. Rabobank departs from the code on just a few points, partly due to its cooperative structure. Please refer to [www.rabobank.com](http://www.rabobank.com) for an overview.

## The Dutch Banking Code

In 2009 the Dutch Banking Association adopted the Banking Code for Dutch banks in order to regain the public's trust in the banking sector. The Banking Code aims to ensure stable, service-oriented and reliable banks for stakeholders by setting out principles of conduct for Dutch banks in terms of corporate governance, risk management, audit and remuneration. The Banking Code took effect on January 1, 2010 on a 'comply or explain' basis.

In 2013, the Committee on the Structure of Dutch Banks (the 'Wijffels Committee') laid significant foundations for the further strengthening of Dutch banks. The committee published a report focused on the stability of the banking industry and the importance of competition and diversity in Dutch banking. The committee also called on banks to set out the role they wish to play in society.

Following this recommendation, the Dutch Banking Association introduced a Social Charter, which includes an updated Banking Code, and implemented a bankers' oath (with the associated rules of conduct and a disciplinary system). By taking these actions, Dutch banks, including Rabobank, want to demonstrate what they stand for and what they want to be held accountable for in the ongoing renewal process as individual banks and as an industry at the heart of the community. The Social Charter, the Banking Code 2015 and the rules of conduct associated with the bankers' oath together form a package called 'Future oriented Banking'. Rabobank has endorsed the package. For further information about Rabobank's compliance with the Banking Code 2015, please refer to [www.rabobank.com](http://www.rabobank.com).

# Remuneration

## Rabobank's Vision on Remuneration

As part of Rabobank's vision on Remuneration we focus on cooperative objectives and on Rabobank's core values. Our background as a cooperative means we allow employees to make an actual difference both in the local communities in which they work and internationally by contributing to our goal of providing a solution to the global food issue. Rabobank has a conscientious, socially responsible and sustainable remuneration strategy within the limits of legislation and regulations. The financial part of the reward is targeted at market median.

Rabobank aims to be an attractive employer. We want to hire and retain talent, we focus on empowering our employees, and we cherish diversity. This is done not only by offering fair remuneration packages, but also by providing a valuable set of secondary conditions, such as an attractive working environment, a good pension structure and focus on the development of employees. Our (global) performance management system GROW! as well as the Dutch Development Budget for the Collective Labor Agreement (CLA) population and executives, contribute to employees' professional and personal development.

## Remuneration Policies

Rabobank's remuneration policy is captured in several documents. For most Rabobank employees, the CLA is applicable. A separate remuneration policy applies to the Managing Board and other executives. DLL and Rabo Real Estate Group have each adopted remuneration policies of their own that fit the framework. Remuneration policies for Wholesale, Rural & Retail (WRR), DLL and Rabo Real Estate Group entities located outside the Netherlands are partly based on local legislation and regulations, as well as on market conditions, but they are always based on the same Vision on Remuneration.

The principles and guidelines of the Vision on Remuneration are detailed in the Group Remuneration Policy. The Group Remuneration Policy is annually updated and complies with (external) regulations, with Rabobank Group's business strategy, as well as with its customer focus, core values and desired risk profile. The policy takes into account the fact that Rabobank is an important bank with an international scope and complex activities. It supports solid and effective risk-management processes designed to protect Rabobank's long-term results and its robust capital position. This is accomplished, for example, through the application of the cycle of risk alignment, through

raising employees' awareness of risks and through discouraging undesirable risks (e.g. irresponsible sales practices). The policy further encourages employees to aim for lasting results in line with the long-term interests of Rabobank Group, its clients and other stakeholders.

## General Outlines of the Policy

In general, fixed pay is based on job evaluation and leads to a function scale for each position. Each function scale is accompanied by a salary scale, which allows for a remuneration ratio between levels. This is done within the Netherlands as well as within entities outside the Netherlands that have local benchmarks. The salary scales are set around the median of the market for comparable work, so that it complies with Rabobank's conscientious vision on remuneration. Within Rabobank Group, only a specified body is eligible for variable pay. This body is situated within Treasury, the domain Wholesale, Rural & Retail and within Rabobank's subsidiaries. Variable pay is never guaranteed and does not reward for failure or misconduct. The link between performance and pay is determined in performance management documents, in which employee's contribution to Rabobank and to their personal growth are assessed. Rabobank's performance objectives consist of well-balanced financial and non-financial criteria. At least half of the performance objectives must be non-financial. The performance objectives do not contain any incentives that might encourage behavior that is careless or otherwise not in the clients' best interest. Also, the objectives take into account whether the core values of Rabobank are observed, such as, for instance, the empowerment of employees. Rabobank complies with Dutch and European legislation, maximizing variable pay to an average of 20% of fixed pay for employees working in the Netherlands, and a maximum of 100% for employees working outside the Netherlands. In 2018, Rabobank did not use the possibility provided in Dutch law to award variable pay up to 200% in countries outside the EEA. In 2018, the variable remuneration for Rabobank Group worldwide was EUR 198.5 million (2017: EUR 216.9 million), approximately 5% of the total amount reserved for remuneration.

For all variable payments, several risk-mitigating measures are in place, such as ex-ante and ex-post testing and the ability to apply malus or clawback. For those employees eligible for variable pay, a risk target should be part of their individual GROW!Notes. The group of employees that might possibly have had a material impact on the risk profile of the bank was designated as Identified Staff. This selection is generally done annually, while in 2018 the

list was updated on a quarterly basis not only with regard to personal changes on Identified Staff positions, but also with an aim to include or exclude Identified Staff positions after reorganizations. In addition to the specific performance management requirements, we have established specific risk mitigating measures for Identified Staff receiving variable pay. These include the division of variable pay into a cash component and an instruments component. The deferred payment covers a sufficient period of time to allow the ex-post test to be performed. The deferral period is three years. For those employees qualified as 'Senior management', however, the deferral policy stretches to five years. Also for employees receiving variable pay above a certain amount, but not being Identified Staff, a deferral policy applies in order to allow the ex post test to be performed.

## Supervisory Board

The remuneration packages of the members of the supervisory board were revised in 2016, so that they would be in line with the Rabobank's vision on reward and remuneration and the cross-industry benchmark data for similar positions. In 2018 no changes were made, so the remuneration packages were as follows:

### Individual Remuneration

The individual remuneration in 2018 for members of the supervisory boards are shown below:

#### As of October 1, 2016 Fee Structure

##### As of October 1, 2016 Fee structure

In euro's	Fee
Member	90.000
Chair of Audit Committee, Risk Committee, Cooperative Issues Committee, additional	20.000
Chair of Appointments Committee together with HR Committee, additional	20.000
Vice-Chair, additional	30.000
Chair	220.000

#### Remuneration Supervisory Board

In thousands of euros	Remuneration
Irene Asscher-Vonk	90
Leo Degle	90
Leo Graafsma (until April 18, 2018)	33
Petri Hofsté	104
Arian Kamp	110
Jan Nooitgedagt	110
Ron Teerlink	220
Pascal Visée	90
Marjan Trompetter	140
Annet Aris	5
<b>Total 2018</b>	<b>992</b>
<b>Total 2017</b>	<b>1,050</b>

### Individual Loans and Certificates

The outstanding loans of the members of the Supervisory Board in office on December 31, 2018 and the average interest rates were as follows:

#### Outstanding Loans Supervisory Board

In millions of euros	Outstanding Loans	Average Interest Rate (in %)
<b>On December 31, 2018</b>		
Annet Aris	0.2	5.2
Arian Kamp	1.3	1.7
Marjan Trompetter	0.6	2.5

At year-end 2018, those members of the Supervisory Board not listed in the table had not received any loans, advances or guarantees.

Several members of the Supervisory Board have invested in Rabobank Certificates in person and/or through a private pension company. On December 31, 2018, the number of Rabobank Certificates per individual member were as follows:

#### Certificates of members of the Supervisory Board

	Number of Rabobank Certificates	Remarks
<b>On December 31, 2018</b>		
Irene Asscher-Vonk	14,995	
Leo Degle	4,836	in pension B.V.

## Managing Board

The Managing Board Remuneration Policy, in line with the general HR mission, focuses on contribution and leadership. It emphasizes the offer of a remuneration proposal within the salary range of the members of the Managing Board that matches the market based position reference point of their role and that also compares their personal leadership profile to the desired leadership profile. Managing Board members are appointed for a

period of four years. Their individual remuneration is determined for that specific period. Managing Board members are not eligible for variable pay. The remuneration policy for the Managing Board was approved by the General Members Council in 2017.

The remuneration policy for the Managing board consists of two clusters of functions: Chair of the Managing Board, and Member of the Managing Board. Regularly, the positions within the Managing Board are benchmarked against a cross-industry and a financial peer group and salary ranges might be adjusted based on the outcomes. Based on the 2017 benchmark, salary ranges were set to those two function levels. The remuneration structure and salary ranges of the Managing Board are as follows:

#### Salary Ranges of Managing Board

Salary Ranges	Minimum	Maximum
Chairman of the Managing Board	€ 884,000	€ 1,154,400
Member of the Managing Board	€ 477,000	€ 884,000

With the installation of the Managing Board in 2017, reference points per function were defined. Individual proposals for the new Managing Board members were based on the external value of the function (based on the benchmark), as well as on the members' personal capabilities and their leadership profile. The remuneration packages reflect the values of Rabobank's

remuneration policy. In 2018, two members of the Managing Board were re-appointed for another four years. No changes were made in their individual remuneration packages. These packages corresponded to the applicable salary range.

Apart from their salary, the members of the Managing Board receive secondary employment conditions such as a pension scheme. The members' individual pension contribution is, part of the total fixed annual salary, along with the remuneration on the basis of the salary ranges. There is no entitlement to a car lease arrangement, but a company car policy is in place for all members of the Managing Board for the purpose of commuting and business travels.

In 2017, the aim of the transition of the Board of Directors to the Managing Board was - among others - the creation of less hierarchical levels, and as a result thereof, a decrease of total salary costs within the Executive levels. Recently, a cost analysis showed that between May 2017 and December 2018 the number of Executive level positions decreased. In addition, a decrease of total salary costs over all Executive levels in the Netherlands was noted.

#### Individual Remuneration

The individual remuneration in 2018 of the members of the Managing Board were as follows:

#### Remuneration Managing Board

In thousands of euros	Salary	Pension Scheme	Individual Pension Contribution	Other	Total
Wiebe Draijer	980	26	211	-	1,217
Bas Brouwers	884	26	188	3	1,101
Petra van Hoeken	884	26	188	-	1,098
Kirsten Konst	800	26	168	2	996
Bart Leurs	650	26	132	23	831
Mariëlle Lichtenberg	750	26	156	11	943
Berry Marttin	884	26	188	75	1,173
Jan van Nieuwenhuizen	884	26	188	-	1,098
Ieko Sevinga	750	26	156	-	932
Janine Vos	650	26	132	50	858
<b>Total 2018</b>	<b>8,116</b>	<b>260</b>	<b>1,707</b>	<b>164</b>	<b>10,247</b>
<b>Total 2017</b>	<b>6,895</b>	<b>209</b>	<b>1,468</b>	<b>22</b>	<b>8,594</b>

Petra van Hoeken, member of the Executive Board, resigned from her role as Chief Risk Officer (CRO) on February 1, 2019. Els de Groot took over her activities as CRO. Petra will step down from her remaining tasks and her employment relationship with Rabobank will be terminated in summer 2019. Petra will receive a severance pay equivalent to one year's salary of EUR 884,000 and her regular individual pension contribution.

#### Individual Loans

The outstanding loans of the members of the Managing Board in office and the average interest rates on December 31, 2018 were as follows:

### Outstanding loans

<i>In millions of euros</i>	<i>Outstanding Loans</i>	<i>(in %)</i>
<b>On December 31, 2018</b>		
Bas Brouwers	0.5	2.6
Kirsten Konst	0.2	4.6
Bart Leurs	0.9	2.1
Mariëlle Lichtenberg	1.4	3.9
Berry Martin	0.1	5.8
Jan van Nieuwenhuizen	1.2	2.0
Janine Vos	0.9	2.3

### Individual Certificates

Some members of the Managing Board have personally invested in Rabobank Certificates, these are listed below:

### Certificates of Members of the Managing Board

	<i>Number of Rabobank Certificates</i>
<b>On December 31, 2018</b>	
Kirsten Konst	800
Mariëlle Lichtenberg	2,370

## Domestic Banking

### Executive Positions

The levels below the Managing Board are referred to as 'executive positions'. At year-end 2018 229 employees were in an executive position, of which approximately 7% were classed as expats working abroad on a Dutch contract. This number is slightly lower than in 2017.

Similar to 2016 and 2017, the fixed pay remuneration packages for executives were based on job grades, based on Hay points and accompanying salary ranges, ranging from executive position scale one to five. Only a select number of the executive positions are eligible for variable remuneration, dependent on the type of work and on the type of business in which they operate, for example in specific commercial roles. The majority only receives a fixed salary.

Furthermore, Rabobank offers an attractive package of secondary employment conditions, such as opportunities for learning and development and a car lease arrangement. The maximum paid sabbatical period in 2018 was two months. The Rabobank pension scheme, a collectively defined contribution plan, applies to the executive positions. The maximum income for pension accrual was EUR 99,384 as of January 1, 2018. Executives receive an individual pension contribution according to the level of their position.

### Domestic Banking - CLA Employees

At year-end 2018 26442 employees were employed under the terms of the CLA of Rabobank, including Obvion. The remuneration package for position scales 1 to 11 and Senior Staff A and Senior Staff B consists of fixed income, the Employee Benefit Budget (EBB), and pension and fringe benefits. The position scales in the Rabobank CLA are based on the Hay Group's system for evaluating jobs. In 2018 there was no collective salary adjustment. Salary progression within a position is based only on the PM results over the previous year, based on individual contribution, on behavior and on personal development. In 2018, the salary increases based on the new GROW! System came into effect. Since 2013, the CLA does not include eligibility for variable pay. In October 2018 all employees received a one-time payment of 1% of their fixed annual compensation as agreed in the CLA.

The median remuneration for Rabobank employees in the Netherlands at the end of 2018 was EUR 54,835 which gives a ratio of 1:17.88 between the median remuneration and the Chairman of the Managing Board. In 2017, the median remuneration was EUR 52,342 and the ratio was 1:18.73. The Rabobank CLA pension scheme is a collective defined contribution scheme. The maximum income for pension accrual for full-time employees as of January 1, 2018 was EUR 99,384. Employees with an income higher than the accrual receive a personal budget. All CLA employees receive the Employee Benefit Budget (EBB) as a percentage of their fixed salary. The EBB gives flexibility and choice of employment terms including amongst others options to buy extra leave, purchase a bicycle in a tax-efficient way or pay out the percentage reserved for EBB.

### DLL

DLL has a global policy in which remuneration levels are in line with the local labor market. The starting point is a total remuneration package that lies a little above the median of comparable financial services institutions. DLL uses a remuneration package that consists of a fixed salary and variable remuneration components for most positions. The senior management is no longer eligible for variable remuneration. For other employees variable remuneration cannot be higher than 100% of their fixed salary. DLL had one employee in 2018 whose total remuneration exceeded EUR 1 million. Alongside a fixed salary DLL offers employees a broad package of various fringe benefits that are in line with local market practice, such as pension schemes and health insurance packages. The performance management system of DLL is based on a mix of qualitative and quantitative results. Most employees have predominantly qualitative targets, some of which are individual targets and some of which are team ones. In 2018 DLL started a pilot for a new performance management approach, in which more focus is placed on personal development, coaching and feedback.



***Rabo Real Estate Group (FGH Bank included)***

In 2016 FGH Bank was positioned as an independent organization within Rabobank Group and in 2018 the last funds of Bouwfonds Investment Management were sold. As a result of these last organizational developments, almost all employees of Rabo Real Estate Group have been made redundant or have left service. The agreements with the unions were set out in an addendum to Rabo Real Estate Group's 2013-2015 Social Plan – a part of Rabo Real Estate Group's CLA.

**BPD**

Since 2017 BPD has been positioned as an independent organization within Rabobank Group. Remuneration of employees of BPD is subject to a new BPD Collective Labor Agreement 2018-2019 and a Social Plan 2018-2022. The CLA of BPD was negotiated in January 2018 with the trade unions CNV, FNV and De Unie. This specific remuneration policy meets the requirements of the Rabobank Group remuneration policy. The Collective Labor Agreement includes a remuneration package consisting of fixed and variable components and a pension scheme in line with that of Rabobank Pension Fund. In the Netherlands, BPD distinguishes three groups of employees: CEO, Executives and employees subject to the CLA. Each group has its own conditions of employment package. The BPD CLA includes a Performance & Competence Management system (PCM) to steer results and employee development. BPD also employs staff outside the Netherlands. It concerns BPD Deutschland and BPD France (sold in November 2018). Each of the entities outside the Netherlands has a specific remuneration policy and Performance & Competence Management (PCM).

# Report of Rabobank's Supervisory Board

The Supervisory Board focused on a broad spectrum of themes in 2018, ranging from innovation and digitalization to culture and leadership and the continuing enhancement of the bank's control framework. In this first full year of the newly formed Managing Board, the transformation agenda continued apace, with the full support of the Supervisory Board and a continued focus on the bank's strategic direction: Banking for the Netherlands and Banking for Food, and of course our mission 'Growing a better world together'. The combined boards tackled this theme extensively, and it was also addressed in meetings with the bank's top management and during a conference with local supervisory board members. This was the first time these parties met with international client advisory board members to discuss the theme of sustainability, but it will not be the last.

This report examines how the different roles of the Supervisory Board - employer, supervisor, advisor, and liaison officer for stakeholder relations - contributed in 2018 to the four pillars of Rabobank's 2016-2020 strategic framework. After exploring the Supervisory Board's roles in relation to the four pillars: Excellent Customer Focus, Rock-Solid Bank, Meaningful Cooperative and Empowered Employees, we will outline which themes the board addressed in 2018.

For summaries of Supervisory Board meetings (private and with the Managing Board) and 13 educational sessions, please refer to the tables below. The Supervisory Board is proud of the progress Rabobank has made in 2018, both towards its strategic objectives and in the transformation of the bank. However, the Supervisory

Board also acknowledges the critical challenges that lie ahead for Rabobank stemming from developments in financial markets, digitalization, climate change and social issues. By facing these challenges in cooperation with our customers, we can turn them into opportunities. The Managing Board has led the bank through 2018 to great satisfaction. We as the Supervisory Board are confident that the Managing Board is laying the necessary foundations to prepare the bank for the future.

## Supervisory Board

### General Responsibilities and Duties

The Supervisory Board supervises the policies pursued by the Managing Board and the general course of affairs at Rabobank and its affiliates. In addition to its supervisory role, the Supervisory Board serves as an advisor to and employer of the Managing Board. The Supervisory Board members also act as 'liaison officers' for Rabobank by engaging with members, clients and other stakeholders.

### Facts & Figures

#### Members on December 31, 2018

- Ron Teerlink, chair (93%)
- Marjan Trompetter, deputy chair (93%)
- Irene Asscher-Vonk (86%)
- Petri Hofsté (100%)
- Leo Degle (100%)
- Arian Kamp (86%)
- Jan Nooitgedagt (86%)
- Pascal Visée (93%)
- Leo Graafsma, in function until 18 April 2018 (100%)
- Annet Aris, in function as of 13 December 2018

#### Other attendees throughout the year

Regular attendees:

- Managing Board members

During the discussions on the half year and full year figures Jan Bos, head of Group Control, Rudi Kleijwegt, Chief Audit Executive, and the deputy Chief Audit Executive, Dick Duit, were present, as were the external auditors of PwC, Peter van Mierlo (only full year figures) and Rogier van Adrichem and/or Jeroen de Jonge.

### Meetings

14 meetings in total, with 93% attendance. These meetings were attended by the Managing Board. In addition to this the Supervisory Board held several private meetings. For other types of meetings with involvement of Supervisory Board members, see below.

### Topics

## General Responsibilities and Duties

### Regular Topics of Discussion

- Article 25 of the Articles of Association of the Coöperatieve Rabobank U. A. describes the responsibilities of the Supervisory Board, including the decisions that need approval of the Supervisory Board.
- In 2018, the Supervisory Board received frequent updates about Rabobank's financial performance, the status of Rabobank's transition process, compliance issues (CDD and transaction monitoring) and regulatory developments (PSD2, IFRS9 and the reform of Basel III). The board also discussed the outcome and follow-up of letters, on-site visits and external regulators deep-dives, and was notified of special topics and committee subjects mentioned in the tables below. In cases requiring the approval of the Supervisory Board, the relevant committee presented its advice to the full Supervisory Board.

### Special Topics

- In 2018 special attention was given to the Banking 3.0 transition towards about 90 local banks with over 300 offices in the Netherlands, of which 14 banks provide specialized services to the banks within their regional members assembly.
- In addition, in 2018 special attention was given to the Alba project, regarding the settlement agreements with US authorities on RNA and on the SME derivatives project, also by installing a temporary Supervisory Board Committee on this topic.

## The Supervisory Board as Employer

Each position within the Managing Board is outlined in a Position Role Profile. These profiles are formulated to complement each other in order to secure the required:

- Knowledge and know how;
- Experience;
- Personality traits (and characteristics) for a Leadership role within a financial institution, as well as representing Rabobank identity and values, and;
- Leadership competencies, core competencies and role specific (functional) competencies.

Managing Board members are appointed by matching Position Holders to the appropriate Position Role Profiles. This ensures a balanced composition Position Holders who are accountable for position- and role- specific matters within the Rabobank organization. In composing the Managing Board, diversity needs are taken into account.

The Supervisory Board has a performance dialogue with each member of the Managing Board three times a year. An annual assessment monitors the suitability of individual members of the Managing Board and the overall composition. This yearly review considers both internal and external developments.

## Composition of the Managing Board

The current Managing Board was formed in 2017, at which time additional board members were appointed. In the beginning of 2018, the Supervisory Board approved the targets for the Managing Board. The approach to the target setting for the Managing Board aims to ensure integral management of the bank and a seamless roll-out of targets across management layers. During 2018 the Supervisory Board paid special attention to the Managing Board's team development and cooperative ability; the

effectiveness of board roles responsible for innovation and the bank's four client segments, (Retail and SME Netherlands, Wholesale and Rural & Retail), and progress on agreed targets and performance indicators. In the view of the Supervisory Board, the revised structure of the bank's top management is developing as intended. The Managing Board (i) is benefiting from the broadened perspective and integral responsibility for the banking business as a whole, (ii) is gearing up innovation and change, and (iii) is taking an integral responsibility for the bank's control and compliance agenda. In 2019, the Supervisory Board will evaluate the current distinction between statutory and non-statutory members of the Managing Board.

In 2018, Wiebe Draijer and Jan van Nieuwenhuizen were reappointed by the Supervisory Board for another four-year term. Their reappointment followed on a successful evaluation process by the Supervisory Board's HR committee, which issued its positive recommendation. The Supervisory Board expressed its full support for Wiebe Draijer's results in his first four-year term and agreed that he was the right person to continue leading the bank's transition for a second term. The Supervisory Board concluded that Jan van Nieuwenhuizen has successfully contributed to the growth of the internationalization and focus of the bank's Wholesale strategy and likewise welcomes the continuation of this strategy. A sound and reputable Rabobank Managing Board member, Jan van Nieuwenhuizen is a team player with strong interpersonal skills, who has helped create an environment of transparency and trust. In October 2018, Rabobank announced the proposed appointment of Els de Groot as Chief Risk Officer, as the bank moves to a new phase in its transition. On February 1, 2019 Els de Groot succeeded Petra van Hoeken, who will continue as a member of the Board of Directors of Rabobank North America and as a member of DLL Supervisory Board.

## Appointments Committee of the Supervisory Board

### Summary Supervisory Board Meetings Appointments Committee

#### General Responsibilities and Duties

The Appointments Committee helps the Supervisory Board prepare its decision-making regarding the composition of, and (re)appointments to, the Supervisory Board, the Managing Board and higher senior management positions.

#### Facts & Figures

##### Members on December 31, 2018

- Marjan Trompetter, chair (100%)
- Irene-Ascher-Vonk (100%)
- Leo Degle (86%)
- Ron Teerlink (100%)
- Pascal Visée (100%)

##### Other Attendees Throughout the Year

Regular attendees:

- Wiebe Draijer
- Janine Vos

'On occasion:

- HR professionals involved with specific agenda topics

#### Meetings

There were seven meetings with around 97% attendance

#### Topics

##### Regular Topics of Discussion

- In general, the Appointments Committee extends advice on personnel changes in the Supervisory Board and the Managing Board based on the respective boards' succession plans and outline profiles. The Committee also advises the Supervisory Board on the approval of different (Rabobank and affiliate) senior management appointments. The Appointments Committee monitors and assesses on annually the (continuing) suitability of members of the Supervisory Board and the members of the Managing Board and of these bodies in their entirety. Suitability assessment considers knowledge, experience and other qualities and competences that are deemed necessary individually and collectively.
- The multi-year succession plan is used to determine which fields of knowledge, experience and other qualities and competences are deemed necessary for the above (re)appointments, to ensure optimum operation of the collective Managing Board/Supervisory Board.
- The Appointments Committee considered the additional positions and roles of the Managing Board members inside and outside Rabobank.
- The Appointments Committee explicitly addressed the subject of (gender) diversity as part of talent management and in the context of searching for and assessing potential candidates for the Supervisory and Managing Board.

##### Special Topics

- In 2018, the Appointments Committee reviewed and updated the procedures on the (re-) appointment of Supervisory Board and Managing Board members
- Since July 1, 2018 the Appointments Committee has been involved in the implementation of new EBA guidelines with stricter requirements on suitability and internal governance concerning appointments of Managing Board and Supervisory Board members, as well as senior management appointments.
- During 2018, the activities of the Appointments Committee were also driven by: 1) the re-appointment of Wiebe Draijer and Jan van Nieuwenhuizen to the Managing Board, 2) the re-appointment of Arian Kamp, as well as the appointment of Annet Aris to the Supervisory Board and 3) the intended appointment of Els de Groot as CRO to the Managing Board subject to formal requirements.

### Composition of the Supervisory Board

As part of the regular process of succession in 2018 Leo Graafsma stepped down from the Supervisory Board in April 2018. Petri Hofsté has succeeded him as chair of the Audit Committee. Arian Kamp was reappointed for a four-year term in December 2018. He will continue as chair of the Committee on Cooperative Affairs. He has successfully refocused this committee's agenda to advise the Supervisory Board on the bank's cooperative identity and matters of strategic and social relevance to the bank.

The Supervisory Board has evaluated its effectiveness, capabilities and composition in light of digitalization and innovation, the growth of the international activities and our international focus on Food & Agri. The Supervisory Board decided to initiate a search and selection process aimed at increasing the Board's diversity in these areas. The Supervisory Board welcomed the appointment of Annet Aris by the General Members Council in its meeting of December 12, 2018. She brings in-depth knowledge of digital transformation and innovation to the board.

### Supervisory Board Effectiveness Evaluation

Following the evaluation of its effectiveness in 2017, the Supervisory Board changed the scope of its Committee on

Cooperative Affairs and altered the composition of its committees. The Committee on Cooperative Affairs expanded its advisory role to the Managing Board to include the banking business strategy of client segments.

The Supervisory Board's 2018 evaluation was carried out in conjunction with external advice.

The Board in general assessed its effectiveness as positive. The board is operating as a team and very dedicated and committed to its work for the bank. The board appreciates the increased focus on strategically important topics in the past year, although it also acknowledges that continuous time and attention remain very necessary for the regulatory agenda, the control framework, cost efficiency, risk management and compliance. In the evaluation, the board has identified the following attention points for improvement:

- The composition of the board can gain in diversity with the addition of members with international, banking and board experience;
- The Supervisory Board can increase its impact with a strengthened, challenging approach. The continuation and

extension of so-called “check-in” and check-out” sessions prior to and after meetings to create focus in the meetings on the critical issues, is welcomed;

- The board wants to devote adequate attention to the strategic topics, amongst others through the agenda setting and order, the setting of the meeting and the preparation of documents with key questions and dilemmas;
- The Supervisory Board intends to increase its role and responsibility in the process of the bank's transformation and evaluation of the long-term strategic objectives and cooperative principles and values.

## Supervisory Board as Advisor

### Strategy and Transformation

The bank's strategy is a staple topic on the board meeting agenda. Every meeting addresses the relevant developments in financial markets, society, and in the bank's business sectors. The Managing Board and the Supervisory Board held two off-site meetings in 2018, both in a local office in the Netherlands: once in Limburg and once in Friesland. The off-sites provided in-depth sessions on the development of the business in the Netherlands and internationally, the organization, risk management, digitalization and innovation. Other visits were also organized with customers and local Rabobanks.

Over the course of 2018, the Supervisory Board encouraged the Managing Board to prioritize the development of new business models. The Supervisory Board is also acutely aware of the need to manage a complex balance between time and investment in, on the one hand, to the comprehensive transformation of Rabobank's current processes and systems including enhancing the control framework, and on the other, innovation and digitalization that lead to new business models. The recurring discussions, especially those about the control agenda, address topics like leadership and ownership, setting challenging and realistic deadlines, and the required time and investment each target requires.

### New Operating Model in Local Rabobanks: Bankieren 3.0

The Managing Board was created in 2017 after massive changes to the organizational structure of the bank. With the transformation of Bankieren 3.0, 2018 brought further organizational changes to the Netherlands. Throughout the year, the Supervisory Board followed and discussed the proposed changes to the structure and management of our banking network in the Netherlands. The board encouraged a comprehensive consultation within the bank and with representatives of General Members Council Boards to improve the proposal and gain broad support. The board confirmed the proposal for an optimum number of local Rabobanks to be set at

90, including a network of 300 client contact points, and the concentration of certain specialized services in 14 network banks.

In its decision-making, the Supervisory Board challenged and advised on various aspects of the proposed change. For example, we debated whether it adequately fulfilled the purpose of the change: the continuation of banking nearby customers and the market while providing better service and high-quality advice. We also debated whether the bank can achieve its strategic goal of supporting customers' sustainable growth and financial health, while simultaneously adopting a digital-first strategy for a growing number of primary banking transactions. The Supervisory Board acknowledged that, while not a primary driver, the change will certainly support the required improvements to the bank's Cost/Income ratio and its compliance and control agenda. Moreover, the Supervisory Board stressed the importance of an appropriately timed and controlled transition period to minimize potential disruptions for customers and prolonged uncertainty for employees. Preparations for the transformation, and the evaluation of transition risks and mitigating actions received ample attention during 2018 meetings of the Supervisory Board as well. Since approving Bankieren 3.0, the Supervisory Board has acted in an advisory capacity in considering the thorough implementation plans, and is following the roll-out with interest.

The Supervisory Board also welcomed a new initiative for product and systems simplification and innovation as well as new ways of working. The board supports the program, named Simplify@scale, and recognized the required investments as a necessary step towards innovation and digitalization, as well as cost control.

### Culture and Leadership

The transformation of Rabobank requires the identification and promotion of the right leadership and culture for future-proof banking. The development and promotion of leadership and culture features in every meeting of the Supervisory Board's Remuneration & HR committee, and it is a regular topic in discussions of the full board. Specific topics discussed in 2018 included the process of maintaining a delicate balance between risk and compliance on the one hand, which requires strict ownership and rigorous rules and procedures, and promoting craftsmanship and leadership on the other, which works best in an inspiring environment that embraces initiative taking. These two priorities can sometimes seem at odds with each other. The Supervisory Board participated in discussions about this balance of limited freedom. The board also welcomed the bank's progress in employee engagement and diversity and recognized it as a key aspect in supporting leadership and culture changes. In updates on the increased percentage of female managers in the bank, the



board encouraged further ethnical and cultural diversity in the employee base. The Supervisory Board agrees with the Managing

Board that increased diversity and inclusivity within the bank will enhance Rabobank's purpose and management.

## The Remuneration and HR Committee

Summary Supervisory Board Meetings Remuneration & HR Committee

### General Responsibilities and Duties

The Remuneration & HR Committee (R&HR) prepares the Supervisory Board's decision making on remuneration and general HR issues like organizational development, employee engagement and people issues from a human resources perspective. In addition, the R&HR Committee considers the consequences of these topics for Rabobank's risks and risk management, accounting for the long-term interests of Rabobank stakeholders and accepted social practice, as well as Rabobank's long-term business, risk appetite, performance and control environment. The R&HR Committee works closely with the Risk Committee in evaluating the incentives created by the remuneration system and directly supervises the remuneration of senior management staff who perform control duties.

The R&HR Committee prepares a proposal on the remuneration policy and the other terms of employment of the directors of Rabobank. It assesses the remuneration practice within Rabobank Group for the highest earning employees based on a group-wide report, which in addition to the fixed and variable remuneration also contains information about the relevant retention, exit and welcome packages within the Rabobank Group. Furthermore, the R&HR Committee prepares a central, independent, internal assessment to review (at least annually) the general principles governing the remuneration policy and its implementation. Rabobank pursues a prudent, restrained and sustainable remuneration policy.

### Facts & Figures

#### Members on December 31, 2018

- Marjan Trompetter, chair (100%)
- Irene Asscher-Vonk (86%)
- Leo Degle (88%)
- Ron Teerlink (100%)
- Pascal Visée (100%)

#### Other Attendees Throughout the Year

Regular attendees:

- Wiebe Draijer
- Janine Vos

On occasion:

- HR professionals involved with specific topics on the agenda

### Meetings

There were seven meetings with around 94% attendance.

### Topics

#### Regular Topics of Discussion

- The R&HR Committee addresses a wide range of topics. In 2018, these included talent development, employability, educational efforts, diversity and inclusion, health/vitality (including absence reporting), engagement, culture, the impact of redundancy on employees, employee participation, 'Tone at the top'/leading by example, and various compensation related issues.
- In 2018, the Supervisory Board took the R&HR Committee's advice to approve a limited number of material exceptions to the Group Remuneration Policy which do not relate to the Managing Board. These exceptions were based on divergent local legislation and regulations and/or market practice.
- The R&HR Committee discussed the general performance targets for Identified Staff (see Remuneration chapter for an explanation of this term). The Committee carried out preparatory work for the Supervisory Board regarding the annually available aggregate variable remuneration with an underlying risk assessment for Rabobank Group and for the individual variable remuneration of employees classified as Identified Staff.
- Information on remuneration in general and on variable remuneration can be found in the Remuneration section of this Annual Report and in the Pillar 3 report.
- The R&HR committee shared the remuneration section of the annual report with the GMC Committee on Confidential Matters.

### Special Topics

The R&HR Committee paid special attention to the material impact of the Banking 3.0 project on staff.

## Innovation and Digitalization

In 2018, the Digital Hub began the digitalization of 30 important customer journeys. The Supervisory Board was updated on these developments in board meetings, educational sessions and during site visits. Rabobank has a worldwide network of customers in the Food & Agri sectors. The Supervisory Board is strongly convinced of the opportunities and the added value the bank has to offer by driving innovation in, for example, financial data gathering and analysis processes in the Food & Agri chain.

## Supervisory Board in Its Supervisory Capacity

The Supervisory Board regularly discussed and approved, at the recommendation of its Audit Committee, financial performance reports, audit reports, the budget, capital- and medium-term plans, proposals for mergers and acquisitions, funding policy and transactions, financial reports for the prudential supervisor, and responses to findings and requirements of the prudential supervisor. After a discussion in the Risk Committee, the Supervisory Board approved the group's risk appetite statement,

risk management and compliance policies (and reports), and capital and liquidity assessment reports. For approval of HR policies and remuneration proposals, the Supervisory Board relies on its Human Resources Committee. The Supervisory Board discussed a regulatory requirement of the resolution authorities on preparing for resolution of the bank in predefined extreme circumstances. The purpose of this was to gain in-depth insight into the regulatory requirement and to learn whether the bank can give adequate consideration to its cooperative structure and purpose in the event of a resolution. In the Supervisory Board's discussions on the capital and liquidity assessment carried out by the bank, topics included the application of capital requirements in management decision-making, the level of prudence applied in the assessment, and the impact of regulatory changes and model updates on both the banking business and capital requirements. When approving for transactions, the board addressed the implications for all stakeholders: customers, employees, society and regulators.

## Risk Management

The Risk Committee discussed a number of critical topics including interest rate risk management, credit risk management and compliance. Two particularly complex topics, client

onboarding and transaction monitoring, were monitored especially closely due to the extensive regulations and the developing social expectations associated with the latter

### Risk Committee of the Supervisory Board

Summary Supervisory Board Meetings Risk Committee

#### General Responsibilities and Duties

The responsibilities and duties of the Risk Committee are described in the Rules of Procedure of the Risk Committee of Rabobank's Supervisory Board on [rabobank.com](http://rabobank.com). The Risk Committee prepares the Supervisory Board's decision-making regarding the supervision of the integrity and quality of Rabobank's development and implementation of the risk governance framework, risk control system and risk appetite. This entails, among others, reviewing and effectively challenging Rabobank's risk analysis scenarios and promoting risk awareness within a strong risk culture.

The Risk Committee discusses the financing structure and the policy regarding the adequacy and allocation of capital, liquidity and the short-term and long-term funding in the light of the business strategy and the risk governance framework adopted by the bank. The Risk Committee monitors the working of the product approval process, studies the process and outcome of the annual Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP), reviews stress-test program results and examines the risks associated with Rabobank Group's remuneration policy.

#### Facts & Figures

##### Members on December 31, 2018 (\*)

- Jan Nooitgedagt, chair (100%)
- Leo Degle (100%)
- Petri Hofsté (as of September 1, 2018) (100%)
- Arian Kamp (as of September 1, 2018) (50%)
- Marjan Trompetter (as of September 1, 2018) (100%)

##### Other Attendees Throughout the Year

- Regular attendees:
  - Wiebe Draijer, Petra van Hoeken, Bas Brouwers
  - Chief Audit Executive, Rudi Kleijwegt
  - Deputy Chief Audit Executive, Dick Duit (until September 1, 2018)
  - Chief Compliance Officer, Angelique Keijzers
  - External independent auditor of PwC, Rogier van Adrichem

(\*) As on September 1, 2018, the composition of the Risk Committee has been changed with the appointment of Petri Hofsté, Arian Kamp and Marjan Trompetter as new members (Jan Nooitgedagt as Chair RC and Leo Degle were already members). The resignation of Ron Teerlink and Pascal Visée of the Risk Committee became effective on September 1, 2018. Leo Graafsma, who was a member of the Risk Committee, officially resigned from the Supervisory Board on April 18, 2018.

- Other frequent attendees on relevant topics:
  - Other members of the Managing Board

#### Meetings

- During 2018 the Risk Committee convened five times. One of these meetings was a combined meeting of the Risk Committee and the plenary Supervisory Board. This joint meeting was organized to discuss/approve the Capital Adequacy Statement, ICAAP/ILAAP and the outcomes of the Stress Test 2018 scenarios.
- Four sessions on continuing professional education were held with the members of the Supervisory Board's Audit Committee (see overview below on educational efforts.\*\*)

#### Topics

##### Regular Topics of Discussion

- Capital plan/ the Capital Management Framework;
- Internal Capital Adequacy Assessment Process (ICAAP);
- Internal Liquidity Adequacy Assessment Process (ILAAP);
- Pillar III;
- Group Risk Policy (update);
- Enhanced Control/Risk Governance / Risk Committee Structure;
- Strategic Risks (top risk analysis and mitigating factors);
- Group Risk Appetite Statement
- Risk Management Charter;
- Integrated Risk Report (Quarterly);
- Quarterly reports on Credit, Operational Risk, Legal and Compliance;
- Global Policies (i.e., Market Risk, Interest Rate Risk in the Banking Book, Whistleblowing, Operational Risk Management, Model Risk, Conflicts of Interest-including the Global Standard Col, Risk Appetite, Capital Stress Testing, CAMS) and Privacy Code for Client Data & Privacy Code for Employee Data
- SIRA
- SREP (updates on process and outcome, expectation letter/decision letter)

##### Special Topics

At the request of the Risk Committee, the Supervisory Board paid special attention to several business segments/markets and topics in 2018 (Business update on Trade & Commodity Finance, deep dive on the Dutch residential mortgage portfolio and updates on Business Continuity Management and the impact of Brexit). The Risk Committee had thorough discussions on the status and actual developments regarding CDD/AML (CARE Program) and was extensively informed on the outlook and status of Credit Risk and FR&R with a focus on the quality of the Dutch SME portfolio including the development of percentage NPLs/SDL. Mid 2018, the Risk Committee was also informed on the status of several initiatives that were implemented following the Risk Management function self-assessment in November 2017.

The Risk Committee frequently discussed the status and outlook of the Operational Risk profile (including Enhanced Control, Back to Green, RCF), and received two different updates on the governance, opportunities and risks related to the Public Cloud. The meeting also discussed data management, the governance of the Data Governance Board, data management tooling and the different programs that are in place to enhance data quality and mitigate data issues. Finally, the Risk Committee received a thorough review of the outcomes of root cause analysis, EBA stress test results, Pillar 3 and the risk assessment of Banking 3.0.

During 2018, the following topics were discussed in the Risk Committee: the credit and concentrations risks in the real estate sector, the Dutch dairy sector, and the impact of climate change to the bank's business. Also, the Committee engaged with the Managing Board and the Risk function on the topic of Rabobank's preparedness in the first and second lines of defense

for increased credit risk in case of an economic downturn or increasing risk in certain sectors of the economy.

The Risk Committee and the full Supervisory Board followed up on the bank's program to enhance and implement revisions to its control framework that will include operational risk control, compliance risk control and financial reporting controls. The

Supervisory Board acknowledged the positive impact that the enhancements already embedded in the control framework have had, especially where risk ownership is concerned, for operational risks and addressing audit findings.

In recent years, the Supervisory Board received continuous updates about the developments leading to the settlement in early 2018 between Rabobank National Association, its California based subsidiary, and the United States Department of Justice and other U.S. authorities for possible violations of the U.S. Bank Secrecy Act and other regulations and statutes in relation to its historical AML compliance program. The board was regularly informed about this and discussed the improvement projects on this topic with the Managing Board, the Compliance officer, and U.S. management of Rabobank and its regulators.

Cyber security increasingly requires the attention of both the Managing Board and the Supervisory Board. The board fully

supports the critical attention the Chief IT and Operations officer pays to awareness training and the continuous and necessary innovation of systems and processes. The board understands that cyber security developments and the bank's response to the risks they entail, also influence our approach to innovating and simplifying the IT infrastructure and applications.

In 2018, the work to reassess applicable derivatives contracts and recover Dutch customers under the agreed upon Derivatives Recovery Framework continued. An ad hoc Derivatives Committee of the Supervisory Board conducted a deep-dive into the project. The ad hoc committee reviewed the progress and the measures taken and reported to the full board its view that the bank is taking all possible measures and steps to communicate with and recover customers appropriately within the agreed time frame.

## Derivatives Committee

*Summary Supervisory Board Meetings Ad Hoc Derivatives Committee*

### General Responsibilities and Duties

Ad Hoc Committee of the Supervisory Board on interest rate derivatives recovery program  
During the September 2018 meeting, the Audit Committee discussed the establishment of an ad hoc committee of the Supervisory Board for the interest rate derivatives recovery program. The objective is to gain an unambiguous understanding of the file's background and essence, and to monitor whether the recovery program's targets will be met. The ad hoc committee will regularly report findings of its assessment to the Supervisory Board.

### Facts & Figures

#### Members on December 31, 2018 (\*)

- Jan Nooitgedagt, chair (100%)
- Pascal Visée (100%)

#### Other Attendees Throughout the Year

- Regular attendees:
- Program Director for the interest rate derivatives recovery program and
  - Chairman of the steering committee for the interest rate derivatives recovery program

### Meetings

- The first meeting of the ad hoc committee was in October 2018. It met three times between then and December 31, 2018. The members of the ad hoc committee also paid an informative visit to the responsible officers of the Netherlands Authority for the Financial Markets (AFM).
- The Supervisory Board ad hoc committee on interest rate derivatives recovery program will continue to meet in 2019 but no more than once or twice.

### Topics

#### Regular Topics of Discussion

Regular topics of discussion were the status and performance reports on the handling of files, the liaison with the financial supervisory and government authorities, the cooperation with the external file assessor, and the monitoring of external communication.  
In November 2018 the committee members gave an update to the other Supervisory Board members.

## Rock-Solid Bank

The Supervisory Board is content with the continued progress in 2018 toward the financial targets of the 2016-2020 Strategic Framework. Focus areas in the board's discussion included the lagging performance on the profitability targets, especially the Cost/Income ratio, and the measures planned and taken to address the gap between performance and target. The Audit Committee of the Supervisory Board analyzed the segment budgets and their assumptions in detail. The Committee challenged the plans for organizational changes to support cost efficiencies. The Committee also gave its opinion on the analysis and presentation of overhead costs. In its deliberations with the Managing Board, the Supervisory Board discussed the acceleration of investment in digitalization to strengthen the

business model innovation and the efficiency and simplification of processes and systems against a decreased Cost/Income ratio improvement in the short term.

The impact of regulatory changes is likewise important to achieving our financial targets. The Supervisory Board is regularly updated on regulatory developments important to the bank and the status of the bank's preparations and implementation to address the changes in processes, systems and the impact on reporting and financial targets. In 2018, the Supervisory Board paid attention to the implementation of International Financial Reporting Standard 9 regarding financial instruments accounting in the bank's financial reporting. The board discussed the changes and potential vulnerabilities that IFRS 9 implementation will bring

to, in particular, accounting for impairments. The Supervisory Board also followed the further development and preparations for the implementation of Basel IV on capital requirements. These reforms will especially impact Dutch banks, including Rabobank, that have a relatively sizable mortgage portfolio.

## Audit

In relation to the supervision on the bank's financial reporting, the following topics were discussed with the internal and external independent auditor. These topics relate to financial, operational, compliance and legal risks that occurred throughout the year and on the basis of various reports discussed with management in the Audit and Risk Committee.

As of January 1, 2018, the bank implemented IFRS 9. The Audit Committee last year already evaluated the implementation process for and the impact of this new accounting standard. In 2018, the implementation of the internal processes and key controls for the application of the standard, in particularly the impairment model, the impact on the opening balance sheet of 2018 and the outcome of the three-stage expected credit loss impairment model, including the areas of judgement and

estimation in determining the level of loan impairments, were discussed. The Audit Committee evaluated the remedial control activities and impact assessments that were required for loan quality classification and the top level adjustment made to the loan impairments to address model and data limitations. The Audit Committee also assessed the appropriateness of the actions, management is taking to improve the process.

The Audit Committee took note of the outcome of the audit procedures performed on the valuation of portfolios of derivatives and financial assets and liabilities that are measured at fair value. The committee considered the reports of the legal and the compliance officer as well as the external audit report to evaluate the adequacy of control effectiveness and the level of provisioning for legal and arbitration proceedings.

The quality of the IT general controls has been audited by both internal and external audit and is critical in the period of extensive transformation of the bank. The committee has discussed the outcome of testing of controls and the actions for further structural remediation of certain controls.

## Audit Committee of the Supervisory Board

### Summary Supervisory Board Meetings Audit Committee

#### General Responsibilities and Duties

The responsibilities and duties of the Audit Committee are described in the Rules of Procedure of the Audit Committee of Rabobank's Supervisory Board. In 2018 the Rules of Procedure were amended to become compliant with – amongst others - the 'EBA rules on internal governance'. The revised version can be accessed via [www.rabobank.com](http://www.rabobank.com). The Audit Committee prepares the Supervisory Board's decision-making on all matters regarding the integrity and quality of Rabobank's Group's financial reporting, the effectiveness of Rabobank Group's internal control systems framework, the external independent auditor, Rabobank Group's internal audit function and Rabobank Group's compliance function.

The Audit Committee also reviews third-party opinions on the design and effectiveness the overall internal control framework, including the risk management framework, if applicable.

The Audit Committee monitors (i) the external reporting process, (ii) the adequacy and effectiveness of the internal control systems framework, processes and mechanisms, including the internal risk management framework, (iii) the system of internal auditing, (iv) the statutory audit of the annual accounts and the consolidated financial statements and the review of the half-year interim financial statements in particular taking into account any findings and conclusions of the Autoriteit Financiële Markten pursuant to the quality assurance reviews on the external audit firm and also the integrity and quality of the financial reporting; and (v) the establishment of accounting policies.

The Audit Committee supervises the existence, integrity, independence and effectiveness of regulations pursuant to which bank staff (a) may confidentially raise concerns about possible improprieties in matters of financial reporting and (b) are able to report internally about potential or actual infringements of the provisions of the Capital Requirements Regulation or the Financial Supervision Act. Finally, the Audit Committee has specific responsibilities and duties relating to the internal audit function, the external independent auditor and the compliance function.

#### Facts & Figures

##### Members on December 31, 2018 (\*)

- Petri Hofsté, chair since May 16, 2018 (100%)
- Jan Nooitgedagt (86%)
- Ron Teerlink (as of September 1, 2018) (100%)
- Pascal Visée (as of September 1, 2018) (100%)

##### Other Attendees Throughout the Year

Regular attendees:

- Wiebe Draijer, Bas Brouwers, Petra van Hoeken
- Chief Audit Executive, Rudi Kleijwegt
- Deputy Chief Audit Executive, Dick Duit (until 1 September 2018)
- Chief Compliance Officer, Angelique Keijzers
- External independent auditor of PwC, Roger van Adrichem

(\*) As on September 1, 2018, the composition of the Audit Committee changed. Ron Teerlink and Pascal Visée were appointed as new members instead of Arian Kamp and Marjan Trompetter. Leo Graafsma was chair of the Audit Committee until April 18, 2018 – the date that he officially resigned as a member of the Supervisory Board.

Other frequent attendees on relevant topics:

- Other members of the Managing Board

The other members of the Supervisory Board have a standing invitation to attend the meeting of the Audit Committee.

#### Meetings

- During 2018, the Audit Committee convened six times, of which two meetings were attended by almost all other members of the Supervisory Board: the meeting on the 2017 full year figures and the meeting on the 2018 half year figures.
- During the Audit Committee meeting in May 2018, representatives of the JST attended as observers the meeting.
- Two working sessions were held in 2018 for the members of the Audit Committee: one on COREP and the other on the preparation of the 2019 budget.
- Four sessions on continuing professional education were held with the members of the Supervisory Board's Risk Committee (see overview in Risk Committee's educational efforts).

#### Topics

##### Regular Topics of Discussion

- Performance Report (via Group Control)
- General update on financial markets
- Annual Report (figures and report)
- Interim Report (figures and report)
- Rabobank's Internal Control reports
- Board Reports external auditor
- Auditors Report (external auditor)
- Report in the context of article 26 CRR
- Compliance Year Plan
- (Internal) Audit Global Year Plan
- Sustainability reporting
- Engagement Letter external auditor
- Half year report Compliance
- Quarterly reports (internal) Audit
- Loan Impairment Report
- External Auditor's Plan
- External Auditor's IT Plan
- Supervisory Update
- Review Compliance Charter
- High level benchmark comparing Rabobank to its peers
- Rabobank Group Budget for coming year

##### Special Topics

Special attention was paid to the project for the implementation of IFRS 9, the developments on the BSA/ AML Program for the New York office, USA, the amendment on the Audit Committee Rules of Procedure, the (self-)assessment of the process of drawing up the annual report, the self-assessment of the Compliance and Risk Management functions and the evaluation report of the (internal) Audit function.

