

## ***Rabobank: economic recovery boosts profit***

**Sound financial position maintained, customer satisfaction increases**

**The increase in profit in the first half of 2015 was mainly due to the decline in loan impairment charges. The underlying profit performance emphasises the need to further improve performance, not least because of stricter capital requirements in future.**

### **Strong financial results:**

- Rabobank Group booked net profit of EUR 1,522 million in the first half of 2015 (+41%).
- The recovery in the Dutch economy contributed to a sharp fall in loan impairment charges at the local Rabobanks and at real estate subsidiary FGH Bank. This contributed to a return on tier 1 capital of 9.0% in the first half of 2015.
- The efficiency ratio improved to 60.6%. The effects of the cost-reduction measures are starting to show. Further improvements to the efficiency ratio will require continuing focus on cost control and improved income.
- Loan impairment charges fell to EUR 356 million (-70%), well below the long-term average.
- Amounts due to customers rose by EUR 1.9 billion to EUR 328.2 billion. Savings by retail customers were up 1% to EUR 143.6 billion, despite additional mortgage repayments.
- On balance, the loan portfolio increased by EUR 4.7 billion to EUR 434.4 billion, mainly due to currency effects. The economic recovery in the Netherlands has not yet led to higher demand for loans from businesses. The market share in the trade, industry and services sector in the Netherlands increased slightly.
- The result was pressured by impairment of the goodwill for RNA (California).
- In the first half of 2014, the result was reduced by EUR 214 million due to the non-recurring resolution levy in connection with the nationalisation of SNS Reaal. In the first half of this year, a charge of EUR 121 million was incurred for the contribution to the National Resolution Fund in the Netherlands. In the second half of this year, Rabobank will also need to take account of the bank tax and the contribution to the ex-ante financing of the deposit guarantee scheme.

### **Sound financial position:**

- Solvency, as measured by the common equity tier 1 ratio, came to 13.2% (1-1-2015: 13.2%). The capital ratio improved to 21.5% (1-1-2015: 20.8%).
- The liquidity position remained strong, with a total liquidity buffer of EUR 81 billion.
- Credit ratings were maintained at a high level.

**Customer satisfaction increases:**

- The Vision 2016 programme is contributing to better streamlining and virtualisation of our service provision.
- Net promotor scores are higher, but the underlying score is still below our stated ambition for customer focus.
- Product innovations: Rabo Wallet, Rabo SmartPin.
- The new mobile banking app will be launched in September 2015.

Executive Board Chairman Wiebe Draijer: ‘Our financial results increased substantially in the first half of 2015. There has been a rise in customer satisfaction and we have had to set fewer funds aside for customers facing financial difficulties. We must continue to adapt and improve to provide our customers with the best possible service both now and in the future. It is vital that we continue to reduce costs and improve income further, given the intensive competition and stricter capital requirements. We are working on adapting our governance model and are developing a new Strategic Framework. This process will be concluded in December 2015.’

‘The Dutch economy is steadily recovering. Our customers are feeling this and we can observe this in the sharp decline in loan impairment charges. Low interest rate levels have prompted Dutch customers to make additional mortgage repayments. Private consumption continues to grow, due to higher disposable incomes and improved consumer confidence. This has not yet led to a marked growth in business investment. As a consequence, lending edged down slightly in the Netherlands. In our international markets the loan portfolio increased, partly due to the depreciation of the euro.’

‘Rabobank is one of the most sound banks in the world, as reflected in the credit ratings assigned to us. Our capital position is strong and we have raised our already ambitious capital targets further. In view of the forthcoming stricter capital requirements, we are looking at ways to structure our capital and our balance sheet more effectively. We will give higher priority to improving profitability and strict control of the volume of our risk-weighted assets.’

‘Customer satisfaction rose in the first half of 2015. The appreciation score for our advisors also rose in the first half of 2015 among both retail and business customers. The Vision 2016 programme is bearing fruit. Our customers are positive about the streamlining and virtualisation of our services. The reduction in the number of employees and the associated reduction in costs are visible in our financial results. The number of employees at our domestic retail banking division fell by approximately 1,000 FTEs in the first half of 2015, with the consequences

for the employees who lost their jobs being absorbed as far as possible through additional policy measures. Staff costs were lower. We introduced a number of innovations in the first half of 2015, including the Rabo Wallet and Rabo SmartPin. We will continue to respond to changes in consumer behaviour and new technological opportunities.'

#### *Domestic retail banking*

The net profit of domestic retail banking in the first six months of 2015 amounted to EUR 1,073 million, up EUR 732 million from the first half of 2014. In the savings market, our market share was under pressure. The market share in mortgages started to pick up again, as did our market share in the trade, industry and services sector. The Dutch economy grew in the first half of 2015, reflecting increased exports and the growth of domestic spending, stimulated by the improving housing market. Business investments lagged behind economic developments and the relatively low interest rate on savings continued to prompt retail customers to make comparatively large repayments on their mortgages. Additional mortgage repayments by our customers amounted to approximately EUR 2 billion. This led to a 1% decrease of the domestic loan portfolio to EUR 287.0 billion. Amounts due to customers increased by 2% to EUR 212.4 billion. The economic recovery was clearly manifest in the development of loan impairment charges: these fell by EUR 584 million in the first half of 2015 to EUR -6 million. The decline was partly the result of the sale of assets, which led to a release of the relevant allowances.

