

# Newsletter Investor Relations

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## Rabobank Group sees profit increase in challenging times

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### Rabobank manages to meet its targets in first half of 2008:

- Net profit up 12% to record level of EUR 1,525 million
- Tier 1 ratio at 11.2%
- Return on equity at 10.7%
- Equity up to EUR 32 billion despite limited revaluations
- Income up 7%, operating expenses down 1%, efficiency ratio at 63.1%
- Negative impact of credit crisis on net profit is EUR 529 million, partially offset by higher interest results
- Exceptional income thanks to sale of Alex and consolidation of BGZ
- Good first half year performance delivered by local Rabobanks

- Private sector lending up 6% to EUR 378 billion
- Amounts due to customers up 4% to EUR 260 billion

*"We exceeded our financial targets despite the difficult situation on the financial markets. Profit continued to rise and returns remained stable. Net profit rose 12%, while return on equity stood at 10.7%. The Group continued to have an extremely robust capital position, with a Tier 1 ratio of 11.2%. The effects of the persistent turmoil on the financial markets, which caused net profit to drop by EUR 529 million, were partially offset by higher interest income and also by exceptional income thanks to sale of Alex and consolidation of BGZ.*

*The number of mortgages and corporate loans provided to clients through the local Rabobanks increased, contributing to a 6% rise in lending to EUR 378 billion. Lending also continued to grow at Rabobank International, FGH Bank, De Lage Landen and Obvion.*

*At Rabobank Group, amounts due to customers - an important source of finance during these turbulent times - were up 4% at EUR 260 billion. The local Rabobanks financed the majority of their operations through a solid increase in amounts due to customers." These are the words of Bert Heemskerk, CEO of Rabobank.*

### **Rabobank Group**

In the first half of 2008 interest income was 19% higher than in the same period last year. This reflects, to a large extent, the positive effect of the credit crisis on Rabobank's interest margin. We have the bank's low risk profile to thank for relatively favourable funding conditions on the financial markets. This was counteracted by downward pressure on trading results due to the crisis on the financial markets. At a trend-line growth of total commission income, earnings were up 7% on balance, rising to EUR 6,081 million.

Operating expenses fell 1% to EUR 3,836 million, dropping at Rabobank International in particular. Gross profit was EUR 2,245 million on balance, i.e. 24% up on the first half of 2007.

The item 'value adjustments' stood at EUR 486 million, substantially higher than in the first half of 2007, when there was no sign of the credit crunch. This item is currently affected by both bad debt expenses and downward repricing of the investment portfolio. Value adjustments amounted to 27 basis points of average lending, which was slightly above the long-term average of 24 basis points.

Net profit stood at EUR 1,525 million a 12% increase on the first half of 2007, in line with the bank's financial targets.

### **Domestic retail banking**

The local Rabobanks again delivered an excellent performance in the first half of 2008.

Net profit achieved by domestic retail banking, i.e. the local Rabobanks, Obvion and Bizner, was up 28% in the first half of 2008, rising to EUR 856 million. Private sector lending saw an increase of 5% to EUR 257 billion and amounts due to customers rose by 7% to EUR 161 billion. Savings deposits showed a remarkable increase in July 2008.

The local Rabobanks and Obvion strengthened their leading positions in the mortgage market. Rabobank Group's market share rose 2 percentage points to 30%. There was increasing competition in the savings market, despite which Rabobank Group managed to hold on to its 41% share of the savings market.

### **Wholesale banking and international retail banking**

During the first half of 2008, Rabobank International - Rabobank Group's wholesale banking and international retail banking operations - saw its net profit fall to EUR 74 million. The credit crisis led to a drop in profits at Global Financial Markets.

Exposure on subprime-related investments dropped from EUR 318 million to EUR 108 million. Global Financial Markets has decided to scale down its non-client-related operations following a reorientation.

Income from international retail banking increased by 40% to reach EUR 396 million. All regions contributed to this growth. The consolidation of Bank BGZ also contributed to earnings.

Lending grew 8% to EUR 84 billion, primarily due to an increase in lending by the international retail banking operations.