## Liaison Officers and Stakeholder Relations

The Supervisory Board regularly meets with the bank's prudential supervisors, particularly the European Central Bank and the Dutch Central Bank (the Joint Supervisory Team for Rabobank). In these

meetings, the Supervisory Board's role and perspective on the bank's strategy, governance, performance and risk management are the focus of constructive discussions.



## Stakeholder Relationships

### Summary Stakeholder Relationships

Type of Stakeholder	Specifics
<b>Contact with Members</b>	
Members – Next to being loyal clients, our members are our eyes and ears in the local community. They can act as our ambassadors, but also question and reflect on Rabobank's choices and actions.	<ul style="list-style-type: none"> <li>Supervisory Board members attend meetings of the GMC three to four times a year.</li> <li>On several occasions members of Supervisory Board Committees confer with or attend GMC Committee meetings. In 2018, due to (re)appointments in the Managing and the Supervisory Board, the Appointment Committee had frequent contact with the GMC Committee on Confidential Matters.</li> <li>The chair or deputy chair attends all eight Regional Member Council meetings per GMC, accompanied by another Supervisory Board member.</li> <li>The chair of the Supervisory Board is technical chair of the GMC and the GMC Emergency Affairs Committee. The chair and deputy chair attends the meetings of the GMC's Coordination Committee and the Committee on Confidential matters.</li> <li>The members of the Supervisory Board also visit individual local Rabobanks, attend conferences and information sessions for local directors and/or members of the Supervisory Boards of the local Rabobanks and, on invitation, meetings of local Rabobank members.</li> </ul>
<b>Contact with the External Accountant PwC</b>	
External accountant: formal and informal role	<ul style="list-style-type: none"> <li>The external accountant attends every meeting of the Audit Committee and the Risk Committee.</li> <li>At least once a year there is a private session between the Audit Committee and the external independent accountant and internal advisors.</li> <li>The chair of the Supervisory Board, the chair of the Audit Committee and the external independent auditor and meet at least four times a year.</li> </ul>
<b>Dutch and Foreign Regulators</b>	
<ul style="list-style-type: none"> <li>Regulators in the Netherlands/Europe and abroad: In the Netherlands, these include De Nederlandsche Bank (DNB), the Netherlands Authority for the Financial Markets (AFM) and the ECB/DNB Joint Supervisory Team.</li> </ul>	<ul style="list-style-type: none"> <li>The chair of the Supervisory Board, either independently or with the chair of the Managing Board, maintains contact with external regulators.</li> <li>The vice chair and the chairs of all committees also meet with members of the JST on a regular basis.</li> <li>On occasion, a delegation of Supervisory Board members is in contact with and/or meets with US regulators.</li> </ul>
<b>Contact with Managing Board Members and other Rabobank Professionals</b>	
<ul style="list-style-type: none"> <li>The chair of the Supervisory Board is in close contact with the chair of the Managing Board and the Chief Financial Officer.</li> <li>The chair of the Supervisory Board regularly consults with the Chief Audit Executive / internal auditor and the Chief Compliance Officer.</li> <li>Informal audit meeting – Chair of the Supervisory Board, the chair of the Audit Committee, the external independent auditor and the Chief Audit Executive / internal auditor.</li> <li>Informal meetings with the Head of Internal Audit.</li> <li>Informal risk organization meeting – the chair of the risk committee and the Chief Risk Officer.</li> <li>Informal meetings between chairs of Supervisory Board Committees and the responsible Managing Board Member(s) to discuss the agenda of the next meeting.</li> <li>Informal gatherings or formal meetings (continuous education) with directors, Rabobank specialists or external experts, focused on the exchange of information.</li> <li>On a rotating basis, members of the Supervisory Board attend meetings of the Works Council as observers.</li> <li>One of the members of the Supervisory Board has attended a meeting of the European Works Council (EWC) and will continue to do so in the future. In 2018, a meeting will be set up between delegates of the Rabobank Works Council, the Managing Board and the Supervisory Board (so-called 'three councils meeting')</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing</li> <li>Twelve times per year</li> <li>At least four times a year</li> <li>Regularly</li> <li>Before every meeting of the Audit Committee</li> <li>Before every Committee meeting</li> <li>Several times per year</li> <li>Every meeting of the Works Council</li> <li>Several times per year</li> </ul>
Local branches and Rabobank clients in the Netherlands and abroad	Individual members of the Supervisory Board have also visited to (clients of) local Rabobanks and Rabobank abroad, affiliates and attended meetings of relevant networks to stay in touch with the company's core business and client groups.

The Supervisory Board strongly supports the Managing Board's view that Rabobank, as a cooperative bank, has a critical role to play in helping solve the issues that face society today, such as producing enough food for a growing world population, climate change and financial health for individuals and businesses. This requires cooperation and domestic and international coalitions

of members and customers, renewal of our cooperative identity, and innovation of our banking business models. The Supervisory Board stimulates and initiates discussion with the Committee on Cooperative Affairs, in board meetings and in talks with the General Members Council.

## Committee on Cooperative Affairs

Summary Supervisory Board Meetings Committee on Cooperative Affairs

### General Responsibilities and Duties

The responsibilities and duties of the Committee on Cooperative Affairs (CCA) are described in the Rules of Procedure of the CCA of Rabobank's Supervisory Board. In 2018 the Rules of Procedure were amended to become compliant with - among others - the 'EBA rules on internal governance'. The revised version can be accessed via [www.rabobank.com](http://www.rabobank.com). The CCA advises the Supervisory Board on all matters regarding Rabobank's cooperative structure, organization and identity, and will make the preparations for the requisite decisions of the Supervisory Board, consisting of: (i) the assessment of the Managing Board's reports on Rabobank's cooperative organization and operations, ii) the submission of advice on cooperative affairs to the Managing Board, either upon request or on its own initiative, and iii) advising the Supervisory Board on client-, market- or service-related topics (also in relation to the sustainability ambitions, visions and strategy on pertaining to the sustainability targets that the business units formulated), either at the request of the Managing Board or on its own initiative.

### Facts & Figures

#### Members on December 31, 2018

- Arian Kamp, chair (86%)
- Irene Asscher-Vonk (72%)
- Petri Hofsté (72%)
- Ron Teerlink (86%)
- Marjan Trompetter (100%)

The other members of the Supervisory Board have a standing invitation to attend the meeting of the CCA.

#### Other Attendees Throughout the Year

Regular attendees:

- Wiebe Draijer

Other frequent attendees on relevant topics:

- Other Managing Board members, responsible for the commercial business lines: Marielle Lichtenberg, Kirsten Konst, Jan van Nieuwenhuizen and Berry Marttin
- Bas Rüter, director sustainability

### Meetings

During 2018, the CCA convened seven times, of which two meetings were extra sessions dedicated to a specific 'cooperative' topic.

### Topics

The regular topics for the CCA in 2018 included presentations on the client focus and client analytics for the commercial business lines, updates on Bankieren 3.0, the CCA-year plan, an overview of Supervisory Board members' visits to banks, social initiatives and updates on the cooperative renewal.

The continuing transition of Rabobank, including the digitalization of processes and the innovation of our business models, inspires employees. However, the Supervisory Board realizes that it also challenges employees' ability to adapt since it requires continuous learning. For example, many positions throughout the network changed as a result of the Bankieren 3.0 transformation. The Supervisory Board discusses these topics in its meetings with the Workers Council. It also receives regular updates on the development of the organizational health index scores. The board is content with the steadily improving level of the index, which demonstrates employees' commitment and sense of responsibility to the organizational changes. Members of the Supervisory Board regularly attend the meeting of the Workers Council and meet with its representatives. In 2018, a

fruitful "three-councils meeting" took place between the Workers Council and the Supervisory and Managing Board. The Supervisory Board attends and, where relevant, actively participates in the General Members Council, chaired by Ron Teerlink, chair of the Supervisory Board. Members also attend the preparatory meetings for the General Members Council in the networks of local Rabobanks and participate in meetings of General Members Council committees.

### Educational Sessions

The Supervisory Board has followed several educational sessions, together with members of the Managing Board, other Rabobank managers and external advisors and trainers.

## Education Sessions for the Supervisory Board

### Summary Supervisory Board Meetings Professional Education

- On January 18, 2018, the Supervisory Board members had an expert session on scenario-analysis (scope: retail banking in 2025) given by Barbara Baarsma (former directeur Knowledge Development Rabobank).
- On February 13, 2018, the members of the Supervisory Board attended an educational session (of the HR & Remuneration Committee) on Leadership and Culture.
- On February 20, 2018, the Supervisory Board had a dry run exercise for Recovery Planning organized by Rabobank's RRP team.
- On March 16, 2018, at the request of the Audit Committee, an educational session was planned on RCF.
- On March 16, 2018, the Supervisory Board held an educational session on product development, product innovation and the product approval process.
- On March 29, 2018, all members of the Supervisory Board and nearly all members of the Managing Board attended an in-depth session (initiated by the Supervisory Board's Audit Committee and Risk Committee jointly) on the status of Interest Rate Benchmark Civil Litigation & Regulatory Investigations (presented by Legal and Milbank).
- On May 16, 2018 DTO/internal specialists presented an expert session to the Supervisory Board on Open Banking, Artificial Learning and Machine Learning.
- On June 1, 2018, the Managing Board and the Supervisory Board had an in-depth session on Client onboarding, Due Diligence & Transaction monitoring.
- On June 14, 2018, the Audit Committee and Risk Committee had an in-depth session on Funds Transfer Pricing, and the redesign of the Credit chain including FR&R.
- On September 13, 2018, Legal and Risk informed the Supervisory Board in great detail as to the current state of affairs in Resolution Planning (SRB).
- On November 7, 2018, all members of the MT CLR gave an educational session to the Audit Committee and Risk Committee on the CLR-domain's contribution to Rabobank.
- On December 6, 2018, the Supervisory Board attended the Managing Board's educational session on Global CAMS.
- On December 11, 2018, the Supervisory Board was extensively informed on the transition(s) taking place within the Dutch F&A-sector.

## Transactions with Conflict of Interest

In 2018 there were no transactions involving a conflict of interest between Rabobank and members of the Supervisory or Managing Boards.

## Proposal to the GMC and Conclusion

In accordance with the relevant provisions of the Articles of Association of Rabobank, the Supervisory Board has reviewed Rabobank's Annual Report 2018 and annual accounts, as well as other relevant, associated information. The Supervisory Board discussed these documents with the Managing Board, the internal auditor and external independent auditor (PwC) and took note of the unqualified external auditor's report that PwC issued on the annual accounts in 2018. The Supervisory Board would advise the General Members' Council to adopt the 2018 annual accounts.

## Rounding up: A Word of Appreciation

The Supervisory Board highly appreciates the various opportunities to engage with clients of Rabobank both in the Netherlands and internationally, during off-site meetings, visiting local banks and participating in (international) client events. The insights gained contribute to the discussions of the board on strategic as well as regulatory and control issues.

Utrecht, March 13, 2019

Supervisory Board Rabobank

# Consolidated Financial Statements



# Contents

<b>General Information</b>	<b>122</b>	2.29 Trust Preferred Securities and Capital Securities	148
<i>Consolidated Statement of Financial Position</i>	<b>123</b>	2.30 Financial Guarantees	148
<i>Consolidated Statement of Income</i>	<b>124</b>	2.31 Segmented Information	148
<i>Consolidated Statement of Comprehensive Income</i>	<b>125</b>	2.32 Business Combinations	148
<i>Consolidated Statement of Changes in Equity</i>	<b>126</b>	2.33 Disposal Groups Classified as Held for Sale and Discontinued Operations	148
<i>Consolidated Statement of Cash Flows</i>	<b>127</b>	2.34 Cash Flow Statement	148
<b>Notes to the Consolidated Financial Statements</b>	<b>129</b>	<b>3. Solvency and Capital Management</b>	<b>149</b>
<b>1. Corporate Information</b>	<b>130</b>	<b>4. Risk Exposure on Financial Instruments</b>	<b>151</b>
<b>2. Accounting Policies</b>	<b>131</b>	4.1 Risk Organization	151
2.1 Basis of Preparation	131	4.2 Strategy for the Use of Financial Instruments	151
2.2 Consolidated Financial Statements	137	4.3 Credit Risk	151
2.3 Derivatives and Hedging	138	4.4 Non-trading Foreign Exchange Rate risk (FX risk)	158
2.4 Financial Assets and Liabilities Held for Trading	139	4.5 Interest Rate Risk in the Banking Environment	158
2.5 Financial Assets and Financial Liabilities Designated at Fair Value	139	4.6 Market Risk in the Trading Environment	159
2.6 Day One Gains/ Losses	139	4.7 Liquidity Risk	161
2.7 Financial Assets at Fair Value Through Other Comprehensive Income	140	4.8 Operational Risk	164
2.8 Repurchase Agreements and Reverse Repurchase Agreements	140	4.9 Fair Value of Financial Assets and Liabilities	164
2.9 Securitizations and (De)Recognition of Financial Assets and Liabilities	140	4.10 Legal and Arbitration Proceedings	169
2.10 Cash and Cash Equivalents	141	<b>5. Segment Reporting</b>	<b>172</b>
2.11 Offsetting Financial Assets and Liabilities	141	5.1 Business Segments	172
2.12 Foreign Currency	141	5.2 Geographic Information (Country-by-Country Reporting)	175
2.13 Interest	141	5.3 Geographic Information of Non-current Assets	178
2.14 Fees and Commissions	142	<b>6. Cash and Cash Equivalents</b>	<b>178</b>
2.15 Loans and Advances to Customers and Loans and Advances to Credit Institutions	142	<b>7. Loans and Advances to Credit Institutions</b>	<b>178</b>
2.16 Impairment Allowances on Financial Assets	142	<b>8. Financial Assets Held for Trading</b>	<b>178</b>
2.17 Modifications	144	<b>9. Financial Assets Designated at Fair Value</b>	<b>178</b>
2.18 Goodwill and Other Intangible Assets	144	<b>10. Financial Assets Mandatorily at Fair Value</b>	<b>178</b>
2.19 Property and Equipment	144	<b>11. Derivatives</b>	<b>179</b>
2.20 Investment Properties	145	11.1 Types of Derivatives Used by Rabobank	179
2.21 Other Assets	145	11.2 Derivatives Held for Trading	179
2.22 Leasing	146	11.3 Derivatives Designated as Hedging Instrument	179
2.23 Provisions	146	11.4 Notional Amount and Fair Value of Derivatives	182
2.24 Employee Benefits	146	<b>12. Loans and Advances to Customers</b>	<b>184</b>
2.25 Variable Remuneration Based on Equity Instruments	147	<b>13. Financial Assets at Fair Value through Other Comprehensive Income</b>	<b>185</b>
2.26 Tax	147	<b>14. Investments in Associates and Joint Ventures</b>	<b>186</b>
2.27 Deposits from Credit Institutions, Deposits from Customers and Debt Securities in Issue	147	14.1 Investments in Associates	186
2.28 Rabobank Certificates	148	14.2 Investments in Joint Ventures	186
		<b>15. Goodwill and Other Intangible Assets</b>	<b>188</b>
		<b>16. Property and Equipment</b>	<b>189</b>
		<b>17. Investment Properties</b>	<b>190</b>
		<b>18. Other Assets</b>	<b>191</b>



19. Non-current Assets Held for Sale	192
20. Deposits from Credit Institutions	192
21. Deposits from Customers	192
22. Debt Securities in Issue	192
23. Financial Liabilities Held for Trading	192
24. Financial Liabilities Designated at Fair Value	193
25. Other Liabilities	193
26. Provisions	194
27. Deferred Taxes	195
28. Employee Benefits	196
29. Subordinated Liabilities	197
30. Contingent Liabilities	198
31. Reserves and Retained Earnings	199
32. Rabobank Certificates	199
33. Capital Securities and Trust Preferred Securities IV	201
34. Other Non-controlling Interests	202
35. Changes in Liabilities Arising from Financing Activities	203
36. Net Interest Income	203
37. Net Fee and Commission Income	203
38. Net Income from Other Operating Activities	203
39. Income from Investments in Associates and Joint Ventures	204
40. Gains/ (Losses) on Financial Assets and Liabilities at Fair Value through Profit or Loss	204
41. Other Income	204
42. Staff Costs	204
43. Other Administrative Expenses	205
44. Depreciation and Amortization	205
45. Impairment Charges on Financial Assets and Loan Impairment Charges	206
46. Regulatory Levies	206
47. Income Taxes	206
48. Transactions with Related Parties	206
49. Cost of External Independent Auditor	207
50. Remuneration of the Supervisory Board and the Managing Board	209
51. Main Subsidiaries	210
52. Transfer of Financial Assets and Financial Assets Provided as Collateral	211
53. Structured Entities	212
54. Events after the Reporting Period	213
55. Management Report on Internal Control over Financial Reporting	213
56. Authorization of the Financial Statements	214

# General Information

Rabobank is an international financial services provider operating on the basis of cooperative principles. It offers retail banking, wholesale banking, private banking, leasing and real estate services. It serves approximately 8.3 million clients around the world. Rabobank Group comprises of Coöperatieve Rabobank U.A. (Rabobank) and its consolidated subsidiaries in the Netherlands and abroad. It is committed to making a substantial contribution to welfare and prosperity in the Netherlands and to feeding the world sustainably.

Rabobank puts the interests and ambitions of its customers and members first. With nearly two million members, Rabobank is one of the largest cooperatives in the Netherlands. Our members are more than just customers: They have a voice in deciding the bank's strategic direction.

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## Consolidated Statement of Financial Position

<i>Consolidated Statement of Financial Position</i>			
		December 31	December 31
<i>Amounts in millions of euros</i>	<i>Note</i>	<i>2018</i>	<i>2017<sup>1</sup></i>
<b>Assets</b>			
Cash and cash equivalents	6	73,335	66,861
Loans and advances to credit institutions	7	17,859	27,254
Financial assets held for trading	8	2,876	1,760
Financial assets designated at fair value	9	157	1,194
Financial assets mandatorily at fair value	10	2,134	n/a
Derivatives	11	22,660	25,505
Loans and advances to customers	12	436,591	432,564
Financial assets at fair value through other comprehensive income	13	18,730	n/a
Available-for-sale financial assets	13	n/a	28,689
Investments in associates and joint ventures	14	2,374	2,521
Goodwill and other intangible assets	15	966	1,002
Property and equipment	16	4,455	4,587
Investment properties	17	193	193
Current tax assets		243	175
Deferred tax assets	27	1,165	1,733
Other assets	18	6,431	7,961
Non-current assets held for sale	19	268	992
<b>Total assets</b>		<b>590,437</b>	<b>602,991</b>
<b>Liabilities</b>			
Deposits from credit institutions	20	19,397	18,922
Deposits from customers	21	342,410	340,682
Debt securities in issue	22	130,806	134,423
Financial liabilities held for trading	23	400	581
Financial liabilities designated at fair value	24	6,614	13,792
Derivatives	11	23,927	28,103
Other liabilities	25	6,342	8,271
Provisions	26	1,126	1,537
Current tax liabilities		229	248
Deferred tax liabilities	27	452	396
Subordinated liabilities	29	16,498	16,170
Liabilities held for sale		-	256
<b>Total liabilities</b>		<b>548,201</b>	<b>563,381</b>
<b>Equity</b>			
Reserves and retained earnings	31	27,264	25,376
Equity instruments issued by Rabobank			
- Rabobank Certificates	32	7,445	7,440
- Capital Securities	33	6,493	5,759
		<b>13,938</b>	<b>13,199</b>
Non-controlling interests			
Equity instruments issued by subsidiaries			
- Capital Securities	33	164	166
- Trust Preferred Securities IV	33	389	394
Other non-controlling interests	34	481	475
		<b>1,034</b>	<b>1,035</b>
<b>Total equity</b>		<b>42,236</b>	<b>39,610</b>
<b>Total equity and liabilities</b>		<b>590,437</b>	<b>602,991</b>

1 As reported under IAS 39

## Consolidated Statement of Income

<i>Consolidated Statement of Income</i>			
		<i>For the year ended December 31</i>	
<i>Amounts in millions of euros</i>	<i>Note</i>	<i>2018</i>	<i>2017<sup>1</sup></i>
Interest income from financial assets using the effective interest method <sup>2</sup>	36	15,960	16,275
Other interest income	36	321	296
Interest expense	36	7,722	7,728
<b>Net interest income</b>	<b>36</b>	<b>8,559</b>	<b>8,843</b>
Fee and commission income	37	2,106	2,101
Fee and commission expense	37	175	186
<b>Net fee and commission income</b>	<b>37</b>	<b>1,931</b>	<b>1,915</b>
Income from other operating activities	38	2,547	2,347
Expenses from other operating activities	38	1,964	1,825
<b>Net income from other operating activities</b>	<b>38</b>	<b>583</b>	<b>522</b>
Income from investments in associates and joint ventures	39	243	245
Gains/ (losses) arising from the derecognition of financial assets measured at amortised cost		14	n/a
Gains/ (losses) on financial assets and liabilities at fair value through profit or loss	40	238	84
Gains/ (losses) on available-for-sale financial assets	13	n/a	158
Gains/ (losses) on financial assets at fair value through other comprehensive income		112	n/a
Other income	41	340	234
<b>Income</b>		<b>12,020</b>	<b>12,001</b>
Staff costs	42	4,278	4,472
Other administrative expenses	43	2,780	3,176
Depreciation and amortization	44	388	406
<b>Operating expenses</b>		<b>7,446</b>	<b>8,054</b>
Loan impairment charges	45	n/a	(190)
Impairment charges on financial assets	45	190	n/a
Regulatory levies	46	478	505
<b>Operating profit before tax</b>		<b>3,906</b>	<b>3,632</b>
Income tax	47	902	958
<b>Net profit for the year</b>		<b>3,004</b>	<b>2,674</b>
Of which attributed to Rabobank		1,894	1,509
Of which attributed to Rabobank Certificates		484	484
Of which attributed to Capital Securities issued by Rabobank		530	586
Of which attributed to Capital Securities issued by subsidiaries		14	15
Of which attributed to Trust Preferred Securities IV		22	22
Of which attributed to other non-controlling interests	34	60	58
<b>Net profit for the year</b>		<b>3,004</b>	<b>2,674</b>

1 As reported under IAS 39

2 Presentation adjusted (see note 2.1)

## Consolidated Statement of Comprehensive Income

### Consolidated Statement of Comprehensive Income

Amounts in millions of euros	Note	2018	2017 <sup>1</sup>
<b>Net profit for the year</b>		<b>3,004</b>	<b>2,674</b>
<i>Other comprehensive income transferred to profit or loss if specific conditions are met, net of tax:</i>			
Exchange differences on translation of foreign operations	31	134	(1,161)
Increase/ (decrease) in the fair value of available-for-sale financial assets	31	n/a	(129)
Increase/ (decrease) in the fair value of debt instruments at fair value through other comprehensive income	31	(152)	n/a
Costs of hedging	31	30	n/a
Cash flow hedges	31	(1)	28
Share of other comprehensive income of associates and joint ventures	31	(84)	11
Other	31	-	35
<i>Other comprehensive income not to be transferred to profit or loss, net of tax:</i>			
Remeasurements of post-employee benefit obligations	31	76	-
Increase/ (decrease) in the fair value of equity instruments at fair value through other comprehensive income	31	(8)	n/a
Share of other comprehensive income of associates and joint ventures	31	4	(6)
Decrease/ (increase) in the fair value due to own credit risk on financial liabilities designated at fair value	31	111	(322)
<b>Other comprehensive income</b>		<b>110</b>	<b>(1,544)</b>
<b>Total comprehensive income</b>		<b>3,114</b>	<b>1,130</b>
Of which attributed to Rabobank		2,007	(4)
Of which attributed to Rabobank Certificates		484	484
Of which attributed to Capital Securities issued by Rabobank		530	586
Of which attributed to Capital Securities issued by subsidiaries		14	15
Of which attributed to Trust Preferred Securities IV		22	22
Of which attributed to other non-controlling interests		57	27
<b>Total comprehensive income</b>		<b>3,114</b>	<b>1,130</b>

1 As reported under IAS 39



## Consolidated Statement of Changes in Equity

### Consolidated Statement of Changes in Equity

Amounts in millions of euros	Note	Reserves and retained earnings	Equity instruments issued by Rabobank	Non-controlling interests		Total
				Equity instruments issued by subsidiaries	Other	
<b>Balance on December 31, 2017</b>		<b>25,376</b>	<b>13,199</b>	<b>560</b>	<b>475</b>	<b>39,610</b>
Change in accounting policy IFRS 9 <sup>1</sup>		(26)	-	-	-	(26)
Change in accounting policy IFRS 15 <sup>1</sup>		41	-	-	-	41
<b>Restated balance on January 1, 2018</b>		<b>25,391</b>	<b>13,199</b>	<b>560</b>	<b>475</b>	<b>39,625</b>
Net profit for the year		2,944	-	-	60	3,004
Other comprehensive income	31	113	-	-	(3)	110
<b>Total comprehensive income</b>		<b>3,057</b>	<b>-</b>	<b>-</b>	<b>57</b>	<b>3,114</b>
Payments on Rabobank Certificates		(484)	-	-	-	(484)
Payments on Trust Preferred Securities IV		(22)	-	-	-	(22)
Payments on Capital Securities issued by Rabobank		(539)	-	-	-	(539)
Payments on Capital Securities issued by subsidiaries		(14)	-	-	-	(14)
Redemption of Capital Securities	33	(79)	(275)	-	-	(354)
Issue of Capital Securities	33	-	1,000	-	-	1,000
Cost of issue of Capital Securities		-	(6)	-	-	(6)
Settlement pension plan		(56)	-	-	-	(56)
Other		10	20	(7)	(51)	(28)
<b>Balance on December 31, 2018</b>		<b>27,264</b>	<b>13,938</b>	<b>553</b>	<b>481</b>	<b>42,236</b>
<b>Balance on January 1, 2017</b>		<b>25,821</b>	<b>13,584</b>	<b>594</b>	<b>525</b>	<b>40,524</b>
Net profit for the year		2,616	-	-	58	2,674
Other comprehensive income	31	(1,513)	-	-	(31)	(1,544)
<b>Total comprehensive income</b>		<b>1,103</b>	<b>-</b>	<b>-</b>	<b>27</b>	<b>1,130</b>
Payments on Rabobank Certificates		(484)	-	-	-	(484)
Payments on Trust Preferred Securities IV		(22)	-	-	-	(22)
Payments on Capital Securities issued by Rabobank		(592)	-	-	-	(592)
Payments on Capital Securities issued by subsidiaries		(15)	-	-	-	(15)
Redemption of Capital Securities	33	(439)	(1,894)	-	-	(2,333)
Issue of Rabobank Certificates	32	120	1,500	-	-	1,620
Cost of issue of Rabobank Certificates		(12)	-	-	-	(12)
Other		(104)	9	(34)	(77)	(206)
<b>Balance on December 31, 2017</b>		<b>25,376</b>	<b>13,199</b>	<b>560</b>	<b>475</b>	<b>39,610</b>

1 See note 2.1 'New and amended standards issued by the IASB and adopted by the European Union which apply in the current financial year'.

## Consolidated Statement of Cash Flows

### Consolidated statement of cash flows

For the year ended December 31

Amounts in millions of euros	Note	2018	2017 <sup>1</sup>
<b>Cash flows from operating activities</b>			
Operating profit before tax		3,906	3,632
Adjusted for:			
<i>Non-cash items recognised in operating profit before tax</i>			
Depreciation and amortization	44	388	406
Depreciation of operating lease assets and investment properties	16,17	602	536
Loan impairment charges	45	n/a	(190)
Impairment charges on financial assets	45	190	n/a
(Reversal) Impairment losses on property and equipment	16	42	48
(Reversal) Impairment losses on other intangible assets	15	2	31
Impairment losses on goodwill and investments in associates	14	-	-
Gains/ (losses) on disposal of property and equipment		5	40
Income from investments in associates and joint ventures	39	(243)	(245)
Income from disposal of subsidiaries		(119)	(3)
Gains/ (losses) on financial assets and liabilities at fair value through profit or loss	40	(238)	(84)
Gains/(losses) on available-for-sale financial assets	13	n/a	(158)
Gains/ (losses) on derecognition of debt instruments at fair value through other comprehensive income	41	(112)	n/a
Gains/ (losses) arising from the derecognition of financial assets measured at amortised cost		(14)	n/a
Provisions	26	276	688
Capitalised costs self-developed software and other assets		(118)	(130)
<i>Net change in operating assets</i>			
Loans and advances to and deposits from credit institutions	7, 20, 45	9,459	(4,426)
Financial assets held for trading	9, 40	(872)	952
Derivatives	11	2,872	16,867
Net increase/ (decrease) in financial assets and liabilities designated at fair value	9, 24	(17)	(2,644)
Net increase/ (decrease) in financial assets mandatorily at fair value	10	709	n/a
Loans and advances to customers	12, 45	(7,360)	9,042
Acquisition of available-for-sale financial assets	13	n/a	(3,687)
Acquisition of financial assets at fair value through other comprehensive income	13	(4,861)	n/a
Proceeds from the sale and repayment of available-for-sale financial assets	13	n/a	7,707
Proceeds from the sale and repayment of financial assets at fair value through other comprehensive income	13	14,139	n/a
Acquisition of operational lease assets	16	(1,152)	(1,087)
Proceeds from the disposal of operational lease assets	16	435	165
Dividends received from associates and financial assets	14	176	125
<i>Net change in liabilities relating to operating activities</i>			
Derivatives	11	(4,636)	(19,921)
Financial liabilities held for trading	23	(181)	(158)
Deposits from customers	21	(786)	(6,950)
Other liabilities	25	(1,853)	(115)
Income tax paid		(182)	(302)
Other changes		2,169	1,408
<b>Net cash flow from operating activities</b>		<b>12,626</b>	<b>1,547</b>
<b>Cash flows from investing activities</b>			
Acquisition of investments in associates net of cash and cash equivalents acquired	14	(43)	(113)
Proceeds from disposal of investments in associates net of cash and cash equivalents	14	182	214
Proceeds from disposal of subsidiaries net of cash and cash equivalents		-	-
Acquisition of property, equipment and investment properties	16, 17	151	(170)

For the year ended December 31

Proceeds from the disposal of property, equipment and investment properties	16, 17	(41)	118
<b>Net cash flow from investing activities</b>		<b>249</b>	<b>49</b>
<b>Cash flows from financing activities</b>			
Proceeds from debt securities in issue	22, 35	63,164	71,398
Redemption of debt securities in issue	22, 35	(69,203)	(88,121)
Proceeds from the issue of subordinated liabilities	35	-	413
Redemption of subordinated liabilities	35	(21)	(4)
Purchase of Rabobank Certificates	32	(1,038)	(913)
Sale of Rabobank Certificates	32	1,043	905
Issue of Capital Securities (including cost of issue)		994	-
Payments on Rabobank Certificates, Trust Preferred Securities IV and Capital Securities		(1,059)	(1,113)
Payments on Senior Contingent Notes		(86)	(86)
Redemption of Capital Securities	33	(354)	(1,894)
Issue of Rabobank Certificates (including cost of issue)		-	1,608
<b>Net cash flow from financing activities</b>		<b>(6,560)</b>	<b>(17,807)</b>
<b>Net change in cash and cash equivalents</b>		<b>6,315</b>	<b>(16,211)</b>
Cash and cash equivalents at the beginning of the year		66,861	84,405
Exchange rate differences on cash and cash equivalents		159	(1,333)
Cash and cash equivalents at the end of the year		73,335	66,861
The cash flows from interest are included in the net cash flow from operating activities			
Interest received		15,693	16,095
Interest paid		7,180	7,537

1 As reported under IAS39

# Notes to the Consolidated Financial Statements

## 1. Corporate Information

The Consolidated financial statements of Rabobank include the financial information of Coöperatieve Rabobank U.A. and its consolidated subsidiaries.



## 2. Accounting Policies

The primary accounting policies used in preparing these consolidated financial statements are set out below.

### 2.1 Basis of Preparation

The Consolidated Financial Statements of Rabobank have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The consolidated financial statements have been prepared on the basis of the accounting policies set out in this section.

#### **New and Amended Standards Issued by the International Accounting Standards Board (IASB) and Adopted by the European Union Which Apply in the Current Financial Year**

##### *IFRS 9 Financial Instruments*

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 became effective on January 1, 2018 and Rabobank applies the classification, measurement and impairment requirements retrospectively by adjusting the opening balance sheet and opening retained earnings as per January 1, 2018, with no restatement of comparative periods. The adoption of IFRS 9 Financial Instruments resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. The new accounting policies are set out in note "Changes in accounting principles and presentation" and the adjusted amounts are set out in note "Key impacts of the implementation of IFRS 9."

##### *Amendments to IFRS 4*

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

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

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

##### *IFRS 15 Revenue from Contracts with Customers*

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

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

##### *Other Amendments to IFRS*

As of January 1, 2018, Rabobank applies the minor amendments to IFRS 2, IFRS 15, IAS 40, IFRIC 22 and the Annual improvements to IFRS Standards 2014-2016 Cycle. The implementation of these changes has no impact on profit or equity.

#### **New Standards Issued by the International Accounting Standards Board (IASB) and Adopted by the European Union Which Do Not Yet Apply in the Current Financial Year**

##### *IFRS 16 Leases*

In January 2016, the IASB issued IFRS 16 'Leases' with an effective date of annual periods beginning on or after January 1, 2019. IFRS 16 replaces IAS 17 and the related interpretations IFRIC 4, SIC-15 and SIC-27 and results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Rabobank will recognize a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset

will be amortized over the length of the lease and the financial liability will be measured at amortized cost. Lessor accounting remains substantially the same as it was under IAS 17.

Rabobank has finished its IFRS 16 program to collect all lease contracts of Rabobank and to ensure implementation of IFRS 16 calculations. Rabobank will apply the modified retrospective approach which retains the prior period figures as reported under the previous standard and recognizes the cumulative effect of IFRS 16 as an increase to the opening balance of equity as per January 1, 2019. The introduction of IFRS 16 does not have an impact on equity of Rabobank and will lead to an increase of assets and liabilities as per January 1, 2019 for an amount of approximately EUR 610 million.

#### *Other Amendments to IFRS*

Minor amendments have been made to IAS 28, IAS 19, IFRS 9, IFRIC 23, and the issue of the Annual Improvements to IFRS Standards 2015-2017 Cycle. Although these new requirements are currently being analyzed and their impact is not yet known, Rabobank does not expect that the implementation of these amendments will significantly affect profit or equity.

### **New Standards Issued by the International Accounting Standards Board (IASB) But Not Yet Endorsed by the European Union**

#### *IFRS 17 Insurance Contracts*

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

### **Changes in Accounting Principles and Presentation**

#### *Classification*

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

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

The classification depends on:

1. Business model assessment; Rabobank assesses its business models at a level that reflects how financial assets are managed seen from a strategic point of view. Rabobank considers all relevant evidence available at the assessment date, such as how the performance of the business model and the financial assets held in that model is evaluated and reported and how the risks affecting the performance of the business model are managed. This assessment results in the following business models:
  - Hold to collect: where the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; or
  - Hold to collect and sell: where the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; or
  - Other business model.
2. Contractual cash flow assessment; Rabobank assesses whether the cash flows of the financial assets are solely payment of principal and interest on the principal amount outstanding (SPPI test) and, hence, consistent with basic lending arrangements. In basic lending arrangements, the consideration for the time value of money and credit risk are typically the most significant elements of interest. However in such arrangements, interest may also include consideration for other basic lending risks (such as liquidity risk) and costs (such as administrative costs) associated with holding financial assets for a particular period of time. Additionally, interest may include a profit margin consistent with a basic lending arrangement.

#### *Measurement*

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

#### *Impairment Allowances on Financial Assets*

The rules included in IFRS 9 governing impairments apply to financial assets at amortized cost and financial assets at fair value through OCI, as well as to lease receivables, contract assets, trade receivables, certain loan commitments and financial guarantees. At initial recognition, an allowance is recognized for the amount of the expected credit losses from possible defaults in the coming 12 months ('12-months expected credit loss' (ECL)). If credit risk

has increased significantly since origination of a financial asset (but remains non-credit-impaired), an allowance is required for the amount that equals the expected credit losses from possible defaults during the expected lifetime of the financial asset ('Lifetime ECL'). If the financial instrument becomes credit-impaired the allowance will remain at the Lifetime ECL. However, for these instruments the interest income will be recognized by applying the effective interest rate on the net carrying amount (including the allowance) instead of the gross carrying amount. Financial instruments become credit-impaired when one or more events have occurred that had an adverse impact on estimated future cash flows.

Two fundamental drivers of the IFRS 9 impairments requirements are a) the methodology for the measurement of 12-Month and Lifetime Expected Credit Losses and b) the criteria used to determine whether a 12-Month ECL, Lifetime ECL non-credit impaired, or Lifetime ECL credit-impaired should be applied (also referred to as stage determination criteria). In general, the methodology to determine expected credit losses is described below. Further details are included in section 2.16 Impairment allowances on financial assets and the section Judgements and estimates.

#### *a) Methodology to Determine Expected Credit Losses*

In order to determine ECLs Rabobank utilizes point in time Probability of Default (PD) x Loss Given Default (LGD) x Exposure at Default (EAD) models for the majority of the portfolio in scope. Three global macroeconomic scenarios (consisting of a baseline, a baseline minus and a baseline plus scenario) are incorporated into these models and probability weighted in order to determine the expected credit losses. For stage 3 financial assets that are assessed on an individual basis, a discounted cash flow calculation is performed which is based on the weighted average of the net present value of expected future cash flows in three different scenarios: a sustainable cure, an optimizing and a liquidation scenario.

When unexpected external developments or data quality issues are not sufficiently covered by the outcome of the ECL models, an adjustment will be made.

#### *b) Stage Determination Criteria*

In order to allocate financial instruments in scope between the categories 12-month ECL (stage 1), Lifetime ECL Non-Credit-Impaired (stage 2) and Lifetime ECL Credit-Impaired (stage 3) a framework of qualitative and quantitative factors has been developed. The criteria for allocating a financial instrument to stage 3 are fully aligned with the criteria for assigning a defaulted status, for example 90 days past due status, or if a debtor is likely to become unable to pay its credit obligations without liquidation

of collateral by the bank. In order to allocate financial instruments between stages 1 and 2, Rabobank uses criteria, such as days past due status, special asset management status and deterioration of the PD since origination.

For portfolios without individual PD's or with PD's that are not updated on a frequent basis such that an assessment of the change in PD is not possible, a collective assessment on groups of financial instruments with shared credit risk characteristics is made.

### **Hedge Accounting**

Hedge accounting is an option IFRS offers to mitigate profit or loss volatility caused by measurement differences between granted loans and issued debt securities measured at amortized cost, assets measured at fair value through OCI (hedged items) and related hedging derivatives measured at fair value through profit or loss (hedging instruments). Rabobank applies IFRS 9 for non-portfolio hedge accounting. IFRS 9 does not offer a solution for fair value hedge accounting for a portfolio hedge of interest rate risk. Rabobank opted to use the accounting policy choice of IFRS to continue to apply the IAS 39 EU carve-out for such portfolio hedge accounting.

For non-portfolio hedge accounting an economic relationship between the hedged item and the hedging instrument is required without the possibility of a voluntary de-designation of the hedge relationship afterwards. Rabobank designates effective non-portfolio hedge accounting relationships with cross-currency swaps by bifurcating fair value changes resulting from the cross currency basis spread. The fair value changes caused by the bifurcated cross currency basis will be considered as costs of hedging and are separately recognized in other comprehensive income. Rabobank has implemented this change prospectively as from January 1, 2018.

### **Changes in Presentation of Interest Income**

As a result of a change in IAS 1 due to the implementation of IFRS 9, interest income on financial assets using the effective interest method should be presented separately in the statement of income. Interest income on financial assets using the effective interest method includes interest income on 'Cash and cash equivalents', 'Loans and advances to credit institutions', 'Loans and advances to customers', 'Financial assets at fair value through other comprehensive income' and 'Derivatives used for fair value hedge-accounting'. The line-item 'Other interest income' refers to interest income on all other financial instruments. Refer to note 36 'Net interest income' for an overview of all interest income items.

## Key Impacts of the Implementation of IFRS 9

The implementation of IFRS 9 resulted in an increase of the impairment allowance of financial assets of EUR 227 million before tax. The impact of other movements due to the IFRS 9 implementation is positive EUR 201 million before tax. The

following table shows a reconciliation between the consolidated statement of financial position as reported per December 31, 2017 under IAS 39 and the restated amounts per January 1, 2018 under IFRS 9.

### Consolidated Statement of Financial Position

Amounts in millions of euros	Measurement category IFRS 9	Measurement category IAS 39	Note	December 31, 2017 (IAS 39)	Reclassification	Remeasurements (ECL)	Other remeasurements <sup>2</sup>	January 1, 2018 (IFRS 9)
<b>Assets</b>								
Cash and cash equivalents	AC	AC		66,861	-	-	-	66,861
Loans and advances to banks	AC	AC		27,254	(390)	(2)	2	26,864
Financial assets held for trading	FVPL	FVPL		1,760	7	-	-	1,767
Financial assets designated at fair value <sup>3</sup>	FVPL	FVPL		1,194	(850)	-	4	348
Financial assets mandatorily at fair value	FVPL	n/a	a	n/a	3,923	-	(224)	3,699
Derivatives	FVPL	FVPL	b	25,505	27	-	-	25,532
Loans and advances to customers	AC	AC	a	432,564	(2,788)	(134)	(234)	429,408
Available-for-sale financial assets	n/a	FVOCI		28,689	(28,689)	-	-	n/a
Financial assets at fair value through other comprehensive income	FVOCI	n/a		-	28,867	(8)	50	28,909
Investments in associates and joint ventures	n/a	n/a		2,521	-	-	-	2,521
Goodwill and other intangible assets	n/a	n/a		1,002	-	-	-	1,002
Property and equipment	n/a	n/a		4,587	-	-	-	4,587
Investment properties	n/a	n/a		193	-	-	-	193
Current tax assets	n/a	n/a		175	-	51	(50)	176
Deferred tax assets	n/a	n/a		1,733	-	-	(3)	1,730
Other assets	n/a	n/a		7,961	(83)	24	(9)	7,893
Non-current assets held for sale	n/a	n/a		992	-	-	-	992
<b>Total assets</b>				<b>602,991</b>	<b>24</b>	<b>(69)</b>	<b>(464)</b>	<b>602,482</b>
<b>Liabilities</b>								
Deposits from banks	AC	AC	b	18,922	29	-	(6)	18,945
Deposits from customers	AC	AC	b	340,682	2,830	-	(317)	343,195
Debt securities in issue	AC	AC	b	134,423	2,827	-	(275)	136,975
Financial liabilities held for trading	FVPL	FVPL		581	-	-	-	581
Financial liabilities designated at fair value	FVPL	FVPL	b	13,792	(6,118)	-	5	7,679
Derivatives	FVPL	FVPL	b	28,103	473	-	(13)	28,563
Other liabilities	n/a	n/a		8,271	(17)	-	(6)	8,248
Provisions	n/a	n/a		1,537	-	107	-	1,644
Current tax liabilities	n/a	n/a		248	-	(3)	4	249
Deferred tax liabilities	n/a	n/a		396	-	(3)	-	393
Subordinated liabilities	n/a	n/a		16,170	-	-	-	16,170
Liabilities held for sale	n/a	n/a		256	-	-	-	256
<b>Total liabilities</b>				<b>563,381</b>	<b>24</b>	<b>101</b>	<b>(608)</b>	<b>562,898</b>
<b>Equity</b>								
Reserves and retained earnings				25,376	-	(170)	144	25,350
Equity instruments issued by Rabobank								
Rabobank Certificates				7,440	-	-	-	7,440

Amounts in millions of euros	Measurement category IFRS 9	Measurement category IAS 39	Note	December 31, 2017	Reclassification	Remeasurements (ECL)	Other remeasurements <sup>2</sup>	January 1, 2018
				(IAS 39)				(IFRS 9)
Capital Securities				5,759	-	-	-	5,759
				<b>13,199</b>	-	-	-	<b>13,199</b>
<i>Non-controlling interests</i>								
<i>Equity instruments issued by subsidiaries</i>								
Capital Securities				166	-	-	-	166
Trust Preferred Securities IV				394	-	-	-	394
Other non-controlling interests				475	-	-	-	475
				<b>1,035</b>	-	-	-	<b>1,035</b>
<b>Total equity</b>				<b>39,610</b>	-	<b>(170)</b>	<b>144</b>	<b>39,584</b>
<b>Total equity and liabilities</b>				<b>602,991</b>	<b>24</b>	<b>(69)</b>	<b>(464)</b>	<b>602,482</b>

1 AC = Amortised cost, FVPL = Fair value through profit or loss and FVOCI = Fair value through other comprehensive income.

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

3 The column 'Reclassification' has been adjusted as compared with the Interim financial statements 2018 due to financial assets mandatorily at fair value through profit or loss that were presented as financial assets designated at fair value through profit or loss as per 1 January 2018 for an amount of EUR 856 million.

### (a) Reclassifications and Remeasurements of Financial Assets

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

### (b) Reclassifications and Remeasurements of Financial Liabilities

The classification and measurement of financial liabilities under IFRS 9 remains the same as under IAS 39 with the exception of financial liabilities designated at fair value through profit and loss. Rabobank has elected to reclassify the callable notes included in the structured funding portfolio measured under IAS 39 at fair value to amortized cost under IFRS 9. The purpose of this is to further reduce the volatility due to own credit standing movements in total comprehensive income resulting from callable notes. The reclassification of the callable notes from fair value through profit or loss to amortized cost resulted in the bifurcation of the embedded derivatives whilst at the same time the funding host contract is measured at amortized cost. The amortized cost measurement also better reflects the purpose of the funding transaction. This accounting treatment creates a

symmetric valuation and presentation of the embedded (and bifurcated) derivative and the external hedging derivative whilst simultaneously exempting the funding host contract from any fair value changes that would previously have been accounted for in other comprehensive income. Rabobank has decided to do this for callable notes only and not for other notes included in the structured funding portfolio. Since the callable loans create the majority of the fair value movements in the total comprehensive income. The total impact of this change is positive EUR 594 million before tax. The effective interest rate of the reclassified callable notes determined on January 1, 2018 is 2.3% and the interest expense that has been recognized in the statement of income in 2018 amounted to EUR 136 million. As per December 31, 2018, the fair value of these reclassified financial liabilities is EUR 5,442 million. An after tax gain of EUR 124 million would have been recognized in total comprehensive income if these liabilities had not been reclassified.

### Reconciliation of Impairment Allowances

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

through the additions of the 12-month ECL category (stage 1) and the Lifetime ECL Non-Credit-Impaired (stage 2), generally leading to increases in overall impairment allowances.

### Reconciliation of Impairment Allowances Under IAS 39 and Provision Under IAS 37 to Expected Credit Losses Under IFRS 9

Amounts in millions of euros	Impairment allowances IAS 39 and IAS 37 as at December 31, 2017	Reclassification of financial assets at amortised cost	Remeasurements	Impairment allowances IFRS 9 as at January 1, 2018
Loans and advances to banks	17	-	2	19
Loans and advances to customers	5,446	(1,304)	134	4,276
Financial assets at fair value through other comprehensive income	-	-	8	8
Other assets	26	-	(24)	2
Treasury related assets	85	-	-	85
Credit related contingent liabilities	20	-	107	127
<b>Total</b>	<b>5,594</b>	<b>(1,304)</b>	<b>227</b>	<b>4,517</b>
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Loans and advances to banks	1	1	17	19
Loans and advances to customers	320	287	3,754	4,361
Financial assets at fair value through other comprehensive income	3	5	-	8
Other assets	-	-	2	2
Credit related contingent liabilities	33	12	82	127
<b>Total impairment allowances IFRS 9 as at January 1 2018</b>	<b>357</b>	<b>305</b>	<b>3,855</b>	<b>4,517</b>

### Going Concern

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

### Judgments and Estimates

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

The accounting principles listed below require critical estimates that are based on assessments and assumptions. Although management estimates are based on the most careful assessment of current circumstances and activities on the basis of available financial data and information, the actual results may deviate from these estimates.

#### Impairment Allowances on Financial Assets

Rabobank applies the three-stage expected credit loss impairment models for measuring and recognizing expected credit losses which involve a significant degree of management judgement. The impairment methodology results in the recognition of allowances measured at an amount equal to 12-month expected credit losses (stage 1); allowances measured at

an amount equal to lifetime expected credit losses for financial assets for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets (stage 2); and financial assets that are credit-impaired (stage 3).

Rabobank uses estimates and management judgement in the determination of the expected credit loss for the following attributes (refer to section 2.16 Impairment allowances on financial assets for further details):

- Significant increase in credit risk: judgment is required to transfer assets from stage 1 to stage 2.
- Forward-looking information: the estimation of expected credit losses for each stage and the assessment of significant increases in credit risk consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions (forward looking information). The estimation of forward-looking information requires judgment.
- Macro-economic scenarios: Rabobank uses three global macroeconomic scenarios (consisting of a baseline, a baseline minus and a baseline plus scenario, which are probability weighted) in their ECL models to determine the expected credit losses. The expected credit loss on a financial asset is based on an unbiased probability-weighted amount that is determined by evaluating a range of possible and reasonable outcomes and reflects information available on current conditions and forecasts of future economic conditions for the



different regions. Important variables are gross domestic product growth, unemployment rates and interest rates. These forward-looking macroeconomic forecasts require judgment and are partly based on internal Rabobank research.

- Measurement of expected credit losses: The probability of default (PD) x loss given default (LGD) x exposure at default (EAD) inputs are used to estimate expected credit losses. These inputs require estimates in the following way:
  - PD – The probability of default is an estimate of the likelihood of default over a given time horizon.
  - EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after reporting date.
  - LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that Rabobank would expect to receive, including cash flows expected from collateral and other credit enhancements.
- Measurement of individually assessed financial asset: For credit-impaired financial assets that are assessed on an individual basis, a discounted cash flow calculation is performed. In many cases, judgment is required for the estimation of the expected future cash flows and the weighting of the three scenarios.

#### *Fair Value of Financial Assets and Liabilities*

Information regarding the determination of the fair value of financial assets and liabilities is included in Section 4.9 'Fair value of financial assets and liabilities' and Section 11 'Derivatives'.

#### *Impairment of Goodwill, Other Intangible Assets and Investments in Associates and Joint Ventures*

Goodwill and other intangible assets are assessed for impairment – at least once a year – by comparing the recoverable value to the carrying amount, while investments in associates and joint ventures are tested for impairment when specific triggers are identified. The determination of the recoverable amount in an impairment assessment of these assets requires estimates based on quoted market prices, prices of comparable businesses, present value or other valuation techniques, or a combination thereof, necessitating management to make subjective judgments and assumptions. Because these estimates and assumptions could result in significant differences to the amounts reported if underlying circumstances were to change, these estimates are considered to be critical. The important assumptions for determining recoverable value of goodwill are set out in Section 15 and for investments in associates and joint ventures these are set out in Section 14.

#### *Taxation*

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

Differences between the final outcome and the estimates originally made are accounted for in the current and deferred tax assets and liabilities in the period in which reasonable certainty is obtained.

