



Rabobank



Rabobank Group

Interim Report 2004

Contents

Interim Report 2004	
Key figures	1
Review of operations	2
Consolidated balance sheet	6
Consolidated profit and loss account	7
Cash flow statement	8
Movements in reserves	9
Analysis by business unit	9
Notes to the balance sheet	10
Notes to the profit and loss account	12
Profile of the Rabobank Group	14
Review report	16
Colophon	

Key figures

	30-06-04	31-12-03	30-06-03	31-12-02	30-06-02
Volume of services (in EUR millions)					
Total assets	440,348	403,305	402,367	374,720	377,149
Private sector lending	245,560	235,425	221,688	212,323	202,105
Funds entrusted	180,484	172,571	180,878	171,632	166,326
Assets managed ¹⁾	194,500	184,000	175,100	168,000	170,900
Premium income, insurance (half-year figures)	2,231	1,637	2,256	1,770	1,890
Financial position and solvency (in EUR millions)					
Reserves ²⁾	16,022	15,233	14,819	14,261	12,595
Tier I capital	20,465	19,660	17,755	17,202	15,344
Tier I + Tier II capital	20,728	19,892	18,076	17,414	15,739
Total risk-adjusted capital	193,019	182,820	174,977	165,843	152,700
Solvency requirement	15,442	14,626	13,998	13,268	12,216
Tier 1 ratio	10.6	10.8	10.2	10.3	10.0
BIS ratio	10.7	10.9	10.3	10.5	10.3
Profit and loss account (in EUR millions)					
	1st half	2nd half	1st half	2nd half	1st half
	2004	2003	2003	2002	2002
- Interest ²⁾	3,133	3,027	2,929	2,626	2,719
- Commission and other income ³⁾	1,781	1,640	1,422	1,553	1,620
Total income	4,914	4,667	4,351	4,179	4,339
Operating expenses	3,260	3,323	2,920	2,940	2,899
Value adjustments to receivables	275	300	275	237	263
Value adjustments to financial fixed assets ³⁾	(12)	(98)	(50)	225	27
Operating profit before taxation	1,391	1,142	1,206	777	1,150
Tax on operating profit ²⁾	411	365	347	145	351
Third-party interests	155	141	125	91	118
Net profit	825	636	734	541	681
Efficiency ratio	66.3%	71.2%	67.1%	70.4%	66.8%
Other data					
Local Rabobanks	321	328	341	349	361
Offices:					
- branches	1,322	1,378	1,445	1,516	1,513
- agencies	350	356	384	402	413
Cash dispensing machines	3,026	2,981	3,010	2,979	2,943
Foreign offices	236	222	194	169	137
Employees:					
- total number	56,732	57,055	57,548	58,096	58,259
- full-time equivalents	50,594	50,849	51,238	51,867	52,186
Members (x 1,000)	1,425	1,360	1,241	1,108	947

General: Due to consolidation effects, the sum of the figures relating to Group entities will not always correspond with Rabobank Group totals. Changes in terms of percentages can vary as a result of rounding.

1) Following a change in definitions, the amounts disclosed for assets managed differ from the amounts presented in previous reports.

2) The figures have been restated in connection with the change in accounting policy concerning the recognition of Trust Preferred Securities.

3) The figures have been restated in connection with the change in accounting policy concerning the recognition of investment results on insurance activities.

Review of operations

With an increase in net profit of 12%, Rabobank Group can report a good result for the first half of 2004.

Message from the Chairman of the Executive Board

"In the first half of 2004, Rabobank Group benefited from the upturn in the economy. Retail banking, the Group's core business, deserves special mention for its good performance. As well as strong growth in income, there was also a clear rise in costs, particularly in connection with the provisions for reorganisation. The reorganisation provision was formed in the framework of Operation Service, the project for the reorganisation of Rabobank Nederland. This reorganisation is essential for improving the services Rabobank Nederland provides to the local banks so that it becomes a more efficient client-focused and service-oriented organisation. The expected impact in terms of financing and staffing are an annual reduction in costs of EUR 200 million and a cut of 1,200 FTEs in the workforce.

Outlook

"The Dutch economy is slowly clambering up, with the first signs of a recovery becoming visible. However, this recovery is dependent on global conditions, such as movements in oil prices and the threat of terrorist attacks. Despite the circumstances, we remain optimistic about the rest of the year. Barring unforeseen circumstances, we expect the increase in net profit for the whole of 2004 to be in line with the growth of 12% for the first six months."

Banking

Lending

In the first half of the year, lending to the private sector grew by 4% to EUR 246 (235) billion, most of the increase being attributable to private individuals. In the first six months, they borrowed 7% more. The growth in lending to the trade, industry and services sector was 3%. Lending to the food and agri sector did not grow at all.

The greater part of lending to private individuals was in the form of mortgages. In the key market for mortgages, Rabobank Group strengthened its position as market leader in the first half of the year. The market share at 30 June 2004 amounted to 26.2%, compared with 25.7% at 31 December 2003. Of this, 21.4% is attributable to the local banks and 4.8% to Obvion.

Funds entrusted

Funds entrusted grew by 5% in the first half of the year to EUR 180 (173) billion, of which EUR 75 (72) billion relates to savings. Savings rose by 5%, with internet savings showing strong growth.

Retail banking

Retail banking had a good first half year. Profit before taxation rose by 24% to EUR 797 (641) million. In particular, an improvement in interest income and commission accounted for a 10% rise in income, while the associated costs increased only by 4%. The number of FTEs fell 2% in the first six months of 2004 to 29,285 FTEs.