### **Asset management and investment**

Net profit on asset management activities (Robeco, Sarasin and Schretlen & Co) rose to EUR 407 million during the first half of 2008. The recognised gain on the sale of Alex was a contributing factor to this growth. The bearish stock market and the decline in value of the US dollar accounted for much of the 10% decline in assets managed and held in custody for clients to EUR 210 billion.

### **Leasing**

At De Lage Landen, Rabobank Group's leasing subsidiary, net profit rose by 3% to EUR 112 million in the first half of 2008. As a result of changes in market conditions, De Lage Landen focuses more on developing its margins than on expanding its portfolio. In addition, growth was restricted by the decline in value of the US dollar, in spite of which the lease portfolio grew by 4% in the first half of the year, reaching EUR 21.6 billion. The number of car leasing contracts increased by 2% to 203,000. De Lage Landen stepped up its presence in Europe by acquiring a Hungarian associate and opening a branch office in Portugal.

### **Real estate**

Rabobank Group's real estate subsidiary saw its net profit fall by 16% to EUR 64 million in the first half of 2008. Changes in conditions on the residential property market caused the Development division to sell fewer homes, i.e. 3,384 compared with 5,677 in the same period last year. The lending portfolio at FGH Bank saw an 18% increase, rising to EUR 15.9 billion, while at Bouwfonds Asset Management managed assets were up 32% to EUR 6.7 billion.

### **Insurance**

The local Rabobanks sell many of the insurance products offered by Interpolis. The number of All-In-One-Policies and Company

Compact Policies saw further rises thanks, in part, to the good working relationship with Eureko. Insurance commissions at domestic retail banking fell by 7% to EUR 185 million due to disappointing revenues from life insurance.

### **Economic slowdown**

The crisis on the financial markets is now over a year old. Time and again we hoped that the worst was behind us, only to be confronted with new problems and uncertainties. US residential property prices still have not hit rock bottom, and the US economy has entered into a recession from which it will recover only slowly in 2009. The United Kingdom has been hit relatively hard by the financial crisis and recession in the US, and is seeing house prices fall and a sharp slowdown in economic growth this year. Within the Eurozone there are national differences, with southern member states and Ireland suffering relatively badly. Economic growth will slow down in other parts of the world too, and since the current global slowdown in growth is accompanied by rising inflation, central banks have only limited opportunities to stimulate the economy by cutting interest rates. The Netherlands' open economy cannot avoid being affected by these developments, but, given its solid foundations and the good start to the year, we expect that despite a sharp slowdown in economic growth to around 2% in 2008, the Netherlands will continue to be at the forefront of the eurozone.

### **Banking climate**

There are pros and cons attached to the international credit crisis for Rabobank's operations. Thanks, in part, to the 'safe haven effect', the bank has a comfortable liquidity position. In addition, long-term funding at relatively attractive conditions continues to be available. The interest margin is showing signs of improvement in line with this.

Obviously, Rabobank is also experiencing adverse effects from the current crisis on the financial markets. Now that the subprime crisis is also affecting the real economy, repricing and downward revaluations did not remain confined to the relatively small subprime-related portfolio. Based on IFRS the investment portfolio of EUR 47 billion was subject to a downward revaluation of 1.7% (i.e. EUR 788 million after taxation). This minor adjustment reflects the high quality of the portfolio, which is chiefly made up of public-sector institutions and banks.

The Group's net profit growth stayed at target level on balance. Equity rose to EUR 32 billion despite the above revaluations, which was partly attributable to retained earnings and the issue of Capital Securities.

### **Outlook**

The credit crisis is expected to continue for some time yet. The economy is also showing signs of slumping. Banking in such a climate warrants caution and prudence. Rabobank is well-positioned, with our exposure to subprime-related investments being extremely low, while liquidity and solvency levels are high. Nevertheless, it is more challenging than ever to make concrete pronouncements about expected earnings for the second half of this year.

Growth in our activities means that amounts due to customers will continue to form a significant source of finance in the second half of the year. On the domestic front, we expect the savings markets to remain fiercely competitive. Tough competition will also continue to reign in the mortgage market. Financially sound margins and lower costs are key elements in the management of Rabobank Group, enabling us to continue to provide our customers with top-quality services, now and in the future.

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