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Non-collateralised Structured Products

Notice in relation to Warrants

issued by

Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.

(“Issuer” or “Rabobank”)

(a coöperatie formed under the law of the Netherlands with its statutory seat in Amsterdam)

This notice sets out the updated information of the Issuer.
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Reference is made to the notice published by the Issuer dated 10th April, 2013 in relation to the warrants issued by the Issuer and listed on The Stock Exchange of Hong Kong Limited (the “Warrants”).

Rabobank Group has released the consolidated financial statements for the year ended 31st December, 2012 (“**Consolidated Financial Statements 2012**”). Extracts from the Consolidated Financial Statements 2012 are included at the end of this notice. References to page numbers in such extracts are to pages in the Consolidated Financial Statements 2012 and not to pages in this notice. The extracts are not complete and you may visit www.rabobank.com for further information of the Consolidated Financial Statements 2012.

Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.

7th June, 2013

General information

Rabobank Group ('Rabobank') is an international financial services provider operating on the basis of cooperative principles whose core comprises 136 local Rabobanks with 826 branches in the Netherlands. Rabobank comprises the autonomous local cooperative Rabobanks in the Netherlands, the central organisation Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland) and a number of specialised subsidiaries. Rabobank provides services in the form of retail banking, wholesale banking, asset management, leasing and real estate services throughout the world. Rabobank puts the common interests of people and communities first, and its service provision priority is to deliver value to its customers. Focus is on achieving broad market leadership in the Netherlands and on building on the bank's leading position as a food and agri bank internationally. Rabobank operates in 43 countries and employs some 59,600 FTEs.

Rabobank Nederland is a cooperative whose capital is divided into shares. It is largely the product of a merger on 1 December 1972 of the two largest Dutch cooperative entities at the time. Rabobank Nederland has its registered office in Amsterdam and is established under Dutch law for an indefinite period. Rabobank Nederland is registered at the Trade Registry of the Utrecht Chamber of Commerce under number 30046259.

Membership of Rabobank Nederland is open to cooperative banks whose Articles of Association have been approved by Rabobank Nederland.

The activities of Rabobank Nederland can be roughly divided into two categories. First, its role as central bank for the local Rabobanks in which role it encourages the establishment, continuation and development of cooperative banks, and its role as central bank for its members in which role it concludes agreements with members, negotiates members' rights and undertakes obligations on behalf of its members insofar as these obligations have the same consequences for all members. Second, Rabobank Nederland's own banking activities, which supplement and are independent of the activities of the local Rabobanks.

The local Rabobanks are part of an organisation of cooperative entities incorporated under Dutch law. At 31 December 2012, the local Rabobanks had approximately 1.9 million members.

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Internet:

www.rabobank.com/annualreports

in millions of euros	Note	At 31 December 2012	At 31 December 2011
Liabilities			
Due to other banks	19	27,059	26,259
Due to customers	20	334,271	329,892
Debt securities in issue	21	223,336	213,441
Derivative financial instruments and other trade liabilities	10	74,800	64,931
Other debts	22, 26	9,950	8,422
Other financial liabilities at fair value through profit or loss	23	24,091	25,889
Provisions	24	752	765
Current tax liabilities		205	324
Deferred tax liabilities	25	696	893
Subordinated debt	27	5,407	2,413
Liabilities held for sale and discontinued operations	44, 45	7,216	13,435
<i>Total liabilities</i>		<u>707,783</u>	<u>686,664</u>
Equity			
Equity of Rabobank Nederland and local Rabobanks	29	27,858	26,500
Equity instruments issued directly			
Rabobank Member Certificates	30	6,672	6,614
Capital Securities	31	7,114	7,645
		<u>41,644</u>	<u>40,759</u>
Equity instruments issued by subsidiaries			
Capital Securities	31	236	167
Trust Preferred Securities III to VI	31	1,340	1,399
		<u>1,576</u>	<u>1,566</u>
Other non-controlling interests	32	1,407	2,676
<i>Total equity</i>		<u>44,627</u>	<u>45,001</u>
<i>Total equity and liabilities</i>		<u>752,410</u>	<u>731,665</u>

Consolidated statement of income

in millions of euros	Note	For the year ended 31 December	
		2012	2011
Interest income	33	21,702	21,299
Interest expense	33	12,605	12,125
<i>Interest</i>	33	9,097	9,174
Commission income	34	2,553	2,726
Commission expense	34	347	365
<i>Fees and commission</i>	34	2,206	2,361
Income from associates	35	255	(20)
Net income from financial assets and liabilities at fair value through profit or loss		823	657
Gains/(losses) on available-for-sale financial assets	36	114	(174)
Other income	12	957	708
<i>Income</i>	37	13,452	12,706
Staff costs		5,325	4,862
Other administrative expenses	38	2,979	2,850
Depreciation	39	527	540
<i>Operating expenses</i>	40	8,831	8,252
Value adjustments		2,350	1,606
Bank tax	41	196	-
<i>Operating profit before taxation</i>		2,075	2,848
Taxation	43	160	355
Net profit from continuing operations		1,915	2,493
Net profit from discontinued operations	44	197	134
<i>Net profit</i>		2,112	2,627
Of which attributable to Rabobank Nederland and local Rabobanks	29	897	1,549
Of which attributable to holders of Rabobank Member Certificates	30	328	315
Of which attributable to Capital Securities	31	717	612
Of which attributable to Trust Preferred Securities III to VI	31	75	73
Of which attributable to other non-controlling interests	32	95	78
<i>Net profit for the year</i>		2,112	2,627

Consolidated statement of comprehensive income

in millions of euros	Note	For the year ended 31 December	
		2012	2011
Net profit		2,112	2,627
Arising in the period (after taxation):			
<i>Foreign currency translation reserves</i>	29		
Currency translation differences	.....	(249)	92
<i>Revaluation reserve - Available-for-sale financial assets</i>	29		
Currency translation differences	.....	21	(31)
Changes in associates		59	(13)
Fair value changes		393	(265)
Amortisation of reclassified assets		55	73
Transferred to profit or loss		(201)	281
<i>Revaluation reserve - Associates</i>	29		
Fair value changes	.....	(16)	(38)
<i>Revaluation reserve - Cash flow hedges</i>	29		
Fair value changes	.....	145	513
Transferred to profit or loss		7	(607)
<i>Non-controlling interests</i>	32		
Currency translation differences	.....	(5)	26
Revaluation reserve - Available-for-sale financial assets		22	(11)
<i>Total other comprehensive income</i>		<u>231</u>	<u>20</u>
<i>Total comprehensive income</i>		<u>2,343</u>	<u>2,647</u>
Of which attributable to Rabobank Nederland and local Rabobanks		1,111	1,554
Of which attributable to holders of Rabobank Member Certificates		328	315
Of which attributable to Capital Securities		717	612
Of which attributable to Trust Preferred Securities III to VI		75	73
Of which attributable to other non-controlling interests		112	93
<i>Total comprehensive income</i>		<u>2,343</u>	<u>2,647</u>

Consolidated statement of changes in equity

in millions of euros	Equity of Rabobank Nederland and local Rabobanks	Equity instruments issued directly	Equity instruments issued by subsidiaries	Other non-controlling interests	Total
At 1 January 2012	26,500	14,259	1,566	2,676	45,001
Net profit	897	1,027	93	95	2,112
Total other comprehensive income:					
Foreign currency translation reserves	(249)	-	-	(5)	(254)
Revaluation reserve - Available-for-sale financial assets	327	-	-	22	349
Revaluation reserve - Associates	(16)	-	-	-	(16)
Revaluation reserve - Cash flow hedges	152	-	-	-	152
<i>Total comprehensive income</i>	<u>1,111</u>	<u>1,027</u>	<u>93</u>	<u>112</u>	<u>2,343</u>
Payment on Rabobank Member Certificates, Trust Preferred Securities III to VI and Capital Securities	-	(1,027)	(93)	-	(1,120)
Redemption of Capital Securities	(26)	(522)	-	-	(548)
Increase in equity interests in Obvion and BGZ	124	-	-	(591)	(467)
Disposal of Sarasin	-	-	-	(661)	(661)
Exchange of Rabobank Extra Member Bonds	-	225	-	-	225
Rabobank Member Certificates redeemed during the year	-	(167)	-	-	(167)
Other	149	(9)	10	(129)	21
<i>At 31 December 2012</i>	<u>27,858</u>	<u>13,786</u>	<u>1,576</u>	<u>1,407</u>	<u>44,627</u>
At 1 January 2011	24,749	4,790	8,099	3,119	40,757
Net profit	1,549	912	88	78	2,627
Total other comprehensive income:					
Foreign currency translation reserves	92	-	-	26	118
Revaluation reserve - Available-for-sale financial assets	45	-	-	(11)	34
Revaluation reserve - Associates	(38)	-	-	-	(38)
Revaluation reserve - Cash flow hedges	(94)	-	-	-	(94)
<i>Total comprehensive income</i>	<u>1,554</u>	<u>912</u>	<u>88</u>	<u>93</u>	<u>2,647</u>
Payment on Rabobank Member Certificates, Trust Preferred Securities III to VI and Capital Securities	-	(912)	(88)	-	(1,000)
Issue of Rabobank Member Certificates and Capital Securities	-	3,033	-	-	3,033
Exchange of Rabobank Member Certificates	-	6,579	(6,579)	-	-
Exchange of Rabobank Extra Member Bonds	-	225	-	-	225
Premium refund	-	(308)	-	-	(308)
Costs of Capital Securities issue	-	(52)	-	-	(52)
Other	197	(8)	46	(536)	(301)
<i>At 31 December 2011</i>	<u>26,500</u>	<u>14,259</u>	<u>1,566</u>	<u>2,676</u>	<u>45,001</u>

Consolidated statement of cash flows

in millions of euros	Note	For the year ended 31 December	
		2012	2011
Cash flows from operating activities			
Operating profit before taxation from continuing operations		2,075	2,848
Operating profit before taxation from discontinuing operations	44	297	204
Adjusted for:			
<i>Non-cash items recognised in operating profit before taxation</i>			
Depreciation	40	527	540
Depreciation of operating lease assets and investment properties	16, 17	818	782
Value adjustments	41	2,350	1,704
Result on sale of property and equipment		1	(3)
Income from associates	35	(255)	20
Fair value results on financial assets and liabilities at fair value through profit or loss	36	(823)	(657)
Gains/(losses) on available-for-sale financial assets	12	(114)	174
Non-cash items relating to discontinued operations		(32)	47
<i>Net change in operating assets:</i>			
Due from and due to other banks	7, 19, 44, 45	(9,290)	10,315
Trading financial assets	8, 36	3,662	4,667
Derivative financial instruments	10	(6,450)	(15,026)
Net change in non-trading financial assets at fair value through profit or loss	9, 23, 36, 44	(2,827)	(556)
Loans to customers	11, 44, 45	(12,970)	(22,040)
Dividends received from associates and financial assets		84	76
<i>Net change in liabilities relating to operating activities</i>			
Derivative financial instruments and other trade liabilities	10	9,869	15,291
Due to customers	20, 44, 45	3,369	41,505
Debt securities in issue	21	7,144	16,622
Other debts	22, 44, 45	1,645	1,597
Income tax paid		(416)	(435)
Other changes		306	(4,822)
<i>Net cash flow from operating activities</i>		(1,030)	52,853
Cash flows from investing activities			
Acquisition of associates net of cash and cash equivalents acquired	14	(41)	(67)
Disposal of associates net of cash and cash equivalents		12	207
Acquisition of subsidiaries net of cash and cash equivalents acquired	45	3	-
Disposal of subsidiaries net of cash and cash equivalents		(297)	-
Acquisition of property and equipment and investment properties	16, 17	(2,025)	(1,880)
Proceeds from sale of property and equipment		863	538
Acquisition of available-for-sale financial assets and held-to-maturity financial assets	12, 13	(37,339)	(25,081)
Proceeds from sale and repayment of available-for-sale financial assets and held-to-maturity financial assets		36,974	28,760
<i>Net cash flow from investing activities</i>		(1,850)	2,477
Cash flows from financing activities			
Proceeds from issue of Capital Securities and Rabobank Member Certificates	30, 31	-	2,673
Payments on Rabobank Member Certificates, Trust Preferred Securities III to VI and Capital Securities		(1,120)	(1,000)
Payments on Senior Contingent Notes and Rabo Extra Member Bonds		(102)	-
Redemption of Capital Securities	27, 31	(522)	-
Increase in equity interests in Obvion and BGZ		(467)	-
Proceeds from issue of subordinated debt		2,751	-
<i>Net cash flow from financing activities</i>		540	1,673
<i>Net change in cash and cash equivalents</i>		(2,340)	57,003
Cash and cash equivalents at beginning of year		70,430	13,471
Foreign exchange differences on cash and cash equivalents		13	(44)
<i>Cash and cash equivalents at end of year</i>		68,103	70,430
The cash flows from interest are included in the net cash flow from operating activities			
Interest income		21,891	22,200
Interest expense		12,866	12,647

Notes to the consolidated financial statements

1 Basis of consolidation

Rabobank Group ('Rabobank') comprises the local Rabobanks ('Members'), the central cooperative Rabobank Nederland and a number of specialised subsidiaries. Together they form Rabobank Group. Rabobank Nederland advises the Members and assists them in the provision of their services. Rabobank Nederland also supervises the local Rabobanks by virtue of the Dutch Financial Supervision Act (Wet op het financieel toezicht). Furthermore, under the same Act, the Dutch Ministry of Finance has designated Rabobank Nederland as a holder of a collective license for purposes of conduct-of-business supervision.

Rabobank's cooperative structure has several executive levels, each with its own duties and responsibilities.

In terms of annual financial reporting, Rabobank Nederland exercises control over the local Rabobanks. The consolidated financial statements of Rabobank include the financial information of Rabobank Nederland and that of the Members and other group companies.

2 Accounting policies

The main accounting policies used in preparing these consolidated financial statements are explained below.

2.1 General

The financial statements of Rabobank have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union.

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

IFRS 7 Financial Instruments: disclosures - Transfers of financial assets

This amendment applies effective 1 January 2012. The changes are intended to enable users of financial statements to better estimate the risks related to transfers of financial assets and the consequences of those risks for an entity's financial position. This pertains to additional disclosures and has no effect on results or equity.

New and amended standards issued by the IASB and endorsed by the European Union, but not yet applicable to the financial year under review

IFRS 10 Consolidated financial statements

This standard supersedes the consolidation rules of the current IAS 27 and SIC 12. IFRS 10 has important consequences for the consideration as to when a company has control over another entity. The potential impact of the changes is currently being assessed. Current expectations are that the consolidation scope will not change materially. The standard applies effective 1 January 2014.

IFRS 11 Joint arrangements

In May 2011, the IASB issued a standard relating to joint ventures, which supersedes IAS 31 and SIC 13. IFRS 11 prescribes that joint ventures may no longer be proportionally consolidated, requiring that all interests in joint ventures be recognised using the equity method of accounting. In making this change, the standard achieves convergence with US GAAP. Most other rules are the same as those of IAS 31. Rabobank is currently assessing the consequences of the new standard. The standard applies effective 1 January 2014.

IFRS 12 Disclosure of interests in other entities

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

IFRS 13 Fair value measurement

In compliance with IAS 8.30, we have assessed the impact of introducing IFRS 13 in 2013 on Rabobank's results and financial position. When measuring derivative financial instruments, account must be taken of counterparty risk, which Rabobank currently estimates using mainly historical information. Under IFRS 13, Rabobank will to a larger extent quantify the risk using the most recent market information. Furthermore, our own creditworthiness will be taken into account.

Given the dependence on such market information, it is difficult to assess the impact on measurements and results. The standard applies effective 1 January 2013.

IAS 1 Presentation of financial statements - Presentation of items of other comprehensive income.

This amendment applies effective 1 January 2013 and merely pertains to a change in presentation of other comprehensive income.

IAS 19R Employee benefits

In June 2011, the International Accounting Standards Board (IASB) published improvements to the accounting requirements for post-employment benefits. The amendments are significant and can be summarised as follows.

- Full balance sheet recognition of pension surpluses and deficits. The previous deferral mechanism known as the corridor approach has been removed. The actuarial gains and losses, remeasurements as they are named in the amended IAS 19 standard, must be recognised in other comprehensive income as they occur rather than in profit or loss, and are not allowed to be reclassified to profit or loss subsequently.
- Past-service costs will need to be recognised when a plan is amended. Unvested benefits can no longer be spread over the vesting period.
- Annual expense for a funded benefit plan will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability.
- Short and long-term benefits will now be distinguished based on the expected timing of settlement, rather than employee entitlement.
- Medium and long-term remuneration plans must be recognised and measured in the same way as pensions. However, all actuarial gains and losses and past service costs will continue to be recorded in profit or loss.
- A termination benefit is now recognised at the earlier of:
 - when the entity recognises costs for a restructuring within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets that includes the payment of termination benefits; and
 - when the entity can no longer withdraw the offer of the termination benefits.
- Additional disclosures are required to present the characteristics of benefit plans, the amounts recognised in the financial statements and the risks arising from defined benefit plans and multi-employer plans.

The amended IAS 19 standard becomes effective on 1 January 2013 and must be applied retrospectively to all periods presented. Had Rabobank applied the amended IAS 19 standard effective 1 January 2012, this would have resulted in a 709 decrease in equity at 1 January 2012. In addition, equity would have decreased further by 1,611 during 2012. Furthermore, during 2012, staff costs would have increased by 116, interest income by 733 and interest expense by 689.

IAS 27 Separate financial statements

This is a reissue of IAS 27. The consolidation requirements formerly included in IAS 27 are now included in IFRS 10. The amended standard is intended for the separate financial statements of entities also preparing consolidated financial statements. The standard applies effective 1 January 2014.

IAS 28 Investments in associates

IAS 28 lays down accounting requirements for investments in associates and describes the requirements for recognising investments in associates and joint ventures in accordance with the equity method of accounting. The standard applies effective 1 January 2014.

IFRS 7 Financial Instruments: disclosure/IAS 32 Financial Instruments: Presentation

- Offsetting financial assets and financial liabilities

The amendments to IFRS 7 seek to make additional quantitative disclosure mandatory, thereby allowing better comparison and reconciliation by users of information provided under IFRS and under accounting principles generally accepted in the US (US GAAP). The amendment applies effective 1 January 2013.

IAS 32 Financial Instruments: presentation

The amendment to IAS 32 seeks to provide additional guidance, thereby removing practical inconsistencies. The amendment applies effective 1 January 2014.

IAS 12 Income taxes - Deferred tax: recovery of underlying assets

The amendments to IAS 12 seek to create an exception to the measurement principle laid down in IAS 12 by introducing the rebuttable presumption that the carrying amount of investment property measured at fair value will be recovered through sale and that the entity should apply the tax rate applicable to the sale of the underlying asset. The amendment applies effective 1 January 2013 and has no effect on results or equity.

IFRS 1 First-time adoption of IFRS - Severe hyperinflation and removal of fixed dates for first-time adopters

The amendments to IFRS 1 seek to introduce an exemption from applying IFRS 1. Entities facing severe hyperinflation may use fair value as the deemed cost of their assets and liabilities in the opening IFRS statement of financial position. The amendment does not apply to Rabobank

IFRIC 20 Stripping costs in the production phase of a surface mine

IFRIC 20 seeks to provide guidance both for capitalising stripping costs as an asset in the production phase and for initial and subsequent measurement of the capitalised stripping activity asset. This ensures more consistency among reporting entities in accounting for stripping costs incurred in the production phase of a surface mine. The interpretation does not apply to Rabobank.

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

Amendments to IFRS 1 Government Loans
Improvements to IFRSs (2009-2011)

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

IFRS 9 Financial instruments

2009 saw the publication of IFRS 9 Financial instruments, which originally was to apply effective 2013. However, in December 2011, the IASB decided to amend this standard and defer its mandatory application until 2015. IFRS 9 may have a significant impact on results or equity; a matter which is currently being assessed.

The consolidated financial statements have been prepared on the basis of the accounting policies outlined below. The remaining assets and liabilities are accounted for on a historical cost basis, unless otherwise stated.

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

2.1.1 Changes in accounting policies and presentation

The fair value changes of all available-for-sale financial assets were presented in the fair value changes of the revaluation reserve for available-for-sale financial assets through 2011. Effective 2012, the fair value changes of available-for-sale financial assets to which fair value hedge accounting was applied were no longer taken to equity but directly to profit or loss. The comparative figures have been restated accordingly. The fair value changes in equity were restated from 1,108 to -265 as at December 2011. The Transferred to profit or loss item was restated from -1,092 to 281. This is merely a change in presentation, which has no effects on results or equity.

Up to and including the financial statements 2011, interest income on derivative financial instruments held for trading and used as economic hedges was netted with interest income and interest expense from other items in the statement of financial position. With effect from the financial statements 2012, however, interest income on derivative financial instruments held for trading and used as economic hedges is presented separately under interest income, thereby enhancing insight into the composition of net interest income (see note 33 for the impact). This modification results in a decrease of 511 in both interest income and interest expense (2011: 650), while net interest income remains unchanged. The comparative figures have been restated accordingly.

To enhance insight, some changes have been made to the disclosure on deferred tax. Note 25 Deferred tax now combines, in single statement, the breakdown of the impacts of the deferred tax asset, the deferred tax liability, the deferred tax charge and income tax on the components of comprehensive income. Separate statements were used in prior financial statements. The change in presentation has also resulted in a different level of detail of the disclosure. The comparative figures have been slightly restated accordingly.

There are no other material changes in accounting policies and presentation compared with the 2011 consolidated financial statements.

2.1.2 Judgements and estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities, the reporting of contingent assets and liabilities at the date of the financial statements, as well as the amounts reported for income and expenses during the reporting period. The situations that are assessed based on available financial data and information mainly concern the determination of the fair value of assets and liabilities and impairments. Although management based their estimates on the most careful assessment of the current circumstances and activities, the actual results might deviate from these estimates.

These financial statements have been prepared on the basis of the going concern assumption as there are no indications of Rabobank's inability to continue as a going concern.

Rabobank made various improvements to valuation models used for derivative financial instruments in 2012. The principal changes are that collateralised interest rate swaps are valued based on an Overnight Index Swap (OIS) rate, rather than on a 3-month interbank rate, and that swaps with unilateral collateral are valued differently. These improvements are in line with a trend seen broadly in the financial sector. These improvements have a net effect on results of approximately -17, for a total portfolio of 65 billion in derivative assets and 73 billion in derivative liabilities.

2.2 Group financial statements

2.2.1 Subsidiaries

The subsidiaries and other entities (including special purpose entities over which Rabobank exercises control, directly or indirectly) are consolidated. The assets, liabilities and results of these entities are consolidated in full.

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

Internal liability (cross-guarantee system)

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

The participating entities are:

- The local member banks of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.;
- Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland), Amsterdam;
- Rabohypotheekbank N.V., Amsterdam;
- Raiffeisenhypotheekbank N.V., Amsterdam;
- Schretlen & Co N.V., Amsterdam;
- De Lage Landen International B.V., Eindhoven;
- De Lage Landen Financiering B.V., Eindhoven;
- De Lage Landen Trade Finance B.V., Eindhoven; and
- De Lage Landen Financial Services B.V., Eindhoven.

2.2.2 Joint ventures

The interests of Rabobank in entities where control is shared are consolidated proportionally. With this method, Rabobank includes its share of the income and expenses, assets and liabilities, and cash flows of the various joint ventures in the relevant items of its financial statements.

2.2.3 Investments in associates

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

Associates are entities over which Rabobank has significant influence and in which it usually holds between 20% and 50% of the voting rights but over which it does not exercise control. Unrealised gains on transactions between Rabobank and its associates are eliminated in proportion to the size of Rabobank's interest in the associates. Unrealised losses are also eliminated unless the transaction indicates that an impairment loss should be recognised on the asset transferred.

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

2.3 Derivative financial instruments and hedging

2.3.1 General

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

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

2.3.2 Instruments not used for hedging

Realised and unrealised gains and losses on derivative financial instruments classified by Rabobank as held for trading are recognised under Trading results.

2.3.3 Hedging instruments

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

On the date of concluding a derivative contract, Rabobank can designate certain derivative financial instruments as (1) a hedge of the fair value of an asset or liability in the statement of financial position (fair value hedge), as (2) a hedge of future cash flows attributable to an asset or liability in the statement of financial position, an expected transaction or a firm commitment (cash flow hedge), or as (3) a hedge of a net investment in a foreign entity (net investment hedge).

