

Banking in a changing environment

The credit crisis has left deep marks on the environment within which Rabobank carries on its banking operations. Confidence in the financial sector has been adversely affected. In the Netherlands, the banking landscape has changed drastically and the economic outlook has deteriorated. Moreover, banks are facing stricter regulation in the areas of solvency and liquidity, making it harder for them to increase lending. Limits to the growth opportunities have resulted in an even greater focus on core activities at Rabobank Group.

Investing in confidence

Financial institutions around the world have had to contend with an image problem since the credit crisis began. The financial sector has been accused of not fulfilling its duties in the area of risk management, operating a bonus policy that the rest of society cannot understand, and failing to ensure that it performs its social role properly. Furthermore, the transparency of financial products had to be improved. Much of the criticism voiced in response to the credit crisis has been aimed at banking institutions that mainly operate in Anglo-Saxon nations, but there has also been criticism of European banks. The challenge for all involved is to find a way to re-establish the sector's relationship with society and politicians.

Rabobank Group has also been affected by the credit crisis, although it has maintained its sound capital position. Rabobank Group continues to enjoy the confidence of the financial world, and in particular institutional investors, as shown by its success in raising over EUR 40 billion in long-term funding at relatively favourable rates during 2009.

Rabobank will continue to invest in retaining, and where necessary regaining, the trust of its clients, particularly now the industry's image is damaged. Rabobank Group attaches great importance to its duty of care towards its clients, who can depend on it 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. By following the Dutch Ombudsman for Financial Services' recommendations concerning OpMaatHypotheek-C (to-measure mortgage), Rabobank has tried to ensure its clients ongoing confidence in the services provided by the bank.

Changing banking landscape

The Dutch banking landscape has not escaped the credit crisis unscathed. Financial institutions have been nationalised by the government, received injections of capital and/or obtained guarantees for part of their investment portfolios, while at the same time they have made use of state guarantees for issuing debt securities. Rabobank did not make any use of arrangements of this kind. The bank has been able to operate in the market entirely independent, although it should be noted that a complete level playing field can hardly be said to exist anymore in such circumstances. The biggest banks that currently receive state aid are expected to focus on the Dutch market to a significant extent, and this will lead to fiercer competition in the domestic market.

Stricter regulation

The Dutch Banking Association (NVB) has encouraged self-regulation by the banking sector with the introduction of its Banking Code. Rabobank already acted in accordance with the spirit of the code to a great extent.

Prompted by the credit crisis and the failure of self-regulation, the Basel Committee on Banking Supervision has looked at how banks are currently regulated. On balance, it seems likely that rules relating to solvency and liquidity will become considerably stricter. Rabobank Group has traditionally had a strong position in both these areas. However, extra efforts will be required in order to maintain this position in relation to new standards, since Rabobank Group aspires to maintain its high creditworthiness even when standards governing banking operations change.

Limited economic recovery

The economic circumstances in which banks operate reached a low point in 2009. Following a period during which losses on investment portfolios had to be written off due to the credit crisis, banks are now forced to form relatively substantial provisions for their loan portfolios owing to the economic crisis. This latter tendency is also visible in trends in bad debt costs at Rabobank.

The economy is expected to show some signs of recovery in 2010. However, the need to cut government spending drastically will limit economic growth in the next few years. The steps that are expected to be necessary to boost banks' balance sheets and improve solvency and liquidity will restrict the extent to which banks will be able to lend in the coming years, and as a consequence the extent to which the economy can recover will also be limited.

Changing social environment

As far as corporate social responsibility is concerned, civil society organisations and the media are more vigilant than ever, raising questions, demanding transparency, entering into dialogues and conducting campaigns. Key issues that have been discussed concern remuneration policy, diversity, animal welfare, the arms industry and the role played by banks in relation to new forms of energy. Rabobank has opted for engagement, joining forces with clients to look for ways in which its business operations, nature, the environment and social justice can be brought into balance. Here, the aim of Rabobank Group is to be one of the world's leading sustainable banks.

Greater strategic focus

The opportunities for expansion open to Rabobank Group have become more restricted than ever before. In view of developments, Rabobank Group is increasing its strategic focus on its core activities. These centre on the operations of the local Rabobanks, which are at the heart of the organisation and perform the primary task of providing customer value to members and clients. Rabobank Group will continue to closely monitor any developments.

The bank's strategic starting points are its cooperative identity, its ambition to become the Dutch market leader in all-finance services and an international food and agri bank, the retention of a high credit rating, and high standards in respect of CSR policy. It has therefore set the following core objectives:

- become the Dutch all-finance market leader (or retain this position, as appropriate);
- build on its position as the world's leading international food and agri bank;
- achieve greater commercial synergy with subsidiaries.

Since Rabobank Group needs an adequate tier 1 ratio and stable profit growth in order to maintain its high credit rating and be able to serve members and clients on an ongoing basis, it has set the following long-term financial targets:

- a tier 1 ratio of at least 12.5%;
- a minimum return on equity of 8%;
- 10% net profit growth.

Adjusting the target return on equity from 10% to 8% is in keeping with the increase in our capital position that we wanted to bring about since 2008, the anticipated lower growth in lending, and the shift towards activities with a more moderate risk/return profile.