#### *Other Provisions*

In applying IAS 37 judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. More information on judgements regarding the provision for SME derivatives and the restructuring provision is included in Section 26 Provisions.

#### *Structured Entities*

The consolidation of structured entities is a critical estimate that requires judgment and is described in Section 53 Structured entities.

## **2.2 Consolidated Financial Statements**

### **2.2.1 Subsidiaries**

The participating interests over which Rabobank has control are its subsidiaries (including structured entities) and these are consolidated. Control is exercised over a participating interest if the investor is entitled to receive variable returns from its involvement in the participating interest and has the ability to influence these returns through its control over the participating interest. The assets, liabilities and profit and loss of these companies are fully consolidated.

Subsidiaries are consolidated as from the date on which Rabobank acquires effective control and subsidiaries are de-consolidated as of the date on which this control is ceded. Transactions, balances and unrealized gains and losses on transactions between and among Rabobank Group and its subsidiaries are eliminated on consolidation.

#### *Cross-guarantee System*

Following approval by the Dutch Central Bank, the cross-guarantee system (a remnant of the previous cooperative structure of Rabobank Group) was terminated on December 11, 2018. There are no outstanding, residual and/or contingent liabilities.

Up until the system's termination on December 11, 2018, the remaining participants were:

- Coöperatieve Rabobank U.A
- De Lage Landen International B.V.
- Rabo Factoring B.V. (previously named De Lage Landen Trade Finance B.V.)
- Rabo Lease B.V. (previously named De Lage Landen Financial Services B.V.)
- Rabo Direct Financiering B.V (previously named De Lage Landen Financiering B.V.)

## 2.2.2 Investments in Associates and Joint Ventures

Investments in associates and joint ventures are initially recognized at cost (including goodwill) and subsequently accounted for using the equity method of accounting. Its share of post-acquisition profits and losses are recognized in the income statement and its share of post-acquisition movements in reserves are recognized directly in other comprehensive income. The cumulative post-acquisition movements are included in the carrying amount of the investment.

Associates are entities over which Rabobank can exercise significant influence and in which it generally holds between 20% and 50% of the voting rights but does not have control. A joint venture is an agreement between one or more parties under which the parties jointly have control and are jointly entitled to the net assets under the agreement. Unrealized profits on transactions between Rabobank and its associates and joint ventures are eliminated in proportion to Rabobank's interest in the respective associates and joint ventures. Unrealized losses are also eliminated unless the transaction indicates that an impairment loss should be recognized on the asset(s) underlying the transaction.

## 2.3 Derivatives and Hedging

Derivatives generally comprise foreign exchange contracts, currency and interest rate futures, forward rate agreements, currency and interest rate swaps and currency and interest rate options (written or acquired). Derivatives are recognized at fair value (excluding transaction costs) determined on the basis of listed market prices (with mid-prices being used for EUR, USD and GBP derivatives that have a bid-ask range), prices offered by traders, discounted cash flow models and option valuation models based on current market prices and contract prices for the underlying instruments and reflecting the time value of money, yield curves and the volatility of the underlying assets and liabilities. Derivatives are included under assets if their fair value is positive and under liabilities if their fair value is negative.

### *Derivatives Not Used for Hedging*

Realized and unrealized gains and losses on derivatives held for trading are recognized at fair value in 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss'.

### *Derivatives Used for Hedging*

Derivatives are used for asset and liability management of interest rate risks, credit risks and foreign currency risks. Rabobank applies IFRS 9 for non-portfolio hedge accounting. IFRS 9 does not offer a solution for fair value hedge accounting for a portfolio hedge of interest rate risk. Rabobank opted to use the accounting policy choice of IFRS 9 to continue to apply the IAS 39 EU carve-out for such portfolio hedge accounting.

At the time of inception, derivatives are designated as one of the following: (1) a hedge of the fair value of an asset, a group of assets or a liability in the statement of financial position (fair value hedge); (2) a hedge of future cash flows allocable to an asset or liability in the statement of financial position, an expected transaction or a firm commitment (cash flow hedge); or (3) a hedge of a net investment in a foreign operation (net investment hedge). Hedge accounting is applied for derivatives designated in this manner provided that certain criteria are met, including the following:

There must be formal documentation of the hedging instrument, the hedged item, the objective of the hedge, the hedging strategy, and the hedge relationship; Documentation of the assessment and analysis of the sources of hedge ineffectiveness and how the hedges ratio is determined (IFRS 9); The hedge must be expected to be effective, within 80% to 125% (IAS 39), in covering changes in the hedged item's fair value or the cash flows allocable to the hedged risks during the entire reporting period; The hedge must be continuously effective from the moment of its inception; There is an economic relationship between the hedged item and hedging instrument (IFRS 9).

### *1. Derivatives Used for Fair Value Hedge Accounting*

Changes in the fair value of derivatives that are designated as fair value hedges and are effective in terms of the hedged risks are recognized in the statement of income in 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss', together with the corresponding changes in the fair values of the assets or liabilities hedged.

As and when the hedge no longer meets the criteria for hedge accounting (applying the fair value hedge model), the cumulative adjustment to the fair value of a hedged interest-bearing financial instrument is amortized through profit and loss over the relevant interest repricing period.

### 2. Derivatives Used for Cash Flow Hedge Accounting

Changes in the fair value of derivatives that are designated (and qualify) as cash flow hedges and that are effective in relation to the hedged risks are recognized in other comprehensive income. Ineffective elements of the changes in the fair value of derivatives are recognized in the statement of income. If a forecast transaction or a recognized liability results in the recognition of a non-financial asset or liability, any deferred profits or losses included in other comprehensive income are transferred to the initial carrying amount (cost) of the asset or liability. In all other cases, deferred amounts included in other comprehensive income are taken to the statement of income in 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss' in the periods in which the hedged recognized liability or the forecast transaction was recognized in the statement of income.

### 3. Derivatives Used for Net Investment Hedge Accounting

The hedging instruments used to hedge net investments in foreign operations are measured at fair value, with changes in the fair value being recognized in other comprehensive income for the portion that is determined to be an effective hedge. Changes in the hedged equity instrument resulting from exchange-rate fluctuations are also recognized in other comprehensive income. Gains and losses accumulated in other comprehensive income are reclassified to profit or losses when the equity instrument is disposed of.

### 4. Costs of Hedging

The cross currency basis spreads of cross currency interest rate swaps in hedge accounting relationships designated with issued bonds in foreign currency is excluded from designation. The cross currency basis spread volatility is taken through OCI as costs of hedging and is reclassified to profit or loss in the same periods as when the hedged expected future cash flows affect profit or loss till maturity of the issued bond (time period of the related hedged item).

Although derivatives are used as economic hedges under Rabobank's managed risk positions, certain derivative contracts do not qualify for hedge accounting under the specific IFRS rules. Interest on derivatives held for economic hedging purposes are shown under interest expense, both the receive and pay leg of the derivative.

## 2.4 Financial Assets and Liabilities Held for Trading

Financial assets held for trading are financial assets acquired with the objective of generating profit from short-term fluctuations in prices or trading margins or they are financial assets that form part of portfolios characterized by patterns of short-term profit

participation. Financial assets held for trading are recognized at fair value based on listed bid prices and all realized and unrealized results therefrom are recognized under 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss'. Interest earned on financial assets is recognized as interest income. Dividends received from financial assets held for trading are recognized as 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss'.

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

## 2.5 Financial Assets and Financial Liabilities Designated at Fair Value

On initial recognition, certain financial assets (including direct and indirect investments in venture capital and excluding assets held for trading) and certain liabilities may be included as 'Financial assets and liabilities designated at fair value' if this accounting eliminates or significantly 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.

Interest earned and due on such assets and liabilities is recognized as interest income and expense, respectively. Other realized and unrealized gains and losses on the revaluation of these financial instruments to fair value are included under 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss' except for fair value changes due to own credit risk of financial liabilities designated at fair value. These fair value changes after tax are presented in other comprehensive income under line item 'Fair value changes due to own credit risk on financial liabilities designated at fair value'. Presenting these effects of changes in credit risk in other comprehensive income does not create or enlarge an accounting mismatch in profit or loss.

## 2.6 Day One Gains/ Losses

When using fair value accounting at the inception of a financial instrument, any positive or negative difference between the transaction price and the fair value (referred to as 'day one gain/ loss') is accounted for immediately under 'Gains/ (losses) on financial assets and liabilities at fair value through profit or loss' where the valuation method is based on observable inputs from active markets. In all other cases, the entire day one gain/loss is

deferred and accounted for as 'Other liabilities' or 'Other assets'. After initial recognition the deferred day one gain/ loss is recognized as a gain/ loss to the extent it results from a change in a factor (including time effects).

## 2.7 Financial Assets at Fair Value Through Other Comprehensive Income

Debt instruments that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income and presented as 'Financial assets at fair value through other comprehensive income'.

Financial assets at fair value through other comprehensive income are initially recognized at fair value, including transaction costs, based on quoted bid prices or at values derived from cash flow models. The fair values of unlisted equity instruments are estimated on the basis of appropriate price/earnings ratios, adjusted to reflect the specific circumstances of the respective issuer.

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss. Interest from these financial assets is included in net interest income using the effective interest rate method. Impairment losses are included in 'Impairment charges on financial assets' in the statement of income.

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

## 2.8 Repurchase Agreements and Reverse Repurchase Agreements

Financial assets that are sold subject to related sale and repurchase agreements are included in the financial statements under 'Financial assets held for trading' or 'Financial assets at fair value through other comprehensive income', as applicable. The liability to the counterparty is included under 'Deposits from credit institutions' or 'Deposits from customers', as applicable.

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

## 2.9 Securitizations and (De)Recognition of Financial Assets and Liabilities

### *Recognition of Financial Assets and Liabilities*

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

### *Securitizations and Derecognition of Financial Assets and Liabilities*

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

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

- The rights to the cash flows from the asset expire;
- The rights to the cash flows from the asset and substantially all the risks and rewards of ownership of the asset are transferred;
- A contractual obligation is assumed to transfer the cash flows from the asset and substantially all the risks and rewards have been transferred; or
- Substantially all the risks and rewards are neither transferred nor retained but where control over the asset is not retained.

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

Where a transaction does not meet these conditions for derecognition, it is recognized as a loan for which security has been provided. To the extent that the transfer of a financial asset

does not qualify for derecognition, Rabobank's contractual rights are not separately recognized as derivatives if recognition of these instruments and the transferred asset, or the liability arising from the transfer, were to result in the double recognition of the same rights and obligations.

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

## 2.10 Cash and Cash Equivalents

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

## 2.11 Offsetting Financial Assets and Liabilities

Where there is legal right to offset recognized amounts and it is intended to settle the expected future cash flows on a net basis or to realize the asset and settle the liability simultaneously, financial assets and liabilities are offset and the net amount is recognized in the statement of financial position. This relates predominantly to derivatives and reverse repurchase agreements. The offsetting of taxes is addressed in Section 2.26.

## 2.12 Foreign Currency

### *Foreign Entities*

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

The consolidated financial statements are presented in euros, which is the parent company's functional currency. The statements of income and cash flows of foreign operations are

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

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

### *Foreign Currency Transactions*

Transactions in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction dates. Differences arising on the settlement of transactions or on the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income as foreign exchange gains and losses and differences that qualify as net investment hedges are recognized in other comprehensive income. Translation differences on non-monetary items measured at fair value through profit or loss are recognized as part of the fair value gains or losses. Translation differences on non-monetary assets at fair value through other comprehensive income are included in the revaluation reserves for equity instruments at fair value through other comprehensive income.

## 2.13 Interest

Interest income and expense are recognized in the statement of profit or loss using the effective interest method. The effective interest method is a method used for calculating the amortized cost of a financial asset or a financial liability and for allocating the interest income or interest expense to the relevant period. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. Interest income shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for credit-impaired financial assets. For those financial assets, Rabobank applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods. Interest income on financial assets using the effective interest method includes interest income on 'Cash and cash equivalents', 'Loans and advances to credit institutions', 'Loans and advances to

customers', 'Financial assets at fair value through other comprehensive income' and 'Derivatives used for fair value hedge-accounting'. Interest on derivatives held for economic hedging purposes are shown under interest expense, both the receive and pay leg of the derivative.

## 2.14 Fees and Commissions

Rabobank earns fee and commission income from a diverse range of services it provides to its customers. Commissions earned for the provision of services such as payment services and advisory fees are generally recognized as the service is provided.

Commission received for negotiating a transaction or for involvement in negotiations on behalf of third parties (for example the acquisition of a portfolio of loans, shares or other securities or the sale or purchase of companies) is recognized upon completion of the underlying transaction.

## 2.15 Loans and Advances to Customers and Loans and Advances to Credit Institutions

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost and presented as 'Loans and advances to credit institutions' or 'Loans and advances to customers'. At initial recognition, Rabobank measures these financial assets at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Interest income from these financial assets is included in net interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in 'Gains/ (losses) arising from the derecognition of financial assets measured at amortized cost'. Impairment losses are included in 'Impairment charges on financial assets' in the statement of income.

## 2.16 Impairment Allowances on Financial Assets

Impairment allowances apply to financial assets at amortized cost and financial assets at fair value through OCI, as well as to lease receivables, contract assets, trade receivables, certain loan commitments and financial guarantees. At initial recognition, an allowance is formed for the amount of the expected credit losses from possible defaults in the coming 12 months (stage 1). If credit risk increased significantly since origination (but remains non-credit-impaired), an allowance will be required for the

amount that equals the expected credit losses stemming from possible defaults during the expected lifetime of the financial asset (stage 2). If the financial instrument becomes credit-impaired the allowance will remain at the Lifetime ECL (stage 3). However, for these instruments the interest income will be recognized by applying the effective interest rate on the net carrying amount (including the allowance). Financial instruments become credit-impaired when one or more events have occurred that had a detrimental impact on estimated future cash flows. Rabobank does not use the low credit risk exemption for any financial instrument.

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

### a) Methodology to Determine Expected Credit Losses

In order to determine ECLs Rabobank utilizes point in time Probability of Default (PD) x Loss Given Default (LGD) x Exposure at Default (EAD) models for the majority of the portfolio in scope. Three global macroeconomic scenarios are incorporated into these models and probability weighted in order to determine the expected credit losses. When unexpected external developments or data quality issues are not sufficiently covered by the outcome of the ECL models, an adjustment will be made.

### b) Stage Determination Criteria

In order to allocate financial instruments in scope between stage 1, stage 2 and stage 3 a framework of qualitative and quantitative factors has been developed. The criteria for allocating a financial instrument to stage 3 are fully aligned with the criteria for assigning a defaulted status, for example 90 days past due status, or if a debtor is likely to become unable to pay its credit obligations without liquidation of collateral by the bank. In order to allocate financial instruments between stages 1 and 2, Rabobank uses criteria, such as days past due status, special asset management status and deterioration of the PD since origination.

For portfolios without individual PD's or with PD's that are not updated on a frequent basis such that an assessment of the change in PD is not possible, a collective assessment on groups of financial instruments with shared credit risk characteristics is made.

### Significant Increases in Credit Risk (SICR)

At each reporting date, Rabobank assesses whether the credit risk on financial instruments has increased significantly since initial recognition. There is a rebuttable presumption that the credit risk



on a financial asset has increased significantly since initial recognition when the contractual payments are over 30 days past due. The rebuttable presumption is not an absolute indicator that lifetime ECL should be recognized, but is presumed to be the latest point at which lifetime ECL should be recognized.

The assessment of whether lifetime ECL are recognized is based on significant increases in the likelihood of default risk occurring since initial recognition – irrespective of whether a financial instrument has been repriced to reflect an increase in credit risk – instead of based on evidence of a financial instrument being credit-impaired at the reporting date or an actual default occurring. Generally, there will be a SICR before a financial instrument becomes credit impaired or an actual default occurs. For loan commitments, Rabobank considers changes in the default risk occurring on the loan to which a loan commitment relates. For financial guarantee contracts, it considers the changes in the risk that the specified debtor will default on the contract.

The assessment of changes in credit risk analysis is a multifactor and holistic analysis. Whether a specific factor is relevant (and its weight compared to other factors) depends on the type of product, characteristics of the financial instruments and the borrower as well as geographical region. The methods used to determine whether credit risk on financial instruments has increased significantly since initial recognition should consider the mentioned characteristics of the instruments (or a group of instruments) and the default patterns in the past for comparable financial instruments.

#### *Default Definition*

In defining default for the purposes of determining the risk of a default occurring, Rabobank applies a default definition consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and considers qualitative indicators when appropriate.

However, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due, unless Rabobank has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. The definition of default used for these purposes is applied consistently to all financial instruments, unless information becomes available that demonstrates that another default definition is more appropriate for a particular financial instrument.

#### *Collective Versus Individual Assessment*

Some factors or indicators may not be identifiable on an individual instrument level. In that case, the factors or indicators are assessed for appropriate portfolios, groups of portfolios or a

portion of a portfolio to determine whether the requirements for recognition of lifetime ECL have been met. The aggregation of financial instruments to assess whether there are changes in credit risk on a collective basis may change over time when new information becomes available on groups of, or individual, financial instruments.

Depending on the nature of the financial instruments and the credit risk information available for particular groups of financial instruments, Rabobank may not be able to identify SICR for an individual instrument before that instrument becomes past due. This may be the case for financial assets (such as retail loans) for which there is little or no updated credit risk information routinely obtained and monitored on an individual instrument level until a customer breaches the contractual terms. If changes in the credit risk for an individual instrument is not captured before it becomes past due, a loss allowance based solely on credit information at an individual instrument level would not faithfully represent the changes in credit risk since initial recognition.

In some circumstances, Rabobank has no reasonable and supportable information available without undue cost or effort to measure lifetime ECL on an individual instrument basis. Lifetime ECL is then recognized by collectively considering comprehensive credit risk information, which not only incorporates past due information but also all relevant credit information (including forward-looking macroeconomic information) to approximate the result of recognizing lifetime ECL when there has been a SICR since initial recognition on an individual instrument level.

For the purpose of determining SICR and recognizing a loss allowance on a collective basis, Rabobank may group financial instruments based on shared credit risk characteristics with the objective of facilitating an analysis designed to enable SICR to be identified on a timely basis. However, when Rabobank is unable to group financial instruments for which the credit risk is considered to have increased significantly since initial recognition based on shared credit risk characteristics, it recognizes lifetime ECL on a portion of the financial instruments for which credit risk is deemed to have increased significantly.

Shared credit risk characteristics may include but are not limited to: instrument types, credit risk ratings, collateral types, initial recognition dates, remaining terms to maturity, industries, geographic location, collateral value relative to the financial instrument if it has an impact on the PD (for instance, non-recourse loans in some jurisdictions or LTV ratios).

## 2.17 Modifications

The contractual terms of a financial asset may be modified for a commercial reason or due to a forbearance measure. A commercial modification is a change to the previous terms and conditions of a contract (financial asset) that alters the timing or amount of the contractual cash flows of the financial asset. Rabobank considers a modification as non-substantial if it does not impact multiple aspects of the contract at the same time, for example a change in the fixed interest period, repayment type or obligors. Forbearance measures are considered to be non-substantial modifications.

Substantial modifications lead to a derecognition of the financial asset and non-substantial modifications lead to modification accounting. In case of a modification Rabobank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

## 2.18 Goodwill and Other Intangible Assets

### *Goodwill*

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

### *Other intangible assets, including software development costs*

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

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

Other intangible assets also include those identified through business combinations, and they are amortized over their expected useful lives when the asset is available for use.

### *Impairment Losses on Goodwill*

Goodwill is allocated to cash-generating units for the purpose of impairment testing, which is undertaken at the lowest level of assets that generate largely independent cash inflows. During the fourth quarter of each financial year, or more frequently if there are indications of impairment, goodwill is tested for impairment and any excess of carrying amount over recoverable amount is provided. The recoverable amount is the higher of the value in use and the fair value less selling costs.

The value in use of a cash flow generating unit is determined as the present value of the expected future pre-tax cash flows of the cash flow generating unit in question. The key assumptions used in the cash flow model depend on the input data and they reflect various judgmental financial and economic variables, such as risk-free interest rates and premiums reflecting the risk inherent in the entity concerned. Impairments of goodwill are included under 'Impairment losses on goodwill' in the statement of income, if applicable.

### *Impairment Losses on other Intangible Assets*

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

Regardless of any indication of impairment, intangible assets not yet available for use shall be tested for impairment annually by comparing its carrying amount with its recoverable amount.

## 2.19 Property and Equipment

### *Property and equipment for own use*

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

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

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

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

## 2.20 Investment Properties

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

## 2.21 Other Assets

### *Structured Inventory Products*

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

### *Building Sites*

Building sites are carried at cost, including allocated interest and additional expenses for purchasing the sites and making them ready for construction or, if lower, the net realizable value. Interest is not recognized in the statement of financial position for land which has not been zoned for a particular purpose if there

is no certainty that the land will be built on. Possible decreases in value as a result of future change of designated use of the relevant land are not included in the cost of land, but are included in the determination of the net realizable value.

The net realizable value of all building sites is reviewed at least once a year or earlier, in case of any indications of impairment. The net realizable value for building sites is the direct realizable value or, if higher, the indirect realizable value. The direct realizable value is the estimated value upon sale less the estimated costs for achieving the sale. The indirect realizable value is the estimated sale price within the context of normal operations less the estimated costs of completion and the estimated costs necessarily incurred to realize the sale. The calculation of the indirect realizable value is based on an analysis of scenarios that includes as many site-specific aspects and company-specific parameters and conditions as possible. A downward revaluation is recognized if the carrying value exceeds the realizable value.

### *Work in Progress*

Work in progress concerns sold and unsold residential projects under construction or in preparation, as well sold and unsold commercial property projects. Work in progress is carried at the costs incurred plus allocated interest or, if lower, the net realizable value. Revenues from projects for the construction of real estate are recognized when the related performance obligations are satisfied. Expected losses on projects are immediately deducted from the work in progress. If Rabobank transfers (parts of) a project to a customer before the customer pays instalments, Rabobank presents a contract asset. If a customer pays instalments, or Rabobank has a right to instalments that is unconditional, before Rabobank transfers (parts of) a project to a customer, Rabobank presents a contract liability.

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

### *Finished Properties*

Unsold residential properties and commercial developed in-house are carried at cost or, if lower, the net realizable value. The net realizable value of finished properties is reviewed at least once

a year or if there are any indications for a decline in value. For finished properties, the net realizable value is generally equal to the direct realizable value, which is mostly determined by means of an internal or external appraisal. A downward value adjustment is recognized if the carrying value exceeds the expected direct realizable value, to the extent that the difference is on account of Rabobank.

## 2.22 Leasing

### *Rabobank as Lessee*

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

### *Rabobank as Lessor*

### *Finance Leases*

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

### *Operating Leases*

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

## 2.23 Provisions

Provisions are recognized for obligations (both legal and constructive) arising as a result of a past event where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If Rabobank expects a provision to be reimbursed, for example under an insurance policy, the reimbursement is recognized as a separate asset but only if the reimbursement is

virtually certain. The provisions are carried at the discounted value of the expected future cash flows. The additions to and releases of provisions are recognized in the statement of income under 'Other administrative expenses'.

### *Restructuring*

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

### *Legal Issues*

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

### *Other Provisions*

Other provisions include provisions for onerous contracts, potential settlements, credit related contingent liabilities and obligations under the terms of the deposit guarantee scheme.

## 2.24 Employee Benefits

Rabobank has various pension plans in place based on the local conditions and practices of the countries in which it operates. In general, the plans are financed by payments to insurance companies or to trustee administered funds determined by periodic actuarial calculations. A defined benefit pension plan is one that incorporates an obligation to pay an agreed amount of pension benefit, which is usually based on several factors such as age, number of years' service and remuneration. A defined contribution plan is one in which fixed contributions are paid to a separate entity (a pension fund) with no further legal or constructive obligation on the part of the employer should the fund have insufficient assets to settle its obligations to employee-members of the plan.

### *Pension Obligations*

The obligation under defined benefit pension plans is the present value of the defined benefit pension obligation at the end of the reporting period reduced by the fair value of the fund investments. The defined benefit obligation is calculated annually by independent actuaries based on the projected unit credit method. The present value of the defined benefit obligation is determined as the estimated future outflow of cash funds based on the interest rates of high-quality corporate bonds with terms

that approximate those of the corresponding obligation. The majority of pension plans are career-average plans. The costs of these plans (being the net pension charge for the period after deducting employee contributions and interest) are included under 'Staff costs'. Net interest expense/income is determined by applying the discount rate at the beginning of the reporting period to the asset or liability of the defined benefit pension plan.

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

#### *Defined Contribution Plans*

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

#### *Other Post-employment Obligations*

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

#### *Variable Remuneration*

Variable remuneration payable unconditionally and in cash is recognized in the year in which the employee renders the service. Conditional cash remuneration is included, on a straight line basis, in staff costs in the statement of income over the period of the year in which the employee's services are received and the remaining three years of the vesting period (i.e. over four years). The liability is recognized in 'Other liabilities'. The accounting treatment of payments based on equity instruments is disclosed in Section 2.25.

## **2.25 Variable Remuneration Based on Equity Instruments**

For certain identified staff, remuneration for services rendered is settled in the form of cash payments based on equity instruments that are similar to, and have the same characteristics as, Rabobank Certificates. The costs of the services received are based on the fair value of the equity instruments on the award date and are restated annually to fair value. The costs related to the award of equity instruments during the period of the employee's contract are included in staff costs in the statement

of income over the period of the year of award and the remaining three years of the vesting period of the equity instruments (i.e. over four years). The liability is recognized in 'Other liabilities'.

## **2.26 Tax**

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

Deferred income tax is provided, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. These temporary differences arise primarily on depreciation of tangible fixed assets, revaluation of certain financial assets and liabilities (including derivatives), employee benefits, loan impairment allowances and other impairments, tax losses and fair value adjustments to net assets acquired in business combinations. Deferred tax assets and liabilities are also recognized on the revaluation of financial assets at fair value through other comprehensive income and cash flow hedges that are taken directly to other comprehensive income. When realized, they are recognized in the income statement at the same time as the respective deferred gain or loss is recognized. Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the losses can be utilized and are measured at the tax rates that have been enacted or substantively enacted as at the reporting date. Rabobank considers all deferred taxes to be non-current.

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

## **2.27 Deposits from Credit Institutions, Deposits from Customers and Debt Securities in Issue**

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

Own issued debt securities that are repurchased are derecognized, with the difference between the carrying amount and the consideration paid being recognized in the income statement.

## 2.28 Rabobank Certificates

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

## 2.29 Trust Preferred Securities and Capital Securities

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

## 2.30 Financial Guarantees

Financial guarantee contracts require the issuer to compensate the holder for losses incurred when the debtor fails to meet its obligations under the terms of the related debt instrument. The guarantees are initially recognized at fair value and subsequently measured at the higher of the amount of the impairment allowance and the amount initially recognized less cumulative amortization.

## 2.31 Segmented Information

A segment is a discrete operating component that is subject to risks and returns that differ from those of other segments or operating components and that is viewed and managed as a separate and discrete component for Rabobank's strategic and operating management purposes.

## 2.32 Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is determined as the monetary amount (or equivalent) agreed for the acquisition of the business combination. Goodwill represents the difference between the cost of the acquisition and the acquirer's share of the fair value of the identifiable assets, liabilities and conditional assets and liabilities acquired. Goodwill is capitalized and recognized as an intangible asset. The non-controlling interest is also determined as the fair value or its share of the identifiable net assets of the

company acquired. Direct acquisition costs are charged directly to the statement of income on acquisition.

## 2.33 Disposal Groups Classified as Held for Sale and Discontinued Operations

Assets that have been classified as held for sale are written down to their fair value, reduced by the estimated costs of sale, where this is lower than the carrying amount. An asset (or group of assets) is classified as held for sale when it is very likely that its economic value will be realized primarily through sale rather than through continued use, the asset (or group of assets) is fully available for sale in its current condition, management has committed itself to a plan to sell the asset, and the sale is expected to be completed within one year of its classification as held for sale. If a group of assets classified as held for sale represents a key business activity or key geographic region, it is classified as discontinued operations and recognized outside comprehensive income arising from continuing operations.

## 2.34 Cash Flow Statement

Cash and cash equivalents include cash resources, money market deposits and deposits at central banks. The cash flow statement is prepared using the indirect method and provides details of the source of the cash and cash equivalents that became available during the year as well as their application during the year. The net pre-tax cash flow from operating activities is adjusted for non-cash items in the statement of income and for non-cash changes in items in the statement of financial position.

The consolidated statement of cash flows presents separately the cash flows from operating, investing and financing activities. Cash flows from operating activities include net changes in loans and advances, interbank deposits, deposits from customers and acquisitions, disposals and repayment of financial investments. Investment activities include acquisitions and disposals of subsidiaries, investments in associates and property and equipment. Financing activities include issues and repayments of Rabobank Certificates, Trust Preferred Securities, Capital Securities, Senior Contingent Notes, subordinated liabilities and debt securities in issue.

The difference between the net change presented in the statement of cash flows and the change in cash and cash equivalents included in the statement of financial position is due to exchange differences.



### 3. Solvency and Capital Management

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

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

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

<b>Minimum Capital Buffer</b>			
	<i>CET 1</i>	<i>Tier 1</i>	<i>Total capital</i>
Pillar 1 requirement	4.5%	6.0%	8.0%
Pillar 2 requirement	1.75%	1.75%	1.75%
Capital conservation buffer	2016-2019 2.5%	2.5%	2.5%
Systemic risk buffer	2016-2019 3.0%	3.0%	3.0%
<b>Total required (end-state)</b>	<b>11.75%</b>	<b>13.25%</b>	<b>15.25%</b>

The total required (end state) CET1 capital therefore amounts to 11.75%, (i.e. a minimum Pillar 1 requirement of 4.5%, a pillar 2 requirement of 1.75%), a capital conservation buffer of 2.5% and a systemic risk buffer of 3%, excluding the pillar 2 guidance. The required (end state) total capital amounts to 15.25%, (i.e. a minimum Pillar 1 requirement of 8%, a pillar 2 requirement of 1.75%), a capital conservation buffer of 2.5% and a systemic risk buffer of 3%. In addition to these ratios, there would be a

countercyclical buffer of up to 2.5% which may be imposed by the supervisor. Almost all supervisors have set their countercyclical buffer at 0% as per 1 January 2019.

Risk-weighted assets are determined based on separate and distinct methods for each of the credit, operational and market risks. For credit risk purposes, the risk-weighted assets are determined in several ways dependent on the nature of the asset. For the majority of assets the risk weighting is determined by reference to internal ratings and a number of characteristics specific to the asset concerned. For off-balance sheet items the balance sheet equivalent is calculated firstly on the basis of internal conversion factors and the resulting equivalent amounts are then also assigned risk-weightings. For operational risk purposes, an Advanced Measurement Approach model is used to determine the amount of risk-weighted assets. In the market risk approach, the general market risk is hedged, as are the risks of open positions in foreign currencies, debt and equity instruments and commodities. The transitional CRR provisions have been reflected in the ratios set out below.

#### **Rabobank Group's Ratios**

<i>Amounts in millions of euros</i>	<i>2018</i>	<i>2017</i>
Retained earnings	28,062	26,777
Expected dividends	(46)	(54)
Rabobank Certificates	7,445	7,440
Part of non-controlling interests treated as qualifying capital	-	26
Reserves	(798)	(1,401)
Deductions	(2,553)	(2,050)
Transition guidance	12	525
<b>Common Equity Tier 1 capital</b>	<b>32,122</b>	<b>31,263</b>
Capital Securities	3,721	2,728
Grandfathered instruments	3,325	3,590
Non-controlling interests	-	6
Deductions	(100)	(88)
Transition guidance	-	(295)
<b>Tier 1 capital</b>	<b>39,068</b>	<b>37,204</b>
Part of subordinated liabilities treated as qualifying capital	14,274	14,896
Non-controlling interests	-	7
Deductions	(83)	(89)
Transition guidance	-	(95)
<b>Qualifying capital</b>	<b>53,259</b>	<b>51,923</b>
<b>Risk-weighted assets</b>	<b>200,531</b>	<b>198,269</b>
<b>Common Equity Tier 1 ratio</b>	<b>16.0%</b>	<b>15.8%</b>
<b>Tier 1 ratio</b>	<b>19.5%</b>	<b>18.8%</b>
<b>Total capital ratio</b>	<b>26.6%</b>	<b>26.2%</b>
<b>Equity capital ratio<sup>1</sup></b>	<b>17.7%</b>	<b>17.3%</b>

1 The equity/ capital ratio is calculated by comparing the items Retained earnings and Rabobank Certificates to the risk-weighted assets.

The deductions consist mostly of goodwill, other intangible fixed assets, deferred tax assets which depend on future profit, the IRB shortfall for credit risk adjustments and adjustments relating to cumulative results due to changes in the bank's credit risk on instruments designated at fair value. In accordance with CRR, a number of deductions are adjusted in the 'Transition guidance', as these adjustments are being phased in over the period 2014-2018. The 'Transition guidance' mainly consists of goodwill, other intangible non-current assets, deferred tax assets depending on future profits (i.e. non-temporary differences) and the IRB shortfall for credit-risk adjustments.

The additional tier 1 instruments issued by Rabobank prior to 2015 do not comply with the new CRR requirements. They are being 'grandfathered'. This means that these instruments will be phased out of solvency ratios, in line with the regulatory requirements.

## 4. Risk Exposure on Financial Instruments

### 4.1 Risk Organization

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

#### Risk Appetite

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

### 4.2 Strategy for the Use of Financial Instruments

Rabobank's activities are inherently related to the use of financial instruments, including derivatives. As part of the services it offers, Rabobank takes deposits from customers at varying terms and at both fixed and variable interest rates. Rabobank attempts to earn interest income by investing these funds in high-value assets as well as by making loans to commercial and retail borrowers. Rabobank also aims to increase these margins through a portfolio approach of short-term funds at lower interest rates and the allocation to loans for longer periods at higher interest rates, maintaining sufficient cash resources in hand to meet obligations as they fall due.

Rabobank improves its interest income by achieving interest margins after deduction of loan impairment allowances and by issuing loans with a variety of credit ratings and inherent risk profiles. Not only is Rabobank exposed to credit risk on the on-balance sheet loans, it is also exposed to credit risk on the off-balance sheet guarantees it provides, such as letters of credit, letters of performance and other guarantee documents.

### 4.3 Credit Risk

Credit risk is defined as the risk of the bank facing an economic loss because the bank's counterparties cannot fulfil their contractual obligations.

Credit risk management within the bank is governed by the bank-wide central credit risk policy and further detailed in underlying specific credit risk standards and procedures. The primary responsibility for managing and monitoring credit risk lies with the business as the first line of defense. The business is required to identify, assess and manage, monitor and report potential weaknesses in the credit risk portfolios. Monitoring takes place on an ongoing basis to limit credit risk exposures to a level in line with the business line's risk appetite.

In addition, risk in the credit portfolio is measured and monitored at bank-wide level and on entity level on a monthly basis and by quarterly and ad-hoc portfolio reporting and analysis, with specific attention to risk developments and concentrations.

#### 4.3.1 Credit Risk Management

##### *Credit Acceptance*

Rabobank's prudent credit acceptance policy is typified by careful assessment of customers and their ability to repay the loan that was issued (continuity perspective). As a result, the loan portfolio has an acceptable risk profile even in less than favorable economic circumstances. Rabobank aims to have long-term relationships with customers that are beneficial for both the client and the bank. An important starting point in acceptance policy for business loans is the 'know your customer' principle. This means that the bank only issues loans to business customers whose management Rabobank considers to be ethical and competent. In addition, Rabobank closely monitors developments in the business sectors in which its customers operate and can properly assess the financial performance of its customers. Corporate sustainability also means sustainable financing. Sustainability guidelines have been established for use in the credit process.

Although credit is usually granted on the cash flow generating potential of the client or project, collateral will improve the position of the bank in case a client defaults. Collateral can be independent of the client's business and/or obtained from the client's business. Rabobank has outlined its policies for collateral valuation and management in the Global Standard Credit Risk Mitigation. Compliant to CRR 181 1.(e) all (eligible) collateral is valued at market value or less than market value and the collateral value is monitored regularly. The collateral must be sufficiently liquid and its value over time should be sufficiently stable to provide appropriate credit protection. Within the

Rabobank policy framework each type of collateral is addressed separately. The main types of collateral that are recognized by Rabobank are real estate, inventory (such as equipment, machinery, stock etc.), commodities, receivables and guarantees. With a substantial domestic mortgage portfolio, housing is considered a concentration risk within the credit risk mitigation that is taken. The quality of the collateral is assessed in the initial credit request, and is evaluated within the credit revision process. The frequency of revaluation depends on the credit quality of the client and on the type of collateral and is in line with the requirements set in the CRR.

The main types of guarantors are governments, local authorities, (central) banks and corporate entities. For institutions, insurance undertakings and export credit agencies, a minimum rating is required.

#### *Credit Committees and Credit Approval*

Within the boundaries set by the Risk Management Committee the Managing Board has mandated decision-making authority to transactional committees and to credit decision approval officers that operate on an entity level, regional level or central level at Rabobank. Credit committees review all significant risks in credit proposals to arrive at a systematic judgment and a balanced decision. Rabobank has various levels of credit committees. Applications exceeding authority level of a credit committee are complemented with a recommendation and submitted to a 'higher' credit committee for decision-making.

Within Rabobank the 'highest' transactional committees are the following:

**Central Credit Committee Rabobank Group (CCCRG)** - The CCCRG takes credit decisions on credit applications subject to the 'corporate credit approval route' exceeding:

- the authority of **Credit Approvals Local Banks (CA LB)** - This department is responsible for decisions on requests for non-classified (LQC Good or OLEM) obligors exceeding the authority of Local Banks in The Netherlands.
- the authority of **Credit Approvals Wholesale Rural & Retail (CA WRR)** - This department is responsible for decisions on requests for non-classified (LQC Good or OLEM) obligors exceeding the authority of DLL or a Wholesale Rural & Retail (WRR) office/region.
- the authority of the **Credit Committee Financial Restructuring & Recovery (CC-FR&R)** - This credit committee takes credit decisions on proposals for classified (LQC Substandard, Doubtful or Loss) obligors exceeding the authority of local credit committees and the FR&R department.

**Country & Financial Institutions Committee (CFIC)** - The CFIC takes credit decisions on proposals exceeding the authority of Credit Financial Institutions or Country Risk Research. These departments are responsible for the risk management of exposure on financial institutions and sovereigns/countries.

**Loan Loss Provision Committee (LLPC)** - The LLPC monitors the development of qualified credit and asset portfolios and recommends on impairment allowances for obligors exceeding the authority of local credit committees or the CC-FR&R, to the Managing Board.

The Terms of Reference (ToR) provide the mandate, responsibilities & scope, hierarchical relationships, membership, authority levels and modalities of these approval bodies. Credit committees take decisions on the basis of consensus, unless local regulation requires majority voting. Consensus is reached when there is a general agreement and none of the members has fundamental objections to the decision. When no consensus can be reached, an application is considered declined. In case of majority voting, the representative(s) from the Risk domain must have a veto right.

For efficiency reasons Credit Committees can delegate part of their authority. A single person may not take a credit decision solely based on its own opinion; this means that a 4-eyes principle applies or decisions are system supported, in which case one person is allowed to decide as long as the credit is assessed as acceptable by an expert system or meets predefined criteria (the credit complies with decision tools). Fully IT supported assessments and approvals are allowed under strict conditions.

The credit committees play a key role in ensuring consistency among Rabobank standards of credit analysis, compliance with the overall Rabobank credit policy and consistent use of the rating models. The credit policy sets the parameters and remit of each committee, including the maximum amount they are allowed to approve for limits or transactions. Policies are also in place which restrict or prohibit certain counterparty types or industries. As a rule, all counterparty limits and internal ratings are reviewed once a year (corporate clients) at a minimum. Where counterparties are assigned a low loan quality classification, they are reviewed on a more frequent basis. Credit committees may request for more frequent reviews as well.

#### **4.3.2 Lending**

Rabobank has a significant market share in lending regarding residential mortgages. These loans have a low risk profile as evidenced by the net additions to allowances of minus 2 basis points (excluding one-offs) in 2018. In 2018, the proportion of the private sector lending allocable to the food and agricultural

sectors was 25% and the proportion of private sector lending allocable to trade, industry and services was 28%. The loans to trade, industry and services and loans to the food and agricultural

sectors are spread over a wide range of industries in many different countries. None of these individual sector shares represents more than 10% of the total private sector lending.

<i>Amounts in millions of euros</i>	<i>2018</i>		<i>2017</i>	
<b>Total loans and advances to customers</b>	<b>436,591</b>		<b>432,564</b>	
Of which:				
Loans to government clients	1,853		2,319	
Reverse repurchase transactions, securities borrowing agreements and settlement accounts	12,929		12,895	
Hedge accounting adjustment	5,784		6,386	
<b>Loans to private sector clients</b>	<b>416,025</b>		<b>410,964</b>	
<i>This can be broken down geographically as follows:</i>				
The Netherlands	294,628	71%	298,583	73%
Rest of Europe	31,337	8%	28,493	7%
North America	44,255	11%	41,831	10%
Latin America	14,067	3%	12,467	3%
Asia	8,887	2%	8,076	2%
Australia	22,589	5%	21,191	5%
Africa	262	0%	323	0%
<b>Total loans to private sector clients</b>	<b>416,025</b>	<b>100%</b>	<b>410,964</b>	<b>100%</b>
<i>Breakdown of loans by business sector</i>				
Private individuals	194,897	47%	197,990	48%
Trade, industry and services (TIS)	118,022	28%	115,192	28%
Food & agri	103,106	25%	97,782	24%
<b>Total loans to private sector clients</b>	<b>416,025</b>	<b>100%</b>	<b>410,964</b>	<b>100%</b>

#### *Trade, Industry and Services Loan Portfolio Analyzed by Industry*

<i>Amounts in millions of euros</i>	<i>2018</i>	<i>2017</i>
Lessors of real estate	13,517	14,925
Finance and insurance (except credit institutions)	13,892	11,618
Wholesale	11,386	11,102
Activities related to real estate	8,918	8,689
Manufacturing	9,441	8,852
Transport and warehousing	6,305	6,317
Construction	4,742	4,647
Healthcare and social assistance	6,827	5,378
Professional, scientific and technical services	9,648	9,188
Retail (non-food)	4,293	4,417
Utilities	3,049	2,428
Information and communication	1,021	1,190
Arts, entertainment and leisure	1,283	1,217
Other TIS	23,700	25,224
<b>Total</b>	<b>118,022</b>	<b>115,192</b>

#### *Food & Agri Loan Portfolio Analyzed by Sector*

<i>Amounts in millions of euros</i>	<i>2018</i>	<i>2017</i>
Grain and oil seeds	19,686	18,767
Animal protein	16,717	15,376
Dairy	22,486	22,175
Fruit and vegetables	10,675	10,251
Farm inputs	11,089	9,243
Food retail	5,226	4,727
Beverages	2,733	2,915
Flowers	1,581	1,662
Sugar	2,817	2,539
Miscellaneous crop farming	1,357	1,231
Other food & agri	8,739	8,896
<b>Total</b>	<b>103,106</b>	<b>97,782</b>

#### *Derivatives*

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

contracts showing a positive market value, taking into account master netting agreements enforceable under law.

#### *Credit Related Contingent Liabilities*

The financial guarantees and standby letters of credit that Rabobank provides to third parties in the event of a client being unable to fulfil its obligations to these third parties, are exposed to credit risk. Documentary and commercial letters of credit and written undertakings by Rabobank on behalf of clients that authorize third parties to draw bills against Rabobank up to a fixed amount and subject to specific conditions. As these transactions are secured by the delivery of the underlying goods to which they relate, the risk exposure of such an instrument is less than that of a direct loan. From the moment the documents have been accepted under the terms of the letters of credit, Rabobank recognizes an asset and a liability until the moment of payment.

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

#### **4.3.3 Credit Risk Exposure and Credit Quality**

In its financing approval process, Rabobank Group uses the Rabobank Risk Rating, which reflects the risk of failure or the probability of default (PD) of the loan relation over a period of one year. The loan-quality categories are determined on the basis of the internal Rabobank Risk Rating. The Rabobank Risk Rating consists of 21 performance ratings (R0-R20) and four default ratings (D1-D4). The performance ratings assess the probability of default within a period of one year and the rating is determined, in principle, on a cyclically neutral basis. D1-D4 ratings refer to default classifications. D1 represents more than 90 day's past due on a material contractual payment; D2 indicates that it is unlikely that the obligor will pay its debt in full, without recourse by the bank to actions such as realizing security; D3 indicates that a distressed sale or a distressed restructuring has occurred that likely results in a credit-related economic loss; and D4 indicates bankruptcy status. The default ratings make up the total credit-impaired exposure. The table below shows the credit quality of the financial assets subject to impairment. The gross carrying amount of the financial assets below also represent the maximum exposure to credit risk on these assets.

#### ***Credit Risk Profile per Internal Rating Grade of Loans and Advances to Credit Institutions***

*Amounts in millions of euros*

On December 31, 2018	Gross carrying amount			Total
	Non credit-impaired		Credit-impaired	
	Subject to 12-month ECL	Subject to lifetime ECL	Subject to lifetime ECL	
R0 – R7	12,069	42	-	12,111
R8 – R20	5,456	15	-	5,471
Default ratings	-	-	34	34
Non-rated	265	-	-	265
<b>Total</b>	<b>17,790</b>	<b>57</b>	<b>34</b>	<b>17,881</b>

#### ***Credit Risk Profile per Internal Rating Grade of Loans and Advances to Customers***

*Amounts in millions of euros*

On December 31, 2018	Gross carrying amount			Total
	Non credit-impaired		Credit-impaired	
	Subject to 12-month ECL	Subject to lifetime ECL	Subject to lifetime ECL	
R0 – R7	57,520	582	-	58,102
R8 – R20	336,406	15,273	-	351,679
Default ratings	-	-	15,993	15,993
Non-rated	8,677	91	-	8,768
<b>Total</b>	<b>402,603</b>	<b>15,946</b>	<b>15,993</b>	<b>434,542</b>

#### ***Credit Risk Profile per External Rating Grade of Financial Assets at Fair Value through Other Comprehensive Income***

*Amounts in millions of euros*

On December 31, 2018	Gross carrying amount			Total
	Non credit-impaired		Credit-impaired	
	Subject to 12-month ECL	Subject to lifetime ECL	Subject to lifetime ECL	
AAA-A	16,800	574	-	17,374
BBB-B	761	-	-	761
CCC-C	-	-	-	-
D	-	-	-	-
Non-rated	13	-	-	13
<b>Total</b>	<b>17,574</b>	<b>574</b>	<b>-</b>	<b>18,148</b>



### Credit Risk Profile per Internal Rating Grade of Loan Commitments and Financial Guarantees

Amounts in millions of euros

On December 31, 2018	Exposure to credit risk			
	Non credit-impaired		Credit-impaired	Total
	Subject to 12-month ECL	Subject to lifetime ECL	Subject to lifetime ECL	
R0 – R7	10,777	4	-	10,781
R8 – R20	40,381	1,102	-	41,483
Default ratings	-	-	572	572
Non-rated	9,500	28	-	9,528
<b>Total</b>	<b>60,658</b>	<b>1,134</b>	<b>572</b>	<b>62,364</b>

### 4.3.4 Impairment Allowances on Financial Assets and Credit Related Contingent Liabilities

In the next tables, a reconciliation from the opening balance to the closing balance of the impairment allowances of financial assets and credit related contingent liabilities is provided.

### Impairment Allowances on Loans and Advances to Credit Institutions

Amounts in millions of euros Loans and advances to credit institutions

	2018				2017
	Subject to 12-month ECL	Subject to lifetime ECL non-credit impaired	Subject to lifetime ECL credit impaired	Total	Total loan impairment allowance (IAS 39)
Balance on January 1	1	1	17	19	18
Loan impairment charges	n/a	n/a	n/a	n/a	1
Increases due to origination and acquisition	-	-	-	-	n/a
Decreases due to derecognition	-	-	-	-	n/a
Changes due to change in credit risk	1	-	2	3	n/a
Write-off of defaulted loans during the year	-	-	-	-	-
Other changes	(1)	-	1	-	(2)
<b>Balance on December 31, 2018</b>	<b>1</b>	<b>1</b>	<b>20</b>	<b>22</b>	<b>17</b>

### Impairment Allowances on Loans and Advances to Customers

Amounts in millions of euros Loans and advances to customers

	2018			2017	
	Subject to 12-month ECL	Subject to lifetime ECL non-credit impaired	Subject to lifetime ECL credit impaired	Total	Total loan impairment allowance (IAS 39)
Balance on January 1	320	287	3,754	4,361	7,487
Loan impairment charges	n/a	n/a	n/a	n/a	(38)
Increases due to origination and acquisition	68	6	276	350	n/a
Decreases due to derecognition	(59)	(50)	(577)	(686)	n/a
Changes due to change in credit risk	(50)	(2)	835	783	n/a
Write-off of defaulted loans during the year	(12)	(2)	(998)	(1,012)	(2,019)
Other changes	3	-	(64)	(61)	16
<b>Balance on December 31, 2018</b>	<b>270</b>	<b>239</b>	<b>3,226</b>	<b>3,735</b>	<b>5,446</b>

### Impairment Allowances on Financial Assets at Fair Value through Other Comprehensive Income

Amounts in millions of euros Financial assets at fair value through other comprehensive income

	2018			
	Subject to 12-month ECL	Subject to lifetime ECL non-credit impaired	Subject to lifetime ECL credit impaired	Total
Balance on January 1	3	5	-	8
Increases due to origination and acquisition	2	-	-	2
Decreases due to derecognition	-	-	-	-
Changes due to change in credit risk	(1)	(5)	-	(6)
Write-off of defaulted loans during the year	-	-	-	-
Other changes	(2)	1	-	(1)
<b>Balance on December 31, 2018</b>	<b>2</b>	<b>1</b>	<b>-</b>	<b>3</b>

### Impairment Allowances on Loan Commitments and Financial Guarantees

Amounts in millions of euros	Impairment allowances on loan commitments and financial guarantees			
	2018			Total
	Subject to 12-month ECL	Subject to lifetime ECL non-credit impaired	Subject to lifetime ECL credit impaired	
Balance on January 1	33	12	82	127
Increases due to origination and acquisition	3	-	17	20
Decreases due to derecognition	(29)	(9)	(43)	(81)
Changes due to change in credit risk	18	11	34	63
Write-off of defaulted loans during the year	-	-	(1)	(1)
Other changes	3	(2)	(20)	(19)
Balance on December 31, 2018	28	12	69	109

In the following table an overview is given of the significant changes in the gross carrying amount of loans and advances to customers during the period that contributed to changes in the total impairment allowance.

