

Chairman's foreword

The credit crisis and the recession that followed had a major impact on the financial sector. 2009 was a difficult year for banks and Rabobank did not escape the consequences either. On a positive note, the local Rabobanks did manage to strengthen their position in the Dutch corporate and mortgage markets. They also attracted more savings deposits from retail clients. Rabobank International and De Lage Landen granted more loans to food and agri clients.

The poor economic situation caused growth in lending to level off, thereby repressing income growth. 2009 was a challenging year for the Dutch corporate sector. Bad debt costs at Rabobank Group were higher as a result of the economic situation and net profit was down 17% to EUR 2.3 billion. Our liquidity position remained robust and our capital position continued to improve. Our tier 1 ratio increased by 1.1 percentage point to 13.8%.

In order to sustain our profitability and capital position in 2010 as well, we will focus on excellent client services, sound margins and ongoing cost cuts.

Investing in trust

Rabobank Group delivered a solid performance in 2009 and managed to maintain its robust capital position despite the economic headwinds. At Rabobank, clients and members are our primary focus. This means that we invest in earning and maintaining the trust of our clients. We did not shy away from our responsibility and continued to grant loans to Dutch SMEs and our agri clients. Rabobank kept fulfilling its social role, pursuing a prudent risk policy and an appropriate remuneration policy. Rabobank Group attaches particularly great importance to its duty of care; clients can depend on us to offer high-quality, transparent products, provide appropriate expert advice and handle complaints properly. Clients in turn need to carefully consider their financial requirements and the risks they are prepared to accept.

Continued growth in lending

The poor economic situation led to falling demand for loans, particularly in the second half of 2009, causing growth in lending to level off. In the Netherlands, Rabobank bolstered its leading position in the mortgage market, as well as increasing its share in the corporate market. The local Rabobanks and Obvion experienced growth in lending. The lease portfolio saw an increase as well. Lending was down at Rabobank International. Private sector lending was up 2% on balance at group level, rising to EUR 416 billion in 2009.

Clients save more and benefit from recovery

The local Rabobanks received more savings deposits from retail clients. Total savings deposits were up 6% to EUR 121 billion. Robeco saw a drop in savings deposits, which was the main reason for the slight decline in Rabobank Group's share of the Dutch market. Amounts due to customers were down 6% to EUR 286 billion, due to a drop in corporate time deposits at Rabobank International.

Clients' equity investments benefited from the recovery in the stock markets after the disastrous investment year 2008. Assets under management at Robeco and Sarasin were up thanks to an inflow of assets and positive returns on equity investments. Assets under



Piet Moerland, Chairman of the Executive Board of Rabobank Nederland.

management and held in custody continued to increase at the local Rabobanks and Schretlen & Co as well. Assets under management and held in custody for clients rose by 25% to EUR 230 billion on balance.

Increase in income and group-wide focus on cost cuts

Margins on savings products fell due to fierce competition in the Dutch savings market. Margins on new mortgage loans, business loans, lease transactions and property loans recovered. Rabobank International saw its profit increase thanks to a rise in income from wholesale banking. The drop in income from asset management was due in particular to a decline in performance-related commissions at Robeco. Income was up at Rabo Real Estate Group thanks to an increase in interest income in particular. There was a group-wide focus on cost cuts. We formed a provision within the scope of the deposit guarantee scheme. The efficiency ratio improved by 3.8 percentage points on balance, landing at 61.5%. The drop in activity level led to headcount reductions at nearly all divisions.

The poor state of the economy made 2009 a difficult year for Dutch business and industry. This resulted in an increase in bad debt costs at the local Rabobanks. Also at Rabobank International and De Lage Landen bad debt costs were at a high level. At group level, bad debt costs stood at 48 basis points of average lending; the long-term average is 21 basis points. On balance, return on equity amounted to 7.5%. Retained earnings and the issue of hybrid capital instruments were to thank for a 14% increase in equity to EUR 38 billion.

