

4: Financial results Rabobank and business segments

Financial results of Rabobank

Results			
<i>Amounts in millions of euros</i>	<i>31-12-2016</i>	<i>31-12-2015</i>	<i>Change</i>
Net interest income	8,743	9,139	-4%
Net fee and commission income	1,918	1,892	1%
Other income	2,143	1,983	8%
Total income	12,805	13,014	-2%
Staff costs	4,521	4,786	-6%
Other administrative expenses	3,635	2,916	25%
Depreciation	438	443	-1%
Total operating expenses	8,594	8,145	6%
Gross result	4,211	4,869	-14%
Impairment losses on goodwill and investments in associates	700	623	12%
Loan impairment charges	310	1,033	-70%
Contribution to resolution fund and DGS	313	172	82%
Bank tax and levy	170	172	-1%
Operating profit before tax	2,718	2,869	-5%
Income tax	694	655	5%
Net profit	2,024	2,214	-9%
Loan impairment charges (in basis points)	7	24	-70%
Ratios			
Cost/income ratio exclusive regulatory levies	67.1%	62.6%	
Cost/income ratio inclusive regulatory levies	70.9%	65.2%	
Return on tier 1 capital	5.8%	6.5%	
ROIC	5.2%	6.0%	
Balance sheet (in EUR billion)			
	<i>31-12-2016</i>	<i>31-12-2015</i>	
Total assets	662.3	678.6	-2%
Private sector loan portfolio	423.8	433.5	-2%
Due to customers	347.7	345.9	1%
Number of internal employees (in FTEs)	40,029	45,658	-12%
Number of external employees (in FTEs)	5,538	6,355	-13%
Total number of employees (in FTEs)	45,567	52,013	-12%

Notes to the financial results of Rabobank

Net profit landed at EUR 2,024 million

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

loan impairment charges decreased to EUR 310 (1,033) million in 2016, positively influencing net profit.

Underlying performance improvement on track

The underlying performance improvement is on track to achieve the targets of the Strategic Framework 2016-2020, as illustrated by the development of the underlying operating profit before tax. The underlying operating profit before tax was EUR 4,090 million, an increase of EUR 498 million compared to 2015 (EUR 3,592 million). In calculating this underlying profit, an adjustment was made for the impairment on Rabobank's stake in Achmea, the book profit on the sale of Athlon, the provision for interest rate derivatives, restructuring costs and for the fair value items hedge accounting and structured notes. The 2015 underlying profit was also corrected for the goodwill impairment for RNA. In 2016, if we exclude the regulatory levies, the underlying cost/income ratio stood at 60.8% compared to 60.8% as well for 2015. The underlying cost/income ratio including regulatory levies increased by 1.1 percentage points to 64.6% (63.5)%.

Development of underlying operating profit before tax		
<i>Amounts in millions of euros</i>	<i>2016</i>	<i>2015</i>
Operating profit before tax	2,718	2,869
Impairment Rabobank's stake in Achmea and goodwill impairment RNA	700	604
Book profit on the sale of Athlon	-251	0
Provision for interest rate derivatives	514	150
Restructuring costs	515	245
Hedge accounting and structured notes	-106	-276
Underlying operating profit before tax	4,090	3,592

Rabobank Group retained EUR 749 million of its net profit to bolster capital in 2016. Tax amounted to EUR 690 (655) million, with the effective tax rate amounting to 26% (23%).

Total income decreased by 2%

Net interest income down 4%

Net interest income amounted to EUR 8,743 (9,139) million. Lending at local Rabobanks and FGH Bank was down, which' development is reflected in a lower contribution of net interest income. At Wholesale, Rural and Retail commercial interest margins stabilised. Amongst others negative interest rates, the relatively flat interest rate curve and higher liquidity buffer costs led to lower net interest income from the Treasury activities. Net interest income at DLL was stable. The average net interest margin, calculated by dividing the average net interest income in 2016 by the average balance sheet total in the corresponding period, decreased from 1.33% to 1.29%.

Net fee and commission income up 1%

Net fee and commission income increased to EUR 1,918 (1,892) million in 2016. At the local Rabobanks, net fee and commission on insurances decreased. At WRR, net fee and commission income increased in line with the strategy of more fee-generating business and as result of growth of

the loan portfolio. Also at DLL, the growth of the loan portfolio resulted in higher net fee and commission income. However, the rise was tempered by the fall in net fee and commission income from the real estate segment, due to the demerger of Fondsenbeheer Nederland, which still contributed to net fee and commission income until June 2015.

