

CREDIT ANALYSIS

Rabobank Nederland

Utrecht, Netherlands

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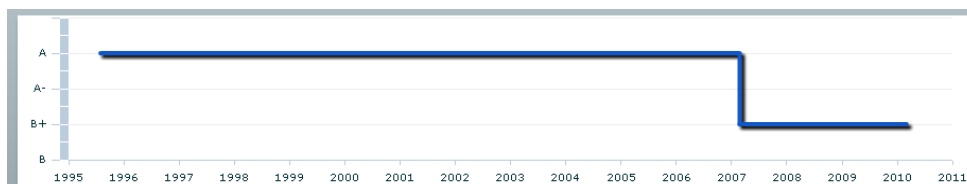
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This Credit Analysis provides an in-depth discussion of credit rating(s) for Rabobank Nederland and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on [Moody's website](#).

Summary Rating Rationale

Bank Financial Strength Rating



Long-Term Bank Deposits Rating



Moody's assigns a bank financial strength rating (BFSR) of B+ to Rabobank Nederland (Rabobank), which translates into a Baseline Credit Assessment (BCA) of Aa2. The rating reflects the bank's conservative business profile, its very strong regional franchise in the Netherlands, its "home market", and solid financial fundamentals as witnessed by its strong liquidity position and capital adequacy.

The outlook on the BFSR is negative due to Moody's expectation of subdued macroeconomic conditions in the Netherlands and the potential impact of this lacklustre environment on the bank's profitability, asset quality and capital adequacy.

Rabobank's long-term global local currency (GLC) deposit rating is Aaa, reflecting a very high probability of systemic support, which is based on its key position in the Dutch banking system. Rabobank is a leading bank in the Netherlands, with significant franchises in the domestic residential mortgage market, in savings accounts and in SME lending. It also dominates the agricultural market with a share of over 80% of all lending. It is Moody's understanding that these market positions have been strengthened since the beginning of the crisis. We further note that Rabobank did not need any form of support from the Dutch government at any point during the crisis.

The outlook is negative on the deposits and debt ratings as a result of the negative outlook on the BFSR and of the application of Moody's JDA methodology to Rabobank.

Moody's notes the following challenges faced by Rabobank:

- » The generally low-margin and highly competitive nature of banking in the Netherlands;
- » Moody's expectation of subdued economic conditions in the Netherlands, which imply capital pressures from a continuous rise of the cost of risk;
- » Strategic flexibility somewhat constrained by "closed" capital structure;
- » While in line with that of Dutch peers, Rabobank's operating efficiency is weaker than that of other banks in the B+ BFSR category;
- » Managing risks inherent to its non-banking and international operations - including insurance (the group has a 39% stake in Eureko), and more material property-development operations following the acquisition of Bouwfonds, the Dutch real estate development company, as well as leasing, following the acquisition of Athlon.
- » Any material lapse in risk control or any significant and unforeseen deterioration of the operating environment in the Netherlands could also have a negative impact on the ratings.

Any adverse development on Rabobank's BFSR could negatively impact its long-term debt and deposit ratings.