### Changes in the Gross Carrying Amount of Loans and Advances to Customers

Amounts in millions of euros	Gross carrying amount			Total
	Non-credit-impaired		Credit-impaired	
	Subject to 12-month ECL	Subject to lifetime ECL	Subject to lifetime ECL	
Balance on January 1	396,816	14,842	15,773	<b>427,431</b>
Transfers of financial assets	(5,957)	4,530	2,856	<b>1,429</b>
New financial assets originated or acquired	117,531	3,962	2,199	<b>123,692</b>
Financial assets that have been derecognised	(103,787)	(7,328)	(4,388)	<b>(115,503)</b>
Write-offs	(15)	(2)	(493)	<b>(510)</b>
Other changes	(1,985)	(58)	46	<b>(1,997)</b>
<b>Balance on December 31 2018</b>	<b>402,603</b>	<b>15,946</b>	<b>15,993</b>	<b>434,542</b>

### 4.3.5 Collateral and Credit Management

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

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

Management monitors the market value of collateral obtained and requires additional collateral where necessary. Rabobank also uses credit derivatives to manage credit risks and it further mitigates its exposure to credit risk by entering into master netting arrangements with counterparties for a significant volume of transactions. In general, master netting arrangements do not lead to the offsetting of assets and liabilities included in the statement of financial position because transactions are usually settled gross except for transactions that meet the offsetting criteria as mentioned in paragraph 2.11. Credit risk is limited by master netting arrangements, but only to the extent that if an event or cancellation occurs, all amounts involving the counterparty are frozen and settled net. The total credit risk exposure from derivatives to which offsetting arrangements apply is sensitive to the closure of new transactions, the expiry of existing transactions and fluctuations in market interest and exchange rates.

The table below shows offsets which have been applied in the consolidated balance sheet (IAS 32 Offsetting) and offsets which have not been applied in the statement of financial position (Other offsetting), both limiting credit risk. The other offsets consist of securities Rabobank has received from reverse repurchase transactions and securities Rabobank has provided in relation to loans for repurchase transactions.

## Offsetting of Financial Instruments

Amounts in millions of euros	Amount before offsetting	IAS 32 Offsetting	Net carrying amount included in balance sheet	Master netting agreements	Other offsetting	Amount after other offsetting
<b>On December 31, 2018</b>						
Loans and advances to credit institutions	17,859	-	17,859	-	(6,756)	11,103
Derivatives	81,402	(58,742)	22,660	(13,531)	-	9,129
Loans and advances to customers	443,093	(6,502)	436,591	-	(12,131)	424,460
Other assets	6,640	(209)	6,431	-	-	6,431
<b>Total</b>	<b>548,994</b>	<b>(65,453)</b>	<b>483,541</b>	<b>(13,531)</b>	<b>(18,887)</b>	<b>451,123</b>
Deposits from credit institutions	20,666	(1,269)	19,397	-	(79)	19,318
Deposits from customers	344,504	(2,094)	342,410	-	(13)	342,397
Derivatives	85,807	(61,880)	23,927	(13,531)	-	10,396
Other liabilities	6,551	(209)	6,342	-	-	6,342
<b>Total</b>	<b>457,528</b>	<b>(65,452)</b>	<b>392,076</b>	<b>(13,531)</b>	<b>(92)</b>	<b>378,453</b>
<b>On December 31, 2017</b>						
Loans and advances to credit institutions	27,845	(591)	27,254	-	(17,537)	9,717
Derivatives	87,237	(61,732)	25,505	(15,984)	-	9,521
Loans and advances to customers	439,587	(7,023)	432,564	-	(12,861)	419,703
Other assets	8,245	(284)	7,961	-	-	7,961
<b>Total</b>	<b>562,914</b>	<b>(69,630)</b>	<b>493,284</b>	<b>(15,984)</b>	<b>(30,398)</b>	<b>446,902</b>
Deposits from credit institutions	20,496	(1,574)	18,922	-	(350)	18,572
Deposits from customers	343,958	(3,276)	340,682	-	(108)	340,574
Derivatives	92,599	(64,496)	28,103	(15,984)	-	12,119
Other liabilities	8,555	(284)	8,271	-	-	8,271
<b>Total</b>	<b>465,608</b>	<b>(69,630)</b>	<b>395,978</b>	<b>(15,984)</b>	<b>(458)</b>	<b>379,536</b>

The table below shows the credit-impaired financial assets in relation with the collateral that is held as security to mitigate credit risk.

## Collateral Held as Security and Other Credit Enhancements for Credit-impaired Financial Assets

Amounts in millions of euros	Gross carrying amount credit impaired financial assets	Impairment allowances	Carrying amount after deduction impairment allowance	Collateral held as security and other credit enhancements
<b>On December 31, 2018</b>				
Loans and advances to credit institutions	34	20	14	-
Loans and advances to customers	15,993	3,226	12,767	10,044
Financial assets at fair value through other comprehensive income	-	-	-	-
<b>Total</b>	<b>16,027</b>	<b>3,246</b>	<b>12,781</b>	<b>10,044</b>

The next table sets out the maximum exposure to credit risk to which Rabobank is exposed for financial instruments not subject to the IFRS 9 impairment requirements, without taking into account any collateral or other measures for restricting credit risk. It also shows the financial effect of any collateral provided or other types of credit risk reduction. In some cases the amounts stated deviate from the carrying amounts as presented in the statement of financial position because the outstanding equity instruments are not included in the maximum exposure to credit risk.

### Maximum Exposure to Credit Risk of Financial Assets Not Subject to Impairment

Amounts in millions of euros

	Maximum exposure to credit risk	Collateral held as security and other credit enhancements
<b>On December 31, 2018</b>		
Financial assets held for trading	2,806	-
Financial assets designated at fair value	157	-
Financial assets mandatorily at fair value	1,680	744
Derivatives	22,660	6,851
<b>Total</b>	<b>27,303</b>	<b>7,595</b>

### Write-off Policy

Rabobank writes off loans when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. Rabobank may write-off loans that are still subject to enforcement activity. The outstanding contractual amounts of partly or wholly written off assets during 2018 was EUR 398 million.

Rabobank acquired financial and non-financial assets during the year by taking possession of collateral with an estimated value of EUR 15 million as per 31 December 2018 (2017: EUR 89 million). It is policy of Rabobank to sell these assets in the reasonably foreseeable future. Yields are allocated to repay the outstanding amount.

### 4.3.6 Modified Assets

The risk of default of modified assets is assessed at the reporting date and compared with the risk under the original terms at initial recognition. Rabobank monitors the subsequent performance of these forborne modified assets and may determine that the credit risk has significantly improved, so that the assets are moved from stage 3 or stage 2 (Lifetime ECL) to stage 1 (12-month ECL). The gross carrying amount of such assets held as at 31 December 2018 was EUR 32 million.

The following table includes summary information for financial assets with lifetime ECL whose cash flows were modified during the period and their respective effect on financial performance:

### Financial Assets Modified While Loss Allowance Measured at Lifetime ECL

Amounts in millions of euros

	2018
Amortized cost before modification	217
Net modification gain/ loss	2
<b>Financial assets modified since initial recognition</b>	<b>219</b>

## 4.4 Non-trading Foreign Exchange Rate risk (FX risk)

FX risk is the risk that exchange rate movements could lead to volatility in the bank's cash flows, assets and liabilities, net profit and/or equity. The bank distinguishes two types of non-trading FX risks: (i) FX risk in the banking books and (ii) FX translation risk.

### FX Risk in the Banking Books

FX risk in the banking books, is the risk where known and/or ascertainable currency cash flow commitments and receivables in the banking books are unhedged. As a result, it could have an adverse impact on the financial results and/or financial position of the Group, due to movements in exchange rates.

### Foreign Exchange Translation Risk

FX translation risk is the risk that FX fluctuations will adversely affect the translation of assets and liabilities of operations – denominated in foreign currency – into the functional currency of the parent company. Translation risk reveals in Rabobank's equity position, risk weighted assets and capital ratios.

Rabobank manages its FX translation risk with regard to the Rabobank Group CET1 ratio by deliberately taking FX positions, including deliberately maintaining FX positions and not or only partly closing FX positions. As a result of these structural FX positions, the impact of exchange rate fluctuations on the Rabobank Group CET1 ratio is mitigated.

FX translation risk at Rabobank Group level is covered by the Global Standard on FX Translation Risk ("Standard"). The purpose of the Standard is to outline the Rabobank Group policy towards FX Translation risk to achieve and ensure a prudent and sound monitoring & controlling system, in order to manage these risks Group wide. Rabobank uses a pillar 2 framework for those areas where Rabobank is of the opinion that the regulatory framework (i.e. pillar 1) does not address the risk, or does not adequately address the risk. FX translation risk is one of these risks.

## 4.5 Interest Rate Risk in the Banking Environment

"Interest rate risk in the banking environment" refers to the risk that the financial results and/or the economic value of the

banking book are adversely affected by changes in market interest rates.

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

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

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

The definition used for managing interest rate risk varies from the IFRS definition of equity. For interest rate risk management, the economic value of equity is defined as the present value of the assets minus the present value of the liabilities together with the present value of the off-balance-sheet items. Through the use of hedge accounting and because a large proportion of the balance sheet is carried at amortized cost (in IFRS terms) and is therefore not exposed to value changes due to changes in market interest rates, the effects of the value changes on IFRS capital will be limited.

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

- Earnings at risk; the EaR is the largest deviation in negative terms of the expected net interest income in the next 12 months as a result of different interest rates scenarios; and
- Modified duration of equity.

Sections 4.5.1 and 4.5.2 provide further details on "Earnings at risk" and "Modified duration" developments.

#### 4.5.1 Earnings at Risk

Earnings at risk is calculated once a month based on a standard interest-rate-sensitivity analysis. This analysis shows the main deviation, in a negative sense, of the projected interest income over the next 12 months because of a scenario in which all money market and capital market interest rates gradually increase by 2 percentage points, of a scenario in which all money market and capital market interest rates gradually decrease by a maximum of 2 percentage points, and two scenarios in which the yield curve steepens or flattens. The projected interest rate income is based on a scenario in which all interest rates and other rates remain equal.

In 2018, Rabobank's net interest income suffers the most under an interest rate downward scenario throughout the year. On 31st of December 2018 the EaR ended up at EUR 109 million, lower than the EaR of EUR 148 million in 2017. This is mainly driven by NII risk management by ALCO/ Treasury.

##### Earnings at Risk

	31 December 2018	31 December 2017
Earnings at Risk	109	148
<b>Split by main currencies</b>		
Earnings at Risk – EUR	76	104
Earnings at Risk – USD	32	37

#### 4.5.2 Modified Duration

The Modified duration (MD) or duration of equity indicates by what percentage the economic value of equity will fall if the money market and capital market interest rates increase by one percentage point. The Managing Board has set a lower limit of 0% and an upper limit of 6% for this purpose. Additional limits apply for the basis point value (BPV) of equity and the delta profile (BPV per term point) for equity.

##### Modified Duration

	31 December 2018	December 31 2017
Modified Duration (%) Group level in EUR	2,80%	2,00%
<b>Split by main currencies</b>		
Modified Duration (%) – EUR	3,20%	2,30%
Modified Duration (%) – USD	-2,20%	-3,40%

#### 4.6 Market Risk in the Trading Environment

Market Risk arises from the risk of losses on trading book positions affected by movements in interest rates, equities, credit spreads, currencies and commodities. Risk positions acquired from clients

can either be redistributed to other clients or managed through risk transformation (hedging). The trading desks are also acting as a market-maker for secondary markets (by providing liquidity and pricing) in interest rate derivatives and debt, including Rabobank Bonds and Rabobank Certificates.

Market risk in the trading environment is monitored daily within the market risk framework, which is put in place to measure, monitor and manage market risk in the trading books. This framework contains all derivatives in trading books, as well as the loan syndication books, the short term funding books, securities finance & repo books and the bond trading books. An important part of the framework is an appropriate system of limits and trading controls. The relevant risk appetite limits are translated into limits and trading controls at book level and are monitored on a daily basis by the market risk departments.

Due to Rabobank's strategy of client risk redistribution, risk transformation (hedging) and the low secondary market activity, the real market risk exposure of the trading portfolio is well within the risk appetite boundaries. If limits are breached, remedial

actions will be stipulated which decrease the chance of large actual losses. The risk position is reported to senior management and discussed in the various risk management committees each month. Risk developments that require ad hoc attention are communicated accordingly outside the regular reporting cycle.

On consolidated level, the risk appetite is defined for VaR, event risk, event risk underwriting and interest rate delta.

The VaR indicates the maximum loss for a given confidence level and horizon under 'normal' market conditions, based on one year of historical market movements. Daily risk management uses a confidence level of 97.5% and a horizon of 1 day. Under this method, VaR is calculated on the basis of historical market movements and the positions taken. The table below presents the composition of the VaR. In 2018, the VaR fluctuated between EUR 1.9 million and EUR 3.9 million, the average being EUR 2.6 million. The VaR amounted to EUR 3.4 million on December 31, 2018. VaR mostly changed due to client related deals and increased risk levels due to volatility in the financial markets.

#### ***VAR (1 day, 97.5%) (amounts in millions of euros)***

	<i>Interest</i>	<i>Credit</i>	<i>Currencies</i>	<i>Shares</i>	<i>Commodities</i>	<i>Diversification</i>	<i>Total</i>
2018 - December 31	2.3	2.9	0.1	0.0	0.2	(2.1)	3.4
2018 - average	2.2	1.5	0.1	0.0	0.1	-	2.6
2018 - Highest	3.4	3.0	0.6	0.1	0.7	-	3.9
2018 - Lowest	1.7	0.7	0.0	0.0	0.1	-	1.9
2017 - December 29	2.9	0.8	0.2	0.0	0.1	(0.8)	3.1
2017 - average	3.4	0.8	0.2	0.0	0.2	-	3.8
2017 - highest	4.7	1.3	1.2	0.1	2.4	-	4.9
2017 - lowest	2.6	0.6	0.0	0.0	0.1	-	3.0

In addition to the VaR, there are several other important risk indicators. The interest rate delta is a measure of the change in the value of positions if there is a parallel increase in the yield curve of 1 basis point (i.e. 0.01 percentage point). The interest rate delta table below shows the sensitivity to changes in the yield curves for the major currencies. On December 31, 2018, the interest rate delta for trading books was EUR 0.6 million positive. The interest rate delta remained well within the set limit during the reporting period.

#### ***Interest Rate Delta***

<i>Amounts in millions of euros</i>	<i>31 December 2018</i>	<i>31 December 2017</i>
EUR	0.4	0.5
USD	0.1	0.0
CHF	0.1	0.1
Other	0.0	0.1
<b>Total</b>	<b>0.6</b>	<b>0.7</b>

Rabobank uses stress testing to complement the VaR. It is instrumental in gauging the impact of extreme, yet plausible predefined moves in market risk factors on the P&L of individual trading and investment portfolios. These moves are reflected in scenarios which capture risk drivers such as tenor basis swap spreads, interest rates, foreign exchange, credit spreads, volatility and interest rate curve rotation. Depending on the scenario, individual risk factors or multiple risk factor categories will be stressed at the same time.

The event risk, which is measured by performing sensitivity analyses and stress tests was EUR 128 million on December 31, 2018, well within the set limit. It fluctuated between EUR 103 million and EUR 157 million with an average of EUR 129 million. Within the Trading Book, the tenor basis swap position remains a large concentrated position with a substantial impact on Rabobank's event risk. Due to Rabobank's increased



bond trading activity, the dominant event risk scenario throughout the year was related to a rise in bond yields.

## 4.7 Liquidity Risk

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

The liquidity risk policy focuses on financing assets using stable funding, i.e., funds entrusted by customers and long-term wholesale funding. Liquidity risk is managed based on three pillars. The first of these sets strict limits for the maximum outgoing cash flows within the wholesale banking business. Among other things, Rabobank measures and reports on a daily basis what incoming and outgoing cash flows can be expected during the next twelve months. Limits have been set for these outgoing cash flows, including for each currency and each location. Detailed plans (the contingency funding plans) have been drawn up for contingency funding to ensure the bank is prepared for potential crisis situations. Periodic operational tests are performed for these plans.

The second pillar is used to maintain a substantial high-quality buffer of liquid assets. Besides credit balances held at central banks, these assets can be pledged to central banks, in repo transactions, or to be sold directly in the market to generate liquidity immediately. The size of the liquidity buffer is attuned to

the risk Rabobank is exposed to in its balance sheet. In addition Rabobank has securitized a portion of the mortgage portfolio internally, which means it can be pledged to the central bank, thereby serving as an additional liquidity buffer. Since this concerns retained securitizations, it is not reflected in the consolidated balance sheet.

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

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

The table below shows the undiscounted liabilities grouped according to the remaining liquidity period from the reporting date to the expected contract repayment date. The total amounts do not correspond exactly with the amounts in the consolidated statement of financial position because this table is based on undiscounted contractual cash flows relating to both principal and future interest payments. Derivatives are not included in this table and have not been analyzed on the basis of the contractual due date, because they are not essential for the management of liquidity risk or for reporting to senior management. The maturity profile of derivatives used for cash flow hedging is disclosed in Section 11.3 "Derivatives Designated as Hedging Instrument."

### Contractual Repayment Date

Amounts in millions of euros	On demand	Less than 3 months	3 months to 1 year	1 - 5 years	Longer than 5 years	No maturity applicable	Total
<b>On December 31, 2018</b>							
<b>Liabilities</b>							
Deposits from credit institutions	2,916	675	4,492	4,900	634	6,052	19,669
Deposits from customers	280,453	13,309	10,305	14,921	24,994	1,135	345,117
Debt securities in issue	4,470	17,184	25,675	64,934	30,316	-	142,579
Other liabilities (excluding employee benefits)	2,038	1,967	309	544	20	826	5,704
Financial liabilities held for trading	-	400	-	-	-	-	400
Financial liabilities designated at fair value	17	191	397	3,681	3,342	-	7,628
Subordinated liabilities	31	58	1,624	8,275	13,204	-	23,192
<b>Total financial liabilities</b>	<b>289,925</b>	<b>33,784</b>	<b>42,802</b>	<b>97,255</b>	<b>72,510</b>	<b>8,013</b>	<b>544,289</b>
Financial guarantees	3,377	-	-	-	-	-	3,377
Loan commitments	32,583	-	-	-	-	-	32,583
<b>On December 31, 2017</b>							
<b>Liabilities</b>							
Deposits from credit institutions	5,005	996	1,748	4,410	1,340	5,683	19,182
Deposits from customers	272,804	19,971	11,258	16,810	21,770	3,363	345,976
Debt securities in issue	7,352	19,361	31,301	63,191	24,161	-	145,366
Other liabilities (excluding employee benefits)	2,742	2,639	1,202	657	35	402	7,677
Financial liabilities held for trading	-	581	-	-	-	-	581
Financial liabilities designated at fair value	73	196	849	4,258	19,382	-	24,758
Subordinated liabilities	-	86	620	6,813	15,831	-	23,350
<b>Total financial liabilities</b>	<b>287,976</b>	<b>43,830</b>	<b>46,978</b>	<b>96,139</b>	<b>82,519</b>	<b>9,448</b>	<b>566,890</b>
Financial guarantees	3,406	-	-	-	-	-	3,406
Loan commitments	32,965	-	-	-	-	-	32,965

The table below shows assets and liabilities grouped according to the period remaining from the reporting date to the contractual repayment date. These amounts correspond to the

amounts included in the consolidated statement of financial position.

## Current and Non-current Financial Instruments

Amounts in millions of euros	On demand	Less than 3 months	3 months to 1 year	1 - 5 years	Longer than 5 years	No maturity applicable	Total
<b>On December 31, 2018</b>							
<b>Financial assets</b>							
Cash and cash equivalents	72,391	99	7	-	-	838	73,335
Loans and advances to credit institutions	9,180	4,422	1,345	194	168	2,550	17,859
Financial assets held for trading	158	178	115	880	1,475	70	2,876
Financial assets designated at fair value	-	127	7	-	23	-	157
Financial assets mandatorily at fair value	9	24	36	518	643	904	2,134
Derivatives	1,009	1,100	1,552	5,300	13,699	-	22,660
Loans and advances to customers	31,867	17,834	35,687	103,680	242,136	5,387	436,591
Financial assets at fair value through other comprehensive income	222	629	2,430	10,865	4,009	575	18,730
Other assets (excluding employee benefits)	349	2,027	1,444	1,673	113	819	6,425
<b>Total financial assets</b>	<b>115,185</b>	<b>26,440</b>	<b>42,623</b>	<b>123,110</b>	<b>262,266</b>	<b>11,143</b>	<b>580,767</b>
<b>Financial liabilities</b>							
Deposits from credit institutions	2,914	667	4,428	4,753	584	6,051	19,397
Deposits from customers	280,681	13,292	10,224	14,399	22,679	1,135	342,410
Debt securities in issue	4,449	16,926	24,814	60,125	24,492	-	130,806
Derivatives	1,099	1,334	1,500	6,166	13,792	36	23,927
Financial liabilities held for trading	-	400	-	-	-	-	400
Other liabilities (excluding employee benefits)	2,076	2,082	478	576	50	826	6,088
Financial liabilities designated at fair value	17	176	364	3,372	2,685	-	6,614
Subordinated liabilities	-	-	1,007	5,804	9,687	-	16,498
<b>Total financial liabilities</b>	<b>291,236</b>	<b>34,877</b>	<b>42,815</b>	<b>95,195</b>	<b>73,969</b>	<b>8,048</b>	<b>546,140</b>
<b>Net balance</b>	<b>(176,051)</b>	<b>(8,437)</b>	<b>(192)</b>	<b>27,915</b>	<b>188,297</b>	<b>3,095</b>	<b>34,627</b>
<b>On December 31, 2017</b>							
<b>Financial assets</b>							
Cash and cash equivalents	65,700	23	28	-	-	1,110	66,861
Loans and advances to credit institutions	15,779	6,150	1,169	616	233	3,307	27,254
Financial assets held for trading	54	51	213	754	625	63	1,760
Financial assets designated at fair value	-	150	19	167	505	353	1,194
Derivatives	877	895	1,810	5,930	15,993	-	25,505
Loans and advances to customers	29,688	17,053	32,556	97,912	248,792	6,562	432,563
Available-for-sale financial assets	317	987	4,242	18,707	4,002	434	28,689
Other assets (excluding employee benefits)	626	2,609	2,297	770	258	1,395	7,955
<b>Total financial assets</b>	<b>113,041</b>	<b>27,918</b>	<b>42,334</b>	<b>124,856</b>	<b>270,408</b>	<b>13,224</b>	<b>591,781</b>
<b>Financial liabilities</b>							
Deposits from credit institutions	4,991	991	1,716	4,262	1,279	5,683	18,922
Deposits from customers	272,765	19,924	10,707	16,036	17,887	3,363	340,682
Debt securities in issue	7,326	19,220	30,618	58,132	19,127	-	134,423
Derivatives	1,058	1,187	1,817	6,996	16,963	82	28,103
Financial liabilities held for trading	-	581	-	-	-	-	581
Other liabilities (excluding employee benefits)	2,755	2,787	1,351	636	48	402	7,979
Financial liabilities designated at fair value	72	181	791	3,794	8,954	-	13,792
Subordinated liabilities	-	-	21	4,248	11,901	-	16,170
<b>Total financial liabilities</b>	<b>288,967</b>	<b>44,871</b>	<b>47,021</b>	<b>94,104</b>	<b>76,159</b>	<b>9,530</b>	<b>560,652</b>
<b>Net balance</b>	<b>(175,926)</b>	<b>(16,953)</b>	<b>(4,687)</b>	<b>30,752</b>	<b>194,249</b>	<b>3,694</b>	<b>31,129</b>

The overview presented above was composed based on contractual information and does not represent the actual

behavior of these financial instruments. However, this is accounted for in the day-to-day management of the liquidity risk.

Customer savings are an example. Under contract, these are payable on demand. Experience has shown this to be very stable source of long-term financing for Rabobank to have at its disposal. The regulations of the supervisory authority also factor this in.

With a Liquidity Coverage Ratio (LCR) of 135% as per December 31, 2018 (2017: 123%), Rabobank complies with the minimum 100% requirement as set by the Dutch Central Bank (DNB).

The liquidity requirements to meet payments under financial guarantees are considerably lower than the amount of the liabilities because Rabobank does not generally expect that third parties to such arrangements will draw funds. The total outstanding amount in contractual obligations to provide credit does not necessarily represent the future cash resource needs of Rabobank because many of these obligations will lapse or terminate without financing being required.

## 4.8 Operational Risk

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

Rabobank has developed a Risk and Control Framework (RCF) which is mandatory for all business units (including subsidiaries) and central support functions within the organization. The RCF ensures that risks due to inadequate or failing processes, people, systems and/or external events are managed within the accepted risk levels. To manage operational risks effectively, an integrated, forward-looking view by the first Line of Defense risk owner (client-facing departments) and Support Functions is in place. In addition, quarterly In Control meetings within the first line are in place to manage operational risks.

Rabobank performs a structured and integrated risk analysis to integrally manage its risk and control framework. Performing this risk assessment across all entities helps to ensure Rabobank Group's risk management system is sound and in compliance

with regulatory requirements. Risk Control Activities (RCAs) are included in the following process steps:

- Risk Identification
- Risk Assessment
- Risk Response
- Risk Monitoring
- Risk Reporting
- Risk Finding and Action Management
- Risk Incident Management

Uniform and consistent Risk Control Activities result in an effective and efficient way of managing various types of operational risks and a good balance between risks and controls within the organization. Hence RCF improves the efficiency and effectiveness of daily business and helps to become a better learning organization.

## 4.9 Fair Value of Financial Assets and Liabilities

For fair value measurement Rabobank assumes that the transaction to sell the asset or transfer the liability is conducted in the principal market for the asset or liability, or in the most advantageous market if no principal market exists.

Market prices are not available for a large number of the financial assets and liabilities that Rabobank holds or issues. For financial instruments for which no market prices are available, the fair values shown in the following table have been estimated using the present value or the results of other estimation and valuation methods, based on the market conditions on the reporting date. The values produced using these methods are highly sensitive to the underlying assumptions used for the amounts and for the timing of future cash flows, discount rates 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 used for highly liquid investments and also for the short-term component of all other financial assets and liabilities.

### *Loans and Advances to Credit Institutions.*

Loans and advances to credit institutions also includes interbank placings and items to be collected. The fair values of floating rate placings, that are repriced regularly and do not vary significantly in terms of credit risk, and overnight deposits are their carrying amounts. The estimated fair value of fixed-interest deposits is based on the present value of the cash flows, calculated based

on appropriate money market interest rates for debts with comparable credit risks and terms to maturity.

#### ***Financial Assets and Derivatives Held for Trading.***

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

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

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

#### ***Financial Assets Designated at Fair Value and Financial Assets Mandatorily at Fair Value.***

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

#### ***Loans and Advances to Customers.***

The fair value of loans and advances to customers is estimated by discounting expected future cash flows using current market rates for similar loans, considering the creditworthiness of the counterparty. For the fair valuation of residential mortgage loans,

the contractual cash flows are adjusted for the prepayment rate of the portfolio. For variable-interest loans that are repriced regularly and do not vary significantly in terms of credit risk, the fair value approximates the carrying amount.

#### ***Financial Assets at Fair Value through Other Comprehensive Income and Available-for-sale Financial Assets.***

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

#### ***Deposits from Credit Institutions.***

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

#### ***Deposits from Customers.***

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

#### ***Financial Liabilities Held for Trading.***

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

#### ***Financial Liabilities Designated at Fair Value.***

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

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

### ***Debt Securities in Issue.***

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

The following table shows the fair value of financial instruments, recognized at amortized cost based on the valuation methods and assumptions detailed below. This table is included because not all financial instruments are recognized at fair value in the balance sheet. Fair value represents the price that would have been either received for the sale of an asset or paid in order to transfer a liability in a standard transaction conducted between market participants on the valuation date.

Amounts in millions of euros	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Cash and cash equivalents	73,335	73,335	66,861	66,861
Loans and advances to credit institutions	17,859	17,878	27,254	27,190
Loans and advances to customers	436,591	443,867	432,564	443,249
<b>Liabilities</b>				
Deposits from credit institutions	19,397	19,333	18,922	18,929
Deposits from customers	342,410	345,719	340,682	344,783
Debt securities in issue	130,806	132,397	134,423	137,392
Subordinated liabilities	16,498	17,220	16,170	18,042

The above stated figures represent the best possible estimates by management based on a range of methods and assumptions.

If a quoted price on an active market is available, this is the best estimate of fair value.

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

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

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

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

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

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



<i>Amounts in millions of euros</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
<b>On December 31, 2018</b>				
<b>Assets carried at amortised cost in the statement of financial position</b>				
Cash and cash equivalents	73,298	32	5	73,335
Loans and advances to credit institutions	18	17,232	628	17,878
Loans and advances to customers	850	124,438	318,579	443,867
<b>Assets carried at fair value in the statement of financial position</b>				
Financial assets held for trading	2,382	431	63	2,876
Financial assets designated at fair value	126	23	8	157
Financial assets mandatorily at fair value	-	571	1,563	2,134
Derivatives	23	22,381	256	22,660
Financial assets at fair value through other comprehensive income	14,453	3,813	464	18,730
Non-current assets held for sale	-	-	268	268
<b>Liabilities carried at amortised cost in the statement of financial position</b>				
Deposits from credit institutions	18	19,164	151	19,333
Deposits from customers	(9)	95,824	249,904	345,719
Debt securities in issue	19,920	105,418	7,059	132,397
Subordinated liabilities	17,197	23	-	17,220
<b>Liabilities carried at fair value in the statement of financial position</b>				
Derivatives	41	23,763	123	23,927
Financial liabilities held for trading	400	-	-	400
Financial liabilities designated at fair value	-	6,614	-	6,614
<b>On December 31, 2017</b>				
<b>Assets carried at amortised cost in the statement of financial position</b>				
Cash and cash equivalents	66,861	-	-	66,861
Loans and advances to credit institutions	10	26,409	771	27,190
Loans and advances to customers	38	116,467	326,744	443,249
<b>Assets carried at fair value in the statement of financial position</b>				
Financial assets held for trading	1,481	216	63	1,760
Financial assets designated at fair value	143	529	522	1,194
Derivatives	8	25,182	315	25,505
Available-for-sale financial assets	24,645	3,512	532	28,689
Non-current assets held for sale	-	-	992	992
<b>Liabilities carried at amortised cost in the statement of financial position</b>				
Deposits from credit institutions	-	18,861	68	18,929
Deposits from customers	25	101,318	243,440	344,783
Debt securities in issue	16,115	111,728	9,549	137,392
Subordinated liabilities	17,984	58	-	18,042
<b>Liabilities carried at fair value in the statement of financial position</b>				
Derivatives	12	27,832	259	28,103
Financial liabilities held for trading	581	-	-	581
Financial liabilities designated at fair value	-	13,742	50	13,792

The potential effect before taxation, if more favorable reasonable assumptions are used for the valuation of the financial instruments in level 3 on the income statement, is EUR 145 million (2017: EUR 70 million) and on other comprehensive income EUR 9 million (2017: EUR 16 million). The potential effect before taxation, if more unfavorable reasonable assumptions are used for the valuation of financial instruments in level 3 on the income statement, is EUR -142 million (2017: EUR -64 million) and on other comprehensive income EUR -7 million (2017: EUR -16 million).

Level 3 of the financial assets at fair value include private equity interests and the loan portfolio of ACC. The latter since the adoption of IFRS 9 per January 1, 2018. Total amount of these level 3 financial assets at fair value is EUR 1,245 million (2017: EUR 525 million). A significant unobservable input for the valuation of the private equity interests is the multiplier which is

applied to the EBITDA. The average weighted multiplier is 6.4, with a bandwidth of -1 (unfavorable) and +1 (favorable) of the multiplier. Significant unobservable inputs for the valuation of the ACC loan portfolio are the valuation of collateral and the appetite to buy this type of assets reflected in a range of plus (best case) of EUR 62 million or minus (worst case) of EUR 48 million.

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

In 2018 there were no significant transfers between level 1 and level 2.

Amounts in millions of euros	Balance on January 1, 2018	Fair value changes incorporated in profit or loss	Fair value changes incorporated in OCI	Purchases	Sales	Settlements	Transfers to or from level 3	Balance on December 31, 2018
<b>Assets</b>								
Financial assets held for trading	68	6	-	-	(11)	-	-	63
Financial assets designated at fair value	23	1	-	-	-	(16)	-	8
Financial assets mandatorily at fair value	1,668	54	-	162	(117)	(224)	20	1,563
Derivatives	315	(18)	-	82	-	(123)	-	256
Financial assets at fair value through other comprehensive income	471	10	19	20	(56)	-	-	464
<b>Liabilities</b>								
Derivatives	259	(10)	-	1	-	(127)	-	123
Financial liabilities designated at fair value	6	-	-	(2)	-	-	(4)	-

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

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

Amounts in millions of euros	Instruments held at the end of the reporting period	Instruments no longer held at the end of the reporting period	Total
<b>On December 31, 2018</b>			
<b>Assets</b>			
Financial assets held for trading	6	-	6
Financial assets designated at fair value	1	-	1
Financial assets mandatorily at fair value	50	4	54
Derivatives	40	(58)	(18)
Financial assets at fair value through other comprehensive income	11	(1)	10
<b>Liabilities</b>			
Derivatives	44	(54)	(10)
Financial liabilities designated at fair value	-	-	-
<b>On December 31, 2017</b>			
<b>Assets</b>			
Financial assets held for trading	(3)	-	(3)
Financial assets designated at fair value	37	5	42
Derivatives	61	(11)	50
Available-for-sale financial assets	(22)	-	(22)
<b>Liabilities</b>			
Derivatives	52	(6)	46
Financial liabilities designated at fair value	(1)	-	(1)

#### Recognition of Day 1 Gains

When using fair value accounting at the inception of a financial instrument, any positive difference between the transaction price and the fair value (referred to as "day 1 gains") is accounted for in the statement of income where the valuation method is based on observable inputs from active markets. In all other cases, the entire day 1 gain is deferred and after initial recognition the deferred day 1 gain is recognized as a gain to the extent it results from a change in a factor (including time effects). There are no deferred day 1 gains as at December 31, 2018.

## 4.10 Legal and Arbitration Proceedings

Rabobank Group is active in a legal and regulatory environment that exposes it to substantial risk of litigation. As a result, Rabobank Group is involved in legal cases, arbitrations and regulatory proceedings in the Netherlands and in other countries. The most relevant legal and regulatory claims which could give rise to liability on the part of Rabobank Group are described below.

Provisions for legal claims are recognized for obligations arising as a result of a past event where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When determining whether the probability that claims lead to an outflow of resources is more likely than not (i.e. with a likelihood of over fifty percent), Rabobank Group takes several factors into account. These factors include (but are not limited to) the type of claim and the underlying facts; the procedural process and history of each case; rulings from legal and arbitration bodies; Rabobank Group's experience and that of third parties in similar cases (if known); previous settlement discussions, third-party settlements in similar cases (where known); available (potential) recourse; and the advice and opinions of legal advisors and other experts. Similar types of cases are grouped together and some cases may also consist of a number of claims. The estimated loss for each individual case (for which it is possible to make a reliable estimate) is not disclosed because Rabobank Group feels that information of this type could be detrimental to the outcome of individual cases.

The estimated potential losses and provisions, are based on the information available at the time and are largely subject to judgments and a number of different assumptions, variables and known and unknown uncertainties. These uncertainties may include the inaccuracy or incompleteness of information available to Rabobank Group (especially in the early stages of a case). In addition, assumptions made by Rabobank Group about the future rulings of legal or other instances or the likely actions or attitudes of supervisory bodies or the parties opposing Rabobank Group may turn out to be incorrect. Furthermore, estimates of potential losses relating to legal disputes are often impossible to process using statistical or other quantitative analysis instruments that are generally used to make judgments and estimates. They are subject to a still greater level of uncertainty than many other areas where Rabobank group needs to make judgments and estimates. The group of cases for which Rabobank Group determines that the risk of future outflows of funds is more likely than not varies over time, as do the number of cases for which the bank can estimate the potential loss. In practice the end results could turn out considerably higher or lower than the estimates of potential losses in those cases where an estimate was made.

Rabobank Group can also sustain losses from legal risks where the occurrence of a loss may not be probable, but is not improbable either, and for which no provisions have been recognized. For those cases where (a) the possibility of an outflow of funds is not probable but also not remote or (b) the possibility of an outflow of funds is more likely than not but the potential loss cannot be estimated reliably, a contingent liability is disclosed. Rabobank

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

### ***Interest Rate Derivatives***

Rabobank concludes interest rate derivatives, such as interest rate swaps, with Dutch business customers who wish to reduce the interest rate risk associated with variable (e.g. Euribor-indexed) loans. An interest rate swap protects businesses from rising variable interest rates and helps them to keep their interest payments at an acceptable level. In March 2016 the Dutch Minister of Finance appointed an independent committee which on July 5, 2016 published a recovery framework (the Recovery Framework) on the reassessment of Dutch SME interest rate derivatives. Rabobank announced its decision to take part in the Recovery Framework on July 7, 2016. The final version of the Recovery Framework was published by the independent committee on December 19, 2016. Rabobank is involved in civil proceedings in the Netherlands relating to interest rate derivatives entered into with Dutch business customers. The majority of these concern individual cases. In addition, there is a collective action regarding interest rate derivatives pending before the Court of Appeal (for which a standstill was agreed to, due to the Recovery Framework; the few remaining out-of-scope customers will be assessed on an individual basis). These actions concern allegations of misinforming clients with respect to interest rate derivatives. Some of these actions also concern allegations in connection with Rabobank's Euribor submissions (as described below). Rabobank will defend itself against all these claims. Furthermore, there are pending complaints and proceedings against Rabobank regarding interest rate derivatives brought before Kifid (Dutch Financial Services Complaints Authority, which, in January 2015, opened a conflict resolution procedure for SME businesses with interest rate derivatives). With respect to the (re-)assessment of the interest rate derivatives of its Dutch SME business customers and the advance payments made, Rabobank recognized at December 31, a provision of EUR 316 million (2017: EUR 450 million). At year-end 2018 Rabobank provided all qualifying clients clarity on the outcome. At year-end 2018, Rabobank's payments to clients under the Recovery Framework amounted to EUR 532 million.

### ***Imtech***

On January 30, 2018, Rabobank received a letter indicating that legal proceedings may be started at a later stage with respect to a potential collective action in relation to certain share offerings of Royal Imtech N.V. in which Rabobank was involved. This situation has remained unchanged. Furthermore, the receivers sent a letter (10 August) in which they describe on what (possible) grounds their (future) claim(s) towards Rabobank in its capacity of lender will be based. Rabobank is of the opinion that no provision should be recognised per 31 December 2018.

### ***Libor/Euribor***

Rabobank has been involved for a number of years in several regulatory proceedings in relation to benchmark-related issues. Rabobank is cooperating, and will continue to cooperate, with the regulators and authorities involved in these investigations. On October 29, 2013, Rabobank entered into settlement agreements with a number of these authorities in relation to their investigations into the historical Libor and Euribor submission processes of Rabobank. All amounts payable under these settlement agreements were fully paid and accounted for by Rabobank in 2013. Rabobank, along with a large number of other panel banks and inter-dealer brokers, has been named as a defendant in a number of putative class action suits and individual civil court cases brought before the Federal Courts in the United States. These proceedings relate to U.S. Dollar (USD) Libor, British Pound Sterling (GBP) Libor, Japanese Yen (JPY) Libor, Tibor (note: Rabobank was never a member of the TIBOR panel), and Euribor. Rabobank and/or its subsidiaries have also received complaints and writs of summons ordering Rabobank to appear before various Dutch, Argentine, United Kingdom, Irish, and Israeli courts in civil proceedings (inc. class action suits) relating to interest rate benchmarks. Since the class action suits and civil proceedings listed above are intrinsically subject to uncertainties, it is difficult to predict their outcomes. Rabobank takes the stance that it has substantive and convincing legal and factual defenses against these claims. Rabobank has the intention to continue to defend itself against these claims. Rabobank Group considers the Libor/Euribor case to be a contingent liability. No provision has been made.

### ***Other Cases***

Rabobank Group is subject to other legal proceedings for which provisions have been recognized. These cases are individually less significant in size and are therefore not separately disclosed. The total provision for those cases amounts to EUR 153 million. In addition to the contingent liability cases described above for which an assessment regarding a possible outflow is not yet

possible, Rabobank Group has identified other less relevant cases in terms of size as a contingent liability. The maximum amount claimed for those contingent liability cases amounts to EUR 197 million.

## 5. Segment Reporting

### 5.1 Business Segments

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

Rabobank distinguishes five major business segments: Domestic Retail Banking; Wholesale, Rural & Retail (WRR); Leasing; Real Estate; and Other Segments.

- Domestic Retail Banking mainly encompasses the activities of the local Rabobanks, Obvion, Financial Solutions and Roparco.
- WRR supports the Rabobank Group in becoming the market leader in the Netherlands and focuses on the Food & Agri sectors at international level. This segment develops corporate banking activities and also controls globally operating divisions such as Markets, Acquisition Finance, Global Corporate Clients, Export Finance & Project Finance, Trade & Commodity Finance and Financial Institutions Group. The segment also actively involves International Direct Retail Banking and Corporate Investments. International Rural and Retail operations forms a part of the Rabobank label, except for ACC Loan Management.
- In the Leasing segment, DLL is responsible for leasing activities and offers a wide range of leasing products. Manufacturers, vendors and distributors are globally supported in their sales with products relevant to asset financing.

- Real Estate mainly encompasses the activities of BPD. The core activities are the development of housing. In 2018, BPD Europe B.V. has sold 100% of the shares of its French subsidiary BPD Marignan. Rabobank recognized a gain on the sale of EUR 58 million which is presented in the income statement as 'Other income'.
- Other segments within Rabobank include various sub-segments of which no single segment can be listed separately. This segment mainly comprises the financial results of investments in associates (in particular Achmea B.V.), Treasury and Head Office operations.

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

As per the Financial statements 2018, Rabobank decided to allocate additional intersegment expenses from "Other segments" to the other business segments: Domestic Retail Banking, Wholesale, Rural & Retail, Leasing and Real Estate to reflect a comprehensive cost view within these business segments. The figures in the previous period segment information have been adjusted accordingly to align with internal management reporting.



Amounts in millions of euros	Domestic Retail Banking	WRR	Leasing	Real Estate	Other Segments	Consolidation Effects	Total
<b>For the year ended December 31, 2018</b>							
Net interest income	5,575	2,388	986	(7)	(383)	-	8,559
Net fee and commission income	1,434	461	106	10	(35)	(45)	1,931
Other results	92	486	274	571	108	(1)	1,530
<b>Income</b>	<b>7,101</b>	<b>3,335</b>	<b>1,366</b>	<b>574</b>	<b>(310)</b>	<b>(46)</b>	<b>12,020</b>
Staff costs	1,158	938	487	131	189	1,375	4,278
Other administrative expenses	3,025	845	224	73	88	(1,475)	2,780
Depreciation and amortization	84	40	27	5	49	183	388
<b>Operating expenses</b>	<b>4,267</b>	<b>1,823</b>	<b>738</b>	<b>209</b>	<b>326</b>	<b>83</b>	<b>7,446</b>
Impairment charges on financial assets	(150)	300	105	(15)	(50)	-	190
Regulatory levies	237	169	25	2	46	(1)	478
<b>Operating profit before tax</b>	<b>2,747</b>	<b>1,043</b>	<b>498</b>	<b>378</b>	<b>(632)</b>	<b>(128)</b>	<b>3,906</b>
Income tax	712	333	99	70	(281)	(31)	902
<b>Net profit</b>	<b>2,035</b>	<b>710</b>	<b>399</b>	<b>308</b>	<b>(351)</b>	<b>(97)</b>	<b>3,004</b>
Cost/income ratio including regulatory levies (in %) <sup>1</sup>	63.4	59.7	55.9	36.8	n/a	n/a	65.9
Impairment charges on financial assets (in basis points of average private sector loan portfolio) <sup>2</sup>	(5)	29	34	(287)	n/a	n/a	5
External assets	280,691	140,158	35,227	2,979	131,382	-	590,437
Goodwill	322	125	72	-	-	-	519
Private sector loan portfolio	276,140	108,972	30,309	301	303	-	416,025

1 Operating expenses plus regulatory levies divided by Income

2 Impairment charges on financial assets divided by 12-month average private sector loan portfolio

Amounts in millions of euros	Domestic Retail Banking	WRR	Leasing	Real Estate	Other Segments	Consolidation Effects	Total
<b>Impairment allowances on financial assets</b>							
Balance on January 1, 2018	2,693	1,297	257	270	-	-	4,517
Increases due to origination and acquisition	134	208	30	-	-	-	372
Decreases due to derecognition	(489)	(230)	(48)	-	-	-	(767)
Changes due to change in credit risk	361	324	170	(12)	-	-	843
Write-off of defaulted loans during the year	(459)	(290)	(141)	(123)	-	-	(1,013)
Other adjustments	27	21	(3)	(128)	-	-	(83)
<b>Balance on December 31, 2018</b>	<b>2,267</b>	<b>1,330</b>	<b>265</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>3,869</b>
Impairment allowance 12-month ECL	132	114	55	-	-	-	301
Impairment allowance lifetime ECL non-credit impaired	168	39	46	-	-	-	253
Impairment allowance lifetime ECL credit-impaired	1,967	1,177	164	7	-	-	3,315
<b>Total impairment allowance</b>	<b>2,267</b>	<b>1,330</b>	<b>265</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>3,869</b>

Amounts in millions of euros	Domestic Retail Banking	WRR	Leasing	Real Estate	Other Segments	Consolidation Effects	Total
<b>For the year ended December 31, 2017</b>							
Net interest income	5,581	2,367	1,008	57	(170)	-	8,843
Net fee and commission income	1,398	432	75	59	(10)	(39)	1,915
Other results	74	655	207	479	(207)	35	1,243
<b>Income</b>	<b>7,053</b>	<b>3,454</b>	<b>1,290</b>	<b>595</b>	<b>(387)</b>	<b>(4)</b>	<b>12,001</b>
Staff costs	1,430	939	487	180	173	1,263	4,472
Other administrative expenses	2,959	1,194	208	151	7	(1,343)	3,176
Depreciation and amortization	98	56	28	7	54	163	406
<b>Operating expenses</b>	<b>4,487</b>	<b>2,189</b>	<b>723</b>	<b>338</b>	<b>234</b>	<b>83</b>	<b>8,054</b>
Loan impairment charges	(259)	95	106	(116)	(16)	-	(190)
Regulatory levies	270	171	22	4	38	-	505
<b>Operating profit before tax</b>	<b>2,555</b>	<b>999</b>	<b>439</b>	<b>369</b>	<b>(643)</b>	<b>(87)</b>	<b>3,632</b>
Income tax	659	412	(66)	74	(100)	(21)	958
<b>Net profit</b>	<b>1,896</b>	<b>587</b>	<b>505</b>	<b>295</b>	<b>(543)</b>	<b>(66)</b>	<b>2,674</b>
Cost/income ratio including regulatory levies (in %) <sup>1</sup>	67.4	68.3	57.8	57.5	n/a	n/a	71.3
Loan impairment charges (in basis points of average private sector loan portfolio) <sup>2</sup>	(9)	9	36	(521)	n/a	n/a	(5)
External assets	285,894	131,888	32,466	5,598	147,145	-	602,991
Goodwill	322	119	75	-	3	-	519
Private sector loan portfolio	280,028	101,506	27,159	1,807	464	-	410,964

1 Operating expenses plus regulatory levies divided by Income

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

Amounts in millions of euros	Domestic Retail Banking	WRR	Leasing	Real Estate	Other Segments	Consolidation Effects	Total
<b>Loan impairment allowances on loans and advances to customers</b>							
Balance on January 1 2017	3,317	3,099	259	797	15	-	7,487
Loan impairment charges from loans and advances to customers	(172)	118	145	(114)	(15)	-	(38)
Write-off of defaulted loans during the year	(632)	(1,047)	(136)	(204)	-	-	(2,019)
Interest and other adjustments	31	(60)	(24)	69	-	-	16
<b>Balance on December 31 2017</b>	<b>2,544</b>	<b>2,110</b>	<b>244</b>	<b>548</b>	<b>-</b>	<b>-</b>	<b>5,446</b>
Specific allowance	1,656	1,896	93	544	-	-	4,189
Collective allowance	559	19	67	-	-	-	645
IBNR	329	195	84	4	-	-	612
<b>Total</b>	<b>2,544</b>	<b>2,110</b>	<b>244</b>	<b>548</b>	<b>-</b>	<b>-</b>	<b>5,446</b>

## 5.2 Geographic Information (Country-by-Country Reporting)

Rabobank operates in seven main geographical areas. The country of domicile of Rabobank is the Netherlands. The information below is reported by distinguishable components of Rabobank that provide products and/or services within a

particular economic environment within specific geographical locations/areas. The breakdown is based on the location of the individual subsidiary/branch from which the transactions are initiated. Revenue is defined as total income as presented in the statement of income plus interest expense, fee and commission expense and expenses from other operating activities.