Wholesale banking

Wholesale banking reported a 20% climb in profit before taxation to EUR 464 (387) million, partly due to substantially lower risk-related costs. Income rose by 6%, while operating expenses increased by 19%. The country banking activities showed healthy growth, with lending to the private sector up by 18% and an improvement in results.

Investment services

Orders

The total number of orders for clients, including the Group's own funds, rose 11% in the first six months to EUR 3.3 million, the first quarter showing a strong recovery. The number of Robeco Group fund orders grew strongly, partly thanks to Private Asset Management, an automatic service of Robeco Direct. Of the total number of orders, 44% is attributable to the local banks, 14% to Robeco Group and 39% to Alex.

Assets managed and held in custody

At the end of June, the assets managed and held in custody by Rabobank Group amounted to EUR 195 (184) billion, representing an increase of 6% compared with year-end 2003. The assets managed and held in custody break down as follows: EUR 54 (52) billion in the Group's own investment portfolio, EUR 20 (19) billion in assets that Interpolis manages on behalf of third-party pension funds, and EUR 120 (113) billion in clients' assets that are managed and held in custody by the local banks and subsidiaries such as Robeco Group. The net price gain on the assets of clients amounted to EUR 3 billion. The inflow of new assets was also EUR 3 billion.

Insurance

Premium income

In the first six months, premium income fell slightly by 1% to EUR 2,231 (2,256) million, the reduction being attributable to a 9% drop in income from life insurance, which declined from EUR 1,438 million to EUR 1,311 million. By contrast, the income from non-life business showed an increase. The number of policies grew slightly and income for the first half year amounted to EUR 832 (720) million, an increase of 16%. Income from reinsurance was EUR 88 (98) million.

Income from services

Following a few years of double-digit growth, income from pensions and employee care programmes (absenteeism management, health and safety, and return-to-work services) was virtually unchanged. The income in the first six months amounted to EUR 133 (136) million. The fall in income from employee care programmes was caused partly by reduced absenteeism due to illness, as well as reduced use by companies of health and safety services owing to changes in the law.

Leasing

Lending by De Lage Landen grew by EUR 0.3 billion to EUR 12.6 billion. If the sale of De Lage Landen Vastgoedfinancieringen to FGH Bank and the acquisition of Telia Finans AB from the Swedish company Telia

Sonera at the beginning of this year are taken into account, organic growth amounts to EUR 1.0 billion. Telia Finans AB is the market leader in Scandinavia for the leasing of IT and office equipment. The acquisition strengthens De Lage Landen's position in Scandinavia. Telia Finans's activities will continue under the name De Lage Landen Finans. At 30 June 2004, 53% of the services originated from Europe and 47% from the rest of the world, mainly from North America and South America.

Real estate

The real estate operations, comprising Rabo Vastgoed and FGH Bank, reported a good half year, despite the sluggish real estate market. At the beginning of 2004, FGH Bank acquired De Lage Landen Vastgoedfinancieringen, thus further strengthening its position in terms of commercial real estate financing. The Dutch real estate market is still contending with a large number of empty offices and business premises, with no recovery yet in sight. FGH Bank's lending portfolio grew by EUR 1.5 billion in the period under review to EUR 5.6 billion, EUR 1.1 billion of which relates to the former De Lage Landen Vastgoedfinancieringen. Rabo Vastgoed reported an increase of EUR 0.4 billion in its order portfolio, bring it to EUR 4.4 billion. The order portfolio comprises private homes and business premises still under development. The position in private homes in particular expanded in the past year.

Financial services performance (in EUR)

	Amount	Change compared with year-end 2003	Change compared with first half 2003
Banking			
Private sector lending	246 billion	+4%	
Funds entrusted	180 billion	+5%	
Leasing			
Lending portfolio	12.6 billion	+10%	
Investing			
Assets managed	195 billion	+6%	
Securities and option orders	3.3 million		+11%
Insurance			
Premium income	2,231 million		-1%
- Life	1,311 million		-9%
- Non-life	832 million		+16%
- Reinsurance	88 million		-10%
Service income	133 million		-2%

Strategic developments

The aim of Rabobank Group's strategy is to be and remain the largest all-finance group and bank-near-you in the Netherlands. Our primary focus abroad is to achieve market leadership in the food and agri sector and expand our country banking activities. In the first half of 2004, we took further steps to realise our strategic objectives. The most important ones are described briefly below.

Rabobank Nederland acquires a 5%-interest in Eureko

At the end of March, Rabobank Nederland acquired a 5%-interest in Eureko for an amount of EUR 228 million. Eureko, which includes Achmea, and Rabobank will collaborate closely in the care insurance sector. Specifically, the local banks and Interpolis will sell Zilveren Kruis Achmea healthcare insurance and the healthcare insurance for employees of Rabobank will be provided by Zilveren Kruis Achmea as from 1 January 2005.

Joint venture with KBC Bank

In June, Rabobank Group and KBC Bank announced their intention to join forces for the processing of securities transactions for private

individuals. The purpose of the collaboration, in the form of a joint venture, is to provide greater quality and flexibility, as well as to realise cost savings. The joint venture will become operational at the end of 2005.