Hedge accounting can be applied for derivative financial instruments designated in this manner if certain criteria are met. The criteria derivative financial instruments must satisfy to be recognised as hedging instruments include the following:

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

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

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

Any adjustment to the carrying amount of a hedged equity instrument is recognised as equity until disposal of the equity instrument.

Changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges and that are effective in relation to the hedged risks are recognised in the hedging reserve included under 'Equity' (see note 10). The non-effective part of the changes in the fair values of the derivative financial instruments is recognised in profit or loss.

If the forecast transaction or the non-current liability results in the recognition of a non-financial asset or a non-financial liability, any deferred gain or loss included in equity is restated to the initial carrying amount (cost) of the asset or the liability. In all other cases, deferred amounts included in equity are taken to the statement of income and are classified as income or expenses in the periods in which the hedged non-current liability or the forecast transaction had an effect on profit or loss.

Certain derivative contracts, although they are economic hedges in relation to the managed risk positions taken by Rabobank, do not qualify for hedge accounting under the specific IFRS rules. These contracts are therefore treated as derivative financial instruments held for trading.

The fair value of derivative financial instruments held for trading and hedging purposes is disclosed in note 10: 'Derivative financial instruments and other trade liabilities'.

2.3.4 Trade liabilities

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

2.4 Trading financial assets

Trading financial assets are acquired to realise gains from short-term fluctuations in the prices or margins of traders, or form part of a portfolio that regularly generates short-term gains.

These assets are stated at fair value based on quoted bid prices. Any realised and unrealised gains and losses are included under Trading income. Interest earned on trading financial assets is recognised as interest income.

Dividends received on trading financial assets are recognised as Trading income.

All purchases and sales of trading financial assets that have to be delivered within a period prescribed by regulations or market convention are recognised at the transaction date.

2.5 Other financial assets and liabilities at fair value through profit or loss

Rabobank has opted to classify financial instruments not acquired or entered into for realising gains from short-term fluctuations in traders' prices or margins at fair value through profit or loss. These financial assets, including venture capital, are carried at fair value.

Management designates financial assets and liabilities to this category upon initial recognition if any or all of the following criteria are met:

- such a designation eliminates or substantially reduces any inconsistent treatment that would otherwise have arisen upon measurement of the assets or liabilities or recognition of profits or losses on the basis of different accounting policies;
- the assets and liabilities belong to a group of financial assets and/or financial liabilities that are managed and assessed on the basis of their fair value in accordance with a documented risk management or investment strategy;

- the financial instrument contains an embedded derivative financial instrument, unless the embedded derivative financial instrument does not significantly affect the cash flows or if it is evident, after limited analysis or no analysis at all, that separate recognition is not required.

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

2.6 Day 1 profit

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

2.7 Available-for-sale financial assets

Management determines the classification of financial assets on the date of acquisition, depending on the purpose for which the investments are acquired.

Financial assets that are intended to be held indefinitely and that could be sold for liquidity purposes or in response to changes in interest rates, exchange rates or share prices are classified as available for sale.

Available-for-sale financial assets are initially recognised at fair value, including transaction costs, based on quoted bid prices or values derived from cash flow models. The fair values of unlisted equity instruments are estimated based on appropriate price/earnings ratios, adjusted to reflect the specific circumstances of the respective issuers. Any unrealised gains and losses from changes in the fair value of available-for-sale financial assets are recognised in equity unless they relate to amortised interest. If such financial assets are disposed of, the adjustments to fair value are recognised in profit or loss.

At each reporting date, management assesses whether there are objective indications of impairment of available-for-sale assets. Examples of objective evidence for value adjustments are:

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

Equity instruments are impaired if their cost permanently exceeds their recoverable amount, i.e. their fair value is permanently or significantly lower than their cost. The recoverable amount of investments in unlisted equity instruments is determined using approved valuation methods, whereas the recoverable amount of listed financial assets is determined on the basis of market value. Impairment of equity instruments is never subsequently reversed through profit or loss.

Debt instruments are impaired if there are objective indications that the fair value has decreased to such a degree that no reasonable assumptions can be made that the value will recover to carrying amount in the foreseeable future.

In the event of impairment, the cumulative loss is determined by the difference between cost and current fair value, less any previously recognised impairment transferred from the revaluation reserve in equity to profit or loss. If the impairment of a debt instrument diminishes in a subsequent period and the diminution can be objectively attributed to an event that occurred after the impairment, the impairment is reversed through profit or loss.

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

2.8 Held-to-maturity financial assets

Financial assets with fixed terms and cash flows are classified as held-to-maturity financial assets, provided management intends to keep them for their full terms and is in a position to do so. Management determines the appropriate classification for its investments on their acquisition dates.

Held-to-maturity financial assets are initially recognised at fair value and subsequently carried at amortised cost based on the effective interest method, net of provisions for impairment losses.

Interest earned on held-to-maturity financial assets is recognised as interest income. All purchases and sales made in accordance with standard market conventions for held-to-maturity financial assets are recognised at the date of settlement.

2.9 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 'Trading financial assets' and 'Available-for-sale financial assets'. The liability to the counterparty is included under Due to other banks or Due to customers, depending on the application.

Financial assets acquired under reverse sale and reverse repurchase agreements are recognised as Due from other banks, or Loans to customers, depending on the application. The difference between the selling price and repurchasing price is recognised as interest income or interest expense over the term of the agreement, based on the effective interest method.

2.10 Securitisations and other derecognition constructions

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

A financial asset (or a portion of it) is derecognised if:

- the rights to the cash flows from the asset expire;
- the rights to the cash flows from the asset and a substantial portion of the risks and benefits of ownership of the asset are transferred;
- a commitment to transfer the cash flows from the asset is presumed and a substantial portion of the risks and benefits are transferred;
- not all the economic risks and benefits are retained or transferred; however, control over the asset is transferred.

A financial liability or part thereof is derecognised if it ceases to exist, i.e. after the contractual obligation has been fulfilled or cancelled or has expired.

If Rabobank retains control over the asset but does not retain a substantial portion of the risks and benefits, the asset is recognised in proportion to the continuing involvement of Rabobank. A related liability is also recognised to the extent of Rabobank's continuing involvement. The recognition of changes in the value of the liability corresponds to the recognition of changes in the value of the asset.

If a transaction does not meet the above conditions for derecognition, it is recognised as a loan for which security has been provided.

To the extent that the transfer of a financial asset does not qualify for derecognition, the transfer does not result in Rabobank's contractual rights being separately recognised as derivative financial instruments if recognition of these instruments and the transferred asset, or the liability arising on the transfer, were to result in double recognition of the same rights or obligations.

Gains and losses on securitisations and sale transactions depend partly on the previous carrying amounts of the financial assets transferred. These are allocated to the sold and retained interests based on the relative fair values of these interests at the date of sale. Any gains and losses are recognised through profit or loss at the time of transfer.

The fair value of the sold and retained interests is based on quoted market prices or calculated as the present value of the future expected cash flows, using pricing models that take into account various assumptions such as credit losses, discount rates, yield curves, payment frequency and other factors.

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

2.11 Cash and cash equivalents

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

2.12 Netting of financial assets and liabilities

Financial assets and liabilities are set off and the net amount is transferred to the statement of financial position if a legal right to set off the recognised amounts exists and it is intended to settle the expected future cash flows on a net basis, or to realise the asset and settle the liability simultaneously. This mainly concerns netting of current account balances and derivative financial instruments. The set-off of taxes is discussed in section 2.25.

2.13 Foreign currencies

2.13.1 Foreign entities

Items included in the financial statements of each entity in Rabobank Group are carried in the currency that best reflects the economic reality of the underlying events and circumstances that are relevant for the entity ('the functional currency').

The financial statements are presented in euros, which is the parent company's functional currency.

Gains, losses and cash flows of foreign entities are translated into the presentation currency of Rabobank at the exchange rates ruling at the transaction dates, which is approximately equal to the average exchange rates. Assets and liabilities are translated at closing rates. Translation differences arising on the net investments in foreign entities and on loans and other currency instruments designated as hedges of these investments are recognised in equity. If a foreign entity is sold, any such translation differences are recognised in profit or loss as part of the gain or loss on the sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are recognised as assets and liabilities of the foreign entity and are translated at the closing rate.

2.13.2 Transactions in foreign currencies

Transactions in foreign currencies are translated into the functional currency at the exchange rates ruling at the transaction dates. Translation differences arising on the settlement of such transactions or on the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Translation differences qualifying as net investment hedges are recognised in equity.

Translation differences on debt securities and other monetary financial assets carried at fair value are included under foreign exchange gains and losses. Translation differences on non-monetary items such as equity instruments held for trading are recognised as part of the fair value gains or losses. Translation differences on available-for-sale non-monetary items are included in the revaluation reserve reported under 'Equity'.

2.14 Interest

Interest income and expense for all interest-bearing instruments is recognised in profit or loss on an accrual basis, with the effective interest method being applied. Interest income includes coupons relating to fixed-interest financial assets and trading financial assets, as well as the cumulative premiums and discounts on government treasury securities and other cash equivalent instruments. If any loans suffer impairment losses, they are written down to their recoverable amounts and the interest income recognised henceforth is based on the original discount rate for calculating the present value of the future cash flows used to determine the recoverable amounts. Interest income on derivative financial instruments held for trading and used as economic hedges is presented separately under interest income.

2.15 Commission

Income from asset management activities consists mainly of unit trust, fund management commission and administration. Income from asset management and insurance brokerage is recognised as earned once the services have been provided.

Commission is generally recognised on an accrual basis. Commission received for negotiating a transaction, or taking part in the negotiations, on behalf of third parties, for example the acquisition of a portfolio of loans, shares or other securities, or the sale or purchase of companies, is recognised at completion of the underlying transactions.

2.16 Loans to customers and due from other banks

Loans to customers and Due from other banks are non-derivative financial instruments with fixed or defined payments, not listed on an active market, apart from such assets that Rabobank classifies as trading, at fair value on initial recognition with changes recognised through profit or loss, or as available for sale. Loans to customers and receivables are initially recognised at fair value, including transaction costs, and subsequently carried at amortised cost, including transaction costs.

Loans are subject to either individual or collective impairment analyses. A value adjustment, a provision for expected losses on loans, is recognised if there is objective evidence that Rabobank will not be able to collect all amounts due under the original terms of the contract. The size of the provision is the difference between the carrying amount and the recoverable amount, which is the present value of the expected cash flows, including amounts recoverable under guarantees and sureties, discounted at the original effective rate of interest of the loans.

The provision for loans includes losses if there is objective evidence that losses are attributable to some portions of the loan portfolio at the reporting date.

Examples of objective evidence for value adjustments are:

- significant financial difficulties on the part of the borrower;
- default in making interest and/or redemption payments on the part of the borrower;
- loan renegotiations;
- possibility of bankruptcy of or financial reorganisation at the borrower;
- changes in borrowers' payment status; and
- changes in economic circumstances that could cause the borrower to default.

For each separate portion, the losses are estimated based on the credit ratings of the borrowers and the value of the collateral provided to the bank, and taking into account the actual economic conditions under which the borrowers conduct their activities. The carrying amount of the loans is reduced through the use of a provision account and the loss is taken to the statement of income. Write-offs of provisions for expected loan losses are made as soon as the enforcement process is completed, the security provided has been realised, when virtually no other means of recovery are available and in the event of a formal cancellation of a debt. Where there is virtually no perspective of the debtor being able to continue as a going concern, a provision for expected loan losses is written off at portfolio level, up to the amount deemed uncollectible. Any amounts subsequently collected are included under the item 'Value adjustments' in the statement of income.

As soon as the prospects for continuity have recovered and arrears have been cleared as agreed, the loan is no longer considered impaired (not fully collectible). Management continually assesses these renegotiated loans to ensure that all criteria are satisfied with a view to expected future cash flows.

At each reporting date, management assesses whether there is objective evidence that reclassified loans previously recognised as available-for-sale assets have been impaired.

2.17 Intangible assets

2.17.1 Goodwill

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

2.17.2 Software development costs

Costs related to the development or maintenance of software are recognised as an expense at the time they are incurred. Costs directly incurred in connection with identifiable and unique software products over which Rabobank has control and that will probably provide economic benefits exceeding the costs for longer than a year are recognised as intangible assets. Direct costs include the employee expenses of the software development team, financing and an appropriate portion of the relevant overhead.

Expenditures that improve the performance of software compared with their original specifications are added to the original cost of the software. Software development costs are recognised as assets and amortised on a straight-line basis over a period not exceeding five years.

2.17.3 Other intangible assets

Other intangible assets are mainly those identified upon business combinations. They are amortised over their terms.

Each year, Rabobank performs an impairment test based on expected future cash flows. An impairment loss is recognised if the expected future profits do not justify the carrying amount of the asset.

2.17.4 Impairment losses on goodwill

Each year, during the fourth quarter of the financial year, or more frequently if indications of impairment exist, goodwill is tested for impairment by comparing the recoverable amount with the carrying amount. The highest of value in use on the one hand and fair value less selling costs on the other determines the recoverable amount. The definition of cash flow generating units depend on the type of company acquired.

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

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

2.17.5 Impairment losses on other intangible assets

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

2.18 Property and equipment

Equipment (for own use) is recognised at historical cost net of accumulated depreciation and impairments if applicable.

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

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

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

Each year, Rabobank assesses whether there are indications of impairment of property and equipment. If the carrying amount of an asset exceeds its estimated recoverable amount, the carrying amount is written down immediately to the recoverable amount. Impairment losses and reversed impairments of property and equipment are included in Other administrative expenses in the statement of income. Gains and losses on the disposal of items of property and equipment are determined in proportion to their carrying amounts and taken into account when determining the operating result.

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

2.19 Investment properties

Investment properties, mainly office buildings, are held for their long-term rental income and are not used by Rabobank or its subsidiaries. Investment properties are recognised as long-term investments and included in the statement of financial position at cost, net of accumulated depreciation and impairment.

Investment properties are depreciated over a term of 40 years.

2.20 Work in progress

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

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

2.21 Leasing

2.21.1 Rabobank as lessee

Leases relating to property and equipment under which virtually all risks and benefits of ownership are transferred to Rabobank are classified as finance leases. Finance leases are capitalised at the inception of the lease at the fair value of the leased assets or at the present value of the minimum lease payments if the present value is lower. Lease payments are apportioned between the lease liability and the finance charges, so as to achieve a constant rate of interest on the remaining balance of the liability. The corresponding lease liabilities are included under Other loans, after deduction of finance charges. The interest components of the finance charges are recognised in profit or loss over the term of the lease. An item of property and equipment acquired under a lease agreement is depreciated over the useful life of the asset or, if shorter, the term of the lease.

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

2.21.2 Rabobank as lessor

Finance leases

If assets are leased under a finance lease, the present value of the lease payments is recognised as a receivable under Due from other banks or Loans to customers. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised as interest income over the term of the lease using the net investment method, which results in a constant rate of return on the investment.

Operating leases

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

2.22 Provisions

Provisions are recognised if Rabobank has a present obligation (legal or constructive) as a result of a past event, if it is probable that an outflow of resources will be required to settle the obligation and if a reliable estimate can be made of the amount of the obligation. If Rabobank expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only if the reimbursement is virtually certain. The provisions are carried at the discounted value of the expected future cash flows.

2.22.1 Restructuring

Restructuring provisions comprise payments under redundancy schemes and other costs directly attributable to restructuring programmes. The costs are recognised in the period in which a legal or constructive obligation arises for Rabobank and a detailed redundancy scheme is in place.

2.22.2 Tax and legal issues

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

2.22.3 Other provisions

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

2.23 Employee benefits

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

2.23.1 Pension obligations

The defined benefit liability is the present value of the defined benefit obligation at the reporting date, including adjustments for actuarial gains and losses and past service costs not yet recognised, reduced by the fair value of the plan assets. The defined benefit obligation is calculated by independent actuaries each year using the projected unit credit method. The present value of the defined benefit obligation is calculated by discounting the estimated future cash outflows at rates of interest on prime corporate bonds with terms approximating those of the related obligations. Most of the pension plans are career average pension plans and the net costs after deduction of employees' contributions are included under Staff costs. Actuarial gains or losses from adjustments to actual developments and modified actuarial assumptions are recognised using the corridor method. Insofar as unrecognised cumulative actuarial gains or losses exceed 10% of the higher of the present value of the gross obligation under the defined benefit plan and the fair value of the fund, such excess is taken to the statement of income under Other income the next financial year, spread over two years.

2.23.2 Defined contribution plans

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

2.23.3 Other post-employment obligations

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

2.23.4 Variable remuneration

The costs of variable remuneration paid unconditionally and in cash are recognised in the year in which the employee renders the services. The costs of conditional payments in cash are included in staff costs in the statement of income in the period during which the employee's services are received, which equals the vesting period of the cash payment. The liability is recognised in other liabilities. The accounting treatment of equity instrument-based payments is disclosed in note 2.24.

2.24 Equity instrument-based payments

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

2.25 Tax

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

Provisions are formed in full for deferred tax liabilities, using the liability method, arising from temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The main temporary differences relate to the depreciation of property and equipment, the revaluation of certain financial assets and liabilities, including derivative financial instruments, provisions for pensions and other post-employment benefits, provisions for loan losses and other impairment and tax losses, and, in connection with business combinations, the fair values of the net assets acquired and their tax bases. Deferred income tax assets and liabilities are measured at the tax rates that have been enacted or substantively enacted at the reporting date.

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

Provisions are formed in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, unless the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

Deferred tax assets or deferred tax liabilities are included for the revaluation of available-for-sale financial assets and cash flow hedges that are directly taken to equity. Upon realisation, they are recognised in profit or loss together with the respective deferred gain or loss.

2.26 Due to other banks, due to customers and debt securities in issue

These borrowings are initially recognised at fair value, i.e. the issue price less directly attributable and non-recurring transaction costs, and subsequently carried at amortised cost, including transaction costs.

If Rabobank repurchases one of its own debt instruments, it is derecognised, with the difference between the carrying amount of a liability and the consideration paid being recognised as income or expense.

2.27 Rabobank Member Certificates

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

2.28 Trust Preferred Securities and Capital Securities

Trust Preferred Securities, which pay a non-discretionary dividend and are redeemable on a specific date or at the option of the holder, are classified as financial liabilities and included under Subordinated debt. The distributions on these preferred securities are recognised in profit or loss as interest expense based on amortised cost using the effective interest method.

The remaining Trust Preferred Securities and Capital Securities are recognised as 'Equity', as there is no formal obligation to repay the principal or to pay the dividend.

2.29 Financial guarantees

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

2.30 Segment information

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

2.31 Statement of cash flows

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

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

The difference between the net change presented in the statement of cash flows and the change in Cash and cash equivalents presented in the statement of financial position is due to currency translation differences. These are presented separately as part of the reconciliation between those two amounts.

3 Solvency

Rabobank wishes to have an adequate solvency position, which it manages based on a number of ratios. The principal ratios are the core tier 1-ratio, the tier 1-ratio, the BIS-ratio and the equity capital-ratio. Rabobank's internal targets exceed the regulators' minimum requirements as it anticipates market expectations and developments in laws and regulations. The bank seeks to stand out from other financial institutions, managing its solvency position based on policy documents. Rabobank Group BRMC, the Executive Board and the Supervisory Board periodically discuss the solvency position and the targets to be used.

The bank needs to meet a certain solvency position laid down in the law. That position is determined on the basis of a set of ratios which compare the bank's qualifying capital (capital ratio) and core capital (tier 1) with the total risk-weighted assets. The minimum requirements for qualifying capital and core capital are 8% and 4% of risk-weighted assets respectively. The Dutch banking supervisory authority, the Nederlandsche Bank (Dutch Central Bank), sets detailed standards for determining the capital ratios. These standards are derived from the capital adequacy guidelines of the European Union (the Directive on the capital adequacy requirements of investment firms and credit institutions, or CRD III) and the Basel Committee on Banking Supervision (the Basel II Accord). In the Netherlands these standards have been incorporated into the Financial Supervision Act and associated subordinate regulations.

The risk-weighted assets are determined for credit risk purposes in many different ways. For most assets the risk weight is determined with 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 first, on the basis of internal conversion factors. The resulting equivalent amounts are then also assigned risk-weightings.

An Advanced Measurement Approach Model is used to determine the amount with respect to the risk-weighted assets for operational risk. With the market risk approach, the general market risk is hedged, as well as the risk of open positions in foreign currencies, debt and equity instruments, as well as commodities.

The years ahead will see the overall requirements (Basel III) tightened further. They are currently being fleshed out in the European Union in the form of the CRD IV.

Rabobank Group's ratios		
in millions of euros	2012	2011
Retained earnings (note 29)	27,511	26,367
Rabobank Member Certificates (note 30)	6,672	6,614
Part of non-controlling interest treated as qualifying capital	402	929
Deductions	(5,278)	(5,586)
<i>Core tier 1-capital</i>	<u>29,307</u>	<u>28,324</u>
Trust Preferred Securities III to VI (note 31)	1,340	1,399
Trust Preferred Securities II (note 27)	415	429
Capital Securities (note 31)	7,350	7,812
<i>Tier 1-capital</i>	<u>38,412</u>	<u>37,964</u>
Part of reserves treated as qualifying capital	138	350
Part of subordinated debt treated as qualifying capital	4,935	1,944
Deductions	(1,110)	(1,170)
<i>Qualifying capital (BIS capital)</i>	<u>42,375</u>	<u>39,088</u>
Risk-weighted assets	222,847	223,613
Ratios		
Core tier 1-ratio	13.2%	12.7%
Tier 1-ratio	17.2%	17.0%
Capital ratio	19.0%	17.5%
Equity capital-ratio ¹	15.3%	14.7%

1 The equity capital-ratio is calculated by relating part of the tier 1-capital (retained earnings and Rabobank Member Certificates) to risk-weighted assets.

4 Risk exposure of financial instruments

4.1 Risk governance

Rabobank Group manages risks at various levels. At the highest level, the Executive Board determines the risk strategy it will pursue, the policy framework as well as the limits, under the supervision of the Supervisory Board and on the recommendation of the Balance Sheet and Risk Management Committee Rabobank Group and Rabobank Group Credit Management Committee. The Supervisory Board regularly assesses the risks attached to the activities and portfolio of Rabobank Group. The Chief Financial Officer, who is also a member of the Executive Board, is responsible for the risk management policy within Rabobank Group. Responsibility for the risk policy within Rabobank Group is spread across two directorates. Group Risk Management is in charge of the policies for interest rate, market, liquidity, currency and operational risks, as well as for the policy for credit risks at portfolio level. Credit Risk Management is responsible for the credit risk acceptance policy at item level. Furthermore, the group entities practice independent risk management.

4.1.1 Risk appetite

Rabobank identifies and manages the risks it incurs on an ongoing basis. This has led to a comprehensive risk management model, which starts from a risk management cycle: determining the risk appetite, preparing full-scope up risk assessments and measuring and monitoring risks. As part of this, Rabobank follows a risk strategy that is designed to ensure its continuity as a going concern and is aimed at protecting earnings, maintaining sound balance sheet ratios and protecting its identity and reputation. Rabobank revised its Strategic Framework in 2012.

External factors and key themes in 2012

The economic and political environment is the context in which Rabobank operates. The volatility and uncertainty of economic developments greatly affects our operations. Political factors play a major role in shaping solutions, especially when it comes to resolving the debt crisis in the eurozone. European government finances are under stress and we are suffering the consequences, not only directly, but indirectly too. Rabobank's risk management is keyed into developments around us, which is why we focused on the following topical issues in 2012: compliance, new regulatory requirements, (macro-)economic developments, sectors under threat and technological developments

A heightened sense of cost awareness is a must in this current economic climate, but pressure on costs has an often negative effect on risk, particularly in the area of compliance. That is why Risk Management focused heavily in 2012 on the impact of future regulatory requirements such as Basel III/CRD/CRR IV, FATCA, the framework recovery plan, the Volcker/Vickers rules and the Dodd-Frank Act. These regulations will have far-reaching implications for the banking landscape and they require business processes and models to become more stringent. Complying with the rules places ever greater demands on our management, employees and IT budgets, especially in these times of cost awareness and austerity.

The current market environment is weighing down the value of residential and commercial real estate. The housing market and commercial real estate have Rabobank's constant attention, with specific focus being placed on the accurate assessment of the value of commercial properties.