Amounts in millions of euros

On 31 December 2018

Geographic location	Country	Name of division	Type of operations	Revenues	Average number of internal employees in FTE	Operating profit before tax	Income tax
<b>The Netherlands</b>	The Netherlands	Rabobank, DLL, Obvion, Rabo Vastgoedgroep, BPD	Domestic Retail Banking, Wholesale, Rural and Retail, Leasing, Real Estate	24,129	25,516	2,268	493
<b>Other Eurozone countries</b>	France	DLL, Rabobank, Rabo Vastgoedgroep, BPD	Leasing, Wholesale, Rural and Retail, Real Estate	529	334	116	13
	Belgium	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	118	104	25	5
	Germany	DLL, Rabobank, Rabo Vastgoedgroep, BPD	Leasing, Wholesale, Rural and Retail, Real Estate	855	645	116	36
	Italy	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	72	138	28	3
	Luxembourg	Rabo Vastgoedgroep	Real Estate	1	-	-	-
	Ireland	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	606	188	140	4
	Finland	DLL	Leasing	7	10	2	-
	Austria	DLL	Leasing	3	3	1	-
	Portugal	DLL	Leasing	12	16	4	-
	Spain	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	52	132	15	4
<b>Rest of Europe (non-Eurozone)</b>	United Kingdom	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	698	671	81	18
	Norway	DLL	Leasing	29	38	7	2
	Sweden	DLL	Leasing	49	122	9	2
	Denmark	DLL	Leasing	32	26	6	1
	Switzerland	DLL	Leasing	5	6	2	-
	Russia	DLL	Leasing	39	64	20	4
	Poland	DLL	Leasing	34	86	7	2
	Hungary	DLL	Leasing	8	40	2	-
	Romania	DLL	Leasing	-	3	-	-
	Turkey	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	37	55	23	4
<b>North America</b>	United States	DLL, Rabobank, Rabo Vastgoedgroep	Leasing, Wholesale, Rural and Retail, Real Estate	3,709	4,053	577	128
	Canada	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	245	213	33	9
<b>Latin America</b>	Mexico	DLL	Leasing	22	65	5	1
	Brazil	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	548	708	191	72
	Chile	DLL	Leasing	71	141	13	13
	Argentina	DLL	Leasing	5	17	(2)	(1)
	Peru	Rabobank	Wholesale, Rural and Retail	-	-	-	-

## Amounts in millions of euros

<b>Asia</b>	India	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	69	445	3	6
	Singapore	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	219	194	(8)	(1)
	Indonesia	Rabobank	Wholesale, Rural and Retail	58	707	(60)	(9)
	Malaysia	Rabobank	Wholesale, Rural and Retail	7	3	2	-
	China	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	82	138	2	5
	Hong Kong	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	341	186	(46)	(8)
	South Korea	DLL	Leasing	12	22	2	-
	United Arab Emirates	DLL	Leasing	-	2	-	-
<b>Australia</b>	Australia	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	1,150	1,059	211	64
	New Zealand	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	510	310	111	32
<b>Other</b>	Mauritius, Kenya	Rabobank	Wholesale, Rural and Retail	3	1	-	-
			Consolidation effects	(12,485)	-	-	-
				<b>21,881</b>	<b>36,461</b>	<b>3,906</b>	<b>902</b>

## Amounts in millions of euros

## On 31 December 2017

Geographic location	Country	Name of division	Type of operations	Revenues	Average number of internal employees in FTE	Operating profit before tax	Income tax
<b>The Netherlands</b>	The Netherlands	Rabobank, DLL, Obvion, Rabohypotheekbank, Rabo Vastgoedgroep, BPD	Domestic Retail Banking, Wholesale, Rural and Retail, Leasing, Real estate	22,104	27,787	2,297	510
<b>Other Eurozone countries</b>	France	DLL, Rabobank, Rabo Vastgoedgroep, BPD	Leasing, Wholesale, Rural and Retail, Real estate	672	501	79	31
	Belgium	DLL, Rabobank, Rabo Vastgoedgroep, BPD	Leasing, Wholesale, Rural and Retail, Real estate	117	106	27	8
	Germany	DLL, Rabobank, Rabo Vastgoedgroep, BPD	Leasing, Wholesale, Rural and Retail, Real estate	763	631	81	25
	Italy	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	72	131	33	5
	Ireland	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	546	208	142	9
	Finland	DLL	Leasing	6	8	2	-
	Austria	DLL	Leasing	2	2	1	-
	Portugal	DLL	Leasing	8	13	1	-
	Spain	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	46	122	12	4
<b>Rest of Europe (non-Eurozone)</b>	United Kingdom	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	658	660	122	25
	Norway	DLL	Leasing	24	34	6	1
	Sweden	DLL	Leasing	44	126	4	1

## Amounts in millions of euros

	Denmark	DLL, Rabo Vastgoedgroep BPD	Leasing, Real estate	30	24	6	1
	Switzerland	DLL	Leasing	5	6	2	-
	Russia	DLL	Leasing	36	60	4	3
	Poland	DLL	Leasing	33	87	10	-
	Hungary	DLL	Leasing	7	38	2	-
	Romania	DLL	Leasing	-	3	-	-
	Turkey	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	37	59	21	4
<b>North America</b>	United States	DLL, Rabobank, Rabo Vastgoedgroep	Leasing, Wholesale, Rural and Retail, Real estate	3,245	3,970	121	121
	Canada	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	225	211	60	16
<b>Latin America</b>	Mexico	DLL	Leasing	19	64	5	2
	Cayman Islands	Rabobank	Wholesale, Rural and Retail	-	-	-	-
	Brazil	DLL, Rabobank,	Leasing, Wholesale, Rural and Retail	616	684	221	87
	Chile	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	64	172	8	-
	Argentina	DLL	Leasing	4	13	1	-
<b>Asia</b>	India	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	57	268	(9)	-
	Singapore	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	176	200	(17)	(3)
	Indonesia	Rabobank	Wholesale, Rural and Retail	65	776	(2)	2
	Malaysia	Rabobank	Wholesale, Rural and Retail	4	4	2	-
	China	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	90	164	6	1
	Hong Kong	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	292	188	32	3
	South Korea	DLL	Leasing	9	24	2	-
<b>Australia</b>	Australia	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	1,177	985	228	68
	New Zealand	DLL, Rabobank	Leasing, Wholesale, Rural and Retail	546	294	122	34
<b>Other</b>	Mauritius, Kenya	Rabobank	Wholesale, Rural and Retail	3	1	-	-
			Consolidation effects	(10,062)	-	-	-
				<b>21,740</b>	<b>38,624</b>	<b>3,632</b>	<b>958</b>

Rabobank did not receive government subsidies in 2018 and 2017.

### 5.3 Geographic Information of Non-current Assets

Amounts in millions of euros	2018		2017	
	Domestic	Non-domestic	Domestic	Non-domestic
Goodwill and other intangible assets	728	238	765	237
Property and equipment and investment properties	1,852	2,796	2,221	2,559
Other assets	3,720	2,711	5,062	2,899
Non-current assets held for sale	255	13	282	710
<b>Total</b>	<b>6,555</b>	<b>5,758</b>	<b>8,330</b>	<b>6,405</b>

## 6. Cash and Cash Equivalents

Amounts in millions of euros	2018	2017
Cash	811	732
Deposits at central banks	72,524	66,129
<b>Total cash and cash equivalents</b>	<b>73,335</b>	<b>66,861</b>

The average minimum reserve to be held for the Netherlands for the month of December 2018 was EUR 3,066 million (December 2017: EUR 3,202 million).

## 7. Loans and Advances to Credit Institutions

Amounts in millions of euros	2018	2017
Current accounts and receivables	8,007	8,533
Reverse repurchase transactions and securities borrowing agreements	8,743	17,286
Loans	1,080	1,308
Other	51	144
<b>Gross carrying amount loans and advances to credit institutions</b>	<b>17,881</b>	<b>27,271</b>
Loan impairment allowance on loans and advances to credit institutions	(22)	(17)
<b>Total loans and advances to credit institutions</b>	<b>17,859</b>	<b>27,254</b>

## 8. Financial Assets Held for Trading

Amounts in millions of euros	2018	2017
Government bonds	1,055	496
Other debt securities	1,602	1,008
Loans	149	193
Equity instruments	70	63
<b>Total</b>	<b>2,876</b>	<b>1,760</b>

## 9. Financial Assets Designated at Fair Value

Amounts in millions of euros	2018	2017
Debt securities	126	126
Loans	31	700
Venture capital (equity instrument)	n/a	333
Other equity instruments	n/a	35
<b>Total</b>	<b>157</b>	<b>1,194</b>

The maximum exposure to credit risk is best represented by the carrying amount of the financial assets designated at fair value. The change in the current year in the fair value of the financial assets designated at fair value that is attributable to changes in the credit risk amounts to EUR 14 million (2017: changes in fair value of loans designated at fair value is EUR 3 million). The cumulative change is EUR 14 million (2017: cumulative changes in fair value of loans designated at fair value is EUR -25 million). Any changes in fair value are calculated by discounting future cash flows. When setting the discount rate, account is taken of expected losses, liquidity mark-ups and the risk margin. No use is made of credit derivatives to hedge the financial assets designated at fair value.

## 10. Financial Assets Mandatorily at Fair Value

Amounts in millions of euros	2018
Debt securities	38
Loans	1,642
Equity instruments	454
<b>Total</b>	<b>2,134</b>



## 11. Derivatives

Derivatives are used at Rabobank to mitigate at least a portion of the risks arising from the bank's various operations. Examples of this include interest rate swaps used to hedge interest rate risks arising from the difference in maturities between assets and liabilities. Another example are cross-currency swaps, which are used to hedge the currency risk to which the bank is exposed after issuing debt instruments in foreign currencies. Besides hedging purposes, derivatives are also contracted with the bank's corporate customers where Rabobank is the counterparty.

### 11.1 Types of Derivatives Used by Rabobank

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

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

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps entail an economic exchange of currencies or interest rates (such as a fixed rate for one or more variable rates), or a combination (i.e. a cross-currency interest rate swap). Except in certain currency swaps, no transfer of the principal amount takes place.

Currency and interest rate options are contracts under which the seller (known as the writer) gives the buyer (known as the holder) the right, entailing no obligation, to purchase (in the case of a call option) or sell (in the case of a put option) a specific amount of foreign currency or a specific financial instrument on or before an agreed date or during an agreed period at a price set in advance. As consideration for accepting the currency or interest

rate risk, the writer receives a payment (known as a premium) from the holder. Options are traded on exchanges or between Rabobank and clients (OTC). Rabobank is only exposed to credit risks as an option holder and only up to the carrying amount, which is equivalent to the fair value.

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

### 11.2 Derivatives Held for Trading

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

### 11.3 Derivatives Designated as Hedging Instrument

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

#### *Fair value hedges*

Rabobank uses interest rate swaps and cross-currency interest rate swaps to hedge potential changes in the fair value due to interest rate or foreign currency rate changes. These changes ordinarily form the majority of the overall change of the hedged items. Hedged items are fixed-income financial assets and liabilities in both local and foreign currencies, such as mortgages, debt securities at fair value through other comprehensive income and issued debt securities. Rabobank tests the hedge effectiveness based on statistical regression analysis models, both prospectively and retrospectively for IAS 39 portfolio fair value hedges and analyses the sources of ineffectiveness for IFRS 9 non-portfolio fair value hedges. The identified source of ineffectiveness of the IFRS 9 fair value hedges is the float leg (excluding margin) of the cross currency interest rate swap.

The hedged ratio of the IFRS 9 fair value hedges is the actual economic hedge (notional issued bond and notional cross currency interest rate swap).

### Maturity Profile and Average Interest Rate of Hedging Instruments in Fair Value Hedges

On December 31, 2018

Amounts in millions of euros	Remaining maturity			
	Total notional amount	Less than 1 year	1 - 5 years	Longer than 5 years
<b>Fair value hedges</b>				
Hedging instrument - Hedge of financial assets	51,852	7,553	31,990	12,309
Average fixed interest rate	1.89%	1.18%	1.87%	2.38%
Hedging instrument - Hedge of financial liabilities	62,604	3,954	18,797	39,853
Average fixed interest rate	2.39%	2.90%	2.02%	2.51%

### Designated Hedging Instruments in Fair Value Hedges of Interest Rate Risk

On December 31, 2018

Amounts in millions of euros	Carrying amount derivative financial assets	Carrying amount derivative financial liabilities	Change in fair value used for calculating hedge ineffectiveness
<b>Designated hedging instruments – fair value hedges</b>			
Hedge of loans and advances to customers	101	4,014	305
Hedge of financial assets at fair value through other comprehensive income	19	457	(148)
Hedge of issued debt securities	3,156	699	636

Hedge ineffectiveness of fair value hedging amounts to EUR 174 million and is included in the statement of income on line

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

### Designated Hedged Items in Fair Value Hedges of Interest Rate Risk

On December 31, 2018

Amounts in millions of euros	Carrying amount	Accumulated amount of fair value hedge adjustment on the hedged item included in the carrying amount of the hedged item	Change in fair value used for calculating hedge ineffectiveness	Accumulated amount of fair value hedge adjustments remaining for any hedged items that have ceased to be adjusted for hedging gains and losses
<b>Designated hedged items</b>				
Loans and advances to customers	43,013	5,784	(285)	6,309
Financial assets at fair value through other comprehensive income	8,188	463	159	412
Issued debt securities	37,935	1,375	841	1,077

#### Cash flow hedges

Rabobank's cash flow hedges mainly consist of hedges of the margin of issued bonds in foreign currency hedged with cross-currency interest rate swaps to protect against a potential change in cash flows due to change in foreign currency rates. Rabobank assesses the hedge effectiveness based on statistical regression

analysis models, both prospectively and retrospectively for IAS 39 cash flow hedges and analyzes the sources of ineffectiveness for IFRS 9 cash flow hedges. The IFRS 9 cash flow hedges are 100% effective. The interest rate risk is not hedged in the cash flow hedge (two fixed legs, foreign currency and Euro) and the average interest rate is therefore not disclosed in the table below.

## Maturity Profile and Average Price/ Rate of Hedging Instruments in Cash Flow Hedges

On December 31, 2018

Amounts in millions of euros	Remaining maturity			
	Total notional amount	Less than 1 year	1 - 5 years	Longer than 5 years
<b>Cross-currency swaps (USD:EUR)</b>				
Notional amounts of hedging instrument	19	1	9	9
Average exchange rate (USD:EUR)	n/a	1.00	1.37	1.31
<b>Cross-currency swaps (GBP:EUR)</b>				
Notional amounts of hedging instrument	25	-	17	8
Average exchange rate (GBP:EUR)	n/a	n/a	0.79	0.80
<b>Cross-currency swaps (other currencies)</b>				
Notional amounts of hedging instrument	43	13	23	7

## Cash Flow Hedges of Interest Rate and Foreign Currency Risk, Designated Hedging Instruments

On December 31, 2018

Amounts in millions of euros	Carrying amount derivative financial assets	Carrying amount derivative financial liabilities	Change in fair value used for calculating hedge ineffectiveness
<b>Designated hedging instruments</b>			
Cross-currency interest rate swaps (USD:EUR)	-	1	15
Cross-currency interest rate swaps (GBP:EUR)	3	9	27
Cross-currency interest rate swaps (other currencies)	3	3	(33)
<b>Total</b>	<b>6</b>	<b>13</b>	<b>9</b>

For the changes in the value of the hedging instrument recognized in other comprehensive income and the amount reclassified from the cash flow hedge reserve to profit or loss, reference is made to section 31, "Reserves and Retained

Earnings." Hedge ineffectiveness amounts to nil and is included in the statement of income on line item "Gains/ (losses) on financial assets and liabilities at fair value through profit or loss."

## Cash Flow Hedges of Interest Rate and Foreign Currency Risk, Designated Hedged Items

On December 31, 2018

Amounts in millions of euros	Change in fair value used for calculating hedge ineffectiveness	Cash flow hedge reserve for continuing hedges	Remaining cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied
<b>Designated hedged items</b>			
Issued debt securities	9	2	(42)

### Net Investment Hedges

Rabobank uses forward currency contracts to hedge a portion of the currency translation risk of net investments in foreign operations.

### Maturity Profile and Average Rate of Hedging Instruments in Net Investment Hedges

On December 31, 2018	Total notional amount	Remaining maturity on 31 December 2018		
Amounts in millions of euros		Less than 1 year	1 - 5 years	Longer than 5 years
<b>Forward currency contracts</b>				
Notional amounts of hedging instrument	5,848	5,724	124	-
Average exchange rate	n/a	0.93	0.00	0.00

### Net Investment Hedges of Currency Translation Risk, Designated Hedging Instruments

On December 31, 2018				
Amounts in millions of euros		Carrying amount financial assets	Carrying amount financial liabilities	Change in fair value used for calculating hedge ineffectiveness
<b>Designated hedging instruments</b>				
Forward currency contracts		32	1,706	119

For the changes in the value of the hedging instrument recognized in other comprehensive income and the amount reclassified from the net investment hedge reserve to profit or loss, reference is made to Section 31, "Reserves and Retained

Earnings." Hedge ineffectiveness amounts to nil and is included in the statement of income on line item "Gains/ (losses) on financial assets and liabilities at fair value through profit or loss."

### Net Investment Hedges of Currency Translation Risk, Designated Hedged Items

On December 31, 2018				
Amounts in millions of euros	Change in fair value used for calculating hedge ineffectiveness	Foreign currency translation reserve for continuing hedges	Remaining foreign currency translation reserve from hedging relationships for which hedge accounting is no longer applied	
Designated hedged items				
Net investment	(119)	230	213	

## 11.4 Notional Amount and Fair Value of Derivatives

The following table shows the notional amounts and the positive and negative fair values of derivatives as presented in the statement of financial position.

## Notional Amount and Fair Values of Derivatives

Amounts in millions of euros	On December 31, 2018			On December 31, 2017		
	Notional amounts	Fair values		Notional amounts	Fair values	
		Assets	Liabilities		Assets	Liabilities
Derivatives held for trading	3,395,342	19,379	18,745	2,851,309	21,109	21,158
Derivatives designated as hedging instrument	114,541	3,281	5,182	116,644	4,396	6,945
<b>Total derivatives</b>	<b>3,509,883</b>	<b>22,660</b>	<b>23,927</b>	<b>2,967,953</b>	<b>25,505</b>	<b>28,103</b>
<b>Derivatives held for trading</b>						
<b>Currency derivatives</b>						
Currency swaps	388,686	3,949	5,116	336,792	3,556	4,021
Currency options - purchased and sold	3,437	47	30	3,694	29	48
Listed tradeable contracts	5,582	7	6	3,718	2	3
Currency futures	296	-	8	241	2	4
<b>Total currency derivatives</b>	<b>398,001</b>	<b>4,003</b>	<b>5,160</b>	<b>344,445</b>	<b>3,589</b>	<b>4,076</b>
<b>Interest rate derivatives</b>						
OTC interest rate swaps	2,828,432	12,908	11,108	2,375,700	14,800	14,088
OTC interest rate options	72,417	2,212	2,238	77,409	2,593	2,758
Listed interest rate swaps	91,454	1	1	49,676	1	-
<b>Total interest rate derivatives</b>	<b>2,992,303</b>	<b>15,121</b>	<b>13,347</b>	<b>2,502,785</b>	<b>17,394</b>	<b>16,846</b>
Credit derivatives	1,071	2	2	1,580	-	4
Equity instruments/index derivatives	-	-	1	63	8	7
Other derivatives	3,967	253	235	2,436	118	225
<b>Total derivatives held for trading</b>	<b>3,395,342</b>	<b>19,379</b>	<b>18,745</b>	<b>2,851,309</b>	<b>21,109</b>	<b>21,158</b>
<b>Derivatives designated as hedging instrument</b>						
<b>Derivatives designated as hedging instrument in fair value hedges</b>						
Interest rate swaps and cross-currency interest rate swaps	108,606	3,243	3,463	110,033	4,128	5,674
<b>Derivatives designated as hedging instrument in cash flow hedges</b>						
Currency swaps and cross-currency interest rate swaps	87	6	13	4,777	299	1,271
<b>Derivatives designated as hedging instrument as net investment hedges</b>						
Currency futures contracts	5,848	32	1,706	1,834	(31)	-
<b>Total derivatives designated as hedging instrument</b>	<b>114,541</b>	<b>3,281</b>	<b>5,182</b>	<b>116,644</b>	<b>4,396</b>	<b>6,945</b>

## 12. Loans and Advances to Customers

Amounts in millions of euros	2018	2017
<b>Loans to private sector clients:</b>		
- overdrafts	15,758	17,535
- mortgages	190,651	194,521
- finance leases	18,772	16,932
- corporate loans	186,563	179,204
- other	8,009	8,186
<b>Loans to government clients:</b>		
- finance leases	202	196
- other	1,658	2,069
<b>Reverse repurchase transactions, securities borrowing agreements and settlement accounts</b>	12,929	12,895
<b>Gross carrying amount loans and advances to customers</b>	<b>434,542</b>	<b>431,538</b>
Hedge accounting adjustment	5,784	6,386
Impairment allowances on loans and advances to customers	(3,735)	(5,446)
	<b>436,591</b>	<b>432,478</b>
Reclassified assets	n/a	86
<b>Total loans and advances to customers</b>	<b>436,591</b>	<b>432,564</b>

### Finance Leases

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

Amounts in millions of euros	2018	2017
<b>Receivables from gross investment in finance leases</b>		
Not exceeding 1 year	6,116	6,302
Longer than 1 year but less than 5 years	13,026	11,584
Longer than 5 years	1,292	621
<b>Gross investment in finance leases</b>	<b>20,434</b>	<b>18,507</b>
Unearned deferred finance income from finance leases	1,626	1,561
<b>Net investment in finance leases</b>	<b>18,808</b>	<b>16,946</b>
Not exceeding 1 year	5,962	6,097
Longer than 1 year but less than 5 years	11,574	10,393
Longer than 5 years	1,272	456
<b>Net investment in finance leases</b>	<b>18,808</b>	<b>16,946</b>

The finance leases mainly relate to the lease of equipment, cars and factoring products. On December 31, 2018, the loan impairment allowance for finance leases amounted to EUR 166 million (2017: EUR 182 million). The unguaranteed residual values accruing to the lessor amounted to EUR 2,227 million (2017: EUR 1,914 million). The contingent lease payments recognized as income in 2018 were nil (2017: nil).



## 13. Financial Assets at Fair Value through Other Comprehensive Income

### 13a Financial Assets at Fair Value through Other Comprehensive Income

Amounts in millions of euros	2018
Government bonds	13,514
Other debt securities	4,502
Loans	214
Equity instruments	500
<b>Total financial assets at fair value through other comprehensive income</b>	<b>18,730</b>

Rabobank designated equity investments in foreign financial service providers at fair value through other comprehensive income upon initial recognition because these instruments are held for strategic purposes rather than for the purpose of selling it in the near term.

Amounts in millions of euros	2018
Equity investments in foreign financial service providers	104
Equity investment held by CRUA	230
Other equity investments	166
<b>Total equity instruments</b>	<b>500</b>

During 2018, Rabobank recognized dividends of EUR 24 million of which EUR 0 million relates to equity investments that are derecognised in 2018. Transfers of the cumulative gains or losses within equity during the period are disclosed in the Section 31 in the movement schedule of the "Revaluation" Reserve – Equity Instruments at Fair Value Through Other Comprehensive Income.

### 13b Available-for-sale Financial Assets

Amounts in millions of euros	2017
Short-term government papers	1,362
Government bonds	22,418
Other debt securities	4,342
Equity instruments	567
<b>Total available-for-sale financial assets</b>	<b>28,689</b>

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

Amounts in millions of euros	2017
Opening balance	34,580
Foreign change differences	(1,133)
Additions	3,687
Disposals (sale and repayment)	(7,707)
Fair value changes	(670)
Other changes	(68)
<b>Closing balance</b>	<b>28,689</b>

## 14. Investments in Associates and Joint Ventures

Amounts in millions of euros	2018	2017
Opening balance	2,521	2,417
Foreign exchange differences	5	(7)
Purchases	43	113
Sales	(187)	(214)
Share of profit of associates	242	246
Dividends paid out (and capital repayments)	(149)	(78)
Revaluation	(80)	5
Impairment	-	-
Other	(21)	39
<b>Total investments in associates and joint ventures</b>	<b>2,374</b>	<b>2,521</b>

### 14.1 Investments in Associates

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

On 31 December 2018	Shareholding	Voting rights
<b>The Netherlands</b>		
Achmea B.V.	30%	30%

Achmea is a strategic partner of Rabobank for insurance products and Interpolis, a subsidiary of the Achmea Group, works closely with the local Rabobanks. Achmea's head office is located in Zeist, the Netherlands. No listed market price is available for the interest in Achmea. The interest in Achmea is valued according to the equity method. Rabobank received dividend from Achmea for an amount of EUR 37 million (2017: nil).

In 2018 there were no impairment triggers to perform an impairment test.

<b>Achmea</b>		
Amounts in millions of euros	2018	2017
Cash and balances at central banks	1,466	2,884
Investments	70,948	72,702
Other assets	9,402	10,259
Assets held for sale	-	5,101
<b>Total assets</b>	<b>81,816</b>	<b>90,946</b>
Insurance related provisions	55,065	57,293
Loans and funds borrowed	15,197	16,755
Other liabilities	1,849	1,947
Liabilities held for sale	-	5,002
<b>Total liabilities</b>	<b>72,111</b>	<b>80,997</b>
Revenues	21,336	22,065
Net profit	315	216
Other comprehensive income	(266)	20
<b>Total comprehensive income</b>	<b>49</b>	<b>236</b>

### Reconciliation Carrying Amount of Interest in Achmea

	2018	2017
Total equity Achmea	9,705	9,949
Minus: hybrid capital	1,350	1,350
Minus: preference shares and accrued dividend	350	350
Shareholder's equity	<b>8,005</b>	<b>8,249</b>
Share of Rabobank	30.00%	29.21%
	2,401	2,410
Accumulated impairment	(719)	(700)
<b>Carrying amount</b>	<b>1,682</b>	<b>1,710</b>

The impairment amount has increased by the same percentage as the increase of the stake of Rabobank due to the buyback of shares by Achmea.

### Other Associates

Amounts in millions of euros	2018	2017
Result from continuing operations	168	203
<b>Net profit</b>	<b>168</b>	<b>203</b>
Other comprehensive income	-	11
<b>Total comprehensive income</b>	<b>168</b>	<b>214</b>

### 14.2 Investments in Joint Ventures

Virtually all joint ventures are investments of BPD. Their total carrying amount is EUR 7 million (2017: EUR -8 million). Joint ventures are recognized in accordance with the equity method.

BPD often has partnerships for developing integrated residential areas. In the majority of cases, each participating member of the partnership has a decisive vote, and decisions can only be passed by consensus. The majority of these partnerships therefore qualify as "joint arrangements."

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

As a separate legal structure is established for each project, projects have different participating partners and individual projects are not of a substantial size, BPD did not have material joint arrangements in 2018 and 2017.

### Result from Joint Ventures

Amounts in millions of euros	2018	2017
Profit or loss from continuing operations	31	22
Post-tax profit or loss from discontinued operations	-	-
<b>Net profit</b>	<b>31</b>	<b>22</b>
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>31</b>	<b>22</b>

### Contingent Liabilities to Joint Ventures

Rabo Real Estate Group BPD entered into commitments on December 31, 2018 with regard to real estate projects, commitments with third parties (including subcontractors and architects) for an amount of EUR 5 million (2017: EUR 23 million). The commitments regarding building sites amount to EUR 23 million (2017: EUR 115 million).

## 15. Goodwill and Other Intangible Assets

Amounts in millions of euros	Goodwill	Software developed inhouse	Other intangible assets	Total
<b>Year ended December 31, 2018</b>				
Opening balance	519	371	112	1,002
Foreign exchange differences	3	-	-	3
Additions	-	80	41	121
Disposals	(2)	(17)	(13)	(32)
Other	-	18	1	19
Amortization	-	(95)	(49)	(144)
Impairments	(1)	-	(2)	(3)
<b>Closing balance</b>	<b>519</b>	<b>357</b>	<b>90</b>	<b>966</b>
Cost	1,136	1,286	444	2,866
Accumulated amortisation and impairments	(617)	(929)	(354)	(1,900)
<b>Net carrying amount</b>	<b>519</b>	<b>357</b>	<b>90</b>	<b>966</b>
<b>Year ended December 31, 2017</b>				
Opening balance	537	420	132	1,089
Foreign exchange differences	(19)	(1)	(5)	(25)
Additions	-	115	49	164
Disposals	-	(40)	(3)	(43)
Other	1	21	(6)	16
Amortization	-	(113)	(55)	(168)
Impairments	-	(31)	-	(31)
<b>Closing balance</b>	<b>519</b>	<b>371</b>	<b>112</b>	<b>1,002</b>
Cost	1,127	1,517	573	3,217
Accumulated amortisation and impairments	(608)	(1,146)	(461)	(2,215)
<b>Net carrying amount</b>	<b>519</b>	<b>371</b>	<b>112</b>	<b>1,002</b>

Goodwill is reviewed for impairment by comparing the carrying amount of the cash generating unit (including goodwill) with the best estimate of the value in use of the cash generating unit. For this purpose, the best estimate of the value in use determined on the basis of cash flow forecasts is used first, as taken from annual medium-term plans drawn up as part of the annual planning cycle. The plans reflect the management's best estimates of market conditions, market restrictions, discount rates (before taxation), growth in operations, etc. If the outcome shows that there is no significant difference between the fair value and the carrying amount, the fair value is assessed in more detail, with the relevant share price being used for listed companies. In addition, valuation models are used which are similar to the initial recognition of an acquisition, peer reviews, etc. The valuation models are tested and include the development of the activities since the acquisition, the most recent income and expenses forecasts drawn up by management, as well as updated forecasts, assessments of discount rates, final values of growth rates, etc. Peer reviews include an assessment of the price/earnings ratio and price/carrying amount ratio of similar listed

companies, or similar market transactions. Assumptions are generally based on experience, management's best estimates of future developments and, if available, external data.

The carrying amount of the goodwill allocated to RNA in the wholesale banking segment is EUR 125 million (2017: EUR 119 million). The cash-generating unit is RNA. The recoverable amount is based on the value in use and determined using cash flow forecasts. The principal assumptions used are a growth rate of after tax earnings expected in the near term (five years) of 6% (2017: 12%), the discount rate of 11.0% (2017: 15.8%) and the multiplier used for calculating the present value of the discounted cash flows after the forecast period of 17.0 (2017: 12.6). As the recoverable amount exceeds the carrying amount, it was concluded that the goodwill allocated to RNA was not impaired. A change of 0.5% in the discount rate does not cause the carrying amount to exceed the recoverable amount.

The goodwill allocated to one of the cash-generating units in the Domestic Retail segment is significant in comparison with the goodwill's total carrying amount. The carrying amount of this goodwill is EUR 322 million (2017: EUR 322 million) and the cash-generating unit is the collective of local Rabobanks. The recoverable amount is based on the value in use. The value in use is determined using cash flows expected in the near future based on financial forecasts. As the recoverable amount substantially exceeded the carrying amount, it was concluded that the goodwill allocated to this cash-generating unit was not impaired. An increase in the discount rate of 10% or a reduction in the future cash flows of 10% are considered to be a maximum of possible changes in key assumptions. Such a change does not cause the carrying amount to exceed the recoverable amount and would not result in an impairment.

An impairment of goodwill was recognized in 2018 for EUR 1 million (2017: nil). Impairments of software developed in-house and other intangible assets are not individually material. The total impairments of software developed in-house was nil (2017: EUR 31 million).

## 16. Property and Equipment

Amounts in millions of euros	Land and buildings	Equipment	Operating lease assets	Total
<b>Year ended December 31, 2018</b>				
Opening balance	1,546	387	2,654	4,587
Foreign exchange differences	5	-	36	41
Purchases	35	87	1,152	1,274
Disposals	(9)	(10)	(435)	(454)
Transfers to held for sale	(91)	-	-	(91)
Impairments	(85)	(2)	-	(87)
Reversal impairments	45	-	-	45
Depreciation	(95)	(149)	-	(244)
Depreciation of operating lease assets	-	-	(594)	(594)
Other	(8)	(1)	(13)	(22)
<b>Closing balance as per December 31</b>	<b>1,343</b>	<b>312</b>	<b>2,800</b>	<b>4,455</b>
Cost	2,628	1,137	4,091	7,856
Accumulated depreciation and impairments	(1,285)	(825)	(1,291)	(3,401)
<b>Net carrying amount as per December 31</b>	<b>1,343</b>	<b>312</b>	<b>2,800</b>	<b>4,455</b>
<b>Year ended December 31, 2017</b>				
Cost	3,140	1,314	3,532	7,986
Accumulated depreciation and impairments	(1,413)	(863)	(1,120)	(3,396)
<b>Net carrying amount as January 1</b>	<b>1,727</b>	<b>451</b>	<b>2,412</b>	<b>4,590</b>
Opening balance	1,727	451	2,412	4,590
Foreign exchange differences	(16)	(9)	(196)	(221)
Purchases	68	91	1,087	1,246
Disposals	(73)	(15)	(165)	(253)
Impairments	(91)	-	-	(91)
Reversal impairments	42	1	-	43
Depreciation	(110)	(128)	-	(238)
Depreciation of operating lease assets	-	-	(528)	(528)
Other	(1)	(4)	44	39
<b>Closing balance as per December 31</b>	<b>1,546</b>	<b>387</b>	<b>2,654</b>	<b>4,587</b>
Cost	2,912	1,239	3,816	7,967
Accumulated depreciation and impairments	(1,366)	(852)	(1,162)	(3,380)
<b>Net carrying amount as per December 31</b>	<b>1,546</b>	<b>387</b>	<b>2,654</b>	<b>4,587</b>

The impairments and reversal impairments recognized per December 31, 2018 relate to property for own use in segment Domestic Retail Banking. Vacancy of property as a result of the restructuring (decreasing usage of square meters) triggered impairments calculations and resulted in impairments for a total amount of EUR 85 million (2017: EUR 91 million). Because of increasing use of properties impairments were reversed for an amount of EUR 45 million (2017: EUR 42 million).

## 17. Investment Properties

<i>Amounts in millions of euros</i>	<i>2018</i>	<i>2017</i>
Cost	291	627
Accumulated depreciation and impairments	(98)	(334)
<b>Net carrying amount as per January 1</b>	<b>193</b>	<b>293</b>
Opening balance	193	293
Purchases	28	11
Sales	(22)	(30)
Transfer to held for sale	-	(52)
Depreciation	(8)	(8)
Impairments	(2)	(1)
Reversal impairment	2	-
Other	2	(20)
<b>Closing balance as per December 31</b>	<b>193</b>	<b>193</b>
Cost	259	291
Accumulated depreciation and impairments	(66)	(98)
<b>Net carrying amount as per December 31</b>	<b>193</b>	<b>193</b>

The fair value of the investment properties amounts to EUR 208 million (2017: EUR 230 million). External valuations of investment properties were performed by duly certified external parties in accordance with RICS valuation standards or other equivalent standards. Investment properties are valued, for determining of fair value, based on the methodologies which are most appropriate for that property. This includes the discounted cash flow valuation method and the capitalisation method based on net initial yields for comparable transactions.

<b>Valuations</b>		
	<i>2018</i>	<i>2017</i>
External valuations	100%	100%
Internal valuations	0%	0%

Most investment property is unique. There is often no active market for similar properties in the same location and condition. Appraisals of the different types of investment properties are based on many parameters, which are derived from current contracts and market information as much as possible. A certain degree of judgment and estimation cannot be avoided. Therefore, all investment property has been designated as level 3 in line with the fair value classification under IFRS 13. When determining the fair value of investment property, the parameters used include the following, depending on the type of property: current and expected future market rent per m<sup>2</sup>, current and expected future vacancy rates, location of the property, the marketability of the property, the average discount rate, the development budget, and any credit risks.



## 18. Other Assets

<i>Amounts in millions of euros</i>	<i>Note</i>	<i>2018</i>	<i>2017</i>
Receivables and prepayments		2,325	2,370
Accrued interest		1,041	1,211
Precious metals, goods and warehouse receipts		445	833
Real estate projects		1,694	2,273
Accrued income		393	430
Employee benefits	28	6	6
Other assets		527	838
<b>Total other assets</b>		<b>6,431</b>	<b>7,961</b>

### **Real estate projects**

<i>Amounts in millions of euros</i>	<i>2018</i>	<i>2017</i>
Building sites	1,200	1,154
Work in progress	463	1,090
Finished goods	31	29
<b>Total real estate projects</b>	<b>1,694</b>	<b>2,273</b>

In 2018, the net realisable value of all current land operations and sites not subject to a zoning plan was calculated and compared with the carrying amount. This resulted in a release of provisions of EUR 89 million (2017: release of EUR 15 million).

<i>Amounts in millions of euros</i>	<i>Balance on 1 January 2018</i>	<i>Additions/ release</i>	<i>Withdrawals/ other changes</i>	<i>Balance on 31 December 2018</i>
<b>Movements in provisions for real estate projects</b>				
Building sites	536	(89)	(36)	411
Work in progress	80	(7)	(8)	65
Completed developments	8	-	(4)	4
<b>Total</b>	<b>624</b>	<b>(96)</b>	<b>(48)</b>	<b>480</b>

<i>Amounts in millions of euros</i>	<i>Balance on 1 January 2017</i>	<i>Additions/ release</i>	<i>Withdrawals/ other changes</i>	<i>Balance on 31 December 2017</i>
<b>Movements in provisions for real estate projects</b>				
Building sites	593	(15)	(42)	536
Work in progress	133	(17)	(36)	80
Completed developments	8	-	-	8
<b>Total</b>	<b>734</b>	<b>(32)</b>	<b>(78)</b>	<b>624</b>

### **Work in progress**

<i>Amounts in millions of euros</i>	<i>2018</i>	<i>2017</i>
Residential property in preparation and under construction	957	1,069
Commercial property in development and under construction	13	107
Instalments invoiced in advance – residential property	(507)	(83)
Instalments invoiced in advance – commercial property	-	(3)
<b>Total work in progress</b>	<b>463</b>	<b>1,090</b>

## 19. Non-current Assets Held for Sale

The non-current assets held for sale amount to EUR 268 million (2017: EUR 992 million) and mainly comprise various types of real estate in the segments Domestic Retail Banking and Real Estate for an amount of EUR 138 million and a stake in a financial service provider in Africa for an amount of EUR 108 million that will be transferred to Arise B.V. after government approval. The book values are expected to be realized through sale rather than through continued operation.

The real estate classified as held for sale are mostly unique objects. There is often no active market for similar real estate at the same location and in the same condition. A large number of parameters are used for the valuations of the various types of property investments, where possible based on existing contracts and market data. A certain level of assessment and estimation is unavoidable. It is for this reason that all non-current assets classified as "held for sale" are classified in level 3.

## 20. Deposits from Credit Institutions

Amounts in millions of euros	2018	2017
Demand deposits	986	1,139
Fixed-term deposits	18,280	17,384
Repurchase agreements	91	396
Other deposits from credit institutions	40	3
<b>Total deposits from credit institutions</b>	<b>19,397</b>	<b>18,922</b>

## 21. Deposits from Customers

Amounts in millions of euros	2018	2017
Current accounts	85,511	77,914
Deposits with agreed maturity	71,203	74,536
Deposits redeemable at notice	175,932	178,162
Repurchase agreements	13	108
Fiduciary deposits	9,750	9,961
Other deposits from customers	1	1
<b>Total deposits from customers</b>	<b>342,410</b>	<b>340,682</b>

Short-term deposits from central banks amounting to EUR 20 billion (2017: EUR 23 billion) are included in Deposits with agreed maturity.

## 22. Debt Securities in Issue

Amounts in millions of euros	2018	2017
Certificates of deposit	19,927	26,749
Commercial paper	9,802	10,978
Issued bonds	86,793	85,458
Other debt securities	14,284	11,238
<b>Total debt securities in issue</b>	<b>130,806</b>	<b>134,423</b>

## 23. Financial Liabilities Held for Trading

Financial liabilities held for trading are mainly negative fair values of derivatives and delivery obligations that arise on the short selling of securities. Securities are sold short to realize gains from short-term price fluctuations. The securities needed to settle short sales are acquired through securities lending and repurchasing agreements. The fair value of the shares and bonds sold short are EUR 400 million (2017: EUR 581 million).

## 24. Financial Liabilities Designated at Fair Value

<i>Amounts in millions of euros</i>	<i>2018</i>	<i>2017</i>
Debt securities issued	5,906	9,803
Deposits	708	3,989
<b>Total financial liabilities designated at fair value</b>	<b>6,614</b>	<b>13,792</b>

The decrease in the carrying amount of the financial liabilities designated at fair value is caused by the reclassification of the callable notes to amortized cost under IFRS 9 where they were measured at fair value under IAS 39. The reclassification encompasses the callable notes only and not for other structured notes included in the structured funding portfolio.

The cumulative change in fair value of the financial liabilities designated at fair value attributable to changes in the own credit risk of Rabobank amounts to EUR 41 million before taxes (2017: EUR 833 million).

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

Transfers of the cumulative gains or losses within equity during the period and the amounts presented in other comprehensive income that are realized at derecognition are disclosed in the Section 31 in the movement schedule of the "Revaluation Reserve – Fair Value Changes Due to Own Credit Risk on Financial Liabilities Designated at Fair Value".

The carrying value of the issued structured notes designated at fair value is EUR 318 million (2017: EUR 5,223 million) lower than the amount Rabobank is contractually obliged to repay to the holders of the structured notes. The decrease is caused by the reclassification of the callable notes to amortized cost under IFRS 9 when measured at fair value under IAS 39.

## 25. Other Liabilities

<i>Amounts in millions of euros</i>	<i>Note</i>	<i>2018</i>	<i>2017</i>
Payables		4,241	5,843
Accrued interest		1,894	2,117
Employee benefits	28	254	292
Other		(47)	19
<b>Total other liabilities</b>		<b>6,342</b>	<b>8,271</b>

## 26. Provisions

Amounts in millions of euros	Note	2018	2017
Restructuring provision		318	332
Provision for legal issues		469	591
Impairment allowances on loan commitments and financial guarantees	4.3.3	109	20
Other provisions		230	594
<b>Total provisions</b>		<b>1,126</b>	<b>1,537</b>

Amounts in millions of euros	Restructuring provision	Provision for legal issues	Other provisions	Total
Opening balance on January 1, 2018	332	591	594	1,517
Additions	213	109	108	430
Withdrawals	(134)	(214)	(415)	(763)
Releases	(93)	(17)	(57)	(167)
<b>Closing balance on December 31, 2018</b>	<b>318</b>	<b>469</b>	<b>230</b>	<b>1,017</b>
Opening balance on January 1, 2017	461	770	244	1,475
Additions	309	149	448	906
Withdrawals	(288)	(300)	(90)	(678)
Releases	(150)	(28)	(8)	(186)
<b>Closing balance on December 31, 2017</b>	<b>332</b>	<b>591</b>	<b>594</b>	<b>1,517</b>

In the additions of the restructuring provision, an amount of EUR 151 million (2017: EUR 192 million) is included for the reorganization program of the local Rabobanks. This reorganisation provision consists of future payments relating to redundancy pay and other costs directly attributable to the reorganization program. These expenses are included when a redundancy scheme is drawn up and communicated to stakeholders. The expected outflow of funds will occur in 2019 and 2020.

An addition of EUR 52 million (2017: EUR 51 million) in the provision for legal issues was made for the SME interest rate derivatives recovery framework. For additional information, please refer to Section 4.10, "Legal and arbitration proceedings."

### Maturities of Provisions

Amounts in millions of euros	Not exceeding one year	Longer than 1 year but less than 5 years	Longer than 5 years	Total
On December 31, 2018	917	207	2	1,126
On December 31, 2017	1,421	116	-	1,537

## 27. Deferred Taxes

Deferred tax assets and liabilities are measured for all temporary differences using the liability-method. No deferred tax asset has been recognized for unused tax losses totalling EUR 1,458 million (2017: EUR 1,544 million). These carry forward losses relate to various tax authorities and their term to maturity is largely unlimited.

Deferred tax assets recognized in respect of carry forward losses can only be utilized if taxable profits are realized in the future. On December 31, 2018, Rabobank expects that sufficient taxable profits will be generated within the applicable periods.

	Deferred tax assets	Deferred tax liabilities	Deferred tax charges	Tax on other comprehensive income
<i>Amounts in millions of euros</i>				
<b>On December 31, 2018</b>				
Pensions and other post-employment benefits	42	(2)	8	-
Impairment allowances on financial assets	296	(16)	(52)	-
Provisions	33	(2)	9	-
Hedge accounting	105	-	(6)	-
Carry forward losses	187	(113)	(39)	-
Tax credits	121	(68)	28	-
Goodwill and other intangible assets	14	-	-	-
Revaluation reserves for financial assets at fair value through other comprehensive income	(35)	2	(26)	(35)
Revaluation reserves – Cash flow hedges	11	-	(2)	3
Revaluation reserves – Costs of hedging	-	8	-	8
Revaluation reserve – Fair value changes due to own credit risk on financial liabilities designated at fair value	8	-	-	40
Property and equipment, including operating leases	58	647	199	-
Other temporary differences	325	(4)	92	-
<b>Total</b>	<b>1,165</b>	<b>452</b>	<b>211</b>	<b>16</b>

	Deferred tax assets	Deferred tax liabilities	Deferred tax charges	Tax on other comprehensive income
<i>Amounts in millions of euros</i>				
<b>On December 31, 2017</b>				
Pensions and other post-employment benefits	50	(1)	7	-
Loan impairment allowance	229	(23)	72	-
Provisions	25	17	35	-
Hedge accounting	37	-	(51)	-
Carry forward losses	582	(32)	-	-
Tax credits	154	(84)	8	-
Goodwill and other intangible assets	13	(1)	4	-
Revaluation reserves for available-for-sale financial assets	(86)	1	9	50
Revaluation reserves – Cash flow hedges	11	-	-	(9)
Revaluation reserve – Fair value changes due to own credit risk on financial liabilities designated at fair value	208	-	-	107
Property and equipment, including operating leases	95	487	(71)	-
Other temporary differences	415	32	131	-
<b>Total</b>	<b>1,733</b>	<b>396</b>	<b>144</b>	<b>148</b>

## 28. Employee Benefits

Amounts in millions of euros	2018	2017
Employee benefits – assets	(6)	(6)
Employee benefits – liabilities	254	292
<b>Total employee benefits</b>	<b>248</b>	<b>286</b>
Pension plans	118	152
Other employee benefits	130	134
<b>Total employee benefits</b>	<b>248</b>	<b>286</b>

### 28.1 Pension Plans

Rabobank has placed its Dutch pension plan with Rabobank Pension Fund. The scheme is a collective defined contribution plan with a pensionable age of 68 and a target accrual percentage of 2. Each year Rabobank deposits pension contributions into the Rabobank Pension Fund based on a fixed system aimed at achieving the target pension accrual for services provided during the year of service based on a conditional career-average plan with a conditional indexation. Rabobank complies with all its pension obligations by paying the annual pension premium. Rabobank therefore has no more financial liabilities with regard to underlying membership years and already accrued pension rights. In the context of the risks transferred, Rabobank made a one-off payment in 2013 to the amount of EUR 500 million towards the creation of an index deposit. In addition, Rabobank will act as a guarantor during the period 2014-2020 for the realization of the target pension accrual for the services provided during this period up to a maximum amount of EUR 217 million (2017: EUR 200 million).

The Dutch pension plan qualifies as a defined contribution plan under IAS 19. Rabobank's obligation is limited to the premium payments owed, less previously made payments. As of December 31, 2018, a few small plans still qualify as defined benefit pension plans. These are career-average defined benefit pension plans, administered by a fund or otherwise that are related to the remuneration of employees upon retirement and which mostly pay annual pensions. Annual contributions are paid to the funds at a rate necessary to adequately finance the accrued liabilities of the plans calculated in accordance with local legal requirements. The assets related to the plans maintained in a fund are held independently of Rabobank assets in separate funds managed by trustees. The obligations are valued each year by independent actuaries based on the method prescribed by the IFRS. The most recent actuarial valuations were performed at the end of 2018. The tables relating to the weighted averages of the main actuarial assumptions, the sensitivity analysis and the future premium payments relate to the pension plan of Friesland Bank (2017: Friesland Bank and ACC Loan management).

Amounts in millions of euros	2018	2017
Defined benefit obligation	487	748
Fair value of plan assets	369	596
<b>Net defined benefit obligation</b>	<b>118</b>	<b>152</b>

Movements in plan assets and liabilities:

Amounts in millions of euros	2018	2017
<b>Defined benefit obligation</b>		
Opening balance on January 1	748	758
Exchange rate differences	(1)	(7)
Interest expense	16	14
Benefits paid	(22)	(24)
Settlements	(232)	-
Other	3	5
Experience adjustments	(1)	(5)
Actuarial gains and losses arising from changes in demographic assumptions	(1)	(2)
Actuarial gains and losses arising from changes in financial assumptions	(23)	9
<b>Defined benefit obligation on December 31</b>	<b>487</b>	<b>748</b>

<b>Fair value of plan assets</b>		
Opening balance on January 1	596	600
Exchange rate differences	(1)	(3)
Interest income	9	11
Contributions paid by employer	30	10
Benefits paid	(22)	(24)
Settlements	(240)	-
Other	(2)	-
Experience adjustments	-	(1)
Remeasurements arising from changes in financial assumptions plan assets	(1)	3
<b>Fair value of plan assets on December 31</b>	<b>369</b>	<b>596</b>

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

Amounts in millions of euros	2018	2017
Interest expense on liabilities	16	14
Interest income on plan assets	(9)	(11)
Losses/(gains) on curtailments, settlements and costs	6	(1)
<b>Total cost of defined benefit pension plans</b>	<b>13</b>	<b>2</b>

#### Main Actuarial Assumptions

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



	2018	2017
Discount rate	2.0%	1.7%
Salary increases	1.6%	1.8%
Price inflation	1.6%	1.8%

#### Sensitivity Analysis

Rabobank is exposed to risks regarding their defined benefit plans related to the assumptions disclosed in the table below. The

sensitivity analysis of these most significant assumptions has been determined based on changes of the assumptions occurring at the end of the reporting period that are deemed reasonably possible.

Amounts in millions of euros	Change in assumption	Effect on defined benefit obligation of increase		Effect on defined benefit obligation of decrease	
		2018	2017	2018	2017
Discount rate	0.25%	(12)	(25)	13	26
Salary increases	0.25%	6	17	(6)	(17)
Price inflation	0.25%	-	7	-	(7)
Mortality	1 year	12	21	(12)	(21)

#### Estimated Contribution

The estimated contributions to pension plans for 2019 are approximately EUR 5 million (2018: EUR 2 million).

#### Average Duration

The average duration of the defined benefit plan of Friesland Bank is 17 years (2017: 17 years)

## 28.2 Other Employee Benefits

Other employee benefits mainly comprise liabilities for future long-service awards for an amount of EUR 37 million (2017: EUR 35 million).

## 29. Subordinated Liabilities

Amounts in millions of euros	2018	2017
Issued by Rabobank	16,485	16,137
Other	13	33
<b>Total subordinated liabilities</b>	<b>16,498</b>	<b>16,170</b>

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

### Subordinated Liabilities

#### Notional

(Amounts in millions)	Currency	Coupon	Year of issuance	Year of maturity
500	USD	4.00%	2017	2029, early repayment possible 2024
1,500	USD	3.75%	2016	2026
225	AUD	5.00%	2015	2025, early repayment possible 2020
475	AUD	Variable	2015	2025, early repayment possible 2020
1,500	USD	4.375%	2015	2025
1,250	USD	5.25%	2015	2045
1,000	GBP	4.625%	2014	2029
2,000	EUR	2.50%	2014	2026, early repayment possible in 2021
50,800	JPY	1.429%	2014	2024
1,000	EUR	3.875%	2013	2023
1,750	USD	4.625%	2013	2023
1,250	USD	5.75%	2013	2043
1,000	EUR	4.125%	2012	2022
500	GBP	5.25%	2012	2027
1,500	USD	3.95%	2012	2022
1,000	EUR	3.75%	2010	2020
1,000	EUR	5.875%	2009	2019
10	EUR	4.21%	2005	2025
10	EUR	5.32%	2004	2024

## 30. Contingent Liabilities

### *Credit Related Contingent Liabilities*

Rabobank enters into irrevocable loan commitments and contingent liabilities consisting of financial guarantees and standby letters of credit on behalf of its customers. Under these contracts Rabobank is required to perform under an obligation agreement or to make payments to the beneficiary on third party's failure to meet its obligations. The following table shows the amount of the maximum potential utilization of credit related contingent liabilities.

Amounts in millions of euros	2018	2017
Financial guarantees	3,377	3,406
Loan commitments	32,583	32,965
Other commitments	20,273	18,154
<b>Credit related contingent liabilities</b>	<b>56,233</b>	<b>54,525</b>

### *Contingent Liabilities Related to Litigation*

Rabobank is involved in a number of legal and arbitration proceedings in the Netherlands and other countries, including the United States, in connection with claims brought by and against Rabobank Group arising from its operations. The maximum amount of non-remote contingent liabilities relating to claims is EUR 197 million (2017: EUR 74 million). For additional information, refer to section 4.10, "Legal and Arbitration Proceedings."

### *Contingent Liabilities Related to Income Tax*

The Dutch government abolished article 29a of the Dutch Corporate Income Tax Code as of January 1, 2019. Article 29a of the Dutch Corporate Income Tax Code was included in the Dutch Corporate Income Tax Code so that capital instruments issued by credit institutions and which are covered by EU regulation 575/2013 would be considered tax deductible. As a result of the abolition the payment on these capital instruments will not be tax deductible anymore as from January 1, 2019.