Larger banks nearer to the client

The number of local banks contracted by 7 in the first half year to 321. In order to continue putting the interests of the client first, it was decided in mid-2004 to upscale the local banks with the aim of increasing their strength. The creation of larger local banks provides clients with easier access to sophisticated financial services. This does not imply a reduced presence for Rabobank however, as alternative points of contact for clients are being created. The upscaling will have no effect on the total number of offices or points of contact for clients. At the end of June, the local banks had around 3,000 contact points for clients, including 1,322 offices.

Acquisition of US cooperative farm-credit institution

After the reporting date, Rabobank Nederland announced it had reached agreement with Farm Credit Services of America on the acquisition of this US cooperative farm-credit institution. The acquisition will involve an amount of USD 600 million. The planned acquisition is subject to approval by the supervisory authorities and the shareholders.

Financial performance

Income up 13%

Rabobank Group's income climbed 13% to EUR 4,914 (4,351) million in the first half of the year. The increase in income was affected by the changes in accounting policies of Interpolis and Trust Preferred Securities (see also page 5). In addition, income was depressed by EUR 107 million owing to the swaps on the members' capital being carried at fair value (see also page 7).

Operating expenses up 12%

Operating expenses increased by 12% to EUR 3,260 (2,920) million, with staff costs up 6% to EUR 1,928 (1,822) million. Other administrative costs showed a steep rise of 25% to EUR 1,155 (921) million, the main cause of the rise being the higher provisions, essentially for reorganisations (EUR 120 million).

Efficiency ratio

The efficiency ratio improved from 67.1% in the first half of 2003 to 66.3%. This ratio shows the relationship between operating expenses and income.

Operating profit before taxation up 15%

Operating profit before taxation increased by 15% to EUR 1,391 (1,206) million, with all group units reporting an improved result, except for asset management activities.

Net profit up 12%

Net profit for the first half of the year amounted to EUR 825 (734) million, an increase of 12%.

Financial objectives

Rabobank Group aims at realising customer value, with financial stability and employee value as preconditions. To ensure this financial stability, Rabobank Group has formulated three long-term and three short-term financial objectives. For the long term, they are net profit growth of 12%, a Tier I ratio of 10 and a return on equity of 10%. Owing to the weak economic conditions and outlook, the objectives were lowered in 2003. Given the good figures for the first half of 2004 and the favourable expectations however, Rabobank Group is aiming to meet the long-term financial objectives. For the first six months of 2004, Rabobank Group realised net profit growth of 12%, a Tier I ratio of 10.6 and a return on equity of 10.8%. The return on equity was positively affected by a change in accounting policy for Trust Preferred Securities, without which it would have been 10.0%.

Financial performance (in EUR)

	Amount	Change compared with year-end 2003	Change compared with first half 2003
Income	4,914 million		+13%
Operating expenses	3,260 million		+12%
Efficiency ratio	66.3%		
Net profit	825 million		+12%
Total assets	440 billion	+9%	
BIS ratio	10.7		
Tier I ratio	10.6		

Changes in accounting policy

Income from investments

Until 2004, Interpolis recognised its results on investments in shares and property using the indirect return method. An important characteristic of this method is that results recognised on investments are based on

long-term average yields. As from 2004, Interpolis no longer uses this method. Instead, it takes the results realised on investments direct to the profit and loss account, the most widely used method throughout the world. This new method conforms to the International Financial Reporting Standards (IFRS). The change in accounting policy has no effect on equity. The effects are only visible in the form of reclassifications in the profit and loss account, with no consequences for net profit for 2003 as for the first half of 2004. The figures for the second half of 2003 have been restated for comparative purposes. The income from securities and participating interests was up EUR 119 million for the first half of 2003 and EUR 47 million for the second half. The carrying values of financial fixed assets were adjusted by the same amounts for the respective periods.

Trust Preferred Securities

Until 2003, Trust Preferred Securities were recognised as equity. In line with developments in IFRS and their interpretation, it has been decided to recognise the Trust Preferred Securities amounting to EUR 2,037 million as group equity in the item subordinated debt as from 1 January 2004. Accordingly, amounts owed on the Trust Preferred Securities will be taken to the profit and loss account for 2004 before appropriation of available profit and subsequent years. The figures for the first and second halves of 2003 have been restated for comparative purposes. Interest expenses have been increased by the following amounts: EUR 23 million for the first half of 2003, EUR 31 million for the second half of 2003 and EUR 61 million for the first half of 2004. The tax has been reduced by EUR 9 million, EUR 12 million and EUR 22 million respectively for the periods concerned. The change in accounting policy has no effect on the Tier I ratio or the BIS ratio.

Accounting policies

The accounting policies are the same as those applied to the financial statements, with the exception of the changes explained above.

Other prior-year figures have been reclassified where necessary for comparative purposes.