New technology and technological developments offer new opportunities for interaction with customers and can help bring about efficiency improvements by making services more effective and affordable. The pace of change is ever faster. Besides offering opportunities, the introduction of new services will also lead to behavioural changes in our customers that result in new risks such as cybercrime.

4.2 Strategy for the use of financial instruments

Rabobank's activities are inherently related to the use of financial instruments, including derivative financial instruments. Rabobank accepts deposits from clients at fixed and variable rates of interest for a variety of terms and aims to earn above average interest margins on these deposits by investing them in high-quality assets. Rabobank also aims to increase these margins by consolidating short funds and loans for longer terms at higher interest rates, at the same time keeping sufficient cash resources to meet all payments that might become due.

A further objective of Rabobank is to increase its interest rate result by obtaining above-average margins, after deduction of provisions, and by granting loans to commercial and retail borrowers with various credit ratings. These risks apply not only to loans recognised in the statement of financial position; Rabobank also gives guarantees, such as letters of credit and performance and other guarantee documents.

Rabobank also trades in financial instruments when it takes positions in tradable and unlisted instruments (OTCs), including derivative financial instruments, in order to profit from short-term movements on the share and bond markets and in exchange rates, interest rates and commodity prices.

4.3 Interest rate risk

On account of its activities Rabobank is exposed to interest rate risk in its core business. Interest rate risk in a financial market environment is part of market risk.

Interest rate risk is the risk that the bank's financial result and/or economic value may decline due to unfavourable developments in the money and capital markets. This risk may arise due to an interest rate mismatch between assets and liabilities (mismatch risk), due to interest-related options embedded in products that could affect cash flows (option risk), due to possible changes in the yield curve (yield curve risk) and due to changes in the relationship between various yield curves (basis risk). Any interest rate risk run by customers due to the fact that their payment obligations increase as a result of higher interest rates does not affect Rabobank's interest rate risk position. Any resulting negative effects qualify as credit risk.

Accepting a certain level of interest rate risk is inherent in the business of banking and can be a major source of results and value creation. Each year, the Executive Board, under the supervision of the Supervisory Board, determines the risk appetite and corresponding limits. Reports on the current interest rate risk position are submitted to the respective risk management committees on a monthly basis. The various treasury departments within the group entities are responsible for the daily monitoring activities. Furthermore, reports are provided to the supervisory authority, the Dutch Central Bank, each quarter.

Interest rate risk is not only measured on the basis of contract terms; the bank's internal interest rate risk model also takes client behaviour into consideration. Premature mortgage repayments are taken into account and items in the statement of financial position without a term stipulated by contract, such as savings and current account balances, are modelled based on what is known as the replicating portfolio method. The use of this technique means that portfolios of money market and capital market instruments are selected that most replicate the behaviour of these items in the statement of financial position.

Both the income at risk and equity at risk are subject to restrictions. Another major interest rate risk indicator is the basis point value. The basis point value (BPV) is the absolute loss in market value of equity that arises in the event of a parallel increase of the entire interest rate curve by 1 basis point. During the year under review, the BPV never exceeded 12 (2011: 25).

The definition of equity used for interest rate risk management differs from the IFRS-definition of equity. For interest rate risk management purposes, the economic value of equity is defined as the present value of the assets less the present value of the liabilities plus the present value of the items not recognised in the statement of financial position. Through the use of hedge accounting and due to the fact that a substantial number of items in the statement of financial position, in IFRS-terms, is stated at amortised cost and hence is not subject to any changes in value, the effects of the calculated changes in value on the IFRS-equity will be largely restricted to an impact on the net interest income.

4.3.1 Income at risk

Income at risk represents the largest negative downside risk to expected net interest income for the next twelve months under a scenario in which money market and capital market rates show a gradual 2 percentage point increase across the curve, and under a scenario in which they show a gradual 2 percentage point decrease across the curve. A lower limit of 0% is used for scenario in which rates decrease. Given that money market rates show ever further declines from already low levels, the scenario in which market rates show gradual decreases across the curve was adjusted several times with respect to euro rates in 2012, resulting in an assumption of a 5 basis point decrease at year-end 2012, while this was 75 basis points at year-end 2011. The income at risk scenarios do not assume any active management intervention, but they do take account of changes in customers' repayment and savings behaviour prompted by interest rate developments and changes in pricing policy with respect to savings products.

Income at risk		31 Dec 2012	31 Dec 2011
in millions of euros		5 bp decline	75 bp decline
1-12 months		(18)	(216)

4.3.2 Equity at risk

Equity at risk is a core indicator of interest rate risk, viewed from a value perspective. It is primarily a long-term indicator. Equity at risk indicates the percentage drop in the economic value of equity on the assumption of a 1 percentage point increase in money market and capital market rates. In the year under review, equity at risk varied between 1.1% and 2.3%.

Equity at risk		31 Dec 2012	31 Dec 2011
		1.4%	2.2%

Supplementing the monthly interest rate sensitivity assessments, regular analyses are performed that calculate the impact of one or more macroeconomic scenarios on net interest income. The results of these scenario analyses are important for integral interest rate risk management purposes and are included in reports to the Balance Sheet and Risk Management Committee Rabobank Group.

4.4 Credit risk

Credit risk is the risk that a counterparty is unable to meet a financial or other contractual obligation vis-à-vis the bank. Credit risk is inherent to granting loans. Positions in tradable assets such as bonds and shares are also subject to credit risk.

Rabobank restricts its credit risk exposure by setting limits for loans to an individual counterparty, or a group of counterparties, as well as for loans to countries. The four-eyes principle is a key factor when granting loans. A multi-level committee structure is in place to make decisions on major loan applications, with the competent committee being chosen based on the size of the loan. Decisions on the largest loans are made directly by the Executive Board.

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

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

4.4.1 Maximum credit risk

The table below sets out the maximum credit risk to which Rabobank is subject at the reporting date in respect of the various categories, 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 following deviate from the carrying amounts, since the outstanding equity instruments are not included in the maximum credit risk.

in millions of euros	Maximum gross credit risk		Credit risk reduction	
	2012	2011	2012	2011
Cash and cash equivalents	68,103	70,430	0%	0%
Due from other banks	35,386	25,221	3%	2%
Derivative financial instruments	65,423	58,973	89%	89%
Loans to customers	485,299	468,085	80%	79%
Available-for-sale financial assets	49,908	51,173	7%	0%
Held-to-maturity financial assets	-	109	0%	0%
<i>Subtotal</i>	<i>704,119</i>	<i>673,991</i>	<i>64%</i>	<i>63%</i>
Credit related and contingent liabilities	53,548	50,528	17%	25%
<i>Total</i>	<i>757,667</i>	<i>724,519</i>	<i>61%</i>	<i>60%</i>

4.4.2 Loans

Rabobank has a significant market share in private sector lending; these loans to private customers account for 48% of all loans to customers. These loans have a very low risk profile as evidenced by the actual losses incurred in previous years, which were below 5 basis points and have edged up to 6 basis points. The proportion of the total loan portfolio attributable to the food and agri sector was 20% in 2012. The proportion of the total loan portfolio attributable to trade, industry and services was 32% at year-end 2012. Loans to trade, industry and services and loans to the food and agri sector are both spread over a wide range of industries in many different countries. None of these shares represents more than 10% of the total client loan portfolio.

in millions of euros	2012		2011	
<i>Total loans to customers</i>	<i>485,299</i>		<i>468,085</i>	
Of which: to government clients	3,764		3,557	
reverse repurchase transactions and securities borrowing agreements	11,410		7,026	
interest rate hedges (hedge accounting)	12,034		9,165	
<i>Private sector lending</i>	<i>458,091</i>		<i>448,337</i>	
This can be broken down geographically as follows:				
The Netherlands	341,614	75%	332,489	74%
Rest of Europe	35,737	8%	38,540	9%
North America	42,010	9%	40,876	9%
Latin America	11,414	2%	10,950	2%
Asia	6,284	1%	5,672	1%
Australia	20,812	5%	19,666	4%
Africa	220	0%	144	0%
<i>Total</i>	<i>458,091</i>	<i>100%</i>	<i>448,337</i>	<i>100%</i>
Breakdown of loans by business sector				
Private individuals	220,029	48%	212,269	47%
Trade, industry and services	145,626	32%	147,877	33%
Food and agri	92,436	20%	88,191	20%
<i>Total</i>	<i>458,091</i>	<i>100%</i>	<i>448,337</i>	<i>100%</i>

TIS loan portfolio analysed by industry		
in millions of euros	2012	2011
Lessors of real estate	29,516	31,026
Finance and insurance (except banks)	19,835	21,048
Wholesale	17,844	17,573
Activities related to real estate	7,142	8,334
Manufacturing	9,300	8,055
Transport and warehousing	7,196	7,052
Construction	7,066	7,030
Healthcare and social assistance	6,017	5,750
Professional, scientific and technical services	5,983	5,019
Retail (except food and beverages)	4,642	4,325
Utilities	2,448	2,215
Information and communication	1,444	1,681
Arts, entertainment and leisure	1,404	1,306
Other TIS	25,789	27,463
<i>Total loans granted to TIS</i>	<i>145,626</i>	<i>147,877</i>

Food and agri loan portfolio analysed by industry		
in millions of euros	2012	2011
Grain and oil seeds	16,111	16,609
Animal protein	17,747	15,778
Dairy	15,436	15,580
Fruit and vegetables	9,365	9,689
Farm inputs	6,024	5,509
Food retail	5,730	5,296
Beverages	3,921	3,905
Flowers	3,159	3,406
Sugar	2,268	2,075
Miscellaneous crop farming	2,682	1,982
Other food and agri	9,993	8,362
<i>Total loans granted to food and agri</i>	<i>92,436</i>	<i>88,191</i>

4.4.3 Derivative financial instruments

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 setting off, the net open position is monitored. This credit risk is managed as part of the general lending limits for clients. Where needed, Rabobank obtains collateral or other safeguards with respect to 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 by law.

4.4.4 Credit risk management methods

Rabobank's credit risk exposure is restricted in part 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 follows guidelines for the purpose of accepting and valuing different types of collateral.

The major types of collateral are:

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

The management monitors the market value of collateral obtained and requires additional collateral where necessary.

The bank also uses credit derivative financial instruments to manage credit risks.

Rabobank further limits 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 setting off of assets and liabilities included in the statement of financial position, as transactions are usually settled gross. The credit risk is limited by master netting arrangements, however, 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 of Rabobank from derivative financial instruments to which netting arrangements apply is highly sensitive to the closing of new transactions, lapsing of existing transactions and fluctuations in market interest and exchange rates.

4.4.5 Off-balance-sheet financial instruments

The guarantees and stand-by letters of credit which Rabobank provides to third parties in the event a client cannot fulfil its obligations vis-à-vis these third parties, are exposed to credit risk.

Documentary and commercial letters of credit and written undertakings by Rabobank on behalf of clients authorise third parties to draw bills against Rabobank up to a preset amount subject to specific conditions. These transactions are backed by the delivery of the underlying goods to which they relate. Accordingly, the risk exposure of such an instrument is less than that of a direct loan.

Obligations to grant loans at specific rates of interest during a fixed period of time are recognised under credit granting liabilities and accounted for as such unless these commitments do not extend beyond the period expected to be needed to perform appropriate underwriting, in which case they are considered to be transactions conforming to standard market conventions. Rabobank is exposed to credit risk when it promises to grant lending facilities. The size of such losses is less than the total of the unused commitments, as promises to grant credit facilities are made subject to the clients meeting certain conditions that apply to loans. Rabobank monitors the term to expiry of credit promises, as long-term commitments are generally associated with a higher risk than short-term commitments.

4.4.6 Credit quality of financial assets

In its financing approval process, Rabobank Group uses the Rabobank Risk Rating, which reflects the counterparty's probability of default (PD) over a one-year period. The table below sets out the credit quality (after deduction of the provision for doubtful debts) of the loan-related items in the statement of financial position.

Credit quality of financial assets					
in millions of euros	(Virtually) no risk	Adequate to good	Vulnerable	Impaired	Total
At 31 December 2012					
Due from other banks	25,242	10,137	-	7	35,386
Loans to customers					
Loans to government clients	2,621	1,140	2	1	3,764
Loans to private clients:					
- overdrafts	650	11,334	1,293	1,433	14,710
- mortgages	69,214	147,797	3,416	1,052	221,479
- leases	1,410	18,290	1,519	745	21,964
- reverse repurchase transactions and securities borrowing agreements	3,778	7,632	-	-	11,410
- corporate loans	24,256	164,651	6,391	4,393	199,691
- other	1,214	10,730	153	184	12,281
Total	128,385	371,711	12,774	7,815	520,685
At 31 December 2011					
Due from other banks	17,907	7,235	-	79	25,221
Loans to customers					
Loans to government clients	2,302	1,254	1	-	3,557
Loans to private clients:					
- overdrafts	664	10,677	1,359	792	13,492
- mortgages	79,110	133,000	3,039	756	215,905
- leases	1,461	17,538	1,414	739	21,152
- reverse repurchase transactions and securities borrowing agreements	4,594	2,431	-	-	7,025
- corporate loans	21,398	162,869	5,263	4,637	194,167
- other	2,462	9,994	145	186	12,787
Total	129,898	344,998	11,221	7,189	493,306

The table below gives an age analysis of financial assets expired (overdue) but unimpaired.

Age analysis					
in millions of euros	< 30 days	30 to 60 days	61 to 90 days	> 90 days	Total
At 31 December 2012					
Due from other banks	-	-	-	-	-
Loans to customers					
Loans to government clients	2	-	-	-	2
Loans to private clients:					
- overdrafts	865	338	75	15	1,293
- mortgages	2,271	743	347	55	3,416
- leases	988	290	240	1	1,519
- reverse repurchase transactions and securities borrowing agreements	-	-	-	-	-
- corporate loans	4,455	1,203	448	285	6,391
- other	103	26	22	2	153
<i>Total</i>	<i>8,684</i>	<i>2,600</i>	<i>1,132</i>	<i>358</i>	<i>12,774</i>
At 31 December 2011					
Due from other banks	-	-	-	-	-
Loans to customers					
Loans to government clients	1	-	-	-	1
Loans to private clients:					
- overdrafts	916	325	117	1	1,359
- mortgages	2,115	583	296	45	3,039
- leases	964	221	228	1	1,414
- reverse repurchase transactions and securities borrowing agreements	-	-	-	-	-
- corporate loans	3,650	997	450	166	5,263
- other	88	39	16	2	145
<i>Total</i>	<i>7,734</i>	<i>2,165</i>	<i>1,107</i>	<i>215</i>	<i>11,221</i>

Leniency

In its role as relationship bank, Rabobank will try to prevent the risk of default of payment on the part of the customer through adequate credit management, regular consultations with the customer and taking timely action. If despite these efforts a customer defaults on payment, Rabobank will attempt to restructure the loan instead of realising the collateral as long as it sees future prospects for continuity. Such renegotiated loans are considered impaired. Impairment calculations are based on expected cash flows. Delayed realisation of collateral may lead to modified repayment arrangements and newly agreed loan terms. Where repayment and collateral write-down start to diverge, supplementary cover is obtained as a rule. Interest rates are lowered only in highly exceptional situations. Likewise, in exceptional cases, a portion of the debt may be converted into risk-bearing capital in order to achieve prospects for continuity. These equity interests are actively managed and, once they have sufficiently increased in value, they are sold. Upon such conversion, the applicable rules for loan derecognition are applied and the risk-bearing capital measured at fair value upon initial measurement.

Country risk on GIIPS countries

Rabobank Group's exposure to government bonds issued by Ireland and Italy was 202 (2011: 260) at 31 December 2012. Rabobank no longer holds any government bonds issued by the other GIIPS countries. The exposure to bonds issued by financial institutions chiefly concern Spanish secured bonds. The issuing institution has provided additional collateral. The total nominal exposure to the bonds is 1,795 (2011: 2,516).

Country	Government bonds	State-guaranteed bonds	Bonds issued by financial institutions	Total	Cumulative adjustments charged to profit or loss
2012 in millions of euros					
Greece					
Loans	-	24	-	24	47
Available-for-sale financial assets	-	-	-	-	-
Ireland					
Loans	-	-	-	-	-
Available-for-sale financial assets	6	-	41	47	-
Financial assets at fair value through profit or loss	48	-	-	48	-
Italy					
Loans	-	-	46	46	-
Available-for-sale financial assets	56	-	10	66	-
Financial assets at fair value through profit or loss	92	-	-	92	-
Portugal					
Loans	-	-	-	-	-
Available-for-sale financial assets	-	-	-	-	-
Spain					
Loans	-	-	178	178	-
Held-to-maturity financial assets	-	-	-	-	-
Available-for-sale financial assets	-	-	1,158	1,158	67
Financial assets at fair value through profit or loss	-	-	3	3	-
<i>Total</i>	<i>202</i>	<i>24</i>	<i>1,436</i>	<i>1,662</i>	<i>114</i>

Country	Government bonds	State-guaranteed bonds	Bonds issued by financial institutions	Total	Cumulative adjustments charged to profit or loss
2011 in millions of euros					
Greece					
Loans	-	34	-	34	46
Available-for-sale financial assets	49	4	-	53	181
Ireland					
Loans	-	-	-	-	-
Available-for-sale financial assets	9	-	31	40	8
Financial assets at fair value through profit or loss	51	-	-	51	-
Italy					
Loans	-	-	46	46	-
Available-for-sale financial assets	112	-	9	121	-
Financial assets at fair value through profit or loss	88	-	-	88	-
Portugal					
Loans	-	45	-	45	-
Available-for-sale financial assets	19	15	42	76	23
Spain					
Loans	-	-	238	238	-
Held-to-maturity financial assets	21	-	-	21	-
Available-for-sale financial assets	-	12	1,208	1,220	116
Financial assets at fair value through profit or loss	-	11	4	15	-
<i>Total</i>	<i>349</i>	<i>121</i>	<i>1,578</i>	<i>2,048</i>	<i>374</i>

Based on the accounting policies applied, it has been established with respect to the Greek exposures, as well a number of bonds issued by financial institutions, that impairment losses need to be recognised; these positions have been impaired to their fair market value at 31 December 2012. The average valuation of the Greek government bonds and state-guaranteed bonds at 31 December 2012 was 34% (2011: 43%).

Exposure to European government bonds other than Dutch, German and French is extremely limited.

Structured credit and monoline insurers

Rabobank Group incurs limited exposure to more structured investments in its trading and investment portfolios. At 31 December 2012, the structured credit exposure amounted to 4.0 billion (2011: 4.6 billion).

Monoline insurers are counterparties in some credit default swaps used to hedge the credit risk of certain investments. Partly due to the scaling down of the portfolio, the counterparty risk on the monoline insurers before provisions fell further to 728 (2011: 1,313). Given that the total provision amounts to 634 (2011: 1,140), the remaining counterparty risk is 94 (2011: 173). This counterparty risk is caused by a drop in the fair value of the underlying investments or by the potential emergence of a claim for payment against these insurers because of other insured investments. In measuring the economic counterparty risk, time aspects and the credit quality of the investments have been taken into consideration. As the largest part of the counterparty risk has been provided for, further downgrades have only limited impact.

Changes in fair values and provisions in the 2012 reporting year had no adverse consequences for earnings from structured credit exposures.

Developments in real estate portfolio

Rabobank's portfolio of commercial real estate in the Netherlands is managed primarily by FGH Bank and the local Rabobanks. The quality of the commercial real estate loan portfolio is affected by conditions in the market. The value of properties is falling owing to the current state of the market, with the value of less marketable real estate coming under particular pressure. The review and valuation policy and the non-performing loans policy are based on a risk-oriented approach, in which Rabobank complies with the statutory provisions currently in force with respect to the valuation of commercial real estate (Article 4:58(1) and (3) of the Dutch Financial Supervision Act 2010). Where checks reveal that the assumed value might no longer reflect the market value, the value is reassessed. Valuations are performed by an independent third party.

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

Rabobank Group endorses the aspirations of the Dutch Valuers and Auditors Platform (Dutch acronym: PTA) to increase professionalism, quality and transparency in the area of real estate valuation. We are pleased to be able to report that Rabobank Group already complies with many of the recommendations made in the PTA report, insofar as they are relevant to valuations performed as part of the banking process. In line with PTA's recommendations, Rabobank Group will tighten up procedures in specific areas related to the internal valuation process and external valuers in 2013.

The table below lists a number of key data for the Dutch real estate portfolio.

in millions of euros at 31 December 2012	Domestic retail banking	Rabo Real Estate Group	Total
Size of portfolio	10,781	15,523	26,304
Impaired portfolio	917	1,524	2,441
Value adjustments	104	232	336
Provision	401	353	754
Write-off	12	67	79

in millions of euros at 31 December 2011	Domestic retail banking	Rabo Real Estate Group	Total
Size of portfolio	11,293	15,355	26,648
Impaired portfolio	478	1,066	1,544
Value adjustments	50	128	178
Provision	150	187	337
Write-off	20	19	39

Rabobank's portfolio contracted slightly in the year under review as a result of repayments and a lower risk appetite. Market developments are weighing down the quality of the portfolio, which has been reflected in a higher level of impaired loans, i.e. bad debt costs, over the past few years. Important mitigating factors for the quality of the loan portfolio are Rabobank's focus on relationship banking and the fact that its financing policy is more customer than product-driven. If the current market developments persist, loan losses are expected to remain high in the years ahead. In addition to this Dutch portfolio, the foreign commercial real estate portfolio amounts to 3.2 billion (2011: 4.4 billion). This brings the total portfolio to 29.5 billion (2011: 31.0 billion).

4.5 Currency risk

Rabobank is exposed to exchange rate fluctuations impacting the financial position and cash flows. Just as with other market risks, the currency risk exposure of the trading books is managed using value-at-risk (VaR) limits set by the Executive Board. This risk is monitored on a daily basis. The policy aims to prevent open positions whenever possible.

The value at risk from currency risk exposure in the trading books stood at 0.8 at 31 December 2012 (2011: 1.3). The non-trading books are only exposed to the translation risk on capital invested in foreign activities and on issues of hybrid equity instruments not denominated in euros. To monitor and manage translation risk, Rabobank follows a policy of protecting equity against exchange rate fluctuations.

4.6 Liquidity risk

Rabobank is exposed to liquidity risk, i.e. the risk that the bank is unable to meet all of its (re)payment obligations, as well as the risk that the bank is unable to fund increases in assets at reasonable prices or unable at all. This could happen if, for instance, clients or professional counterparties suddenly withdraw more funds than expected, which cannot be met by the bank's cash resources or by selling or pledging assets or by borrowing funds from third parties.

For a long time now, Rabobank has recognised liquidity risk as a major risk type. Rabobank's policy therefore is to match the term of funding with the term of loans granted. Long-term loans must be financed through funds entrusted by customers or long-term funding by professional markets. Rabobank uses three pillars to manage liquidity risk. The first pillar strictly limits the maximum cash outflows within wholesale banking. Among other things, the expected cash outflows for the next thirty days are measured and reported on a daily basis. Limits were set for these cash outflows for all currencies and locations. Detailed contingency funding plans with procedures were drawn up to face a possible crisis situation.

Through the second pillar, an ample buffer of tradable securities is maintained. Where necessary these assets can be allocated for pledging to central banks, for use in repo transactions or direct selling in the market to immediately generate liquidity. Over the past few years, Rabobank Group has (internally) securitised a portion of its loan portfolio. As a result, it can be pledged to the central bank, thus serving as an additional liquidity buffer. Since these securitisations are internal and for liquidity purposes only, they are not reflected in the statement of financial position for financial reporting purposes, although they do add to the available liquidity buffer.

The third pillar entails the restriction of liquidity risk through a prudent funding policy aimed at meeting the financing requirements of the group units at acceptable cost. Diversification of sources of funding and currencies, flexibility of the funding instruments applied and a hands-on investor relations approach are key factors. This prevents Rabobank from being overly dependent on a single source of funding.

Furthermore, scenario analyses are performed each month to simulate the possible consequences of a wide range of stress scenarios, distinguishing between scenarios specific for the market and scenarios specific for Rabobank, as well as a combination of them. Monthly reports on the liquidity position of the Group as a whole 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 Rabobank's non-discounted liabilities grouped by the liquidity period remaining between the reporting date and the expected contract repayment date. The total amounts do not correspond exactly with the amounts in the consolidated statement of financial position, since this table is based on non-discounted cash flows, related to both principal and future interest payments. 'Derivative financial instruments and other trade liabilities' have not been analysed on the basis of the contract repayment date because they are not essential for the management of liquidity risk and for reporting to the management of Rabobank.

