

Press release

9 March 2005



Rabobank Group satisfied with 2004 annual results

SUCCESSFUL RESULT IN MODERATE ECONOMIC YEAR

- Net profit 2004 up 12%
- Income up 11%
- Expenses up 8%
- Savings up 9%
- Private sector lending up 7%
- Tier I ratio 11.4

Rabobank Group is highly satisfied with the financial results achieved in the past year. “Despite the uncertain economic recovery, we achieved a successful result”, said Bert Heemskerk during this morning’s presentation of the 2004 annual results. The net profit of Rabobank Group rose by 12% to EUR 1,536 million, which is in line with the long-term target. The Group performed well in all sectors.

According to Heemskerk, “This handsome result was mainly achieved by a strong growth of total income. Although the interest income was under pressure, total income increased by 11%. Virtually all Group entities reported growth in income.”

Heemskerk is positive about 2005. “Barring unforeseen circumstances, I expect we will be able to sustain the upward trend in the long-term development of our results.” Rabobank is optimistic about the economic recovery. “I expect the economy to grow further, albeit slightly, with export growth levelling off and a further recovery of domestic spending. Rabobank Group can benefit from this,” said Heemskerk.

In 2005, Rabobank will report under International Financial Reporting Standards for the first time.

Financial services

	Change	Volume
Total assets	+ 18%	EUR 475 billion
Banking		
Private sector lending	+ 7%	EUR 253 billion
Funds entrusted	+ 11%	EUR 192 billion
Investments		
Assets managed and held in custody	+ 6%	EUR 195 billion
Number of orders in the Netherlands	- 2%	5.6 million
Insurance		
Insurance premium income	+ 3%	EUR 4 billion
Income from services	- 5%	EUR 265 million
Leasing		
Leasing portfolio	+ 6%	EUR 13 billion
Real estate		
Loans portfolio	+ 58%	EUR 6.5 billion
Land portfolio	+ 6%	1,790 hectares

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Communication Department, P.O. Box 17100, 3500 HG Utrecht, tel. (030) 216 39 04, fax (030) 216 19 16,
www.rabobankgroep.nl

Financial results

	Change	Volume
Income	+ 11%	EUR 10,055 million
Operating expenses	+ 8%	EUR 6,732 million
Efficiency ratio		67.0%
Operating profit before taxation	+ 20%	EUR 2,809 million
Net profit	+ 12%	EUR 1,536 million
Return on equity		10.1%
BIS ratio		11.4
Tier 1 ratio		11.4

Income

In 2004, Rabobank Group's total income increased by 11% on 2003 to EUR 10,055 (9,018) million. Income was boosted by acquisitions and an accounting policy change at Interpolis. Organic income growth was 7%. Interest income of EUR 6,249 (5,956) million was 5% higher. The levelling-off of growth is attributable to a further decline in the interest margin, due to fierce competition in the mortgages and savings market and the closing gap between short-term and long-term interest rates. In addition, many clients had repaid their mortgages prematurely in previous years because of the low interest rates in the capital markets and had then refinanced them at a lower interest rate. In the short term, this yields extra income from penalty interest, but lower interest income in the longer term. The effects of these developments were felt in 2004. In the year under review, total commission increased by 14% to EUR 2,112 (1,852) million. Results on financial transactions were 84% higher, at EUR 312 (170) million. The increase is especially due to favourable results on the trading portfolio.

Expenses

Operating expenses rose by EUR 489 million in 2004 to EUR 6,732 million, an 8% increase. Adjusted for non-recurring charges for provisions and acquisitions, organic growth in expenses was 4%. Staff costs of EUR 4,029 (3,770) million were 7% higher, partly because of higher pension additions. Other administrative expenses increased by EUR 234 million to EUR 2,335 (2,101) million, a rise of 11%. The majority of the increase was attributable to a EUR 120 million provision for restructuring programmes within Rabobank Nederland.

Value adjustments to receivables

In 2004, the provision for doubtful debts decreased by EUR 50 million to EUR 525 million. The ratio in relation to the average risk-weighted assets of the banking activities improved by 6 basis points to 29 basis points.