Consolidated balance sheet

(in EUR millions)	30-06-2004	31-12-2003	30-06-2003
Assets			
Cash	9,478	7,117	6,371
Short-term government paper	3,388	3,211	2,619
Professional securities transactions	36,237	30,199	30,201
Other banks	12,268	11,720	14,263
Banks	48,505	41,919	44,464
Public sector lending	3,210	2,161	2,015
Private sector lending	245,560	235,425	221,688
Professional securities transactions	12,824	13,211	13,460
Lending	261,594	250,797	237,163
Interest-bearing securities	85,045	71,141	82,831
Shares	12,414	10,093	11,966
Participating interests	499	201	199
Property and equipment	3,962	3,964	3,900
Other assets	4,534	4,984	4,996
Prepayments and accrued income	10,929	9,878	7,858
Total assets	440,348	403,305	402,367
Liabilities			
Professional securities transactions	22,289	20,180	20,002
Other banks	71,153	62,676	64,889
Banks	93,442	82,856	84,891
Savings	75,070	71,559	69,104
Professional securities transactions	3,274	3,309	10,487
Other funds entrusted	102,140	97,703	101,287
Funds entrusted	180,484	172,571	180,878
Debt securities	96,617	80,695	76,484
Other liabilities	13,183	11,907	11,826
Accruals and deferred income	11,803	12,513	7,391
Provisions	20,140	19,177	18,923
	415,669	379,719	380,393
Fund for general banking risks	1,679	1,679	1,679
Subordinated loans	2,245	2,211	759
	3,924	3,890	2,438
Members' capital	3,850	3,853	3,851
Revaluation reserves	324	222	237
Other reserves	11,848	11,158	10,731
Reserves	16,022	15,233	14,819
Third-party interests	4,733	4,463	4,717
Group equity	24,679	23,586	21,974
Total liabilities	440,348	403,305	402,367
Contingent liabilities	7,310	6,435	7,373
Irrevocable facilities	27,693	26,117	28,577

Consolidated profit and loss account

(in EUR millions)	First half 2004	Second half 2003	First half 2003
Income			
Interest income	3,133	3,027	2,929
Income from securities and participating interests	229	244	109
Commission income	1,020	983	869
Results on financial transactions	133	101	69
Other income	399	312	375
Total income	4,914	4,667	4,351
Expenses			
Staff costs	1,928	1,948	1,822
Other administrative expenses	1,155	1,180	921
Staff costs and other administrative expenses	3,083	3,128	2,743
Depreciation	177	195	177
Operating expenses	3,260	3,323	2,920
Value adjustments to receivables	275	300	275
Value adjustments to financial fixed assets	(12)	(98)	(50)
Total expenses	3,523	3,525	3,145
Operating profit before taxation	1,391	1,142	1,206
Tax on operating profit	411	365	347
Operating profit/Group profit after taxation	980	777	859
Third-party interests	155	141	125
Net profit	825	636	734

Cash flow statement

(in EUR millions)	First half 2004	First half 2003
Cash flow from operating activities		
Operating profit/Group profit after taxation	980	859
Adjustments for:		
- depreciation	177	177
- value adjustments to receivables	275	275
- value adjustments to financial fixed assets	(12)	(50)
- movements in technical reserves relating to the insurance business	818	643
- movements in other provisions	145	(58)
- movements in accrued and deferred items	(1,761)	(1,345)
	(358)	(358)
Cash flow from business operations	622	501
Movements in short-term government paper	(177)	(806)
Movements in securities trading portfolio	(13,010)	(12,813)
Movements in securitised loans	(481)	379
Movements in banks	3,895	1,732
Movements in lending	(11,072)	(12,186)
Movements in funds entrusted	7,913	9,246
Other movements from operating activities	1,841	2,813
	(11,091)	(11,635)
Net cash flow from operating activities	(10,469)	(11,134)
Cash flow from investing activities		
Investing activities concerning:		
- investment portfolio	(2,730)	(716)
- participating interests	(275)	(51)
- tangible fixed assets	(116)	(207)
Net cash flow from investing activities	(3,121)	(974)
Cash flow from financing activities		
Rabobank Membership Certificates	(3)	-
Movements in subordinated loans	34	(2)
Movements in debt securities	15,922	14,745
Payment on Rabobank Membership Certificates	(108)	(110)
Net cash flow from financing activities	15,845	14,633
Net cash flow/Movement in cash and cash equivalents	2,255	2,525

The cash flow statement provides a summary of the net movements in operating, investing and financing activities. Cash and cash equivalents consist of legal tender and balances available on demand with central banks.

Movements in reserves

(in EUR millions)

	First half 2004	Second half 2003	First half 2003
Balance at 1 January / 1 July	15,233	14,819	14,261
Rabobank Membership Certificates	(3)	2	-
Profit for the first / second half-year	825	636	734
Revaluation	147	(1)	33
Goodwill	(61)	(106)	(107)
Payment on Rabobank Membership Certificates	(108)	(105)	(110)
Other movements	(11)	(12)	8
Balance at 30 June / 31 December	16,022	15,233	14,819

Analysis by business unit

Partly as a result of consolidation effects, the figures of the principal business units below differ from those in the profit and loss account.

(in EUR millions)

	Retail banking	Wholesale banking	Asset management	Insurance	Leasing	Real estate
2004 I						
Total income	2,617	1,058	301	456	314	54
Total operating expenses	1,694	524	221	341	174	16
Gross profit	923	534	80	115	140	38
Value adjustments to receivables	126	82	-	-	40	1
Value adjustments to financial fixed assets	-	(12)	-	(11)	-	-
Operating profit before taxation	797	464	80	126	100	37
2003 I						
Total income	2,384	994	310	328	271	11
Total operating expenses	1,635	439	226	346	142	1
Gross profit	749	555	84	(18)	129	10
Value adjustments to receivables	108	125	-	-	41	-
Value adjustments to financial fixed assets	-	43	(1)	(93)	-	-
Operating profit before taxation	641	387	85	75	88	10

Notes to the balance sheet

In the first half of 2004, Rabobank Group's total assets according to the consolidated balance sheet grew by 9% to EUR 440 billion.

The Tier I ratio at 30 June 2004 was 10.6 and the BIS ratio 10.7.