Contract repayment date						
in millions of euros	On demand	Less than 3 months	3 months to 1 year	1-5 years	Longer than 5 years	Total
At 31 December 2012						
Liabilities						
Due to other banks	2,520	16,113	2,057	5,272	1,295	27,257
Due to customers	237,363	56,396	11,180	15,165	18,938	339,042
Debt securities in issue	1	46,979	61,483	83,113	51,984	243,560
Other debts (excluding employee benefits)	1,515	7,176	446	834	18	9,989
Other financial liabilities at fair value through profit or loss	3,144	964	3,204	8,464	17,690	33,466
Subordinated debt	-	18	30	573	6,900	7,521
<i>Total financial liabilities</i>	<i>244,543</i>	<i>127,646</i>	<i>78,400</i>	<i>113,421</i>	<i>96,825</i>	<i>660,835</i>
Financial guarantees	14,904	-	-	-	-	14,904
At 31 December 2011						
Liabilities						
Due to other banks	965	19,096	1,833	3,681	921	26,496
Due to customers	219,863	70,831	12,174	14,201	17,432	334,501
Debt securities in issue	29	52,509	50,810	81,288	52,532	237,168
Other debts (excluding employee benefits)	1,012	6,621	519	737	34	8,923
Other financial liabilities at fair value through profit or loss	6,114	1,221	3,449	10,808	16,358	37,950
Subordinated debt	-	40	-	448	2,733	3,221
<i>Total financial liabilities</i>	<i>227,983</i>	<i>150,318</i>	<i>68,785</i>	<i>111,163</i>	<i>90,010</i>	<i>648,259</i>
Financial guarantees	10,519	-	-	-	-	10,519

The following table shows Rabobank's assets and liabilities grouped by the period remaining between the reporting date and the contract repayment date. These amounts correspond with the statement of financial position.

Contract repayment date			
in millions of euros	Less than 1 year	More than 1 year	Total
At 31 December 2012			
Financial assets			
Cash and cash equivalents	68,103	-	68,103
Due from other banks	33,169	2,217	35,386
Trading financial assets	2,666	3,721	6,387
Other financial assets at fair value through profit or loss	1,225	4,686	5,911
Derivative financial instruments	9,586	55,837	65,423
Loans to customers	102,211	383,088	485,299
Available-for-sale financial assets	7,202	43,223	50,425
Deferred tax assets	62	559	621
Other assets (excluding employee benefits)	7,500	2,392	9,892
<i>Total financial assets</i>	<i>231,724</i>	<i>495,723</i>	<i>727,447</i>
Financial liabilities			
Due to other banks	20,668	6,391	27,059
Due to customers	305,268	29,003	334,271
Debt securities in issue	107,943	115,393	223,336
Derivative financial instruments and other trade liabilities	19,762	55,038	74,800
Other debts (excluding employee benefits)	8,836	846	9,682
Other financial liabilities at fair value through profit or loss	5,746	18,345	24,091
Deferred tax liabilities	23	673	696
Subordinated debt	35	5,372	5,407
<i>Total financial liabilities</i>	<i>468,281</i>	<i>231,061</i>	<i>699,342</i>
<i>Net liquidity surplus</i>	<i>(236,557)</i>	<i>264,662</i>	<i>28,105</i>
At 31 December 2011			
Financial assets			
Cash and cash equivalents	70,430	-	70,430
Due from other banks	22,115	3,106	25,221
Trading financial assets	3,352	4,760	8,112
Other financial assets at fair value through profit or loss	1,041	5,974	7,015
Derivative financial instruments	12,617	46,356	58,973
Loans to customers	111,464	356,621	468,085
Available-for-sale financial assets	4,987	46,943	51,930
Held-to-maturity financial assets	57	52	109
Deferred tax assets	101	894	995
Other assets (excluding employee benefits)	7,288	3,012	10,300
<i>Total financial assets</i>	<i>233,452</i>	<i>467,718</i>	<i>701,170</i>
Financial liabilities			
Due to other banks	21,845	4,414	26,259
Due to customers	302,327	27,565	329,892
Debt securities in issue	102,265	111,176	213,441
Derivative financial instruments and other trade liabilities	19,399	45,532	64,931
Other debts (excluding employee benefits)	7,371	715	8,086
Other financial liabilities at fair value through profit or loss	5,874	20,015	25,889
Deferred tax liabilities	47	846	893
Subordinated debt	40	2,373	2,413
<i>Total financial liabilities</i>	<i>459,168</i>	<i>212,636</i>	<i>671,804</i>
<i>Net liquidity surplus</i>	<i>(225,716)</i>	<i>255,082</i>	<i>29,366</i>

The above breakdown was compiled on the basis of contract information, without taking into account actual changes in items in the statement of financial position. This is taken into account, however, for the day-to-day management of the liquidity risk. Customer savings are an example. By contract, they are payable on demand. However, experience has shown

that this is a very stable source of financing at the long-term disposal of the bank. The regulations of the supervisory authority also factor this in. Based on the liquidity criteria of the Dutch Central Bank, Rabobank had a substantial liquidity surplus at 31 December 2012 and throughout 2012. The average liquidity surplus was 44% (2011: 40%) of the total liquidity requirement. The surplus at 31 December 2012 was 41% (2011: 27%).

The liquidity requirements to meet payments under guarantees and stand-by letters of credit are considerably lower than the amount of the liabilities, as Rabobank does not generally expect that third parties to such arrangements will draw funds. The total open position relating to contractual obligations to provide credit does not necessarily represent Rabobank's future cash resource needs, as many of these obligations will lapse or terminate without financing being required.

4.7 Market risk

Rabobank is exposed to market risk. A market risk arises on open positions in relation to interest rates, currency, credit spreads, commodities and share-based products, all of which are affected by general and specific market movements. Rabobank employs a value-at-risk (VaR) method to estimate the market risk of positions it holds and the maximum expected losses. The method requires a number of assumptions to be made for various changes in market conditions. In order to estimate the risk under 'abnormal' market conditions as well, the effect of certain extreme events ('event risk') on the value of the portfolios is also measured.

Each year, the Executive Board determines the risk appetite and corresponding VaR and event risk limits. These limits are converted into limits at book level and are monitored daily by the market risk management department. The risk position is reported to senior management on a daily basis and discussed in the various risk management committees each month. In addition to the VaR limits, a very extensive system of trading controls per book is in place. These controls include rotation risk (the risk of the yield curve rotating), delta limits per bucket, nominal limits and the maximum number of contracts, thus limiting risks that may offset each other in the VaR system.

The internal VaR model forms an integral part of Rabobank's risk management framework; it has also been approved by the Dutch Central Bank for determining the solvency requirement for market risk. Rabobank has opted to apply a VaR based on historical simulation for which one year's worth of historic data is used. The VaR is calculated over time horizons of both one day and ten days. For internal risk management purposes, Rabobank has opted for a confidence level of 97.5%. Furthermore, the VaR with a confidence level of 99% is also calculated on a daily basis.

The major benefit of a VaR model based on historical simulation is that no assumptions need to be made in terms of distribution of possible value changes of the various financial instruments. A drawback is that a certain period of historical market movements needs to be selected, which may affect the level of the calculated VaR. Further to the requirements of the supervisory authority and after internal research, Rabobank has opted for a historical period of one year.

The actual results are regularly assessed through back testing in order to determine the validity of the assumptions and parameters/factors applied when calculating the VaR.

In addition to the VaR model, Rabobank employs a stress testing programme, which measures the effect of extreme yet plausible events not taken into account in the regular VaR model. Based in part on historical events, such as the stock market crash of 1987, the credit market turbulence of 1998 and the events seen in recent years, scenarios are analysed and sensitivity analyses performed. Complementing the VaR model with the stress test results enables Rabobank to obtain a more accurate perspective on risk positions.

The table below shows the composition of the VaR, divided into several components. A diversification benefit is obtained due to the fact that opposite positions in different books partially offset each other. Note 4.3 'Interest rate risk' provides analyses of the interest rate risk within the core business. The average VaR fell in 2012 compared with 2011, due in part to transfers of a number of investments books from the trading book to the banking book, which means they no longer came under the scope of the VaR-calculation.

VaR (1 day, 97.5%)							
in millions of euros	Interest	Credit	Foreign currencies	Shares	Commodities	Diversification	Total
2012 - 31 December	8	1	1	2	1	(5)	8
2012 - average	9	3	1	3	-	n/a	12
2012 - highest	17	7	2	5	1	n/a	21
2012 - lowest	6	1	-	2	-	n/a	8
2011 - 31 December	16	7	1	5	-	(13)	16
2011 - average	14	5	1	3	-	n/a	16
2011 - highest	21	7	1	6	3	n/a	24
2011 - lowest	9	3	-	1	-	n/a	10

Besides Value at Risk, there are other important risk indicators for measuring market risk. For example, the Basis Point Value indicates how the value of trading book positions changes if the yield curve shows a parallel increase by 1 percentage point. These positions are shown for each key currency in the table below.

Basis Point Value		
in millions of euros	2012	2011
Euro	0.0	(0.7)
US dollar	0.6	(0.0)
British pound	0.2	(0.0)
Australian dollar	(0.0)	(0.1)
Japanese yen	0.1	(0.1)
Other	(0.1)	(0.2)

4.8 Operational risk

Operational risk is a risk category to which every single organisation is exposed. Rabobank Group has opted to manage its operational risks at group level from Group Risk Management. This section determines the policy as well as the frameworks for all entities within the group. Senior management of the individual group units is responsible for managing the specific operational risks, since the risks vary considerably per unit and need to be controlled as close to the source as possible. Group Risk Management subsequently ensures that the frameworks are observed and that the risks and risk control measures are transparent throughout the organisation.

In terms of the solvency requirement for operational risks, Rabobank applies a model that meets the demands of the Advanced Measurement Approach, which has been approved by the Dutch Central Bank. This model takes into account realised losses and the possible consequences of certain scenarios. Rabobank Group adopts a conservative approach. Another factor taken into account when calculating the solvency requirement is the quality of risk control.

4.9 Fair value of financial assets and liabilities

The table below shows the fair values of financial instruments based on the stated valuation methods and assumptions. This table is included because not all financial instruments are disclosed at fair value in the financial statements. The fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction.

Rabobank uses the market price as fair value if an active market exists (such as a stock market), as this is the best measure of the fair value of a financial instrument.

Market prices are not available for a large number of the financial assets and liabilities that Rabobank holds or issues. Hence, for financial instruments for which no market prices are available, the fair values shown in the table below have been estimated using the present value or the results of other estimation and valuation methods, based on the market conditions at the reporting date. The values produced using these methods are highly sensitive to the underlying assumptions used for the amounts as well as 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 also used for highly liquid investments and the current component of all other financial assets and liabilities.

Due from other banks. Due from other banks comprise interbank placings and items to be collected. The fair values of floating rate placings 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 using appropriate money market interest rates for debts with comparable credit risks and terms to maturity.

Financial assets and derivative financial instruments held for trading. Financial assets and derivative financial instruments held for trading are carried at fair value based on available quoted market prices. If quoted market prices are not available, the fair value is estimated from discounted cash flow models and option valuation models.

Other financial assets at fair value through profit or loss. These financial assets are carried at fair value based on quoted prices 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 to customers. The fair value of issued loans is estimated from the present value of the cash flows, using current market rates for similar loans. For variable-interest loans that are reviewed regularly and do not vary significantly in terms of credit risk, the fair value is based on the carrying amount until maturity.

Available-for-sale financial assets and held-to-maturity financial assets. Available-for-sale financial assets and held-to-maturity financial assets are carried at fair value based on available quoted market prices. If quoted market prices are not available, the fair value is estimated from discounted cash flow models and option valuation models.

Other financial assets. For almost all other financial assets, the carrying amount is a good approximation of the fair value.

Due to other banks. Due to other banks comprise interbank placings, items to be delivered and deposits. The fair values of floating rate placings 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 using ruling money market interest rates for debts with comparable credit risks and terms to maturity.

Trade liabilities. The fair value of trade liabilities is based on available quoted market prices. If quoted market prices are not available, the fair value is estimated from valuation models.

Other financial liabilities at fair value through profit or loss. The fair value of these liabilities is based on available quoted market prices. If quoted market prices are not available, the fair value is estimated from discounted cash flow models and option valuation models.

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

Debt and other instruments issued by Rabobank. The fair value of these instruments is calculated using quoted market prices. For notes for which no quoted market prices are available, a discounted cash flow model is used, based on a current yield curve appropriate for the term to maturity.

in millions of euros	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	68,103	68,097	70,430	70,430
Due from other banks	35,386	35,485	25,221	24,966
Trading financial assets	6,387	6,387	8,112	8,112
Other financial assets at fair value through profit or loss	5,911	5,911	7,015	7,015
Derivative financial instruments	65,423	65,423	58,973	58,973
Loans to customers	485,299	496,591	468,085	472,378
Available-for-sale financial assets	50,425	50,425	51,930	51,930
Held-to-maturity financial assets	-	-	109	111
<i>Total financial assets</i>	<i>716,934</i>	<i>728,319</i>	<i>689,875</i>	<i>693,915</i>
Liabilities				
Due to other banks	27,059	27,112	26,259	26,403
Due to customers	334,271	334,596	329,892	330,877
Debt securities in issue	223,336	231,559	213,441	216,735
Derivative financial instruments and other trade liabilities	74,800	74,800	64,931	64,931
Other financial liabilities at fair value through profit or loss	24,091	24,091	25,889	25,889
Subordinated debt	5,407	6,130	2,413	2,381
<i>Total financial liabilities</i>	<i>688,964</i>	<i>698,288</i>	<i>662,825</i>	<i>667,216</i>

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

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

Rabobank's policy is to have all models used for valuing financial instruments validated by expert staff who are independent of the staff who determine the fair values of the financial instruments.

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

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

- category 1: Quoted prices in active markets for identical assets or liabilities;
- category 2: Inputs other than quoted prices included in category 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- category 3: Inputs for the asset or liability not based on observable market data.

in millions of euros	Category 1	Category 2	Category 3	Total
At 31 December 2012				
Assets				
Trading financial assets	4,107	2,197	83	6,387
Other financial assets at fair value through profit or loss	251	4,003	1,657	5,911
Derivative financial instruments	471	64,707	245	65,423
Available-for-sale financial assets	43,889	6,438	98	50,425
Liabilities				
Derivative financial instruments and other trade liabilities	2,054	72,625	121	74,800
Other financial liabilities at fair value through profit or loss	1,038	23,037	16	24,091
At 31 December 2011				
Assets				
Trading financial assets	4,256	3,452	404	8,112
Other financial assets at fair value through profit or loss	1,013	4,506	1,496	7,015
Derivative financial instruments	503	58,049	421	58,973
Available-for-sale financial assets	45,506	6,197	227	51,930
Liabilities				
Derivative financial instruments and other trade liabilities	2,764	61,962	205	64,931
Other financial liabilities at fair value through profit or loss	1,232	24,528	129	25,889

The potential impact on net profit for the year when more favourable reasonable assumptions are used for the measurement of financial instruments in category 3 is 168 (2011: 148) and that on equity is 1 (2011: 2).

The potential impact on net profit for the year when less favourable reasonable assumptions are used for the measurement of financial instruments in category 3 is -165 (2011: -148) and that on equity is -1 (2011: -2).

Financial instruments at fair value in category 3

in millions of euros	At 1 January 2012	Fair value changes through profit or loss	Fair value changes through equity	Purchases	Sales	Settle- ments	Transferred to held for sale/ discontinued operations	Transfers to or from category 3	At 31 December 2012
At 31 December 2012									
Assets									
Trading financial assets	404	2	-	-	(98)	(21)	(187)	(17)	83
Other financial assets at fair value through profit or loss	1,496	127	-	597	(551)	(10)	-	(2)	1,657
Derivative financial instruments	421	(158)	-	-	(23)	5	-	-	245
Available-for-sale financial assets	227	7	(1)	4	(2)	(33)	(99)	(5)	98
Liabilities									
Derivative financial instruments and other trade liabilities	205	(81)	-	-	(2)	(1)	-	-	121
Other financial liabilities at fair value through profit or loss	129	(1)	-	-	-	(13)	(83)	(16)	16

Financial instruments at fair value in category 3

in millions of euros	At 1 January 2011	Fair value changes through profit or loss	Fair value changes through equity	Purchases	Sales	Settle- ments	Transfers to or from category 3	At 31 December 2011
At 31 December 2011								
Assets								
Trading financial assets	527	27	-	49	(143)	(80)	24	404
Other financial assets at fair value through profit or loss	2,060	130	-	210	(723)	(168)	(13)	1,496
Derivative financial instruments	794	139	-	-	-	(53)	(459)	421
Available-for-sale financial assets	222	29	10	8	(35)	(2)	(5)	227
Liabilities								
Derivative financial instruments and other trade liabilities	357	(18)	-	-	-	(6)	(128)	205
Other financial liabilities at fair value through profit or loss	327	(20)	-	-	(15)	(13)	(150)	129

The amount in total gains or losses presented in the statement of income for the period relating to the assets and liabilities held until the end of the reporting period is presented in the table below.

Financial instruments in category 3 - fair value changes through profit or loss			
in millions of euros	Recognised	Derecognised	Total
At 31 December 2012			
Assets			
Trading financial assets	(13)	15	2
Other financial assets at fair value through profit or loss	56	71	127
Derivative financial instruments	(54)	(104)	(158)
Available-for-sale financial assets	7	-	7
Liabilities			
Derivative financial instruments and other trade liabilities	(78)	(3)	(81)
Other financial liabilities at fair value through profit or loss	(1)	-	(1)
At 31 December 2011			
Assets			
Trading financial assets	21	6	27
Other financial assets at fair value through profit or loss	107	23	130
Derivative financial instruments	391	(252)	139
Available-for-sale financial assets	33	(4)	29
Liabilities			
Derivative financial instruments and other trade liabilities	79	(97)	(18)
Other financial liabilities at fair value through profit or loss	(12)	(8)	(20)

The table below shows the changes in deferred profit of the trading financial assets which were initially recognised at a value determined using a valuation technique based on data input not substantiated by market prices.

Provision for Day 1 profit		
in millions of euros	2012	2011
Opening balance	42	94
Additions	41	48
Amortisation	(29)	(34)
Changes	(17)	(66)
<i>Closing balance</i>	37	42

4.10 Securities services

Rabobank provides management, advisory and custody services. Assets held in connection with fiduciary activities are not disclosed in these financial statements. As part of its management services, Rabobank has to make decisions on the allocation, purchase and sale of a wide variety of financial instruments. For some of the arrangements, Rabobank has agreed to achieve return targets for the assets under its management. Rabobank provides advisory services to third parties with regard to buy and sell orders.

With these management and advisory services, Rabobank could be exposed to the risk of being held liable for inadequate management, advice or performance.

5 Business segments

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

Rabobank distinguishes six major business segments: Domestic retail banking, Wholesale and international retail banking, Asset management, Leasing, Real estate, and Other segments.

The Domestic retail banking segment mainly comprises the operations carried out by local Rabobanks, Friesland Bank and Obvion. The Wholesale and international retail banking segment - Rabobank International - provides support to Rabobank Group in achieving market leadership in the Netherlands as an all-finance service provider. Internationally, it concentrates on the food and agri sector. Rabobank International undertakes regional corporate banking operations while also including entities operating globally, such as Global Financial Markets, Structured Finance, Leveraged Finance, Renewable Energy & Infrastructure Finance, Direct Banking, Trade & Commodity Finance, and Rabo Private Equity. It carries on its international retail banking operations under the Rabobank label, with the exceptions of ACCBank and Bank BGZ. The Asset management segment mainly comprises the operations of Robeco and Schretlen & Co. Notes 44 and 45 provide more detailed disclosure on the intended sale of Robeco and the sale of Bank Sarasin & Cie S.A., which formed part of the asset management segment until the sale. The Leasing segment - De Lage Landen - is responsible for the lease operations, offering a wide range of lease, trade finance and consumer finance products in its Dutch home market. Across the globe, it supports sales of manufacturers, vendors and distributors, offering them its asset finance products. In Europe, De Lage Landen operates the car lease company Athlon Car Lease. The Real estate segment - Rabo Real Estate Group - performs Rabobank's real estate operations. Its core business is in developing residential and commercial real estate as well as providing finance and asset management services. Rabo Real Estate Group operates under the labels Bouwfonds Ontwikkeling, MAB Development, FGH Bank and Bouwfonds REIM. Upon the acquisition of Bouwfonds, Rabobank provided a guarantee to Rabo Real Estate Group concerning potential losses in its projects portfolio. The amount of the guarantee is 278, and it was entirely drawn at 31 December 2012. Other segments comprise a variety of segments, none of which requires separate reporting. They chiefly reflect the figures for the associates (notably Achmea B.V.) and head office operations. There are no clients representing over 10% of Rabobank's total revenues.