Operating profit before taxation

Operating profit before taxation of EUR 2,809 (2,348) million was 20% higher. All business units contributed to the growth in this result.

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Taxation

In the year under review, taxation amounted to EUR 957 million, which corresponds to a tax burden of 34.1%. This item reflects the lowering of the Dutch corporate income tax rate from 34.5% to 31.5% in 2005. Deferred tax assets, including on the Fund for general banking risks, have been adjusted accordingly.

Net profit up 12%

Net profit increased by EUR 166 million to EUR 1,536 million, a rise of 12%.

Financial objectives

In 2004, Rabobank Group met its long-term financial objectives. These are: net profit growth of at least 12%, a Tier I ratio of at least 10.0 and a return on equity of at least 10%. The Tier I ratio handsomely exceeded the target, thanks in particular to the issue of Trust Preferred Securities.

LENDING

Rabobank Group's total loans portfolio, which comprises lending to the private sector, lending to the public sector and professional securities transactions, grew by 10% in 2004 to EUR 276.2 (250.8) billion.

Lending to the private sector (53% of total assets) increased by 7% to EUR 253.0 (235.4) billion. Lending to the public sector was unchanged at EUR 2.2 billion. The volume of professional securities transactions grew to EUR 21.0 (13.2) billion.

Lending by Group entity

Of total loans to the private sector, EUR 184.1 (167.7) billion was granted by the domestic retail banking operations. Their share of total lending was 73%. The combined wholesale and international retail banking operations granted loans amounting to EUR 46.8 (47.3) billion, 18% of the total. The other Group entities, including De Lage Landen and FGH Bank, accounted for the remaining 9% of lending, which amounted to EUR 22.0 (20.4) billion.

Lending by sector

Lending to the private sector can be broken down between private individuals, trade, industry and services and food & agri.

Private individuals

Total lending to private individuals increased by 12% to EUR 131.6 (117.5) billion. The bulk consists of mortgages and has been granted in the Netherlands. Likewise, the domestic mortgage portfolio grew by 12% to EUR 124.9 (111.2) billion. Abroad, lending to private individuals increased by a substantial 47% growth, although its volume is as yet relatively small.

Trade, industry and services

Total lending to the trade, industry and services sector (TIS) was 2% higher at EUR 83.1 (81.3) billion. Loans granted by the domestic retail banking operations to small and medium-sized enterprises in the TIS sector grew by 5% to EUR 37.7 (35.8) billion. Loans

granted by the wholesale banking business to large TIS enterprises decreased by 4% to EUR 29.2 (30.5) billion. Lending by the other Group entities to the TIS sector was 8% higher at EUR 16.2 (15.0) billion.

Food & agri

Total lending to the food & agri sector amounted to EUR 38.4 (36.6) billion at the end of 2004, a rise of 5%. This growth came mainly from the domestic market. The volume of lending to the food & agri sector abroad was virtually unchanged, at EUR 15.2 billion, partly because of the weaker dollar. Lending to the horticultural and the wheat/rice sector increased. Loans granted by the domestic retail banking operations to agricultural and horticultural businesses increased by 8% to EUR 20.1 (18.7) billion, with a marked increase in lending to the horticultural sector in particular. Lending by the other Group entities to the food & agri sector increased by 12% to EUR 3.0 (2.7) billion.

FUNDS ENTRUSTED

Funds entrusted, comprising savings, professional securities transactions and other funds entrusted, grew by 11% to EUR 192.1 (172.6) billion. At year-end 2004, the professional securities transactions amounted to EUR 4.1 (3.3) billion. Other funds entrusted increased by 13% to EUR 110.3 (97.7) billion, largely due to the growth in deposits.

Savings

Rabobank Group's savings accounts increased by 9% to EUR 77.7 (71.6) billion. The share of Internet saving in the total savings amount grew from 33% to 42% in 2004.

The savings market in the Netherlands grew by 8% in 2004 to EUR 199.7 billion as the economic uncertainty caused many consumers to place their money in a savings account. Despite strong competition in the savings market, Rabobank Group, which is the market leader, extended its market share to 39 (38)% in 2004. The market share of the local banks was 36.1% and Roparco's was 2.5%.