Lending to the private sector was up 4% at EUR 245.6 billion. Total assets also grew owing to the increase in interest bearing securities. The expansion of activities was largely financed by the growth in funds entrusted and a rise in debt securities.

Lending

Rabobank Group's total lending increased 4% in the first half of 2004 to EUR 261.6 (250.8) billion. The figure breaks down as:

- public sector lending;
- professional securities transactions;
- private sector lending.

Public sector lending increased by EUR 1.0 billion to EUR 3.2 billion. Professional securities transactions amounted to EUR 12.8 (13.2) billion.

Private sector lending

Private sector lending rose 4% in the first half year to EUR 245.6 (235.4) billion. The private sector comprises private individuals, the food and agri sector and the trade, industry and services sector. Of the total amount lent, 51% is to private individuals, 15% to the food and agri sector, and 34% to the trade, industry and services sector. Lending by local banks was up 4%. Lending as part of wholesale banking was down 2% owing to the netting of debit and credit balances for the same client. Before netting off, lending showed modest growth. The other sectors combined, including leasing and real estate, reported growth of 20%, which is partly due to the acquisition of Telia Finans AB and the increase in real-estate activities.

Trade, industry and services

The total borrowed by entrepreneurs in the trade, industry and services sector amounted to EUR 83.6 billion at 30 June 2004, 3% up from the EUR 81.3 billion at 31 December 2003. The strongest growth was attributable to companies in the property and construction sectors.

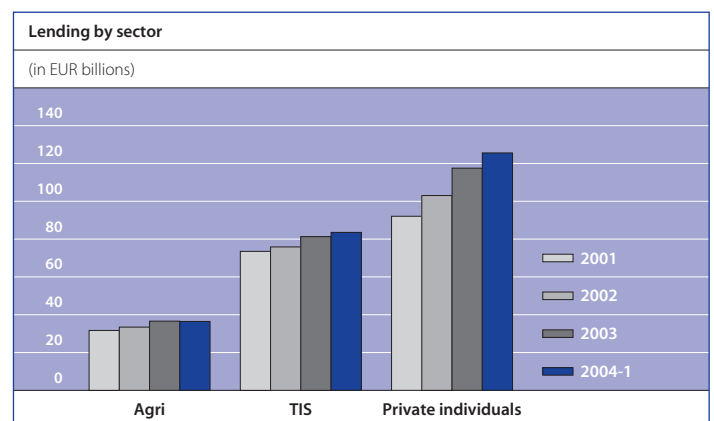
Food and agri

At the end of June, the amount lent to companies in the food and agri sector stood at EUR 36.4 (36.6) billion, the larger part relating to the primary agricultural sector.

Private individuals

Lending to private individuals totalled EUR 125.6 (117.5) billion at the end of June 2004, representing a rise of 7%, about the same as for the same period of 2003. The greater part of the lending to private individuals, EUR 123.3 (116.1) billion, is in the form of mortgage loans.

Lending by sector



Interest-bearing securities

During the period under review, interest-bearing securities rose 20% to EUR 85.0 (71.1) billion, most of the increase being attributable to the growth of the trading portfolio.

Funds entrusted

During the reporting period, funds entrusted, which comprises savings, professional securities transactions and other funds entrusted, increased by 5% to EUR 180.5 (172.6) billion. Professional securities transactions amounted to EUR 3.3 (3.3) billion at 30 June 2004. The other funds entrusted increased by EUR 4.4 billion to EUR 102.1 billion, the increase being mainly attributable to the relatively large growth in deposits.

Savings

Savings grew EUR 3.5 billion in the first half year to EUR 75.1 billion, an increase of 5%. The economic uncertainties and low consumer confidence led to many private individuals placing their cash in savings accounts. The share of internet savings in the total went up from 33% to 40% during the first half year. This was mainly at the expense of traditional forms of savings and Telesavings, whose shares reduced by 3% to 24% and by 4% to 17% respectively.

Debt securities

Debt securities went up EUR 15.9 billion in the first half year to EUR 96.6 billion, an increase of 20%. In addition to the issue of Medium Term Notes, more Certificates of Deposit were issued to finance the growth in lending and to maintain liquidity at a healthy level.

Reserves

Based on the most recent International Financial Reporting Standards (IFRS), it was concluded during the reporting period that the Trust Preferred Securities, amounting to EUR 2.0 billion, no longer qualified as reserves. For reasons of prudence, it was decided therefore to classify Trust Preferred Securities under subordinated debt as from 1 January 2004 (see Changes in accounting policy on page 5). For supervisory purposes however, the Dutch Central Bank will continue to regard Trust Preferred Securities as Tier I capital, even after the transition to IFRS in 2005. Accordingly, this change in accounting policy does not affect the Tier I ratio or the BIS ratio.

Under IFRS, the members' capital, amounting to EUR 3.9 billion, will continue to qualify in full as reserves.

To hedge the interest rate risk on members' capital, Rabobank Group concluded long-term swaps. However, IFRS does not allow hedge accounting for instruments an organisation issues relating to its own capital. Under IFRS, Rabobank Group has to recognise the swaps it concluded at fair value in its financial statements and changes in the fair value must be taken to the profit and loss account. As the result of a resolution, the existing swaps were included in the trading portfolio for the first half year, and consequently carried at fair value. The effect was a charge of EUR 107 million. This different type of treatment in the accounts does not of course have any impact on the overall risk profile of Rabobank Group.

