Rabobank

Consolidated Financial Statements 2007

Rabobank Group

This publication, the financial statements and the separate edition ‘Rabobank Group Annual Report 2007’ together form the annual report, the financial statements and other information of the Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.

General information

Rabobank Group ('Rabobank') is a cooperative organisation whose core comprises 174 local Rabobanks in the Netherlands with over 1,100 branches. Rabobank comprises the 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 public sector lending, corporate banking and investment banking, asset management and leasing in many countries throughout the world. Rabobank puts the common interests of people and communities first. Internationally, Rabobank aims to be the best food & agri bank with a strong presence in the major food & agri countries around the world. Rabobank operates in 43 countries and employs over 60,000 people.

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 Amsterdam 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 for its members in which role it concludes agreements with them, negotiates their rights and undertakes obligations on their behalf 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; the majority of the members are clients. At 31 December 2007, the local Rabobanks had approximately 1.6 million members.

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Consolidated balance sheet

In millions of euros	Note	At 31 December 2007	At 31 December 2006
Assets			
Cash and cash equivalents	6	2,129	1,630
Due from other banks	7	43,218	49,086
Trading financial assets	8	29,179	36,789
Other financial assets at fair value through profit and loss	9	18,133	21,468
Derivative financial instruments	10	26,089	18,992
Loans to customers	11	372,968	354,924
Available-for-sale financial assets	12	50,355	48,961
Held-to-maturity financial assets	13	859	1,489
Investments in associates	14	4,558	3,250
Intangible assets	15	3,183	1,844
Property and equipment	16	5,572	5,022
Investment properties	17	1,105	1,338
Current tax assets		419	176
Deferred tax assets	25	1,577	1,477
Other assets	18	11,159	10,009
Total assets		570,503	556,455

In millions of euros	Note	At 31 December 2007	At 31 December 2006
Liabilities			
Due to other banks	19	73,428	94,626
Due to customers	20	249,515	234,917
Debt securities in issue	21	141,812	128,066
Derivative financial instruments and other trade liabilities	10	31,097	26,694
Other debts	22	10,518	10,649
Other financial liabilities at fair value through profit and loss	23	27,303	26,270
Provisions	24	1,167	1,175
Current tax liabilities		202	172
Deferred tax liabilities	25	851	836
Employee benefits	26	941	1,223
Subordinated debt	27	2,294	2,450
Total liabilities		539,128	527,078
Equity			
Equity of Rabobank Nederland and local Rabobanks	29	19,650	17,426
Rabobank Member Certificates issued by group companies	30	6,233	5,808
		25,883	23,234
Capital Securities and Trust Preferred Securities III to VI	31	2,779	1,959
Minority interests	32	2,713	4,184
Total equity		31,375	29,377
Total equity and liabilities		570,503	556,455

Consolidated profit and loss account

In millions of euros	Note	For the year ended 31 December 2007	For the year ended 31 December 2006
Interest income	33	29,356	25,059
Interest expense	33	22,585	18,587
Interest	33	6,771	6,472
Fee and commission income	34	3,394	2,741
Fee and commission expense	34	537	445
Fees and commission	34	2,857	2,296
Income from associates	35	753	556
Net income from financial assets and liabilities at fair value through profit and loss	36	(38)	246
Gains on available-for-sale financial assets	12	64	7
Other	37	1,092	472
Income		11,499	10,049
Staff costs	38	4,445	4,117
Other administrative expenses	39	2,846	2,429
Depreciation and amortisation	40	418	341
Operating expenses		7,709	6,887
Value adjustments	41	742	450
Operating profit before taxation		3,048	2,712
Taxation	42	386	367
Net profit		2,662	2,345
Of which attributable to Rabobank Nederland and local Rabobanks	29	1,937	1,757
Of which attributable to holders of Rabobank Member Certificates	30	299	277
Of which attributable to Capital Securities	31	17	-
Of which attributable to Trust Preferred Securities III to VI	31	106	110
Of which attributable to minority interests	32	303	201
Net profit for the year		2,662	2,345

See the notes to the consolidated financial statements.

Consolidated statement of changes in equity

In millions of euros	Equity of Rabobank Nederland and local Rabobanks	Rabobank Member Certificates	Capital Securities and TPS	Minority interests	Total equity
At 1 January 2006	15,450	5,811	2,092	2,996	26,349
(Note 29)					
Arising in the period (after taxation):					
Net fair value changes – available-for-sale financial assets	(277)	-	-	-	(277)
Net fair value changes – associates	94	-	-	-	94
Net fair value changes – cash flow hedges	(16)	-	-	-	(16)
Other changes	11	-	-	-	11
Currency translation differences	(14)	-	(133)	(191)	(338)
Reclassified to net profit for the year – available-for-sale financial assets	295	-	-	-	295
Total income and expense for the year recognised directly in equity	93	-	(133)	(191)	(231)
Net profit for the year	1,757	277	110	201	2,345
Total income and expense	1,850	277	(23)	10	2,114
Payment on Rabobank Member Certificates and Trust Preferred Securities III to VI	-	(277)	(110)	-	(387)
Other	126	(3)	-	1,178	1,301
At 31 December 2006	17,426	5,808	1,959	4,184	29,377
At 1 January 2007	17,426	5,808	1,959	4,184	29,377
(Note 29)					
Arising in the period (after taxation):					
Net fair value changes – available-for-sale financial assets	(39)	-	-	(584)	(623)
Net fair value changes – associates	70	-	-	-	70
Net fair value changes – cash flow hedges	12	-	-	-	12
Currency translation differences	(205)	-	(170)	(225)	(600)
Reclassified to net profit for the year – available-for-sale financial assets	315	-	-	-	315
Total income and expense for the year recognised directly in equity	153	-	(170)	(809)	(826)
Net profit for the year	1,937	299	123	303	2,662
Total income and expense	2,090	299	(47)	(506)	1,836
Payment on Rabobank Member Certificates, Trust Preferred Securities III to VI and Capital Securities	-	(299)	(123)	-	(422)
Issue of Capital Securities	-	-	990	-	990
Exchange of government bonds for subordinated loans to Rabobank Nederland	-	415	-	(415)	-
Other	134	10	-	(550)	(406)
At 31 December 2007	19,650	6,233	2,779	2,713	31,375

Consolidated cash flow statement

In millions of euros	For the year ended 31 December 2007	For the year ended 31 December 2006
Cash flows from operating activities		
Operating profit before taxation	3,048	2,712
Adjusted for:		
Non-cash items recognised in profit and loss		
Depreciation and amortisation	418	341
Value adjustments	742	450
Result on sale of property and equipment	(9)	(14)
Share of (profit) of associates and result on sale of subsidiaries	(698)	(527)
Fair value results on investment properties	(6)	2
Fair value results on financial assets and liabilities at fair value through profit and loss	38	(246)
Net result on available-for-sale financial assets	(64)	(7)
Net change in operating assets:		
Due from other banks	(15,330)	7,874
Trading financial assets	7,610	2,222
Derivative financial instruments	(7,097)	5,143
Net change in non-trading financial assets at fair value through profit and loss	3,335	(4,019)
Loans to customers	(18,044)	(50,473)
Net change in liabilities relating to operating activities:		
Derivative financial instruments and other trade liabilities	4,403	(4,488)
Due to customers	14,598	29,472
Debt securities in issue	13,746	12,074
Other debts	(131)	3,583
Income tax paid	(833)	(809)
Other changes	1,076	(2,285)
Net cash flow from operating activities	6,802	1,005
Cash flow from investing activities		
Acquisition of subsidiaries net of cash and cash equivalents acquired	(431)	1,714
Disposal of subsidiaries net of cash and cash equivalents	18	3
Acquisition of property and equipment and investment properties	(559)	(646)
Proceeds from sale of property and equipment	398	330
Acquisition of available-for-sale financial assets and held-to-maturity financial assets	(21,443)	(16,160)
Proceeds from sale and repayment of available-for-sale financial assets and held-to-maturity financial assets	15,156	12,861
Net cash flow from investing activities	(6,861)	(1,898)
Cash flows from financing activities		
Proceeds from issue of Capital Securities	990	-
Payment on Rabobank Member Certificates, Trust Preferred Securities III to VI and Capital Securities	(422)	(387)
Repayment of subordinated debt	(10)	(13)
Net cash flow from financing activities	558	(400)
Net change in cash and cash equivalents	499	(1,293)
Cash and cash equivalents at beginning of year	1,630	2,923
Cash and cash equivalents at end of year	2,129	1,630
The cash flows from interest are included in the net cash flow from operating activities		
Interest income	28,831	24,675
Interest expense	21,620	17,740

Cash and cash equivalents comprises cash resources and deposits at central banks. The cash flow statement 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.

The cash flows from operating, investing and financing activities are stated separately. Movements in loans and receivables and interbank deposits are accounted for under cash flow 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 Member Certificates and subordinated loans qualify as financing activities. Movements on account of currency translation differences are eliminated, as are the consolidation effects of acquisitions of associates insofar as material.

Notes to the consolidated financial statements

1 Basis of consolidation

Rabobank Group ('Rabobank') comprises the local Rabobanks ('Members') in the Netherlands, the central cooperative Rabobank Nederland and other specialised subsidiaries. Together they form Rabobank Group and Rabobank Nederland, which advises the Members and assists them in the provision of their services. Rabobank Nederland also advises the Members on behalf of De Nederlandsche Bank (the Dutch central bank). Rabobank's cooperative structure has several executive levels, each with its own duties and responsibilities.

In IFRS terms, 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 the other group companies.

2 Accounting policies

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

2.1 General

The consolidated financial statements of Rabobank have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. Rabobank applied the new standard IFRS 7 'Financial Instruments: Disclosures', the new appendix to IAS 1, and IFRIC 9 and 10 in 2007.

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 classification of results and balance sheet items

Insofar as other enhanced insights prompted reclassifications, the comparative figures have been restated.

The comparative figures have been restated since the fiduciary funds totalling 19.1 (2006: 19.0) billion are accounted for under Due to customers instead of Due to other banks with effect from 2007. These reclassifications did not affect profit or equity.

2.1.2 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 provision for doubtful debts, 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.

2.2 Group financial statements

2.2.1 *Subsidiaries*

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 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 business units of Rabobank are eliminated as part of the consolidation.

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 (after the acquisition) is recognised in profit and loss, and its share of the changes in reserves after the acquisition is recognised in reserves. The cumulative changes after acquisition are adjustments 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 mean foreign currency 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 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 at fair value through profit and 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 income'.

2.3.3 *Hedging instruments*

Rabobank also uses derivative financial instruments as part of balance sheet control 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 on the balance sheet (fair value hedge), as (2) a hedge of future cash flows attributable to an asset or liability on the balance sheet, an expected transaction or a non-current liability (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.

These criteria include:

- 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 very 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; and
- The hedge is continuously very 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 and 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 and loss until the end of the hedged period. Any adjustment to the carrying amount of a hedged equity instrument is recognised under 'Profits and losses not disclosed in the profit and loss account' 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 highly 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 and 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 profit and loss account 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 and 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 trading financial instruments.

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'.

2.4 Trade liabilities and other liabilities at fair value through profit and loss

2.4.1 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 repurchase agreements. Securities sold short are recognised at fair value at the balance sheet date.

2.4.2 Other liabilities at fair value through profit and loss

Other liabilities at fair value through profit and loss include certain financial liabilities that Rabobank does not intend to sell, but which it accounted for at fair value on initial recognition. Changes in the fair value of these financial liabilities are recognised in profit and loss for the period in which they arise.

2.5 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 valued 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 is 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. Other trading transactions are recognised as derivative financial instruments until the date of settlement.

2.6 Non-trading financial assets and liabilities at fair value through profit and 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 and loss. These financial assets are carried at fair value.

Management designates financial assets and liabilities to this category upon initial recognition if one of the following criteria is met:

- Such a designation eliminates or substantially reduces any inconsistent treatment that would otherwise have arisen upon valuation of the assets or liabilities or recognition of profits or losses on the basis of different accounting principles; or
- The assets and liabilities belong to a group of financial assets, financial liabilities or both, that are managed and assessed on the basis of their fair value in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative financial instrument, unless the embedded derivative financial instrument does not significantly affect the cash flows or if it is evident, after limited analysis or no analysis at all, that separate recognition is not required.

Interest earned on assets with this classification is recognised as interest income and interest due on liabilities with this classification is recognised as interest expense. Any other realised and unrealised gains and losses on revaluation of these financial instruments at fair value are included under 'Net income from non-trading financial assets and liabilities at fair value through profit and loss'.

2.7 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 (from active markets). If unobservable data was used, the Day 1 profit is amortised over the term of the transaction. Profit is subsequently accounted for if the financial instrument in question is sold or if the data input has subsequently become observable.

2.8 Available-for-sale financial assets

Management determines the appropriate classification of a financial asset on the date of acquisition.

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 costs (including transaction costs). These assets are subsequently revalued at fair value 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 or suffer impairment losses, the adjustments to fair value are recognised in profit and loss.

An impairment loss is recognised on a financial asset if expectations are that its cost will permanently exceed its estimated recoverable amount. The recoverable amount of an instrument carried at fair value is the present value of the expected future cash flows, discounted at the current market interest rate on a comparable financial asset.

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.

2.9 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 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. All other purchases and sales are recognised as forward derivative contracts until their dates of settlement.

2.10 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' and '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.

2.11 Securitisations and other derecognition constructions

Rabobank securitises, sells and carries various financial assets. Those assets are sometimes sold to special purpose entities ('SPE'), 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;
- a commitment to transfer the cash flows from the asset is presumed;
- not all the risks and benefits are retained or transferred; however, control over the asset is transferred.