ACCOUNTING POLICY CHANGES

Income from investments

Until 2004, Interpolis' income from investments in shares and property was recognised using the indirect return method. This result was based on average yields over many years. As from 2004, the result from investments is recognised directly in Interpolis' profit and loss account. The new method is in line with International Financial Reporting Standards (IFRS). The change in accounting policy does not affect equity. Its consequences are reflected in the profit and loss account as reclassifications only. The effect on net profit for 2003 was nil. The figures for 2003 have been restated for comparative purposes.

Trust Preferred Securities

In line with developments in the interpretation of the IFRS rules, it has been decided to classify the Trust Preferred Securities of EUR 2,037 million, issued in 1999 and 2003, as subordinated loans as from 1 January 2004 instead of as reserves. Consequently, the

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Communication Department, P.O. Box 17100, 3500 HG Utrecht, tel. (030) 216 39 04, fax. (030) 216 19 16,
pressoffice@rn.rabobank.nl

payment due on the Trust Preferred Securities will be charged to the profit and loss account as from 2004 (previously part of profit appropriation). The figures for 2003 have been restated for comparative purposes. As a result, interest expense increased by EUR 54 million in 2003 and by EUR 123 million in 2004, while the tax charge decreased by EUR 21 million and EUR 42 million, respectively. The change in accounting policy does not affect either the Tier I ratio or the BIS ratio. On account of other conditions, the Trust Preferred Securities issued in the year under review qualify as Group equity.

DOMESTIC RETAIL BANKING

Results (in EUR millions)	2004	2003	change
Interest	4,309	4,193	3%
Commission	1,022	935	9%
Other income	67	45	49%
Total income	5,398	5,173	4%
Staff costs	1,666	1,680	-1%
Other operating expenses	1,909	1,800	6%
Total expenses	3,575	3,480	3%
Gross result	1,823	1,693	8%
Value adjustment to receivables	299	214	40%
Operating profit before taxation	1,524	1,479	3%

Balance sheet (in EUR billions)			
Total assets	201.8	183.8	10%
Volume of lending	184.1	167.7	10%
Savings	71.9	65.8	9%
Total risk weighted assets	124.7	116.1	7%

Risk-related costs (in basis points)	25	19	32%
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FTEs	28,970	29,874	-3%
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Despite the poor economy, domestic retail banking operations – the bulk of which is performed by the local Rabobanks – held up well in 2004, although the result was under pressure due to higher additions to provisions for loan losses. Gross result improved by 8% to EUR 1,823 (1,693) million and the operating profit before taxation was 3% higher at EUR 1,524 (1,479) million.

Income

Income was up 4% at EUR 5,398 (5,173) million, but lagged behind the previous years' growth as well as the growth in lending. The main reason for this is a clearly tighter interest margin. Many clients repaid their mortgages prematurely in previous years because of the low interest rates in the capital markets and then refinanced them at a lower interest rate. This yields extra income in the short term, but lower interest income in the longer term.

Expenses

Operating expenses increased by EUR 95 million to EUR 3,575 (3,480) million, a rise of 3%. The increase is mainly due to higher other operating expenses on account of investments in a new electronic marketing system.

In the year under review, the efficiency ratio was 66.2% (67.3).

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Value adjustments to receivables

The item value adjustments to receivables grew by EUR 85 million to EUR 299 million. The increase is due to the economic situation, which remains less than satisfactory, and the high number of bankruptcies in the Netherlands. In relation to the average risk-weighted assets, risk-related costs were 25 (19) basis points.

Lending

The loans portfolio of the domestic retail banking operations grew by 10% to EUR 184.1 (167.7) billion.

Loans to private individuals increased by 12% to EUR 126.3 (113.2) billion. Despite the poor economy, the mortgage market developed favourably. In the year under review, mortgage lending went up 12% to EUR 124.9 (111.2) billion. Even though its market share declined slightly to 25.2% (25.7%), Rabobank Group remains the clear market leader in the Dutch mortgage market.