Increase in group equity

Tier I-ratio: 10.6

The Tier I ratio and the BIS ratio are the most commonly used ratios in the financial world to measure solvency. The Tier I ratio expresses the relationship between the core capital and the total risk-weighted assets. At 30 June 2003, the Tier I ratio was 10.6 (10.8), higher than the long-term objective of 10. The minimum requirement set by the external supervisors is 4. The high solvency ratio is one of the main reasons for Rabobank Group's high ratings awarded by the rating agencies Moody's and Standard & Poor's. Total risk-weighted assets grew by EUR 10.2 billion to EUR 193.0 billion, largely the result of increased lending. The Tier I capital rose by EUR 0.8 billion to EUR 20.5 billion.

BIS-ratio: 10.7

The BIS ratio is calculated by dividing the total of Tier I and Tier II capital, or qualifying capital, by the total of risk-weighted assets. The qualifying capital is therefore the sum of the core capital and the supplementary capital. At 30 June 2004, the BIS ratio was 10.7 (10.9), well above the minimum requirement of 8 set by the external supervisors.

Notes to the profit and loss account

In the first half year, net profit increased by 12% to EUR 825 million, thanks to higher income.

Income

Total income rose in the first six months by EUR 563 million to EUR 4,914 million, an increase of 13%. The growth rate was boosted by the change in accounting policy at Interpolis. Adjusted for this change, the increase in income is 10%.

Interest income up 7%

In the first half year, interest income rose by 7% to EUR 3,133 (2,929) million. This rise is attributable to the growth in lending and savings. The interest margin was under pressure during the first half year owing to fierce competition on the savings and mortgage markets.

Commission up 17%

Commission went up EUR 151 million to EUR 1,020 million, an increase of 17%, mainly from higher commission realised on securities and insurance activities.

Other income

Results on financial transactions were up EUR 64 million to EUR 133 million, with the results on derivative transactions accounting for a significant part of the increase. The income from securities and participating interests amounted to EUR 229 (109) million, virtually all of which was attributable to the change in accounting policy at Interpolis. Other income went up to EUR 399 (375) million, which includes the underwriting results of Interpolis.

Expenses

Operating expenses rose during the reporting period by 12% to EUR 3,260 (2,920) million, 2% being attributable to acquisitions, 6% to one-off expenses related to provisions and 4% to an organic rise in costs.

Staff costs up 6%

Staff costs rose in the first six months by 6% to EUR 1,928 (1,822) million. The increase is attributable in part to wage increases and higher bonus reserves for wholesale banking. Rabobank Group employed 50,594 FTEs at 30 June 2004, compared with 50,849 at 31 December 2003.

Other administrative expenses up 25%

Other administrative expenses rose by 25% to EUR 1,155 (921) million, largely attributable to provisions. Most of the additions to provisions concern the reorganisations within Rabobank Nederland, the amount involved being EUR 120 million.

Value adjustments to receivables

The addition to the provision for doubtful debts is recognised under value adjustments to receivables. The addition is determined on a general basis from the long-term weighted average of the actual losses expressed as a percentage of the outstanding loans, with the most recent years given the highest weightings. For the first six months, EUR 275 million was added to the provision, the same amount as for the same period of the previous year. The addition as a percentage of the average risk-weighted assets used in banking activities (calculated on an annual basis) improved by 3 basis points to 30 basis points compared with 2003. Value adjustments to financial fixed assets amounted to EUR -12 (-50) million.

Operating profit before taxation up 15%

Rabobank Group's operating profit before taxation totalled EUR 1,391 (1,206) million for the first half of 2004, a rise of 15% compared with the same period of 2003.

Net profit up 12%

After deduction of tax of EUR 411 (347) million and allowing for third-party interests of EUR 155 (125) million, net profit amounts to EUR 825 (734) million, representing an increase of 12%.

Operating result by group unit

Retail banking

With an increase in operating profit before taxation of 24%, retail banking performed well. The increase of EUR 156 million to EUR 797 million is mainly attributable to a rise in income by 10% to EUR 2,617 (2,384) million. Operating expenses increased by 4% to EUR 1,694 (1,635) million. The increased income mainly relates to higher interest income and commission. The growth in interest income was slightly below the growth in loans owing to a tighter interest rate margin. The rise in operating expenses largely represents other administrative expenses. Staff costs were virtually unchanged, partly owing to a drop in the number of FTEs by just under 2%. Value adjustments to receivables increased by EUR 18 million to EUR 126 million.

Wholesale banking

Wholesale banking reported an operating profit before taxation of EUR 464 (387) million for the first half year, an increase of 20%. The increase was partly thanks to lower risk-related costs and a 34% downward value adjustment of receivables to EUR 82 (125) million. Moreover, the contribution by value adjustments of financial fixed assets to the result was a gain of EUR 12 million, whereas this was a loss of EUR 43 million for the first half of 2003. Income rose slightly by 6% to EUR 1,058 (994) million. In contrast, operating expenses rose by 19% to EUR 524 (439) million, mainly owing to an increase in one-off costs and to the acquisitions of the previous year that are now fully included in the figures. Country banking activities reported a good result, despite a tighter interest rate margin. The gross profit of Corporate Clients was down on the previous year, nor did Corporate Finance match the good result it had achieved in 2003. Early in 2004, Rabobank Group reached a final settlement with Royal Bank of Canada regarding a claim connected with a swap transaction for Enron, the nowadays bankrupt energy group.