Other income up 8%

In 2016, other income increased to EUR 2,143 (1,983) million, mainly as a result of the sale of Athlon. This sale resulted for DLL in a book profit of EUR 251 million. Furthermore, the sale of mortgages by the local Rabobanks contributed to the increase of other income. At WRR, Markets performed better compared to 2015 and also the release of foreign exchange reserves connected to the closing of Rabobank's office in Curaçao contributed to the increase in other income. The increase of the other income item was tempered by the lower (regular) results on our investment in Achmea and lower results on structured notes and hedge accounting.

Structured notes

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

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

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

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

the result on structured notes.

Hedge accounting

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

Operating expenses increased 6%

Staff costs down 6%

In 2016, the total number of employees (including external hires) at Rabobank decreased by 6,446 FTEs to 45,567 (52,013) FTEs mainly as a result of the large restructuring programme Performance Now in the Netherlands. The sale of Athlon and staff reductions at WRR in Ireland, Australia, New Zealand and Chili also contributed to the decrease. The largest reduction in staff was at the local Rabobanks. Besides the staff reduction, the sobering of fringe benefits helped to bring staff costs down to EUR 4,521 (4,786) million.

Other administrative expenses up 25%

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

Depreciation down 1%

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

Impairment losses on goodwill and investments in associates

In 2016, the operating profit before tax was pressured by impairments of Rabobank's stake in Achmea of in aggregate EUR 700 million. The outlook for the future profitability of Achmea deteriorated during 2016, taking into account recent developments in the health insurance market and the financial results over the first half year of 2016. These elements, combined with the deteriorating business environment

of Dutch insurers over the last years, gave triggers of potential impairments for the investment in Achmea. The test to establish whether these potential impairments had occurred, resulted in downward adjustments of the book value of the investment in Achmea.

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

Loan impairment charges at only 7 basis points

With EUR 310 (1,033) million, loan impairment charges for 2016 were significantly lower than in 2015, with improvements in nearly all business segments. Due to the economic recovery in The Netherlands, and the economic growth worldwide, all business segments of the bank are performing well. This resulted in significant releases on the loan impairment allowance. Other factors contributing to this positive development include foreclosures at better-than-anticipated collateral values as well as adequate existing allowances. Relative to the average private sector loan portfolio, loan impairment charges amounted to 7 (24) basis points; this is exceptionally low and substantially below the long-term average (period 2006-2015) of 36 basis points.

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

Decrease of equity

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

Development of equity	
<i>Amounts in millions of euros</i>	
Equity at the end of December 2015	41,197
Comprehensive income	1,870
Payments on certificates and hybrid capital	-1,278
Issue of additional tier 1 capital	1,250

Call of Capital Securities	-1,753
Redemption of Trust Preferred Securities	-716
Other	-46
Equity at the end of December 2016	40,524

Decrease in private sector loan portfolio

The sale of parts of the mortgage portfolio and early repayments on residential mortgage loans contributed to the decrease in the local Rabobanks' private sector loan portfolio in 2016. Obvion also sold part of a portfolio of Dutch residential mortgages, and securitised EUR 1 billion of its mortgage portfolio. In this transaction also the most junior tranches were also sold to investors, resulting in off-balance sheet treatment. At real estate financier FGH Bank, the commercial real estate portfolio was further reduced and the sale of the real estate financing activities of RNHB contributed to a decrease of the loan portfolio.

The loan portfolio of Wholesale, Rural & Retail (WRR) increased, due to several factors including growth in the rural banking portfolio and fx changes. At Rabobank's leasing subsidiary DLL the loan portfolio increased -excluding the sale of Athlon- on the back of better economic conditions, and foreign exchange fluctuations. The volume of the private sector loan portfolio at year-end 2015 was restated and increased by EUR 8.3 billion as a result of a change in accounting principles related to the netting of cash pools. The loan portfolio at the Rabobank Group level decreased in 2016 by EUR 9.7 billion, including the effects of the change in accounting policies.

