

Press release

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Rabobank: 2014 a positive turning point

- **Rabobank Group realised net profit of EUR 1,842 million in 2014 (2013: EUR 2,007 million). The underlying result rose strongly in 2014 compared to 2013, when there was a net positive effect on the result from non-recurring items.**
 - **Significant cost reduction contributed to an improvement in the efficiency ratio to 62.7%.**
 - **Solvency, expressed as the common equity tier 1 ratio, improved by 0.1 of a percentage point and came to 13.6%, despite more onerous capital requirements. The capital ratio rose 1.5 percentage points to 21.3%.**
 - **The liquidity position remained strong, with a total liquidity buffer of EUR 80 billion (2013: EUR 84 billion).**
 - **Amounts due to customers were unchanged at EUR 326.5 billion. Customer savings deposits declined by 6% to EUR 142.6 billion.**
 - **Rabobank customers made extra repayments on their mortgages amounting to EUR 4 billion, a record amount. Loans to private customers accordingly fell slightly by EUR 4.3 billion to EUR 430.4 billion.**
 - **Bad debt costs were stable but still high at EUR 2.6 billion, and include the non-recurring effect of the AQR.**
- **2014 was a positive turning point for the bank in many ways:**
 - **Confidence started to return.**
 - **Serious efforts to streamline customer service (Vision 2016 programme on schedule).**
 - **Improvement programmes in compliance, risk management, audit and culture on schedule.**
 - **Review of governance initiated, to be completed in 2015.**
- **We foresee a mixed picture for 2015. A positive economic outlook on the one hand, and on the other the realisation that it will still be a difficult year for some of our customers.**

Wiebe Draijer, Chairman of the Executive Board: ‘Given the still difficult economic conditions and the developments in recent years, our financial results for 2014 are not unsatisfactory. For the future, however, they are still not sufficient. We have improved our underlying result. In 2014 Rabobank again ranked among the world’s most sound and stable banks. We passed the stress test by the ECB with good results. But we can do better.’

Last year was a positive turning point for Rabobank in many ways. The confidence of our members and customers and the public has started to return. Our 8.8 million customers, of whom 7.6 million are based in the Netherlands, have shown great loyalty to the bank, which we very much appreciate. In addition to our Vision 2016 customer programme, we devoted our full attention to improving our internal control systems. In close consultation with the regulators, we have introduced numerous improvements in the areas of compliance, risk management and audit. The process of our culture change got off to a very promising start in 2014, and we began the process of reviewing our governance. The decisions in this area will be reached in 2015. Our aim is to strengthen both our cooperation and our banking business.

Our employees in the Netherlands and abroad have been fully committed to serving our customers as effectively as possible in difficult economic conditions, and they deserve appreciation for this. Customer satisfaction rose, but further efforts to improve our customer service are still absolutely necessary. The Vision 2016 programme forms the basis for this in the Netherlands.

Our most important objective in 2015 is further work on regaining confidence and ensuring that we can meet the requirements that will be placed on us in the coming years. Our starting point is that we are a cooperative bank that is rooted in society, and that places the interests of its members and customers and their environment first. As a socially responsible organisation, Rabobank will expressly play a role in and contribute to the economic and social agenda for the Netherlands. Encouraging sustainability and entrepreneurship is part of this role.

Results in 2014

The Dutch economy recovered cautiously in 2014. We realised net profit totalling EUR 1,842 million (-8%). The underlying result improved strongly compared to 2013.

In line with the development of interest rates in the financial markets, we reduced both our mortgage rates and our savings rates. We also saw many customers make additional repayments on their residential mortgages this year. This is reflected in the development of the loan portfolio, which declined by EUR 4.3 billion to EUR 430.4 billion. Amounts due to customers remained more or less unchanged, despite a fall in savings held in the Netherlands. Customers experienced difficulties in many of the sectors in which we traditionally have a strong presence. This applied for instance to business owners in greenhouse horticulture, commercial real estate, inland shipping and non-food retail. The bank's result was affected by this. Bad debt costs continued to be high in 2014 at EUR 2,633 million. The AQR had a negative effect on bad debt costs of EUR 448 million. Bad debt costs on residential mortgages in the Netherlands remained extremely low, at 5 basis points of the average mortgage portfolio. We have seen a clear recovery in the housing

market since mid-2013, with a sharp rise in the number of residential property sales and a modest increase in the average house price. We expect this development to continue in 2015.

In terms of its rating and capital position, Rabobank was again one of the world's most sound and stable banks in 2014. We have further strengthened our capital position, which is important for our reputation as a solid bank. Our common equity tier 1 ratio and capital ratio stood at 13.6% and 21.3% respectively at the end of 2014. Rabobank also passed the stress test of the European Central Bank with good results in October 2014. The European Central Bank took over prudential supervision from De Nederlandsche Bank on 4 November 2014. We maintain a healthy capital buffer in even the worst case scenarios. We will however have to strengthen our buffers further in the years ahead in line with higher capital requirements. This will require us to look for solutions for this matter so that we can continue to meet the credit demand from our core customers.