Group Structure

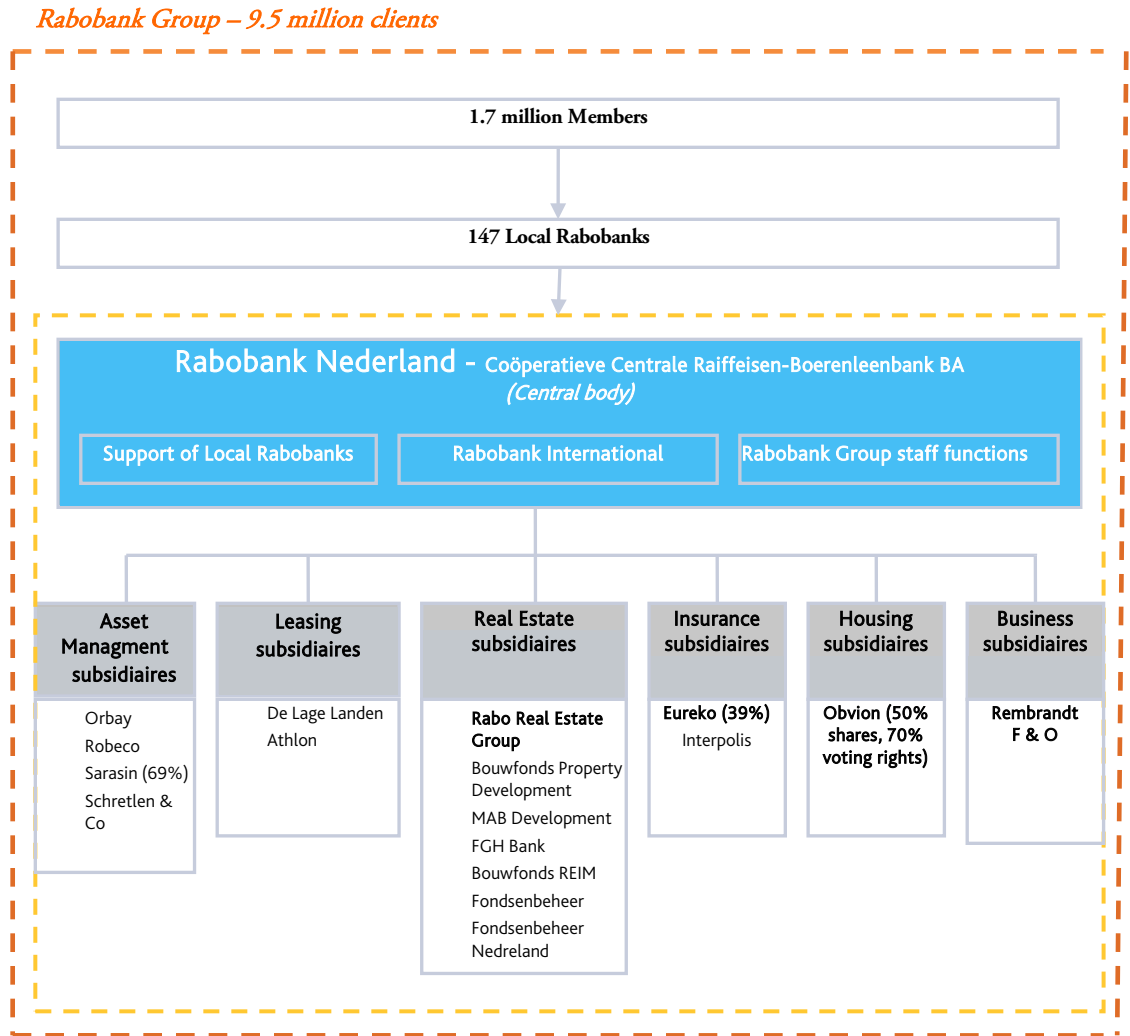
Rabobank Group is an international financial services provider founded on cooperative principles and focused on the food, beverage and agriculture sectors. It offers a wide range of services such as retail banking, wholesale banking, asset management, leasing, real estate and insurance.

Rabobank Group is comprised of independent local Rabobanks plus Rabobank Nederland, their central organisation and only rated entity, as well as a number of subsidiaries and associates, including a 39% equity interest in Eureko, an insurance company. The organisation, which has about 60,000 employees, operates in 46 countries.

The organisational structure of Rabobank is as follows:

- » Rabobank Nederland (Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.) is the group's central authority and is responsible for setting policy, developing products, providing technical services, raising wholesale debt for the group as a whole and managing group treasury and liquidity.
- » The 147 independent local Rabobanks have 1,010 branches boasting about 28,000 employees and over 3,000 cash-dispensing machines as year-end 2009. They take deposits, make loans and provide a wide range of financial services to Dutch individual customers, professionals and SMEs. These local banks are owned by above 1.7 million members, from a pool of over 7.5 million customers. In turn the local Rabobanks are members of Rabobank Nederland.
- » Specialised legal entities in the Netherlands and abroad are operated under their own brands and together comprise the bank's all-finance services. Rabobank International is a specialised entity which is not legally separated from Rabobank Nederland and which provides wholesale banking and international retail banking services, in addition to its traditional food & agri business.