Loan portfolio			
<i>Amounts in billions of euros</i>	<i>31-12-2016</i>	<i>31-12-2015 (adjusted for cash pooling)</i>	<i>31-12-2015 (as reported)</i>
Total loans and advances to customers	452.0	457.3	465.6
Loans to governments clients	3.3	3.4	3.4
Reverse repurchase transactions and securities borrowings	16.3	19.7	19.7
Interest rate hedges (hedge accounting)	8.6	9.0	9.0
Private sector loan portfolio	423.8	425.2	433.5

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

Increase in amounts due to customers

As is the case for the private sector loan portfolio, also the amounts due to Rabobank customers at year-end 2015 were restated and increased by EUR 8.3 billion as a result of a change in accounting principles related to the netting of cash pools. Total amounts due to customers increased by EUR 1.8 billion to EUR 347.7 billion in 2016, including the effect of the change in accounting policies. Amounts due to customers in domestic retail banking increased to EUR 223.3 (215.2) billion, while amounts due to customers at WRR fell by EUR 6.1 billion to EUR 123.7 (129.8) billion. Private savings are the most important component of amounts due to customers. Private savings held at local banks were flat.

However, customers making extra repayments on mortgage loans due to low interest rates on savings had a downward effect on private savings for domestic retail banking as a whole. This was more than compensated by an increase in private savings at WRR partly due to an increase in the savings balances of RaboDirect. In 2016, private savings increased to EUR 142.2 (140.5) billion.

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

Development of capital ratios

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

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

Capital ratios			
<i>Amounts in millions of euros</i>	31-12-2016	1-1-2016	31-12-2015
Retained earnings	25,709	25,482	25,482
Expected dividends	-60	-126	-126
Rabobank Certificates	5,948	5,949	5,949
Non-controlling interests	25	23	23
Reserves	112	224	224
Deductions	-3,302	-5,668	-5,539
Transition guidance	1,186	1,884	2,741
Common equity tier 1 capital	29,618	27,768	28,754
CRD IV compliant instruments	2,728	1,488	1,488

Grandfathered instruments	5,462	5,462	6,373
Non-controlling interests	5	5	5
Deductions	-91	-76	-76
Transition guidance	-643	-1,017	-1,492
<i>Total additional tier 1 capital</i>	<i>7,461</i>	<i>5,862</i>	<i>6,298</i>
Tier 1 capital	37,079	33,629	35,052
Subordinated debt qualifying as tier 2 capital	16,094	15,078	15,078
Non-controlling interests	7	6	6
Deductions	-99	-85	-85
Transition guidance	-208	-420	-596
Qualifying capital	52,873	48,208	49,455
Risk-weighted assets	211,226	212,768	213,092
Common equity tier 1 ratio (transitional)	14.0%	13.1%	13.5%
Common equity tier 1 ratio (fully loaded)	13.5%	12.0%	12.0%
Tier 1 ratio	17.6%	15.8%	16.4%
Total capital ratio	25.0%	22.7%	23.2%
Equity capital ratio	15.0%	14.8%	14.7%

Financial results of domestic retail banking

Results			
<i>Amounts in millions of euros</i>	<i>31-12-2016</i>	<i>31-12-2015</i>	<i>Change</i>
Net interest income	5,467	5,661	-3%
Net fee and commission income	1,334	1,321	1%
Other income	58	18	224%
Total income	6,859	7,000	-2%
Staff costs	1,798	2,134	-16%
Other administrative expenses	3,113	2,470	26%
Depreciation	117	116	1%
Total operating expenses	5,028	4,720	7%
Gross result	1,831	2,280	-20%
Loan impairment charges	25	343	-93%
Contribution to resolution fund and DGS	190	89	113%
Bank tax and levy	89	82	9%
Operating profit before tax	1,527	1,766	-14%
Income tax	400	445	-10%
Net profit	1,127	1,321	-15%
Loan impairment charges (in basis points)	1	12	-92%
Ratios			
Cost/income ratio exclusive regulatory levies	73.3%	67.4%	
Cost/income ratio inclusive regulatory levies	77.4%	69.9%	
Balance sheet (in EUR billion)			
	<i>31-12-2016</i>	<i>31-12-2015</i>	
Total assets	315.5	325.2	-3%
Private sector loan portfolio	275.8	284.5	-3%
Due to customers	223.3	215.2	4%
Number of internal employees (in FTEs)	16,100	22,176	-27%
Number of external employees (in FTEs)	1,355	2,165	-37%
Total number of employees (in FTEs)	17,455	24,341	-28%

Notes to financial results

Income decreased 2%

Rabobank's domestic retail banking business total income decreased to EUR 6,859 (7,000) million in 2016. Margins on new lending improved, whereas margins on payments accounts were lower.

