

Newsletter Investor Relations

Issue 8 | 26 August 2009

SOLID RESULTS IN UNUSUAL TIMES

RABOBANK: NET PROFIT EUR 1.3 BILLION, TIER 1 RATIO 13%

- Net profit at EUR 1.3 billion
- Equity up 10% to EUR 37 billion
- Tier 1 ratio higher, at 13%
- Private sector loan portfolio up EUR 7 billion, at EUR 415 billion
- Bad debt costs at 55 basis points due to adverse economic conditions

"While some economists have spotted a swallow, I, for one, do not see an economic recovery yet. Many western countries are battling with recession, including the Netherlands, which is experiencing its most severe economic decline since World War II. This has created serious problems for customers, which in turn is reflected in Rabobank Group's results. Despite difficult economic conditions, Rabobank Group has achieved solid results for the first six months of 2009, with net profit at EUR 1.3 billion and an improved capital position. Our Tier 1 ratio has improved towards 13%.

In a market in which growth in both mortgage lending and corporate lending slowed down, the local Rabobanks succeeded in strengthening their market positions. More loans were extended to food & agri clients by Rabobank International and De Lage Landen. The private sector loan portfolio grew by 7 billion to EUR 415 billion. As a result of lower levels of activity among our clients in the second half of 2009, growth in lending is likely to level off further. In addition, bad debt costs are expected to continue to be higher than the long-term average. Interest income at local Rabobanks came under severe pressure owing to fierce competition in the Dutch savings market. Improved margins, accelerated execution of the Rabobank 2010 Programme and further cost reductions are therefore absolutely necessary, not only to maintain our sound capital position but also to be able to continue to service our clients well, now and in the future," says Piet Moerland, Chairman of Rabobank Group.

Rabobank Group

Net profit amounted to EUR 1.3 billion. The Tier 1 ratio was 13.0%, above the already high target level of 12.5%. Return on equity was 8.7%. Rabobank Group experienced a drop in the growth rate of both new mortgage business and corporate lending. The private sector loan portfolio grew by EUR 7 billion to EUR 415 billion. The economic downturn results in higher allowances for bad debts. Because businesses kept lower amounts of deposits at Rabobank, amounts due to customers dropped by 6% to EUR 285 billion, although savings deposits held by private individuals increased by 4% to EUR 120 billion.

Income saw a 9% rise to EUR 6.3 billion, which was attributable in particular to a strong improvement in treasury results. Thanks to a range of cost-cutting measures, operating expenses decreased by 1% to EUR 3.7 billion.

The organisation, which has about 60,000 employees (in FTEs), operates in 46 countries. The customer's interests are served based on a long-term perspective.

Domestic retail banking

As a result of the economic downturn in the Netherlands, domestic retail banking suffered from lower growth in the loan portfolio and rising bad debt costs. The business did manage to strengthen its leading position in private sector lending and the SME market. The local Rabobanks and Obvion saw a 2% rise, i.e. by EUR 6 billion, in their loan portfolio, to EUR 275 billion, with loans to SMEs increasing by 5%. Amounts due to customers were up 3% to EUR 181 billion. This influx allowed the local Rabobanks to largely fund the growth in their loan portfolios themselves. Margins on savings dropped due to fierce competition. Profit was down owing to a fall in interest income and a rise in bad debt costs. Net profit stood at EUR 486 million. More and more local Rabobanks are introducing the Rabobank 2010 Programme. This program offers options for innovation and improving customer service while cutting costs.

Wholesale banking and international retail banking

In keeping with the updated strategy, Rabobank International's lending to the Dutch corporate sector and the food & agri sector increased in the first half of 2009. Likewise, its international retail banking activities extended more loans. Lending to non-core clients was scaled down. On balance, the private sector loan portfolio for wholesale and international retail banking fell by 1% to EUR 100 billion. Services on offer for globally operating clients were broadened further. The outflow of corporate time deposits caused a drop in amounts due to customers. Income for Global Financial Markets was higher as a result of a strong increase in the client turnover as well as falling interest rates. The economic downturn led to some impairments at Participations and an increase in bad debt costs. Net profit at Rabobank International rose by EUR 354 million to EUR 428 million.