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

An impairment of EUR 600 million was recognised on the goodwill relating to RNA (Rabobank National Association). Without this impairment, the net result of the wholesale banking and international retail banking division for the first six months of 2015 was a profit of EUR 310 million, EUR 79 million lower in comparison with the same period in 2014. Net profit from Treasury operations declined, while the result at Wholesale, Rural & Retail was higher than in the first half of 2014. Loan impairment charges increased by EUR 95 million to EUR 273 million, or 54 basis points of the average loan portfolio, which is equal to the long-term average.

#### *Leasing*

The close cooperation with partners, the specialisation in a limited number of industries and the balanced spread of its activities across several regions again led to a strong result for DLL in the first half of 2015. The leasing segment recorded net profit of EUR 247 million for the first six months of 2015, up 11% from the same period last year. The activities of DLL grew; the lease portfolio increased by

6% to EUR 34.9 billion, partly due to exchange rate effects. The share of food and agri in the lease portfolio was stable at 32%.

#### *Real estate*

The net profit of the real estate segment came to EUR 98 million. In the same period last year, there was a net loss of EUR 90 million. The higher profit is mostly due to the decline in loan impairment charges. It was announced at the start of 2015 that FGH Bank would be integrated within Rabobank as a centre of expertise for financing commercial real estate. Financing commercial real estate will continue to be an important activity for Rabobank, albeit at lower volume.

#### **Outlook**

After two years of recession, the Dutch economy returned to growth in 2014. Exports were the main driver behind this growth. Economic growth in the Netherlands will be more broadly based in 2015 and 2016, with both private consumption and private investment also contributing to the Dutch economic recovery. But there are still points of concern. The number of bankruptcies and the unemployment rate in the Netherlands remain relatively high despite a downward trend. While many of our customers now have better prospects, the damage inflicted by the crisis has not yet been fully repaired.

Low levels of private consumption have been a major weakness in the Dutch economy in recent years. Relatively high debt positions, falling house prices, government spending cuts and increases in the tax and insurance burden have resulted in decreasing or stagnating consumption over the past five years. We do, however, expect to see private consumption once again contribute to Dutch economic recovery both this year and next. House prices in the Netherlands have once again begun to rise. While we do not expect the rise in house sales in 2015 and 2016 to be as strong as in 2014, we do foresee a continued rise in Dutch house prices. As a result the number of Dutch households with mortgage debt greater than the value of their homes will decrease further. The economic recovery can also be seen in the Dutch labour market. We expect to see a further increase in employment in the private sector and consequently a decrease in the unemployment rate in the Netherlands.

We expect that our customers will continue to make relatively large repayments on their mortgages. We are consequently taking the possibility of a slight contraction of lending into account for the rest of this year. This is also expected to result in a limited decrease in amounts due to customers. As in recent years, the bank tax in the fourth quarter will constitute an additional expense, as will the contribution to the deposit guarantee scheme. We remain optimistic regarding the development of the result over the long term.

## Key figures

Amounts in millions of euros	30-06-2015	31-12-2014	%
Total assets	674,844	681,086	-1%
Private sector loan portfolio	434,362	429,731	1%
Due to customers	328,159	326,288	1%
Equity	41,402	38,871	7%
Common equity tier 1 capital	28,669	28,714	0%
Qualifying capital	46,542	45,139	3%
Number of employees (in FTEs)	46,728	48,254	-3%
Total assets of Rabobank Nederland	479,515	498,469	-4%
			<b>%-age points</b>
Common equity tier 1 ratio	13.2%	13.2% <sup>1</sup>	0.0%
Capital ratio (BIS ratio)	21.5%	20.8% <sup>1</sup>	+0.7%
Leverage ratio	5.1%	4.9%	0.2%
Loan-to-deposit ratio	132%	132%	0%
	<b>2015-I</b>	<b>2014-I</b>	<b>%</b>
Income	6,327	6,398	-1%
Operating expenses	3,833	3,946	-3%
Loan impairment charges	356	1,188	-70%
Net profit of Rabobank Group	1,522	1,080	41%
<i>of which</i>			
<i>Domestic retail banking</i>	1,073	341	215%
<i>Wholesale banking and international retail banking<sup>2</sup></i>	310	389	-20%
<i>Leasing</i>	247	223	11%
<i>Real estate</i>	98	-90	-209%
Net profit of Rabobank Nederland	623	826	-25%
			<b>%-age points</b>
Return on tier 1 capital	9.0%	6.2%	2.8%
Efficiency ratio	60.6%	61.7%	-1.1%

<sup>1</sup> On 1 January 2015 including gradual CRR adjustments. On 31-12-2014 the CET1 ratio was 13.6% and the capital ratio was 21.3%.

<sup>2</sup> Excluding impairment on the goodwill relating to RNA.