Figure 1
Structure of Rabobank Group



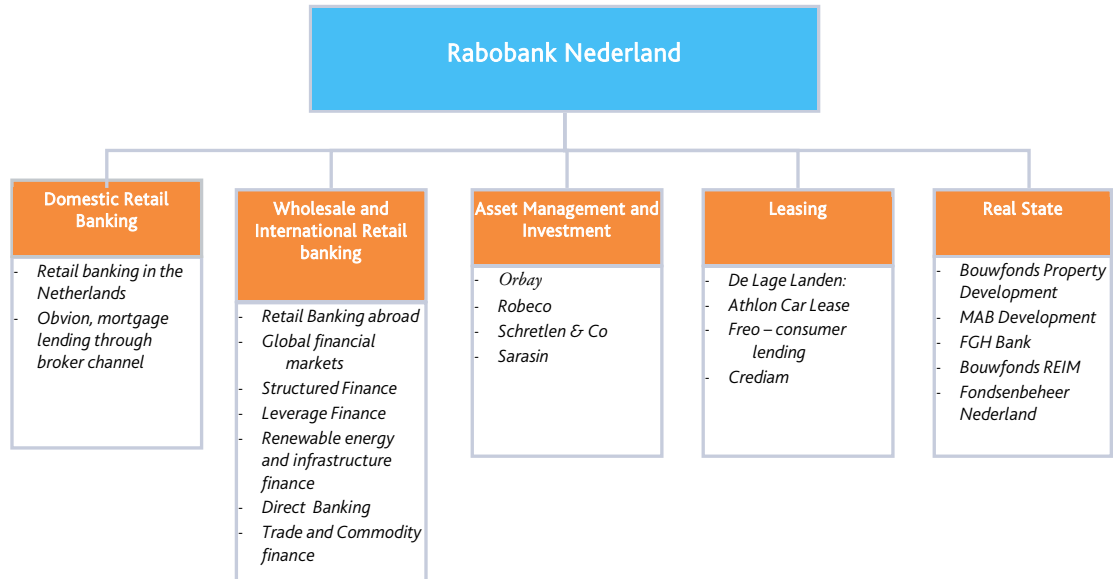
Source: Moody's, Rabobank Group.

Business Activities

Rabobank Nederland activities are grouped under five major business segments: Domestic retail banking, Wholesale and International retail banking, Asset management and Investment, Leasing and Real Estate.

Figure 2

Organisation of Rabobank by Businesses



* Rabobank Group also offers Insurance products from Eureko a 39% subsidiary.

Source: Moody's, Rabobank Group

Domestic Retail Banking

This business unit comprises the retail banking activities undertaken in the Netherlands by the local Rabobanks and Obvion, a Dutch mortgage lender through the brokerage channel. This division provides services to individual customers, self-employed professionals and SMEs in the Netherlands. Domestic Retail Banking represented 52% of the Group's net banking income and 53% of net profit in 2009.

- » Local Rabobanks form the Group's retail banking network in the Netherlands, where they have leading positions in deposit taking, savings accounts, mortgage lending and in the SME market. The 147 independent local Rabobanks have 1,010 branches boasting about 28,000 employees and over 3,000 cash-dispensing machines. They serve approximately 7.5 million Dutch private and corporate clients.
- » Obvion is a joint venture between Rabobank Group and ABP (the Dutch civil service pension fund) which offers mortgage and financial products including guarantees and bridging loans. It is focused on the independent brokerage market in the Netherlands. Rabobank owns a 50% share in Obvion with 70% of voting rights.

Wholesale Banking and International Retail Banking

This business unit comprises the wholesale banking activities of Rabobank, as well as retail services to international customers. This group entity, operated under the name Rabobank International, has branches and offices in 30 countries, employing about 14,500 employees globally. It accounted for 30% of the Group's net banking income and 28% of net profit in 2009.

- » Wholesale banking services are focused on Dutch customers and the food and agri business globally. Rabobank International undertakes regionally-based corporate banking activities and also operates under globally operating divisions such as Global Financial Markets, Structured Finance, Leveraged Finance, Renewable Energy & Infrastructure Finance and Trade & Commodity Finance.
- » The international retail banking operations come under the Rabobank label, except where the activities of Irish-based ACCBank, a wholly owned subsidiary, and Polish-based Bank BGZ, in which Rabobank International holds a 59% equity stake, are concerned.

Asset Management and Investment

Rabobank Group's asset management activities are undertaken by Robeco, a globally operating asset manager, Schretlen & Co, a Dutch private bank, and Sarasin, a Swiss private bank in which Rabobank Group has a 46% equity interest and holds 69% of the voting rights. These divisions employ about 3,500 employees in total.