If Rabobank retains control over the asset but does not retain a substantial portion of the rights 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 and 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 for each securitisation transaction 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, for instance the activities, decision-making powers and the allocation of the benefits and risks associated with the activities of the SPE.

2.12 Netting of financial assets and liabilities

Financial assets and liabilities are set off and the net amount is transferred to the balance sheet 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.

2.13 Foreign currencies

2.13.1 Foreign entities

Items included in the financial statements of each entity in the Rabobank Group are carried in the currency that best reflects the economic reality of the underlying events and circumstances that are relevant for the entity ('the functional currency'). The consolidated 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. For balance sheet purposes, they 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 and 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 and loss, unless they are recognised in equity as qualifying net investment hedges.

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 expenses for all interest-bearing instruments are recognised in profit and 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 discount rate for calculating the present value of the future cash flows used to determine the recoverable amounts.

2.15 Fees and 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.

Fees and commission are generally recognised on an accrual basis. Fees and 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, are 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 not 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 recognitions with changes recognised through profit and loss, or as available for sale. These loans and receivables are measured at amortised cost, including transaction costs.

Loans are subject to either individual or collective impairment analyses. A value adjustment, a provision for 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 balance sheet date. Examples of objective evidence for value adjustments are:

– significant financial problems 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;
– changes in economic circumstances that could cause the borrower to default.

The losses are estimated based on the historical pattern of losses for each separate portion, the credit ratings of the borrowers, 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 profit and loss account. If a loan is not collectible, it is written off from the related provision for losses on loans. Any amounts subsequently collected are included under the item 'Value adjustments' in the profit and loss account.

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 unconditional liabilities of the entity acquired. Goodwill arising on the acquisition of a subsidiary made on or after 1 January 2004 is recognised on the balance sheet as an intangible asset net of any impairment losses. Impairment tests are performed annually to determine whether impairment has occurred. Goodwill that arose on the acquisition of a subsidiary made before 1 January 2004 was charged directly to equity. Goodwill in such case has not been capitalised retrospectively, as allowed under IFRS.

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 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 Insurance contracts acquired as part of a business combination or upon portfolio transfer and other intangible assets

The fair value (present value of the expected future cash flows) of contractual insurance rights and obligations are capitalised as intangible assets and amortised over the term of the contract, which is generally between 2 and 5 years. The other intangible assets are amortised over their useful lives. 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 other intangible assets

At each balance sheet 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 balance sheet date or more frequently if indications of impairment exist.

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

– Land	Not depreciated
– Buildings	25 – 40 years
Equipment, including:	
– computer equipment	1 – 5 years
– other equipment and vehicles	3 – 8 years

Each year, Rabobank assesses whether there are indications of impairment of property and equipment. If the carrying amount of an asset exceeds its estimated recoverable amount, the carrying amount is written down immediately to the recoverable amount. 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 and loss at the time the relevant costs are incurred. Expenditures on extending or increasing the benefits from land and buildings compared with their original benefits are capitalised and subsequently depreciated. Finance expenses incurred during the creation of an asset for use or sale are charged to profit and loss for the period in which they are incurred.

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 on the balance sheet at cost, net of accumulated depreciation and impairment.

Investment properties are depreciated in accordance with the terms of the underlying lease contracts.

2.20 Work in progress

Work in progress is included in 'other assets' on the balance sheet. 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 reclassified as 'Other liabilities'. Gains and losses are recognised based on the percentage of completion method.

2. 21 Leases

2.21.1 Rabobank as lessee

Leases relating to property and equipment under which substantially all the 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 and 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 substantial portion of the risks and benefits of ownership of the assets are retained by the lessor are classified as operating leases. Operating lease payments (less any discounts given by the lessor) are charged to profit and 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 on the balance sheet 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) 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 embodying economic benefits 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 penalties for premature termination of leases, payments under redundancy schemes and other costs directly attributable to restructuring programs. 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. No provisions are formed in advance for costs relating to continuing operations of Rabobank.

2.22.2 Leave and long-term employment

Leave entitlements of employees and leave relating to long-term employment are recognised at the time they are granted. A provision is formed for the estimated obligation for annual leave and leave relating to long-term service of employees, with the balance sheet date as reference point.

2.22.3 Legal issues

Legal issues provisions are formed for the amounts estimated at the balance sheet date.

2.23 Employee benefits

Rabobank provides various pension plans 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 balance sheet date, including adjustments for actuarial gains and losses and past service costs not yet recognised, reduced by the fair value of the fund. 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 or the fair value of the fund, such excess is taken to profit or loss, spread over the expected average remaining years of service of the employees participating in the plan.

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.

2.24 Tax

Tax receivables and payables and deferred tax assets and liabilities are set off if they relate to the same taxation group, the same taxation authority, a legal right exists to set off tax items and simultaneous treatment or settlement is expected.

Provisions are formed in full for deferred tax liabilities, using the liability method, arising from temporary differences at the balance sheet 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 losses on loans 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 balance sheet 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.

Taxation on profit is 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 items relating to the revaluation to fair value of available-for sale financial assets and cash flow hedges that are charged or taken to equity are subsequently recognised in profit and loss together with the respective gain or loss.

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

These borrowings are initially recognised at cost, i.e. the proceeds received less directly attributable and non-recurring transaction costs. Loans are subsequently included at amortised cost. Any difference between the net proceeds and the redemption amount is recognised over the term of the loan, using the effective interest method.

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.

2.26 Rabobank Member Certificates

These are the Members Certificates issued in 2000, 2001, 2002 and 2005. Since the proceeds of the issue are available to Rabobank on a perpetual and highly subordinated basis (also subordinate to the Trust Preferred Securities) and since in principle no distribution is made if the consolidated profit and loss account of Rabobank shows a loss for any financial year, the issue proceeds, insofar as they have been lent on to Rabobank Nederland, are recognised under 'Equity' in proportion to the number of certificates held by members and employees, since there is no formal obligation to repay the principal or make distributions. As a result, distributions are accounted for in the profit appropriation.

2.27 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 'Other loans'. The dividends on these preferred securities are recognised in profit and 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.

2.28 Financial guarantees

Financial guarantees are initially measured at fair value and subsequently at the higher of two amounts, i.e. the amount Rabobank would reasonably have to pay at the balance sheet date to settle the obligation or transfer it to a third party and the initial carrying amount less amortisation.

2.29 Bills

Bills represent commitments by Rabobank to redeem bills issued to clients. Rabobank expects to redeem most bills at the time clients receive payment. Bills are recognised as off-balance-sheet transactions and disclosed as contingent liabilities and obligations.

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. A segment in which most of the revenue is generated by sales to external clients, and the revenue, profit or assets account for 10% or more of all segments in aggregate is reported separately. Rabobank's primary segment reporting format is by business segment; the secondary format is by geographical segment.

2.31 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 obligations have outstanding 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.

3 Solvency

The main capital ratio requirements set by De Nederlandsche Bank (the Dutch central bank) are derived from the capital adequacy guidelines of the European Union and the Basel Committee on Banking Supervision. These ratios compare a bank's qualifying capital (Tier I and Tier II) and core capital (Tier I) with the total risk-weighted assets and off-balance-sheet items and with the market risk exposure of the trading portfolios. The minimum requirements for qualifying capital and core capital as a percentage of risk-weighted assets are 8% and 4% respectively. The table below shows the capital available to Rabobank and the minimum capital required by the regulatory authorities.

With the market risk approach, the general market risk is hedged, as well as the risk of open positions in foreign currencies, debt and own equity instruments. Assets are weighted according to broad categories of notional risk, the weightings reflecting the deemed capital required to back the assets. Four risk weightings are used: 0%, 20%, 50% and 100%. For example, cash and money market instruments are assigned a weighting of 0%, which means that no capital is required to back the holding of these assets. Items of property and equipment are assigned a weighting of 100%, which means that capital equal to 8% of their carrying amount has to be held to back them.

Off-balance-sheet liabilities relating to loans, forward contracts, forwards and options based on derivative financial instruments have various categories of conversion factors applied to them in order to disclose these items at their balance sheet equivalents. These equivalent amounts are then also assigned risk weightings.

Rabobank's ratios

In millions of euros	2007	2006
Tier I and qualifying capital can be broken down as follows:		
Retained earnings and other reserves (note 29)	19,123	17,055
Rabobank Member Certificates (note 30)	6,233	5,808
Trust Preferred Securities III to VI (note 31)	1,789	1,959
Trust Preferred Securities I and II (note 27)	1,189	1,329
Capital Securities (note 31)	990	-
	29,324	26,151
Part of minority interest treated as qualifying capital	1,703	1,711
Deductions	(2,543)	(1,471)
Tier I capital	28,484	26,391
Part of revaluation reserve treated as qualifying capital	970	399
Deductions	(1,329)	(740)
Part of subordinated debt treated as qualifying capital	1,031	1,064
Qualifying capital	29,156	27,114
Risk-weighted assets	266,573	247,458
Ratios		
Core capital (Tier 1 ratio)	10.7	10.7
Qualifying capital (BIS ratio)	10.9	11.0

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 the Credit Management Committee Rabobank Group. The Supervisory Board regularly assesses the risks attached to the activities and portfolio of the Rabobank Group. The Chief Financial Officer, who is also a member of the Executive Board, is responsible for the implementation of the risk management policy within the 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, 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, risk management is practiced within the business units as well, where independent risk control departments manage the risks relevant for those units.

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 liquid resources to meet all payments that might become due.

A further objective of Rabobank is to increase its interest rate margins 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 on the balance sheet; 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 non-trading books. Interest rate risk in the trading books 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 Rabobanks 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 contract terms; the bank's internal interest rate risk model also takes client behaviour into consideration. For instance, premature mortgage repayments are taken into account and balance sheet items 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. Portfolios of money market and capital market instruments are selected that most replicate the behaviour of these items. Gap analyses, duration determination and simulation are used to determine the interest rate risk. Both the Income-at-Risk and Equity-at-Risk are subject to restrictions. Another major 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 EUR 25 million.
The IFRS equity deviates from the market value of equity used for the purpose of analysing the impact of interest rate changes on the market value of equity. Since a substantial number of balance sheet items is not subject to value changes in terms of IFRS as a consequence of interest rate changes, any effects will be recognised in IFRS equity through profit and loss.

4.3.1 Income at Risk

The table below sets out the basis point sensitivity of the interest rate result (interest income less interest expense, before tax) for the next two years based on a level balance sheet structure and no management intervention. The impacts in the first and second year are listed separately and are based on the assumption that the interest rate will show an even and parallel increase/decline by 200 basis points during the first 12 months and remain at the same level in months 13 through 24. The simulation of the possible interest income is based on an interest rate risk model developed in-house, whereby certain assumptions are made in respect of interest rate sensitivity of products whose interest rates are not directly linked to a certain money or capital market rate, such as savings of private customers.
A smaller increase or decrease will have a proportionally similar effect. Said impact on interest income is reflected in IFRS equity through profit and loss and is virtually nil.

Income at Risk

In millions of euros	At 31 December 2007 200 bp increase	At 31 December 2007 200 bp decline	At 31 December 2006 200 bp increase	At 31 December 2006 200 bp decline
1-12 months	(26)	22	(31)	6
13-24 months	(46)	78	(13)	(20)

4.3.2 Equity at Risk

The table below shows the sensitivity of the economic value of equity to interest rate changes, whereby 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 position held in derivative financial instruments, based on the assumption that the yield curve increases and declines by 200 basis points at once. The percentages in the table represent the deviation from the current present value of equity.

Equity at Risk

In %	At 31 December 2007 200 bp increase	At 31 December 2007 200 bp decline	At 31 December 2006 200 bp increase	At 31 December 2006 200 bp decline
Economic value of equity	-12%	+14%	-11%	+12%

The aforementioned methods are supported by various scenario analyses, for instance to determine the quotation risk of pending mortgage quotations. The results of these scenario analyses are important for integral interest rate risk management purposes and are included in reports to senior management.

4.4 Credit risk

The credit risk exposure is the loss that Rabobank would suffer if a counterparty or issuer were to default on all its contractual obligations. Credit risk is inherent in traditional banking products. Positions in tradable assets such as bonds and shares are also subject to credit risk. Please refer to paragraph 4.9 for the implications of the financial crisis for the credit risk.

Rabobank is exposed to credit risks. Credit risk is defined as the risk that a counterparty will be unable to make payments in full when they become due. Rabobank controls the size of its credit risk exposure by limiting the amount at risk in relation to a borrower, or a group of borrowers, and to countries. These risks are monitored cyclically and are subject to regular assessment. Rabobank uses an escalating authorisation system to make decisions on individual loans. Immediately below the Executive Board, the system takes the form of loan committees; at lower levels, assessments undergo a review by a four-eyes-principle.

Credit risks are managed by regularly analysing the financial capacity of borrowers and potential borrowers to pay the amounts they owe in interest and principal and by adjusting their credit limits as necessary. Credit risks are also partly managed through the use of covenants and/or the provision of security and business and personal guarantees. 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 on the balance sheet, 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.

Approximately 50% of Rabobank's total loan portfolio represents loans to private customers (mainly mortgages) who have an extremely low risk profile, based on losses incurred in prior years. The remainder is a highly varied portfolio of loans to business clients in the Netherlands and abroad. The proportion of the total loan portfolio attributable to the food & agri sector was 17% in 2007. The proportion of the loan portfolio relating to trade, industry and services was 33% at year-end 2007 and is spread over a large number of clients in many sectors, mainly in industrialised countries.