Asset management and investment

In the first half of 2009, the total inflow of assets into Robeco, Sarasin and Schretlen & Co was EUR 3 billion. The stock markets recovered slightly in that period. At the asset management division, assets under management and held in custody were up 6%, rising to EUR 195 billion, thanks to a positive cash flow and positive investment results. The net loss amounted to EUR 9 million, against a net profit of EUR 131 million a year ago, disregarding the gain recognised on the sale of Alex. The drop was related to the decline in ordinary commission income from asset management and performance-related fees.

Leasing

At De Lage Landen, Rabobank Group's leasing subsidiary, net profit fell by 58% to EUR 47 million in the first half of 2009. The global recession suppressed clients' appetite for investment and caused bad debt costs to rise. Clients had poorer credit ratings, which resulted in fewer loans being granted. Margins on new contracts improved. The loan portfolio grew by 1% to EUR 24 billion. Other income was down due to the decline in the second-hand car market.

Real Estate

Adverse conditions continued in the property market. Rabo Real Estate Group sold fewer homes due to reluctant customers. Bouwfonds Property Development sold 2,636 homes in the first six months of 2009, compared with 3,384 homes sold in the first half of 2008. FGH Bank more or less managed to stabilise the volume of its loan portfolio at EUR 17 billion, with higher margins on new loans and low bad debt costs despite the recession. Net profit for Rabo Real Estate Group was down 27%, dropping to EUR 68 million.

Insurance

The local Rabobanks sell a wide range of – mostly Interpolis – insurance products. The close ties with Interpolis were a factor in the increase in the number of Alles in één Polis insurance policies and ZorgActief Polis health insurance policies sold. The local Rabobanks sold more non-life insurance policies in the first half of 2009. This resulted in a 1% increase in commission income, to EUR 186 million, despite the drop in commissions from life insurance policies by EUR 5 million.

Risk management

The current difficult economic circumstances have proved that risk management is a core banking competency. Rabobank Group pursues a prudent risk policy that entails a moderate risk profile. Although the impact of the economic downturn could be felt, and was evident in the form of higher bad debt costs, Rabobank Group overall remained very strong in the first half of 2009. Impairment losses on illiquid assets amounted to EUR 254 million after taxation. With a Tier 1 ratio of 13%, Rabobank Group's capital position remained robust, and its liquidity position remained more than adequate. Furthermore, the full-year target volume for long-term funding had already been raised by the end of the first half of 2009.

Corporate social responsibility

Corporate social responsibility is an explicit strategic choice for Rabobank Group. CSR is applied in all core activities of its financial services as well as in its business operations.

In order to explain how we operate in the food & agri market, we have formulated five Food & Agri Business Principles.

http://www.rabobank.com/content/news/news_archive/053-Annualsustainabilityreport2008.jsp

During the first half of 2009, Rabobank International started to discuss these principles with its stakeholders. Robeco and Sarasin have also continued to integrate CSR into their asset management processes. As part of this, Robeco defined a policy for the integration of ESG (environmental, social and governance) factors into the investment process. Sarasin decided to switch to a sustainable investment style for its asset management activities, which it has offered to some of its clients since 2009. The value of assets of Rabobank Group clients that are managed in a sustainable manner continued to rise. At De Lage Landen, a Business Principles Committee advises the Executive Board on the application of CSR principles and business ethics. Rabo Real Estate Group also continued to integrate CSR into the services it provides.

Lower rate of economic contraction

The global economic slump bottomed out in the first quarter of 2009 and the rate of economic decline has since then eased in almost all countries. Nevertheless, most western economies are still in recession. We expect that the negative economic dynamics – rising unemployment and falling corporate profits – that are currently affecting many countries will continue to have an adverse effect on global economic trends in the upcoming quarters. Furthermore, it is not yet clear whether the financial system will recover sufficiently to support an economic upsurge. Although a partial upswing in world trade and industrial production might bring economic growth in the next few quarters, Rabobank's Economic bureau expects broader economic recovery to be slow in most countries until 2010.

During the first six months of the year, economic activity in the Netherlands was significantly lower across the board. We expect the situation to stabilise in the second half of the year, but a new predicament has arisen: as industry and international trade are recovering from the severe economic downturn of the previous quarters, domestic spending is still falling. Spending will remain under pressure next year as well, partly because of rising unemployment. As the global economy is expected to experience only moderate growth in 2010, next year's exports will not yet be able to provide the Dutch economy with the strong driver it so desperately needs. In short, while we still have a rocky road ahead of us, it looks as if economic activity is slowly rising, leading us out of the economic depression.

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