Inter-segment transactions are conducted in accordance with normal commercial terms and market conditions. The Domestic retail banking segment includes the dividend distributed to local Rabobanks of 493 (2011: 483) reported under Other results. No material income or expense items other than from operating activities arise between business segments. The assets and liabilities of a segment comprise operating assets and operating liabilities; in other words, a substantial part of the statement of financial position, but excluding items relating to tax. The accounting policies used for segment reporting are the same as those described in the section on the main accounting policies used in preparing the consolidated financial statements.

in millions of euros	Domestic retail banking	Wholesale banking and international retail banking	Asset management	Leasing	Real estate	Other segments	Consolidation effects/hedge accounting	Total
For the year ended 31 December 2012								
Interest	5,180	2,775	55	952	312	(177)	-	9,097
Commission	1,344	618	203	63	35	(14)	(43)	2,206
Other income	765	612	22	442	104	(372)	576	2,149
<i>Total income</i>	<u>7,289</u>	<u>4,005</u>	<u>280</u>	<u>1,457</u>	<u>451</u>	<u>(563)</u>	<u>533</u>	<u>13,452</u>
Segment expense	4,360	2,416	252	796	301	201	505	8,831
Value adjustments	1,329	621	(2)	147	237	18	-	2,350
Bank tax	91	60	2	9	8	26	-	196
<i>Operating profit before taxation</i>	<u>1,509</u>	<u>908</u>	<u>28</u>	<u>505</u>	<u>(95)</u>	<u>(808)</u>	<u>28</u>	<u>2,075</u>
Taxation	205	204	9	138	12	(415)	7	160
<i>Net profit from continued operations</i>	<u>1,304</u>	<u>704</u>	<u>19</u>	<u>367</u>	<u>(107)</u>	<u>(393)</u>	<u>21</u>	<u>1,915</u>
Net profit from discontinued operations	-	-	197	-	-	-	-	197
<i>Net profit</i>	<u>1,304</u>	<u>704</u>	<u>216</u>	<u>367</u>	<u>(107)</u>	<u>(393)</u>	<u>21</u>	<u>2,112</u>
Business unit assets	386,039	529,778	11,369	32,737	27,920	83,721	(322,803)	748,761
Investments in associates	12	576	-	29	86	2,946	-	3,649
<i>Total assets</i>	<u>386,051</u>	<u>530,354</u>	<u>11,369</u>	<u>32,766</u>	<u>28,006</u>	<u>86,667</u>	<u>(322,803)</u>	<u>752,410</u>
Business unit liabilities	357,829	518,931	10,308	29,252	26,138	69,199	(303,874)	707,783
<i>Total liabilities</i>	<u>357,829</u>	<u>518,931</u>	<u>10,308</u>	<u>29,252</u>	<u>26,138</u>	<u>69,199</u>	<u>(303,874)</u>	<u>707,783</u>
Additions to property and equipment	181	60	2	1,650	1	98	-	1,992
Depreciation of tangible assets and amortisation of intangible assets	150	121	(2)	48	19	191	-	527
Impairment of tangible and intangible assets	9	-	-	-	-	15	-	24
Goodwill	-	737	-	464	322	-	-	1,523

in millions of euros	Domestic retail banking	Wholesale banking and international retail banking	Asset management	Leasing	Real estate	Other segments	Consolidation effects/hedge accounting	Total
Value adjustments in loans to customers								
At 1 January	1,543	889	1	451	205	-	-	3,089
Additional impairment for credit losses	1,783	1,214	-	264	240	-	-	3,501
Reversal of impairment for credit losses	(424)	(572)	(2)	(64)	(2)	-	-	(1,064)
Defaulting loans written off during the year	(1,376)	(658)	-	(196)	(67)	-	-	(2,297)
Interest and other adjustments	501	(28)	1	12	-	-	-	486
<i>Closing balance</i>	<u>2,027</u>	<u>845</u>	<u>-</u>	<u>467</u>	<u>376</u>	<u>-</u>	<u>-</u>	<u>3,715</u>
Individual value adjustment (specific provision)	1,689	592	-	369	353	-	-	3,003
Collective value adjustment (collective provision)	205	40	-	13	-	-	-	258
IBNR	133	213	-	85	23	-	-	454
	<u>2,027</u>	<u>845</u>	<u>-</u>	<u>467</u>	<u>376</u>	<u>-</u>	<u>-</u>	<u>3,715</u>

in millions of euros	Domestic retail banking	Wholesale banking and international retail banking	Asset management	Leasing	Real estate	Other segments	Consolidation effects/hedge accounting	Total
For the year ended 31 December 2011								
Interest	5,218	2,957	108	778	282	(169)	-	9,174
Commission	1,357	586	359	76	41	(29)	(29)	2,361
Other income	366	207	5	465	207	520	(599)	1,171
<i>Total income</i>	<u>6,941</u>	<u>3,750</u>	<u>472</u>	<u>1,319</u>	<u>530</u>	<u>322</u>	<u>(628)</u>	<u>12,706</u>
Segment expense	3,986	2,072	550	774	344	(25)	551	8,252
Value adjustments	648	686	(1)	144	129	-	-	1,606
<i>Operating profit before taxation</i>	<u>2,307</u>	<u>992</u>	<u>(77)</u>	<u>401</u>	<u>57</u>	<u>347</u>	<u>(1,179)</u>	<u>2,848</u>
Taxation	454	211	(5)	97	17	(123)	(296)	355
<i>Net profit from continued operations</i>	<u>1,853</u>	<u>781</u>	<u>(72)</u>	<u>304</u>	<u>40</u>	<u>470</u>	<u>(883)</u>	<u>2,493</u>
Net profit from discontinued operations	-	-	134	-	-	-	-	134
<i>Net profit</i>	<u>1,853</u>	<u>781</u>	<u>62</u>	<u>304</u>	<u>40</u>	<u>470</u>	<u>(883)</u>	<u>2,627</u>
Business unit assets	372,934	514,040	25,304	31,799	27,252	84,115	(327,119)	728,325
Investments in associates	17	515	1	30	77	2,700	-	3,340
<i>Total assets</i>	<u>372,951</u>	<u>514,555</u>	<u>25,305</u>	<u>31,829</u>	<u>27,329</u>	<u>86,815</u>	<u>(327,119)</u>	<u>731,665</u>
Business unit liabilities	347,784	503,106	22,814	28,635	25,365	67,944	(308,984)	686,664
<i>Total liabilities</i>	<u>347,784</u>	<u>503,106</u>	<u>22,814</u>	<u>28,635</u>	<u>25,365</u>	<u>67,944</u>	<u>(308,984)</u>	<u>686,664</u>
Additions to property and equipment	177	56	2	1,441	5	87	-	1,768
Depreciation of tangible assets and amortisation of intangible assets	119	108	76	51	20	166	-	540
Impairment of tangible and intangible assets	1	100	17	-	8	-	-	126
Goodwill	1	744	376	460	322	-	-	1,903

in millions of euros	Domestic retail banking	Wholesale banking and international retail banking	Asset management	Leasing	Real estate	Other segments	Consolidation effects/hedge accounting	Total
Value adjustments in loans to customers								
At 1 January	1,376	670	12	444	94	14	-	2,610
Additional impairment for credit losses	1,119	1,333	1	313	147	-	-	2,913
Reversal of impairment for credit losses	(465)	(578)	(1)	(127)	(18)	-	-	(1,189)
Defaulting loans written off during the year	(590)	(542)	(2)	(199)	(19)	(14)	-	(1,366)
Interest and other adjustments	103	6	(9)	20	1	-	-	121
<i>Closing balance</i>	<u>1,543</u>	<u>889</u>	<u>1</u>	<u>451</u>	<u>205</u>	<u>-</u>	<u>-</u>	<u>3,089</u>
Individual value adjustment (specific provision)	1,242	542	1	339	187	-	-	2,311
Collective value adjustment (collective provision)	185	126	-	15	-	-	-	326
IBNR	116	221	-	97	18	-	-	452
	<u>1,543</u>	<u>889</u>	<u>1</u>	<u>451</u>	<u>205</u>	<u>-</u>	<u>-</u>	<u>3,089</u>

in millions of euros	Income from external clients	Additions to property and equipment and intangible assets	Income from external clients	Additions to property and equipment and intangible assets
	At 31 December 2012		At 31 December 2011	
The Netherlands	9,026	1,742	8,064	1,606
Other euro zone	528	123	834	169
Rest of Europe (Non-euro zone)	1,138	111	1,150	35
North America	1,843	88	1,662	100
Latin America	521	3	498	5
Asia	337	8	294	7
Australia	262	78	254	32
Other and consolidation effects	(203)	-	(50)	-
<i>Total</i>	<i>13,452</i>	<i>2,153</i>	<i>12,706</i>	<i>1,954</i>

6 Cash and cash equivalents

in millions of euros	2012	2011
Cash	1,002	875
Money market loans	7	6
Deposits at central banks other than mandatory reserve deposits	66,196	63,357
	<u>67,205</u>	<u>64,238</u>
Mandatory reserve deposits at central banks	898	6,192
<i>Total cash and cash equivalents</i>	<i>68,103</i>	<i>70,430</i>

Mandatory reserve deposits consist of deposits with the Dutch Central Bank required under its minimum reserve policy.

7 Due from other banks

in millions of euros	2012	2011
Deposits with other banks	13,275	11,787
Reverse repurchase transactions and securities borrowing agreements	16,848	7,058
Loans	4,446	4,927
Other	80	82
Less: value adjustments	(48)	(51)
	<u>34,601</u>	<u>23,803</u>
Reclassified assets	785	1,418
<i>Total due from other banks</i>	<i>35,386</i>	<i>25,221</i>

Breakdown of value adjustments		
At 1 January	51	109
Additional impairment for credit losses	-	4
Reversal of impairment for credit losses	(11)	(13)
<i>Value adjustments</i>	<i>(11)</i>	<i>(9)</i>
Amounts written off during the year	-	(5)
Transferred to Non-current assets held for sale	-	(37)
Other changes	8	(7)
<i>At 31 December</i>	<i>48</i>	<i>51</i>

Value adjustments of 'Due from other banks' have been recognised in the statement of income as 'Value adjustments'. The gross carrying amount of Due from other banks whose value adjustments were established on an individual basis is 55 (2011: 130).

8 Trading financial assets

in millions of euros	2012	2011
Purchased loans	1,767	2,091
Short-term government securities	688	313
Government bonds	935	2,150
Other debt securities	1,690	1,788
Equity instruments	1,307	1,770
<i>Total</i>	<i>6,387</i>	<i>8,112</i>

9 Other financial assets at fair value through profit or loss

in millions of euros	2012	2011
Government bonds	4	412
Other debt securities	3,738	4,777
Loans	1,026	845
Venture capital (equity instrument)	784	571
Other equity instruments	359	410
<i>Total</i>	<i>5,911</i>	<i>7,015</i>

The change in the year under review in the fair value of the loans designated as at fair value through profit or loss that is attributable to the changes in credit risk is -9 (2011: -3). The cumulative change is -30 (2011: -21). Any changes in credit risk are calculated by discounting future cash flows. When setting the discount rate, account is taken of expected losses, the liquidity mark-ups and the risk margin.

No credit derivative financial instruments are used to hedge the loans designated as at fair value through profit or loss.

10 Derivative financial instruments and other trade liabilities

10.1 Types of derivative instruments used by Rabobank

Forward currency and interest rate contracts are contractual obligations to receive or pay a net amount based on changes in exchange or interest rates, or to purchase or sell foreign currency or a financial instrument on a future date at a fixed specified price in an organised financial market. As 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, the credit risk is negligible.

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 swap). Except for certain currency swaps, there is no transfer of the principal amount. The credit risk exposure of Rabobank represents 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 of 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.

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 exposed to credit risks only as option holder and only up to the carrying amount, which is equal to the fair value in this case.

Credit default swaps (CDSs) are instruments by means of which the seller of a CDS undertakes to pay the buyer an amount equal to the loss that would be incurred by holding an underlying reference asset if a specific credit event were to occur (i.e. the materialisation of a risk). The buyer is under no obligation to hold the underlying reference asset.

The buyer pays the seller a credit protection fee expressed in basis points, with the size of the fee depending on the credit spread of the reference asset.

10.2 Derivative financial instruments issued or held for trading

Rabobank trades in financial instruments to take positions in tradable or OTC instruments, including derivative financial instruments, so that it can profit from short-term movements on share and bond markets and in exchange and interest rates. For this type of trading, Rabobank sets risk limits relating to market positions at the end of the day (overnight trades) as well as during the day (intraday trades). Except under specific hedging arrangements, the currency and interest rate risks associated with these derivative financial instruments are usually offset by taking counter positions in order to manage the volatility in the net amounts needed to liquidate the market positions.

10.3 Derivative financial instruments held as hedges

Rabobank concludes various derivative contracts that are intended as fair value, cash flow or net investment hedges, and which accordingly qualify as such. Rabobank also concludes derivative contracts as hedges against economic risks. It does not apply hedge accounting to these contracts.

Fair value hedges

Most of Rabobank's fair value hedges are interest rate and cross-currency swaps that provide protection against a change in the fair value of fixed-interest financial assets and liabilities in local as well as foreign currencies. The net fair value of the interest rate swaps at 31 December 2012 is a loss of 16,131 (2011: a loss of 11,524).

Rabobank hedges part of its currency and interest rate risk exposure relating to issued debt instruments with fair value hedges in the form of cross-currency interest rate swaps. The net fair value of the interest swaps at 31 December 2012 is a gain of 2,246 (2011: a gain of 1,861).

For the year ended 31 December 2012, Rabobank recognised a gain of 32 (2011: a loss of 75) on the portion of the fair value hedges classified as ineffective.

For the year ended 31 December 2012, Rabobank recognised a loss of 5,250 (2011: a loss of 4,825) on the hedging instrument. The total gain on the hedged position allocable to the hedged risk is 5,233 (2011: 4,750).

Cash flow hedges

Most of Rabobank's cash flow hedges are cross-currency interest rate swaps that provide protection against a potential change in cash flows from variable-interest financial liabilities in foreign currencies.

The net fair value of the cross-currency interest rate swaps designated as cash flow hedges at 31 December 2012 was a gain of 408 (2011: 1,054).

In 2012, Rabobank recognised an amount of 145 (2011: 513) after taxes in equity as effective changes in the fair value of derivative financial instruments in cash flow hedges. In 2012, a gain of 7 (2011: a loss of 607) after taxes was reclassified from the cash flow hedge reserve to profit or loss. The cash flow hedge reserve in equity amounted to 40 after taxes at 31 December 2012 (2011: -112). This amount fluctuates depending on the fair value of the derivatives in the cash flow hedges. It is recognised as trading gains or losses in profit or loss over the term of the hedged positions. The cash flow hedge reserve involves a large number of derivative financial instruments and hedged positions with a variety of terms. The maximum term is 30 years, and the largest concentrations have terms between 1 and 4 years.

For the year ended 31 December 2012, Rabobank recognised a gain of 228 (2011: 0) on the portion of the cash flow hedges classified as ineffective.

Net investment hedges

Rabobank uses forward currency contracts to hedge part of the translation risk on net investments in foreign entities. The net fair value of these forward currency contracts at 31 December 2012 was a gain of 40 (2011: a loss of 125).

At 31 December 2012, forward contracts with a total notional amount of 2,654 (2011: 2,983) were designated as net investment hedges. These contracts produced gains totalling 51 (2011: losses totalling 22), which were deferred in equity. An amount of 107 was deducted from equity during the year (2011: 0). For the year ended 31 December 2012, Rabobank recognised no ineffectiveness as a result of the net investment hedges.

10.4 Notional amount and fair value

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

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

The next table shows the notional amounts and the positive and negative fair values of Rabobank's derivative contracts.

in millions of euros	Notional amounts	Fair values	
At 31 December 2012		Assets	Liabilities
Derivative financial instruments held for trading	3,226,028	60,026	54,376
Derivative financial instruments held as hedges	146,118	5,397	18,861
Short positions shares and bonds	-	-	1,563
<i>Total derivative financial assets/liabilities recognised</i>	<i>3,372,146</i>	<i>65,423</i>	<i>74,800</i>
Derivative financial instruments held for trading			
Currency derivative financial instruments			
Unlisted tradable contracts (OTC)			
Forward currency contracts	21,217	324	358
Currency swaps	378,243	6,625	6,478
Currency options	4,190	50	41
Cross-currency interest rate swaps	306	20	1
Listed tradable contracts			
Currency futures	3,771	4	4
Options	430	19	7
<i>Total currency derivative financial instruments</i>	<i>408,157</i>	<i>7,042</i>	<i>6,889</i>
Interest rate derivative financial instruments			
Unlisted tradable contracts (OTC)			
Interest rate swaps	2,024,263	46,447	39,564
Forward rate agreements	548,106	251	266
Interest rate options	131,457	4,542	4,478
<i>Total OTC contracts</i>	<i>2,703,826</i>	<i>51,240</i>	<i>44,308</i>
Listed tradable contracts			
Interest rate swaps	64,532	1	18
<i>Total interest rate derivative financial instruments</i>	<i>2,768,358</i>	<i>51,241</i>	<i>44,326</i>
Credit derivative financial instruments			
Credit default swaps	7,681	368	47
Total return swaps	8,392	378	983
<i>Total credit derivative financial instruments</i>	<i>16,073</i>	<i>746</i>	<i>1,030</i>
Equity instruments/index derivative financial instruments			
Unlisted tradable contracts (OTC)			
Options	2,927	259	396
Listed tradable contracts			
Futures	106	-	-
Options	13,986	391	772
<i>Total equity instruments/index derivative financial instruments</i>	<i>17,019</i>	<i>650</i>	<i>1,168</i>
Other derivative financial instruments	16,421	347	963
<i>Total derivative financial assets/liabilities held for trading</i>	<i>3,226,028</i>	<i>60,026</i>	<i>54,376</i>
Derivative financial instruments held as hedges			
Derivative financial instruments designated as fair value hedges			
Currency swaps and cross-currency interest rate swaps	43,943	2,262	16
Interest rate swaps	77,914	1,644	17,775
<i>Total derivative financial instruments designated as fair value hedges</i>	<i>121,857</i>	<i>3,906</i>	<i>17,791</i>
Derivative financial instruments designated as cash flow hedges			
Currency swaps and cross-currency interest rate swaps	23,603	1,476	1,069
Interest rate swaps	658	15	1
<i>Total derivative financial assets/liabilities designated as hedges</i>	<i>146,118</i>	<i>5,397</i>	<i>18,861</i>

in millions of euros	Notional amounts	Fair values	
At 31 December 2011		Assets	Liabilities
Derivative financial instruments held for trading	3,297,732	54,322	49,968
Derivative financial instruments held as hedges	139,015	4,651	13,256
Short positions shares and bonds	-	-	1,707
<i>Total derivative financial assets/liabilities recognised</i>	<i>3,436,747</i>	<i>58,973</i>	<i>64,931</i>
Derivative financial instruments held for trading			
Currency derivative financial instruments			
Unlisted tradable contracts (OTC)			
Forward currency contracts	27,190	633	707
Currency swaps	387,556	8,389	5,711
Currency options	4,423	78	92
Cross-currency interest rate swaps	156	17	1
Listed tradable contracts			
Currency futures	2,574	1	2
Options	584	25	14
<i>Total currency derivative financial instruments</i>	<i>422,483</i>	<i>9,143</i>	<i>6,527</i>
Interest rate derivative financial instruments			
Unlisted tradable contracts (OTC)			
Interest rate swaps	1,925,900	36,121	33,247
Forward rate agreements	691,074	559	542
Interest rate options	149,603	5,057	4,946
<i>Total OTC contracts</i>	<i>2,766,577</i>	<i>41,737</i>	<i>38,735</i>
Listed tradable contracts			
Interest rate swaps	74,706	2	18
<i>Total interest rate derivative financial instruments</i>	<i>2,841,283</i>	<i>41,739</i>	<i>38,753</i>
Credit derivative financial instruments			
Credit default swaps	13,081	608	323
Total return swaps	6,782	270	322
<i>Total credit derivative financial instruments</i>	<i>19,863</i>	<i>878</i>	<i>645</i>
Equity instruments/index derivative financial instruments			
Unlisted tradable contracts (OTC)			
Options	2,280	381	420
Listed tradable contracts			
Futures	179	-	-
Options	3,423	425	1,233
<i>Total equity instruments/index derivative financial instruments</i>	<i>5,882</i>	<i>806</i>	<i>1,653</i>
Other derivative financial instruments	8,221	1,756	2,390
<i>Total derivative financial assets/liabilities held for trading</i>	<i>3,297,732</i>	<i>54,322</i>	<i>49,968</i>
Derivative financial instruments held as hedges			
Derivative financial instruments designated as fair value hedges			
Currency swaps and cross-currency interest rate swaps	31,710	1,863	2
Interest rate swaps	82,528	1,035	12,559
<i>Total derivative financial instruments designated as fair value hedges</i>	<i>114,238</i>	<i>2,898</i>	<i>12,561</i>
Derivative financial instruments designated as cash flow hedges			
Currency swaps and cross-currency interest rate swaps	24,726	1,748	694
Interest rate swaps	51	5	1
<i>Total derivative financial assets/liabilities designated as hedges</i>	<i>139,015</i>	<i>4,651</i>	<i>13,256</i>

11 Loans to customers

in millions of euros	2012	2011
Loans initiated by Rabobank		
Loans to government clients:		
- leases	738	851
- other	3,027	2,708
Loans to private clients:		
- overdrafts	14,953	13,548
- mortgages	221,677	216,081
- leases	22,382	21,547
- reverse repurchase transactions and securities borrowing agreements	11,410	7,026
- corporate loans	202,751	196,893
- other	7,852	6,932
<i>Gross loans to customers</i>	<i>484,790</i>	<i>465,586</i>
Less: value adjustments in loans to customers	(3,715)	(3,089)
	<i>481,075</i>	<i>462,497</i>
Reclassified assets	4,224	5,588
<i>Total loans to customers</i>	<i>485,299</i>	<i>468,085</i>

The impairment of reclassified assets amounts to -135 (2011: 117) and is recognised in profit or loss under 'Net income from other financial assets and liabilities at fair value through profit or loss'.

in millions of euros	2012	2011
Value adjustments in loans to customers		
Value adjustments in loans to customers can be broken down as follows:		
At 1 January	3,089	2,610
Additional impairment for credit losses	3,501	2,913
Reversal of impairment for credit losses	(1,064)	(1,189)
Defaulting loans written off during the year	(2,297)	(1,366)
Interest and other changes	486	121
<i>Total value adjustments in loans to customers</i>	<i>3,715</i>	<i>3,089</i>
Individual value adjustment (specific provision)	3,003	2,311
Collective value adjustment (collective provision)	258	326
IBNR	454	452
<i>Total value adjustments in loans to customers</i>	<i>3,715</i>	<i>3,089</i>
Gross carrying amount of loans whose value adjustments were established on an individual basis	11,069	9,747

In 2012, at portfolio level, the provision for expected losses on loans to corporate customers of local banks was written down by 0.8 billion (2011: 0.3 billion). These debtors have virtually no perspective of being able to continue as a going concern, which means that realisation of the security has started. In 2012, Rabobank International wrote down its provision for expected loan losses by 0.3 billion (2011: 0.2 billion), notably for loan losses in the Irish real estate portfolio. No recovery is expected for these loans, but realisation of the security has been deferred on account of market conditions affecting the security provided. For this reason, the provision was utilised and the loans written off.

During the year, Rabobank acquired financial and non-financial assets by taking possession of collateral with an estimated value of 42 (2011: 38). In general, it is Rabobank's policy to sell these assets in the reasonably foreseeable future. Yields are allocated to repay the outstanding amount.

Reclassified assets

Based on the amendments to IAS 39 and IFRS 7, 'Reclassification of financial assets', Rabobank reclassified a number of 'Trading financial assets' and 'Available-for-sale financial assets' to 'Loans to customers' and 'Due from other banks' in 2008.

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

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

in millions of euros	31 December 2012		31 December 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Trading financial assets reclassified to loans	953	851	1,604	1,318
Available-for-sale financial assets reclassified to loans	4,056	3,464	5,402	4,852
<i>Total financial assets reclassified to loans</i>	<i>5,009</i>	<i>4,315</i>	<i>7,006</i>	<i>6,170</i>

Without the reclassifications of trading financial assets, net profit for 2012 would have been 137 higher (2011: 74 lower).

The change in equity in 2012 would have been 37 more negative (2011: 69 more negative) if available-for-sale financial assets had not been reclassified.

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

	Year ended 31 December 2012	Year ended 31 December 2011
Net interest income	33	51
Value adjustments	(9)	3
<i>Operating profit before taxation on reclassified trading financial assets</i>	<i>24</i>	<i>54</i>
Net interest income	62	80
Value adjustments	144	(120)
<i>Operating profit before taxation on reclassified available-for-sale financial assets</i>	<i>206</i>	<i>(40)</i>

Value adjustments include reversed impairments and recoveries subsequent to write-offs in the amount of 215 (2011: 161), as well as impairments in the amount of 71 (2011: 281).

Finance leases

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

in millions of euros	2012	2011
Receivables from gross investment in finance leases		
Not exceeding 1 year	9,889	9,097
Longer than 1 year but not longer than 5 years	15,308	15,493
Longer than 5 years	736	1,033
<i>Total receivables from gross investment in finance leases</i>	<i>25,933</i>	<i>25,623</i>
Unearned deferred finance income from finance leases	3,229	3,621
<i>Net investment in finance leases</i>	<i>22,704</i>	<i>22,002</i>
Net investment in finance leases can be broken down as follows:		
Not exceeding 1 year	8,694	8,444
Longer than 1 year but not longer than 5 years	13,339	12,752
Longer than 5 years	671	806
<i>Net investment in finance leases</i>	<i>22,704</i>	<i>22,002</i>

The provision for finance leases included in value adjustments amounted to 416 at 31 December 2012 (2011: 395).

The unguaranteed residual values accruing to the lessor amount to 1,848 (2011: 1,614). The contingent lease payments recognised as income in 2012 are nil (2011: 0).

The finance leases chiefly concern the lease of equipment and cars, as well as factoring.

12 Available-for-sale financial assets

in millions of euros	2012	2011
Short-term government securities	2,096	1,993
Government bonds	39,275	40,604
Other debt securities	8,537	8,576
Equity instruments	517	757
<i>Total available-for-sale financial assets</i>	<i>50,425</i>	<i>51,930</i>

The impairment of available-for-sale financial assets amounts to -126 (2011: 227) and is recognised in profit or loss under 'Net income from financial assets and liabilities at fair value through profit or loss'.

in millions of euros	2012	2011
Gains/(losses) on available-for-sale financial assets	114	(174)

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

in millions of euros	2012	2011
Opening balance	51,930	55,458
Foreign exchange differences	(248)	1
Acquisitions	96	-
Additions	37,339	25,078
Disposals (sale and redemption)	(37,082)	(28,649)
Transferred to non-current assets held for sale and discontinued operations	(3,018)	(1,680)
Fair value changes	1,618	1,428
Other changes	(210)	294
<i>Closing balance</i>	<i>50,425</i>	<i>51,930</i>

13 Held-to-maturity financial assets

in millions of euros	2012	2011
Government bonds	-	96
Other debt instruments	-	13
<i>Total held-to-maturity financial assets</i>	<i>-</i>	<i>109</i>

The changes in held-to-maturity financial assets can be broken down as follows:

in millions of euros	2012	2011
Opening balance	109	218
Additions	-	3
Redemption	-	(111)
Transferred to non-current assets held for sale and discontinued operations	(109)	-
Impairments	-	(1)
<i>Closing balance</i>	<i>-</i>	<i>109</i>

14 Investments in associates

in millions of euros	2012	2011
Opening balance	3,340	3,539
Purchases	54	69
Sales	(16)	(209)
Share of profit of associates	255	(17)
Dividends paid	(24)	(25)
Revaluation	59	(13)
Other	(19)	(4)
<i>Total</i>	<i>3,649</i>	<i>3,340</i>

The principal associates are listed under note 49 'Principal subsidiaries and associates'. The principal equity investments are disclosed in note 45 'Acquisitions and disposals'.