Lending to corporate clients increased by 6% to EUR 57.8 (54.5) billion. On 31 December 2004, domestic retail banking operations had EUR 37.7 (35.8) billion in outstanding loans to small and medium-sized enterprises in the trade, industry and services sector. This represents a 5% increase on last year. Lending to non-profit organisations and the building sector showed the strongest growth. Fewer loans were granted to businesses in the healthcare sector. The local Rabobanks – market leader in all subsectors of the Dutch small and medium-sized enterprises (SME) sector – succeeded in expanding their total SME market share to 40% (39%). Loans outstanding to businesses in the agricultural sector increased by 8% to EUR 20.1 (18.7) billion, with particularly strong growth in lending to the horticultural sector.

WHOLESALE BANKING + INTERNATIONAL RETAIL BANKING

Results (in EUR millions)	2004	2003	change
Interest	1,115	1,120	0%
Commission	376	315	19%
Other income	671	519	29%
Total income	2,162	1,954	11%
Staff costs	675	598	13%
Other operating expenses	445	369	21%
Total expenses	1,120	967	16%
Gross result	1,042	987	6%
Value adjustment to receivables	138	284	-51%
Value adjustment to financial fixed assets	4-	54	-107%
Operating profit before taxation	908	649	40%

Balance sheet (in EUR billions)			
Total assets	329.1	257.6	28%
Volume of lending	46.8	47.3	-1%
Total risk weighted assets	42.3	38.8	9%

Risk-related costs (in basis points)	35	76	-54%
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FTEs	5,499	5,252	5%
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Operating profit before taxation for 2004 of the Dutch and international wholesale banking operations, including the integrated international retail banking operations, was up 40% on 2003, at EUR 908 (649) million. Apart from higher income, this strong increase was mainly due to the significant decrease in value adjustments to receivables.

Income

Total income increased by 11% to EUR 2,162 (1,954) million. Good results from the sale by Gilde of a number of participating interests boosted income from securities and participating interests.

Income from Corporate Finance declined by EUR 13 million to EUR 294 million. Income from Global Financial Markets was 9% higher at EUR 531 (487) million, due in part to structured products such as Asset Backed Inflation Bonds. Income from Equities rose by EUR 27 million to EUR 105 million, mainly reflecting the improved equities climate and the stronger demand from investing retail clients for guarantee products. Income from international retail operations amounted to EUR 370 (285) million in 2004, representing 17% of total income.

Expenses

Total expenses were 16% higher at EUR 1,120 (967) million. The increase is mainly attributable to higher staff costs and higher operating expenses as a result of strong growth in international retail operations.

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Value adjustments to receivables

As a result of the recovery of the world economy and the release of provisions, value adjustments to receivables improved by EUR 146 million to EUR 138 million. In relation to the average risk-weighted assets, risk-related costs were 35 (76) basis points.

Lending

The total loans portfolio of the combined wholesale and retail operations was 1% lower at EUR 46.8 (47.3) billion. The volume decline is due to currency exchange movements. Expressed in local currencies, there was a slight increase, mainly as a result of growth in international retail operations.

Loans granted by the international retail operations – which now make up 28% of the total portfolio of the combined wholesale and international retail operations – were 30% higher at EUR 13.2 (10.1) billion. The biggest increase was at ACC Bank (in Ireland), where lending grew by more than 50%. Retail operations in Australia/New Zealand and the US grew by 16% and 22%, respectively.

Lending to the international food & agri sector – 32% of the total - was unchanged from 2003, at EUR 15.2 billion. Lending to the trade, industry and services sector fell by 4% to EUR 29.2 (30.5) billion.

The Netherlands accounts for 33% of the total loans portfolio. The rest of Europe accounts for 25%, compared with 20% at the end of 2003. The increase in Europe is largely attributable to the increased lending at ACC Bank.

ASSET MANAGEMENT AND INVESTMENTS

Results (in EUR millions)	2004	2003	change
Interest	87	89	-2%
Commission	512	445	15%
Other income	74	120	-38%
Total income	673	654	3%
Staff costs	285	274	4%
Other operating expenses	191	210	-9%
Total expenses	476	484	-2%
Gross result	197	170	16%
Value adjustment to receivables		2-	
Operating profit before taxation	197	172	15%

Assets managed and held in custody (in EUR billions)	195	184	6%
For third parties	140	132	6%
Investment portfolio	55	52	6%

Number of orders	5.6	5.7	-2%
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FTEs	1,886	1,988	-5%
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Operating profit before taxation from asset management and investments increased by 15% last year, to EUR 197 (172) million.