The abolition appears to have no consequences for previous years. However, if the European Commission would decide to start a formal investigation anyway and ultimately would conclude that this is a case of state aid for the previous years, Rabobank may have to repay tax benefits it received between 2015 and 2018.

In this context, Rabobank issued Capital Securities in January 2015, April 2016 and September 2018, amounting respectively to EUR 1.5 billion at a fixed interest rate of 5.5%, EUR 1.25 billion at a fixed interest rate of 6.625%, and EUR 1.0 billion at a fixed interest rate of 4.625%. The contingent liability related to this matter amounts to EUR 140 million (2017: EUR 96 million).

### *Liabilities Relating to Operating Leases*

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

Amounts in millions of euros	2018	2017
Not exceeding 1 year	120	124
Longer than 1 year but less than 5 years	361	394
Longer than 5 years	233	259
<b>Total liabilities relating to operating leases</b>	<b>714</b>	<b>777</b>

The expected future minimum lease payments receivable from sub-leases are nil (2017: nil). The operating lease expenses are EUR 30 million (2017: EUR 41 million). These are included in 'Other administrative expenses' in the statement of income.

### *Payments Receivable from Operating Leases*

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

Amounts in millions of euros	2018	2017
Not exceeding 1 year	589	714
Longer than 1 year but less than 5 years	1,132	1,244
Longer than 5 years	107	84
<b>Total payments receivable from operating leases</b>	<b>1,828</b>	<b>2,042</b>

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

### *Other Contingent Liabilities*

The contractual commitments relating to the acquisition, construction and development of work in progress and investment properties amounts to EUR 518 million (2017: EUR 784 million).

## 31. Reserves and Retained Earnings

Amounts in millions of euros	2018	2017
Foreign currency translation reserves	(817)	(938)
Revaluation reserves – Available-for-sale financial assets	n/a	464
Revaluation reserve – Financial assets at fair value through other comprehensive income	240	n/a
Revaluation reserve – Cash flow hedges	(40)	(42)
Revaluation reserve – Costs of hedging	30	n/a
Revaluation reserve – Assets held for sale	(35)	(35)
Remeasurement reserve – Pensions	(145)	(225)
Revaluation reserve – Fair value changes due to own credit risk on financial liabilities designated at fair value	(31)	(625)
Retained earnings	28,062	26,777
<b>Total reserves and retained earnings at year-end</b>	<b>27,264</b>	<b>25,376</b>

Changes in the reserves were as follows:

Amounts in millions of euros	2018	2017
<b>Foreign currency translation reserves</b>		
Opening balance	(938)	203
Translation of foreign operations	(16)	(1,239)
Changes in hedging instrument	132	197
Changes at associates and joint ventures	(16)	(11)
Transferred to profit or loss	21	(88)
<b>Closing balance</b>	<b>(817)</b>	<b>(938)</b>

### Revaluation reserves – Available-for-sale financial assets

Opening balance	464	571
Change in accounting policy	(464)	-
Foreign exchange differences	-	12
Changes at associates and joint ventures	-	22
Fair value changes	-	(67)
Amortization of reclassified assets	-	6
Transferred to profit or loss	-	(75)
Other	-	(5)
<b>Closing balance</b>	<b>-</b>	<b>464</b>

### Revaluation reserves – Debt instruments at fair value through other comprehensive income

Opening balance	-	n/a
Change in accounting policy	243	n/a
Foreign exchange differences	(2)	n/a
Changes at associates and joint ventures	(68)	n/a
Fair value changes	(62)	n/a
Transferred to profit or loss	(88)	n/a
Other	-	n/a
<b>Closing balance</b>	<b>23</b>	<b>n/a</b>

### Revaluation reserves – Equity instruments at fair value through other comprehensive income

Opening balance	-	n/a
Change in accounting policy	225	n/a
Foreign exchange differences	(1)	n/a
Changes at associates and joint ventures	-	n/a
Fair value changes	(6)	n/a
Transferred to retained earnings	(1)	n/a
Other	-	n/a

Amounts in millions of euros	2018	2017
<b>Closing balance</b>	<b>217</b>	<b>n/a</b>

### Revaluation reserve – Cash flow hedges

Opening balance	(42)	(70)
Change in accounting policy	3	-
Foreign exchange differences	8	-
Fair value changes	(16)	(594)
Transferred to profit or loss	7	622
<b>Closing balance</b>	<b>(40)</b>	<b>(42)</b>

### Revaluation reserve – Costs of hedging

Opening balance	-	n/a
Change in accounting policy	-	n/a
Foreign exchange differences	(1)	n/a
Fair value changes	31	n/a
<b>Closing balance</b>	<b>30</b>	<b>n/a</b>

### Revaluation reserve – Assets held for sale

Opening balance	(35)	(70)
Disposal of assets	-	35
<b>Closing balance</b>	<b>(35)</b>	<b>(35)</b>

### Remeasurement reserve – Pensions

Opening balance	(225)	(219)
Changes at associates and joint ventures	4	(6)
Remeasurements defined benefit plans	20	-
Settlement	56	-
<b>Closing balance</b>	<b>(145)</b>	<b>(225)</b>

### Revaluation reserve – Fair value changes due to own credit risk on financial liabilities designated at fair value

Opening balance	(625)	(303)
Change in accounting policy	483	-
Fair value changes	111	(318)
Realization at derecognition	-	(4)
<b>Closing balance</b>	<b>(31)</b>	<b>(625)</b>

### Retained earnings

Opening balance	26,777	25,709
Change in accounting policies	(475)	-
Net profit	2,944	2,616
Payments on equity instruments	(1,059)	(1,113)
Redemption of Capital Securities	(79)	(439)
Issue of Rabobank Certificates (including costs)	-	108
Settlement pension plan	(56)	-
Other	10	(104)
<b>Closing balance</b>	<b>28,062</b>	<b>26,777</b>
<b>Total reserves and retained earnings</b>	<b>27,264</b>	<b>25,376</b>

## 32. Rabobank Certificates

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

The total number of certificates is 297,961,365 with a nominal value of EUR 25 each. The actual payment policy of Rabobank pursuant to the Participation Rules in respect of the participation issued by Rabobank (and via AK Foundation in respect of the Rabobank Certificates) can be found on the Rabobank website.

The distribution paid per certificate in 2018 was EUR 1.625 (2017: EUR 1.625). The Managing Board is entitled to decide not to pay the distribution. Unpaid distributions will not be paid at a later date. The amounts listed in the table below are based on the nominal value of EUR 25 per Rabobank Certificate. Cash flows arising from changes during the year in the Rabobank Certificates are included in the consolidated statement of cash flows.

In January 2017 Rabobank issued Rabobank Certificates for a nominal amount of EUR 1.5 billion. Rabobank issued 60 million new Rabobank Certificates; each of these newly issued Certificate was priced at 108% of the nominal value of EUR 25.

<i>Amounts in millions of euros</i>	<i>2018</i>	<i>2017</i>
Changes during the year:		
Opening balance	7,440	5,948
Issue of Rabobank Certificates	-	1,500
Change in Rabobank Certificates during the year	5	(8)
<b>Closing balance</b>	<b>7,445</b>	<b>7,440</b>

## 33. Capital Securities and Trust Preferred Securities IV

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

Amounts in millions of euros	2018	2017
Capital Securities issued by Rabobank	6,493	5,759
Capital securities issued by subsidiaries	164	166
Trust Preferred Securities IV	389	394
<b>Total Capital Securities and Trust Preferred Securities IV</b>	<b>7,046</b>	<b>6,319</b>

### Capital Securities

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

### 33.1 Capital securities issued by Rabobank

#### Issue of EUR 1,000 Million

The coupon is 4.625% per year and is made payable every six months in arrears as of the issue date (September 11, 2018), for the first time on December 29, 2018. The Capital Securities are perpetual and first redeemable on December 29, 2025. As of December 29, 2025, and subject to Capital Securities not being redeemed early, the distribution is set for a five-year period, but without a step-up, based on the 5-year euro swap rate + 4.098%. The coupon is fully discretionary.

#### Issue of EUR 1,250 Million

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

#### Issue of EUR 1,500 Million

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

#### Issue of EUR 500 Million

The coupon is 9.94% per year and is made payable annually in arrears as of the issue date (February 27, 2009), for the first time

on February 27, 2010. As of February 27, 2019, the coupon will be made payable every quarter based on the three-month Euribor plus an annual 7.50% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

#### Issue of USD 2,868 Million

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

#### Issue of GBP 250 Million

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

### 33.2 Capital Securities Issued by Rabobank Which Were Redeemed During the Reporting Year

#### Issue of CHF 350 Million

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

#### Issue of ILS 323 Million

Rabobank issued the ILS 323 million Capital Securities on July 14, 2008. In accordance with the Terms and Conditions of these Capital Securities, Rabobank has elected to redeem these Capital Securities on the first call date being July 14, 2018.

### 33.3 Capital Securities Issued by Subsidiaries

#### Issue of NZD 280 Million

Rabo Capital Securities Limited has issued capital securities, the coupon of which equals the five-year swap interest rate plus an annual 3.75% mark-up and was set at 8.7864% per annum on May 25, 2009. As of the issue date (May 27, 2009), the coupon is made payable every quarter in arrears, for the first time on June 18, 2009 (short first interest period). As of June 18, 2014, the coupon will

be made payable every quarter based on the five-year swap interest plus an annual 3.75% mark-up. As of June 18, 2019, the coupon will be made payable every quarter based on the 90-day bank bill swap interest rate plus an annual 3.75% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

### 33.4 Trust Preferred Securities IV

In 2004, non-cumulative Trust Preferred Securities were issued of which the Trust Preferred Security IV is outstanding.

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

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

<i>Amounts in millions of euros</i>	2018	2017
Opening balance	394	409
Exchange rate differences and other	(5)	(15)
<b>Closing balance</b>	<b>389</b>	<b>394</b>

## 34. Other Non-controlling Interests

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

<i>Amounts in millions of euros</i>	2018	2017
Opening balance	475	525
Net profit	60	58
Exchange rate differences	(3)	(31)
Entities included in consolidation/deconsolidated	9	7
Dividends	(58)	(81)
Other	(2)	(3)
<b>Closing balance</b>	<b>481</b>	<b>475</b>

The Rabobank subsidiaries with the largest non-controlling interests are Cargobull Finance Holding and AGCO Finance SNC. Both entities are accounted for in the segment Leasing.

Cargobull Holding B.V. is based in Eindhoven, Netherlands, and Rabobank has a capital and voting right interest of 51%. The non-controlling interests with regard to this entity amount to

EUR 60 million (2017: EUR 75 million). The following financial data applies:

### Cargobull Holding B.V.

<i>Amounts in millions of euros</i>	2018	2017
Revenues	57	55
Net profit	13	13
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>13</b>	<b>13</b>
Profit attributable to non-controlling interests	7	7
Dividends paid to non-controlling interests	22	-
Financial assets	693	686
Other assets	152	168
Financial liabilities	697	670
Other liabilities	25	31

AGCO Finance SNC is located in Beauvais, France, and Rabobank has a capital and voting right interest of 51.0%. The non-controlling interests with regard to this entity amount to EUR 106 million (2017: EUR 97 million). The following financial data applies:

### AGCO Finance SNC

<i>Amounts in millions of euros</i>	2018	2017
Revenues	36	39
Net profit	16	18
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>16</b>	<b>18</b>
Profit attributable to non-controlling interests	8	9
Dividends paid to non-controlling interests	3	10
Financial assets	1,536	1,412
Other assets	55	54
Financial liabilities	1,348	1,237
Other liabilities	34	29



## 35. Changes in Liabilities Arising from Financing Activities

Amounts in millions of euros	Debt securities in issue	Subordinated liabilities	Total
<b>Year ended December 31 2018</b>			
Opening balance	134,423	16,170	150,593
Changes from financing cash flows	(6,039)	(21)	(6,060)
Effect of changes in foreign exchange rates	272	342	614
Other non-cash changes	2,150	7	2,157
<b>Closing balance</b>	<b>130,806</b>	<b>16,498</b>	<b>147,304</b>
<b>Year ended December 31 2017</b>			
Opening balance	159,342	16,861	176,203
Changes from financing cash flows	(16,723)	409	(16,314)
Effect of changes in foreign exchange rates	(7,750)	(1,119)	(8,869)
Other non-cash changes	(446)	19	(427)
<b>Closing balance</b>	<b>134,423</b>	<b>16,170</b>	<b>150,593</b>

## 36. Net Interest Income

Amounts in millions of euros	2018	2017
<b>Interest income</b>		
Cash and cash equivalents	347	275
Loans and advances to credit institutions	295	319
Loans and advances to customers	15,001	15,343
Derivatives used for fair value hedge-accounting	(320)	(414)
Available-for-sale financial assets	n/a	752
Financial assets at fair value through other comprehensive income	637	n/a
<b>Interest income from financial assets using the effective interest method</b>	<b>15,960</b>	<b>16,275</b>
Financial assets held for trading	36	39
Financial assets designated at fair value	1	26
Financial assets mandatorily at fair value	49	n/a
Interest income on financial liabilities with a negative interest rate	152	149
Other	83	82
<b>Other interest income</b>	<b>321</b>	<b>296</b>
<b>Total interest income</b>	<b>16,281</b>	<b>16,571</b>
<b>Interest expense</b>		
Deposits from credit institutions	173	382
Deposits from customers	2,587	2,158
Debt securities in issue	3,026	3,053
Financial liabilities held for trading	10	21
Derivatives held as economic hedges	758	615
Financial liabilities designated at fair value	199	461
Subordinated liabilities	713	741
Interest expense on financial assets with a negative interest rate	259	289
Other	(3)	8
<b>Total interest expense</b>	<b>7,722</b>	<b>7,728</b>
<b>Net interest income</b>	<b>8,559</b>	<b>8,843</b>

Capitalized interest attributable to qualifying assets amounted to EUR 18 million (2017: EUR 19 million). The average interest rate

applied in determining interest charges to be capitalized ranges between 1% and 6% (2017: between 1% and 5%). The interest income on impaired financial assets accrued is EUR 485 million (2017: EUR 168 million).

## 37. Net Fee and Commission Income

Amounts in millions of euros	2018	2017
<b>Fee and commission income</b>		
Payment services	726	699
Lending	564	543
Purchase and sale of other financial assets and handling fees	326	328
Insurance commissions	276	270
Investment management	8	21
Custodial fees and securities services	6	6
Other commission income	200	234
<b>Total fee and commission income</b>	<b>2,106</b>	<b>2,101</b>
<b>Fee and commission expense</b>		
Payment services	56	63
Purchase and sale of other financial assets and handling fees	61	41
Custodial fees and securities services	9	10
Other commission expense	49	72
<b>Total fee and commission expense</b>	<b>175</b>	<b>186</b>
<b>Net fee and commission income</b>	<b>1,931</b>	<b>1,915</b>

## 38. Net Income from Other Operating Activities

Amounts in millions of euros	2018	2017
Income from real estate activities	1,754	1,645
Expenses from real estate activities	1,352	1,279
<b>Net income real estate activities</b>	<b>402</b>	<b>366</b>
Income from operational lease activities	768	684
Expenses from operational lease activities	601	534
<b>Net income from operational lease activities</b>	<b>167</b>	<b>150</b>
Income from investment property	25	18
Expenses from investment property	11	12
<b>Net income from investment property</b>	<b>14</b>	<b>6</b>
<b>Net income from other operating activities</b>	<b>583</b>	<b>522</b>

All expenses from investment properties relate to properties that are leased.

## 39. Income from Investments in Associates and Joint Ventures

Amounts in millions of euros	2018	2017
Rabobanks share of profit of investments in associates and joint ventures	242	246
Result on disposal of investments in associates and joint ventures	1	(1)
<b>Income from investments in associates and joint ventures</b>	<b>243</b>	<b>245</b>

## 40. Gains/ (Losses) on Financial Assets and Liabilities at Fair Value through Profit or Loss

Amounts in millions of euros	2018	2017
Gains/ (losses) on financial assets and liabilities held for trading and from derivatives held for trading	225	127
Gains/ (losses) on financial assets designated at fair value	(5)	13
Gains/ (losses) on financial assets mandatorily at fair value through profit or loss	21	n/a
Gains/ (losses) on financial liabilities designated at fair value and derivatives used to hedge the interest rate risk of those financial liabilities	(3)	(35)
Impairment on available-for-sale financial assets	-	(21)
<b>Total gains/ (losses) on financial assets and liabilities at fair value through profit or loss</b>	<b>238</b>	<b>84</b>

Gains/ (losses) on other financial liabilities designated at fair value and derivatives used to hedge the interest rate risk of those financial liabilities mainly relates to fair value changes of the structured notes portfolio attributable to changes in i) market interest rates and ii) day-one gains that are directly recognized in profit or loss for an amount of EUR 5 million (2017: EUR 34 million). The results related to fair value changes of the structured notes due to changes in market interest rates are largely offset by the fair value changes of the derivatives used to hedge this interest rate risk.

Amounts in millions of euros	2018	2017
Gains/ (losses) on interest rate instruments	(310)	(538)
Gains/ (losses) on equity instruments	24	43
Gains/ (losses) on foreign currency	538	684
Other	(14)	(105)
<b>Gains/ (losses) on financial assets and liabilities at fair value through profit or loss</b>	<b>238</b>	<b>84</b>

The translation gains/ (losses) on foreign currency included in line item Gains/ (losses) on foreign currency amount to EUR 14 million (2017: EUR 248 million).

## 41. Other Income

Amounts in millions of euros	2018	2017
Gains/ (losses) arising from the derecognition of financial liabilities at amortised cost	(10)	n/a
Result on sale of group companies	119	3
Other	231	231
<b>Other income</b>	<b>340</b>	<b>234</b>

## 42. Staff Costs

Amounts in millions of euros	2018	2017
Wages and salaries	2,698	2,814
Social security contributions and insurance costs	348	320
Pension costs - defined contribution plans	400	570
Pension costs - defined benefit pension plans	13	2
Addition/ (release) of other post-employment provisions	8	3
Other staff costs	811	763
<b>Staff costs</b>	<b>4,278</b>	<b>4,472</b>

Expressed in FTEs, the number of internal and external employees in Rabobank was 41,861 (2017: 43,729).

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

only after vesting (after a period of three or five years). 50% of the direct and the deferred portion of the variable remuneration is allocated in the form of an instrument (instrument component) i.e. the Deferred Remuneration Note (DRN). The value of a DRN is linked directly to the price of a Rabobank Certificate (RC) as listed on the NYSE Euronext. The instrument component is converted into DRNs at the time of allocation on completion of the performance year. The number of DRNs is determined on the basis of the closing rates for Rabobank Certificates, as traded on the NYSE Euronext during the first five trading days of February of each year. This therefore represents both the instrument component of the direct and the deferred portion of the variable remuneration. The final number of DRNs relating to the deferred portion is established on vesting (after a period of three or five years). The payment of the instrument component is subject to a one year retention period. After the end of the retention period, the employee receives, for each DRN (or a portion thereof) an amount in cash that corresponds with the value of the DRN at that moment.

Payment of the variable remuneration is measured in accordance with IAS 19 Employee benefits. The immediate portion of the variable remuneration is recognized in the performance year, whereas the deferred portion is recognised in the years before vesting.

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

On December 31, 2018, the costs of equity instrument-based payments were EUR 14 million (2017: EUR 14 million) and a liability of EUR 34 million was recognized (2017: EUR 35 million) of which EUR 16 million (2017: EUR 12 million) was vested. The costs of variable remuneration paid in cash were EUR 180 million (2017: EUR 177 million). The number of DRNs outstanding is presented in the following table.

<i>in thousands</i>	<i>2018</i>	<i>2017</i>
Opening balance	1,412	1,370
Awarded during the year	455	415
Paid during the year	(348)	(353)
Changes from previous year	(35)	(20)
<b>Closing balance</b>	<b>1,484</b>	<b>1,412</b>

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

<i>On 31 December 2018</i>	<i>Year of payment</i>							
<i>Amounts in millions of euros</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>	<i>2023</i>	<i>2024</i>	<i>2025</i>	<i>Total</i>
Variable remuneration, excluding DRNs	181.0	13.4	3.5	1.7	0.1	0.1	-	199.8
DRNs	10.2	15.8	10.6	3.2	1.7	0.1	0.1	41.8
<b>Total</b>	<b>191.2</b>	<b>29.2</b>	<b>14.2</b>	<b>4.9</b>	<b>1.8</b>	<b>0.2</b>	<b>0.1</b>	<b>241.6</b>

<i>On 31 December 2017</i>	<i>Year of payment</i>					
<i>Amounts in millions of euros</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>	<i>Total</i>
Variable remuneration, excluding DRNs	175.6	10.1	12.2	1.9	-	199.9
DRNs	11.6	12	9.7	10.6	1.8	45.8
<b>Total</b>	<b>187.2</b>	<b>22.2</b>	<b>21.9</b>	<b>12.5</b>	<b>1.8</b>	<b>245.7</b>

## 43. Other Administrative Expenses

<i>Amounts in millions of euros</i>	<i>2018</i>	<i>2017</i>
Additions and releases of provisions	262	721
IT expenses and software costs	809	751
Consultants fees	420	395
Training and travelling expenses	206	190
Publicity expenses	151	152
Result on derecognition and impairments on (in)tangible assets	66	119
Other expenses	866	848
<b>Other administrative expenses</b>	<b>2,780</b>	<b>3,176</b>

## 44. Depreciation and Amortization

<i>Amounts in millions of euros</i>	<i>2018</i>	<i>2017</i>
Depreciation of property and equipment	244	238
Amortization of intangible assets	144	168
<b>Depreciation and amortization</b>	<b>388</b>	<b>406</b>

## 45. Impairment Charges on Financial Assets and Loan Impairment Charges

### 45a Impairment Charges on Financial Assets

Amounts in millions of euros	2018
Loans and advances to customers and credit institutions	315
Financial assets at fair value through other comprehensive income	(5)
Recoveries following write-off	(117)
Loan commitments and financial guarantees	(3)
<b>Impairment charges on financial assets</b>	<b>190</b>

### 45b Loan Impairment Charges

Amounts in millions of euros	2017
Loans and advances to credit institutions	1
Loans and advances to customers	(38)
Recoveries following write-off	(152)
Credit related contingent liabilities	(1)
<b>Loan impairment charges</b>	<b>(190)</b>

## 46. Regulatory Levies

The regulatory levies consist of bank tax, bank levies and contributions to the Single Resolution Fund and contributions to the Deposit Guarantee Scheme.

Banks operating in the Netherlands on October 1st of the current year are required to pay bank tax. There are two rates of bank tax applicable: A rate of 0.044% for current liabilities and a rate of 0.022% for long-term liabilities, based on the balance on December 2017. In 2018, Rabobank Group was charged a total of EUR 139 million (2017: EUR 161 million).

In 2018, the bank levy in Ireland amounted to EUR 20 million (2017: EUR 7 million). In 2018, the bank levy in Belgium amounted to EUR 11 million (2017: EUR 11 million).

On January 1, 2016 the European Single Resolution Fund (SRF) was set up. This fund has been established to improve the effectiveness of resolution instruments. Banks and investment firms that are in the scope of the SRM Regulation are obliged to contribute to the SRF. In 2018, the contribution to the SRF amounted to EUR 190 million (2017: EUR 184 million).

Per the end of 2015, the new pre-funded Deposit Guarantee Scheme was introduced. As of 2016, banks have to pay a premium on a quarterly basis. Target size of the scheme is 0.8% of total guaranteed deposits of all banks together. In 2018, the

contribution to the Deposit Guarantee Scheme amounted to EUR 118 million (2017: EUR 142 million).

## 47. Income Taxes

Amounts in millions of euros	2018	2017
<b>Income tax</b>		
Reporting period	727	833
Adjustments of previous years	(26)	(11)
Recognition of previously unrecognised tax losses	(10)	(8)
Deferred tax	211	144
<b>Total income tax</b>	<b>902</b>	<b>958</b>

The effective tax rate was 23.1% (2017: 26.4%) and differs from the theoretical rate that would arise using the Dutch corporate tax rate. This difference is explained as follows:

Amounts in millions of euros	2018	2017
Operating profit before taxation	3,906	3,632
Applicable tax rate	25%	25%
	977	908
<b>Increase/(decrease) in taxes resulting from:</b>		
Tax-exempt income	(2.6%)	(3.1%)
Impact of foreign tax rates	1.3%	0.8%
Non-deductible expenses	1.7%	1.8%
Recognition of previously unrecognised tax losses	(0.3%)	(0.2%)
Other permanent differences	(4.5%)	(0.1%)
Adjustments of previous years	(0.5%)	(0.3%)
Adjustment due to changes in tax rates	1.3%	(1.6%)
Other non-recurring tax items	1.5%	4.1%
<b>Total income tax</b>	<b>23.1%</b>	<b>26.4%</b>

The other permanent differences mainly comprise of the deduction of interest payments on Capital Securities and in 2017 a local provision for an expected settlement regarding RNA.

## 48. Transactions with Related Parties

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

In the normal course of Rabobank's business operations, banking transactions are carried out with related parties. These involve loans, deposits and transactions in foreign currencies. These transactions are conducted against commercial terms and conditions and market prices. The volumes of related party transactions, year-end outstanding balances and the corresponding income and expenses during the year are presented in the following table. Transactions and balances outstanding with members of the Managing Board and members of the Supervisory Board are disclosed in Section 50. Transactions with pension funds are disclosed in Section 28.

Amounts in millions of euros	Investments in associates		Other related parties	
	2018	2017	2018	2017
<b>Loans</b>				
Outstanding at beginning of year	397	503	-	-
Provided during the year	-	372	44	-
Redeemed during the year	(378)	(478)	-	-
Other	-	-	-	-
<b>Gross loans as of December 31</b>	<b>19</b>	<b>397</b>	<b>44</b>	<b>-</b>
Less: loan impairment allowance	-	-	-	-
<b>Total loans as of December 31</b>	<b>19</b>	<b>397</b>	<b>44</b>	<b>-</b>
<b>Deposits from credit institutions and deposits from customers</b>				
Outstanding at beginning of the year	6,946	7,181	-	29
Received during the year	263	654	38	-
Repaid during the year	(1,017)	(889)	-	(29)
Other	(130)	-	-	-
<b>Total deposits as of December 31</b>	<b>6,062</b>	<b>6,946</b>	<b>38</b>	<b>-</b>
Credit related contingent liabilities	262	416	-	-
<b>Income</b>				
Net interest income	6	10	-	-
Net fee and commission income	237	260	-	-
Trading income	-	-	-	-
Other	15	18	-	-
<b>Total income from transactions with related parties</b>	<b>258</b>	<b>288</b>	<b>-</b>	<b>-</b>
<b>Expenses</b>				
Interest expense	244	332	-	-
Net fee and commission expense	-	-	-	-
Impairments	-	(5)	-	-
<b>Total expenses from transactions with related parties</b>	<b>244</b>	<b>327</b>	<b>-</b>	<b>-</b>

Amounts in millions of euros	2018			2017		
	PwC Netherlands	Other PwC network firms	Total	PwC Netherlands	Other PwC network firms	Total
Audit services	9.8	7.5	17.3	9.5	7.1	16.6
Other audit services	0.5	0.5	1.0	0.4	0.4	0.8
Tax advisory services	-	0.3	0.3	-	0.4	0.4
Other non-audit services	-	0.6	0.6	-	0.2	0.2
<b>Total</b>	<b>10.3</b>	<b>8.9</b>	<b>19.2</b>	<b>9.9</b>	<b>8.1</b>	<b>18.0</b>

## 49. Cost of External Independent Auditor

Expenses for services provided by Rabobank's independent auditor, PricewaterhouseCoopers Accountants N.V. ("PwC") and its member firms and/or affiliates to Rabobank and its subsidiaries in 2018 are specified as follows:

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

Our independent auditor, PricewaterhouseCoopers Accountants N.V., has rendered, for the period to which our statutory audit relates, in addition to the audit of the statutory financial statements the following services to the company and its controlled entities:

**Summary of services rendered by the independent auditor, in addition to the audit of the financial statements (Section 10, subsection 2.g of the EU Regulation 537/2015)**

*Other Audit Services Required by Law or Regulatory Requirements*

- Statutory audits of controlled and related entities
- Audit of the regulatory returns to be submitted to European Central Bank
- Assurance engagement for the TLTRO II reporting to be submitted to De Nederlandsche Bank
- Non-audit assurance engagement cost price models for the Authority Financial Markets

*Other Audit Services*

- Assurance engagement on the sustainability report
- Assurance engagement on the effectiveness of internal control over financial reporting
- Agreed-upon procedures on cost allocations
- Special purpose financial statement audits of controlled and related entities
- Comfort letters issued as part of funding transactions and based on Dutch Accounting Standard 3850N



## 50. Remuneration of the Supervisory Board and the Managing Board

The members of the Supervisory Board and the Managing Board are listed in Section 55 of these Consolidated Financial Statements. Rabobank regards the members of the Managing Board and the Supervisory Board as key management personnel.

The members of the Managing Board are among the identified staff as disclosed in Section 42. In 2018, the remuneration of members of the Managing Board amounted to EUR 10.2 million (2017 Executive Board: EUR 8.6 million). The increase is related to the expansion of the Executive board with six members to the Managing Board with ten members, from September 1, 2017 onwards.

<i>Amounts in thousands of euros</i>	<i>Short-term employee benefits</i>	<i>Post-employee benefits</i>	<i>Other</i>	<i>Total</i>	
		<i>Pension scheme</i>	<i>Individual pension contribution</i>		
Berry Marttin	884	26	188	75	1,173
Jan van Nieuwenhuizen	884	26	188	-	1,098
Kirsten Konst	800	26	168	2	996
Wiebe Draijer	980	26	211	-	1,217
Mariëlle Lichtenberg	750	26	156	11	943
Ieko Sevinga	750	26	156	-	932
Bas Brouwers	884	26	188	3	1,101
Petra van Hoeken	884	26	188	-	1,098
Janine Vos	650	26	132	50	858
Bart Leurs	650	26	132	23	831
<b>Total 2018</b>	<b>8,116</b>	<b>260</b>	<b>1,707</b>	<b>164</b>	<b>10,247</b>
Members Managing Board	5,717	175	1,216	14	7,122
Former members Managing Board	1,178	34	252	8	1,472
<b>Total 2017</b>	<b>6,895</b>	<b>209</b>	<b>1,468</b>	<b>22</b>	<b>8,594</b>

Petra van Hoeken, member of the Managing Board, has laid down her role as Chief Risk Officer (CRO) per February 1, 2019. Els de Groot took over her activities as CRO. In summer 2019 Petra will resign for her remaining tasks and her employment relationship with Rabobank will be terminated. Petra will receive a severance pay equivalent to one year's salary of EUR 884,000 and her regular individual pension contribution.

At year-end 2018, there were a total of 2,761 DRNs (liability of EUR 78,554) outstanding with members of the Managing Board (year-end 2017 Managing Board: 1,963 pieces of which 486 regarding former members). The pension scheme for the members of the Managing Board is classified as a collective defined contribution scheme. The maximum income on the basis of which the members of the Managing Board can build up a pension amounts to a maximum, for 2018 ninety-nine thousand three-hundred and eighty four euros. Any income exceeding this amount is not pensionable. As of January 1, 2015, the members of the Managing Board therefore receive an individual pension contribution.

Expenses related to members and former members of the Supervisory Board totalled EUR 1.2 million (2017: EUR 1.3 million). This includes VAT and employer's contributions payable. In addition to the role of Member of the Supervisory Board of Rabobank, the remuneration also depends on the roles in the various committees. The composition of these committees is

detailed in the Annual Report. The remuneration structure as of October 1, 2016 (exclusive of VAT and other charges) is:

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

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

<i>Amounts in thousands of euros</i>	<i>Remuneration</i>
Irene Asscher-Vonk	90
Leo Degle	90
Leo Graafsma (until April 18, 2018)	33
Petri Hofsté	104
Arian Kamp	110
Jan Nooitgedagt	110
Ron Teerlink	220
Pascal Visée	90
Marjan Trompeter	140
Annet Aris (from December 12, 2018)	5
<b>Total 2018</b>	<b>992</b>
<b>Total 2017</b>	<b>1,050</b>

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

<i>Amounts in millions of euros</i>	<i>Managing Board</i>		<i>Supervisory Board</i>	
	2018	2017	2018	2017
Loans, advances and guarantees				
<b>Outstanding on January 1</b>	5.8	4.1	1.9	1.3
Provided during the year	-	0.8	0.4	0.7
Redeemed during the year	(0.5)	(1.3)	(0.3)	(0.1)
Reduction on account of leaving office	-	(1.8)	-	-
Increase on account of taking office	-	3.9	0.2	-
<b>Outstanding on December 31</b>	<b>5.3</b>	<b>5.7</b>	<b>2.1</b>	<b>1.9</b>

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

<i>Amounts in millions of euros</i>	<i>Outstanding loans</i>	<i>Average interest rate (in %)</i>
On December 31 2018		
Bas Brouwers	0.5	2.6
Kirsten Konst	0.2	4.6
Bart Leurs	0.9	2.1
Mariëlle Lichtenberg	1.4	3.9
Berry Marttin	0.1	5.8
Jan van Nieuwenhuizen	1.2	2.0
Janine Vos	0.9	2.3

<i>Amounts in millions of euros</i>	<i>Outstanding loans</i>	<i>Average interest rate (in %)</i>
On December 31 2017		
Bas Brouwers	0.5	2.6
Kirsten Konst	0.2	4.0
Bart Leurs	0.9	2.1
Mariëlle Lichtenberg	1.8	4.3
Berry Marttin	0.2	5.8
Jan van Nieuwenhuizen	1.2	2.0
Janine Vos	0.9	2.3

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

<i>Amounts in millions of euros</i>	<i>Outstanding loans</i>	<i>Average interest rate (in %)</i>
On December 31 2018		
Annet Aris	0.2	5.2
Arian Kamp	1.3	1.7
Marjan Trompetter	0.6	2.5

<i>Amounts in millions of euros</i>	<i>Outstanding loans</i>	<i>Average interest rate (in %)</i>
On December 31 2017		
Arian Kamp	1.4	2.0
Marjan Trompetter	0.4	2.1

At year-end 2018, the members of the Supervisory Board not listed in the table had not received any loans, advances or guarantees. These transactions with members of the Managing Board and Supervisory Board were completed in person on the basis of employee terms and conditions and/or market rates for the Supervisory Board. The rates depend in part on the currency, the agreed fixed-interest period and the time the transaction was completed or the time a new fixed-interest term becomes effective.

Some members of the Supervisory Board have personally invested in Rabobank Certificates in person and/or through their own pension B.V. At year-end 2018, this involved in total 23,001 certificates.

	<i>Number of Rabobank Certificates</i>	<i>Remarks</i>
On December 31 2018		
Irene Asscher-Vonk	14,995	
Leo Degle	4,836	in pension BV

	<i>Number of Rabobank Certificates</i>	<i>Remarks</i>
On December 31 2018		
Kirsten Konst	800	
Mariëlle Lichtenberg	2,370	

## 51. Main Subsidiaries

On December 31, 2018, Rabobank Group is comprised of Coöperatieve Rabobank U.A. and its consolidated subsidiaries in the Netherlands and abroad.

<i>On 31 December 2018</i>	<i>Share</i>	<i>Voting rights</i>
Main subsidiaries		
<b>The Netherlands</b>		
DLL International B.V.	100%	100%
BPD Europe B.V.	100%	100%
Obvion N.V.	100%	100%
<b>North America</b>		
Utrecht America Holdings Inc.	100%	100%
<b>Australia and New Zealand</b>		
Rabobank Australia Limited	100%	100%
Rabobank New Zealand Limited	100%	100%

All subsidiaries listed in the table have been consolidated. In 2018, none of the subsidiaries experienced any significant restrictions in the payment of dividends or the redemption of loans and repayment of advances. The option of subsidiaries to pay dividend to Rabobank depends on various factors, including local regulatory requirements, statutory reserves and financial performance.

Several structured entities in the "Wholesale banking and international retail banking business" are not consolidated, even if Rabobank retains more than half of the voting rights. These structured entities are not consolidated because the relevant activities are determined by a third party to the contract which also determines the variable returns.

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

## 52. Transfer of Financial Assets and Financial Assets Provided as Collateral

### 52.1 Reverse Repurchase Transactions and Securities Borrowing Agreements

Reverse repurchase transactions and securities borrowing agreements concluded by Rabobank are included under "Loans and advances to credit institutions" or "Loans and advances to customers" and amount to on December 31, 2018:

<i>Amounts in millions of euros</i>	<i>2018</i>	<i>2017</i>
Loans and advances to credit institutions	8,743	17,286
Loans and advances to customers	12,928	12,847
<b>Total reverse repurchase transactions and securities borrowing agreements</b>	<b>21,671</b>	<b>30,133</b>

Under the terms of the reverse repurchase transactions and securities borrowing agreements, Rabobank receives collateral under conditions that enable it to re-pledge or resell the collateral to third parties. On December 31, 2018, the total fair value of the securities received under the terms of the agreements was EUR 18,887 million (2017: EUR 30,398 million). In accordance with the agreement terms, a portion of the securities was re-pledged or sold as collateral. These transactions were effected subject to the normal conditions for standard reverse repurchase transactions and securities borrowing agreements. The securities are not recognized in the statement of financial position because almost all the associated risks and benefits

accrue to the counterparty. A receivable is recognized at a value equivalent to the amount paid as collateral.

### 52.2 Repurchase Transactions and Securities Lending Agreements

Repurchase transactions and securities lending agreements concluded by Rabobank are included under "Deposits from credit institutions" and "Deposits from customers" as of December 31 totaled:

<i>Amounts in millions of euros</i>	<i>2018</i>	<i>2017</i>
Deposits from credit institutions	91	396
Deposits from customers	13	108
<b>Total repurchase and securities lending</b>	<b>104</b>	<b>504</b>

On December 31, 2018, interest-bearing securities with a carrying amount (equal to fair value) of EUR 92 million (2017: EUR 458 million) were provided as collateral for repurchase agreements. The counterparty retains the right to sell or re-pledge the securities. These transactions were performed subject to the normal conditions for standard repurchase transactions and securities lending agreements. The bank may provide or receive securities or cash as collateral if the value of the securities changes. The securities are not de-recognized because almost all the associated risks and benefits accrue to Rabobank, including credit and market risks. A liability is recognized at a value equivalent to the amount received as collateral.

### 52.3 Securitizations

As part of the financing activities and liquidity management of Rabobank Group, and in order to reduce credit risk, cash flows from certain financial assets are transferred to third parties (true sale transactions). Most of the financial assets subject to these transactions are mortgages and other loan portfolios that are transferred to a special purpose vehicle that is subsequently consolidated. After securitization, the assets continue to be recognised in the statement of financial position of Rabobank Group, mainly under "Loans and advances to customers." The securitized assets are measured in accordance with the accounting policies referred to in Section 2.15.

The carrying amount of the transferred financial assets related to own-asset securitization is EUR 80,842 million (2017: EUR 76,803 million) with the corresponding liability amounting to EUR 78,880 million (2017: EUR 74,819 million). Approximately 72% (2017: 76%) of the transferred assets are securitized internally for liquidity purposes. The carrying amount of the assets where Rabobank acts as a sponsor (Nieuw-Amsterdam) is EUR 4,938 million (2017: EUR 4,252 million) with the corresponding liability amounting to EUR 4,938 million (2017: EUR 4,252 million). Rabobank retains 5% to 6% of the outstanding

commercial paper issued by Nieuw Amsterdam for regulatory purposes.

## 52.4 Carrying Amount of Financial Assets Pledged as Collateral for (Contingent) Liabilities

The assets referred to below have been pledged as collateral for (contingent) liabilities (with exception to repo transactions, securities lending and own-asset securitizations) with the objective of providing security for the counterparty. If Rabobank would enter into default the counterparties may use the security to settle the debt. The increase of the pledged loans and advances to customers is caused by a transaction with Achmea where loans are legally transferred to Achmea. These loans are not derecognized by Rabobank as the risks and rewards of the loans have not been transferred.

<i>Amounts in millions of euros</i>	<i>2018</i>	<i>2017</i>
Cash and cash equivalents	82	43
Loans and advances to credit institutions	2,536	3,297
Loans and advances to customers	27,499	13,509
Financial assets held for trading	77	92
Financial assets designated at fair value	126	126
Financial assets mandatorily at fair value	-	n/a
Available-for-sale financial assets	n/a	4,195
Financial assets at fair value through other comprehensive income	4,223	n/a
<b>Total assets pledged as collateral</b>	<b>34,543</b>	<b>21,262</b>

## 53. Structured Entities

### 53.1 Consolidated Structured Entities

A structured entity is an entity which is structured so that voting rights or comparable rights do not constitute the dominant factor in determining who exercises control over the entity. Rabobank uses structured entities in order to securitize mortgages and other loan portfolios as part of its financing activities, liquidity management and in order to reduce credit risk. The loans are actually transferred to the structured entities. Own-asset

securitization is handled by Obvion (STORM, GREEN STORM and STRONG) and DLL (LEAP Warehouse Trust No.1, DLL Securitization Trust 2017-A, DLL 2018 - 1 LLC and DLL 2018 - 2 LLC). As well as having provided cash facilities, Rabobank also acts as a swap counterparty for all own-asset securitizations.

Rabobank acts as a sponsor in Nieuw Amsterdam Receivables Corporation. Nieuw Amsterdam issues ABCP in various currencies and provides Rabobank customers access to liquidity through the commercial paper market. Rabobank provides advice and manages the program, markets ABCP, provides cash facilities and/or credit risk enhancements and other facilities for the underlying transactions and the program itself.

Rabobank consolidates the own-asset securitisation vehicles and Nieuw Amsterdam because it is exposed to or entitled to fluctuating income in respect of its involvement in these entities. In addition, Rabobank also has the option to influence the amount of the investor's income by virtue of having control over the entities.

### 53.2 Non-Consolidated Structured Entities

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

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

Amounts in millions of euros	On December 31, 2018			On December 31, 2017		
<b>Assets recognized by Rabobank</b>	<i>Securitized</i>	<i>Other</i>	<i>Total</i>	<i>Securitized</i>	<i>Other</i>	<i>Total</i>
Financial assets held for trading	7	52	59	2	63	65
Financial assets designated at fair value	-	-	-	-	106	106
Financial assets mandatorily at fair value	2	267	269	n/a	n/a	n/a
Derivatives	131	-	131	246	-	246
Loans and advances to customers	798	-	798	501	-	501
Financial assets at fair value through other comprehensive income	142	-	142	n/a	n/a	n/a
Available-for-sale financial assets	n/a	n/a	n/a	28	28	56
Investments in associates	98	253	351	-	290	290
<b>Total financial assets recognized by Rabobank</b>	<b>1,178</b>	<b>572</b>	<b>1,750</b>	<b>777</b>	<b>487</b>	<b>1,264</b>
<b>Liabilities recognized by Rabobank</b>						
Derivatives	26	-	26	(1)	-	(1)
Deposits from customers	182	-	182	213	-	213
<b>Total liabilities recognized by Rabobank</b>	<b>208</b>	<b>-</b>	<b>208</b>	<b>212</b>	<b>-</b>	<b>212</b>

Income from sponsored, non-consolidated structured entities in which Rabobank holds no interest is nil (2017: nil).

## 54. Events after the Reporting Period

On 15th January 2019 the British Parliament voted against the Brexit deal. Although Rabobank still believes that ultimately a hard Brexit will be avoided, the uncertainty has grown during the first months of 2019. Rabobank monitors the potential impact of Brexit and has prepared contingency plans on the basis of scenario analysis. As per the UK regulator PRA guidance, and to continue its banking activities in the UK post-Brexit, Rabobank submitted a Third Country Banking License application to the PRA/FCA and is actively engaged with home and host regulators (ECB, PRA and FCA) on the topic of Brexit preparedness. In the scenario of a hard Brexit, Rabobank expects a limited increase of the loan impairment allowance, as Rabobank's exposure to the UK is modest. Indirect effect of a Brexit could be negative for the Dutch economy as the UK is an important trade partner of the Netherlands.

In 2018 the Managing Board of Rabobank committed to a plan to sell part of its non-strategic business in the segment WRR. At December 31, 2018, a sale was not considered highly probable. At March 13, 2019, Rabobank is in the process of negotiating a transaction.

## 55. Management Report on Internal Control over Financial Reporting

The management of Rabobank is responsible for establishing and maintaining adequate internal control over financial reporting. Management is also responsible for the preparation and fair presentation of the Consolidated Financial Statements.

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

All internal control systems, no matter how well designed, have inherent limitations. Due to the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. At the same time, future projections on the basis of any evaluation of the effectiveness of internal control are subject to the risk that the control measures may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The management has assessed the effectiveness of the internal control over financial reporting in Rabobank as of December 31, 2018 based on the framework set out in 2013 by the Committee of Sponsoring Organisations of the Treadway Commission (COSO), as defined in Internal Control - Integrated Framework. On the basis of that assessment, management concluded that, as of December 31, 2018, the internal controls on the internal

financial reporting in Rabobank provide a reasonable measure of certainty based on the criteria established by COSO.

Pascal Visée  
Annet Aris

PricewaterhouseCoopers Accountants N.V., which has audited the consolidated financial statements of Rabobank for the financial year ended December 31, 2018, also examined management's assessment of the effectiveness of the internal control over financial reporting in Rabobank. The report of PricewaterhouseCoopers Accountants N.V. is included on page 241.

Wiebe Draijer and Bas Brouwers

Utrecht, March 13, 2019

The above statement on internal controls should not be construed as a statement in response to the requirements of section 404 of the US Sarbanes-Oxley Act.

## **56. Authorization of the Financial Statements**

The financial statements were signed by the Supervisory Board on March 13, 2019. The financial statements will be presented to the General Meeting, to be held on April 17, 2019, for adoption. With regard to the adoption of the financial statements of Rabobank, the Articles of Association state: "The resolution to adopt the financial statements will be passed by an absolute majority of the votes validly cast by the General Members' Council".

### ***On behalf of the Managing Board***

Wiebe Draijer, *Chairman*

Bas Brouwers, *CFO*

Els de Groot, *CRO*

Kirsten Konst, *Member*

Bart Leurs, *Member*

Mariëlle Lichtenberg, *Member*

Berry Marttin, *Member*

Jan van Nieuwenhuizen, *Member*

Ieko Sevinga, *Member*

Janine Vos, *Member*

### ***On behalf of the Supervisory Board***

Ron Teerlink, *Chairman*

Marjan Trompetter, *Vice Chairman*

Irene Asscher-Vonk, *Secretary*

Leo Degle

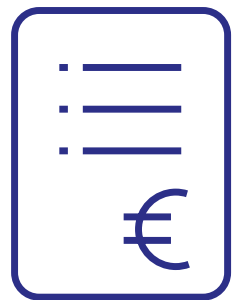
Arian Kamp

Jan Nooitgedagt

Petri Hofsté



# Company Financial Statements



# Contents

Annual Figures	217	32. Events After the Reporting Period	238
Statement of Financial Position (Before Profit Appropriation)	217	33. Authorization of the Financial Statements	239
Statement of Income	218	Other Information	240
Notes to the Company Financial Statements	219	Statutory Provisions	240
1. Basis of Preparation	219	Independent Auditor's Report	241
2. Risk Exposure on Financial Instruments	219	Independent Auditor's Assurance Report	258
Notes to the Statement of Financial Position	222	Assurance Report of the Independent Auditor	261
1. Cash and Balances at Central Banks	222		
2. Short-term Government Papers	222		
3. Loans and Advances to Credit Institutions	222		
4. Loans and Advances to Customers	222		
5. Interest-Bearing Securities	222		
6. Shares	223		
7. Interests in Group Companies	223		
8. Other Equity Investments	223		
9. Goodwill and Other Intangible Assets	224		
10. Tangible Fixed Assets	225		
11. Other Assets	225		
12. Derivatives	226		
13. Trading and Investment Portfolios	227		
14. Due to Credit Institutions	227		
15. Due to Customers	227		
16. Debt Securities in Issue	227		
17. Other Liabilities	228		
18. Provisions	228		
19. Subordinated Liabilities	228		
20. Equity	229		
Notes to the Statement of Income	232		
21. Net Interest Income	232		
22. Net Fee and Commission Income	232		
23. Income from Equity Interests	232		
24. Staff Costs	232		
25. Regulatory Levies	232		
26. Income Tax	233		
Other Notes to the Financial Statements	234		
27. Professional Securities Transactions and Assets Not Freely Available	234		
28. Contingent Liabilities	234		
29. Main Group Companies	235		
30. Remuneration of the Supervisory Board and the Managing Board	235		
31. Proposals Regarding the Appropriation of Available Profit for Rabobank	237		

# Annual Figures

## Statement of Financial Position (Before Profit Appropriation)

Statement of Financial Position				
Amounts in millions of euros	Note	December 31 2018		December 31 2017
Assets				
Cash and balances at central banks	1	72,786		66,233
Short-term government papers	2	330		498
Professional securities transactions		8,238	16,786	
Other loans and advances to credit institutions		20,994	24,879	
Loans and advances to credit institutions	3	29,232		41,665
Public sector lending		1,556	1,938	
Private sector lending		369,461	363,777	
Professional securities transactions		13,120	13,076	
Loans and advances to customers	4	384,137		378,791
Interest-bearing securities	5	67,299		76,384
Shares	6	253		220
Interests in group companies	7	13,555		13,536
Other equity investments	8	1,722		1,745
Goodwill and other intangible assets	9	419		437
Tangible fixed assets	10	1,451		1,700
Other assets	11	4,180		4,557
Derivatives	12	25,252		28,947
Prepayments and accrued income		905		1,103
Total assets		601,521		615,816
Liabilities				
Professional securities transactions		80	359	
Other liabilities to credit institutions		19,497	18,701	
Due to credit institutions	14	19,577		19,060
Savings		135,441	135,248	
Professional securities transactions		13	107	
Other due to customers		191,202	192,074	
Due to customers	15	326,656		327,429
Debt securities in issue	16	111,171		123,008
Other liabilities	17	58,784		59,409
Derivatives	12	24,225		28,461
Accruals and deferred income		1,767		1,961
Provisions	18	1,100		1,215
Subordinated liabilities	19	16,875		16,532
		560,155		577,075
Rabobank Certificates		7,445	7,440	
Capital Securities		6,657	5,925	
Revaluation reserves		199	386	
Legal reserves		(252)	(359)	
Other reserves		24,373	22,733	
Profit for the year		2,944	2,616	
Equity	20	41,366		38,741
Total equity and liabilities		601,521		615,816
Contingent liabilities				
	28	64,342		62,035

## Statement of Income

<i>Statement of Income</i>			
<i>For the year ended December 31</i>			
<i>Amounts in millions of euros</i>	<i>Note</i>	<i>2018</i>	<i>2017</i>
Interest income	21	14,070	14,393
Interest expense	21	8,333	8,585
<b>Net interest income</b>	<b>21</b>	<b>5,737</b>	<b>5,808</b>
Fee and commission income	22	1,856	1,818
Fee and commission expense	22	135	126
<b>Net fee and commission income</b>	<b>22</b>	<b>1,721</b>	<b>1,692</b>
Income from equity interests	23	1,889	2,344
Gains/ (losses) from trading portfolio with external parties		87	(165)
Gains/ (losses) from trading portfolio with group companies		(465)	(1,132)
Gains/ (losses) from investment portfolio		236	263
<b>Net income from financial transactions</b>		<b>(142)</b>	<b>(1,034)</b>
Other results		336	343
<b>Income</b>		<b>9,541</b>	<b>9,153</b>
Staff costs	24	3,233	3,392
Other administrative expenses		2,237	2,259
Depreciation		332	337
<b>Operating expenses</b>		<b>5,802</b>	<b>5,988</b>
Impairment charges on financial assets		(3)	(172)
Regulatory levies	25	428	446
<b>Operating profit before taxation</b>		<b>3,314</b>	<b>2,891</b>
Income tax	26	370	275
<b>Net profit</b>		<b>2,944</b>	<b>2,616</b>

# Notes to the Company Financial Statements

## 1. Basis of Preparation

The company financial statements of Rabobank, a credit institution as referred to in Section 1:1 of the Financial Supervision Act, have been prepared in accordance with accounting policies generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. In accordance with subsection 8 of section 362 of Book 2 of the Dutch Civil Code, the accounting policies in the company financial statements are the same as those used in preparing the consolidated financial statements of Rabobank Group, reference is made to Section 2 "Accounting Policies of the Consolidated Financial Statements", with one exception regarding the measurement of interests in group companies as these are measured at net asset value. The hedge accounting entries of the consolidated financial statements are also applied in the company financial statements by using combination 3 (Option 3 RJ).