The new 'Basel II' capital accord has become effective for Rabobank Group as from 1 January 2008. The Dutch central bank has granted Rabobank Group permission to determine the Basel II equity requirements in accordance with the most advanced methods. For this purpose, Rabobank Group has developed its own risk models and opted for the Advanced Internal Ratings Based approach (AIRB) for credit risk.

4.4.1 Maximum credit risk

The table below sets out the maximum credit risk to which Rabobank is subject at the balance sheet date in respect of its various financial instruments, without taking into account any collateral or other credit improvements.

Maximum gross credit risk

In millions of euros	2007	2006
Cash and cash equivalents	2,129	1,630
Due from other banks	43,218	49,086
Trading financial assets	29,179	36,789
Other financial assets at fair value through profit and loss	18,133	21,468
Derivative financial instruments	26,089	18,992
Loans to customers	372,968	354,924
Available-for-sale financial assets	50,355	48,961
Held-to-maturity financial assets	859	1,489
Other assets (incl. current tax assets)	11,578	10,185
Total	554,508	543,524
Credit related and contingent liabilities	47,738	47,369
Total	602,246	590,893

The above amounts for the financial instruments at fair value represent the current credit risk, which could deviate from the maximum credit risk in the future as a result of changes in parameters.

4.4.2 *Loans*

Apart from due from other banks (43 billion, or 8% of total assets), Rabobank's only significant risk concentration is in the private sector lending; these loans to private customers account for 47% of all loans to customers. Loans to trade, industry and services and loans to the food & agri sector are both spread over a wide range of industries. None of them represents more than 10% of the total client loan portfolio.

In millions of euros	2007		2006	
Total loans to customers	372,968		354,924	
of which: to government clients	5,095		3,093	
securities transactions due from private sector lending	14,422		28,396	
interest rate hedges (hedge accounting)	(2,522)		(675)	
Private sector lending	355,973		324,110	
This can be broken down geographically as follows:				
The Netherlands	269,964	76%	243,833	76%
Other countries in the EU zone	31,122	9%	31,784	10%
North America	30,207	9%	28,707	9%
Latin America	6,604	2%	4,159	1%
Asia	4,872	1%	3,863	1%
Australia	12,370	3%	10,938	3%
Other countries	834	0%	826	0%
Total	355,973	100%	324,110	100%
Risk spread in the loan portfolio can be broken down by business segment as follows:				
Private individuals	180,146	50%	166,114	51%
Trade, industry and services	116,423	33%	105,499	33%
Food & agri	59,404	17%	52,497	16%
Total	355,973	100%	324,110	100%

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 open position is monitored. The amount exposed to credit risk is limited in each case to the fair value of the transactions plus an uplift for potential future risks for Rabobank (at the 97.5% confidence level). Regarding derivative financial instruments, this is only a fraction of the notional amount (principal) at which the open transactions are disclosed. This credit risk is managed as part of the general lending limits for clients. Substantial amounts of security or other guarantees are given for Rabobank's credit risk exposures in relation to these transactions.

The credit risk exposure represents the current fair value of all open derivative contracts showing a gain, taking into account master netting agreements enforceable by law.

4.4.4 *Credit risk management methods*

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 on the balance sheet as transactions are usually settled gross. The credit risk relating to favourable contracts 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. Taking netting arrangements into account, the total fair value of the derivative contracts portfolio is a positive amount of 9,052 (2006: 4,376).

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 market movements in interest and exchange rates.

An additional method for managing the credit risk associated with derivative financial instruments and sale and repurchase agreements is the use of collateral arrangements.

The amount and nature of the collateral required depends on the assessment of the credit risk inherent in 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, mainly for the retail portfolio;
- Mortgage collateral on property, inventories and receivables, mainly for business loans;
- Cash and securities, mainly for securities lending activities and reverse repurchase transactions.

The bank also uses credit derivative financial instruments to manage credit risks. Management monitors the market value of collateral obtained and requests additional collateral, if necessary in accordance with the underlying contract. Management uses this and other information to determine the amount of the provision for credit losses.

4.4.5 Off balance sheet financial instruments

The main purpose of these instruments is to ensure that financial resources are available for clients when needed. Guarantees and stand-by letters of credit, which represent irrevocable commitments by Rabobank to make payments to third parties on behalf of clients if they are unable to fulfil their obligations, are exposed to the same risks as loans. Documentary and commercial letters of credit, which are written undertakings by Rabobank on behalf of clients authorising third parties to draw bills against Rabobank up to a preset amount subject to specific conditions, 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 rate of interest during a fixed period of time are accounted for as derivatives 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.

Promises to grant lending facilities represent unused partial authorisations to grant such facilities in the form of loans, guarantees or letters of credit. Regarding promises to grant credit facilities, Rabobank is potentially exposed to losses up to an amount equal to the unused commitments. However, the probable size of such losses is less than the total of the unused commitments, as most 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 balance sheet items.

Credit quality of financial assets

In millions of euros	(Virtually) no risk	Adequate to good	Vulnerable	Impaired	Total
At 31 December 2007					
Due from other banks	40,363	2,840	5	10	43,218
Loans to customers					
– Loans to government clients	4,583	502	5	5	5,095
– Loans to private clients	81,640	277,080	6,690	2,463	367,873
– Overdrafts	1,549	7,832	525	17	9,923
– Mortgages	51,515	189,191	2,429	349	243,484
– Leases	1,353	14,244	1,205	294	17,096
– Receivables relating to securities transactions	9,606	4,816	-	-	14,422
– Other	17,617	60,997	2,531	1,803	82,948
Total	126,586	280,422	6,700	2,478	416,186
At 31 December 2006					
Due from other banks	46,659	2,427	-	-	49,086
Loans to customers					
– Loans to government clients	2,676	410	-	7	3,093
– Loans to private clients	101,371	242,635	5,226	2,599	351,831
– Overdrafts	1,910	6,752	310	55	9,027
– Mortgages	56,335	162,292	2,041	236	220,904
– Leases	1,488	12,531	1,204	362	15,585
– Receivables relating to securities transactions	24,317	4,079	-	-	28,396
– Other	17,321	56,981	1,671	1,946	77,919
Total	150,706	245,472	5,226	2,606	404,010

In view of its relationship-driven banking approach, Rabobank will try to avoid payment default on the part of the customer through proper credit risk management, periodic consultations with its customers and timely measures. If a customer defaults despite these efforts, Rabobank will attempt to restructure the loan as opposed to recovering the collateral provided that it sees scope for continuity. Consequently, the payment agreements may be extended, new loan conditions agreed or additional cover secured. Once there is renewed scope of continuity the loan will no longer be recognised as impaired. Management continuously reviews the renegotiated loans to ascertain that all criteria were met and the future cash flows will materialise as planned.

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 2007					
Due from other banks	5	-	-	-	5
Loans to customers					
– Loans to government clients	-	5	-	-	5
– Loans to private clients	4,953	872	470	396	6,691
– Overdrafts	451	37	37	-	525
– Mortgages	1,814	349	163	103	2,429
– Leases	896	183	124	2	1,205
– Receivables relating to securities transactions	-	-	-	-	-
– Other	1,792	303	146	291	2,532
Total	4,958	877	470	396	6,701
At 31 December 2006					
Due from other banks	-	-	-	-	-
Loans to customers					
– Loans to government clients	-	-	-	-	-
– Loans to private clients	3,901	785	448	92	5,226
– Overdrafts	267	23	20	-	310
– Mortgages	1,485	329	159	68	2,041
– Leases	895	184	123	2	1,204
– Receivables relating to securities transactions	-	-	-	-	-
– Other	1,254	249	146	22	1,671
Total	3,901	785	448	92	5,226

The fair value of the security received by the bank for assets expired but unimpaired is 4,315 (2006: 3,469).

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 non-trading books are only exposed to the translation risk on capital invested in foreign activities and on issues of Trust Preferred Securities 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.

Rabobank’s policy is to match the term of funding with the term of loans granted. Furthermore, the bank manages the liquidity risk in three ways. Firstly, by restricting and limiting cash outflows. For this purpose, the expected cash inflows and 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 plans with procedures were drawn up to face a possible crisis situation.

Secondly, an ample buffer of tradable securities is maintained. This is reflected in the balance sheet by the substantial items 'Trading financial assets', 'Available-for-sale financial assets' and 'Other financial assets at fair value through profit and loss'. Where necessary, these assets can be allocated for pledging to central banks, for use in repo transactions or direct selling in the market to generate liquidity. As part of its liquidity risk management Rabobank has furthermore securitised a portion of its Dutch mortgage portfolio and retained the corresponding securities, thus increasing the buffer of marketable securities. These securities can be lent to the central bank or traded in the market if necessary. However, due to consolidation of internal securities, the positive effect on the liquidity position is not reflected in the balance sheet for financial reporting purposes.

Thirdly, the liquidity risk is restricted thanks to the prudent funding policy aimed at meeting the finance 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. 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 balance sheet date and the earliest reasonable contract repayment date. The total amounts do not correspond exactly with the amounts in the consolidated balance sheet, since this table is entirely based on non-discounted cash-flows, related to both principal and future interest payments.

The item 'derivative financial instruments and other trade liabilities' mostly comprises liabilities in the trading portfolio. The balance sheet item 'derivative financial instruments and other trade liabilities' has not been analysed on the basis of the contract repayment date since liabilities in the trading portfolio are typically held short-term. The assets or liabilities underlying of the trading and hedging derivative financial instruments may be long-term.

Contract repayment date

In millions of euros	On demand	Less than 3 months	3 months to 1 year	1-5 years	More than 5 years	No repayment date	Total
At 31 December 2007							
Liabilities							
Due to other banks	9,775	51,289	6,898	5,000	1,048	25	74,035
Due to customers	157,075	51,026	16,857	9,459	18,636	532	253,585
Debt securities in issue	3,139	53,668	13,590	53,203	29,019	-	152,619
Other debts (including current tax liabilities)	2,709	6,678	1,040	241	53	-	10,721
Other financial liabilities at fair value through profit and loss	-	635	2,409	9,438	21,777	-	34,259
Subordinated debt	-	1	66	48	2,549	3	2,667
Total liabilities	172,698	163,297	40,860	77,389	73,082	560	527,886
At 31 December 2006							
Liabilities							
Due to other banks	2,164	73,517	13,397	5,477	974	36	95,565
Due to customers	136,980	66,309	9,194	12,234	15,077	155	239,949
Debt securities in issue	1,958	47,571	17,852	46,814	22,875	6	137,076
Other debts (incl. current tax liabilities)	2,401	7,568	702	94	56	-	10,821
Other financial liabilities at fair value through profit and loss	1	978	2,378	7,806	23,691	75	34,929
Subordinated debt	-	1	3	76	2,695	7	2,782
Total liabilities	143,504	195,944	43,526	72,501	65,368	279	521,122

The table below shows Rabobank's assets and liabilities grouped by the period remaining between the balance sheet date and the contract repayment date. These amounts correspond with the balance sheet.

Contract repayment date

In millions of euros	Less than 1 year	More than 1 year	Total
At 31 December 2007			
Cash and cash equivalents	1,374	755	2,129
Due from other banks	38,217	5,001	43,218
Trading financial assets	4,478	24,701	29,179
Other financial assets at fair value through profit and loss	8,683	9,450	18,133
Derivative financial instruments	5,424	20,665	26,089
Loans to customers	87,150	285,818	372,968
Available-for-sale financial assets	10,084	40,271	50,355
Held-to-maturity financial assets	665	194	859
Other assets (incl. current tax assets)	4,900	6,678	11,578
Total assets	160,975	393,533	554,508

Contract repayment date

In millions of euros	Less than 1 year	More than 1 year	Total
At 31 December 2007			
Due to other banks	67,755	5,673	73,428
Due to customers	223,027	26,488	249,515
Debt securities in issue	69,330	72,482	141,812
Derivative financial instruments and other trade liabilities	8,482	22,615	31,097
Other debts (incl. current tax liabilities)	7,227	3,494	10,721
Other financial liabilities at fair value			
through profit and loss	3,004	24,299	27,303
Subordinated debt	63	2,231	2,294
Total liabilities	378,888	157,282	536,170
Net liquidity surplus/(deficit)	(217,913)	236,251	18,338
At 31 December 2006			
Total assets	167,298	376,226	543,524
Total liabilities	378,679	145,165	523,844
Net liquidity surplus/(deficit)	(211,381)	231,061	19,680

The above breakdown was compiled on the basis of contract information, without taking into account actual movements in balance sheet items. 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 are also factored in. Based on the liquidity criteria of the Dutch central bank, Rabobank had a substantial liquidity surplus at 31 December 2007 and throughout 2007.

The liquidity requirements to meet payments under guarantees and stand-by letters of credit are substantially lower than the size 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 and share-based products, all of which are subject to 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 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 risks 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, delta profile limits per bucket, nominal limits and the maximum number of contracts, thus avoiding that risks that offset each other in the VaR system are overlooked.

The internal VaR model forms an integral part of Rabobank's risk management framework; it has also been approved by the Dutch central bank and is also applied to determine 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 1 day and 10 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 historic 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 1 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. Not only hypothetical scenarios but also actual scenarios are extrapolated for this purpose, such as the stock market crash of 1987 and the credit market turbulence of 1998. Complementing the VaR model with the stress test results enables Rabobank to obtain a more accurate perspective on risk positions. All results were within the relevant limits.