Combined with the decrease in lending volumes net interest income was pressured and decreased to EUR 5,467 (5,661) million. The income received from prepayment penalties, which is recognised as part of interest income, was used for the recouping of swaps. By recouping a swap, the historical interest coupon paid is lowered which ultimately will bring down the future total interest rate risk costs. Higher commission on payments contributed to an increase in net fee and commission income to EUR 1,334 (1,321) million. The sale of mortgages contributed to an increase of other income to EUR 58 (18) million.

Operating expenses up 7%

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

Loan impairment charges remained low

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

Loan portfolio shrank by 3%

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

The volume of the domestic retail banking loan portfolio at year-end 2015 was restated and increased

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

Residential mortgage loans

The housing market

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

Market share

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

Mortgage loan portfolio

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

Loan impairment charges and write-offs

Loan impairment charges in connection with residential mortgage loans amounted to EUR 9 million (0.5 basis points) in 2016, which was considerably lower than in 2015. For the most part, this was due to non-recurring adjustments¹ in 2015, which had an upward effect on the loan impairment charges.

¹ Two non-recurring adjustments affected the loan impairment charges and the allowances for residential mortgage loans in 2015. Rabobank developed a new capital model for residential mortgage loans; this model is also used to define the level of allowances.

Improved asset quality also contributed to this favourable development, as shown by the positive development of the more-than-90-days arrears ratio.

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

In addition, Rabobank decided to cease allocating loan impairment charges on residential mortgage loans granted to entrepreneurs, acting in a private capacity, to business lending. As of 2015, these have been fully accounted for as part of the private individuals' mortgage loan portfolio. These changes resulted in EUR 161 million of additional loan impairment charges in 2015.

Financial results of wholesale banking and international rural and retail banking

Results			
<i>Amounts in millions of euros</i>	<i>31-12-2016</i>	<i>31-12-2015</i>	<i>Change</i>
Net interest income	1,974	2,270	-13%
Net fee and commission income	538	513	5%
Other income	1,097	653	68%
Total income	3,609	3,436	5%
Staff costs	1,137	1,123	1%
Other administrative expenses	1,023	1,101	-7%
Depreciation	94	107	-12%
Total operating expenses	2,254	2,331	-3%
Gross result	1,355	1,105	23%
Impairment losses on goodwill and investments in associates	0	612	-
Loan impairment charges	255	526	-52%
Contribution to resolution fund and DGS	78	66	18%
Bank tax and levy	73	73	0%
Operating profit before tax	949	-172	651%
Income tax	305	161	89%
Net profit	644	-333	293%
Loan impairment charges (in basis points)	26	53	-51%
Ratios			
Cost/income ratio exclusive regulatory levies	62.5%	67.8%	
Cost/income ratio inclusive regulatory levies	66.7%	71.9%	
Balance sheet (in EUR billion)			
	<i>31-12-2016</i>	<i>31-12-2015</i>	
Total assets	489.9	494.2	-1%
Private sector loan portfolio	104.5	103.6	1%
Due to customers	123.7	129.8	-5%
Number of internal employees (in FTEs)	7,460	8,785	-15%
Number of external employees (in FTEs)	348	794	-56%
Total number of employees (in FTEs)	7,808	9,579	-18%

Notes to the financial results

Total income increased by 5%

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

Operating expenses fell by 3%

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

Loan impairment charges down by 52%

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

WRR loan portfolio grew by 1%

In 2016, WRR's total loan portfolio increased by 1% to EUR 104.4 (103.6) billion. The volume of the WRR loan portfolio at year-end 2015 was restated upwards by EUR 4.8 billion as a result of a change in accounting principles related to the netting of cash pools. When excluded for this accounting effect the loan portfolio increased by EUR 5.6 billion. Total loans to the trade, industry and services (TIS) sectors rose to EUR 38.5 (35.4) billion. In line with our Banking for Food strategy, the volume of lending provided to the food & agri sector rose to EUR 63.6 (59.9) billion. At the end of 2016, lending to the food & agri sector accounted for 61% (61%) of the total loan portfolio of this business segment. Lending to private individuals landed at EUR 2.4 (3.5) billion.