Asset management

Asset management activities produced an operating profit before taxation of EUR 80 million for the first six months compared with EUR 85 million for the same period of 2003. One-off income items, such as gains on financial transactions, were down on the previous year. In addition, a one-off expense of EUR 10 million was recognised, relating to Robeco Group's spread results for 2003. It has been agreed with the Netherlands Authority for the Financial Markets that spread results will be taken to the investment funds.

Insurance

The operating profit before taxation, which represents the result on operating activities and on investments, amounted to EUR 126 million for the first half year compared with EUR 75 million for the same period of 2003. The result on operating activities was up EUR 26 million to EUR 101 million, mainly owing to good underwriting results on non-life business. The profit on investments also grew steeply, climbing from EUR 1 million to EUR 25 million.

Leasing

With an increase in operating profit of 14% to EUR 100 (88) million, leasing activities performed well in the first half of 2004. The increase is mainly attributable to higher interest income, lower risk-related costs and the acquisition of Telia Finans AB. The lower risk-related costs were achieved for a growing volume of lending.

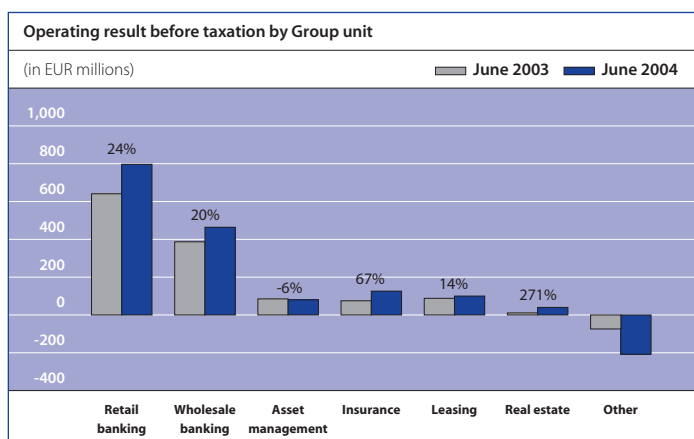
Real estate

The new group unit Real estate achieved an operating profit before taxation of EUR 37 million for the first half of 2004.

Other units

The combined result before taxation of the Group units included under Other fell by EUR 139 million to produce a loss of EUR 212 million. The sharp decline is mainly due to the additions to provisions.

Operating result before taxation by Group unit



Profile of the Rabobank Group

The Rabobank Group is the largest financial service provider in the Dutch market. It comprises 321 independent, local co-operative Rabobanks in the Netherlands, the central Rabobank Nederland organisation and a large number of specialised subsidiaries. The Group has been awarded the highest possible credit rating. The Group's core target is to generate customer value.

The local Rabobanks and their clients form the Rabobank Group's co-operative core business. De banks are members and shareholders of the supralocal co-operative organisation, Rabobank Nederland, which advises the banks and supports their local services. Rabobank Nederland also supervises the collective of local banks on behalf of the Dutch central bank. Rabobank Nederland further acts as an (international) wholesale bank and as bankers' bank to the Group and is the holding company of a large number of subsidiaries.

The Rabobank Group's ambition is to provide its 9 million clients, both private and business, with all possible financial products and services. To this end, it has a large number of specialised businesses engaged in asset management and investment (Robeco, Schretlen, Effectenbank Stroeve, Alex) pension services, insurances and occupational health and safety (Interpolis), Leasing (De Lage Landen), venture capital (Gilde), real estate and mortgages (FGH Bank, Rabo Vastgoed, Obvion), and corporate and investment banking (Rabobank International, Rabo Securities, Rabobank Nederland Corporate Clients, Group Treasury). These subsidiaries provide financial advice and products to the local Rabobanks and their clients on the one hand and serve their own clients directly at home and abroad on the other.

Competence centres

The Rabobank Group is a network of competence centres working closely together. This networked expertise allows the Group to respond actively to the growing demand from business clients and private individuals for a balanced package of financial services and products.

The Group thus combines the best of two worlds: the local involvement and personal touch of the local Rabobanks and the expertise and scale of a large organisation.