Asset management activities represented 8% of the Group's net banking income and 1% of net profit in 2009. Total assets under management and held in custody for clients were €230.4 billion in 2009.

Leasing

De Lage Landen is responsible for Rabobank Group's leasing activities and offers a broad package of leasing, trading and consumer loan products on the Dutch market. On a global scale, it provides asset financing services to manufacturers, vendors and distributors in more than 30 countries to aid their sales transactions. De Lage Landen is active in eight European countries with Athlon Car Lease, an international car leasing company. In the Netherlands, De Lage Landen operates an online platform under the brand Freo, specialist in consumer loans. De Lage Landen has about 4,700 employees.

De Lage Landen's loan portfolio was €24.1 billion at year-end 2009. The food & agri portfolio was €5.9 billion for the same period, so that its share in the total loan portfolio was 24.3%. The number of leased cars was 216,000 and the car leasing portfolio was €2.7 billion. The consumer loans portfolio amounted to €0.9 billion. The Leasing division accounted for 9% of the Group's net banking income and 5% of net profit in 2009.

Real Estate

Rabo Real Estate Group is responsible for Rabobank Group's private and corporate real estate operations. Its three core areas are development of residential and commercial real estate, financing and asset management. In these markets, Rabo Real Estate Group operates the labels of Bouwfonds Property Development, MAB Development, FGH Bank and Bouwfonds REIM. Rabo Real Estate Group employs more than 1,500 employees and is active mostly in the Benelux, Germany and France.

Bouwfonds Property Development sold 7,341 homes in 2009. MAB Development saw a fall in production in the area of commercial real estate from €393 million to €254 million in the same period. FGH Bank held a loan portfolio of €17.2 billion at year-end 2009 and assets under

management at Bouwfonds REIM were €7.0 billion. Rabo Real Estate Group accounted for 4% of the Group's net banking income and 3% of net profit in 2009.

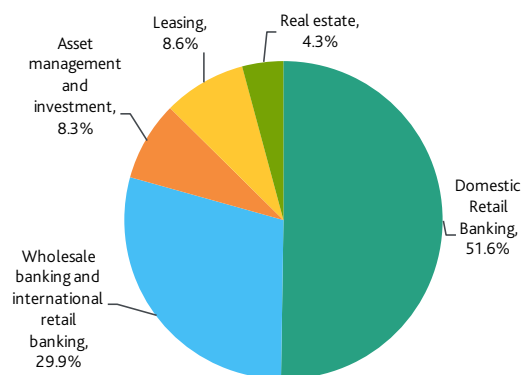
Other Activities: Insurance

Rabobank Group also has a 39% equity interest in insurance company Eureko. Insurance activities are not consolidated and do not form a business line of the group. Eureko is the holding company for a group of strong insurance brands. It holds leading positions in the Netherlands and is operating in eleven countries, in Europe, Turkey and Russia. Eureko had approximately 24,000 employees at year-end 2009.

Figure 3

Breakdown by Activity of Rabobank Group's Income

Net Income by activity - FY 2009



RABOBANK GROUP'S INCOME (IN € MILLION)	FY 2009	FY 2008
Domestic and Retail banking	51.6%	54.9%
Wholesale and International Retail Banking	29.9%	17.1%
Asset Management and Investment	8.3%	13.9%
Leasing	8.6%	8.7%
Real Estate	4.3%	3.7%
Other*	Neg.	1.7%

* Including elimination between segments for profit and loss account

Sources: Moody's, Rabobank Group

Distribution Capacity and Market Shares

Rabobank Group is represented in 48 countries around the world through a large network of subsidiaries, offices and agencies. It has approximately 59,000 employees worldwide. Rabobank Nederland is the central organisation, which is responsible for setting policy, developing products, providing technical services, raising wholesale debt for the group as a whole and managing group treasury and liquidity.

Domestic Retail Banking

As a result of the economic downturn in the Netherlands, domestic retail banking suffered from lower growth in the loan portfolio and rising bad debt costs in 2009. However, the entity managed to strengthen its leading position in private individuals and SME markets during the crisis. The 147 independent local Rabobanks have nearly 1,010 branches boasting about 28,000 employees and over 3,000 cash-dispensing machines. They serve approximately 7.5 million Dutch private and corporate clients.