The table below shows the composition of the VaR of the trading and investment books, divided into several components. A diversification benefit is obtained due to the fact that opposite positions in different books partially offset each other. Paragraph 4.3 'Interest rate risk' provides analyses of the interest rate risk of non-trading portfolios. Compared to 31 December 2006, the VaR increased by nearly 25% during the year, mainly owing to a much greater volatility. By reducing positions, the VaR increase was less steep than could be assumed based on the market development.

VaR (1 day, 97.5%)

In millions of euros	Interest rate	Credit	Foreign currency	Shares	Diversification	Total
2007 – 31 December	16	28	-	5	(18)	31
2007 – average	12	23	-	5	NA	26
2007 – highest	17	29	1	10	NA	32
2007 – lowest	7	18	-	2	NA	20
2006 – 31 December	12	19	-	3	(9)	25
2006 – average	12	21	-	4	NA	28
2006 – highest	16	24	1	7	NA	32
2006 – lowest	8	18	-	2	NA	22

4.8 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 two 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 balance sheet 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 and the discount rates. 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 appropriate discounted cash-flow models and option valuation models.

Other financial assets at fair value through profit and loss. These financial assets are carried at fair value based on quoted prices in active markets 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 appropriate 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 and 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 appropriate discounted cash-flow models and option valuation models. Other financial liabilities classified at fair value through profit and loss are immune to changes in Rabobank's credit rating.

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 balance sheet 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 balance sheet 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.

	2007		2006	
In millions of euros	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	2,129	2,129	1,630	1,630
Due from other banks	43,218	43,311	49,086	48,962
Trading financial assets	29,179	29,179	36,789	36,789
Other financial assets at fair value through profit and loss	18,133	18,133	21,468	21,468
Derivative financial assets	26,089	26,089	18,992	18,992
Loans to customers	372,968	370,189	354,924	355,312
Available-for-sale financial assets	50,355	50,355	48,961	48,961
Held-to-maturity financial assets	859	931	1,489	1,562
Total assets	542,930	540,316	533,339	533,676
Liabilities				
Due to other banks	73,428	73,341	94,626	94,200
Due to customers	249,515	249,828	234,916	234,977
Debt securities in issue	141,812	142,018	128,066	127,469
Derivatives and other trade liabilities	31,097	31,097	26,694	26,694
Other financial liabilities at fair value through profit and loss	27,303	27,303	26,270	26,270
Subordinated debt	2,294	2,297	2,450	2,454
Total liabilities	525,449	525,884	513,022	512,064

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 an appropriate 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 are 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 of the second half of 2007. Modifications to assumptions might affect the fair value of held-for-sale and available-for-sale financial assets and liabilities.

The table below summarises the valuation methods used in determining the fair value of financial assets and liabilities except current financial instruments and receivables and payables arising in the normal course of business. Due to the relatively short time between their initial recognition and expected realisation, the carrying amounts of these items are a good approximation of their fair values.

Measurement of financial instruments

In millions of euros	2007 Fair value	2007 In %	2006 Fair value	2006 In %
Quoted market prices	169,854	16	163,298	16
Valuation methods based on assumptions fully supported by demonstrable market prices or rates	896,272	84	882,254	84
Valuation methods based on assumptions not supported by demonstrable market prices or rates	74	0	188	0

If other reasonable assumptions are used for the valuation of financial instruments in accordance with the valuation method based on assumptions that are not substantiated by demonstrable market prices or rates, the potential effect is 64 (2006: 89). The unrealised amount of these financial instruments taken to the income statement is small.

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

Provision day 1 profit

In millions of euros	2007	2006
Opening balance	142	98
Addition	117	68
Amortisation	(36)	(24)
Closing balance	223	142

4.9 Implications of the financial crisis

The credit market crisis has left deep scars in the financial markets over the past months, and, like other financial institutions, Rabobank is feeling its negative effects. The crisis was directly caused by increased payment problems among less creditworthy mortgagors in the United States as a result of the higher interest rate and the decline in house prices. Since many of these so-called subprime mortgages had been securitised, bundled and resold to other parties in past years, it was unclear where the risks lay, exactly. The result was a lack of confidence, making banks hesitant to lend each other money, thus causing an acute liquidity shortage in the money market. The crisis soon spread to the entire credit market. Even products totally unrelated to US subprime mortgages were affected. Many markets that, until recently, were liquid saw their liquidity vanish. This had great consequences for the valuation of positions, for if there is little or no trade in certain financial assets, it is difficult to establish their fair value. Pricing in the market became more than just a reflection of a position's credit risk - the lack of liquidity, too, was reflected strongly in the prices.

Rabobank has no direct exposure to subprime mortgages. However, Rabobank International's investment portfolios contain a limited indirect position in the form of Residential Mortgage Backed Securities (RMBSs) and Collateralized Debt Obligations (CDOs). At 31 December 2007, this position amounted to EUR 318 million. In addition, there is a year-end position of EUR 31 million in the trading portfolios.

Further, third party withdrawals were made from a liquidity facility provided by Rabobank, part of which (EUR 365 million) had been hedged with subprime-related assets and for which a EUR 51 million provision has been made for reasons of prudence.

The positions in the investment portfolios are stated at fair value. As a rule, any deviations from their cost are charged or credited to the revaluation reserve in equity. If there is reasonable doubt as to the expected interest income and repayment of the principal, a portion of the revaluation must be treated as an impairment, which is charged to profit or loss. Of the revaluation of subprime-related positions, EUR 284 million has been charged to the profit for 2007 and EUR 127 million to equity. The two tables below provide further details.

Revaluation charged to profit for 2007

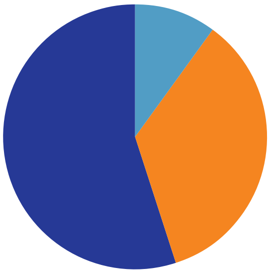
Description	Rating	Revaluation charged to 2007 profit (after tax)	Tax effect	Carrying amount at 31 December 2007	Revaluation as a % of carrying amount before revaluation
Alt-A RMBS	AAA	-	-	38	
	AA	1	1	1	
	A and lower	1	-	2	
		2	1	41	6%
Subprime RMBS	AAA	-	-	136	
	AA	5	2	19	
	A and lower	12	7	10	
		17	9	165	11%
CDO	Supersenior AAA	115	62	78	
	AAA	100	54	23	
	AA	25	13	8	
	A and lower	25	14	3	
		265	143	112	61%
Total		284	153	318	46%

Revaluation charged to equity

Description	Rating	Revaluation charged to equity in 2007	Tax effect	Carrying amount at 31 December 2007	Impact as a % of carrying amount before revaluation
Alt-A RMBS	AAA	3	1	38	
	AA	-	-	1	
	A and lower	1	1	2	
		4	2	41	12%
Subprime RMBS	AAA	16	9	136	
	AA	3	2	19	
	A and lower	5	2	10	
		24	13	165	16%
CDO	Supersenior AAA	96	52	78	
	AAA	-	-	23	
	AA	3	1	8	
	A and lower	-	-	3	
		99	53	112	23%
Total		127	68	318	21%

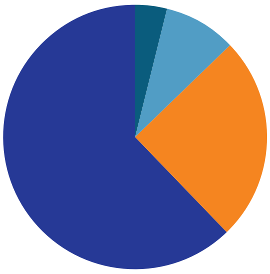
The table below provides more information about the subprime exposure at 31 December 2007 of EUR 318 million after revaluation. A breakdown is given according to type of subprime-related exposure. Although, strictly speaking, the Alt-A RMBS exposure does not match the definition of subprime, Rabobank does consider it as such.

Description	In millions of euros	%
Alt-A RMBS	41	13%
Subprime RMBS	165	52%
CDO	112	35%
Total	318	



In general, a structured product's rating is a measure of when the position will be affected by losses on the underlying assets. Losses will initially be absorbed by the lowest-rated tranches. If losses increase, higher-rated tranches will also be affected, with (Supersenior) AAA positions being the last to be affected. The term 'Supersenior AAA' refers to the fact that these positions will only be affected once remaining AAA positions have been affected. Over 87% of the exposure is AAA-rated, with only 4% being rated A or lower.

Description	In millions of euros	%
Supersenior AAA	79	25%
AAA	197	62%
AA	28	9%
A and lower	14	4%
Total	318	



To provide insight into underlying assets, the table below discloses the times of grant of the underlying subprime mortgage loans, known as their vintage. In subprime mortgage markets, the most recent vintages are considered the most vulnerable.

Vintage of underlying positions

Description	Rating	2004 and before	2005	2006	2007	Totaal
Alt-A RMBS	AAA	-	-	10	28	38
	AA	-	-	1	-	1
	A and lower	-	2	-	-	2
		-	2	11	28	41
Subprime RMBS	AAA	-	2	49	85	136
	AA	-	11	7	1	19
	A and lower	2	4	2	2	10
		2	17	58	88	165
CDO	Supersenior AAA	11	25	27	15	78
	AAA	-	19	4	-	23
	AA	-	7	1	-	8
	A and lower	-	1	2	-	3
		11	52	34	15	112
Total		13	71	103	131	318

Another effect of the credit market crisis was the discrediting of monoline insurers. At year-end 2007, exposure to monoline insurers through insured subprime-related positions was EUR 756 million. For reasons of prudence, losses of EUR 100 million have been recognised.

The credit market crisis also caused many structures that had been financed with money market paper to be difficult to finance. Examples include Asset Backed Commercial Paper (ABCP conduits) – i.e. collateralised investment vehicles – and Structured Investment Vehicles (SIVs) – i.e. off-balance sheet investment vehicles. Over the past few months, the ABCP market has started to show a split, with high-quality programmes still able to finance themselves and the lesser programmes, including SIVs, gradually disappearing from the market. Despite the crisis and thanks to its high-quality programmes, Rabobank still succeeded in refinancing its expiring commercial paper. At year-end, Rabobank Group had EUR 23 billion in ABCP outstanding, largely for the financing of its own borrowings and amounts due to customers. A relatively minor part concerns so-called securities arbitrage programmes. Since the benefits of these programmes will largely be lost as a result of the Basel II regulations in force as from 2008, Rabobank Group is considering a phase-out of these structures.

Type	Programme	Established	Amount outstanding	Underlying portfolio
Solvency management	Atlantis	1997	10.5	Own originated loans
	Neptune	1997		
Client facilitation	Erasmus	2000	5.9	Amounts due to customers
	Nieuw Amsterdam	1999		
Securities arbitrage	Tempo	Jan 2007	6.6	AAA and AA-rated asset-backed securities
	Aquinas	1999		
	Monument	2004		
	Garden			
Total			23.0	

Rabobank sponsored an SIV named 'Tango', in which it had a 10% shareholding. Since the situation regarding SIVs shows no signs of improvement in the short term, this position has likewise been phased out. After the other investors had bought out for more than EUR 5 billion in assets, the remaining Tango assets, amounting to EUR 4.8 billion, were recognised in the balance sheet in January 2008. This had no direct effect on profit or loss. After an excellent first half, results for the second half of 2007 lagged behind, particularly in the Global Financial Markets division.

4.10 Trust activities

Rabobank provides fiduciary, trustee, corporate accounting, and asset management services, as well as advisory services to third parties, as part of which it has to make decisions on the allocation, purchase and sale of a wide variety of financial instruments. Assets held in connection with fiduciary activities are not disclosed in these financial statements. For some of the arrangements, Rabobank has agreed to achieve yield targets for the assets under its management. With these services, Rabobank could be exposed to the risk of being held liable for inadequate management 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 five major business segments: Domestic retail banking, Wholesale and international retail banking, Asset management and investment, Leasing, and Real estate.

The 'domestic retail banking' business segment covers mainly the core activities of the local Rabobanks, Bizner and Obvion. Wholesale banking services are focused on the food and agri business, Telecom, Media & Internet and Trade & Commodity Finance. Rabobank's international retail activities are developed in the regions Europe, North and Latin America, Australia and New Zealand, as well as Asia. In addition, clients are served via four Internet banks. Rabobank's asset management core activities are administered by Robeco Group, Bank Sarasin, Schretlen & Co and Alex Beleggersbank, and its leasing activities are covered by De Lage Landen. The real estate division, under its new name Rabo Bouwfonds, includes FGH Bank, Rabo Vastgoed and parts of Bouwfonds.

The other business activities of Rabobank comprise a variety of segments, none of which requires separate reporting.

Inter-segment transactions are conducted in accordance with normal commercial terms and market conditions.

No other material income or expense items 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 balance sheet, 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 and investment	Leasing	Real estate	Other*	Total
For the year ended 31 December 2007							
External income	7,736	717	1,473	1,611	1,008	(1,046)	11,499
Income from other segments	(1,941)	1,829	6	(616)	(362)	1,084	-
Total income	5,795	2,546	1,479	995	646	38	11,499
Segment expense	3,980	2,208	992	694	437	140	8,451
Operating profit before tax	1,815	338	487	301	209	(102)	3,048
Income tax expense	466	(56)	125	67	55	(271)	386
Net profit for the year	1,349	394	362	234	154	169	2,662
Business unit assets	277,660	399,308	21,790	27,376	21,288	(181,477)	565,945
Investments in associates	15	607	34	17	59	3,826	4,558
Total assets	277,675	399,915	21,824	27,393	21,347	(177,651)	570,503
Business unit liabilities	260,493	390,380	19,586	25,073	20,295	(176,699)	539,128
Total liabilities	260,493	390,380	19,586	25,073	20,295	(176,699)	539,128
Additions to property and equipment	146	170	21	1,547	10	109	2,003
Depreciation and amortisation including amortisation of software	145	53	24	32	51	113	418
Value adjustments	145	493	1	100	2	1	742
Value adjustments in loans to customers							
At 1 January	1,224	774	1	221	24	5	2,249
Additional value adjustment for credit losses	158	221	1	105	3	1	489
Reversal of value adjustment for credit losses	-	(185)	-	-	-	-	(185)
Defaulting loans written off during the year	(128)	(83)	-	(94)	-	-	(305)
Interest	-	(22)	-	-	-	-	(22)
Other adjustments	44	16	2	(6)	-	-	56
Closing balance	1,298	721	4	226	27	6	2,282
Individual value adjustment (specific provision)	732	542	4	139	3	6	1,426
Collective value adjustment (collective provision)	158	38	-	27	-	-	223
General provision (IBNR)	408	141	-	60	24	-	633
	1,298	721	4	226	27	6	2,282

* Including elimination between segments for profit and loss account.