Strong market position

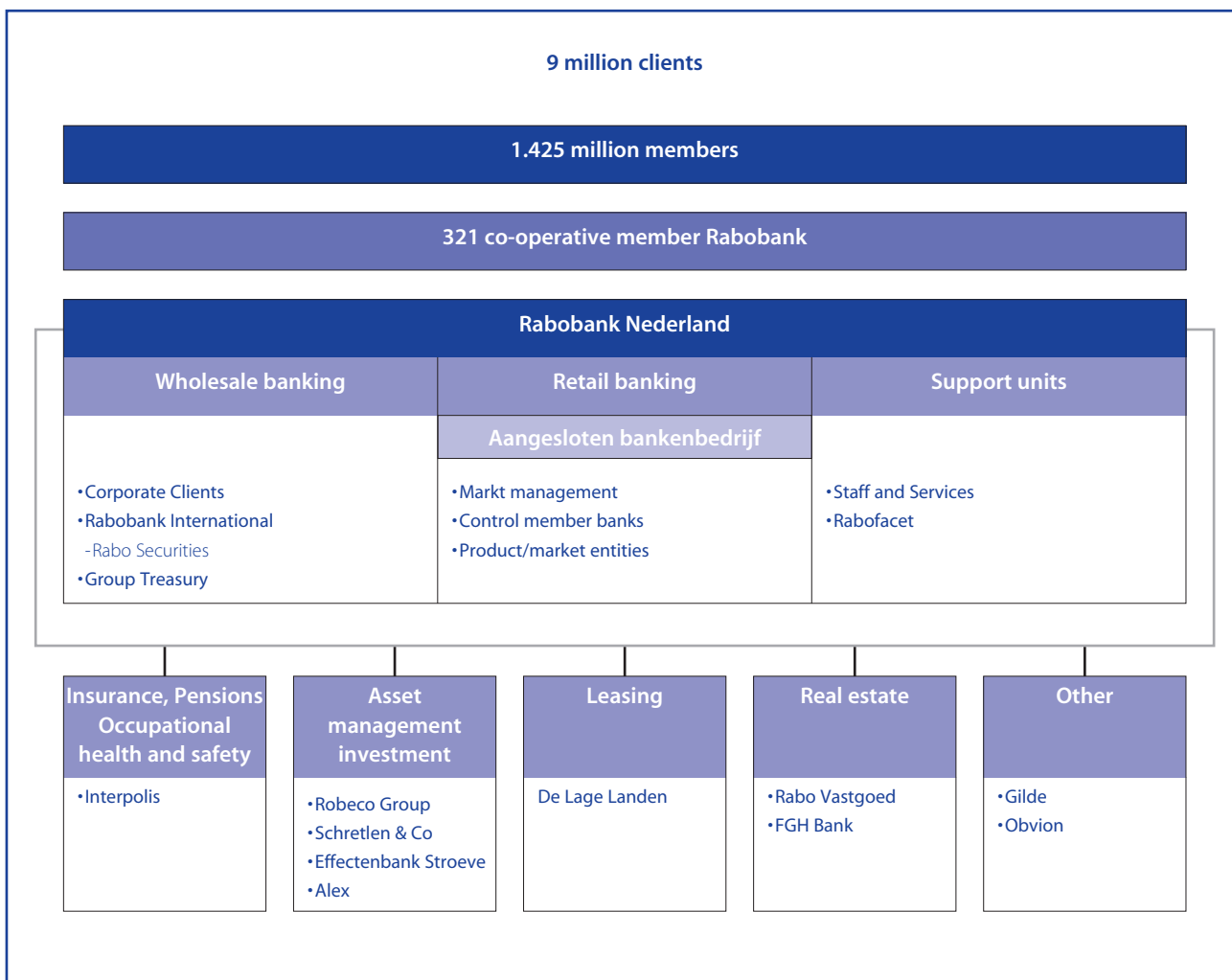
The Rabobank Group serves more than half of the Dutch population and Dutch businesses. In the Dutch market, Rabobank is accordingly market leader for virtually all financial services: mortgage loans (26%), private savings (38%), small and medium-sized enterprises (39%) and the agricultural sector (85%). Its share in the corporate market has been strengthened considerably.

Triple A

The Rabobank Group has the highest credit rating (Triple A), awarded by the well-known international rating agencies Moody's and Standard & Poor's.

International network

To serve our clients in the international market, the Rabobank Group has 236 branches in 35 countries outside the Netherlands.



Review report

Introduction

We have reviewed the interim figures of Rabobank Group¹ for the year 2004, as set out on pages 6 to 9 of this interim report. These interim figures are the responsibility of the executive board of Rabobank Nederland, with its statutory seat in Amsterdam. Our responsibility is to issue a report on these interim figures based on our review.

Scope

We conducted our review in accordance with standards for review engagements generally accepted in the Netherlands. These standards require that we plan and perform the review to obtain moderate assurance about whether the interim figures are free of material misstatement. A review is limited primarily to inquiries of company officials and analytical procedures applied to financial data and therefore provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Opinion

Based on our review, nothing has come to our attention that causes us to believe that these interim figures do not give a true and fair view in accordance with accounting principles generally accepted in the Netherlands and the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Utrecht, 2 September, 2004

Ernst & Young Accountants

1) Rabobank Group consists of Coöperatieve Centrale Raiffeisen-Boerenleenbank BA in Amsterdam, its affiliated Rabobanks, Interpolis NV in Tilburg, Robeco Groep NV in Rotterdam, De Lage Landen International BV in Eindhoven, Schretlen & Co NV in Amsterdam, Effectenbank Stroeve NV in Amsterdam, FGH Bank NV in Utrecht, Rabohypotheekbank NV in Amsterdam, Onderlinge Waarborgmaatschappij Rabobanken BA in Amsterdam and their group companies.

Colophon

Published by

Rabobank Nederland
Directoraat Communicatie

Art direction and design

Borghouts Design, Haarlem

Photographs

Tjeerd Fonk, Amsterdam

Production co-ordination

Kobalt Media Services, Amstelveen

Prepress

NEROCVGM, Amsterdam

Printers

PlantijnCasparie Groep, Capelle a/d IJssel

Materiala used

This report was printed using environmentally friendly materials.
Mineral oil-free Reflecta ECO ink was used on 250 gram and 135 gram
PhoeniXmotion Xantur paper.

Annual Reports

following Annual Reports:

- Annual Report 2003
(Dutch and English)
- 2003 Financial Statements and other information
(Dutch and English)
- Annual Responsibility and Sustainability Report 2003
- Interim Report 2004.
(Dutch and English)

For copies of these reports please contact Rabobank Nederland,
Communications.

Croeselaan 18, 3521 CB Utrecht
Postbus 17100, 3500 HG Utrecht

Telephone +31 (0)30 - 216 22 98

Fax +31 (0)30 - 216 19 16

E-mail rabocomm@rn.rabobank.nl