The private sector loan portfolio stood at €278.0 billion at year-end 2009, which represents a market share of 29.9% in mortgages and 41% in the SME market (characterised by the strong presence in the food & agri sector). The local Rabobanks' share in the mortgage market was 26.1% and Obvion's

share in this market was 3.8%. The volume of the Dutch mortgage market contracted by 33% in 2009 compared to 2008, but Rabobank Group's share in this market grew from 29.6% to 29.9%.

Amounts due to customers were €185.2 billion at year-end 2009, which represents a leading market share in savings of 40.2% in the Netherlands and a small drop from 40.7% at year-end 2008. The volume of the Dutch savings market increased by 7% to €284.8 billion in 2009, showing the preference of Dutch consumers towards savings during the period.

Wholesale Banking and International Retail Banking

Wholesale banking and international retail banking are undertaken by Rabobank International and the Group's foreign subsidiaries, 59%-owned BGŻ in Poland and fully-owned ACCBank in Ireland.

Rabobank International has 603 offices with more than 14,500 employees globally, serving its clients from 30 countries. It launched Direct Banking operations in Belgium in 2002 and since then, operates online banking platforms in Ireland, New Zealand and Australia. The four foreign online banks serve together approximately 267,000 customers.

Rabobank International provides an internationally integrated service offering that includes finance, cash management, treasury, corporate insurance, factoring and leasing. Rabobank International's foreign corporate banking activities focus primarily on the food & agri sector. In 2009, the share of the food & agri sector in the private sector loan portfolio was 38.6%. Rabobank International also invests in specific expertise in the area of trade and commodity finance.

In Poland, BGZ maintains a leading position in the agricultural sector with a 17% market share in lending (60% is controlled by some 600 co-operative banks) and becoming a strong local banking partner for individual and corporate customers. In both retail and SME segments, the bank focuses on small towns rather than large cities where competition is more intense. BGŻ has 250 branches in Poland, operates 2,000 cash-dispensing machines and has more than 5,000 employees.

In Ireland, ACCBank is a specialist lender to SME, with a historical focus on agri business. It has 600 employees distributed in 14 business centres all located in Ireland.

Asset Management and Investment

Asset management activities are undertaken by Rabobank Group's subsidiaries Robeco, Sarasin and Schretlen & Co.

- » Robeco Group provides investment services to 700 institutional clients and approximately 1.5 million private clients around the world. It is a global asset manager offering its products through 14 business locations in Europe, the US, the Middle East and Asia.
- » Sarasin is a Swiss private bank with a strong presence in its home country but also abroad through 17 offices in 13 countries spread amongst Europe, the Middle East and Asia; It is 46%-owned by Rabobank.
- » Schretlen & Co is a Dutch private bank which operates through five offices in the Netherlands. It had around 6,000 customers at year-end 2008.

The Asset Management and Investment division had 3,500 employees as of year-end 2009.

Leasing

Leasing activities are undertaken under the brand De Lage Landen.

De Lage Landen offers a broad package of leasing, trading and consumer loan products on the Dutch market. On a global scale, it provides asset financing services in more than 30 countries. De Lage Landen is active in eight European countries with Athlon Car Lease, an international car leasing company. In the Netherlands, De Lage Landen operates an online platform under the brand Freo, specialist in consumer loans. De Lage Landen has about 4,700 employees.

Real Estate

Real estate activities are undertaken by Rabo Real Estate Group.

Rabo Real Estate Group has 1,500 employees and is mostly active in the Benelux, Germany, and France. The number of houses sold in 2009 was 7,341, 56% of which were located in the Netherlands. Rabo Real Estate Group saw a fall in production in the area of commercial real estate from €393 million to €254 million in the same period. It held a loan portfolio of €17.2 billion at year-end 2009 and assets under management were €7.0 billion.

Ownership and Structure

Rabobank Group is founded on cooperative principles. It is comprised of independent local Rabobanks plus Rabobank Nederland, their central organisation and only rated entity, as well as a number of subsidiaries and associates, including Eureko.

The 147 independent local Rabobanks are owned by above 1.7 million members, from a pool of over 7.5 million customers. In turn the local Rabobanks are members of Rabobank Nederland. Please refer to Figure 1 for further details on ownership and structure.