Responsible banking

Rabobank has defined Food & Agribusiness Principles and a related draft value chain policy to further integrate sustainability into our lending practices in dialogue with all stakeholders. These principles were shared and discussed with clients, non-governmental organisations and other stakeholders on a global level in 2009. Rabobank also talked about the draft value chain policy with clients following which it was fleshed out.

Furthermore, we will be making our investment services more sustainable. It is Rabobank's ambition to make responsible investing part and parcel of its regular investment services. The group entities concerned – i.e. Rabobank Private Banking, Robeco, Schretlen & Co, Sarasin and Rabobank International – are bringing their investment services in further alignment with the United Nations Principles for Responsible Investment.

Rabo Real Estate Group continued to work towards investing in the future during 2009 and De Lage Landen developed several sustainable innovations in the areas of food and agri, and cleantech. The Dutch Greentech Fund and the Mainport Innovation Fund were established to encourage investments in sustainable techno start-ups. Group-wide initiatives were undertaken to promote energy efficiency and achieve climate neutrality in our operations. In 2009, local Rabobanks donated more than EUR 25 million in support of local communities.

Cautious economic recovery

The global recession ruled rampant at the beginning of 2009. The extreme stress on the financial system left deep marks on production and trade and on the transportation sector. Although 2009 will be remembered as 'the year of the great recession', most countries have now left the slump behind them. The recovery of a number of emerging economies, particularly in Asia, is remarkable. Economic recovery is much more moderate in industrialised countries.

The recovery will remain limited in these countries in 2010 also; it will certainly not be enough to make up for the contraction in the market that we have experienced over the past few years. We have governments and central banks to thank for the fact that we can even talk about economic recovery. After all, they bailed out the financial sector, citizens and businesses when they were about to topple over. This did lead, however, to high budget deficits, which caused the national debt to mount rapidly in these countries. Concerns about the solvency of businesses have been replaced by concerns about the financial soundness of governments. In 2010, governments will have to provide clarity about how they plan to reduce their soaring budget deficits. Central banks will also make the first attempts at scaling down their emergency measures.

The Dutch economy contracted by 4% in 2009 compared with 2008, the highest rate of contraction in one year ever recorded by Statistics Netherlands. There were an increasing number of business failures and the unemployment rate was up. Thanks to the recovery of the world economy, exports helped the Netherlands take the first step away from the recession in the third quarter of 2009. Domestic spending and investments were low throughout the year.

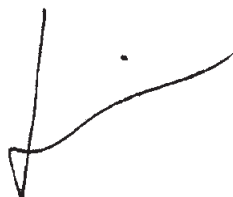
The Dutch economy will begin to show growth again in 2010, driven by an upswing in world trade. Although the unemployment rate will continue to rise, it will not go as high as initially feared. As consumers' purchasing power and, thus, consumer spending will still be weighed down, the recovery will be moderate. The Dutch property market is expected to return to calmer waters in 2010. Prices are stabilising and the number of transactions will see a slight increase.

Limited growth in lending due to low activity level and stricter regulation

Assuming that the economy will recover at a moderate pace, our clients' activity level will remain low. In addition, banks are expected to have to grapple with more stringent solvency and liquidity requirements in the future. These developments will repress growth in lending. Bad debt costs for Rabobank Group are expected to drop compared to 2009, but they will likely remain above the long-term average in 2010. In order to maintain our robust capital position, which is a precondition for upholding our client service level in the future, Rabobank Group needs to achieve sound margins and continue to focus on curbing costs in 2010. Our headcount will be aligned to the expected activity level. Costs will be reduced also by greater leveraging of virtual channels and by further process standardisation. At Rabobank, we will continue to put the interests of our clients and members centre-stage, never losing sight of our role in society.

Word of thanks to Bert Heemskerk

We said goodbye to Bert Heemskerk during the Annual General Meeting of Shareholders of 18 June 2009. The former Chairman of the Executive Board retired from the bank to enjoy his pension as of 1 July 2009. Mr Heemskerk has been a key player in the development of Rabobank Group over the past nearly seven years. I also speak for my colleagues when I express my sincere gratitude and immense appreciation for his efforts.



Piet Moerland, Chairman of the Executive Board of Rabobank Nederland