15 Intangible assets

in millions of euros	Goodwill	Software developed in-house	Other intangible assets	Total
Year ended 31 December 2012				
Opening balance	1,903	502	397	2,802
Foreign exchange differences	(12)	-	13	1
Additions	5	93	63	161
Acquisitions	-	-	62	62
Transferred to non-current assets held for sale and discontinued operations	(376)	-	(77)	(453)
Disposals	(10)	(15)	(11)	(36)
Other	4	38	7	49
Amortisation	-	(137)	(99)	(236)
Impairments	9	(7)	(9)	(7)
<i>Closing balance</i>	<u>1,523</u>	<u>474</u>	<u>346</u>	<u>2,343</u>
Cost	1,719	1,158	841	3,718
Accumulated amortisation and impairments	(196)	(684)	(495)	(1,375)
<i>Net carrying amount</i>	<u>1,523</u>	<u>474</u>	<u>346</u>	<u>2,343</u>
Year ended 31 December 2011				
Opening balance	2,327	491	857	3,675
Foreign exchange differences	24	1	(3)	22
Additions	-	143	43	186
Transferred to Non-current assets held for sale	(333)	(3)	(327)	(663)
Disposals	-	(15)	-	(15)
Other	(11)	28	1	18
Amortisation	-	(125)	(163)	(288)
Impairments	(104)	(18)	(11)	(133)
<i>Closing balance</i>	<u>1,903</u>	<u>502</u>	<u>397</u>	<u>2,802</u>
Cost	2,088	1,055	934	4,077
Accumulated amortisation and impairments	(185)	(553)	(537)	(1,275)
<i>Net carrying amount</i>	<u>1,903</u>	<u>502</u>	<u>397</u>	<u>2,802</u>

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 that purpose, first the best estimate of the value in use is determined on the basis of cash flow forecasts taken from annual medium-term plans drawn up as part of the annual planning cycle, which reflect the management's best estimates of market conditions, market restrictions, discount rates (before taxation), growth in operations, et cetera. 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, et cetera. The valuation models are assessed and include the development of the activities since the acquisition, the most recent income and expenditure forecasts drawn up by management, as well as updated forecasts, assessments of discount rates, end values of growth rates, et cetera. 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 goodwill allocated to one of the cash-generating units in the wholesale banking segment is significant as a proportion of the goodwill's total carrying amount. The carrying amount of this goodwill is 592. The recoverable amount is based on the value in use. Value in use is determined using cash flow forecasts. The principal assumptions used are profit expected in the near term, the pre-tax discount rate (22%) and the multiple (16x) for long-term profit or loss. As the recoverable amount substantially exceeded the carrying amount, it was concluded that the goodwill allocated to this cash-generating unit was not impaired. A reasonable change in one of the principal assumptions does not cause the carrying amount to exceed the recoverable amount.

In respect of the sale of Bank Sarasin & Cie S.A. an impairment loss on goodwill of 43 was recognised (2011: 98). This amount cannot be found in the above statement of changes, given that Sarasin had been classified as non-current assets and liabilities held for sale both in 2011 and in 2012. More detailed disclosures can be found in note 45 Acquisitions and disposals.

Impairments of software developed in-house and other intangible assets are not material individually. In the aggregate, impairments of software developed in-house of 7 (2011: 18) were mainly caused by the fact that part of that software is no longer used.

16 Property and equipment

in millions of euros	Land and buildings	Equipment	Total
Year ended 31 December 2012			
Opening balance	2,364	3,768	6,132
Foreign exchange differences	8	6	14
Purchases	190	1,802	1,992
Acquisitions	27	6	33
Disposals	(38)	(513)	(551)
Transferred to non-current assets held for sale and discontinued operations	(1)	(16)	(17)
Impairment losses	(14)	(3)	(17)
Depreciation	(139)	(152)	(291)
Depreciation of operating lease assets	-	(802)	(802)
Other	(7)	14	7
<i>Closing balance</i>	<u>2,390</u>	<u>4,110</u>	<u>6,500</u>
Cost	3,930	7,165	11,095
Accumulated depreciation and impairments	<u>(1,540)</u>	<u>(3,055)</u>	<u>(4,595)</u>
<i>Net carrying amount</i>	<u>2,390</u>	<u>4,110</u>	<u>6,500</u>
Year ended 31 December 2011			
Opening balance	2,443	3,563	6,006
Foreign exchange differences	(11)	9	(2)
Purchases	206	1,562	1,768
Disposals	(46)	(491)	(537)
Transferred to Non-current assets held for sale	(79)	(11)	(90)
Impairment losses	-	(5)	(5)
Depreciation	(132)	(158)	(290)
Depreciation of operating lease assets	-	(758)	(758)
Other	(17)	57	40
<i>Closing balance</i>	<u>2,364</u>	<u>3,768</u>	<u>6,132</u>
Cost	3,824	6,916	10,740
Accumulated depreciation and impairments	<u>(1,460)</u>	<u>(3,148)</u>	<u>(4,608)</u>
<i>Net carrying amount</i>	<u>2,364</u>	<u>3,768</u>	<u>6,132</u>

17 Investment properties

Investment properties are stated at cost.

in millions of euros	2012	2011
Opening balance	784	816
Purchases	33	112
Transferred from Other assets	905	-
Sales	(211)	(118)
Depreciation	(16)	(24)
Impairments	(32)	(5)
Other	26	3
<i>Closing balance</i>	<u>1,489</u>	<u>784</u>
The fair value approximates the carrying amount (2011: 88 below the carrying amount).		
Cost	1,950	1,214
Accumulated depreciation	<u>(461)</u>	<u>(430)</u>
<i>Net carrying amount</i>	<u>1,489</u>	<u>784</u>

The shares in a number of collaborative projects were acquired from a partner in December 2012, which explains the increase in investment properties.

Valuations	2012	2011
External valuations	77%	19%
Internal valuations	23%	81%

External valuations were performed by duly certified external parties in accordance with RICS valuation standards or other equivalent standards.

Real estate expertise available in-house is used for internal valuations of investment properties, and 20% (2011: 46%) were valued by certified staff of Rabo Real Estate Group. Investment properties valued internally are typically measured using a discounted cash flow valuation technique using such assumptions as expected rental and value developments, the property's location and its marketability.

A large number of parameters are used when valuing various types of investment property. Key parameters are:

	Shopping centres	Offices/ warehouses	Homes	Other
Market rent in EUR/m ² per annum	377	301	76	225
Average discount rate	5.1%	5.8%	6.3%	5.0%

Rabo Real Estate Group performed sensitivity analyses for a significant portion of its investment properties portfolio in 2012. They have shown that a 0.25% change in the initial yield has a 29 impact on the fair value of the investment properties.

18 Other assets

in millions of euros	Note	2012	2011
Receivables and prepayments		1,938	1,660
Accrued interest		2,058	2,247
Precious metals, goods and warehouse receipts		548	325
Real estate projects		2,923	3,206
Accrued income		353	480
Employee benefits	26	2,047	1,910
Other assets		2,072	2,382
<i>Total other assets</i>		<i>11,939</i>	<i>12,210</i>

Real estate projects

in millions of euros	2012	2011
Building sites and equalisation funds	1,905	1,919
Work in progress	824	1,076
Trade receivables, real estate	194	211
<i>Total real estate projects</i>	<i>2,923</i>	<i>3,206</i>

Work in progress

in millions of euros	2012	2011
Housing development planned and under construction	696	548
Commercial real estate under development and under construction	954	1,425
Housing construction instalments invoiced in advance	(309)	(222)
Commercial real estate instalments invoiced in advance	(517)	(675)
<i>Total work in progress</i>	<i>824</i>	<i>1,076</i>

19 Due to other banks

in millions of euros	2012	2011
Loans	3,794	3,132
Repurchase agreements	1,986	2,762
Deposits	21,279	20,365
<i>Total due to other banks</i>	<i>27,059</i>	<i>26,259</i>

20 Due to customers

in millions of euros	2012	2011
Savings	149,661	140,028
Current accounts/settlement accounts	96,763	86,432
Time deposits	56,006	58,931
Repurchase agreements	2,299	2,669
Other due to customers	29,542	41,832
<i>Total due to customers</i>	<i>334,271</i>	<i>329,892</i>

Due to customers also includes the investments of central banks amounting to 21 (2011: 20) billion.

21 Debt securities in issue

in millions of euros	2012	2011
Certificates of deposit	40,400	52,533
Commercial paper	21,076	18,396
Bonds	154,590	134,567
Other debt securities	7,270	7,945
<i>Total debt securities in issue</i>	<i>223,336</i>	<i>213,441</i>

Rabobank Nederland issued 900 in Rabo Extra Member Notes in 2010. Their nominal value is EUR 100, the interest rate is 3.5% per annum (which is above the rate for similar instruments with no conversion right) and their term is 47 months (until 30 December 2013). During the term of the Notes, Rabobank will have the right, on four annual exchange dates, to exchange 25% of their original nominal value for one Rabobank Member Certificate. It will have this right only if the trade price of the Rabobank Member Certificates is EUR 24 or more on one of the three trading days immediately preceding the exchange. If Rabobank does not or may not use this right on the relevant exchange date, EUR 25 of the nominal amount of each Rabo Extra Member Note will be paid in cash. The Rabo Extra Member Notes are accounted for as debt securities in issue. In 2010, the equity instrument was charged to equity in the amount of 26. In 2012, Rabobank used its conversion right, issuing Rabobank Member Certificates to the amount of 225 (2011: 225).

22 Other liabilities

in millions of euros	Toelichting	2012	2011
Payables		5,522	3,393
Accrued interest		2,768	3,028
Employee benefits	26	248	336
Other		1,375	1,623
Provision for day 1 profit		37	42
<i>Total other liabilities</i>		<i>9,950</i>	<i>8,422</i>

23 Other financial liabilities at fair value through profit or loss

The change in the fair value of the other financial liabilities at fair value through profit or loss that is attributable to changes in Rabobank's credit risk is a charge of 335 after taxes (2011: a gain of 614 after taxes). The cumulative change in fair value attributable to changes in Rabobank's credit risk since the issue of the structured notes amounts to 1,458 (2011: 1,904). This equals the amount Rabobank is obliged to pay on the contract repayment date, discounted at the effective rate of interest. The change in fair value that is attributable to changes in the credit risk is calculated by establishing a connection with the change in credit mark-up of structured notes issued by Rabobank.

in millions of euros	2012	2011
(Structured) notes	19,792	20,638
Other debt securities	4,242	5,104
Time deposits	57	147
<i>Total other financial liabilities at fair value through profit or loss</i>	<i>24,091</i>	<i>25,889</i>

24 Provisions

in millions of euros	2012	2011
Restructuring provision	120	105
Provision for tax and legal issues	304	325
Other	328	335
<i>Total provisions</i>	<u>752</u>	<u>765</u>
Changes in provisions were as follows:		
Restructuring provision		
Opening balance	105	160
Interest	1	3
Additions charged to profit	79	26
Withdrawals	(62)	(4)
Release	(3)	(80)
<i>Closing balance</i>	<u>120</u>	<u>105</u>
Provision for tax and legal issues		
Opening balance	325	504
Interest	-	1
Additions charged to profit	40	42
Withdrawals	(39)	(51)
Release	(22)	(171)
<i>Closing balance</i>	<u>304</u>	<u>325</u>
Other		
Opening balance	335	315
Additions charged to profit	43	38
Withdrawals	(26)	-
Release	(24)	(18)
<i>Closing balance</i>	<u>328</u>	<u>335</u>
<i>Total provisions</i>	<u>752</u>	<u>765</u>

Approximately 36% (2011: 39%) of the provision for tax and legal issues relates to tax claims. The provision for tax and legal issues is based on the best possible estimates available at year-end, taking into account legal and tax advice. The timing of the cash outflow of these provisions is uncertain because the outcome of the disputes and the time involved are unpredictable.

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

Maturity of the Rabobank provisions (excluding provisions for employee benefits and doubtful debts)

in millions of euros	Less than 1 year	1-5 years	More than 5 years	Total
At 31 December 2012	245	505	2	752
At 31 December 2011	271	491	3	765

25 Deferred tax

Deferred tax assets and liabilities are measured for all temporary differences using the 'liability' method. The effective tax rate in the Netherlands for measuring deferred tax is 25% (2011: 25%). There were no changes in deferred tax assets and liabilities resulting from changes in the effective tax rate in the Netherlands. No deferred tax asset has been recognised for carry forward losses totalling 1,759 (2011: 898). These carry forward losses relate to various tax authorities and their term to maturity is unlimited.

Deferred tax assets recognised in respect of carry forward losses can only be utilised if taxable profits are realised in the future. At 31 December 2012, there are no reasons to believe that they will not be sufficient.

in millions of euros	Deferred tax assets	Deferred tax liabilities	Deferred tax charges	Tax on other comprehensive income
For the year ended 31 December 2012				
Pensions and other post-employment benefits	22	497	15	-
Impairments	564	(355)	59	-
Financial liabilities at fair value	-	364	(112)	-
Other provisions	38	88	(52)	-
Hedging of interest rate risk	-	(177)	238	-
Carry forward losses	184	21	(21)	-
Intangible assets	(14)	83	(50)	-
Revaluation reserve for available-for-sale financial assets	23	94	-	(89)
Revaluation reserve - cash flow hedges	-	(5)	-	(48)
Property and equipment, including leases	10	138	(12)	-
Other temporary differences	(206)	(52)	21	-
<i>Total</i>	<i>621</i>	<i>696</i>	<i>86</i>	<i>(137)</i>

in millions of euros	Deferred tax assets	Deferred tax liabilities	Deferred tax charges	Tax on other comprehensive income
For the year ended 31 December 2011				
Pensions and other post-employment benefits	21	454	35	-
Impairments	239	(344)	23	-
Financial liabilities at fair value	-	476	205	-
Other provisions	188	262	(1)	-
Hedging of interest rate risk	-	(415)	30	-
Carry forward losses	316	-	(8)	-
Intangible assets	170	81	-	-
Revaluation reserve for available-for-sale financial assets	3	12	-	(63)
Revaluation reserve - cash flow hedges	(1)	(4)	-	33
Property and equipment, including leases	14	154	(10)	-
Other temporary differences	45	217	(202)	-
<i>Total</i>	<i>995</i>	<i>893</i>	<i>72</i>	<i>(30)</i>

26 Employee benefits

in millions of euros	2012	2011
Employee benefits - assets	(2,047)	(1,910)
Employee benefits - liabilities	248	336
<i>Net pension liabilities</i>	<i>(1,799)</i>	<i>(1,574)</i>
Pension plans	(1,993)	(1,850)
Other employee benefits	194	276
<i>Net pension liabilities</i>	<i>(1,799)</i>	<i>(1,574)</i>

26.1 Pension plans

Rabobank has implemented several pension plans covering a significant percentage of its employees. Most of the plans are career average defined benefit plans, some of which are administered by pension funds. The assets of the fund-administered plans are held independently of Rabobank assets and are managed by the trustees of the funds. Plan liabilities are valued each year by independent actuaries using the method prescribed by IFRS. The most recent actuarial valuations were carried out at the end of 2012. About 98% of the pension liability relates to the Rabobank Pension Fund, with 2% relating to foreign pension funds.

The weighted averages of the principal actuarial assumptions used in the valuation of the provision for defined benefit plans at 31 December (in % per annum) are:

	2012	2011
Discount rate	3.50	4.60
Projected salary trends	3	3
Wage inflation	1.70	2.25
Price inflation	2.00	2.07
Expected return on plan assets	n/a	5.10

The 1.70% wage inflation figure represents the average of 0% in the first three years and 2.25% subsequently.

Effective 31 December 2010, Rabobank applies the recently published mortality table, from which it will take the mortality rates. This is the AG projections table 2012-2062, published by the Dutch Association of Actuaries (AG), which applies from 2013 onwards. The mortality rates published in this table are subsequently multiplied by age-related adjustment factors in order to allow for experience mortality.

in millions of euros	2012	2011	2010	2009	2008
Present value of liabilities administered by funds	19,647	15,545	13,550	11,074	9,428
Fair value of plan assets	(18,204)	(16,208)	(13,794)	(12,020)	(12,206)
	1,443	(663)	(244)	(946)	(2,778)
Unrecognised actuarial gains/(losses)	(3,436)	(1,187)	(1,343)	(462)	2,592
Unrecognised past service costs	-	-	-	-	1
Net liabilities	(1,993)	(1,850)	(1,587)	(1,408)	(185)
Experience adjustments					
Plan liabilities	227	(32)	75	88	320
Plan assets	1,009	1,259	729	(1,529)	320

in millions of euros	2012	2011
Present value of liabilities administered by funds		
Present value of entitlements at 1 January	15,545	13,550
Foreign exchange differences	2	5
Interest	715	679
Increase in entitlements during the year	471	445
Premiums contributed by the employees	40	36
Benefits paid	(289)	(247)
Transfer of accrued benefits	27	13
Pension plan termination	(127)	(33)
Transferred to non-current assets held for sale and discontinued operations	(334)	-
Acquisition of Friesland Bank	290	-
Curtailments	(12)	-
Other	61	(7)
<i>Expected present value of entitlements at 31 December</i>	<u>16,389</u>	<u>14,442</u>
Actuarial result	3,258	1,103
<i>Present value of entitlements at 31 December</i>	<u>19,647</u>	<u>15,545</u>
Fair value of plan assets		
Fair value of assets at 1 January	16,208	13,794
Foreign exchange differences	1	4
Expected income from investments	826	775
Premium contributed by the employer	573	617
Premiums contributed by the employees	40	36
Benefits paid	(289)	(247)
Transfer of accrued benefits and costs	(5)	13
Pension plan termination	(94)	(17)
Transferred to non-current assets held for sale and discontinued operations	(284)	-
Acquisition of Friesland Bank	288	-
Other	(69)	(27)
<i>Expected fair value of assets at 31 December</i>	<u>17,195</u>	<u>14,949</u>
Actuarial result	1,009	1,259
<i>Fair value of assets at 31 December</i>	<u>18,204</u>	<u>16,208</u>

The premium to be contributed to the 2013 plan is expected to be 600.

Plan assets have been allocated as follows:

	2012	2011
Shares and alternatives	41.6%	53.0%
Interest-bearing securities	48.8%	37.7%
Real estate	6.1%	6.6%
Cash and cash equivalents	3.5%	2.7%
<i>Total</i>	<u>100%</u>	<u>100%</u>

Less than 5% of plan assets is allocated to Rabobank's own funds. These are chiefly cash and cash equivalents held with Rabobank.

	2012	2011
Actual income from investments		
Expected income from investments	826	775
Actuarial result	1,009	1,259
<i>Actual income from investments</i>	<u>1,835</u>	<u>2,034</u>

The amounts recognised in the consolidated statement of income for the year are as follows:

in millions of euros	2012	2011
Costs based on period of employment during the year	471	445
Interest on liabilities	715	679
Expected income from plan assets	(826)	(775)
Losses/(gains) on discounts, settlements and costs	71	10
<i>Total cost of defined benefit plans</i>	<u>431</u>	<u>359</u>

26.2 Other employee benefits

Other employee benefits mainly comprise early retirement liabilities for an amount of -4 (2011: 72) and liabilities for future long-service awards for an amount of 99 (2011: 87).

27 Subordinated debt

in millions of euros	2012	2011
Friesland Bank	345	-
Trust Preferred Securities II	415	429
Rabobank Nederland	4,620	1,925
FGH Bank	-	40
Other	27	19
<i>Total subordinated debt</i>	<i>5,407</i>	<i>2,413</i>

Changes in the Trust Preferred Securities II are stated in the table below.

in millions of euros	2012	2011
Trust Preferred Securities II		
At 1 January	429	420
Foreign exchange differences and other	(14)	9
<i>At 31 December</i>	<i>415</i>	<i>429</i>

Friesland Bank N.V.'s subordinated debts are subordinated to all of its present and future commitments; early or partial repayment is not allowed. The average interest rate on the subordinated debts is 5.2% (2011: 5.2%), and the average remaining term to maturity is 4.8 years (2011: 5.7 years).

In 2003, Rabobank Capital Funding Trust II, Delaware, a group company of Rabobank Nederland, issued 1.75 million non-cumulative Trust Preferred Securities. The expected distribution is 5.26% until 31 December 2013, after which the expected distribution is equal to the three-month USD LIBOR plus 1.6275%. The total proceeds from this issue amounted to USD 1,750. As from 31 December 2013, these Trust Preferred Securities can be redeemed early on each distribution date (which is once a quarter) after prior written approval is received from the Dutch Central Bank.

Rabobank Nederland issued a loan of 1,000 in 2009 bearing interest at a fixed rate of 5.875% and maturing in 2019. The subordinated debt is lower at group level, since a portion has been placed with group companies. The subordinated loan of FGH Bank is a loan of 40 bearing interest at a fixed rate of 6%. The loan matured in 2012.

Rabobank Nederland issued a loan of 1,000 in 2010 bearing interest at a fixed rate of 3.75% and maturing in 2020.

In 2012, Rabobank issued three subordinate loans; a loan of 1,000 bearing interest at a fixed rate of 4.125% and maturing in 2022, a loan of GBP 500 bearing interest at a fixed rate of 5.25% and maturing in 2027, and a loan of USD 1,500 bearing interest at a fixed rate of 3.95% and maturing in 2022.

28 Contingencies and commitments

Credit related contingent liabilities

Credit granting liabilities represent the unused portions of funds authorised for the granting of credit in the form of loans, financial guarantees, letters of credit and other lending related financial instruments. Rabobank's credit risk exposure from credit granting liabilities consists of potential losses amounting to the unused portion of the authorised funds. The total expected loss is lower than the total of unused funds, however, because credit granting liabilities are subject to the clients in question continuing to meet specific standards of creditworthiness. Financial guarantees represent irrevocable undertakings that, provided certain conditions are met, Rabobank will make payments on behalf of clients if they are unable to meet their financial obligations to third parties. Rabobank also accepts credit granting liabilities in the form of credit facilities made available to ensure that clients' liquidity requirements can be met, but which have not yet been drawn upon.

The contingent liabilities include guarantees for providers of collective and individual pension savings plans, as required by government authorities. The likelihood of an outflow of resources embodying economic benefits is very low.

in millions of euros	2012	2011
Financial guarantees	14,904	10,519
Credit granting liabilities	33,061	34,522
Letters of credit	5,583	5,487
<i>Total credit related and contingent liabilities</i>	<i>53,548</i>	<i>50,528</i>

The contractual commitments relating to the acquisition, construction and development of property and equipment and property investments amount to 551 (2011: 787).

LIBOR/EURIBOR

Rabobank has received subpoenas and requests for documents and information from various regulatory agencies and competition and criminal authorities in, inter alia, the Netherlands, the United Kingdom, the United States ('U.S.'). Japan, Hong Kong, Singapore, and Switzerland. The documents and information are requested as part of ongoing investigations conducted by the relevant agencies and authorities and concern the London Interbank Offered Rate ('LIBOR') submission processes for various currencies and the Euro Interbank Offered Rate ('EURIBOR') submission process. Rabobank was at various times a member of eight of the ten LIBOR panels and the EURIBOR panel, and is a member of the LIBOR panels for three currencies: Pound Sterling ('GBP'), U.S. Dollar ('USD') and Euro ('EUR'). Rabobank was never a member of the Tokyo Interbank Offered Rate ('TIBOR') panel. Rabobank is cooperating fully with the investigations.

Rabobank, along with other panel banks, has been named as a defendant in a number of putative class action lawsuits and private individual civil suits pending in the U.S. that assert federal and state claims relating to USD LIBOR, Japanese Yen LIBOR ('JPY LIBOR'), TIBOR, and EURIBOR.