Company History

Rabobank's roots go back to 1898, when two separate cooperative banks - the Coöperatieve Centrale Raiffeisen-Bank in Utrecht and the Coöperatieve Centrale Boerenleenbank in Eindhoven - were founded by farmers with limited access to credit. The two banks merged in 1972 and adopted formally the name Rabobank Nederland in 1980. Although Rabobank International was only formally established in 1996, international activities started slowly in the 1970s at clients' growing demand for services abroad.

Major acquisitions include Lend Lease Agro Business, a US-based company, in 2003 and Mid-State Bank & Trust in 2007, allowing expansion into California. In April 2007, Rabobank acquired Chilean bank HNS Banco from GE Commercial Finance and Ergas Group. In 2008, Rabobank Nederland also increased its stake in its Polish subsidiary BGZ to 59%.

In November 2008, Rabobank announced it had entered into a cooperation agreement with Rothschild. This agreement aims at worldwide co-operation in the field of M&A and equity capital markets advisory in the food and agriculture sectors. In the same year, Rabobank Nederland sold Alex, a former Rabobank subsidiary active in online investment.

We note that Rabobank did not need any form of support from the Dutch government during the economic crisis, as opposed to its Dutch peers.

Key Issues

Rabobank's mutualist model proved resilient

The mutualist nature of Rabobank Group is based on a long-term view of clients/member relationships and profitability, a prudent approach to risk, and a strong solidarity between local member banks and the central body. This model performed particularly well during the crisis.

- » Thanks to its strong franchise and its long-term approach, Rabobank's market shares remained stable overall during the crisis and they even improved in some segments of activity. The volume of the Dutch mortgage market contracted by 33% in 2009 compared to 2008, but Rabobank Group consolidated its share in this market at ca. 30%. The bank's market share in savings was also near stable in 2009 at ca. 40% while its market share in the SME sector increased to 41% in 2009 from 38% before the crisis.
- » With unchallenged market positions and continuous profitability, Rabobank constituted an anchor for the Dutch banking system during the crisis. Furthermore, Rabobank did not need any Dutch Government support throughout the crisis, neither in the form of capital, nor liquidity, which makes it stand apart in the Dutch banking system.
- » Rabobank's main challenge lies with the higher risk profile of the activities into which it diversified prior to the crisis, although the group is no longer expanding in these areas: financial markets activities have been largely discontinued; insurance activities (Eureko), parts of leasing activities (De Lage Landen) and property development (Rabo Real Estate Group) have been deemed less core and could be disposed of, in Moody's view. As to Rabobank's international development in the Food & Agri sector, we think it makes strategic sense: it is based on core group expertise and enables the group to leverage on its know-how, while bringing some diversification benefits.

Stable profitability through the cycles

As a consequence of its mutualist culture and long-term view, maximisation of profits is not the primary focus of the bank and profitability is somewhat lower than at other banking groups on the long run. However:

- » As a mutualist group, Rabobank is not listed on the stock exchange and does not have to pay dividends to shareholders. The bank has to pay coupons on its member certificates (i.e. capital owned by its members), but the amounts are relatively limited and enable the bank to use most of its profits to strengthen its capital position.
- » When compared to other banks on a post-dividend basis, Rabobank's profitability no longer appears as an outlier over a long run.
- » The relatively lower profitability of the bank at the peak of the cycles is compensated by greater stability through the cycles, as demonstrated during the current crisis.

We remain nonetheless vigilant on potential pressure on profitability stemming from the continuing lacklustre economic environment and the rise in the cost of risk of the bank since H2 2008.

Analysis of Rating Considerations

Discussion of Qualitative Rating Drivers

Franchise Value

MARKET SHARE AND SUSTAINABILITY

A systemic bank in the Netherlands

Rabobank has very strong position in the Netherlands in commercial as well as retail banking, with market shares of 29.9% mortgages, 41% in the SME sector and 40.2% in savings in 2009. Rabobank's domestic banking business mix translates into a generally low risk profile and contributes to the stability of its earnings, which historically is a key characteristic of the group. It is Moody's understanding that Rabobank was the main beneficiary of the crisis in the Netherlands and that it managed to improve its relative position in the market vis-a-vis its competitors.