Income

Income was 3% higher at EUR 673 (654) million. The increase is due to higher commission, partly offset by lower results from financial transactions and lower income from securities and participating interests.

Expenses

Operating expenses fell by 2% to EUR 476 (484) million. Staff costs rose 4% to EUR 285 (274) million. The cost control policy yielded results, as evidenced by the 9% fall in other operating expenses to EUR 191 (210) million, partly due to lower IT costs.

Assets managed and held in custody

Assets managed and held in custody by Rabobank Group increased by 6% in 2004 to EUR 195 (184) billion. Of this total, EUR 55 (52) billion was from the Group's own funds and EUR 140 (132) billion was from assets managed and held in custody for clients. The increase in the assets managed on behalf of clients is the result of EUR 8 billion in investment returns plus EUR 3 billion from the inflow of new assets, less EUR 3 billion due to the weaker dollar.

Orders

The number of securities orders handled by the Rabobank Group fell by 2% to 5.6 (5.7) million. A clear shift was seen in 2004 away from securities and towards in-house funds. At the local banks, there was a decline in the number of securities orders, which was almost wholly offset by an increase in the number of orders for in-house funds. The number of orders handled by Alex went down mainly due to fewer futures transactions. For Robeco Group, the number of transactions in the Netherlands increased, due to growing interest in in-house funds.

INSURANCE

Results (in EUR millions)	2004	2003	change
Operating profit before taxation	308	238	29%
Result from operations	241	118	104%
Result from investments	67	120	-44%
Premium income	4,012	3,893	3%
Life insurance	2,319	2,436	-5%
Non-life insurance	1,498	1,278	17%
Reinsurance	195	179	9%
Income from services	265	279	-5%
Pension services	127	118	8%
Occupational health & safety and reintegration	98	128	-23%
Other	40	33	21%
Solvency	189%	174%	
FTEs	5,173	5,328	-3%

In 2004, Rabobank Group's insurance subsidiary Interpolis turned in an operating profit before taxation of EUR 308 (238) million. This result consists of operational results and investment returns.

Result from operations

In 2004, result from operations was 104% higher at EUR 241 (118) million. The increase was mainly due to the result of EUR 108 (42) million from non-life insurance activities. Lower claims, particularly because of favourable weather conditions, positive claim results from previous years, higher premiums from companies and lower staff costs all contributed to this. Results on operations from life insurance activities (excluding pension insurance) increased by EUR 23 million to EUR 94 million.

Result from investments

The realised price gains and losses on investments in shares and property were EUR 67 million in 2004, compared with EUR 120 million in 2003. The large difference between 2003 and 2004 reflects not so much the mediocre stock exchange performance in 2004, but rather the stock exchange recovery that set in in 2003. At the end of 2002, the actual share prices were lower than their cost prices and the difference was charged to income. Subsequent price gains in 2003 up to the cost price level were as a result credited to income. This led to a much better result from investments in 2003.

Reserves and solvency

At 31 December 2004, Interpolis' reserves were EUR 1.5 billion, compared with EUR 1.3 billion a year earlier. The increase had two causes: the positive results in the year under review and the increases in value of the investments in shares and property. The latter were due in particular to developments in the stock markets outside the Netherlands. As a result of the reserves increase, the solvency position at the end of 2004 improved to 189% (174%) of the requirement set by the Dutch Central Bank.

Premium income

Interpolis' operations developed well in 2004. Total premium income was 3% higher at EUR 4,012 (3,893) million. Life insurance premium income fell by 5% to EUR 2,319 (2,436) million. The chief reason for this was the decision to reduce activities abroad, while in the Netherlands there was an 10% increase. The increase in the Netherlands was mainly thanks to record income of more than EUR 1 billion from new insurance policies.