On or about August 12, 2011, approximately twenty-two USD LIBOR-related putative class action lawsuits were consolidated into a Multi-District Litigation (11-md-2262-NRB) (the 'MDL'), to be adjudicated in the U.S. District Court for the Southern District of New York (the 'Court'). On or about April 30, 2012, plaintiffs in the MDL filed six amended complaints (collectively, the 'MDL Complaints'), alleging that the USD LIBOR Panel Banks, including Rabobank, (the 'MDL Defendants') perpetrated a scheme to depress USD LIBOR: (i) to understate their true borrowing costs in order to portray their institutions as being healthier than they actually were and (ii) to pay lower interest rates on LIBOR-based financial instruments that the MDL Defendants sold to investors. On June 30, 2012, the MDL Defendants jointly submitted motions to dismiss the MDL Complaints, which are now pending. Since the MDL Defendants' motions to dismiss were filed, fourteen new USD LIBOR-related actions have been consolidated into the MDL. These new actions are stayed by Court order, however, pending resolution of the motions to dismiss the MDL Complaints. Oral argument on the motions to dismiss is scheduled for March 5, 2013. One additional putative class action, pending in the Central District of California, may also be consolidated into the MDL. If consolidated, this action will also be subject to the Court's stay.

On November 27, 2012, the Nassau Interim Finance Authority filed a complaint against Rabobank and the other MDL Defendants in New York State Supreme Court, Nassau County (the 'Nassau Complaint'). The Nassau Complaint, which is not a class action, focuses on the alleged manipulation of USD LIBOR. The MDL Defendants have removed this action to the United States District Court for the Eastern District of New York and have also sought to have the case transferred to the Court for inclusion in the MDL.

On April 30, 2012, Plaintiff Jeffrey Laydon ('Laydon') filed a complaint titled Laydon v. Mizuho Bank, Ltd., et al., 12-CV-3419 (GBD). Laydon focuses his allegations on JPY LIBOR and TIBOR and names Rabobank - and the other JPY LIBOR and TIBOR Panel Banks - as defendants.

On July 6, 2012, plaintiff Karen Kalaway filed a complaint in Kalaway v. Barclays, PLC, et al., 12-CV-5280 (LAK) (the 'EURIBOR Complaint'). The EURIBOR Complaint names Rabobank and the other EURIBOR Panel Banks as defendants and focuses on the alleged manipulation of EURIBOR. On August 23, 2012, Kalaway filed a notice of voluntary dismissal without prejudice, effectively withdrawing the current EURIBOR Complaint.

Rabobank believes the civil complaints filed to date and naming Rabobank as a defendant to be without merit and intends to defend them vigorously.

The facts and circumstances that appear from the ongoing investigations are being shared with the various regulatory agencies, and competition and criminal authorities on a rolling basis. At this point in time, it is still unsure when these investigations will be concluded. Based on the facts currently known and the publicly announced outcome of other panel banks' investigations, it is likely that an assessment of the facts and circumstances will lead to a settlement. The amount of such a settlement cannot be estimated reliably at this time.

For the above reasons, matters with respect to LIBOR and EURIBOR submissions were recognized in the financial statements as contingent liabilities.

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:

in millions of euros	2012	2011
Not exceeding 1 year	77	70
Longer than 1 year but not longer than 5 years	205	194
Longer than 5 years	195	232
<i>Total liabilities relating to operating leases</i>	<i>477</i>	<i>496</i>

The expected future net minimum lease payments receivable from sub-leases are 9 (2011: 1). The operating lease expenses are 89 (2011: 98). 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 net minimum lease payments receivable from non-cancellable operating leases can be broken down as follows:

in millions of euros	2012	2011
Not later than 1 year	1,032	931
Later than 1 year but not later than 5 years	1,900	1,676
Later than 5 years	20	26
<i>Total payments receivable from operating leases</i>	<i>2,952</i>	<i>2,633</i>

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

29 Equity of Rabobank Nederland and local Rabobanks

This item includes equity of Rabobank Nederland and local Rabobanks.

in millions of euros	2012	2011
Foreign currency translation reserves	(163)	86
Revaluation reserve for available-for-sale financial assets	420	93
Revaluation reserve for associates	50	66
Revaluation reserve - cash flow hedges	40	(112)
Retained earnings	27,511	26,367
<i>Total reserves and retained earnings at year-end</i>	<i>27,858</i>	<i>26,500</i>

Changes in reserves were as follows:

in millions of euros	2012	2011
Foreign currency translation reserves		
Opening balance	86	(6)
Currency translation differences emerging during the year	(249)	92
<i>Closing balance</i>	<i>(163)</i>	<i>86</i>

The foreign currency translation reserve includes an amount of -6 (2011: 192) in non-current assets held for sale and discontinued operations.

in millions of euros	2012	2011
Revaluation reserve for available-for-sale financial assets		
Opening balance	93	48
Foreign exchange differences	21	(31)
Changes in associates	59	(13)
Fair value changes	393	(265)
Amortisation of reclassified assets	55	73
Transferred to profit or loss	(201)	281
<i>Closing balance</i>	<i>420</i>	<i>93</i>

The revaluation reserve for available-for-sale financial assets includes an amount of 24 (2011: -21) in non-current assets held for sale and discontinued operations.

in millions of euros	2012	2011
Revaluation reserve for associates		
Opening balance	66	104
Fair value changes	(16)	(38)
<i>Closing balance</i>	<i>50</i>	<i>66</i>

If a shareholding is increased to such an extent that it must be consolidated, the initial shareholding is remeasured at fair value at the time of its increase. The revaluation reserve for associates includes an amount of 20 (2011: 8) in non-current assets held for sale and discontinued operations.

in millions of euros	2012	2011
Revaluation reserve - cash flow hedges		
Opening balance	(112)	(18)
Fair value changes	145	513
Transferred to profit or loss	7	(607)
<i>Closing balance</i>	<u>40</u>	<u>(112)</u>

The revaluation reserve - cash flow hedges includes no (2011: no) non-current assets held for sale and discontinued operations.

in millions of euros	2012	2011
Retained earnings		
Opening balance	26,367	24,621
Net profit attributable to Rabobank Nederland and local banks	897	1,549
Other	247	197
Closing balance	<u>27,511</u>	<u>26,367</u>
<i>Total reserves and retained earnings</i>	<u>27,858</u>	<u>26,500</u>

30 Rabobank Member Certificates

As part of its member loyalty programme, Rabobank issued member certificates between 2000 and 2005. They were depositary receipts for registered shares in the investment institutions Rabobank Ledencertificaten I N.V., Rabobank Ledencertificaten II N.V. and Rabobank Ledencertificaten III N.V.. There were four issues, in 2000, 2001, 2002 and 2005, raising more than 6,300 in total. On 30 December 2008, the investment institutions merged to form a single investment institution, Rabobank Ledencertificaten N.V.. In 2011, changes in international laws and regulations, known as the Basel III arrangements, required modification of the Rabobank Member Certificates. The new Rabobank Member Certificates are certificates of units of participation directly issued by Rabobank Nederland. The exchange enables the new Rabobank Member Certificates to count towards Rabobank Group's equity (common equity tier 1), as did the former certificates. The Rabobank Member Certificates were treated as non-controlling interests prior to the exchange.

On 6 October 2011, the Rabobank Member Certificates then outstanding were exchanged. For each former Rabobank Member Certificate, holders were given a new Rabobank Member Certificate and the difference between the net asset value of a former Rabobank Member Certificate and EUR 25. Rounded off, this difference was EUR 1.21 per certificate. Furthermore, Rabobank granted the holders of Rabobank Member Certificates the opportunity to reinvest their once-only payment of EUR 1.21 per certificate in further Rabobank Member Certificates to be newly issued. Holders were required to hold a minimum of 20 member certificates to be able to purchase one newly issued Rabobank Member Certificate for EUR 25. Effective 6 October 2011, the maximum number of member certificates to be held by each holder was increased to 78,750, and on 7 October 2011, 4,892,285 securities were issued for a total amount of 122. As at that date, the number of member certificates outstanding was 259,961,365.

The distribution per certificate in 2012 was EUR 1.25 (2011: EUR 1.25). The Executive Board has the right not to make a distribution. Distributions not made are not made at a later time.

At year-end 2012, the number of certificates held by members and employees was 266,897,622, representing a net asset value of 6,672. At year-end 2011, the number of certificates held by members and employees was 264,577,801, representing a net asset value of 6,614. At year-end 2012, almost 160,000 investors invested in Rabobank Member Certificates.

Rabobank Member Certificates		
in millions of euros	2012	2011
Changes during the year:		
Opening balance	6,614	6,583
Share premium repayment	-	(308)
Exchange of Rabobank Member Certificates	225	225
Rabobank Member Certificates issued and redeemed during the year and other	(167)	114
<i>Closing balance</i>	<u>6,672</u>	<u>6,614</u>

31 Capital Securities and Trust Preferred Securities III to VI

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

in millions of euros	2012	2011
Capital Securities	7,350	7,812
Trust Preferred Securities III to VI	1,340	1,399
<i>Total Capital Securities and Trust Preferred Securities III to VI</i>	<i>8,690</i>	<i>9,211</i>

Capital Securities

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

Issue of USD 2,000 million

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

Issue of USD 2,000 million

The distribution is 8.375% per year and is made payable every six months in arrears as of the issue date (26 January 2011), for the first time on 26 July 2011. With effect from 26 July 2016 and if the Capital Securities are not redeemed early, the distribution is set for a further five-year period, without a step-up, based on the US Treasury Benchmark Rate plus a 6.425% mark-up.

Issue of EUR 500 million

The distribution is 9.94% per year and is made payable annually in arrears as of the issue date (27 February 2009), for the first time on 27 February 2010. As from 27 February 2019, the distribution will be made payable every quarter based on the three-month Euribor plus an annual 7.50% mark-up.

Issue of NZD 280 million

The distribution equals the five-year swap interest plus an annual 3.75% mark-up and was set at 8.7864% per annum on 25 May 2009. As from the issue date (27 May 2009), the distribution is made payable every quarter in arrears, for the first time on 18 June 2009 (short first interest period). From 18 June 2014, the distribution will be made payable every quarter based on five-year swap interest plus an annual 3.75% mark-up to be set on 18 June 2014. From 18 June 2019, the distribution will be made payable every quarter based on the 90-day bank bill swap interest rate plus an annual 3.75% mark-up.

Issue of USD 2,868 million

The distribution is 11.0% per year and is made payable every six months in arrears as of the issue date (4 June 2009), for the first time on 31 December 2009 (long first interest period). As from 30 June 2019 the distribution will be made payable every quarter based on the three-month USD LIBOR plus an annual 10.868% mark-up.

Issue of CHF 750 million

The distribution is 6.875% per year and is made payable annually in arrears as of the issue date (14 July 2009), for the first time on 12 November 2009 (short first interest period). As from 12 November 2014 the distribution will be made payable every six months based on the six-month CHF LIBOR plus an annual 4.965% mark-up.

Issue of USD 130 million

The distribution is 7% per year and is made payable every six months in arrears as of the issue date (6 June 2008), for the first time on 6 December 2008.

Issue of GBP 250 million

The distribution is 6.567% per year and is made payable every six months in arrears as of the issue date (10 June 2008), for the first time on 10 December 2008. As from 10 June 2038, the distribution will be made payable every six months based on the six-month GBP LIBOR plus an annual 2.825% mark-up.

Issue of CHF 350 million

The distribution is 5.50% per year and is made payable annually in arrears as of the issue date (27 June 2008), for the first time on 27 June 2009. As from 27 June 2018, the distribution will be made payable every six months on 27 June and 27 December based on the six-month CHF LIBOR plus an annual 2.80% mark-up.

Issue of ILS 323 million

The distribution is 4.15% per year and is made payable annually in arrears as of the issue date (14 July 2008), for the first time on 14 July 2009. As from 14 July 2018, the distribution will be made payable annually based on an index related to the interest rate paid on Israeli government bonds with terms between 4.5 and 5.5 years plus an annual 2.0% mark-up.

Issue of USD 225 million

The distribution is 7.375% per year and is made payable every six months in arrears as of the issue date (24 September 2008), for the first time on 24 March 2009.

Issue of USD 750 million

The distribution on the USD Capital Securities is 7% per year and is made payable every six months in arrears as of the issue date (22 October 2007), for the first time on 22 April 2008. This issue was redeemed early on the first early redemption date, 22 October 2012.

Issue of NZD 900 million

The distribution on the NZD Capital Securities equals the one-year swap interest rate plus an annual 0.76% mark-up and is made payable annually on 8 October, until 8 October 2017. As from 8 October 2017, the distribution will be made payable every quarter based on the 90-day bank bill swap interest rate plus the same mark-up.

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

Issue of EUR 125 million

Friesland Bank N.V. issued perpetual Capital Securities in November 2004. These are undated bonds, listed at the Euronext stock exchange. As from 3 December 2014, the loan may be redeemed in full after prior approval is received from the supervisory authority. The bonds are subordinated to the bank's all other present and future liabilities. For supervisory purposes, the bond loan qualifies as part of the bank's core capital. The distribution on the bond loan is linked to the yield on Dutch 10-year government bonds. A 0.125% mark-up applies, subject to a maximum distribution of 8%. The interest rate is reset on a quarterly basis. Interest payments must be deferred if, 20 days prior to the date of payment, it is known that payment of interest will cause the solvency ratio to drop below the minimum capital required by the supervisory authority. In addition, the bank may decide to defer interest payments.

Trust Preferred Securities III to VI issued by group companies

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

- Rabobank Capital Funding Trust III, Delaware, a group company of Rabobank Nederland, issued 1.50 million non-cumulative Trust Preferred Securities. The expected distribution is 5.254% until 21 October 2016. For the period 21 October 2016 to 31 December 2016 inclusive, the expected distribution is equal to the USD LIBOR interpolated for the period, plus 1.5900%. The company has the right not to make a distribution. Thereafter, the expected distribution is equal to the three-month USD LIBOR plus 1.5900%. The total proceeds from this issue amounted to USD 1,500 million. As from 21 October 2016, these Trust Preferred Securities can be repurchased on each distribution date (which is once a quarter) after prior written approval is received from the Dutch Central Bank.
- Rabobank Capital Funding Trust IV, Delaware, a group company of Rabobank Nederland, issued 350 thousand non-cumulative Trust Preferred Securities. The expected distribution is 5.556% until 31 December 2019, after which the expected distribution is equal to the six-month GBP LIBOR plus 1.4600%. The company has the right not to make a distribution. The total proceeds from this issue amounted to GBP 350 million. As from 31 December 2019, these Trust Preferred Securities can be repurchased on each distribution date (which is once every half-year) after prior written approval is received from the Dutch Central Bank.

- Rabobank Capital Funding Trust V, Delaware, a group company of Rabobank Nederland, issued 250 thousand non-cumulative Trust Preferred Securities. The expected distribution is three-month BBSW plus 0.6700% until 31 December 2014, after which the expected distribution is equal to the three-month BBSW plus 1.6700%. The company has the right not to make a distribution. The total proceeds from this issue amounted to AUD 250 million. As from 31 December 2014, these Trust Preferred Securities can be repurchased on each distribution date (which is once a quarter) after prior written approval is received from the Dutch Central Bank.
- Rabobank Capital Funding Trust VI, Delaware, a group company of Rabobank Nederland, issued 250 thousand non-cumulative Trust Preferred Securities. The expected distribution is 6.415% until 31 December 2014, after which the expected distribution is equal to the three-month BBSW plus 1.6700%. The company has the right not to make a distribution. The total proceeds from this issue amounted to AUD 250 million. As from 31 December 2014, these Trust Preferred Securities can be repurchased on each distribution date (which is once a quarter) after prior written approval is received from the Dutch Central Bank.

A distribution becomes due on the Trust Preferred Securities issued in 1999 and 2003 included under subordinated debt if:

- the most recent, audited and adopted consolidated financial statements of Rabobank Nederland show that Rabobank Group realised a net profit (after tax and extraordinary expenses) in the previous year; or
- a distribution is made on securities that are more subordinated (such as Rabobank Member Certificates) or on securities of equal rank (pari passu); subject to the proviso that no distribution becomes due should the Dutch Central Bank object (for example, if Rabobank Group's solvency ratio is below 8%).

The condition stated under (i) does not apply to Trust Preferred Securities issued in 2004. The other conditions do apply. If Rabobank Group realises a profit, Rabobank Nederland can make a distribution on these securities at its own discretion.

Trust Preferred Securities		
in millions of euros	2012	2011
<i>Changes during the year:</i>		
Opening balance	1,399	1,353
Foreign exchange differences and other	(59)	46
<i>Closing balance</i>	<i>1,340</i>	<i>1,399</i>

32 Other non-controlling interests

This item relates to shares held by third parties in subsidiaries and other group companies. Changes in non-controlling interests mainly relate to the effects of structured finance deals and conduits with third-party investors. Non-controlling interests includes an amount of 3 in non-current assets and liabilities held for sale and discontinued operations.

On 9 May 2012, Rabobank acquired ABP's remaining 50% shareholding (carrying 30% voting rights) in Obvion for 178. Following the transaction, Rabobank now holds all of the shares in Obvion. The gain on the transaction was 113, which was taken to equity.

Following the public bid in April 2012, virtually all outstanding shares in Polish Bank BGZ were offered to Rabobank. As a result, Rabobank now holds an equity interest in BGZ of close to 100% (July 2012). The shares were acquired for 289. The gain on the transaction was 11, which was taken to equity.

in millions of euros	2012	2011
Opening balance	2,676	3,119
Net profit	95	78
Currency translation differences	(5)	26
Entities included in consolidation/deconsolidated	(8)	(482)
Sale of Sarasin	(661)	-
Increase in equity interests in Obvion and BGZ	(591)	-
Revaluation reserve - available-for-sale financial assets	22	(11)
Other	(121)	(54)
<i>Closing balance</i>	<i>1,407</i>	<i>2,676</i>

33 Interest

in millions of euros	2012	2011
Interest income		
Cash and cash equivalents	173	230
Due from other banks	353	687
Trading financial assets	214	325
Other financial assets at fair value through profit or loss	100	117
Loans to customers	20,464	19,978
Available-for-sale financial assets	1,745	1,679
Derivative financial instruments held as economic hedges	(1,557)	(1,818)
Other	210	101
<i>Total interest income</i>	<u>21,702</u>	<u>21,299</u>
Interest expense		
Due to other banks	667	720
Other trade liabilities	43	47
Due to customers	5,525	5,219
Debt securities in issue	5,562	5,212
Other liabilities	127	100
Other financial liabilities at fair value through profit or loss	594	714
Other	87	113
<i>Total interest expense</i>	<u>12,605</u>	<u>12,125</u>
<i>Interest</i>	<u>9,097</u>	<u>9,174</u>

Capitalised interest attributable to qualifying assets amounted to 31 (2011: 36). The average interest rate applied in determining interest charges to be capitalised ranges between 2.6% and 5.5% (2011: between 2.0% and 4.5%).

34 Commission

in millions of euros	2012	2011
Commission income		
Asset management	252	400
Insurance commission	358	341
Lending	498	516
Purchase and sale of other financial assets	212	299
Payment services	610	585
Custodial fees and securities services	45	58
Handling fees	182	184
Other transactions involving financial instruments	180	87
Other commission income	216	256
<i>Total commission income</i>	<u>2,553</u>	<u>2,726</u>
Commission expense		
Asset management	17	51
Purchase and sale of other financial assets	184	142
Payment services	5	5
Custodial fees and securities services	7	9
Handling fees	41	46
Other commission expense	93	112
<i>Total commission expense</i>	<u>347</u>	<u>365</u>
<i>Commission</i>	<u>2,206</u>	<u>2,361</u>

35 Income from associates

in millions of euros	2012	2011
Rabobank share of profit of associates	245	(11)
Discontinued/disposed interests of associates	10	(9)
<i>Income from associates</i>	255	(20)
<i>Key figures of associates are as follows:</i>		
Total assets at year-end	104,299	102,683
Total liabilities at year-end	92,887	91,901
Total income	27,783	25,882
Net result	663	(40)

36 Net income from financial assets and liabilities at fair value through profit or loss

in millions of euros	2012	2011
Debt instruments and interest rate derivative financial instruments	392	(488)
Equity instruments	(122)	(957)
Foreign currencies and other trading income (including other derivative financial instruments)	1,666	1,236
Income from other financial assets	341	(231)
Income from other financial liabilities	(1,454)	1,097
<i>Total net income from financial assets and liabilities at fair value through profit or loss</i>	823	657

The instruments listed in the above table are combined into portfolios. Hence, gains and losses realised on these instruments must be considered in combination. The negative income from other financial liabilities was chiefly caused by the interest and credit effects of the structured notes portfolio, with the interest effect being hedged by interest rate derivatives.

37 Other income

in millions of euros	2012	2011
Real estate activities	57	148
Rental income	259	309
Other	641	251
<i>Total other income</i>	957	708

Income from real estate activities includes project income of 1,526 (2011: 1,615), project charges of 1,275 (2011: 1,341) and impairments of 194 (2011: 126).

Rental income includes operating lease income and rental income from investment properties. Operating lease income includes income of 1,818 (2011: 1,794), depreciation charges of 802 (2011: 758) and other costs of 757 (2011: 745). Rental income from investment properties includes income of 56 (2011: 54), depreciation charges of 16 (2011: 24) and other costs of 40 (2011: 12). The release of the reserves relating to Sarasin in the amount of 204 and the negative goodwill relating to the acquisition of Friesland Bank in the amount of 103 have been included in Other.

38 Staff costs

in millions of euros	2012	2011
Wages and salaries	3,631	3,474
Social security contributions and insurance costs	444	368
Pension costs for defined contribution plans	58	45
Pension costs for defined benefit plans	431	359
Other post-employment benefits	(5)	(13)
Other staff costs	766	629
<i>Total staff costs</i>	5,325	4,862

Expressed in FTEs, the average number of employees was 59,649 (2011: 59,192).

In 2011, following implementation of CRD III and the regulations governing a restrained remuneration policy, Rabobank Group adopted an amended remuneration policy. Accordingly, variable remuneration is paid to identified staff (those capable of exercising material influence on Rabobank Group's risk profile) during such a period as to adequately take account of the risks inherent in the underlying business operations. Hence, payment of a significant portion - at least 50% - of variable remuneration is deferred. The immediate portion of variable remuneration is unconditional, whereas the deferred portion is conditional. The deferred portion vests after three years if the conditions are met. Among other things, it is assessed whether there has been a significant reduction in financial performance or a significant change in risk management at Rabobank Group and/or the relevant subsidiary or business unit that puts the circumstances assessed when the relevant variable remuneration was awarded in a different perspective (both personal performance and financial performance of the business unit and Rabobank Group in that year). As a rule, the right to any outstanding deferred remuneration lapses if the staff member's employment ends before the deferred portion of the variable remuneration vests.

Fifty percent of both the immediate and the deferred portion is awarded in cash. The cash component of the immediate portion is paid out immediately following its award, whereas the cash component of the deferred portion is paid out after the three-year vesting period, including the interest at a market rate accrued at the end of the vesting period.

Fifty percent of both the immediate and the deferred portion is awarded in the form of instruments, which are Deferred Remuneration Notes (DRNs). This component is referred to as the instruments component. The value of a DRN is linked one-on-one to the price of a Rabobank Member Certificate ('RLC'). At the end of a performance year, the instruments component is converted into DRNs. The number of DRNs is set on the basis of the price of an RLC on the day of trading in February of the year following the relevant performance year. This method is applied to the instruments component of both the immediate and the deferred portion of variable remuneration. The final number of DRNs relating to the deferred portion is set at the time of vesting, i.e. after three years.

Payment of the instruments component is subject to a one-year retention period. Following the retention period, the staff member is paid a cash amount for each DRN (or part thereof) held equal to the value of (i) an RLC at the time and (ii) the dividends distributed on an RLC during the period between the award and the end of the retention period.

Payment of the cash component of the variable remuneration is measured in accordance with IAS 19 Employee benefits, whereas payment of the DRNs is measured in accordance with IFRS 2 Share-based Payment. The immediate portion of the variable remuneration is recognised in the performance year, whereas the deferred portion is recognised in the years before vesting.

By and large, the same system is used for non-identified staff. Both the immediate and the deferred portion are paid fully in cash, which means that no DRNs are awarded.

At 31 December 2012, the costs of equity instrument-based payments were 8 (2011: 8). At 31 December 2012, a liability of 16 was recognised (2011: 8). The costs of variable remuneration paid in cash were 117 (2011: 115). The number of DRNs outstanding is presented below.

in thousands	2012	2011
Opening balance	547	-
Awarded during the year	439	547
Closing balance	986	547

The value of a DRN is linked one-on-one to the price of an RLC. Partly in view of historical price trends, expectations are that the current price of an RLC will not change to any significant extent. The amounts expected to be paid for variable remuneration are presented below.