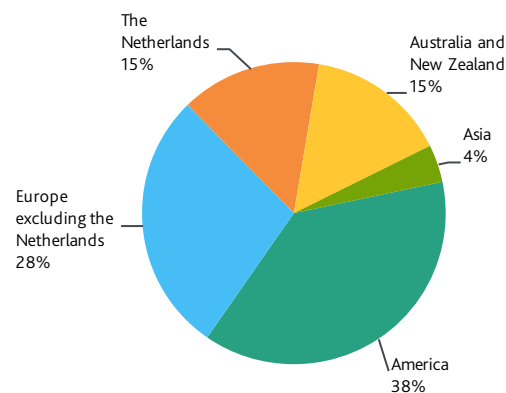
Admittedly, its non-banking operations including insurance (a 39% stake in Eureko), property (Rabo Real Estate Group) and leasing (De Lage Landen) introduce a higher level of earnings volatility than Rabobank's traditional retail banking activities. However, those more volatile operations are deemed less core by Rabobank and could be disposed of, should opportunities arise.

GEOGRAPHICAL DIVERSIFICATION

Meaningful international presence

International operations are now an area of strategic importance to Rabobank. This is being pursued through its "international retail" strategy focusing on the agri business in a selected number of countries (Poland, Ireland, the United States, Australia and New Zealand) while the global financial markets activities have been curtailed. Rabobank's international expansion has generally been of solid quality but its diverse and growing international footprint marginally raises Rabobank's risk profile, in Moody's opinion.

Figure 4
Loan Portfolio of Rabobank International by Geography (FY 2009)



Source: Rabobank Annual Report 2009.

EARNINGS STABILITY AND EARNINGS DIVERSIFICATION

A retail focus, overall

The bulk of Rabobank's earnings stems from its domestic retail banking operations, as well as its wholesale & international retail banking activities, which include traditional lending to the Dutch corporate sector and to the food & agri sector worldwide (altogether 89.5% of the bank's reported result before tax in 2009). We view this predominance of retail and traditional lending activities as positive in terms of earnings stability over the medium-to-long term.

In the short term, we expect the profitability of Rabobank's retail banking activities to remain somewhat constrained given the lacklustre macroeconomic environment and our expectation that the cost of risk in most countries where it operates will remain high. Therefore, Rabobank could witness increased earnings volatility in the coming quarters, but obviously less than peers with significant financial markets activities.

Risk Positioning

CORPORATE GOVERNANCE

A typical mutualist governance

The executive board of Rabobank Nederland is appointed by and reports to the supervisory board for a four-year period and is responsible for the management of Rabobank Nederland and its affiliated entities. The members of the independent local Rabobanks exercise influence at a local level. Local Rabobanks also play a part in the policy-making within Rabobank's organisation. An assembly of local Rabobank members meets four times a year and allows the members to yield influence in all strategic decisions.

Although the Dutch Corporate Governance Code does not apply to the cooperative as a legal form of enterprise, Rabobank Nederland's corporate governance is broadly consistent with this Code. Rabobank also endorsed the Banking Code, which was adopted in 2009 by the Netherlands Bankers' Association. Moody's views the corporate governance of Rabobank Group as typical of a cooperative organisation and sees it as satisfactory.

CONTROLS AND RISK MANAGEMENT

A prudent culture

The bank has prudent risk management practices. We expect that Rabobank's tradition of tight credit process will continue to play a very important part in maintaining its very good and historically stable credit quality. In particular, we note its longstanding tradition of scoring wholesale and other corporate credits, evaluating these through a credit function that has independent reporting lines and an above-average frequency of exposure reviews. The latter are determined by the latest internal score, leading to early alerts and tightly defined credit delegations across the group, single obligor exposure monitoring and limit-setting capturing the exposures of all member banks (as well as all units holding securities).

FINANCIAL REPORTING TRANSPARENCY

Adequate transparency

Rabobank does not provide quarterly financial reports, but annual and semi-annual reports comprise all necessary information and adequate discussion on risks.

CREDIT RISK CONCENTRATION

No significant concentration risks

We note that Rabobank fares better than its Dutch peers with regards credit risk concentration, mainly thanks to the bank's focus on retail activities. Rabobank has, however, like its peers, high group exposures towards other financial institutions, although we note the bank's conservative selection and the limited number of financial institution counterparties.

Apart from due from other banks (€35.6 billion, or 5.9% of total assets), Rabobank's only significant risk concentration resides in the private sector lending; these loans to private customers accounted for 48% of all loans to customers as at year-end 2009. The proportion of the total loan portfolio attributable to the food & agri sector was 17% in 2009. The proportion of the total loan portfolio attributable to trade, industry and services was 35% at year-end 2009. Loans to trade, industry and services and loans to the food & agri sector were both spread over a wide range of industries in many different countries. None of these shares represented more than 10% of the total client loan portfolio.