In millions of euros	Domestic retail banking	Wholesale banking and international retail banking	Asset management and investment	Leasing	Real estate	Other*	Total
For the year ended 31 December 2006							
External income	7,731	1,582	894	1,304	492	(1,954)	10,049
Income from other segments	(2,180)	1,040	(58)	(462)	(248)	1,908	-
Total income	5,551	2,622	836	842	244	(46)	10,049
Segment expense	4,016	1,820	551	571	100	279	7,337
Operating profit before tax	1,535	802	285	271	144	(325)	2,712
Income tax expense	444	115	62	65	40	(359)	367
Net profit for the year	1,091	687	223	206	104	34	2,345
Business unit assets	242,380	403,554	18,894	24,765	17,069	(153,457)	553,205
Investments in associates	12	460	11	11	56	2,700	3,250
Total assets	242,392	404,014	18,905	24,776	17,125	(150,757)	556,455
Business unit liabilities	226,552	394,688	17,238	22,670	16,377	(150,447)	527,078
Total liabilities	226,552	394,688	17,238	22,670	16,377	(150,447)	527,078
Additions to property and equipment	142	48	8	2,855	195	12	3,260
Depreciation and amortisation including amortisation of software	152	51	11	21	3	103	341
Value adjustments	139	234	-	77	(1)	1	450
Value adjustments in loans to customers							
At 1 January	1,198	901	3	189	30	36	2,357
Additional value adjustment for credit losses	145	444	-	78	-	-	667
Reversal of value adjustment for credit losses	8	(179)	-	-	(1)	-	(172)
Defaulting loans written off during the year	(156)	(283)	(3)	(72)	(3)	-	(517)
Interest	-	(22)	-	-	-	-	(22)
Other adjustments	29	(85)	-	26	(2)	(32)	(64)
Closing balance	1,224	776	-	221	24	4	2,249
Individual value adjustment (specific provision)	666	599	-	133	-	4	1,402
Collective value adjustment (collective provision)	196	44	-	24	-	-	264
General provision (IBNR)	362	133	-	64	24	-	583
	1,224	776	-	221	24	4	2,249

* Including elimination between segments for profit and loss account.

In millions of euros	Assets	Liabilities	Income from external clients	Additions to property and equipment and intangible assets	Contingent liabilities and obligations (including revocable commitments)
At 31 December 2007					
The Netherlands	375,536	353,297	11,012	1,532	55,297
Other countries in the EU zone	27,918	7,973	1,384	64	4,400
Rest of Europe (excl. EU zone)	60,692	58,146	553	339	8,729
North America	61,914	76,471	(242)	468	8,661
Latin America	7,214	2,661	480	4	486
Asia	10,863	18,841	(177)	78	3,458
Australia	26,365	19,183	464	29	3,140
Other and consolidation effects	-	2,556	(1,975)	25	-
Total	570,503	539,128	11,499	2,539	84,171
At 31 December 2006					
The Netherlands	341,455	328,832	9,634	2,257	48,834
Other countries in the EU zone	29,373	14,010	1,069	864	4,710
Rest of Europe (excl. EU zone)	73,952	64,063	802	34	8,186
North America	72,168	82,005	424	203	9,174
Latin America	5,363	2,370	298	1	692
Asia	8,145	14,901	19	1	2,413
Australia	25,999	18,467	226	78	3,528
Other and consolidation effects	-	2,430	(2,423)	570	-
Total	556,455	527,078	10,049	4,008	77,537

6 Cash and cash equivalents

In millions of euros	2007	2006
Cash	777	870
Money market loans	25	39
Deposits at central banks other than mandatory reserve deposits	763	355
Cash and cash equivalents	1,565	1,264
Mandatory reserve deposits at central banks	564	366
Total cash and cash equivalents	2,129	1,630

Mandatory reserve deposits consist of deposits with the Dutch central bank required under its minimum reserve policy. These deposits are not available to Rabobank for use in its daily business activities.

7 Due from other banks

In millions of euros	2007	2006
Deposits with other banks	9,537	10,965
Assets transferred under repurchase transactions	29,738	35,790
Loans	3,960	2,362
Other	18	17
Less: value adjustments	(35)	(48)
Total due from other banks	43,218	49,086
Breakdown of value adjustments		
At 1 January	48	64
Additional value adjustment to due from other banks	10	3
Reversal of value adjustment to due from other banks	(16)	(26)
Value adjustments	(6)	(23)
Amounts written off during the year	3	-
Other changes	(10)	7
At 31 December	35	48

8 Trading financial assets

	2007			2006		
In millions of euros	Listed	Unlisted	Total	Listed	Unlisted	Total
Purchased loans	-	2,350	2,350	-	2,059	2,059
Short-term government securities	298	-	298	187	543	730
Government bonds	2,900	70	2,970	5,050	112	5,162
Other debt securities	15,770	417	16,187	19,408	216	19,624
Equity instruments	6,662	511	7,173	3,860	1,882	5,742
Other financial assets	33	168	201	3,410	62	3,472
Total	25,663	3,516	29,179	31,915	4,874	36,789

9 Other financial assets at fair value through profit and loss

	2007			2006		
In millions of euros	Listed	Unlisted	Total	Listed	Unlisted	Total
Short-term government securities	-	61	61	-	42	42
Government bonds	223	291	514	170	141	311
Other debt securities	8,812	3	8,815	13,426	16	13,442
Venture capital	5	309	314	4	281	285
Equity instruments	6,382	-	6,382	3,460	2,346	5,806
Other financial assets	2,054	(7)	2,047	1,571	11	1,582
Total	17,476	657	18,133	18,631	2,837	21,468

The maximum credit risk of other financial assets at fair value through profit and loss is 18,133 (2006: 21,468). The cumulative change in the fair value of the financial assets that is allocable to the changes in credit risk is minor, as are the changes in the credit risk for the current year.

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 movements 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 contacts is provided in the form of cash, cash equivalents or marketable securities, and movements 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 agrees 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). Apart from specific hedging rules, 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.

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 potential decrease in the fair value of fixed-interest financial assets or a potential increase in the fair value of clients' time deposits in local as well as foreign currencies. The net fair value of these swaps at 31 December 2007 was a loss of 171 (2006: loss 287).

Rabobank hedges part of its currency risk exposure relating to available-for-sale shares with fair value hedges in the form of currency futures contracts. The net fair value of these forward currency contracts at 31 December 2007 was a loss of 251 (2006: loss 467).

For the year ended 31 December 2007, Rabobank recognised a gain of 207 (2006: gain 26) on the portion of the fair value hedges classified as ineffective.

For the year ended 31 December 2007, Rabobank recognised a gain of 2,296 (2006: gain 2,793) on the hedging instrument. The total loss on the hedged position allocable to the hedged risk is 2,089 (2006: loss 2,767).

Cash flow hedges
Rabobank makes almost no use of cash flow hedges.

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 2007 was 2 (2006: 0).

At 31 December 2007, forward contracts with a total notional amount of 2,762 (2006: 3,138) were classified as net investment hedges. These contracts produced gains totalling 143 (2006: 115), which were recognised in equity. No deductions from equity were made during the year (0). For the year ended 31 December 2007, Rabobank recognised no ineffectiveness a result of the net investment hedges.

10.3 Notional amount and fair value
Although the notional amount of certain types of financial instruments provides a basis for comparing instruments that are included on the balance sheet, 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. The notional amount is the value of the underlying asset or reference rate or index of a derivative financial instrument and forms the basis for measuring changes in the value of such instruments. 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 balance sheet. Derivative financial instruments are favourable (if passive) or not favourable (if not passive) as a result of swings 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 favourable or not favourable, and hence the total fair value of the derivative financial assets and liabilities can sometimes fluctuate significantly.

The table below shows the notional amounts and the positive and negative fair values of Rabobank's derivative contracts (including those relating to closed derivative positions / embedded derivative financial instruments).

In millions of euros	Contract/ Notional amount	Fair value Assets	Fair value Liabilities
At 31 December 2007			
Derivative financial instruments held for trading	2,223,346	23,413	22,945
Derivative financial instruments held as hedges	100,458	2,676	3,150
Short positions shares and bonds	-	-	5,002
Total derivative financial assets/liabilities recognised	2,323,804	26,089	31,097
Derivative financial instruments held for trading			
Currency derivative financial instruments			
Unlisted tradable contracts (OTC)			
Forward currency contracts	56,884	559	748
Currency swaps	230,332	3,957	5,313
Currency options	16,417	266	312
Listed tradable contracts			
Currency futures	787	-	-
Options	746	7	12
Total currency derivative financial instruments	305,166	4,789	6,385
Interest rate derivative financial instruments			
Unlisted tradable contracts (OTC)			
Interest rate swaps	1,359,413	10,822	13,170
Cross-currency interest rate swaps	(22,089)	116	(2,405)
Forward rate agreements	150,933	37	34
Interest rate options	158,050	1,527	1,541
Total OTC contracts	1,646,307	12,502	12,340
Listed tradable contracts			
Interest rate swaps	197,820	10	5
Total interest rate derivative financial instruments	1,844,127	12,512	12,345
Credit derivative financial instruments			
Credit default swaps	41,376	1,528	1,221
Total return swaps	22,144	1,613	674
Total credit derivative financial instruments	63,520	3,141	1,895
Equity instruments/index derivative financial instruments			
Unlisted tradable contracts (OTC)			
Options	7,472	895	2,146
Listed tradable contracts			
Futures	308	-	-
Options	1,627	1,666	173
Total equity instruments/index derivative financial instruments	9,407	2,561	2,319
Other derivative financial instruments	1,126	410	1
Total derivative financial assets/liabilities held for trading	2,223,346	23,413	22,945

In millions of euros	Contract/ Notional amount	Fair value Assets	Fair value Liabilities
Derivative financial instruments held as hedges			
Derivative financial instruments classified as fair value hedges			
Currency swaps	256	20	271
Interest rate swaps	76,172	2,654	459
Cross-currency interest rate swaps	24,030	2	2,420
Total derivative financial instruments classified as fair value hedges	100,458	2,676	3,150
Derivative financial instruments classified as cash flow hedges			
Interest rate swaps	-	-	-
Total derivative financial assets/liabilities classified as hedges	100,458	2,676	3,150
At 31 December 2006			
Derivative financial instruments held for trading	2,135,191	17,751	20,373
Derivative financial instruments held as hedges	58,450	1,241	1,995
Short positions shares and bonds	-	-	4,326
Total derivative financial assets/liabilities recognised	2,193,641	18,992	26,694
Derivative financial instruments held for trading			
Currency derivative financial instruments			
Unlisted tradable contracts (OTC)			
Forward currency contracts	48,298	691	787
Currency swaps	166,559	2,719	3,972
Currency options	5,083	44	42
Listed tradable contracts			
Currency futures	620	-	-
Options	-	5	16
Total currency derivative financial instruments	220,560	3,459	4,817
Interest rate derivative financial instruments			
Unlisted tradable contracts (OTC)			
Interest rate swaps	1,441,122	10,400	11,754
Cross-currency interest rate swaps	675	81	102
Forward rate agreements	87,759	50	29
Interest rate options	145,447	1,547	1,526
Total OTC contracts	1,675,003	12,078	13,411
Listed tradable contracts			
Interest rate swaps	171,007	8	5
Total interest rate derivative financial instruments	1,846,010	12,086	13,416
Credit derivative financial instruments			
Credit default swaps	31,657	292	336
Total return swaps	19,571	135	223
Total credit derivative financial instruments	51,228	427	559

In millions of euros	Contract/ Notional amount	Fair value Assets	Liabilities
At 31 December 2006			
Equity instruments/index derivative financial instruments			
Unlisted tradable contracts (OTC)			
Options	8,110	1,114	1,581
Listed tradable contracts			
Futures	722	-	-
Options	6,336	584	-
Total equity instruments/index derivative financial instruments	15,168	1,698	1,581
Other derivative financial instruments	2,225	83	-
Total derivative financial assets/liabilities held for trading	2,135,191	17,751	20,373
Derivative financial instruments held as hedges			
Derivative financial instruments classified as fair value hedges			
Currency swaps	4,446	31	498
Interest rate swaps	53,679	1,193	1,474
Cross-currency interest rate swaps	325	17	23
Total derivative financial instruments classified as fair value hedges	58,450	1,241	1,995
Derivative financial instruments classified as cash flow hedges			
Interest rate swaps	-	-	-
Total derivative financial assets/liabilities classified as hedges	58,450	1,241	1,995

11 Loans to customers

In millions of euros	2007	2006
Loans initiated by Rabobank:		
Loans to government clients:		
Leasing	513	474
Other	4,582	2,619
Loans to private clients:		
Overdrafts	10,030	9,098
Mortgages	243,636	221,037
Leasing	17,324	15,943
Receivables relating to securities transactions	14,422	28,396
Other	84,743	79,606
Gross loans to customers	375,250	357,173
Less: changes in loans to customers	(2,282)	(2,249)
Total loans to customers	372,968	354,924

In millions of euros	2007	2006
Value adjustments in loans to customers		
Value adjustments in loans to customers can be broken down as follows:		
At 1 January	2,249	2,357
Additional value adjustment for credit losses	489	667
Reversal of value adjustment for credit losses	(190)	(172)
Defaulting loans written off during the year	(305)	(517)
Interest	(22)	(22)
Other changes	61	(64)
Total value adjustments in loans to customers	2,282	2,249
Individual (specific) provision	1,426	1,402
Collective value adjustment	223	264
General provision (IBNR)	633	583
Total value adjustment	2,282	2,249
Gross carrying amount of loans whose value adjustments were established on an individual basis (specific and collective provisions)	4,198	4,355

The fair value of the collateral obtained by the bank for assets which were individually adjusted at the balance sheet date amounts to 2,397 (2006: 2,412).