Financial results of leasing

Results			
<i>Amounts in millions of euros</i>	<i>31-12-2016</i>	<i>31-12-2015</i>	<i>Change</i>
Net interest income	1,086	1,094	-1%
Net fee and commission income	90	57	58%
Other income	816	568	44%
Total income	1,992	1,719	16%
Staff costs	616	601	2%
Other administrative expenses	285	277	3%
Depreciation	31	38	-19%
Total operating expenses	932	916	2%
Gross result	1,060	803	32%
Impairment losses on goodwill and investments in associates	0	10	-100%
Loan impairment charges	101	85	19%
Contribution to resolution fund and DGS	11	9	22%
Bank tax and levy	11	10	10%
Operating profit before tax	937	689	36%
Income tax	197	191	3%
Net profit	740	498	49%
Loan impairment charges (in basis points)	30	25	20%
Ratios			
Cost/income ratio exclusive regulatory levies	46.8%	53.3%	
Cost/income ratio inclusive regulatory levies	47.3%	54.4%	
Balance sheet (in EUR billion)			
	<i>31-12-2016</i>	<i>31-12-2015</i>	
Lease portfolio	34.9	35.7	-2%
Number of internal employees (in FTEs)	4,323	5,402	-20%
Number of external employees (in FTEs)	352	422	-17%
Total number of employees (in FTEs)	4,675	5,824	-20%

Notes to financial results

Income up 16%

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

Operating expenses up 2%

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

Lower depreciation of intangible assets led to a decline in depreciation to EUR 31 (38) million.

Loan impairment charges up 19%

Loan impairment charges for the leasing segment increased to EUR 101 (85) million in 2016. Despite this increase, charges remained at a relatively low level, which becomes clear when expressed in basis points of the average portfolio. Loan impairment charges for 2016 amounted to 30 (25) basis points, well below the long-term average of 66 basis points. As DLL's lease portfolio is spread over more than 30 countries and 8 industries, the risks are also well diversified. In 2016, there were no new significant individual default cases.

Lease portfolio decreased by 2%

Excluding the sale of Athlon car lease, which reduced the total portfolio by EUR 3.5 billion, DLL experienced strong year over year portfolio growth of 7.7% in its core Vendor Finance business. A similar level of growth (7.9%) was realized within the portfolio of leases with Rabobank customers, as well as factoring and consumer financing activities in the Netherlands. The total portfolio decreased by 2% to EUR 34.9 (35.7) billion. DLL's loan portfolio (financial leases only) amounted to EUR 31.8 (29.7) billion. DLL supports Rabobank's 'Banking for Food' and 'Banking for the Netherlands' strategies by supporting manufacturers, distributors and end-customers within the Food & Agriculture sector, both internationally and within the Netherlands. In 2016, the Food & Agriculture business line of DLL grew to EUR 11.8 (11.1) billion and now represents 34% (31%) of the DLL portfolio. The leasing, factoring and consumer finance portfolio in the Netherlands decreased to EUR 5.9 (6.6) billion and now represents 17% (18%) of the DLL portfolio. This decrease in the Netherlands market is due to the aforementioned sale of Athlon car lease.

Financial results of real estate

Results			
<i>Amounts in millions of euros</i>	<i>31-12-2016</i>	<i>31-12-2015</i>	<i>Change</i>
Net interest income	293	348	-16%
Net fee and commission income	16	29	-45%
Other income	379	302	26%
Total income	688	679	1%
Staff costs	215	196	10%
Other administrative expenses	142	124	15%
Depreciation	4	7	-43%
Total operating expenses	361	327	10%
Gross result	327	352	-7%
Impairment losses on goodwill and investments in associates	0	1	-100%
Loan impairment charges	-75	90	-183%
Contribution to resolution fund and DGS	6	7	-14%
Bank tax and levy	7	8	-13%
Operating profit before tax	389	246	58%
Income tax	101	65	55%
Net profit	288	181	59%
Loan impairment charges (in basis points)	-54	56	-196%
Ratios			
Cost/income ratio exclusive regulatory levies	52.3%	48.2%	
Cost/income ratio inclusive regulatory levies	53.3%	50.4%	
Balance sheet (in EUR billion)			
	<i>31-12-2016</i>	<i>31-12-2015</i>	
Loan portfolio	11.3	15.3	-26%
Assets under management	5.9	6.3	-6%
Number of houses sold	9,905	8,386	18%
Number of internal employees (in FTEs)	1,193	1,358	-12%
Number of external employees (in FTEs)	300	229	31%
Total number of employees (in FTEs)	1,493	1,587	-6%

Notes to financial results

Total income increased by 1%

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

Operating expenses increased by 10%

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

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

Loan impairment charges negative

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

Loan portfolio

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