Non-life insurance premium income increased by 17% in 2004 to EUR 1,498 (1,278) million. Premiums paid by private individuals were 11% higher at EUR 634 (571) million. Premiums paid by businesses were up 16% to EUR 499 (432) million. Premium income from disability and income protection insurance amounted to EUR 365 (275) million.

LEASING

Results (in EUR millions)	2004	2003	change
Interest	520	491	6%
Commission	36	34	6%
Other income	85	44	93%
Total income	641	569	13%
Staff costs	212	176	20%
Other operating expenses	146	129	13%
Total expenses	358	305	17%
Gross result	283	264	7%
Value adjustment to receivables	71	75	-5%
Operating profit before taxation	212	189	12%

Lease portfolio (in EUR billions)	13.0	12.3	6%
Europe	7.0	7.0	0%
America	5.9	5.3	11%
Rest of the world	0.1		

Risk-related costs (in basis points)	57	65	-12%
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FTEs	2,749	2,424	13%
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With operating profit before taxation up 12% to EUR 212 (189) million, De Lage Landen, Rabobank Group's leasing subsidiary, produced a handsome result improvement in 2004.

Income and expenses

Income rose by EUR 72 million to EUR 641 (569) million, a rise of 13%. Interest income, which represents more than 80% of total income, was 6% higher at EUR 520 (491) million. Operating expenses increased by 17% in the year under review to EUR 358 (305) million, mainly as a result of a 20% increase in staff costs. During the year the number of FTEs grew by 13% to 2,749.

Value adjustments to receivables

The item value adjustments to receivables, which provides an insight in risk-related costs, decreased by EUR 4 million to EUR 71 (75) million, corresponding to 57 basis points of the average lease portfolio.

Lease portfolio

After many years of growth, the lease industry was confronted with negative growth figures worldwide in 2004. Despite this, De Lage Landen managed to sustain its strong growth (10-15%) of the past few years. The loans portfolio grew by 6% to EUR 13.0 (12.3) billion. Growth was depressed by the weaker dollar. Adjusted for the dollar effect, growth would have been 15%. Of the total lease portfolio, Europe accounts for 54%, North and South America accounts for 45% and Asia, Australia and New Zealand accounts for 1%.

REAL ESTATE

Results (in EUR millions)	2004	2003	change
Interest	110	23	
Other income	7	9	
Total income	117	32	
Staff costs	20	4	
Other operating expenses	12	5	
Total expenses	32	9	
Gross result	85	23	
Value adjustment to receivables	-	-	
Operating profit before taxation	85	23	

Other data			
Loans portfolio (in EUR billions)	6.5	4.1	58%
Land portfolio (in hectares)	1,790	1,694	6%

FTEs	291	225	29%
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Rabobank Group's real estate business, which comprises FGH Bank and Rabo Vastgoed, had a profitable year. In 2004, it achieved an operating profit before taxation of EUR 85 million. Because of the acquisition of FGH Bank in October 2003, a proper results comparison cannot be made. FGH Bank provided a large number of new loans. Rabo Vastgoed was successful in the completion of a number of projects. This resulted in an increase in interest income, which also includes project income.

Income and expenses

Income was EUR 117 million, more than 90% of which is interest income. In the year under review, operating expenses were EUR 32 million.

Loans portfolio

FGH Bank achieved record new business of EUR 2.4 billion, despite the fact that the number of transactions in the Dutch market generally was not particularly high because of the scarce supply of high-value real estate. FGH Bank's loans portfolio grew by 58% to EUR 6.5 (4.1) billion, EUR 1.1 billion of which comes from De Lage Landen Vastgoedfinanciering. Around 69% of FGH Bank's portfolio relates to investment financing, 10% to financing for own commercial use, 8% to 'uitpond' financing (i.e. selling rented houses to the sitting tenants) and 13% to other loans (project, land and trade financing).

Order portfolio

Rabo Vastgoed has achieved strong expansion of its operations in recent years. It buys land in order to build a strategic position for future projects. The order portfolio, which consists of approved and current projects, grew 6% to EUR 3.6 (3.3) billion. In 2004, Rabo Vastgoed's land portfolio grew by 6% to 1,790 (1,694) hectares.

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