During the year, Rabobank acquired financial and non-financial assets by taking possession of collateral with an estimated value of 12. In general, it is Rabobank's policy to sell these assets in the reasonably foreseeable future. Yields are allocated to redeem the outstanding amount.

Finance leases

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

In millions of euros	2007	2006
Receivables from gross investment in finance leases:		
Shorter than 1 year	6,899	6,724
Longer than 1 year but not longer than 5 years	12,326	11,364
Longer than 5 years	778	372
Total receivables from gross investment in finance leases	20,003	18,460
Unearned deferred finance income from finance leases	2,392	2,264
Net investment in finance leases	17,611	16,196
Net investment in finance leases can be broken down as follows:		
Shorter than 1 year	6,495	5,574
Longer than 1 year but not longer than 5 years	10,512	10,287
Longer than 5 years	604	335
Net investment in finance leases	17,611	16,196

The provision for finance leases included in value adjustments amounted to 226 at 31 December 2007 (2006: 221).

12 Available-for-sale financial assets

In millions of euros	2007 Listed	2007 Unlisted	2007 Total	2006 Listed	2006 Unlisted	2006 Total
Short-term government securities	669	13	682	1,052	20	1,072
Government bonds	21,343	3,706	25,049	18,701	6,723	25,424
Other debt instruments	8,143	14,409	22,552	5,654	14,060	19,714
Equity instruments	199	1,080	1,279	322	1,341	1,663
Other available-for-sale financial assets	624	169	793	968	120	1,088
Total available-for-sale financial assets	30,978	19,377	50,355	26,697	22,264	48,961

Gains and losses on available-for-sale financial assets:

In millions of euros	2007	2006
Derecognised available-for-sale financial assets	64	7

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

In millions of euros	2007	2006
Opening balance	48,962	48,644
Translation differences on monetary assets	(2,347)	(2,588)
Additions	21,423	15,919
Disposals (sale and redemption)	(16,162)	(12,151)
Changes in fair value	(1,601)	(528)
Amortisation of commission, costs and premiums and discounts	(215)	(126)
Other changes	295	(209)
Closing balance	50,355	48,961

13 Held-to-maturity financial assets

In millions of euros	2007 Listed	2007 Unlisted	2007 Total	2006 Listed	2006 Unlisted	2006 Total
Government bonds	736	-	736	1,187	-	1,187
Other debt instruments	123	-	123	302	-	302
Total held-to-maturity financial assets	859	-	859	1,489	-	1,489

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

In millions of euros	2007	2006
Opening balance	1,489	1,908
Additions	20	456
Disposals (sale and redemption)	(645)	(856)
Value adjustments	(5)	(19)
Closing balance	859	1,489

14 Investments in associates

In millions of euros	2007	2006
Opening balance	3,250	2,971
Purchases	440	-
Sales	(18)	(5)
Share of profit of associates	523	469
Dividends paid	(16)	(211)
Associates included in consolidation	-	(166)
Revaluation and other	379	192
Total	4,558	3,250

15 Intangible assets

In millions of euros	Goodwill	Software developed in-house	Other intangible assets	Total
Year ended 31 December 2007				
Net opening carrying amount	1,056	218	570	1,844
Foreign exchange differences	(56)	-	(4)	(60)
Additions	768	159	332	1,259
Acquisition/disposal of subsidiaries	-	-	45	45
Other	291	5	37	333
Amortisation and value adjustments	(13)	(114)	(111)	(238)
Net closing carrying amount	2,046	268	869	3,183
Cost	2,059	492	1,138	3,691
Accumulated depreciation				
and value adjustments	(13)	(224)	(269)	(508)
Net carrying amount	2,046	268	869	3,183
Year ended 31 December 2006				
Net opening carrying amount	154	84	14	252
Foreign exchange differences	3	-	-	3
Additions	942	178	485	1,605
Acquisition/disposal of subsidiaries	47	11	76	134
Other	(90)	6	-	(84)
Amortisation and value adjustments	-	(61)	(5)	(66)
Net closing carrying amount	1,056	218	570	1,844
Cost	1,056	408	606	2,070
Accumulated depreciation				
and value adjustments	-	(190)	(36)	(226)
Net carrying amount	1,056	218	570	1,844

In millions of euros	Acquisition date	Percentage of equity instruments with voting rights acquired	Acquisition price	Fair value	Goodwill
Year ended 31 December 2007					
Mid-State Bank & Trust	30-04-2007	100%	628	218	410
Transtrend	01-03-2007	51%	374	96	278
Sub total			1,002	314	688
Other			156	76	80
Total			1,158	390	768

The goodwill is attributable to synergy benefits that cannot be separately identified and intangible assets (brand name and customer portfolio) that have been included in goodwill because the relevant amounts are minor. These acquisitions are important strategic steps for Rabobank and contribute directly to Rabobank profit. Goodwill is allocated to cash flow-generating units for the purpose of impairment testing. These cash flow-generating units represent the lowest level at which the goodwill is monitored. Virtually no impairments of goodwill were identified in 2007 since recoverable amounts exceed carrying amounts.

The carrying amounts of the assets and liabilities of the acquired entities largely correspond to the fair values first recognised in the financial statements of Rabobank. The main differences concern separate newly-valued intangible assets (brand names, customer portfolio and so on for 151 million) and an upward revaluation of property, plant and equipment of 51 million.

The contribution of the newly acquired entities to profit for 2007 from the date of their acquisition amounts to 76 million. If the acquired entities had been consolidated for the full year, their contribution to the income of Rabobank would have been 366 million. Net of financing charges, their contribution to profit of Rabobank would have been 91 million.

16 Property and equipment

In millions of euros	Land and buildings	Equipment	Total
Year ended 31 December 2007			
Net opening carrying amount	1,867	3,155	5,022
Foreign exchange differences	(7)	(17)	(24)
Purchases	199	1,702	1,901
Acquisition of subsidiaries	66	36	102
Disposals	(44)	(494)	(538)
Depreciation and value adjustments	(195)	(175)	(370)
Other (including depreciation operational lease equipment)	88	(609)	(521)
Net closing carrying amount	1,974	3,598	5,572
Cost	3,381	6,268	9,649
Accumulated depreciation and value adjustments	(1,407)	(2,670)	(4,077)
Net carrying amount	1,974	3,598	5,572

In millions of euros	Land and buildings	Equipment	Total
Year ended 31 December 2006			
Net opening carrying amount	1,880	1,235	3,115
Foreign exchange differences	(5)	(16)	(21)
Purchases	196	604	800
Acquisition of subsidiaries	58	2,402	2,460
Disposals	(103)	(471)	(574)
Depreciation and value adjustments	(85)	(190)	(275)
Other (including depreciation operational lease equipment)	(74)	(409)	(483)
Net closing carrying amount	1,867	3,155	5,022
Cost	3,187	5,422	8,609
Accumulated depreciation and value adjustments	(1,320)	(2,267)	(3,587)
Net carrying amount	1,867	3,155	5,022

17 Investment properties

In millions of euros	2007	2006
Net opening carrying amount	1,338	768
Purchases	173	124
Acquisition of subsidiaries	17	567
Sales	(373)	(135)
Depreciation	(30)	(33)
Other	(20)	47
Net closing carrying amount	1,105	1,338
The fair value and carrying amount are practically equal.		
Cost	1,292	1,475
Accumulated depreciation	(187)	(137)
Net carrying amount	1,105	1,338

The maximum remaining maturity of investment properties is 15 years.

18 Other assets

In millions of euros	2007	2006
Receivables and prepayments	1,706	1,792
Assets held for sale	-	28
Accrued interest	2,746	2,220
Precious metals, goods and warehouse receipts	17	109
Assets in progress	3,274	2,900
Other assets	3,416	2,960
Total other assets	11,159	10,009

19 Due to other banks

In millions of euros	2007	2006
Other loans	9,898	7,634
Money market deposits	87	455
Time deposits	48,259	61,896
Other deposits	7,768	6,931
Repurchase agreements	7,416	17,710
Total due to other banks	73,428	94,626

20 Due to customers

In millions of euros	2007	2006
Savings	101,175	89,500
Current account/settlement accounts	58,815	62,168
Time deposits	55,044	46,346
Repurchase agreements	3,694	8,107
Other due to customers	30,787	28,796
Total due to customers	249,515	234,917

21 Debt securities in issue

		2007			2006	
In millions of euros	Listed	Unlisted	Total	Listed	Unlisted	Total
Certificates of deposit	-	22,319	22,319	-	22,014	22,014
Commercial paper	-	34,649	34,649	-	36,812	36,812
Bonds	76,963	3,821	80,784	63,373	3,900	67,273
Other debt securities	644	3,416	4,060	958	1,009	1,967
Total debt securities in issue	77,607	64,205	141,812	64,331	63,735	128,066

22 Other debts

In millions of euros	2007	2006
Payables	3,435	5,410
Dividends payable	121	92
Accrued interest	4,054	3,089
Other	2,908	2,058
Total other debts	10,518	10,649

23 Other financial liabilities at fair value through profit and loss

The change in the fair value of the other financial liabilities at fair value through profit and loss that is allocable to changes in Rabobank's credit risk is negligible. The accumulated change in the fair value that is allocable to changes in Rabobank's credit risk from the issue of bonds and debt securities is likewise negligible. The change in fair value that is allocable to changes in the credit risk is calculated by establishing a connection with the change in credit mark-up in the market value of bonds issued by Rabobank. The amount Rabobank is obliged to pay on the contract repayment date, discounted at the effective rate of interest, exceeds the carrying amount by 1,035 (2006: 670).

In millions of euros	2007	2006
Bonds	24,937	20,795
Other debt securities	1,329	5,194
Time deposits	1,037	281
Total other financial liabilities at fair value through profit and loss	27,303	26,270

24 Provisions

Rabobank recognised the following provisions during the year:

In millions of euros	2007	2006
Restructuring provision	348	385
Legal issues provision	414	375
Other	405	415
Total provisions	1,167	1,175
Restructuring provision		
Opening balance	385	343
Interest	-	4
Additional provisions recognised in profit and loss	52	247
Used during the year	(89)	(209)
Closing balance	348	385
Legal issues provision		
Opening balance	375	199
Additional provisions recognised in profit and loss	50	192
Used during the year	(11)	(16)
Closing balance	414	375
Other		
Opening balance	415	389
Additional provisions recognised in profit and loss	28	79
Used during the year	(38)	(53)
Closing balance	405	415
Total provisions	1,167	1,175

'Other' includes provisions for onerous contracts, credit guarantees and tax claims.

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 2007	778	381	8	1,167
At 31 December 2006	761	396	18	1,175

25 Deferred tax

Deferred tax assets and liabilities are measured for all temporary differences using the 'liability' method and an effective tax rate of 25.5% (2006: 25.5%). No deferred tax asset has been recognised for carry forwarded losses totalling approximately 835 (400). Changes in the deferred income tax account can be broken down as follows:

In millions of euros	2007	2006
Deferred tax assets		
Opening balance	1,477	1,575
(Charged)/taken to profit and loss		
– in respect of rate changes	-	(5)
– other temporary differences	(79)	1
Available-for-sale financial assets		
– remeasurement of fair value	349	(10)
Foreign exchange differences	(45)	(43)
Acquisition/(disposal) of subsidiaries	5	2
Other temporary differences	(130)	(43)
Closing balance	1,577	1,477
Deferred tax liabilities		
Opening balance	836	668
Charged/(taken) to profit and loss		
- in respect of rate changes	-	32
- other temporary differences	50	49
Available-for-sale financial assets	(83)	(99)
Foreign exchange differences	(16)	(10)
Acquisition / (disposal) of subsidiaries	51	108
Other	13	88
Closing balance	851	836

In millions of euros	2007	2006
Deferred tax assets		
Pensions and other post-employment benefits	104	156
Value adjustments	179	71
Other provisions	186	235
Hedging of interest rate risk	221	174
Carry forward losses	106	240
Intangible assets	181	292
AFS reserve	362	37
Other temporary differences	238	272
Total deferred tax assets	1,577	1,477
Deferred tax liabilities		
Intangible assets	176	28
Property and equipment including lease	368	317
AFS reserve	(31)	67
Other tempory differences	338	424
Total deferred tax liabilities	851	836

The deferred tax expense relates to the following temporary differences:

In millions of euros	2007	2006
Property and equipment	(30)	(41)
Pensions and other post-employment benefits	11	41
Value adjustments, provisions and losses on financial assets	155	53
Carry forward losses	(1)	(4)
Other temporary differences	(6)	36
Deferred tax expense	129	85

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax items relate to the same taxation authority.