Our costs declined significantly in 2014, partly due to the LIBOR settlements in 2013 and the deconsolidation of Bank BGZ in 2014. We succeeded in further limiting our costs in the domestic banking division. This was mainly due to the effects of our Vision 2016 customer programme. The number of employees in the domestic retail banking division fell by around 3,000 FTE to around 24,000 FTE. The efficiency ratio came to 62.6%, an improvement of 3.9 percentage points. Net profit in domestic retail banking amounted to EUR 751 million.

The result in 2014 was negatively affected by the resolution levy of EUR 321 million in relation to the nationalisation of SNS REAAL. Deferred tax assets due to past losses from our operations in Ireland contributed to a low tax burden and positively affected net profit.

The results from wholesale banking and international retail banking were mixed. We have intentionally ceased a number of activities because their risk profiles no longer fit with the bank's strategy. This has led to a greater focus on the global food and agri segment. Net profit rose by EUR 712 million to EUR 758 million. The result in 2013 was heavily pressured by the Libor settlements.

As in 2013, the leasing segment generated a healthy net profit. This was up 3% on the year, amounting to EUR 436 million. The diversification of the lease portfolio across countries and sectors in combination with the economic recovery and strict risk management contributed to the lower level of bad debt costs.

Rabo Real Estate Group still faces difficult market conditions, although the situation is improving. There was a strong increase in the number of new-build home sales. The real estate segment realised a net loss of EUR 263 million, which is EUR 551 million less than the loss in 2013. Impairments on land and revaluations of land operations were still high in 2013. Bad debt costs at real estate financier FGH Bank remained high, and pressured the result. We have decided to integrate FGH Bank within Rabobank, as part of our ambition to create one Rabobank organisation. The bringing together and streamlining of activities will increase our ability to optimally serve our commercial real estate customers.

Outlook

It appears at this time that economic growth in the Netherlands will pick up further in 2015 and that unemployment will decrease slightly. The recent sharp drop in the price of oil and the fall in the value of the euro are providing an extra boost. Due to the fact that, for the first time in years, not only exports, but also private consumption will grow in 2015, we expect all market sectors to be able to post growth.

Dutch exports will benefit from higher growth in key export markets this year. The conflict in Ukraine, tensions in the Middle East and the renewed unrest surrounding Greece will remain uncertain factors in this respect. Dutch businesses will invest more due to the recovering economy. The European Central Bank announced in early 2015 that it will purchase EUR 1,140 billion in government bonds. It is still unclear at this time whether this will provide a major impetus for the economy. The growth in investment in housing is picking up because the housing market recovery is fuelling an increase in new construction. Disposable household income will rise in 2015 for the second consecutive year. Private consumer spending will, however, rise only moderately this year because many Dutch families are still reluctant to spend. We therefore foresee a mixed picture for 2015 with a positive economic outlook on the one hand, and on the other the realisation that for some of our customers it will still be a difficult year.

Key figures

Amounts in millions of euros	31-12-14	31-12-13	%
Total assets	681,086	669,095	2
Private sector loan portfolio	430,391	434,691	-1
Amounts due to customers	326,471	326,222	0
Equity	38,871	38,534	1
Common equity tier 1 capital	28,714	28,551	1
Qualifying capital	45,139	41,650	8
Number of employees (in FTE)	48,254	56,870	-15
Total assets of Rabobank Nederland	498,469	479,235	4
			%-age points
Common equity tier 1 ratio	13.6%	13.5%	0.1
Capital ratio (BIS ratio)	21.3%	19.8%	1.5
Leverage ratio	4.9%	4.8%	0.1
Loan-to-deposit ratio	133%	135%	-2.0
	2014	2013	%
Income	12,857	13,030	-1
Operating expenses	8,055	9,760	-17
Value adjustments	2,633	2,643	0
Net profit of Rabobank Group	1,842	2,007	-8
<i>of which</i>			
<i>Domestic retail banking</i>	751	781	-4
<i>Wholesale banking and international retail banking</i>	758	46	
<i>Leasing</i>	436	422	3
<i>Real estate</i>	-263	-814	
<i>Other</i>	160	1,572	
Net profit of Rabobank Nederland	1,352	1,179	15
			%-age points
Return on tier 1 capital	5.2%	5.2%	0.0
Efficiency ratio	62.7%	74.9%	-12.2

For questions:

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More information:

The 2014 Annual Summary and the presentation are available at
www.rabobank.com/jaarverslagen (Nederlands) / www.rabobank.com/results (English).