At 31 December 2012		Year of payment				
in millions of euros	2013	2014	2015	2016	2017	Total
Variable remuneration, not including DRNs	109.8	-	14.4	12.6	-	136.8
DRNs	5.6	4.5	-	8.3	6.5	24.9
<i>Total</i>	<i>115.4</i>	<i>4.5</i>	<i>14.4</i>	<i>20.9</i>	<i>6.5</i>	<i>161.7</i>

At 31 December 2011		Year of payment				
in millions of euros	2012	2013	2014	2015	2016	Total
Variable remuneration, not including DRNs	111.0	-	-	14.4	-	125.4
DRNs	-	5.6	-	-	8.3	13.9
<i>Total</i>	<i>111.0</i>	<i>5.6</i>	<i>-</i>	<i>14.4</i>	<i>8.3</i>	<i>139.3</i>

39 Other administrative expenses

This item includes office supplies, travel expenses, IT expenses, postage, advertising, rent, maintenance of buildings, et cetera.

40 Depreciation and amortisation

in millions of euros	2012	2011
Depreciation of property and equipment	291	285
Amortisation of intangible assets	236	255
<i>Total depreciation and amortisation</i>	<u>527</u>	<u>540</u>

41 Value adjustments

in millions of euros	2012	2011
Due from other banks	(11)	(9)
Loans to customers	2,437	1,724
Receipts following write-offs	(87)	(110)
Credit related liabilities	8	-
Other	3	1
<i>Total value adjustments</i>	<u>2,350</u>	<u>1,606</u>

42 Bank tax

Banks that operate in the Netherlands on 1 October 2012 are liable to bank tax. Distinguishing between two rates - one of 0.044% for current liabilities and one of 0.022% for non-current liabilities as at December 2011- it will result in an expense item of 196 for Rabobank Group in the second half of 2012.

43 Taxation

in millions of euros	2012	2011
Current income tax		
Reporting period	57	308
Prior years	17	(25)
Deferred tax	86	72
<i>Income tax expense</i>	<u>160</u>	<u>355</u>

The taxation on operating profit before taxation of Rabobank differs from the nominal amount based on Dutch standard tax rates. The reconciliation between the two amounts is shown below:

in millions of euros	2012	2011
Operating profit before taxation	2,075	2,848
Tax exempt income	(731)	(382)
Non-deductible expenses	129	82
Tax losses not recognised in prior years	(10)	(102)
Other	11	(23)
	<u>1,474</u>	<u>2,423</u>
Income tax expense based on a rate of 25.0% (2011: 25.0%)	369	606
Effect of different tax rates and other non-recurring tax gains or losses.	(209)	(251)
<i>Income tax expense</i>	<u>160</u>	<u>355</u>

The Other item includes an amount of -204 relating to the release of reserves due to the sale of Sarasin.

44 Discontinued operations

Assets and liabilities held for sale include discontinued operations whose carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale must be highly probable. This is the case for Robeco N.V. at 31 December 2012.

Robeco

Founded in Rotterdam, the Netherlands, in 1929, Robeco offers institutional and private clients across the globe investment products and services. Robeco is committed to responsible investments. It has integrated such factors as the environment, society and good corporate governance in its investment processes, as well as adhering to an exclusion policy. Robeco makes active use of its voting rights and enters into a dialogue with the businesses it invests in. Rabobank has decided to sell Robeco to act ahead of future rules and regulations. Final settlement is expected to take place in the second half of 2013. Robeco's carrying amount is below its recoverable amount less costs to sell. More information is disclosed in Note 52 Events after the reporting date.

The following assets and liabilities were reclassified as held for sale and discontinued operations:

in millions of euros	2012
Assets	
Cash and cash equivalents	65
Other financial assets at fair value through profit or loss	1,019
Due from other banks	834
Loans to customers	1,893
Available-for-sale financial assets	3,018
Other assets	1,509
<i>Total assets</i>	<u>8,338</u>
Liabilities	
Due to other banks	977
Due to customers	5,404
Other liabilities	835
<i>Total liabilities</i>	<u>7,216</u>
in millions of euros	
Net cash flow from operating activities	(424)
Net cash flow from investing activities	347
Net cash flow from financing activities	-
<i>Net change in cash and cash equivalents</i>	<u>(77)</u>

The table below shows net profit after tax from discontinued operations:

in millions of euros	2012	2011
Interest	22	55
Commission	680	620
Other income	78	(3)
<i>Total income</i>	<u>780</u>	<u>672</u>
Staff costs	308	279
Other costs	175	189
<i>Operating profit before taxation</i>	<u>297</u>	<u>204</u>
Taxation	100	70
	<u>197</u>	<u>134</u>
Impairment of goodwill	-	-
<i>Net profit after tax from discontinued operations</i>	<u>197</u>	<u>134</u>
Of which attributable to Rabobank Nederland and local Rabobanks	197	134
<i>Net profit after tax from discontinued operations</i>	<u>197</u>	<u>134</u>

45 Acquisitions and disposals

Acquisition of Friesland Bank

On 1 April 2012, Rabobank acquired full control over Friesland Bank. Friesland Bank N.V. was incorporated in 1913 as 'Coöperatieve Zuivelbank' and has operated under its current name since 1970. The bank's operations have considerably broadened over the years. Its services, which in the beginning concentrated on the dairy sector, expanded to include the full gamut of financial products and the concomitant advice for both private and business customers. Regional expansion then took place, recently with the opening of three offices in the Randstad conurbation (first in Amsterdam, then in Utrecht and lastly in Rotterdam). In ensuring this physical presence and offering a modern Internet channel, Friesland Bank offers its services throughout the Netherlands, with the emphasis on the northern half of the country.

A strategic analysis of Friesland Bank's future was undertaken, which revealed that the amalgamation with Rabobank would be the best solution for Friesland Bank. The banks' similar cooperative bases and the way in which customers are served are reason for collaborating. Rabobank paid EUR 1 for all of the shares in Friesland Bank Holding N.V..

Negative goodwill arose, as the acquisition price was lower than the fair values of the assets and liabilities acquired. A negative goodwill of 103 is recognised under Other income in the statement of income. In early April, Rabobank strengthened Friesland Bank's share capital by 200. In addition, in the first half of the year, Friesland Bank and Rabobank reached agreement about the remaining interest in Van Lanschot (almost 5 million shares) being transferred to Rabobank. The valuation period expired in the first half of 2012.

The fair values of Friesland Bank's identifiable assets and liabilities are as follows:

in millions of euros	Recognised at fair value upon acquisition
Assets	
Cash and cash equivalents	3
Loans to customers	8,574
Deferred tax assets	160
Other assets	2,315
	<u>11,052</u>
Liabilities	
Due to customers	6,414
Debt securities in issue	2,752
Other liabilities	1,655
Non-controlling interests	128
	<u>10,949</u>
Net asset value	103
Goodwill upon acquisition	(103)
<i>Purchase price</i>	-
Cash flows upon acquisition	
Cash and cash equivalents of Friesland Bank	3
Purchase price	-
<i>Net cash flow</i>	<u>3</u>

The fair value of loans to customers is 8,574 and their face value is 8,945. Approximately 4% of contractual cash flows are expected not to be received.

Friesland Bank's contribution to income and net profit for 2012 as from its acquisition date is 297 and 20, respectively. Should Friesland Bank be consolidated for the full year, its contribution to Rabobank Group's total income and net profit would be 277 and -74, respectively.

Final settlement of Sarasin disposal

In November 2011, Rabobank reached agreement with Safra Group about the sale of Bank Sarasin & Cie S.A. (Switzerland). The sale was settled financially in July 2012. Sarasin's result taken to profit or loss up to July 2012 was 43. Consequently, an impairment loss on goodwill of 43 was recognised in Other income. The reserves included in equity with respect to Sarasin have been released to profit or loss in the second half of 2012 and have resulted in an income item of 204 after tax. In addition, the foreign currency translation reserve to hedge the currency risk of Sarasin's equity has been released to profit or loss and has resulted in an expense item of 107 after tax.

Cash flows upon disposal	
Selling price	861
Cash and cash equivalents of Sarasin	(1,158)
<i>Net cash flow</i>	<i>(297)</i>

Sarasin's assets and liabilities were reclassified as non-current assets held for sale at 31 December 2011, as follows:

in millions of euros	
Assets	
Cash and cash equivalents	159
Due from other banks	2,116
Loans to customers	8,172
Available-for-sale financial assets	1,680
Other assets	2,829
<i>Total assets</i>	<i>14,956</i>
Liabilities	
Due to other banks	1,349
Due to customers	10,374
Other liabilities	1,712
<i>Total liabilities</i>	<i>13,435</i>

46 Transactions with related parties

Two parties are considered related if one party exercises control or has significant influence over the other party (regarding finance or operating decisions). In the normal course of business, Rabobank conducts a wide variety of transactions with related entities, involving different types of loans, deposits and transactions in foreign currencies. Transactions between related parties also include transactions with associates, pension funds, joint ventures, the Executive Board and the Supervisory Board. These transactions are conducted at arm's length conditions and against 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. All these transactions were at arm's length and against 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 table below. Transactions and balances outstanding with members of the Executive Board and members of the Supervisory Board are disclosed in note 48. Transactions with pension funds are disclosed in note 26.

in millions of euros	Investments in associates		Other related parties	
	2012	2011	2012	2011
Loans				
Outstanding at beginning of year	424	399	13	13
Granted during the year	50	281	10	-
Repaid during the year	(37)	(256)	(10)	-
Other	28	-	-	-
<i>Loans at end of the year</i>	<u>465</u>	<u>424</u>	<u>13</u>	<u>13</u>
Due to other banks and due to customers				
Outstanding at beginning of the year	6,091	6,431	-	-
Received during the year	375	542	-	-
Repaid during the year	(322)	(893)	-	-
Other	84	11	-	-
<i>Deposits at end of the year</i>	<u>6,228</u>	<u>6,091</u>	<u>-</u>	<u>-</u>
Other liabilities	27	27	16	16
Credit liabilities and other guarantees issued by Rabobank	-	-	-	-
Income				
Interest income	27	31	-	-
Commission income	266	256	-	-
Trading income	4	(15)	-	-
Other	(1)	9	-	-
<i>Total income from transactions with related parties</i>	<u>296</u>	<u>281</u>	<u>-</u>	<u>-</u>
Expense				
Interest expense	358	368	-	-
Commission expense	-	15	-	-
Impairments	13	1	-	-
<i>Total expenses from transactions with related parties</i>	<u>371</u>	<u>384</u>	<u>-</u>	<u>-</u>

47 Fees paid for services in accordance with Section 382a of Book 2 of the Dutch Civil Code

in millions of euros	2012	2011
Financial statements audit	10	9
Other audit engagements	3	2
Other non-audit services	2	-
<i>Total</i>	<u>15</u>	<u>11</u>

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

48 Remuneration of members of the Supervisory Board and Executive Board

The members of the Supervisory Board and the Executive Board are listed in note 53 of these consolidated financial statements. The remuneration of members and former members of the Executive Board amounted to 11.5 (2011: 10.3). Rabobank exclusively regards the members of the Executive Board as key management personnel. The members of the Executive Board are among the identified staff as disclosed in note 38.

in millions of euros	2012	2011
Salaries	6.9	7.0
Pension charges	1.6	1.6
Performance-related payments awarded	0.2	1.7
Surrender of remuneration component	2.8	-
<i>Total</i>	<i>11.5</i>	<i>10.3</i>

Performance-related payments awarded are 0.2 (2011: 1.7). The Supervisory Board has decided not to award any variable pay for the performance year 2012. The Executive Board has expressed its agreement. The payment for the 2011 performance year awarded in 2012 exceeded the expense item recognised in 2011 by 0.2. The surrender of remuneration component is the one-off surrender of a remuneration component that was primarily designed for early retirement, respectively as a pension supplement.

The total expenses under staff costs rose to 11.8 (2011: 9.5). The rise was caused by the net effect of the one-off surrender of a remuneration component that served mainly as a supplement to retirement benefits and the decision not to award any performance-related payments, on the one hand, and the fact that recognition of a portion of the expenses relating to the performance-related payments is spread over various years. In connection with the latter, an amount of 0.3 has been recognised under staff costs for 2012 which relates to the performance-related payments awarded for the 2011 performance year. The amounts presented in the table exclude the one-off tax at a rate of 16% on wages from present employment in excess of EUR 150,000. The amount in tax is 1.4.

The number of DRNs awarded to the members of the Executive Board for the performance year 2012 is 0 (2011: 34 thousand). The pension plan for the members of the Executive Board qualifies as a defined benefit plan. The total remuneration of members and former members of the Supervisory Board amounted to 1.5 (2011: 1.5).

in millions of euros	Executive Board		Supervisory Board	
	2012	2011	2012	2011
Loans, advances and guarantees				
Outstanding at beginning of year	6.0	6.5	2.5	3.1
Granted during the year	0.3	-	-	-
Repaid during the year	(1.5)	(0.5)	(1.4)	(0.6)
<i>Outstanding at 31 December</i>	<i>4.8</i>	<i>6.0</i>	<i>1.1</i>	<i>2.5</i>

These transactions were concluded with Executive and Supervisory Board members personally. For Executive Board members, they were at staff terms and/or market rates, whereas for Supervisory Board members, they were at market rates. The loans, advances and guarantees of Executive and Supervisory Board members who were newly appointed or stepped down are included in the 'Granted during the year' and 'Repaid during the year' items respectively. The average interest on fixed-interest loans in EUR for the Supervisory Board and the Executive Board was 4.4% (2011: 4.6%) and 3.9% respectively (2011: 3.9%).

49 Principal subsidiaries and associates

Name	Share	Voting rights
Subsidiaries		
The Netherlands		
De Lage Landen International B.V.	100%	100%
Rabo Vastgoedgroep N.V.	100%	100%
OWM Rabobanken B.A.	100%	100%
Obvion N.V.	100%	100%
Friesland Bank N.V.	100%	100%
Rabohypotheekbank N.V.	100%	100%
Rabo Merchant Bank N.V.	100%	100%
Raiffeisenhypotheekbank N.V.	100%	100%
Robeco Groep N.V.	100%	100%
Schretlen & Co N.V.	100%	100%
Other euro zone/EU countries		
ACC Bank Plc	100%	100%
Rest of Europe		
Bank Gospodarki Żywnościowej S.A.	99%	99%
North America		
Rabobank Capital Funding LCC II to VI	100%	100%
Rabobank Capital Funding Trust II to VI	100%	100%
Utrecht America Holdings Inc.	100%	100%
Australia and New Zealand		
Rabobank Australia Limited	100%	100%
Rabobank New Zealand Limited	100%	100%
Investments in associates		
The Netherlands		
Achmea B.V.	29%	29%
Equens N.V.	19%	19%
Gilde Venture Capital funds	Divers	Divers

Rabobank holds less than 20% of the voting rights in Equens, but has significant influence over Equens. For instance, two members of the Supervisory Board of Equens, as well as the chairman of the Audit & Compliance Committee, are Rabobank representatives. On account of Rabobank's significant influence over Equens, the interest qualifies as an associate.

50 Joint ventures

The table includes the assets and liabilities and the income and expense items of joint ventures listed below. The amounts reflect Rabobank's interests. Most joint ventures are entities of Rabo Real Estate Group.

in millions of euros	2012	2011
Assets		
Loans and due from other banks	56	94
Loans and due from private and public-sector clients	120	102
Real estate	594	1,260
Other assets	21	20
<i>Total assets</i>	<i>791</i>	<i>1,476</i>
Liabilities		
Due to other banks	184	1,061
Due to private and public-sector clients	364	195
Other liabilities	243	220
<i>Total liabilities</i>	<i>791</i>	<i>1,476</i>
Operating income	-	7
Operating expense	3	-
<i>Operating profit before taxation</i>	<i>(3)</i>	<i>7</i>
Taxation	1	2
<i>Net profit</i>	<i>(4)</i>	<i>5</i>

The principal joint ventures in which Rabo Real Estate Group participates are:

Inflation Exchange Fund Capital N.V., Netherlands (40%)
 Ontwikkelingscombinatie Wateringse Veld C.V., Netherlands (50%)
 Rotij Planontwikkeling B.V., Netherlands (25%)
 New Chinatown Amsterdam C.V., Netherlands (44%)
 Bouwfonds - Fortis Vastgoedontwikkeling Leidsche Rijn V.O.F., Netherlands (50%)
 IJ-Delta Ontwikkeling V.O.F., Netherlands (25%)
 V.O.F. Leidschendam Centrum, Netherlands (25%)

51 Transfers of financial assets and financial assets provided as collateral

Reverse repurchase transactions and securities borrowing agreements

Reverse repurchase transactions and securities borrowing agreements concluded by Rabobank are included under 'Due from other banks' or 'Loans to customers'. At 31 December, they amounted to:

in millions of euros	2012	2011
Due from other banks	16,848	7,058
Loans to customers	11,410	7,026
<i>Total reverse repurchase transactions and securities borrowing agreements</i>	<i>28,258</i>	<i>14,084</i>

Under the terms of the reverse repurchase transactions and securities borrowing agreements, Rabobank receives collateral under conditions that enable it to repledge or resell the collateral to third parties. The total fair value of the securities received under the terms of the agreements was 29,480 at 31 December 2012 (2011: 15,003). In accordance with the agreement terms, a portion of the securities was repledged or sold as collateral. These transactions were effected subject to the normal conditions for standard reverse repurchase transactions and securities borrowing agreements. The securities are not recognised in the statement of financial position, given that substantially all associated risks and benefits accrue to the counterparty. A receivable is recognised equalling the amount paid as collateral.

Repurchase transactions and securities lending agreements

Repurchase transactions and securities lending agreements concluded by Rabobank are included under 'Due to other banks' and 'Due to customers'. At 31 December, they amounted to:

in millions of euros	2012	2011
Due to other banks	1,986	2,762
Due to customers	2,299	2,669
<i>Total repurchase and securities lending</i>	<i>4,285</i>	<i>5,431</i>

At 31 December 2012 and 2011, interest-bearing securities with a carrying amount of 4,345 and 5,603 respectively had been provided as collateral for repurchase and similar agreements. In general, the counterparty has the right to sell or repledge 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 derecognised, given that substantially all associated risks and benefits accrue to Rabobank, including credit and market risk. A liability is recognised equalling the amount received as collateral.

Securitisations

As part of Rabobank Group's financing activities and liquidity management, as well as to reduce credit risk, cash flows from certain financial assets are transferred to third parties. Most financial assets subject to these transactions are mortgage and other loan portfolios that are transferred to a special purpose vehicle that is subsequently consolidated. After securitisation, the assets continue to be recognised in Rabobank Group's statement of financial position, chiefly under 'Loans to customers'. The securitised assets are measured in accordance with the accounting policies referred to in note 2.16.

The carrying amount of these financial assets is 77,150 (2011: 82,375) and the corresponding liability amounts to 77,724 (2011: 83,088). Approximately 75% (2011: 73%) of transferred assets are securitised internally for liquidity purposes.

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

in millions of euros	2012	2011
Due from other banks	9,692	15,957
Loans to customers	15,058	1,232
Available-for-sale financial assets	10,295	5,990
<i>Total</i>	<i>35,045</i>	<i>23,179</i>

The assets referred to above (except repurchase transactions and securities lending) were provided to counterparties as security for (contingent) liabilities. If Rabobank remains in default the counterparties may use the security to settle the debt.

52 Events after the reporting date

Resolution levy and deferred entry into force of the ex-ante DGS contribution

When it was announced that SNS Reaal had been nationalised, an operation carried out under the Dutch Intervention Act (Interventiewet), it was also announced that the banking industry would be requested to make a contribution in the form of a one-off resolution levy in the amount of EUR 1 billion. Given that the proceeds will go to the State's general resources, the levy will be collected by the Dutch tax authorities. The levy will be imposed in 2014 on all banks that participate in the Dutch deposit guarantee scheme ('DGS'). The taxable base of the levy will be the total in guaranteed deposits of each bank, on which a levy will be imposed at a specific rate. The reference date for purposes of measuring the deposits is the date of SNS Reaal's nationalisation, which is 1 February 2013. The levy will not be deductible for corporate income tax purposes. In order not to burden banks disproportionately, as well as not to frustrate lending, the ex-ante DGS contribution scheduled to take effect on 1 July 2013 has been deferred by two years. The entire banking industry would contribute approximately 350 per annum, with Rabobank Group's share being some 32%. The anticipated expense from the resolution levy is approximately 320.

Sale agreement with Orix on the subject of Robeco

With Orix, a Japanese financial services provider, a sale agreement is signed on the subject of Robeco in February 2013. Orix will acquire over 90% of the Robeco shares in exchange for a purchase price of EUR 1,935 million. All the required regulatory approvals are expected to be granted within six months, after which the closing will be transacted. The financial effect of the sale is an increase of the core tier 1-ratio by some 70 basis points. As part of the deal, Rabobank and Orix have agreed to become strategic partners. Rabobank will keep an equity interest of nearly 10% in Robeco and Robeco's Dutch-based banking activities will be transferred to Rabobank. Rabobank has decided to sell Robeco to act ahead of future rules and regulations. The sale is also likely to improve Robeco's growth perspectives. Robeco is Orix's most significant strategic acquisition and it will become the key platform in its ambition to achieve global growth in asset management services. Robeco will continue to serve its customers using the existing labels.

53 Management's report on internal control over financial reporting

The management of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland) 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 Nederland'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. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that control may become inadequate, because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of Rabobank Nederland's internal control over financial reporting as of 31 December 2012 based on the framework set forth by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) established in Internal Control - Integrated Framework. Based on that assessment, management concluded that, as of 31 December 2012, Rabobank Nederland's internal control over financial reporting is effective based on the criteria established by COSO.

Ernst & Young Accountants LLP, which has audited the consolidated financial statements of Rabobank Nederland for the financial year ended 31 December 2012, also examined management's assessment of the effectiveness of Rabobank Nederland's internal control over financial reporting and the effectiveness of Rabobank Nederland's internal control over financial reporting; its report is included on page 82.

Piet Moerland (P.W.)

Bert Bruggink (A.)

54 Approval of Supervisory Board

The publication of these financial statements was approved by the Supervisory Board on 25 February 2013. They will be submitted to the General Meeting for adoption in June 2013. Rabobank Nederland's Articles of Association provide as follows with regard to adoption of the financial statements: 'The Annual General Meeting's resolution to adopt the financial statements shall be passed by an absolute majority of the votes validly cast'.

Executive Board

Piet Moerland (P.W.), *chairman*
Bert Bruggink (A.), *CFO*
Berry Marttin (B.J.), *member*
Sipko Schat (S.N.), *member*
Hans van der Linden (H.J.), *member*

Supervisory Board

Lense Koopmans (L.), *chairman*
Antoon Vermeer (A.J.A.M.), *deputy chairman*
Martin Tielen (M.J.M.), *secretary*
Irene Asscher-Vonk (I.P.), *deputy secretary*
Bernard Bijvoet (B.), *member*
Tom de Bruijn (A.), *member*
Leo Degle (L.), *member*
Wout Dekker (W.), *member*
Louise Fresco (L.O.), *member*
Leo Graafsma (S.L.J.), *member*
Erik van de Merwe (E.A.J.), *member*
Rinus Minderhoud (M.), *member*
Cees Veerman (C.P.), *member*

Independent auditor's report

To the Executive Board and Supervisory Board of Rabobank Nederland

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements 2012 which are part of the 2012 financial statements of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland), Amsterdam, which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statement of income for the year then ended, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes, comprising a summary of significant accounting policies and other explanatory information.

Executive Board's responsibility

The Executive Board of Rabobank Nederland is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the management report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Executive Board is responsible for such internal control as it determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Executive Board, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Rabobank Nederland as at 31 December 2012, its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 393 (5) (e) and (f) of Book 2 of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the management report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 392 (1) (b) to (h) of Book 2 of the Code has been annexed. Further, we report that the management report, to the extent we can assess, is consistent with the consolidated financial statements as required by Section 391(4) of Book 2 of the Dutch Civil Code.

Amsterdam, 25 February 2013

Ernst & Young Accountants LLP

/s/ C.B. Boogaart