26 Employee benefits

In millions of euros	2007	2006
Pension plans	386	618
Other employee benefits	555	605
Total pension liabilities	941	1,223

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 independent of Rabobank assets and are managed by the trustees of the funds. These plans 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 2007.

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

	2007	2006
Discount rate	5.5	4.6
Expected salary accrual rate	3	3
Consumer price inflation (indexation)	2.25	2.25
Expected return on investments	6.0	5.6

The expected long-term return on the Rabobank Pension Fund's portfolio depends largely on the allocation of assets among various investment categories – fixed-interest securities, shares, real estate and alternatives – as each category has its own specific projected returns. The Dutch central bank, which is the supervisory authority for the pensions industry, has set certain limits to projected returns for the various investment categories that may be disclosed as part of a continuity analysis. Based on the present asset allocation in the Rabobank Pension Fund's portfolio and the Dutch central bank's parameters, the projected long-term return is estimated at 6%.

In millions of euros	2007	2006	2005	2004
Present value of liabilities administered by funds	9,497	9,699	9,676	8,593
Fair value of plan assets	(11,013)	(10,262)	(8,739)	(7,820)
	(1,516)	(563)	937	773
Present value of liabilities not administered by funds	-	-	1	8
Unrecognised actuarial gains/(losses)	1,904	1,184	(62)	466
Unrecognised past service costs	(2)	(3)	(38)	-
Net liabilities	386	618	838	1,247

In millions of euros	2007	2006
Present value of liabilities administered by funds		
Present value of entitlements at 1 January	9,699	9,676
Acquired entitlements	236	236
Interest	468	414
Increase in entitlements during the year	404	485
Benefits paid	(200)	(140)
Transfer of accrued benefits	23	9
Pension plan changes	1	(1)
Expected present value of entitlements at 31 December	10,631	10,679
Actuarial result	(1,134)	(980)
Present value of entitlements at 31 December	9,497	9,699
Fair value of plan assets		
Fair value of assets at 1 January	10,262	8,739
Acquired plan assets	228	230
Expected income from investments	600	467
Premium contributed by the employer	496	707
Premium contributed by the employee	18	3
Benefits paid	(201)	(140)
Transfer of accrued benefits and costs	6	(10)
Expected fair value of assets at 31 December	11,409	9,996
Actuarial result	(396)	266
Fair value of assets at 31 December	11,013	10,262
The premium to be contributed to the 2008 plan is expected to be 480.		
Plan assets have been allocated as follows:		
Shares	40.5%	45.5%
Fixed-interest securities	43.0%	41.9%
Real estate	7.3%	7.1%
Alternatives	6.7%	4.4%
Cash and cash equivalents	2.5%	1.1%
Total plan assets	100%	100%

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

Actual income from investments		
Expected income from investments	600	467
Actuarial result	(396)	266
Actual income from investments	204	733

The amounts recognised in consolidated profit and loss for the year are as follows:

In millions of euros	2007	2006
Costs based on period of employment during the year	404	485
Interest on liabilities	468	414
Expected income from plan assets	(600)	(467)
Pension plan changes	-	(2)
Past service costs	1	38
Amortisation of actuarial (gains) / losses	(18)	-
Losses / (gains) on discounts / (settlements) / costs	1	22
Total cost for defined benefit plans	256	490

26.2 Other employee benefits

Other employee benefits mainly comprise early retirement liabilities, the non-active persons scheme and liabilities for future long-service awards.

27 Subordinated debt

In millions of euros	2007	2006
Trust Preferred Securities I and II	1,189	1,329
Rabobank Nederland	1,000	1,000
ACC Bank	63	63
FGH Bank	41	51
Other	1	7
Total subordinated debt	2,294	2,450

Movements in the Trust Preferred Securities I and II are stated in the table below.

In millions of euros	2007	2006
Trust Preferred Securities I and II		
At 1 January	1,329	1,483
Foreign exchange differances and other	(140)	(154)
At 31 December	1,189	1,329

In 2003, 1.75 million non-cumulative Trust Preferred Securities were issued by Rabobank Capital Funding Trust II, Delaware, a group company of Rabobank Nederland. 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 repurchased on each distribution date (once every quarter) after prior written approval is received from the Dutch central bank.

Rabobank Nederland issued a variable interest rate loan of 1,000 in 2005, with a quarterly review of the rates.

The subordinated loan of ACC Bank is a loan of 63 bearing interest at a variable rate. The loan matures in 2008.

The subordinated loan of FGH Bank NV consists of two loans, totalling 41. A loan of 40 bearing a fixed rate of interest of 6% and repayable in 2012. A further loan of 0.7 bearing a variable rate of interest and repayable in 2012.

28 Contingencies and commitments

Credit related liabilities

Credit granting liabilities represent the unused portions of funds authorised for the granting of credit in the form of loans, 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, credit granting liabilities are subject to the clients in question continuing to meet specific standards of creditworthiness. 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.

In millions of euros	2007	2006
Guarantees	8,992	7,694
Credit granting liabilities	36,323	38,290
Letters of credit	2,402	1,378
Other contingent liabilities	21	7
Total credit related and contingent liabilities	47,738	47,369

Liabilities relating to operating leases

Rabobank has taken on various operating lease contracts as lessee. The future net minimum lease payments under non-cancellable operating leases can be broken down as follows:

In millions of euros	2007	2006
Shorter than 1 year	35	9
Longer than 1 year but not longer than 5 years	113	20
Longer than 5 years	76	16
Total liabilities relating to operating leases	224	45

Payments receivable from operating leases

Rabobank has taken on 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	2007	2006
Earlier than 1 year	1,403	1,339
Later than 1 year but not later than 5 years	2,059	1,487
Later than 5 years	110	180
Total payments receivable from operating leases	3,572	3,006

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

Carrying amount of financial assets provided as security

In millions of euros	2007	2006
Due from other banks	185	3,400
Trading financial assets	2,509	860
Other financial assets at fair value through profit and loss	135	98
Loans to customers	625	9,764
Available-for-sale financial assets	35,549	12,814
Held-to-maturity financial assets	-	236
	39,003	27,172

The assets were provided to counterparties as security for (contingent) liabilities. If Rabobank remains in default the counterparties may use the security to settle the debt.

29 Equity

Equity of Rabobank Nederland and local Rabobanks

In millions of euros	2007	2006
Foreign currency translation reserve	(127)	78
Revaluation reserve for available-for-sale financial assets	489	213
Revaluation reserve for associates	164	94
Hedging reserve for cash flow hedges	1	(14)
Retained earnings	19,123	17,055
Total reserves and retained earnings at year-end	19,650	17,426

Changes in reserves were as follows:

Foreign currency translation reserve		
Opening balance	78	93
Currency translation differences emerging during the year	(205)	(15)
Closing balance	(127)	78

Revaluation reserve available-for-sale-financial assets		
Opening balance	213	184
Fair value changes	(39)	(277)
(Gains)/losses reclassified under profit	315	295
Other	-	11
Closing balance	489	213

The fair value changes include unrealised gains from available-for-sale financial assets of associates of 573 (2006: 95).

Revaluation reserve for associates		
Opening balance	94	-
Fair value changes	70	94
Closing balance	164	94

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.

In millions of euros	2007	2006
Hedging reserve for cash flow hedges		
Opening balance	(14)	1
Acquired hedging reserve	-	(12)
Fair value changes	12	(2)
Net gains/(losses) reclassified under profit	3	(1)
Closing balance	1	(14)
Retained earnings		
Opening balance	17,055	15,172
Net profit attributable to Rabobank Nederland and local Rabobanks	1,937	1,757
Other	131	126
Closing balance	19,123	17,055
Total reserves and retained earnings	19,650	17,426

30 Rabobank Member Certificates issued by group companies

Members' capital relates to the Member Certificates issued in 2000, 2001, 2002 and 2005. In 2000, Rabobank Ledencertificaten N.V. (RLC), a group company of Rabobank Nederland, issued 40 million shares. The total proceeds from this issue amounted to 1,000. In 2000, RLC granted Rabobank Nederland a 900 deep-subordinated loan with a term of 31 years.

In 2001, RLC issued an additional 60 million shares. The total proceeds of this issue amounted to 1,575. In 2001, RLC granted Rabobank Nederland a 1,350 deep-subordinated loan with a term of 30 years. In 2007, RLC granted Rabobank Nederland a third deep-subordinated loan of 250 with a term of 24 years. In 2002, RLC II issued an additional 17 million shares. The total proceeds of this issue amounted to 1,747. In 2002, RLC II granted Rabobank Nederland a 1,487 deep-subordinated loan with a term of 32 years. In 2007, RLC II granted Rabobank Nederland a second deep-subordinated loan of 165 with a term of 27 years. In 2005, RLC III issued an additional 40 million shares. The total proceeds of this issue amounted to 2,000. In 2005, RLC III granted Rabobank Nederland a 1,999 deep-subordinated loan with a term of 35 years.

At year-end 2007, the number of shares held by members and employees was 98,837,631 (98,506,903) with a net asset value of 2,533 (2,527), 16,370,436 (16,309,627) shares with a net asset value of 1,719 (1,714) and 39,537,632 (39,450,735) shares with a net asset value of 1,978 (1,973).

Subject to the prior written approval of the Dutch central bank, the loan may be repaid on 29 June 2012. The loans granted by RLC II can be repaid ahead of schedule on 29 December 2012. The loan granted by RLC III can be repaid early on 29 September 2035 and on the 29th of the third month of every quarter thereafter.

Since the proceeds of the issue are available to Rabobank on a perpetual and highly subordinated basis (also subordinate to the Trust Preferred Securities) and since in principle no distribution is made if the consolidated profit and loss account of Rabobank shows a loss for any financial year, the issue proceeds, insofar as they have been lent on to Rabobank Nederland, are recognised in equity in proportion to the number of shares held by members and employees.

The distribution per certificate in 2007 was 1.30 for RLC I, 5.15 for RLC II and 2.20 for RLC III. RLC has the right not to make a distribution.

Rabobank Member Certificates

In millions of euros	2007	2006
Changes during the year:		
Opening balance	5,808	5,811
Exchange of government bonds for		
subordinated loans to Rabobank Nederland	415	-
Rabobank Member Certificates issued		
and cancelled during the year	10	(3)
Closing balance	6,233	5,808

31 Capital securities and Trust Preferred Securities III to VI

In millions of euros	2007	2006
Capital Securities issued by Rabobank Nederland	990	-
Trust Preferred Securities III to VI issued by group companies	1,789	1,959
Closing balance	2,779	1,959

In 2007, Rabobank Nederland issued Capital Securities for USD 750,000,000 and for NZD 900,000,000. The Capital Securities are perpetual and do not mature. The distribution on the USD Capital Securities is 7% per annum, payable in arrears every six months from the date of issue of 22 October 2007, the first distribution therefore being on 22 April 2008. The distribution on the NZD Capital Securities is equivalent to the one-year swap interest rate plus a mark-up of 0.76% per annum and is payable each year on 8 October until 8 October 2017. As from 8 October 2017, the distribution will be made payable each quarter based on the 90-day bank bill swap interest rate plus the same mark-up. The distributions will be made payable at the end of each quarter, the first time being 8 January 2008.

The amount of Rabobank Nederland's net profit may affect the interest payments on the Capital Securities. In the event of insolvency on the part of Rabobank Nederland the Capital Securities are subordinated to the rights of all other (current and future) creditors of Rabobank Nederland unless the rights of those other creditors dictate otherwise.

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 trust 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 trust 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 equal to the three-month BBSW plus 0.6700% until 31 December 2014 inclusive, after which the expected distribution is equal to the three-month BBSW plus 1.6700%. The trust 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 trust 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 loans if:

(i) 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

(ii) a distribution is made on securities that are more subordinated (such as Rabobank Member Certificates and Rabobank Member Certificates II) 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	2007	2006
Changes during the year:		
Opening balance	1,959	2,092
Foreign exchange differences	(170)	(133)
Closing balance	1,789	1,959

32 Minority interests

This item relates to shares held by third parties in subsidiaries and other group companies. Movements in minority interests in 2007 mainly relate to the (de)consolidation effects of structured finance deals and conduits with third-party investors. An amount of 548 million of the movements in minority interests in 2006 relates to the full consolidation of Bank Sarasin.

