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## **DBRS Comments on Rabobank Nederland's H1 2009 Earnings – Ratings Unchanged**

### **Industry: Fin.Svc.--Banks & Trusts**

DBRS has today commented that its ratings for Rabobank Nederland (Rabobank or the Group), including its Long-Term Deposits & Senior Debt rating of AAA and its short-term rating of R-1 (high), are unchanged following the release of the Group's results for the first half of 2009. Rabobank remained solidly profitable in H1 2009. Earnings of EUR 1.3 billion were up 15% from H2 2008 but were down 18% from H1 2008.

Importantly in DBRS's view, results demonstrated that Rabobank's franchise strengths remained intact, enabling the Group to cope with the challenging operating environment. Key deposit and loan market shares in the Group's core Dutch market remained solidly market leading. Though overall deposits declined from year-end, this partly reflected a reversal of safe-haven inflows that Rabobank enjoyed during earlier periods of disrupted markets. Customer funds were nevertheless above levels at H1 2008. Moreover, deposits at the local Rabobanks increased 3% from year-end to EUR 181 billion.

The Group's diverse business mix has proven valuable, resulting in resilient earnings despite the significant slowdown in economic activity across most markets and declining near-term prospects in some business lines. Intense competition for deposits and deterioration in SME credit quality hampered results in Domestic Retail Banking, which contributed EUR 486 million (or 37%) to H1 2009 earnings, compared to 59% for 2008. A solid six months for corporate banking activities and a rebound in its Global Financial Markets businesses enabled Rabobank to cope with EUR 564 million of value adjustments in Wholesale & International Retail Banking. This segment contributed earnings of EUR 428 million, or 33% of Group-wide profit. Other businesses were mixed with Asset Management & Investment reporting a small loss, though Rabobank saw asset inflows at Sarasin and Robeco in the period. Real Estate and Leasing results reflected higher credit costs and declining market activity, though both segments were profitable and had improved margins.

Operating costs were well contained, declining 5% from H2 2008, with the Group reporting an efficiency ratio of 59%. DBRS sees cost control as another key factor helping Rabobank to deal with elevated credit costs and intense domestic competition, which is expected to continue exerting pressure on margins.

Credit costs remain elevated. In H1 2009, credit costs totalled EUR 1.1 billion, 55 basis points (bps)



of average loans, well above historic averages. Nevertheless, DBRS continues to view Rabobank's credit quality as a relative strength reflecting the Group's conservative culture. Dutch mortgages remain by far the largest exposure for the Group at EUR 187 billion, or 45% of total loans. Losses were 2 bps of average loans on this portfolio in H1 2009. Overall, impaired loans were 1.98% of total loans at 30 June 2009, compared to 1.65% at the end of 2008.

Rabobank's capital levels, reflected in a Basel II Tier 1 ratio of 13.0%, remained strong in DBRS's view with a substantial cushion. Equity increased, while risk weighted assets were up only marginally from year-end 2008. Anchored by the Group's customer deposit base of EUR 285 billion as of 30 June 2009, its liquidity also remained sound. Wholesale funding reliance increased somewhat in the period due to the reversal of safe-haven deposit flows and moderate loan growth, but the Group retains a large portfolio of liquid assets and is one of only a few financial institutions that has retained uninterrupted access to (non-guaranteed) market funding.

Note:

All figures are in EUR unless otherwise noted.

The applicable methodologies are: Analytical Background and Methodology for European Bank Ratings, Second Edition; Analytical Background and Methodology for European Co-Operative Banks, Second Edition and Enhanced Methodology for Bank Ratings – Intrinsic and Support Assessments, which can be found on our website under Methodologies.

This is a Corporate (Financial Institution) rating.

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