Rabobank Group, the Coöperatieve Rabobank U.A. (Rabobank) and the legal entities and companies that form part of the group, is an international financial services provider operating on the basis of cooperative principles. Rabobank has its registered office in Amsterdam and is registered under Chamber of commerce number 30046259.

## 2. Risk Exposure on Financial Instruments

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

Rabobank considers risks at company level the same as risks at consolidated level. We therefore refer to Section 4 "Risk Exposure on Financial Instruments" of the consolidated financial statements except the section regarding legal and arbitration proceedings. Additional remarks on solvency on solo level are disclosed below.

### Solvency

Rabobank uses its own internal solvency objectives on a solo level that extend beyond the minimum requirements of the

supervisors. It takes market expectations and developments in legislation and regulations into account. Rabobank manages its solvency position based on policy documents. The solvency position and the objectives are periodically reviewed by the Risk Management Committee and the Asset Liability Committee of the Managing Board and the Supervisory Board.

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

### Minimum Capital Buffer

		CET 1	Tier 1	Total capital
Pillar 1 requirement		4.5%	6.0%	8.0%
Pillar 2 requirement		1.75%	1.75%	1.75%
Capital conservation buffer	2016-2019	2.5%	2.5%	2.5%

The CET1-ratio of Coöperatieve Rabobank U.A. (solo) is 16.0% (2017: 15.5%).

### Legal and Arbitration Proceedings

Rabobank considers risks regarding legal and arbitration proceedings the same at company level as at consolidated level.

Rabobank Group is active in a legal and regulatory environment that exposes it to substantial risk of litigation. As a result, Rabobank Group is involved in legal cases, arbitrations and regulatory proceedings in the Netherlands and in other countries. The most relevant legal and regulatory claims which could give rise to liability on the part of Rabobank Group are described below.

Provisions for legal claims are recognized for obligations arising as a result of a past event where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When determining whether the probability that claims lead to an outflow of resources is more likely than not (i.e. with a likelihood

of over fifty percent), Rabobank Group takes several factors into account. These factors include (but are not limited to) the type of claim and the underlying facts; the procedural process and history of each case; rulings from legal and arbitration bodies; Rabobank Group's experience and that of third parties in similar cases (if known); previous settlement discussions, third-party settlements in similar cases (where known); available (potential) recourse; and the advice and opinions of legal advisors and other experts. Similar types of cases are grouped together and some cases may also consist of a number of claims. The estimated loss for each individual case (for which it is possible to make a reliable estimate) is not disclosed because Rabobank Group feels that information of this type could be detrimental to the outcome of individual cases.

The estimated potential losses and provisions, are based on the information available at the time and are largely subject to judgments and a number of different assumptions, variables and known and unknown uncertainties. These uncertainties may include the inaccuracy or incompleteness of information available to Rabobank Group (especially in the early stages of a case). In addition, assumptions made by Rabobank Group about the future rulings of legal or other instances or the likely actions or attitudes of supervisory bodies or the parties opposing Rabobank Group may turn out to be incorrect. Furthermore, estimates of potential losses relating to legal disputes are often impossible to process using statistical or other quantitative analysis instruments that are generally used to make judgments and estimates. They are subject to a still greater level of uncertainty than many other areas where Rabobank group needs to make judgments and estimates. The group of cases for which Rabobank Group determines that the risk of future outflows of funds is more likely than not varies over time, as do the number of cases for which the bank can estimate the potential loss. In practice the end results could turn out considerably higher or lower than the estimates of potential losses in those cases where an estimate was made.

Rabobank Group can also sustain losses from legal risks where the occurrence of a loss may not be probable, but is not improbable either, and for which no provisions have been recognized. For those cases where (a) the possibility of an outflow of funds is not probable but also not remote or (b) the possibility of an outflow of funds is more likely than not but the potential loss cannot be estimated reliably, a contingent liability is disclosed. Rabobank Group may settle legal cases or regulatory proceedings or investigations before any fine is imposed or liability is determined. Reasons for settling could include (i) the wish to avoid costs and/or management effort at this level, (ii) to avoid other adverse business consequences and/or (iii) pre-empt the regulatory or reputational consequences of continuing with

disputes relating to liability, even if Rabobank Group believes it has good arguments in its defense. Furthermore, Rabobank Group may, for the same reasons, compensate third parties for their losses, even in situations where Rabobank Group does not believe that it is legally required to do so.

### *Interest Rate Derivatives*

Rabobank concludes interest rate derivatives, such as interest rate swaps, with Dutch business customers who wish to reduce the interest rate risk associated with variable (e.g. Euribor-indexed) loans. An interest rate swap protects businesses from rising variable interest rates and helps them to keep their interest payments at an acceptable level. In March 2016 the Dutch Minister of Finance appointed an independent committee which on July 5, 2016 published a recovery framework (the Recovery Framework) on the reassessment of Dutch SME interest rate derivatives. Rabobank announced its decision to take part in the Recovery Framework on July 7, 2016. The final version of the Recovery Framework was published by the independent committee on December 19, 2016. Rabobank is involved in civil proceedings in the Netherlands relating to interest rate derivatives entered into with Dutch business customers. The majority of these concern individual cases. In addition, there is a collective action regarding interest rate derivatives pending before the Court of Appeal (for which a standstill was agreed to, due to the Recovery Framework; the few remaining out-of-scope customers will be assessed on an individual basis). These actions concern allegations of misinforming clients with respect to interest rate derivatives. Some of these actions also concern allegations in connection with Rabobank's Euribor submissions (as described below). Rabobank will defend itself against all these claims. Furthermore, there are pending complaints and proceedings against Rabobank regarding interest rate derivatives brought before Kifid (Dutch Financial Services Complaints Authority, which, in January 2015, opened a conflict resolution procedure for SME businesses with interest rate derivatives). With respect to the (re-)assessment of the interest rate derivatives of its Dutch SME business customers and the advance payments made, Rabobank recognized a provision of EUR 316 million (2017: EUR 450 million). At year-end 2018 Rabobank provided all qualifying clients clarity on the outcome. At year-end 2018, Rabobank's payments to clients under the Recovery Framework amounted to EUR 532 million.

### *Imtech*

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



situation has remained unchanged. Furthermore, the receivers sent a letter (August 10th) in which they describe on what (possible) grounds their (future) claim(s) towards Rabobank in its capacity of lender will be based. Rabobank is of the opinion that no provision should be recognized per December 31, 2018.

### ***Libor/Euribor***

Rabobank has been involved for a number of years in several regulatory proceedings in relation to benchmark-related issues. Rabobank is cooperating, and will continue to cooperate, with the regulators and authorities involved in these investigations. On October 29, 2013, Rabobank entered into settlement agreements with a number of these authorities in relation to their investigations into the historical Libor and Euribor submission processes of Rabobank. All amounts payable under these settlement agreements were fully paid and accounted for by Rabobank in 2013. Rabobank, along with a large number of other panel banks and inter-dealer brokers, has been named as a defendant in a number of putative class action suits and individual civil court cases brought before the Federal Courts in the United States. These proceedings relate to US Dollar (USD) Libor, British Pound Sterling (GBP) Libor, Japanese Yen (JPY) Libor, Tibor (note: Rabobank was never a member of the TIBOR panel), and Euribor. Rabobank and/ or its subsidiaries have also received complaints and writs of summons ordering Rabobank to appear before various Dutch, Argentine, United Kingdom, Irish, and Israeli courts in civil proceedings (inc. class action suits) relating to interest rate benchmarks. Since the class action suits and civil proceedings listed above are intrinsically subject to uncertainties, it is difficult to predict their outcomes. Rabobank takes the stance that it has substantive and convincing legal and factual defenses against these claims. Rabobank has the intention to continue to defend itself against these claims. Rabobank Group considers the Libor/Euribor case to be a contingent liability. No provision has been made.

### ***Other Cases***

Rabobank is subject to other legal proceedings for which provisions have been recognized. These cases are individually less significant in size and are therefore not separately disclosed. The total provision for those cases amounts to EUR 92 million. In addition to the contingent liability cases described above for which an assessment regarding a possible outflow is not yet possible, Rabobank has identified other less relevant cases in terms of size as a contingent liability. The maximum amount claimed for those contingent liability cases amounts to EUR 101 million.

# Notes to the Statement of Financial Position

## 1. Cash and Balances at Central Banks

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

## 2. Short-term Government Papers

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

Amounts in millions of euros	2018	2017
Recognized in the trading portfolio	35	2
Recognized in the investment portfolio	295	496
<b>Total short-term government papers</b>	<b>330</b>	<b>498</b>

## 3. Loans and Advances to Credit Institutions

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

Amounts in millions of euros	2018	2017
Loans and advances to other credit institutions	16,648	25,746
Loans and advances to group companies	12,584	15,919
<b>Total loans and advances to credit institutions</b>	<b>29,232</b>	<b>41,665</b>
Of which subordinated	-	-

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

On demand	11,277	19,945
≤ 3 months	4,958	8,705
> 3 months ≤ 1 year	4,916	4,452
> 1 year ≤ 5 years	5,349	4,921
> 5 years	186	345
No maturity	2,546	3,297
<b>Total loans and advances to credit institutions</b>	<b>29,232</b>	<b>41,665</b>

The fair value of accepted collateral in the form of securities is EUR 6,756 million (2017: EUR 17,037 million).

## 4. Loans and Advances to Customers

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

Amounts in millions of euros	2018	2017
<b>Breakdown of loans and advances to customers:</b>		
Public sector lending	1,556	1,938
Private sector lending	369,461	363,777
Professional securities transactions	13,120	13,076
<b>Total loans and advances to customers</b>	<b>384,137</b>	<b>378,791</b>

Totals include:

Of which to group companies	60,451	61,160
Of which mortgages	229,094	231,540

Loans recognized in the trading portfolio	147	762
Loans recognized in the investment portfolio	205	4
Loans recognized in the investment portfolio at fair value through profit or loss	1,659	-
Loans at amortized cost	382,126	378,025
<b>Total loans and advances to customers</b>	<b>384,137</b>	<b>378,791</b>

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

On demand	44,000	40,564
≤ 3 months	15,526	16,504
> 3 months ≤ 1 year	25,280	23,327
> 1 year ≤ 5 years	81,897	80,353
> 5 years	211,099	212,028
No maturity	4,324	5,249
<b>Loans at amortized cost</b>	<b>382,126</b>	<b>378,025</b>

Loans (excluding government loans and reverse repos) can be classified as follows by their concentration in specific business sectors:

Food & agri	17%	17%
Trade, industry and services	29%	29%
Private individuals	54%	54%
<b>Total</b>	<b>100%</b>	<b>100%</b>

The fair value of accepted collateral in the form of securities is EUR 12,131 million (2017: EUR 12,861 million).

## 5. Interest-Bearing Securities

This item represents interest-bearing securities other than short-term government papers.

Amounts in millions of euros	2018	2017
<b>Interest-bearing securities of:</b>		
Public authorities	11,414	20,438
Other issuers	55,885	55,946
<b>Total interest-bearing securities</b>	<b>67,299</b>	<b>76,384</b>
<b>Breakdown of interest-bearing securities:</b>		
Trading portfolio	2,693	1,499
Investment portfolio	64,442	74,630
Investment portfolio at fair value through profit or loss	164	255
	<b>67,299</b>	<b>76,384</b>
<b>The portfolio also includes:</b>		
Securities issued by group companies	51,030	51,104
Listed portion of the portfolio	15,479	24,594
Non-listed securities and securities issued by group companies	51,820	51,790
<b>Total interest-bearing securities</b>	<b>67,299</b>	<b>76,384</b>

## 6. Shares

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

Amounts in millions of euros	2018	2017
<b>This breaks down as follows:</b>		
Investment portfolio	242	220
Trading portfolio	11	-
<b>Total</b>	<b>253</b>	<b>220</b>
Listed portion of the portfolio	11	48
Non-listed portion of the portfolio	242	172
<b>Total</b>	<b>253</b>	<b>220</b>

## 7. Interests in Group Companies

This item includes the interests held directly in group companies.

Amounts in millions of euros	2018	2017
<b>Equity investments in:</b>		
Credit institutions	3,630	4,555
Other entities	9,925	8,981
<b>Total</b>	<b>13,555</b>	<b>13,536</b>
<b>Changes in equity investments:</b>		
Carrying amount on January 1	13,536	15,179
Additions, capital contributions during the financial year	55	800
Sales, disposals and liquidations during the financial year	(3)	(435)
Legal merger	(1,240)	-
Profit	1,816	2,288
Dividend/capital reimbursements	(332)	(3,082)
Revaluation	(84)	(1,175)
Other	(193)	(39)
<b>Carrying amount on December 31</b>	<b>13,555</b>	<b>13,536</b>

## 8. Other Equity Investments

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

Amounts in millions of euros	2018	2017
<b>Equity investments in:</b>		
Credit institutions	-	-
Other entities	1,722	1,745
<b>Total other equity investments</b>	<b>1,722</b>	<b>1,745</b>
<b>Changes in equity investments:</b>		
Carrying amount on 1 January	1,745	1,699
Acquisitions during the financial year	8	1
Disposals during the financial year	(1)	-
Profit/ (loss)	68	35
Revaluation	(61)	12
Dividend	(37)	(2)
<b>Carrying amount on December 31</b>	<b>1,722</b>	<b>1,745</b>

## 9. Goodwill and Other Intangible Assets

This item includes software.

<i>Amounts in millions of euros</i>	<i>2018</i>	<i>2017</i>
Goodwill	-	2
Software	419	435
<b>Total goodwill and other intangible assets</b>	<b>419</b>	<b>437</b>

<i>Changes in goodwill and other intangible assets 2018</i>			
<i>Amounts in millions of euros</i>	<i>Goodwill</i>	<i>Software</i>	<i>Total</i>
Carrying amount on January 1	2	435	437
Acquisitions during the financial year	-	102	102
Disposals during the financial year	(2)	(44)	(46)
Depreciation	n/a	(116)	(116)
Impairment losses	(1)	-	(1)
Exchange differences and other	1	42	43
<b>Carrying amount on December 31</b>	<b>-</b>	<b>419</b>	<b>419</b>
Accumulated depreciation and impairment losses	3	977	980

<i>Changes in goodwill and other intangible assets 2017</i>			
<i>Amounts in millions of euros</i>	<i>Goodwill</i>	<i>Software</i>	<i>Total</i>
Carrying amount on January 1	2	475	477
Acquisitions during the financial year (to group companies)	-	-	-
Acquisitions during the financial year	-	149	149
Disposals during the financial year (to group companies)	-	-	-
Disposals during the financial year	-	(41)	(41)
Depreciation	n/a	(131)	(131)
Impairment losses	-	(31)	(31)
Exchange differences and other	-	14	14
<b>Carrying amount on December 31</b>	<b>2</b>	<b>435</b>	<b>437</b>
Accumulated depreciation and impairment losses	3	1,250	1,253

## 10. Tangible Fixed Assets

This item consists of land and buildings in own use and equipment.

Amounts in millions of euros	2018	2017
Land and buildings in own use	1,212	1,397
Equipment	239	303
<b>Total tangible fixed assets</b>	<b>1,451</b>	<b>1,700</b>

### Changes in tangible fixed assets 2018

Amounts in millions of euros	Land and buildings in own use	Equipment	Total
Carrying amount on January 1	1,397	303	1,700
Acquisitions during the financial year	30	64	94
Disposals during the financial year	(6)	(7)	(13)
Transfers to other assets	(91)	-	(91)
Depreciation	(90)	(126)	(216)
Impairment losses	(85)	(2)	(87)
Reversal impairment losses	45	-	45
Exchange differences and other	12	7	19
<b>Carrying amount on December 31</b>	<b>1,212</b>	<b>239</b>	<b>1,451</b>
Accumulated depreciation and impairment losses	1,188	654	1,842

### Changes in tangible fixed assets 2017

Amounts in millions of euros	Land and buildings in own use	Equipment	Total
Carrying amount on January 1	1,393	361	1,754
Acquisitions during the financial year	57	55	112
Disposals during the financial year	(62)	(6)	(68)
Depreciation	(103)	(103)	(206)
Impairment losses	(91)	-	(91)
Reversal impairment losses	42	1	43
Exchange differences and other	161	(5)	156
<b>Carrying amount on December 31</b>	<b>1,397</b>	<b>303</b>	<b>1,700</b>
Accumulated depreciation and impairment losses	1,230	677	1,907

## 11. Other Assets

This item relates to current and deferred tax assets and assets that cannot be classified under any other heading.

Amounts in millions of euros	2018	2017
<b>This item can be broken down as follows:</b>		
Current tax assets	252	156
Deferred tax assets	727	1,017
Employee benefits	3	4
Other	3,198	3,380
<b>Total other assets</b>	<b>4,180</b>	<b>4,557</b>

### Fiscal Unit for Corporate Tax Purposes

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

## 12. Derivatives

The notes to the derivatives are included below.

Amounts in millions of euros	2018	2017
<b>Assets</b>		
This item can be broken down as follows:		
Derivative contracts with third parties	22,393	25,747
Derivative contracts with group companies	2,859	3,200
<b>Total derivatives</b>	<b>25,252</b>	<b>28,947</b>

<b>Liabilities</b>		
This item can be broken down as follows:		
Derivative contracts with third parties	23,794	28,025
Derivative contracts with group companies	431	436
<b>Total derivatives</b>	<b>24,225</b>	<b>28,461</b>

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

Amounts in millions of euros	Notional amounts	Fair values	
Balance on December 31, 2018		Assets	Liabilities
<b>Derivatives held for trading</b>			
<b>Interest rate contracts</b>	<b>2,984,214</b>	<b>15,165</b>	<b>13,319</b>
OTC	2,894,546	15,164	13,319
Listed	89,668	1	-

<b>Currency contracts</b>	<b>388,586</b>	<b>3,917</b>	<b>5,068</b>
OTC	388,586	3,917	5,068
Listed	-	-	-

Credit derivatives	1,071	2	2
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<b>Other contracts</b>	<b>3,629</b>	<b>251</b>	<b>224</b>
OTC	3,629	251	224
Listed	-	-	-

### Derivatives designated as hedging instrument

<b>Derivatives designated as hedging instrument in fair value hedges</b>	<b>114,455</b>	<b>3,052</b>	<b>5,169</b>
Interest rate contracts	105,633	1,621	4,684
Currency contracts	8,822	1,431	485

<b>Derivatives designated as hedging instrument in cash flow hedges</b>	<b>86</b>	<b>6</b>	<b>12</b>
Currency contracts	86	6	12
<b>Total derivative contracts with third parties</b>	<b>3,492,041</b>	<b>22,393</b>	<b>23,794</b>

Amounts in millions of euros	Notional amounts	Fair values	
Balance on December 31, 2017		Assets	Liabilities
<b>Derivatives held for trading</b>			
<b>Interest rate contracts</b>	<b>2,496,409</b>	<b>17,882</b>	<b>16,819</b>
OTC	2,447,319	17,882	16,819
Listed	49,090	-	-

<b>Currency contracts</b>	<b>338,889</b>	<b>3,550</b>	<b>4,037</b>
OTC	338,889	3,550	4,037
Listed	-	-	-

Credit derivatives	1,580	-	4
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<b>Other contracts</b>	<b>2,307</b>	<b>123</b>	<b>221</b>
OTC	2,307	123	221
Listed	-	-	-

### Derivatives designated as hedging instrument

<b>Derivatives designated as hedging instrument in fair value hedges</b>	<b>111,867</b>	<b>3,893</b>	<b>5,673</b>
Interest rate contracts	58,129	2,361	5,668
Currency contracts	53,738	1,532	5

<b>Derivatives designated as hedging instrument in cash flow hedges</b>	<b>4,777</b>	<b>299</b>	<b>1,271</b>
Currency contracts	4,777	299	1,271
<b>Total derivative contracts with third parties</b>	<b>2,955,829</b>	<b>25,747</b>	<b>28,025</b>



## 13. Trading and Investment Portfolios

### Breakdown of Trading and Investment Portfolios

Amounts in millions of euros	2018	2017
<b>Trading portfolio</b>		
Short-term government papers	35	2
Loans and advances to customers	147	762
Interest-bearing securities	2,693	1,499
Shares	11	-
<b>Total trading portfolio</b>	<b>2,886</b>	<b>2,263</b>
<b>Investment portfolio</b>		
Short-term government papers	295	496
Interest-bearing securities	64,442	74,630
Shares	242	220
Loans and advances to customers	205	4
<b>Total investment portfolio</b>	<b>65,184</b>	<b>75,350</b>
Included in the investment portfolios of group companies	50,993	51,103

### Changes in the investment portfolio

Balance on 1 January	75,350	80,687
Foreign exchange differences	71	(314)
Acquisitions during the financial year	1,741	1,604
Disposals during the financial year	(11,688)	(5,185)
Fair value changes	(812)	(665)
Other	522	(777)
<b>Balance on December 31</b>	<b>65,184</b>	<b>75,350</b>

### The terms of the investment portfolio can be broken down as follows:

On demand	129	300
≤ 3 months	325	479
> 3 months ≤ 1 year	1,410	3,305
> 1 year ≤ 5 years	9,787	15,979
> 5 years	53,300	55,076
No maturity	233	211
<b>Total investment portfolio</b>	<b>65,184</b>	<b>75,350</b>

### Investment portfolio at fair value through profit or loss

Interest-bearing securities	164	255
Loans and advances to customers	1,659	-
<b>Total investment portfolio at fair value through profit or loss</b>	<b>1,823</b>	<b>255</b>

## 14. Due to Credit Institutions

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

Amounts in millions of euros	2018	2017
Due to credit institutions	15,883	15,709
Due to group companies	3,671	3,343
Due to other equity investments	23	8
<b>Total due to credit institutions</b>	<b>19,577</b>	<b>19,060</b>
On demand	4,580	5,122
≤ 3 months	507	2,121
> 3 months ≤ 1 year	5,410	1,369
> 1 year ≤ 5 years	2,635	3,747
> 5 years	393	1,018
No maturity	6,052	5,683
<b>Total due to credit institutions</b>	<b>19,577</b>	<b>19,060</b>

## 15. Due to Customers

This item consists of amounts due to customers other than debt securities. Due to customers also includes the investments of central banks amounting to EUR 20 billion (2017: EUR 23 billion).

Amounts in millions of euros	2018	2017
Due to other customers	313,000	313,226
Due to group companies	7,628	7,276
Due to other equity investments	6,028	6,927
<b>Total due to customers</b>	<b>326,656</b>	<b>327,429</b>

Due to other customers comprises all deposits and savings accounts of natural persons, non-profit making associations and foundations, as well as non-transferable savings bonds.

Amounts in millions of euros	2018	2017
On demand	276,748	268,525
≤ 3 months	7,264	13,727
> 3 months ≤ 1 year	5,858	6,025
> 1 year ≤ 5 years	12,872	14,863
> 5 years	22,758	20,920
No maturity	1,156	3,369
<b>Total due to customers</b>	<b>326,656</b>	<b>327,429</b>

## 16. Debt Securities in Issue

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

Amounts in millions of euros	2018	2017
Tradeable debt securities	81,477	83,035
Other debt securities	29,694	39,973
<b>Total debt securities in issue</b>	<b>111,171</b>	<b>123,008</b>
On demand	4,414	7,320
≤ 3 months	11,645	14,223
> 3 months ≤ 1 year	23,277	29,671
> 1 year ≤ 5 years	47,168	48,062
> 5 years	24,667	23,732
<b>Total debt securities in issue</b>	<b>111,171</b>	<b>123,008</b>

## 17. Other Liabilities

This item includes liabilities that cannot be classified under any other heading, such as liabilities associated with securitized receivables, current taxes, short positions on securities, liabilities for staff costs and creditors. At year-end 2018, approximately EUR 56 billion in Rabobank mortgages were securitized.

Amounts in millions of euros	2018	2017
<b>This item can be broken down as follows:</b>		
Liabilities associated with securitized receivables	56,206	55,767
Current tax liabilities	31	28
Other liabilities	2,547	3,614
<b>Total other liabilities</b>	<b>58,784</b>	<b>59,409</b>

## 18. Provisions

Amounts in millions of euros	2018	2017
Provision for pension plans and other post-retirement provisions	178	185
Provision for deferred tax liabilities	2	11
Impairment allowances on loan commitments and financial guarantees	105	20
Other provisions	815	999
<b>Total provisions</b>	<b>1,100</b>	<b>1,215</b>

### Provision for Employee Benefits

The provision for employee benefits consists of a provision for pension plans of EUR 76 million (2017: EUR 84 million) and other post-retirement provisions of EUR 102 million (2017: EUR 101 million).

## Other Provisions

Amounts in millions of euros	Restructuring provision	Provision for legal issues	Other	Total
Opening balance on 1 January, 2018	283	557	159	999
Additions	197	62	96	355
Withdrawals	(90)	(204)	(112)	(406)
Releases	(92)	(7)	(34)	(133)
<b>Closing balance on 31 December, 2018</b>	<b>298</b>	<b>408</b>	<b>109</b>	<b>815</b>
Opening balance on 1 January, 2017	418	730	127	1,275
Additions	276	139	94	509
Withdrawals	(268)	(293)	(37)	(598)
Releases	(143)	(19)	(25)	(187)
<b>Closing balance on 31 December, 2017</b>	<b>283</b>	<b>557</b>	<b>159</b>	<b>999</b>

## 19. Subordinated Liabilities

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

Amounts in millions of euros	2018	2017
Loans related to the issue of Trust Preferred Securities IV	390	395
Subordinated loans	16,485	16,137
<b>Balance on 31 December</b>	<b>16,875</b>	<b>16,532</b>

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

## Subordinated Liabilities

### Notional

(Amounts in millions)	Currency	Coupon	Year of issuance	Year of maturity
500	USD	4.00%	2017	2029, early repayment possible 2024
1,500	USD	3.75%	2016	2026
225	AUD	5.00%	2015	2025, early repayment possible 2020
475	AUD	Variable	2015	2025, early repayment possible 2020
1,500	USD	4.375%	2015	2025
1,250	USD	5.25%	2015	2045
1,000	GBP	4.625%	2014	2029
2,000	EUR	2.50%	2014	2026, early repayment possible in 2021
50,800	JPY	1.429%	2014	2024
1,000	EUR	3.875%	2013	2023
1,750	USD	4.625%	2013	2023
1,250	USD	5.75%	2013	2043
1,000	EUR	4.125%	2012	2022
500	GBP	5.25%	2012	2027
1,500	USD	3.95%	2012	2022
1,000	EUR	3.75%	2010	2020
1,000	EUR	5.875%	2009	2019
10	EUR	4.21%	2005	2025
10	EUR	5.32%	2004	2024

## 20. Equity

Amounts in millions of euros	2018	2017
<b>This item can be broken down as follows:</b>		
Rabobank Certificates	7,445	7,440
Capital Securities	6,657	5,925
Revaluation reserves	199	386
Legal reserves	(252)	(359)
Other reserves	24,373	22,733
Profit for the year	2,944	2,616
<b>Total equity</b>	<b>41,366</b>	<b>38,741</b>

### Rabobank Certificates

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

The total number of certificates is 297,961,365 with a nominal value of EUR 25 each. The actual payment policy of Rabobank pursuant to the Participation Rules in respect of the participation issued by Rabobank (and via AK Foundation in respect of the Rabobank Certificates) can be found on the Rabobank website.

The distribution paid per certificate in 2018 was EUR 1.625 (2017: EUR 1.625). The Managing Board is entitled to decide not to pay the distribution. Unpaid distributions will not be paid at a later date. The amounts listed in the table below are based on the nominal value of EUR 25 per Rabobank Certificate. Cash flows arising from changes during the year in the Rabobank Certificates are included in the consolidated statement of cash flows.

In January 2017 Rabobank issued Rabobank Certificates for a nominal amount of EUR 1.5 billion. Rabobank issued 60 million new Rabobank Certificates; each of these newly issued Certificate was priced at 108% of the nominal value of EUR 25.

### Rabobank Certificates

Amounts in millions of euros	2018	2017
<b>Changes during the year:</b>		
Opening balance	7,440	5,948
Issue of Rabobank Certificates	-	1,500
Changes Rabobank Certificates during the year	5	(8)
<b>Closing balance</b>	<b>7,445</b>	<b>7,440</b>

## Capital Securities

### Issue of EUR 1,000 Million

The coupon is 4.625% per year and is made payable every six months in arrears as of the issue date (September 11, 2018), for the first time on December 29, 2018. The Capital Securities are perpetual and first redeemable on December 29, 2025. As of December 29, 2025, and subject to Capital Securities not being redeemed early, the distribution is set for a further five-year period, but without a step-up, based on the 5-year euro swap rate + 4.098%. The coupon is fully discretionary.

### Issue of EUR 1,250 Million

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

### Issue of EUR 1,500 Million

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

up, based on the 5-year euro swap rate + 5.25%. The coupon is fully discretionary.

#### *Issue of EUR 500 Million*

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

#### *Issue of USD 2,868 Million*

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

#### *Issue of GBP 250 Million*

The coupon is 6.567% per year and is made payable every six months in arrears as of the issue date (June 10, 2008), for the first time on December 10, 2008. As of June 10, 2018, the coupon will be made payable every six months based on the six-month GBP Libor plus an annual 2.825% mark-up. The coupon is payable at the issuer's discretion. In case Rabobank does not use its discretionary power to not pay distributions on the Rabobank Certificates, payment on this instrument will also apply.

#### *Issue of NZD 280 Million*

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

## Capital Securities Issued by Rabobank Which Were Redeemed During the Reporting Year

#### *Issue of CHF 350 Million*

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

#### *Issue of ILS 323 Million*

Rabobank issued the ILS 323 million Capital Securities on July 14, 2008. In accordance with the Terms and Conditions of these Capital Securities, Rabobank has elected to redeem these Capital Securities on the first call date being July 14, 2018.

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

### Capital Securities

Amounts in millions of euros	2018	2017
<b>Movements were as follows:</b>		
Balance on January 1	5,925	7,821
Redemption of Capital Securities	(275)	(1,894)
Issue of Capital Securities	1,000	-
Cost of issue of Capital Securities	(6)	-
Other	13	(2)
<b>Balance on December 31</b>	<b>6,657</b>	<b>5,925</b>

## Revaluation Reserves

Amounts in millions of euros	2018	2017
<b>The revaluation reserves can be specified as follows:</b>		
Cash flow hedges	(40)	(42)
Interest-bearing securities	24	205
Shares and non-interest-bearing securities	185	223
Costs of hedging	30	n/a
<b>Total revaluation reserves</b>	<b>199</b>	<b>386</b>

#### **Movements were as follows:**

Balance on January 1	386	431
Change in accounting policies	7	-
Exchange rate differences	5	9
Revaluations	(122)	(633)
Other	5	(3)
Transferred to profit or loss	(82)	582
<b>Balance on December 31</b>	<b>199</b>	<b>386</b>

Rabobank's cash flow hedges mainly consist of hedges of the margin of issued bonds in foreign currency hedged with cross-

currency interest rate swaps to protect against a potential change in cash flows due to change in foreign currency rates. Rabobank assesses the hedge effectiveness on the basis of statistical regression analysis models, both prospectively and retrospectively for IAS 39 cash flow hedges and analyses the sources of ineffectiveness for IFRS 9 cash flow hedges. The IFRS 9 cash flow hedges are 100% effective.

## Legal Reserves

<i>Amounts in millions of euros</i>	<i>2018</i>	<i>2017</i>
<b>The legal reserves can be specified as follows:</b>		
Retained profits of investments in associates	214	228
Software developed in-house	351	351
Translation differences	(817)	(938)
<b>Total legal reserves</b>	<b>(252)</b>	<b>(359)</b>
<b>Movements were as follows:</b>		
Balance on January 1	(359)	752
From other reserves to legal reserves	(14)	30
Exchange rate differences	121	(1,141)
<b>Balance on December 31</b>	<b>(252)</b>	<b>(359)</b>

## Other Reserves

<i>Amounts in millions of euros</i>	<i>2018</i>	<i>2017</i>
<b>The other reserves can be specified as follows:</b>		
Recalibration of pensions	(145)	(225)
Fair value changes due to own credit risk on financial liabilities designated at fair value	(31)	(625)
Retained earnings	24,549	23,583
<b>Total other reserves</b>	<b>24,373</b>	<b>22,733</b>

### Movements in the recalibration of pensions:

Balance on January 1	(225)	(219)
Recalibration of pensions	80	(6)
<b>Balance on December 31</b>	<b>(145)</b>	<b>(225)</b>

### Movements in the fair value changes due to own credit risk on financial liabilities designated at fair value:

Balance on January 1	(625)	(303)
Change in accounting policies	483	-
Fair value changes	111	(318)
Realization at derecognition	-	(4)
<b>Balance on December 31</b>	<b>(31)</b>	<b>(625)</b>

### Movements in retained earnings:

Balance on January 1	23,583	23,200
Change in accounting policies	(475)	-
Profit for previous financial year	2,616	1,960
Distribution to third parties	(1,037)	(1,091)
Transferred to legal reserves	14	(30)
Transferred to revaluation reserves	(4)	-
Redemption of Capital Securities	(79)	(439)
Issue of Rabobank Certificates	-	120
Cost of issue Rabobank Certificates	-	(12)
Other changes	(69)	(125)
<b>Balance on December 31</b>	<b>24,549</b>	<b>23,583</b>

The reserves cannot be distributed among members. The consolidated financial statements of Rabobank include the financial information of Rabobank and other group companies.

Consolidated net profit for Rabobank was EUR 3,004 million (2017: EUR 2,674 million); net profit of Rabobank in the company financial statements was EUR 2,944 million (2017: EUR 2,616 million). The difference of EUR 60 million (2017: EUR 58 million) represents profit attributed to the other non-controlling interests.

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

# Notes to the Statement of Income

Amounts in millions of euros	2018	2017
Equity of Rabobank according to Part 9 of Book 2 of the Dutch Civil Code	41,366	38,741
A component of the equity of Rabobank Group: Trust Preferred Securities IV	389	394
A component of the equity of Rabobank Group: Other non-controlling interests	481	475
<b>Total group equity under IFRS, as presented in consolidated financial statements</b>	<b>42,236</b>	<b>39,610</b>

## 21. Net Interest Income

Amounts in millions of euros	2018	2017
<b>Interest income</b>		
Cash and cash equivalents	341	269
Loans and advances to credit institutions	515	549
Loans and advances to customers	11,007	10,863
Derivatives used for fair value hedge-accounting	(320)	(414)
Available-for-sale financial assets	n/a	885
Financial assets at fair value through other comprehensive income	778	n/a
<b>Interest income from financial assets using the effective interest method</b>	<b>12,321</b>	<b>12,152</b>
Financial assets held for trading	36	38
Derivatives held as economic hedges	1,504	2,014
Financial assets designated at fair value	-	26
Financial assets mandatorily at fair value	26	n/a
Interest income on financial liabilities with a negative interest rate	172	158
Other	11	5
<b>Other interest income</b>	<b>1,749</b>	<b>2,241</b>
<b>Total interest income</b>	<b>14,070</b>	<b>14,393</b>

<b>Interest expense</b>		
Deposits from credit institutions	145	370
Deposits from customers	4,090	3,783
Debt securities in issue	2,896	2,904
Financial liabilities held for trading	10	21
Financial liabilities designated at fair value	199	461
Subordinated liabilities	729	756
Interest expense on financial assets with a negative interest rate	271	297
Other	(7)	(7)
<b>Total interest expense</b>	<b>8,333</b>	<b>8,585</b>
<b>Net interest income</b>	<b>5,737</b>	<b>5,808</b>

## 22. Net Fee and Commission Income

Amounts in millions of euros	2018	2017
<b>Fee and commission income</b>		
Payment services	698	668
Lending	512	492
Purchase and sale of other financial assets and handling fees	304	312
Insurance commissions	274	267
Other commission income – group companies	7	21
Other commission income	61	58
<b>Total fee and commission income</b>	<b>1,856</b>	<b>1,818</b>

<b>Fee and commission expense</b>		
Payment services	52	60
Handling fees	39	21
Custodial fees and securities services	9	10
Purchase and sale of other financial assets	-	-
Other commission expense – group companies	16	14
Other commission expense	19	21
<b>Total fee and commission expense</b>	<b>135</b>	<b>126</b>
<b>Net fee and commission income</b>	<b>1,721</b>	<b>1,692</b>

## 23. Income from Equity Interests

Amounts in millions of euros	2018	2017
Dividend income from shares	5	20
Results from interests in group companies	1,816	2,288
Results from other equity investments	68	35
Results from disposed interests	-	1
<b>Total income from equity interests</b>	<b>1,889</b>	<b>2,344</b>

## 24. Staff Costs

Amounts in millions of euros	2018	2017
Wages and salaries	2,006	2,084
Social security contributions and insurance costs	249	222
Pension costs	349	520
Other staff costs	629	566
<b>Total staff costs</b>	<b>3,233</b>	<b>3,392</b>

The average number of internal and external employees 34,400 (2017: 36,503), of which outside the Netherlands 3,340 (2017: 3,106). Expressed in FTEs, the average number of internal and external employees was 32,330 (2017: 34,043).

## 25. Regulatory Levies

The regulatory levies consist of bank tax, bank levies and contributions to the Single Resolution Fund and the Deposit Guarantee Scheme.



Banks operating in the Netherlands on October 1st of the current year are required to pay bank tax. There are two rates of bank tax applicable: A rate of 0.044% for current liabilities and a rate of 0.022% for long-term liabilities, based on the balance on December 2017. In 2018, Rabobank was charged a total of EUR 120 million (2017: EUR 136 million).

In 2018, the bank levy in Ireland amounted to EUR 20 million (2017: EUR 7 million). In 2018, the bank levy in Belgium amounted to EUR 11 million (2017: EUR 11 million).

On January 1, 2016 the European Single Resolution Fund (SRF) was set up. This fund has been established to improve the effectiveness of resolution instruments. Banks and investment firms that are in the scope of the SRM-regulation are obliged to contribute to the SRF. In 2018, the contribution to the Single Resolution Fund amounted to EUR 161 million (2017: EUR 152 million).

Per the end of 2015, the new pre-funded Deposit Guarantee Scheme was introduced. As of 2016, banks have to pay a premium on a quarterly basis. Target size of the scheme is 0.8% of total guaranteed deposits of all banks together. In 2018, the contribution to the Deposit Guarantee Scheme amounted to EUR 116 million (2017: EUR 140 million).

## 26. Income Tax

The major components of the income tax are included below.

<i>Amounts in millions of euros</i>	<i>2018</i>	<i>2017</i>
<b>Income tax</b>		
Reporting period	371	343
Adjustments of previous years	(3)	(15)
Deferred tax	2	(53)
<b>Total income tax</b>	<b>370</b>	<b>275</b>
Effective tax rate	11.2%	9.5%
Applicable tax rate	25.0%	25.0%

The effective tax rate differs from the applicable tax rate in 2018 mainly because of the net inclusion of income from group entities and the partial deduction of interest payments on Capital Securities.

# Other Notes to the Financial Statements

## 27. Professional Securities Transactions and Assets Not Freely Available

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

Amounts in millions of euros	2018	2017
Loans and advances to credit institutions	8,238	16,786
Loans and advances to customers	13,120	13,076
<b>Total</b>	<b>21,358</b>	<b>29,862</b>

Repurchase transactions and securities lending agreements concluded by Rabobank are included under "Due to credit institutions" and "Due to customers" as of December 31st totaled:

Amounts in millions of euros	2018	2017
Due to credit institutions	80	359
Due to customers	13	107
<b>Total</b>	<b>93</b>	<b>466</b>

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

Amounts in millions of euros		2018	2017
<b>Assets not freely available:</b>	<b>Related to type of liabilities:</b>		
Loans and advances to credit institutions	Derivatives	2,536	3,297
Loans and advances to customers	Due to customers, Debt securities in issue	18,667	8,020
Interest-bearing securities	Due to customers	3,286	4,195
<b>Total</b>		<b>24,489</b>	<b>15,512</b>

## 28. Contingent Liabilities

Rabobank enters into irrevocable loan commitments as well as contingent liabilities consisting of financial guarantees and standby letters of credit on behalf of its customers. Under these contracts Rabobank is required to perform under an obligation agreement or to make payments to the beneficiary on third party's failure to meet its obligations. The following table shows the amount of the maximum potential utilization of contingent liabilities.

Amounts in millions of euros	2018	2017
<b>Contingent liabilities consist of:</b>		
Financial guarantees	7,712	7,412
Loan commitments	33,839	33,967
Other commitments	22,791	20,656
<b>Total contingent liabilities</b>	<b>64,342</b>	<b>62,035</b>
<b>Of which:</b>		
Contingent liabilities of group companies	15,667	14,975

### Liabilities Relating to Operating Leases

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

Amounts in millions of euros	2018	2017
Not later than 1 year	67	93
Later than 1 year but not later than 5 years	225	312
Later than 5 years	178	233
<b>Total liabilities relating to operating leases</b>	<b>470</b>	<b>638</b>

The gross minimum lease payments The expected future minimum lease payments receivable from sub-leases are nil (2017: nil). The operating lease expenses are nil (2017: EUR 12 million) and included in "Other administrative expenses" in the statement of income.

### Contingent Liabilities Related to Income Tax

The Dutch government abolished article 29a of the Dutch Corporate Income Tax Code as of January 1, 2019. Article 29a of the Dutch Corporate Income Tax Code was included in the Dutch Corporate Income Tax Code so that capital instruments issued by credit institutions and which are covered by EU regulation 575/2013 would be considered tax deductible. As a result of the abolition the payment on these capital instruments will not be tax deductible anymore as from January 1, 2019.

It seems that the abolition has no consequences for previous years. However, if the European Commission would decide to start a formal investigation anyway and ultimately would conclude that this is a case of state aid for the previous years, Rabobank may have to repay tax benefits it received from 2015 until 2018.

In this context, Rabobank issued Capital Securities in January 2015, April 2016 and September 2018, amounting respectively to EUR 1.5 billion at a fixed interest rate of 5.5%, EUR 1.25 billion at a fixed interest rate of 6.625%, and EUR 1.0 billion at a fixed interest

rate of 4.625%. The contingent liability related to this matter amounts to EUR 140 million (2017: EUR 96 million).

### Liability Undertakings

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

- Bodemgoed B.V.
- De Lage Landen America Holdings B.V.
- De Lage Landen Corporate Finance B.V.
- De Lage Landen Facilities B.V.
- De Lage Landen International B.V.
- De Lage Landen Vendorlease B.V.
- FGH Bank N.V.
- Rabo Direct Financiering B.V.
- Rabo Factoring B.V.
- Rabo Financial Solutions Holding B.V.
- Rabo Groen Bank B.V.
- Rabo Lease B.V.
- Rabo Merchant Bank N.V.
- Rabo Mobiel B.V.
- Rabobank International Holding B.V.

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

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

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

### Cross-Guarantee System

Following approval by the Dutch Central Bank, the cross-guarantee system (a remnant of the previous cooperative structure of Rabobank Group) was terminated on December 11, 2018. There are no outstanding, residual and/or contingent liabilities.

Up until the system's termination on December 11, 2018, the remaining participants were:

- Coöperatieve Rabobank U.A
- De Lage Landen International B.V.
- Rabo Factoring B.V. (previously named De Lage Landen Trade Finance B.V.)
- Rabo Lease B.V. (previously named De Lage Landen Financial Services B.V.)
- Rabo Direct Financiering B.V (previously named De Lage Landen Financiering B.V.)

### Fiscal Unit for Corporate Tax Purposes

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

## 29. Main Group Companies

In 2018, none of the group companies experienced any significant restrictions in the payment of dividends or the redemption of loans and repayment of advances. The option of group companies to pay dividend to Rabobank depends on various factors, including local regulatory requirements, statutory reserves and financial performance. Rabohypotheekbank N.V. merged with Coöperatieve Rabobank U.A. as of 1 December 2018.

On 31 December 2018	Share	Voting rights
<b>Main group companies</b>		
<b>The Netherlands</b>		
DLL International B.V.	100%	100%
BPD Europe B.V.	100%	100%
Obvion N.V.	100%	100%
<b>North America</b>		
Utrecht America Holdings Inc.	100%	100%
<b>Australia and New Zealand</b>		
Rabobank Australia Limited	100%	100%
Rabobank New Zealand Limited	100%	100%

## 30. Remuneration of the Supervisory Board and the Managing Board

The members of the Supervisory Board and the Managing Board are listed in Section 33 of these financial statements. Rabobank regards the members of the Managing Board and the Supervisory Board as key management personnel. In 2018, the remuneration of members of the Managing Board amounted to EUR 10.2 million (2017 Executive Board: EUR 8.6 million).

<i>Amounts in thousands of euros</i>	<i>Short-term employee benefits</i>	<i>Post-employee benefits</i>	<i>Other</i>	<i>Total</i>	
		<i>Pension scheme</i>	<i>Individual pension contribution</i>		
Berry Marttin	884	26	188	75	1,173
Jan van Nieuwenhuizen	884	26	188	-	1,098
Kirsten Konst	800	26	168	2	996
Wiebe Draijer	980	26	211	-	1,217
Mariëlle Lichtenberg	750	26	156	11	943
Ieko Sevinga	750	26	156	-	932
Bas Brouwers	884	26	188	3	1,101
Petra van Hoeken	884	26	188	-	1,098
Janine Vos	650	26	132	50	858
Bart Leurs	650	26	132	23	831
<b>Total 2018</b>	<b>8,116</b>	<b>260</b>	<b>1,707</b>	<b>164</b>	<b>10,247</b>
Members Managing Board	5,717	175	1,216	14	7,122
Former members Managing Board	1,178	34	252	8	1,472
<b>Total 2017</b>	<b>6,895</b>	<b>209</b>	<b>1,468</b>	<b>22</b>	<b>8,594</b>

Petra van Hoeken, member of the Managing Board, has laid down her role as Chief Risk Officer (CRO) per February 1, 2019. Els de Groot took over her activities as CRO. In summer 2019 Petra will resign for her remaining tasks and her employment relationship with Rabobank will be terminated. Petra will receive a severance pay equivalent to one year's salary of EUR 884,000 and her regular individual pension contribution.

At year-end 2018, there were a total of 2,761 DRNs (liability of EUR 78,554) outstanding with members of the Managing Board (2017: 1,963 pieces of which 486 regarding former members). The pension scheme for the members of the Managing Board is classified as a collective defined contribution scheme. The maximum income on the basis of which the members of the Managing Board can build up a pension amounts to a maximum, for 2018 ninety-nine thousand three-hundred and eighty four euros. Any income exceeding this amount is not pensionable. As of January 1, 2015, the members of the Managing Board therefore receive an individual pension contribution.

Expenses related to members and former members of the Supervisory Board totaled EUR 1.2 million (2017: EUR 1.3 million). This includes VAT and employer's contributions payable. In addition to the role of Member of the Supervisory Board of Rabobank, the remuneration also depends on the roles in the various committees. The composition of these committees is detailed in the Annual Report. The remuneration structure as of October 1, 2016 (exclusive of VAT and other charges) is:

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

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

<i>Amounts in thousands of euros</i>	<i>Remuneration</i>
Irene Asscher-Vonk	90
Leo Degle	90
Leo Graafsma (until April 18, 2018)	33
Petri Hofsté	104
Arian Kamp	110
Jan Nooitgedagt	110
Ron Teerlink	220
Pascal Visée	90
Marjan Trompetter	140
Annet Aris (from December 12, 2018)	5
<b>Total 2018</b>	<b>992</b>
<b>Total 2017</b>	<b>1,050</b>

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

<i>Amounts in millions of euros</i>	<i>Managing Board</i>		<i>Supervisory Board</i>	
	2018	2017	2018	2017
Loans, advances and guarantees				
<b>Outstanding on January 1</b>	5.8	4.1	1.9	1.3
Provided during the year	-	0.8	0.4	0.7
Redeemed during the year	(0.5)	(1.3)	(0.3)	(0.1)
Reduction on account of leaving office	-	(1.8)	-	-
Increase on account of taking office	-	3.9	0.2	-
<b>Outstanding on December 31</b>	<b>5.3</b>	<b>5.7</b>	<b>2.1</b>	<b>1.9</b>

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

<i>Amounts in millions of euros</i>	<i>Outstanding loans</i>	<i>Average interest rate (in %)</i>
On December 31 2018		
Bas Brouwers	0.5	2.6
Kirsten Konst	0.2	4.6
Bart Leurs	0.9	2.1
Mariëlle Lichtenberg	1.4	3.9
Berry Marttin	0.1	5.8
Jan van Nieuwenhuizen	1.2	2.0
Janine Vos	0.9	2.3

<i>Amounts in millions of euros</i>	<i>Outstanding loans</i>	<i>Average interest rate (in %)</i>
On December 31 2017		
Bas Brouwers	0.5	2.6
Kirsten Konst	0.2	4.0
Bart Leurs	0.9	2.1
Mariëlle Lichtenberg	1.8	4.3
Berry Marttin	0.2	5.8
Jan van Nieuwenhuizen	1.2	2.0
Janine Vos	0.9	2.3

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

<i>Amounts in millions of euros</i>	<i>Outstanding loans</i>	<i>Average interest rate (in %)</i>
On December 31 2018		
Annet Aris	0.2	5.2
Arian Kamp	1.3	1.7
Marjan Trompetter	0.6	2.5

<i>Amounts in millions of euros</i>	<i>Outstanding loans</i>	<i>Average interest rate (in %)</i>
On December 31 2017		
Arian Kamp	1.4	2.0
Marjan Trompetter	0.4	2.1

At year-end 2018, the members of the Supervisory Board not listed in the table had not received any loans, advances or guarantees. These transactions with members of the Managing Board and Supervisory Board were completed in person on the basis of employee terms and conditions and/or market rates for the Supervisory Board. The rates depend in part on the currency, the agreed fixed-interest period and the time the transaction was completed or the time a new fixed-interest term becomes effective.