In millions of euros	2007	2006
Opening balance	4,184	2,996
Net profit	303	201
Currency translation differences	(225)	(191)
Exchange of government bonds for subordinated loans to Rabobank Nederland	(415)	-
Changes in AFS revaluation reserve	(584)	85
Other	(550)	1,093
Closing balance	2,713	4,184

33 Interest

In millions of euros	2007	2006
Interest income		
Cash and cash equivalents	46	12
Due from other banks	2,936	3,359
Trading financial assets	1,483	1,499
Other financial assets at fair value through profit and loss	1,033	951
Loans to customers	21,201	16,905
Available-for-sale financial assets	2,480	1,788
Held-to-maturity financial assets	41	55
Accrued interest income on impaired financial assets	22	20
Other	114	470
Total interest income	29,356	25,059
Interest expense		
Due to other banks	4,876	5,371
Trading financial liabilities	101	142
Due to customers	9,204	6,795
Debt securities in issue	7,240	5,335
Other debts	173	185
Other	991	759
Total interest expense	22,585	18,587
Net interest	6,771	6,472

34 Fees and commission

In millions of euros	2007	2006
Fee and commission income		
Asset management	1,177	776
Insurance commission	361	387
Trust or fiduciary activities	8	-
Lending	261	247
Purchase and sale of other financial assets	517	335
Payment services	411	370
Custodial fees and securities services	45	40
Handling fees	146	149
Other transactions involving financial instruments	133	136
Other commission income	335	301
Total fee and commission income	3,394	2,741
Fee and commission expense		
Asset management	251	193
Purchase and sale of other financial assets	191	115
Payment services	6	7
Custodial fees and securities services	12	10
Handling fees	33	37
Other commission expense	44	83
Total fee and commission expense	537	445
Net fees and commission	2,857	2,296

35 Income from associates

In millions of euros	2007	2006
Profit of associates	753	556
Key figures of associates are as follows:		
Total assets at year-end	134,468	113,374
Total liabilities at year-end	115,710	99,095
Total income	29,341	25,241
Net result	1,775	1,435
Rabobank share of profit of associates	523	469
Discontinued/disposed interests	230	87
Total income from associates	753	556

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

In millions of euros	2007	2006
Debt instruments and interest rate derivative financial instruments	(610)	(315)
Equity instruments	238	506
Foreign currencies and other trading income	435	44
Total trading income	63	235
Total net income from other financial assets and liabilities	(101)	11
Total net income from financial assets and liabilities at fair value through profit and loss	(38)	246

Net income from currency trading also includes gains and losses on spot and forward contracts, options, futures and assets and liabilities denominated in foreign currencies. Trading income was depressed by widening credit spreads and by market-to-market results on subprime positions. At 31 December 2007, the subprime position in the trading portfolio was 31 million.

37 Other

As well as rent from real estate investments and income from operating leases, the item Other includes the results on effects that cannot be allocated to individual categories of the profit and loss account.

38 Staff costs

In millions of euros	2007	2006
Wages and salaries	3,219	2,792
Social security contributions and insurance costs	301	275
Pension costs for defined contribution plans	24	49
Pension costs for defined benefit plans	256	490
Other post-employment benefits	23	(29)
Other employee costs	622	540
Total staff costs	4,445	4,117

Expressed in FTEs, the average number of employees was 52,655 (48,076).

39 Other administrative expenses

This item includes office supplies, IT expenses, postage, advertising, rent, maintenance of buildings, etc.

In millions of euros	2007	2006
Other administrative expenses	2,846	2,429

40 Depreciation and amortisation

In millions of euros	2007	2006
Depreciation and amortisation	418	341

41 Value adjustments

In millions of euros	2007	2006
Due from other banks	(6)	(23)
Loans to customers	299	495
Receipts less write-offs	(32)	(31)
Credit related liabilities	1	-
Available-for-sale financial assets	477	9
Other assets	3	-
Total value adjustments	742	450

42 Taxation

In millions of euros	2007	2006
Current income tax		
– year under review	196	346
– prior years	61	(64)
Deferred tax	129	85
Taxation	386	367

The taxation on operating profit 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	2007	2006
Profit before taxation	3,048	2,712
Tax exempt income	(1,667)	(987)
Non-deductible expenses	133	106
Tax losses not recognised in prior years	(100)	(101)
Other	(296)	43
	1,118	1,773
Income tax expense based on a rate of 25.5% (2006: 29.6%)	285	525
Effect of change in tax rates	-	37
Effect of different tax rates in other countries		
and other non-recurring tax income and charges	101	(195)
Taxation	386	367

43 Acquisitions and disposals

Acquisitions and disposals of subsidiaries

There were no major disposals in 2007. The main acquisitions made in 2007 relate to Mid-State & Trust (United States), Transtrend (Netherlands), HNS Banco (Chile), Hagabank and Bank Hagakita (Indonesia) and Sustainable Asset Management (Switzerland).

The fair values of the identifiable assets and liabilities of Mid-State and the other entities acquired are as follows:

	Mid-State Bank &Trust		Other	
In millions of euros	Recognised at fair value upon acquisition	Carrying amount	Recognised at fair value upon acquisition	Carrying amount
Intangible assets	45	39	-	-
Property and equipment	78	23	24	25
Financial assets	1,613	1,624	651	649
Other assets	51	52	23	47
Total identifiable assets	1,787	1,738	698	721
Due to other banks	34	34	26	26
Other liabilities	1,535	1,525	651	616
Total identifiable liabilities	1,569	1,559	677	642
Total net equity	218	179	21	79
New identifiable intangible assets	-		151	

44 Transactions with related parties

Two parties are considered related if one 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 subsidiaries, associates, joint venture entities, shareholders and senior management, as well as transactions between subsidiaries. All these transactions were at arm's length. In accordance with IAS 24.4, transactions within the Rabobank Group are eliminated in the preparation of 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 given below:

	2007	2006	2007	2006
In millions of euros		Associates		Other related parties
Loans				
– outstanding at beginning of year	545	33	29	22
– granted during the year	-	601	-	36
– repaid during the year	-	(89)	(6)	(29)
Loans outstanding at end of the year	545	545	23	29
Due to other banks and due to customers				
– outstanding at beginning of the year	6,265	5,969	-	-
– received during the year	16	296	-	-
– repaid during the year	-	-	-	-
Deposits at 31 December	6,281	6,265	-	-
Other liabilities	91	91	(6)	18
Credit liabilities and other guarantees issued by Rabobank	2,154	1,743	18	4

	2007	2006	2007	2006
In millions of euros		Associates		Other related parties
Income				
– interest income	39	25	56	90
– commission income	61	12	114	120
– trading income	33	55	-	3
–– other	47	3	153	74
Total income from transactions with related parties	180	95	323	287
Expense				
– interest expense	84	71	76	111
– commission expense	19	24	5	4
Total expenses from transactions with related parties	103	95	81	115

45 Supervisory Board and Executive Board

The members of the Supervisory Board and the Executive Board are listed on page 74 of these consolidated financial statements. The benefits for members and former members of the Executive Board came to 10.8 in 2007 (9.8). This amount is included under staff costs. It can be broken down as follows.

In millions of euros	2007	2006
Salaries	7.1	6.6
Pension charges	1.2	1.2
Performance related benefits	2.3	1.7
Other	0.2	0.3
Total	10.8	9.8

The pension plan for the members of the Supervisory Board qualifies as a defined benefit plan.

The total benefits for members and former members of the Supervisory Board amounted to 1.4 (1.3).

At year-end 2007, loans and advances granted to members of the Supervisory Board and the Executive Board totalled 4.9 (3.9) respectively 4.0 (4.2).

46 Principal subsidiaries and associates

Name	Share	Voting rights
Subsidiaries		
Netherlands		
De Lage Landen International B.V.	100%	100%
FGH Bank N.V.	100%	100%
OWM Rabobanken B.A.	100%	100%
Obvion N.V.	50%	70%
Rabohypotheekbank N.V.	100%	100%
Rabobank Ledencertificaten N.V. I t/m III	100%	100%
Rabo Merchant Bank N.V.	100%	100%
Rabo Vastgoed B.V.	100%	100%
Rabo Bouwfonds B.V.	100%	100%
Rabo Wielerploegen B.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 Sarasin & Cie S.A.	46%	69%
North America		
Rabobank Capital Funding LCC II t/m VI	100%	100%
Rabobank Capital Funding Trust II t/m VI	100%	100%
Utrecht America Holdings Inc.	100%	100%
Australia and New Zealand		
Rabobank Australia Limited	100%	100%
Rabobank New Zealand Limited	100%	100%
Associates		
Netherlands		
Eureko B.V.	39%	39%
Equens N.V.	19%	19%
Gilde Venture Capital funds	Various	Various
Abroad		
B.G.Z. S.A.	46%	46%

47 Reverse repurchase transactions and securities borrowing agreements

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

In millions of euros	2007	2006
Due from other banks	29,738	35,790
Loans to customers	14,422	28,396
Total reverse repurchase transactions and securities borrowing agreements	44,160	64,186

Under the terms of the reverse repurchase transactions and securities borrowing agreements, Rabobank receives collateral that it can pledge or sell to third parties. The total fair value of the securities received under the terms of the agreements was 44,344 at 31 December 2007 (64,446). 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.

48 Repurchase transactions and securities lending agreements

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

In millions of euros	2007	2006
Due to other banks	7,416	17,710
Due to customers	3,694	8,107
Total repurchase and securities lending agreements	11,110	25,817

At 31 December 2007 and 2006, interest-bearing securities with a carrying amount of 11,118 and 25,981 respectively had been provided as collateral for repurchase and similar agreements. In general, the counterparty has the right to resell or repledge the securities. These transactions were performed subject to the normal conditions for standard repurchase transactions and securities lending agreements.

49 Securitisations

As part of Rabobank Group's financing activities and the reduction of 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. The carrying amount of these financial assets is 68,650 (2006: 25,813) and the corresponding liability amounts to some 69,727 (2006: 24,304).

50 Subsequent events

The sale of Alex Beleggersbank to listed internet broker BinckBank was effected early in 2008. The net gain realised on this transaction in 2008 is 276 million. The total assets and liabilities at the balance sheet date amount to 1,317 and 1,282 million respectively.

After the other investors had bought out for more than EUR 5 billion in assets, the remaining assets of the structured investment vehicle named Tango, amounting to EUR 4.8 billion, were recognised in the balance sheet in 2008.

Until now no further events after the balance sheet date have occurred.

51 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 December 31, 2007 based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) established in Internal Control – Integrated Framework. Based on that assessment, management concluded that, as of December 31, 2007, Rabobank Nederland's internal control over financial reporting is effective based on the criteria established by COSO.

Ernst & Young Accountants, which have audited the consolidated financial statements of Rabobank Nederland for the fiscal year ended December 31, 2007, have 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; their report is included on page 78.

Bert Heemskerk (H.)

Bert Bruggink (A.)

52 Approval by Supervisory Board

The publication of these consolidated financial statements was approved by the Supervisory Board on 4 March 2008.

Executive Board

Bert Heemskerk (H.), chairman
Bert Bruggink (A.)
Hans ten Cate (J.C.)
Piet Moerland (P.W.)
Sipko Schat (S.N.)
Piet van Schijndel (P.J.A.)

Supervisory Board

Lense Koopmans (L.), chairman
Antoon Vermeer (A.J.A.M.), deputy chairman
Sjoerd Eisma (S.E.), secretary
Leo Berndsen (L.J.M.)
Bernard Bijvoet (B.)
Teun de Boon (T.)
Louise Fresco (L.O.)
Marinus Minderhoud (M.)
Paul Overmars (P.F.M.)
Herman Scheffer (H.C.)
Martin Tielen (M.J.M.)
Aad Veenman (A.W.)
Cees Veerman (C.P.)
Arnold Walravens (A.H.C.M.)

Auditor's report

To the Executive Board and Supervisory Board of Rabobank Nederland

Report on the consolidated financial statements

We have audited the 2007 consolidated financial statements of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland), Amsterdam. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2007, the consolidated profit and loss account, consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and accounting policies and other explanatory notes.

Management's responsibility

Management of Rabobank Nederland is responsible for the preparation and fair presentation of the 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 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 of Rabobank Nederland, 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

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Rabobank Nederland as at 31 December 2007 and of 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 2:393 sub 5 part e of the Dutch Civil Code, we report, to the extent of our competence, that the management report is consistent with the financial statements as required by 2:391 sub 4 of the Dutch Civil Code.

Utrecht, 4 March 2008

for Ernst & Young Accountants

/s/ G.H.C. de Meris

Assurance report of Independent Auditors

To the Executive Board and Supervisory Board of Rabobank Nederland

We have performed an assurance engagement in accordance with ISAE 3000 'Assurance engagements other than audits or reviews of historical financial information' (equivalent) on management's assessment, included in the accompanying 'Management's Report On Internal Control Over Financial Reporting', that Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland) maintained effective internal control over financial reporting as of 31 December 2007, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (the COSO criteria).

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent limitations

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

Management's responsibility

Rabobank Nederland's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting.

Auditor's responsibility

Our responsibility is to conclude on management's assessment and on the effectiveness of the company's internal control over financial reporting based on the procedures performed during our assurance engagement.

We conducted our assurance engagement in accordance with Dutch law. This requires that we plan and perform the assurance engagement to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our assurance engagement included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

Based on the procedures performed we conclude that management's conclusion that, as of 31 December 2007, Rabobank Nederland's internal control over financial reporting is effective, is fairly stated, in all material respects, based on the COSO criteria. We also conclude that Rabobank Nederland maintained, in all material respects, effective internal control over financial reporting as of 31 December 2007, based on the COSO criteria.

Utrecht, 4 March 2008

for Ernst & Young Accountants

/s/ G.H.C. de Meris

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After they have been adopted, the annual report 2007, the financial statements 2007 and other information will be filed at the offices of Trade Registry of the Chamber of Commerce and Industries under number 30046259.

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

Annual Reports
Rabobank Group publishes the following Annual/ Interim Reports

- Annual Report 2007
  (in Dutch and English to be published in April 2008)
- Consolidated Financial Statements 2007
  (in Dutch and English to be published in April 2008)
- Annual Sustainability Report 2007, on the internet
  (in Dutch and English to be published in April 2008)
- Interim Report 2008
  (in Dutch and English, to be published in September 2008)

For copies of these reports please contact Rabobank Nederland: jaarverslagen@rn.rabobank.nl

All Annual Reports are also available on the internet: www.rabobank.com

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