Some members of the Supervisory Board have personally invested in Rabobank Certificates in person and/or through their own pension B.V. At year-end 2018, this involved in total 23,001 certificates.

	<i>Number of Rabobank Certificates</i>	<i>Remarks</i>
On December 31 2018		
Irene Asscher-Vonk	14,995	
Leo Degle	4,836	in pension BV

	<i>Number of Rabobank Certificates</i>	<i>Remarks</i>
On December 31 2018		
Kirsten Konst	800	
Mariëlle Lichtenberg	2,370	

## 31. Proposals Regarding the Appropriation of Available Profit for Rabobank

Of the profit of EUR 2,944 million, EUR 1,029 million is payable to the holders of Capital Securities and Rabobank Certificates in accordance with Managing Board resolutions. It is proposed that the remainder of the profit will be added to the general reserves held by Rabobank.

## 32. Events After the Reporting Period

On 15th January 2019 the British Parliament voted against the Brexit deal. Although Rabobank still believes that ultimately a hard Brexit will be avoided, the uncertainty has grown during the first months of 2019. Rabobank monitors the potential impact of Brexit and has prepared contingency plans on the basis of scenario analysis. As per the UK regulator PRA guidance, and to continue its banking activities in the UK post-Brexit, Rabobank submitted a Third Country Banking License application to the PRA/FCA and is actively engaged with home and host regulators (ECB, PRA and FCA) on the topic of Brexit preparedness. In the scenario of a hard Brexit, Rabobank expects a limited increase of the loan impairment allowance, as Rabobank's exposure to the UK is modest. Indirect effect of a Brexit could be negative for the Dutch economy as the UK is an important trade partner of the Netherlands.

In 2018 the Managing Board of Rabobank committed to a plan to sell part of its non-strategic business in the segment WRR. At December 31, 2018, a sale was not considered highly probable. At March 13, 2019, Rabobank is in the process of negotiating a transaction.



## 33. Authorization of the Financial Statements

The financial statements were signed by the Supervisory Board on March 13, 2019. The financial statements will be presented to the General Meeting, to be held on April 17, 2019, for adoption. With regard to the adoption of the financial statements of Rabobank, the Articles of Association state: "The resolution to adopt the financial statements will be passed by an absolute majority of the votes validly cast by the General Members' Council."

### On behalf of the Managing Board

Wiebe Draijer, *Chairman*

Bas Brouwers, *CFO*

Els de Groot, *CRO*

Kirsten Konst, *Member*

Bart Leurs, *Member*

Mariëlle Lichtenberg, *Member*

Berry Marttin, *Member*

Jan van Nieuwenhuizen, *Member*

Ieko Sevinga, *Member*

Janine Vos, *Member*

### On behalf of the Supervisory Board

Ron Teerlink, *Chairman*

Marjan Trompetter, *Vice Chairman*

Irene Asscher-Vonk, *Secretary*

Leo Degle

Arian Kamp

Jan Nooitgedagt

Petri Hofsté

Pascal Visée

Annet Aris

# Other Information

## *Statutory Provisions*

Profit can be used under a Managing Board resolution to pay distributions on participation rights and distributions on additional tier 1 instruments.

The remainder of the profit is added to the general reserves held by Rabobank. The Managing Board can also decide to make interim distributions to holders of participation rights and the holders of additional tier 1 instruments from the profit and/or the result. While Rabobank still exists, the reserves cannot be distributed to the members, neither in full, nor in part. The Managing Board has the right to make a distribution from the reserves on participation rights and/or additional tier 1 instruments. If the decision is taken at any time to dissolve Rabobank in order to have its business continued by another legal entity or institution, the reserves will be transferred to said other legal entity or institution.



## Independent auditor's report

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

### Report on the financial statements 2018

#### Our opinion

In our opinion:

- the consolidated financial statements give a true and fair view of the financial position of Coöperatieve Rabobank U.A. as at 31 December 2018 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code; and
- the company financial statements give a true and fair view of the financial position of Coöperatieve Rabobank U.A. as at 31 December 2018 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

#### What we have audited

We have audited the accompanying financial statements 2018 of Coöperatieve Rabobank U.A., Amsterdam ('Rabobank', 'the Bank' or 'the Company'). The financial statements include the consolidated financial statements of Coöperatieve Rabobank U.A. and its subsidiaries (together: 'the Group') and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the following statements for 2018: the consolidated statement of income, the consolidated statements of comprehensive income, changes in equity and cash flows; and
- the notes, comprising significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company statement of financial position as at 31 December 2018;
- the company statement of income for the year then ended; and
- the notes, comprising the accounting policies applied and other explanatory information.

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

*EH44X5NCPJUI-1288894667-935*

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## ***The basis for our opinion***

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

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

## ***Independence***

We are independent of Coöperatieve Rabobank U.A. in accordance with the European Regulation on specific requirements regarding statutory audit of public interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

## ***Our audit approach***

### ***Overview and context of the 2018 audit***

Rabobank is an international financial services provider operating on the basis of cooperative principles. Rabobank operates globally in 38 countries with focus on banking in the Netherlands and food and agricultural financing in the Netherlands and abroad. Its operations include domestic retail banking, wholesale banking, international rural and retail banking, leasing and real estate. As the group comprises of multiple components, we considered our group audit scope and approach as set out in the section 'The scope of our group audit'.

Rabobank is in the midst of a transformation. During 2018 Rabobank continued executing the 'Strategic Framework 2016-2020'. The strategic objectives that impact the financial statements directly are focussed on balance sheet flexibility and reduction and further improving financial performance. As the ongoing transformation may affect systems, processes and controls, the risk of material misstatement increases within areas affected by this transformation. We therefore particularly focussed on those areas where the financial statements could be materially impacted. Next to our focus on IT due to the transformation process, the reliability and continuity of information processing is significant to the Bank's operational, regulatory and financial reporting processes and we identified this as a key audit matter. In the section 'Key audit matters' of this report we described where this was applicable during our audit.

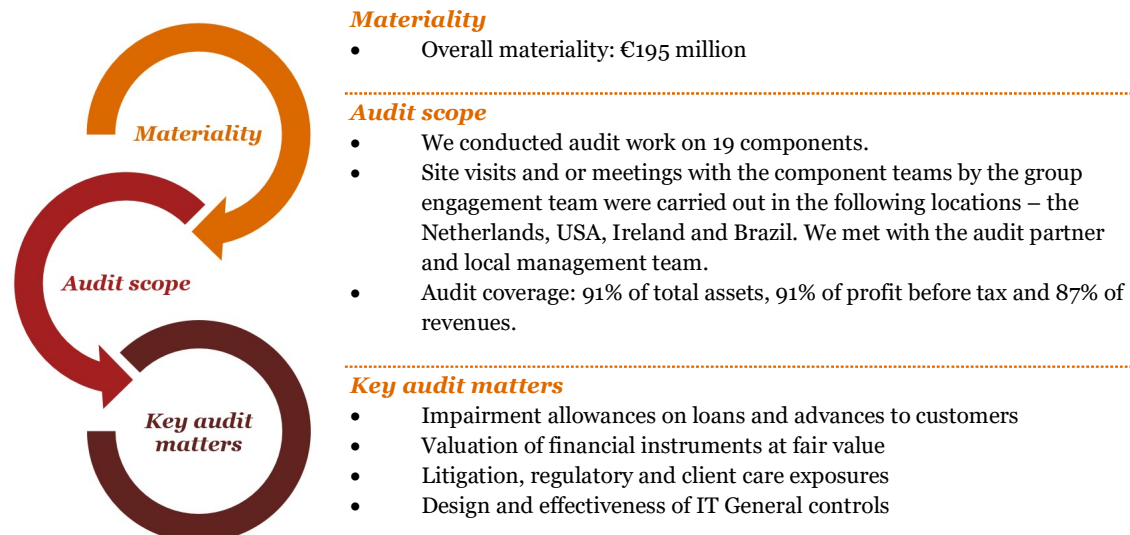
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular we considered where the Managing Board made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In paragraph "Judgements and estimates" in note 2.1 to the financial statements, the Bank describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty in combination with the magnitude in the impairment allowances on loans and advances to customers, valuation of financial instruments at fair value and provisioning for litigation, regulatory and client care exposures, we considered these to be key audit matters as set out in the key audit matter section of this report.



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

We ensured that the audit teams, both at group and at component levels, collectively contain the appropriate skills and competences which are needed for the audit of a bank. We therefore included specialists in the areas of IT, taxation and hedge accounting and experts in the areas of valuation of real estate, financial instruments and employee benefits in our team.

The outline of our approach was as follows:



### Materiality

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

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.



<b>Overall group materiality</b>	€195 million (2017: €181 million)
<b>Basis for determining materiality</b>	We used our professional judgement to determine overall materiality. As a basis for our judgement, we used 5% of profit before tax.
<b>Rationale for benchmark applied</b>	We used profit before tax as the primary benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. On this basis, we believe that profit before tax is an important metric for the financial performance of the Bank and is widely used within the industry.
<b>Component materiality</b>	To each component in our audit scope, we allocate, based on our judgement, materiality that is less than our overall group materiality. The range of materiality allocated across components was between €25.5 million and €75 million.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons. Examples of areas that we focussed on due to qualitative reasons are the accuracy and completeness of the fair value disclosure, the disclosure around the implementation of IFRS 9, the legal, regulatory and client care exposure and the remuneration of the Supervisory Board and the Managing Board.

We agreed with the Supervisory Board that we would report to them misstatements identified during our audit above €8.75 million (2017: €8.75 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### *The scope of our group audit*

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

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the components of the Group operate.

In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at the component level by the group engagement team and by each component auditor.

Rabobank has an internal audit department ('Audit Rabobank') that performs operational audits, compliance audits, IT audits, loan (valuation) audits, culture and behaviour audits, audits on internal control on financial reporting and financial statement audits. Audit Rabobank issued audit opinions on the financial information of certain of the components of Rabobank (for internal purposes only) to the Supervisory Board, Audit Committee and Managing Board. We considered, in the context of audit standard 610 'Using the work of internal auditors', whether we could make use of the work of Audit Rabobank and we concluded that this was appropriate. To arrive at this conclusion, we evaluated the competence, objectivity as well as the systematic and disciplined approach applied by Audit Rabobank, and more specific the financial audit team of Audit Rabobank. Subsequently we developed a detailed approach and model to make use of the work of Audit Rabobank in our financial statement audit. We were substantially and independently involved in the higher risk areas and or in areas or procedures that require significant judgement. During the audit process we worked closely with Audit Rabobank, had frequent status meetings and reviewed and "reperformed" some of their work which confirmed our initial assessment and reliance approach.





The group audit focused on the three individually financially significant components: Domestic Retail Banking Netherlands (not including Obvion and other associated entities), Wholesale Banking Netherlands and Treasury (WRR) and De Lage Landen (DLL). We further subjected 6 components for full scope audit procedures or an audit of certain specific account balances only, as they include significant or higher risk areas due to estimation uncertainty, higher fraud risk and complex items such as hedge accounting. Additionally, we selected 10 components for full scope audit procedures or an audit of certain specific account balances only, to achieve additional coverage on financial line items in the consolidated financial statements. In total, in performing these procedures, we achieved the following coverage on the financial line items:

<b>Total assets</b>	91%
<b>Profit before tax</b>	91%
<b>Revenue</b>	87%

None of the remaining components represented individually more than 2% of total group assets, profit before tax or revenues. For those remaining components we performed, amongst other procedures, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within these components.

Group components in the Netherlands include the significant components Domestic Retail Banking Netherlands, WRR and DLL, but also include Real Estate Group, Obvion, hedge accounting and some other smaller components. The group engagement team utilizes the work of component teams for these entities. For components in the USA, Australia/New Zealand, Brazil and Ireland, we used component auditors who are familiar with the local laws and regulations to perform the audit work.

Where component auditors performed the work, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole.

We issued instructions to the component audit teams in our audit scope. These instructions included amongst others our risk analysis, materiality and scope of the work. We explained to the component audit teams the structure of the group, the main developments that are relevant for the component auditors, the risks identified, the materiality levels to be applied and our global audit approach. We had individual calls with each of the in-scope component audit teams during the year including upon the conclusion of their work. During these calls, we discussed the significant accounting and audit issues identified by the component auditors, the reports of the component auditors, the findings of their procedures and other matters, which could be of relevance for the consolidated financial statements.

In the current year, the group audit team visited the component in the Netherlands, USA, Brazil and Ireland at least once given the importance of the judgements, such as the impairment allowances on loan and advances to customers and the valuation of the loan and advances mandatorily at fair value, or significance to the group audit. During these visits, the group engagement team met with the component teams (including audit partner), discussed the audit approach in detail and met with local management. For the significant components and the USA, we reviewed selected working papers of the component auditors. The group team met the local Australian and New Zealand management during their visit in the Netherlands.



The group engagement team performed the audit work on the group consolidation, IT General Controls, financial statement disclosures and a number of complex items such as impairment allowances on loans and advances to customers, certain accounting matters, such as the legal mergers of FGH and Rabohypotheekbank with Rabobank, income tax on the Dutch Fiscal Unity and the legal provisions at the head office.

By performing the procedures above at components, combined with the additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the financial statements.

### *Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance to the audit of the financial statements. We have communicated the key audit matters to the Audit Committee and Supervisory Board. The key audit matters are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. In this section we described the key audit matters and included a summary of the audit procedures we performed on those matters.

With regards to the comparison of key audit matters in our auditor's report 2018 with 2017, the disclosure on the impact of IFRS 9 'Financial Instruments' (IFRS 9) on the opening balance as of 1 January 2018 is not considered a separate key audit matter anymore due to the fact that IFRS 9 is implemented as of 1 January 2018. We elaborated on the implementation of IFRS 9 hereafter in our key audit matter with respect to the impairment allowances on financial assets.

We note that the key audit matters related to 'Impairment allowance on loans and advances to customers', 'valuation of financial instruments at fair value', 'Litigation, regulatory and client care exposures' and 'Design and effectiveness of IT General Controls' are recurring. These relate to the Bank's primary business processes and objectives and did not change significantly compared to prior year.

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

<i>Key audit matter</i>	<i>Our audit work and observations</i>
<p><b><i>Impairment allowances on loans and advances to customers</i></b></p> <p>Refer to note 2.15 'Loans and advances to customers and loans and advances to credit institutions', note 2.16 'Impairment allowances on financial assets', note 4.3.3. 'Credit risk exposure and credit quality' and note 4.3.4 'Impairment allowances on financial and credit related contingent liabilities and note 12 'Loans and advances to customers'.</p> <p>The Bank's portfolio of loans and advances to customers amounts to EUR 429.4 billion as at 1 January 2018 and EUR 436.6 billion as at 31 December 2018. These loans and advances are measured at amortised cost, less a loan impairment allowance of EUR 4.5 billion as at 1 January 2018 and EUR 3.7 billion as at 31 December 2018.</p>	<p><b><i>Control design and operation effectiveness</i></b></p> <p>We evaluated the design and tested the operating effectiveness of key controls per 1 January 2018 and 31 December 2018 over:</p> <ul style="list-style-type: none"> <li>• The internal credit management process to assess the loan quality classification to identify impaired loans;</li> <li>• Implementation of the definition of default applied in calculating the modelled loan impairments;</li> <li>• Input controls and data lineage testing in respect of the critical data elements applied in the modelled loan impairments;</li> </ul>



### Key audit matter

#### Three-stage expected credit loss impairment model

In connection with the implementation of IFRS 9 as from 1 January 2018, Rabobank implemented a three-stage expected credit loss impairment model as follows:

- Recognition of allowances measured at an amount equal to 12-month expected credit losses (stage 1);
- Recognition of allowances measured at an amount equal to the lifetime expected credit losses for loans and advances for which credit risk has significantly increased since initial recognition, but that are not credit-impaired (stage 2); and
- Financial assets that are credit-impaired (stage 3).

Rabobank determines loan impairments in stage 1 and 2 on a modelled basis whereas the loan impairments in stage 3 are determined on either a modelled basis or on a specific loan-by-loan basis.

#### Modelled loan impairments

For the modelled loan impairments Rabobank utilises point in time probability of default (PD), loss given default (LGD) and exposure at default (EAD) models for the majority of the loan portfolio. Three global macroeconomic scenarios (consisting of a baseline, a baseline minus and a baseline plus scenario) are incorporated into these models and probability weighted in order to determine the expected credit losses. In case of data quality issues, or when unexpected external developments are not sufficiently covered by the outcome of the impairment models, adjustments may be made (so called: top level adjustments).

#### Individually credit-impaired loans

For credit-impaired loans that are assessed on an individual basis, the impairment allowance is based on the weighted average of the net present value of expected future cash flows (including forward looking information and the valuation of underlying collateral) in three different scenarios: a sustainable cure, an optimizing and a liquidation scenario.

#### Judgements and estimation uncertainty

The judgements and estimation uncertainty in the impairment allowance of loans and advances is primarily linked to the following aspects:

- Significant increase in credit risk: judgement is required to transfer assets from stage 1 to stage 2;

### Our audit work and observations

- The valuation of future cash flows and existence and valuation of collateral, based on the appropriate use of key parameters for the specific impairment allowance;
- The methodology and controls applied in measuring and determining significant increase in credit risk;
- The governance over development, validation, calibration and implementation of the PD, EAD and LGD impairment models;
- The review and approval process that management has in place for the outputs of the impairment models, and the top level adjustments that are applied to model outputs; and
- The completeness and accuracy of the transfer of data from underlying source systems to the expected loss calculations.

The majority of these controls were designed and operated effectively. For certain controls, specifically around the loan quality classification process in the small and medium size business loans domain, remedial control activities and impact assessments were performed by management. Based on the testing of controls and additional testing of remedial actions, we determined that it was appropriate to place reliance on the above controls for the purpose of our audit.

#### Assessment of model based impairment allowances

In our audit (using our internal model experts), we evaluated the reasonableness of model methodology, assessed model validation reports prepared by Rabobank's model validation department, evaluated the macro economic scenarios using our internal economic department, performed recalculation of the loan loss provision for a sample of loans and performed backtesting procedures on key model parameters per 1 January 2018 and 31 December 2018. Also we tested input data and data lineage in respect of the critical data elements and challenged management that they provided us with reasonable explanations and evidence supporting the key model parameters (including the significant increase in credit risk, PD, LGD and EAD). Based on the above we assessed the methodology and inputs to be in line with market and industry practice.

Finally, we evaluated the top level adjustments per 1 January 2018 and 31 December 2018 by obtaining evidence that these adjustments were necessary to balance underlying model and data limitations and we found the provided supporting evidence to be reasonable.



### Key audit matter

- Forward-looking information: Rabobank includes forecasts of future events and economic conditions (forward looking information) in the modelled loan impairments. In doing so, the Bank prepares three macro-economic scenarios which include forecasts of future economic conditions, such as gross domestic product growth, unemployment rates and interest rates. Finally, these three macroeconomic forecasts are probability weighted in the expected credit losses calculation. The process of preparing the macro- economic scenarios and probability weighting these, require judgment.
- Measurement of expected credit losses: The probability of default (PD) multiplied by loss given default (LGD) multiplied by exposure at default (EAD) inputs are used to estimate expected credit losses. These inputs require estimates as follows:
  - PD: The probability of default is an estimate of the likelihood of default over a given time horizon;
  - EAD: The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after reporting date; and
  - LGD: The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that are expected to be received, including cash flows expected from collateral and other credit enhancements.
- Top level adjustments to the model outcome: Adjustments to the outcome of models due to unexpected external developments or data quality issues require judgement.
- Measurement of individually assessed credit-impaired financial asset: For credit-impaired financial assets that are assessed on an individual basis, discounted cash flow calculations are performed for three scenarios. In such cases, judgement is required for the estimation of the expected future cash flows and the weighting of the three scenarios.

### Our audit work and observations

#### *Assessment of individually credit-impaired loans*

Considering the inherent estimation risk of individually credit-impaired loans, we selected appropriate samples and analysed the latest developments at the borrowers and considered whether the key judgements and significant estimates applied in the impairment. Allowance were acceptable for both the balance per 1 January 2018 and 31 December 2018. This included the following procedures:

- Evaluate the feasibility of the forecasted cash flows (including the use of forward looking information) for each scenario by comparing them to historical performance of the customer and the expected future performance where applicable;
- assessing the external collateral valuator's credentials and the valuation with an independent valuation performed by our valuation experts;
- assessing management's analysis of the probability allocation of each individual scenario for each credit-impaired loan; and
- Recalculate the provision on the individually credit-impaired loans.

In addition, we selected a risk-based sample of individual loans from the "performing book" and the so called "watch list". In doing so amongst others we selected loans with a large contribution to the loan impairment charge in 2018 as well as loans that have a high individual exposures. Based on the above we assessed the methodology and inputs to be in line with market and industry practice.

Furthermore, we assessed the adequacy of the disclosures, including disclosures on estimation uncertainty and judgements, to assess compliance with the disclosure requirements included in EU-IFRS.



### Key audit matter

Given the significance of the number of accounting policy choices, judgements taken by management, the complexity and the inherent limitations to the inputs required by the loan impairment models, this areas is subject to a higher risk of material misstatement due to error or fraud. Therefore, we considered this a key audit matter in our audit.

#### Valuation of financial instruments at fair value

Refer to note 2.3 'Derivatives and hedging', note 2.4 'Financial assets and liabilities held for trading', note 2.5 'Financial assets and financial liabilities designated at fair value', note 2.7 'Financial assets at fair value through other comprehensive income' and note 4.9 'Fair value of financial assets and liabilities'.

The financial instruments that are measured at fair value which are significant to the financial statements are:

- Derivatives (EUR 22.6 billion of derivative assets and EUR 23.9 billion of derivative liabilities are level 2 and level 3 financial instruments at 31 December 2018);
- Financial assets held for trading (EUR 0.5 billion of financial assets held for trading are level 2 or level 3 financial instruments at 31 December 2018);
- Financial assets designated at fair value (EUR 0.01 billion of financial assets designated at fair value are level 2 or level 3 financial instruments at 31 December 2018);
- Financial assets mandatorily at fair value (EUR 2.1 billion of financial assets mandatorily at fair value are level 2 or level 3 financial instruments at 31 December 2018);
- Financial assets at fair value through other comprehensive income (EUR 4.3 billion of financial assets at fair value through other comprehensive income are level 2 or level 3 financial instruments at 31 December 2018);
- Non-current assets held for sale (EUR 0.3 billion of non-current assets held for sale are level 2 or level 3 financial instruments at 31 December 2018); and
- Financial liabilities designated at fair value (EUR 6.6 billion of financial liabilities designated at fair value are level 2 or level 3 financial instruments at 31 December 2018).

### Our audit work and observations

#### Control design and operation effectiveness

Our audit work included, amongst others, understanding and evaluating the design and testing the operating effectiveness of the controls at the Bank that cover the valuation process for financial instruments such as:

- The governance over valuation models, including the validation and approval process of such models, subsequent changes thereto and an assessment of the impact of limitations inherent to the models used;
- Controls that cover the collateral valuation and dispute process for collateralised derivatives;
- Controls over the completeness and accuracy of data inputs used in the valuation of financial instruments; and
- The Bank's independent price verification process where the reasonableness of models and outputs is assessed.

Based on these audit procedures, we determined that we could place reliance on these controls for the purpose of our audit.

#### Substantive audit procedures

With assistance of our internal valuation specialists, we tested the appropriateness of the methodologies, models and inputs applied in the valuation of the level 2 and 3 financial instruments in the balance sheet. Based on these procedures we determine that the methodologies, models and inputs used by the Bank are fit-for-purpose and in line with best practices applied in the market. Furthermore, we reconciled the most significant inputs to independent sources and external available market data, where possible. Where assumptions and estimates were made by management on key valuation inputs, we assessed and evaluated these by comparing them to (other) available market data. In particular, we performed the following procedures on the most significant judgements in the assumptions and estimates used by management in respect of the level 2 instruments:



### Key audit matter

#### Models and assumptions

For financial instruments in active markets and for which observable market prices or other market information is available, there is a high degree of objectivity involved in determining the fair value (level 1 financial instruments). However, when observable market data does not consist of quoted prices in active markets (level 2 financial instruments) or market information is not available at all (level 3 financial instruments, which mainly relate to Private Equity investments and the loan portfolio of ACC), the fair value is subject to significant judgement by management. The fair value of such financial instruments (level 2 and level 3 financial instruments) is determined using valuation techniques (such as discounted cash flow models and option valuation models) and the use of assumptions and estimates such as market prices of comparable instruments, credit spreads, yield curves, correlations and volatilities.

The most significant estimates by management in this respect relate to:

- The credit valuation adjustment (CVA) and debit valuation adjustment (DVA) used in the valuation of derivatives;
- The credit yield curves used in the valuation of financial liabilities designated at fair value.
- The multiplier, which is applied to the EBITDA used in the valuation of private equity investments; and
- The valuation of the collateral with respect the loan portfolio of ACC and the appetite to buy this type of assets.

Given the size of the portfolios, the level of judgement and complexity involved in determining the fair value of these financial instruments, this areas is subject to a higher risk of material misstatement due to error or fraud. Therefore, we determined this to be a key audit matter in our audit.

### Our audit work and observations

- We assessed the CVA and DVA used in the valuation of derivatives, by comparing assumptions and inputs to market data; and
- Assessing the data points used by management in determining the credit yield curves used in the valuation of financial liabilities designated at fair value by comparing these data points against available market data. Furthermore we evaluated the interpolation for data points for which limited market data is available.

Although our own valuation tools and techniques also provide inherently judgemental outcomes, we considered this to be an appropriate basis for challenging management's outcomes. We found that management's outcomes derived from the model used for the fair value of the financial instruments, fell within an acceptable range of outcomes.

For the private equity investments, we evaluated, with assistance of our internal valuation specialists, the multiplier that is applied to the EBITDA to determine if this is in line with best practices in the market.

For the loan portfolio of ACC, with assistance of internal specialists, we assessed and challenged the key value drivers and assumptions used by management, evaluated the sensitivities analysis performed, recalculated for a sample of loans the fair value and tested the completeness and accuracy of the input data by reconciling to the underlying source systems (including the valuation of collateral). Based on these procedures we determine that the methodology, and inputs used by the Bank are reasonable and in line with best practices applied in the market.

Furthermore, we assessed the adequacy of the disclosures to assess compliance with the disclosure requirements included in EU-IFRS.





## Key audit matter

### *Litigation, regulatory and client care exposures*

Refer to note 2.23 'Provisions', note 4.10 'Legal and arbitration proceedings' and note 26 'Provisions'.

### *Completeness of identification of emerging compliance or litigation areas*

There is an industry risk that emerging compliance or litigation areas have not been identified and or addressed by management for financial statement purposes. This includes the consideration whether there is a need for the recognition of a provision or a contingent liability disclosure on the future outcome of legal or regulatory processes.

In line with Standard 250 we made in our audit approach a distinction between those laws and regulations which:

- Have a direct effect on the determination of material amounts and disclosures in the financial statements. For this category we believe that we obtained sufficient audit evidence regarding compliance with the provision of those laws and regulations; and
- Not have a direct effect on the determination of material amounts and disclosures in the financial statement, but where compliance may be fundamental to the operating aspect of the business, to the Bank's ability to continue its business or to avoid material penalties. For this category, we performed specific procedures to identify non-compliance with those laws and regulations that may have a material effect on the financial statements.

We identified that the risk of non-compliance with laws and regulations relates mainly to the laws and regulations which have an indirect impact on the financial statements, such as Anti-Money Laundering and Anti-Terrorist Financing Act (Wwft), inclusive of global regulations on Anti-Money Laundering (AML), Client Due Diligence (CDD) and Compliance, and Market Abuse Regulation.

## Our audit work and observations

### *General*

We obtained an understanding of the significant laws and regulations with which the entity has to comply and how the entity is instituting and operating appropriate systems of internal control to comply with those laws and regulations by inquiry of management and designed procedures to confirm that the Bank has appropriate processes over:

- Developing, publicizing and following a code of conduct, including ensuring employees are properly trained and understand the code of conduct and monitoring compliance with the code of conduct and acting appropriately to discipline employees who fail to comply with it;
- Engaging legal advisors to assist in monitoring legal requirements;
- Assigning appropriate responsibilities to the internal audit function, audit committee and compliance function; and
- Instituting and operating appropriate systems of internal control.

### *Control design and operating effectiveness*

We understood, evaluated and tested the design and operating effectiveness of controls of the Bank to identify litigation and regulatory exposures within the group. We determined that we could place reliance on these controls for the purpose of our audit.

### *Specific procedures*

We met with different members of the Managing Board on a regular basis to understand the emerging and potential exposures that they identified. We challenged management's view on these exposures based upon our knowledge and experience of emerging industry trends and the regulatory environment.

To identify potential regulatory investigations that could lead to the need for potential new provisions or disclosures in the financial statements we read the Bank's relevant correspondence with the Autoriteit Financiële Markten ("AFM"), De Nederlandse Bank ("DNB") and European Central Bank ("ECB"). We met on a trilateral and bilateral basis with the joint supervisory team of DNB and ECB during the year.

We read the minutes of the Managing Board and the Supervisory Board meetings and attended all Risk- and Audit committee meetings throughout the year.



### **Key audit matter**

#### **Management judgement**

The recognition and measurement of provisions and the disclosure of contingent liabilities requires considerable management judgement around future outcome of legal, regulatory or client care disputes, including the provision for the execution of the Uniform Recovery Framework for SME Interest Rate Derivatives. As at 31 December 2018 the SME provision amounted to EUR 316 million.

Given the inherent uncertainty and the judgemental nature of contingent liabilities and provisions, we determined the provisions and disclosures on contingent liabilities to be of particular importance to our audit, since this area is subject to a higher risk of material misstatement due to error or fraud. Therefore determined this to be a key audit matter in our audit.

### **Our audit work and observations**

We held regular bilateral meetings with the Chairs of the Supervisory Board, Audit committee and Risk committee.

We inquired with internal legal counsel to understand the risk position of new and existing regulatory matters and reviewed audit reports and assessments of the internal audit department relating to compliance with laws and regulations.

In general we noticed that compliance, related matters and improvement of procedures and tooling around compliance receive adequate attention of management.

More specifically we noticed significant management attention on specific programs in place that aim to improve the quality of its customer files and transactions monitoring throughout the entire network. Also following regulatory enforcement actions related to AML and CDD in the United States and the Netherlands. We obtained an understanding of the initiatives which are part of this program through inquiry of the program owners, Managing Board, Audit committee, reading correspondence with AFM, DNB, Federal Reserve and ECB related to these matters and discussed the outcomes of audits performed by Audit Rabobank with respect AML and CDD.

Based on the aforementioned we noticed that funds and resources were made available for this change program and that the program receives significant attention of management.

#### **Substantive audit procedures**

We obtained legal letters from the Bank's external lawyers to verify completeness of the identified exposures. We assessed customer complaints received and the analysis prepared by management of these complaints. We used this analysis to understand whether there were indicators of more systematic exposures being present for which provisions or disclosures should be made in the financial statements. These procedures did not result in the identification of any new provisions or systematic exposures.

The majority of our detailed audit work was on the provision for SME interest rate derivatives.



## Key audit matter

### Design and effectiveness of IT-General Controls

IT-General Controls (ITGCs) are controls, implemented in IT-processes, ensuring the integrity and continuity of IT-programs and data. Effective ITGCs are conditional for reliance on automated controls in the Bank's operations, and in our audit approach. Deficiencies in IT general controls as such could have a pervasive impact across the Bank's internal control framework.

In addition, the Bank has a number of long-term strategic regulatory and transformation projects, with important IT-components to continue to meet the high reporting standards and expectations from stakeholders relating to operating effectiveness, efficiency and data quality. Through the periods of change there is an increased risk that ITGCs are not operated as intended,

Therefore, we identified the Bank's IT-General Controls as a key audit matter.

## Our audit work and observations

We assessed the reasonableness of assumptions and interpretations of the SME framework by management in relation to their calculations by performing back testing procedures on the final settlements and offer letters send to customers before 31 December 2018 and comparing the results of the individual compensation offers to the original estimates of management. In addition we have sampled a number of individual files and reviewed for these files the compensation calculated and the accuracy of the input data used in the calculation. Based upon the procedures performed, we concur with the provision for SME interest rate derivatives accounted for by the Bank. We have assessed that the disclosures were sufficiently clear in highlighting the uncertainties and exposures of potential liabilities that exist.

Our efforts relating to understanding, evaluating and testing the design and operating effectiveness of ITGCs focused on:

- Entity level controls over information technology in the IT-organisation, including IT-governance, IT-risk management and cyber security management;
- Management of access to programs and data, including user access to the network, access to and authorizations within applications, privileged access rights to applications, databases and operating systems and physical access to data centres. As the Bank uses automated tools to manage access rights we have evaluated the use of these tools.
- Governance over the strategic IT-transformation projects and assessment of the impact on our 2018 audit;
- Management of changes to applications and IT-infrastructure, including the change management process and the implementation of changes in the production systems using automated deploy mechanisms; and
- Computer Operations, including batch monitoring, back-up and recovery and incident management.

We focused on the ITGCs to the extent relevant for the purpose of our audit of the financial statements. Most of these controls operated effectively. For certain controls, specifically relating to privileged access rights to a limited number of systems and certain deployment mechanisms, remedial control actions were taken by management.



### ***Key audit matter***

### ***Our audit work and observations***

Based on the testing of controls and additional testing of remedial control actions, we determined that we could place reliance on these controls for the purpose of our audit.

## ***Report on the other information included in the annual report***

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

- About this report;
- Chairman's foreword;
- Management report;
- Appendices;
- Corporate Governance; and
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

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

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

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

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

The Managing Board is responsible for the preparation of the other information, including the management report and the other information in accordance with Part 9 Book 2 of the Dutch Civil Code.

## ***Report on other legal and regulatory requirements***

### ***Our appointment***

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



### ***No prohibited non-audit services***

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public interest entities.

### ***Services rendered***

The services, in addition to the audit, that we have provided to the Bank and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 50 'cost of external independent auditor' to the financial statements.

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## **Responsibilities for the financial statements and audit**

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### ***Responsibilities of the Managing Board and the Supervisory Board for the financial statements***

The Managing Board is responsible for:

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

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

The Supervisory Board is responsible for overseeing the Bank's financial reporting process.

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### ***Our responsibilities for the audit of the financial statements***

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

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

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

Amsterdam, 13 March 2019  
PricewaterhouseCoopers Accountants N.V.

Original has been signed by R.E.H.M. van Adrichem RA



## ***Appendix to our auditor's report on the financial statements 2018 of Coöperatieve Rabobank U.A.***

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

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

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

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

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





We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect, we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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

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



## *Assurance report of the Independent auditor*

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

### *Assurance report on the effectiveness of internal control over the consolidated financial statements*

#### *Our opinion*

In our opinion the statement of the Managing Board of Rabobank regarding its assessment of the effectiveness of internal control over the consolidated financial statements of Rabobank as of 31 December 2018, is prepared in all material respects, in accordance with the criteria based on the framework set out in 2013 by the Committee of Sponsoring Organisations of the Treadway Commission (COSO), as defined in Internal Control – Integrated Framework.

#### *What we have audited*

The object of our assurance engagement concerns the effectiveness of the internal control over the consolidated financial statements of Coöperatieve Rabobank U.A. (hereafter: Rabobank) as at 31 December 2018 (hereafter: 'the internal control').

#### *The basis for our opinion*

We conducted our assurance engagement, in accordance with Dutch law, including the Dutch Standard 3000A 'Assurance engagements, other than audits or reviews of historical financial information (attestation-engagements)' ('Assurance-opdrachten anders dan opdrachten tot controle of beoordeling van historische financiële informatie (attest-opdrachten)'). This assurance engagement is aimed to provide reasonable assurance. Our responsibilities under this standard are further described in the section 'Our responsibilities for the assurance engagement' of our report.

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

#### *Independence and quality control*

We are independent of Rabobank in accordance with the 'Code of Ethics for Professional Accountants, a regulation with respect to independence' ('Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' - ViO) and other relevant independence requirements in the Netherlands. Furthermore we have complied with the 'Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct' ('Verordening gedrags- en beroepsregels accountants' - VGBA).

We apply the 'detailed rules for quality systems' ('Nadere voorschriften kwaliteitssystemen') and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other applicable legal and regulatory requirements.

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### *Criteria for our assurance engagement*

Rabobank's internal control over consolidated financial statements is a process designed to provide reasonable assurance that Rabobank maintained, in all material respects, effective internal control over the consolidated financial statements as at 31 December 2018, in accordance with the criteria based on the framework set out in 2013 by the Committee of Sponsoring Organisations of the Treadway Commission (COSO), as defined in Internal Control – Integrated Framework (hereafter: COSO criteria). Rabobank's internal control over consolidated financial statements includes those policies and procedures that:

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

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### *Inherent limitations*

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

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### *Responsibilities for the internal control and the assurance engagement*

#### *Responsibilities of the Managing Board*

The Managing Board of Rabobank is responsible for the preparation of the internal control statement in accordance with the COSO criteria as further explained in the paragraph Criteria in this report, including the identification of the intended users and the criteria being applicable for the purposes of the intended users.

The Managing Board is also responsible for such internal control as it determines is necessary to enable the preparation of an internal control statement that is free from material misstatement, whether due to fraud or error.

The statement of the Managing Board regarding its assessment of the effectiveness of internal control over the consolidated financial statements is included in note 55 of the consolidated financial statements.

#### *Our responsibilities for the assurance engagement*

Our responsibility is to plan and perform the assurance engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our opinion aims to provide reasonable assurance that the internal control statement is prepared, in all material respects, in accordance with the COSO criteria as further explained in the paragraph Criteria in this report. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements.



Misstatements may arise due to fraud or error and are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the internal control statement. The materiality affects the nature, timing and extent of our assurance procedures and the evaluation of the effect of identified misstatements on our opinion.

### Procedures performed

An assurance engagement includes, amongst others, examining appropriate evidence on a test basis. We have exercised professional judgement and have maintained professional scepticism throughout the assurance engagement, in accordance with the Dutch Standard 3000A, ethical requirements and independence requirements.

Our main procedures include:

- gaining knowledge about Rabobank's internal control over consolidated financial statements, including controls over the effectiveness of such controls in accordance with the criteria as included in COSO criteria;
- based on this knowledge, assessing of the risks that the internal control statement contains material misstatements;
- responding to the assessed risks, including the development of an overall approach, and determining the nature, timing and extent of further procedures;
- performing further procedures clearly linked to the identified risks, using a combination of inspection, observation, confirmation, recalculation, re-run, analytical procedures and making inquiries. Such further procedures involve substantive procedures, including obtaining corroborating information from sources independent of the entity and, depending on the nature of the object, testing the actual effectiveness of the control measures; and
- evaluating the adequacy of the assurance information.

Amsterdam, 13 March 2019

PricewaterhouseCoopers Accountants N.V.

Original has been signed by R.E.H.M. van Adrichem RA



## *Assurance report of the Independent auditor*

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

### *Assurance report on the non-financial & sustainability information 2018*

#### *Our conclusion*

Based on our procedures performed nothing has come to our attention that causes us to believe that the non-financial & sustainability information included in the Annual Report 2018 of Coöperatieve Rabobank U.A. (hereafter: “the Annual Report”) does not present, in all material respects, a reliable and adequate view of:

- the policy and business operations with regard to corporate social responsibility; and
  - the thereto related events and achievements for the year ended 31 December 2018,
- in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the internally applied reporting criteria as included in the section ‘reporting criteria’.

#### *What we have reviewed*

We have reviewed the non-financial & sustainability information included in the Annual Report for the year ended 31 December 2018, as included in the following sections in the Annual Report (hereafter: “the non-financial & sustainability information”):

- Rabobank at a Glance
- Excellent Customer Focus
- Meaningful Cooperative
- Empowered Employees
- Rock-Solid Bank
- Appendices
  - Appendix 1: About this Report
  - Appendix 2: Methodology & Definitions of Non-Financial Key Figures
  - Appendix 3: Sustainability Facts & Figures
  - Appendix 4: Dialogue with Clients

This review is aimed at obtaining a limited level of assurance.

The non-financial & sustainability information comprises a representation of the policy and business operations of the Coöperatieve Rabobank U.A. and its subsidiaries (hereafter: “Rabobank” or “the Bank”) with regard to corporate social responsibility and the thereto related business operations, events and achievements for the year ended 31 December 2018.

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### *The basis for our conclusion*

We have performed our review in accordance with Dutch law, which includes the Dutch Standard 3810N 'Assurance-opdrachten inzake maatschappelijke verslagen' ('Assurance engagements on corporate social responsibility reports'). Our responsibilities under this standard are further described in the section 'Our responsibilities for the review of the non-financial & sustainability information' of this assurance report.

We believe that the assurance information we have obtained is sufficient and appropriate to provide a basis for our conclusion.

### *Independence and quality control*

We are independent of Rabobank in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other for the engagement relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct').

We apply the 'Nadere voorschriften kwaliteitssystemen' (NVKS – 'Regulations for quality systems') and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other applicable legal and regulatory requirements.

### *Reporting criteria*

The non-financial & sustainability information needs to be read and understood in conjunction with the reporting criteria. Management of Rabobank is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

The reporting criteria used for the preparation of the non-financial & sustainability information are the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the internally applied reporting criteria, as disclosed in Appendix 1: "About this report" and Appendix 2: "Methodology & Definitions of Non-Financial Key Figures" of the Annual Report. The absence of a significant body of established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

### *Limitations to the scope of our review*

The non-financial & sustainability information includes prospective information such as expectations on ambitions, strategy, plans, estimates and risk assessments. Inherently, the actual results are likely to differ from these expectations. These differences may be material. We do not provide any assurance on the assumptions and the achievability of prospective information in the report.

The links to external sources or websites in the non-financial & sustainability information are not part of the non-financial & sustainability information reviewed by us. We do not provide assurance over information outside of the Annual Report.





## ***Responsibilities for the non-financial & sustainability information and the review***

### ***Responsibilities of management***

Management of Rabobank is responsible for the preparation of the non-financial & sustainability information in the Assurance Report in accordance with the reporting criteria as included in Appendix 1 “About this report” and Appendix 2: “Methodology & Definitions of Non-Financial Key Figures” on the pages 74 – 79, including the identification of stakeholders and the definition of material matters. The choices made by management regarding the scope of the information and the reporting policy are summarized in Appendix 1 “About this report” and Appendix 2: “Methodology & Definitions of Non-Financial Key Figures” on the pages 74 – 79 of the Annual Report. Management is responsible for determining that the applicable reporting criteria are acceptable in the circumstances.

Management is also responsible for such internal control as management determines is necessary to enable the preparation of the information that is free from material misstatement, whether due to fraud or errors.

### ***Our responsibilities for the review of the non-financial & sustainability information***

Our responsibility is to plan and perform the review engagement in a manner that allows us to obtain sufficient and appropriate assurance information to provide a basis for our conclusion.

Procedures performed to obtain a limited level of assurance are aimed to determine the plausibility of information and vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement. The level of assurance obtained in review engagements is therefore substantially less than the assurance obtained in audit engagements.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the information. The materiality affects the nature, timing and extent of our review procedures and the evaluation of the effect of identified misstatements on our conclusion.

### ***Procedures performed***

We have exercised professional judgement and have maintained professional scepticism throughout the review, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Our procedures included amongst others:

- Performing an analysis of the external environment and obtaining insight into relevant social themes and issues and the characteristics of Rabobank.
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the non-financial & sustainability information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by management.
- Obtaining an understanding of the reporting processes for the non-financial & sustainability information, including obtaining a general understanding of internal control relevant to our review.
- Obtaining an understanding of the procedures performed by the internal audit department.



- Identifying areas of the non-financial & sustainability information with a higher risk of misleading or unbalanced information or material misstatement, whether due to fraud or error.
- Designing and performing further assurance procedures aimed at determining the plausibility of the non-financial & sustainability information responsive to this risk analysis. These procedures consisted amongst others of:
  - Interviewing management and relevant staff at corporate level, responsible for the sustainability strategy, policy and results.
  - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the report.
  - Obtaining assurance information that the non-financial & sustainability information reconciles with underlying records of Rabobank; and,
  - Performing an analytical review of the data and trends.
- Evaluating the consistency of the information with the sections and information included in the Annual Report which is not included in the scope of our review.
- Evaluating the presentation, structure and content of the non-financial & sustainability information; and,
- Considering whether the non-financial & sustainability information as a whole, including the disclosures, reflects the purpose of the reporting criteria used.

We communicate with the Supervisory Board on the planned scope and timing of the engagement and on the significant findings that result from our engagement.

Amsterdam, 13 March 2019  
PricewaterhouseCoopers Accountants N.V.

Original has been signed by R.E.H.M. van Adrichem RA

# Glossary of Terms

Term	
BPV (Basis Point Value)	BPV represents the absolute loss of the market value of equity if the yield curve as a whole changes in parallel by one basis point.
Carbon footprint	Total greenhouse gas emissions expressed in metric tonnes of carbon dioxide for Scope 1, 2 and 3.
Cash flow	Inflows and outflows of cash and cash equivalents.
Circular economy	Economic system where products and services are traded in closed loops. It's characterized as an economy which is regenerative by design, with the aim of retaining as much value as possible of products, parts and materials.
Clean technology	Technology regarding renewable energy, energy efficiency, lighting, water and waste management.
Common equity tier 1 capital	This capital is determined based on the regulator's requirements. For Rabobank, this constitutes the sum of retained earnings, Rabobank Certificates, share of noncontrolling interests, reserves and transitional provisions, minus estimated dividends and deductions.
Cost/income ratio	Operating expenses related to income.
Country risk	With respect to country risk, a distinction is drawn between transfer risk and collective debtor risk. Transfer risk relates to the possibility of foreign governments placing restrictions on funds transfers from debtors in their own country to creditors in other countries. Collective debtor risk is the risk that a large number of debtors in a particular country will all be unable to fulfill their obligations owing to the same cause.
Credit risk	The risk of loss if the bank's counterparties are unable to meet their loan obligations to the bank.
EAD (Exposure At Default)	The bank's expected exposure in the event and at the time of a counterparty's default.
EatR (Equity at Risk)	Measure indicating the percentage by which the market value of equity will decrease if the yield curve increases (in parallel) by one percentage point.
Economic capital or internal capital requirement	<p>This refers to the minimum capital buffer required in order to offset all unexpected losses caused by the various risks to which a bank is exposed during a specific time period (one year), assuming a specific reliability interval.</p> <p>Refers to having a two-way dialogue with key stakeholders, such as our employees, business partners, clients and society to learn and understand the challenges they face, the innovations in the market, and developments in sustainability frames of reference. Engagement contributes to ongoing learning and improvement by enabling Rabobank to:</p> <ul style="list-style-type: none"><li>• identify and create commercial opportunities;</li><li>• to identify and appraise risks;</li><li>• have the opportunity to remedy grievances among the Group's stakeholders;</li><li>• share our knowledge and networks with our clients to motivate them to deal responsibly with their sustainability issues.</li></ul>
Engagement	Rabobank Committee established in 1998 which assesses practical situations that have an underlying ethical dilemma and weighs them against Rabobank's norms and values.
Ethics Committee	
Equity capital ratio	Retained earnings and Rabobank Certificates related to risk-weighted assets.
Funding	Funds used by the bank to finance its lending operations.
Green Bond	Fund allocated to the financing of renewable energy projects (solar and wind).

## Term

Green Mortgage	Mortgage that encourages customers to buy energy efficient new homes by giving them a discount (0.5%) on the interest.
Hybrid capital	Capital including components of equity and liabilities, forming part of the bank's tier 1 capital.
IatR (Income at Risk)	This measure indicates, with some degree of reliability, the maximum loss of interest profit caused by a sharp increase or decline in money market interest rates over the next 12 months.
Impact Loan	Loan with a significant interest account introduced by the European Investment Bank (EIB) and Rabobank for sustainability frontrunners in the Netherlands with a positive social impact.
Impaired loans	Loans for which a provision has been made.
Interest rate risk	The risk that the bank's financial performance and/or economic value, based on the balance sheet structure, is negatively affected by trends in the money market.
LGD (Loss Given Default)	Estimate of economic loss in the event of default on the part of the debtor. The LGD is expressed as a percentage of the EAD.
Liquidity risk	The risk that a bank will not be able to fulfill all its payment and repayment obligations on time, as well as the risk that it will at some time be unable to fund increases in assets at a reasonable price, if at all.
Loan impairment charges	Costs consisting of the amounts added to the loan impairment allowance and charged to the profit and loss account. Loan impairment charges represent the balance of addition, release and earnings after write-offs.
Loan-to-deposit ratio	Loan impairment charges are generally expressed in basis points of average lending.
Materiality	Ratio of lending related to due to customers.
Market risk	Relevant topics that may reasonably be considered important for reflecting the organization's economic, environmental and social impacts, or influencing the decisions of stakeholders.
Operational risk	Risk related to value changes in the trading portfolio due to price changes in the market which affect factors such as interest rates, shares, credit spreads, currencies and certain types of goods.
PD (Probability of Default)	The probability of loss caused by inadequate or deficient internal processes, people or systems, or by external events.
Qualifying capital	The likelihood that a counterparty will default within one year.
RAROC (Risk Adjusted Return On Capital)	Capital determined based on the regulator's requirements. For Rabobank, this represents the sum of the tier 1 capital, subordinated debts and share of noncontrolling interests less transitional provisions.
Regulatory capital or external capital requirement	Risk-based profitability measurement framework which ensures that earnings and risks can be consistently weighted against each other.
Return on tier 1 capital	The total capital classified by the regulator as risk-bearing capital, consisting of the tier 1 and tier 2 capital.
Risk-weighted assets	Net profit related to the tier 1 capital as at 31 December of the previous financial year.
Solvency	The assets of a financial institution multiplied by a weighting factor, set by the regulatory authorities, reflecting the relative risk related to these assets. The minimum capital requirement is calculated based on the risk-weighted assets.
Sustainable agriculture	A company's ability to meet its financial obligations.
Sustainable development	Agriculture with a focus on sustainability and innovations. Innovations that will ultimately result in structural increases of sustainable food supply.
Sustainability Bond	Sustainable development is development which meets the needs of current generations without comprising the ability of future generations to meet their own needs (UN Brundtland Commission Report, 1987).
Sustainability photo	Funds allocated to loans provided to SMEs with sustainability certifications on products, processes or buildings.
Tier 1 capital	Customer profile to identify whether a customer is a sustainability leader in its industry or an average or below-average performer.
Tier 1 ratio	This capital is determined based on the regulator's requirements. For Rabobank, this represents the sum of the common equity tier 1 capital, grandfathered instruments and share of non-controlling interests less transitional provisions and deductions.
	Tier 1 capital as related to the risk-weighted assets.

## Term

Total capital ratio	Regulatory capital divided by risk-weighted assets.
Transfer risk	Transfer risk relates to the possibility of foreign governments placing restrictions on funds transfers from debtors in their own country to creditors in other countries.
Value at Risk (VaR)	Value at Risk (VaR) is used in calculating market risk, indicating the maximum loss to be incurred for a given confidence level and horizon and based on 'normal' market conditions and on one year of historical market trends. For day-to-day control, a confidence level of 97.5% and 1-day horizon are applied.