Figure 5

Rabobank's Credit Risk Concentration (in % of unweighted loans)

	FY 2007	FY 2008	FY 2009
Private Individuals	51%	47%	48%
Trade, Industry and Services	33%	36%	35%
Food & Agri	17%	17%	17%
Total	100.0%	100.0%	100.0%

Source: Moody's Investors Service, Rabobank Group's 2008 and 2009 annual reports.

LIQUIDITY MANAGEMENT

Strong liquidity management supported by retail focus

Moody's notes that the bank's liquidity is actively managed, which enabled it to maintain a relatively strong liquidity position even through the turmoil in late 2008.

Liquidity management is viewed as a strength given the bank's significant retail deposit base, which has proved more than resilient since the beginning of the financial crisis, and especially since the turmoil of September/October 2008. We also note that Rabobank was one of the few institutions worldwide capable of maintaining its access to market funding all through the liquidity squeeze in 2008.

MARKET RISK APPETITE

Low market risk appetite

Market risk appetite is low and has shown little volatility. We note for instance that Rabobank has decided to scale down its non-client-related operations undertaken at global financial markets as a result of the market turmoil. We view this decision as a positive factor in maintaining the bank's low risk profile and ensuring that potential losses remain within its risk appetite.

Regulatory Environment

In common with other banks incorporated in the Netherlands, Rabobank is first and foremost subject to the Dutch regulatory environment.

For a detailed discussion of the Dutch regulatory environment, please refer to Moody's latest 'Banking System Outlook: the Netherlands' published in July 2009.

Operating Environment

This factor is common to all Dutch banks. For detailed discussion on the Dutch operating environment, please refer to Moody's latest 'Banking System Outlook: the Netherlands', published in July 2009.

In light of the sizeable operations conducted outside of its home country, we have assessed Rabobank's overall operating environment and the outcome is slightly below Moody's perception of the operating environment for the Netherlands, although this does not weigh on our overall perception of the bank's intrinsic creditworthiness.

Discussion of Quantitative Rating Drivers

Profitability

Pressure stemming from subdued macroeconomic environments

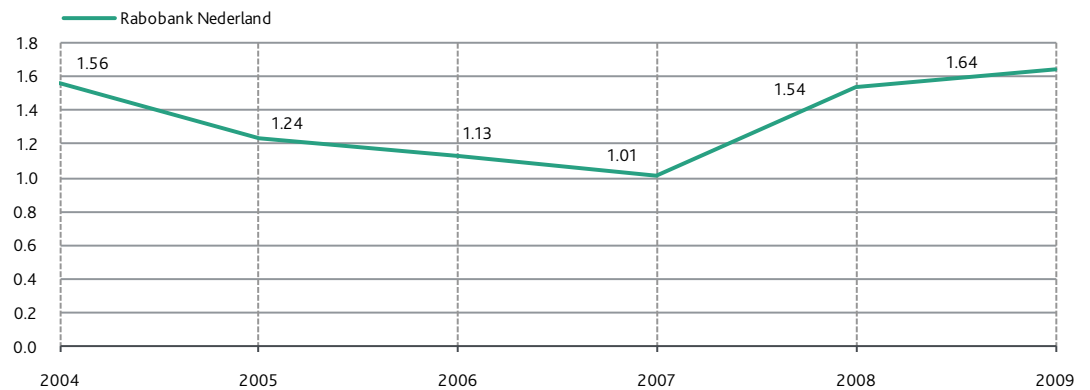
As a co-operative group, Rabobank does not focus on maximising profitability, but rather on providing its members with lower service charges. This results in lower profitability metrics relative to peers rated in the same category, as shown by the pre-provision profit as a percentage of risk-weighted assets (PPP % RWA), which stood at 1.70% at year-end 2009.

We believe that profitability metrics should be adjusted to reflect the co-operative nature of Rabobank's business and the impact it has on the bank's profit and loss account. When doing so, we view Rabobank's profitability as satisfactory.

We further note that the bank seeks stability of earnings and a conservative balance sheet as its key objectives and we view positively the bank's low earnings volatility over a multi-year (over ten years) time frame.

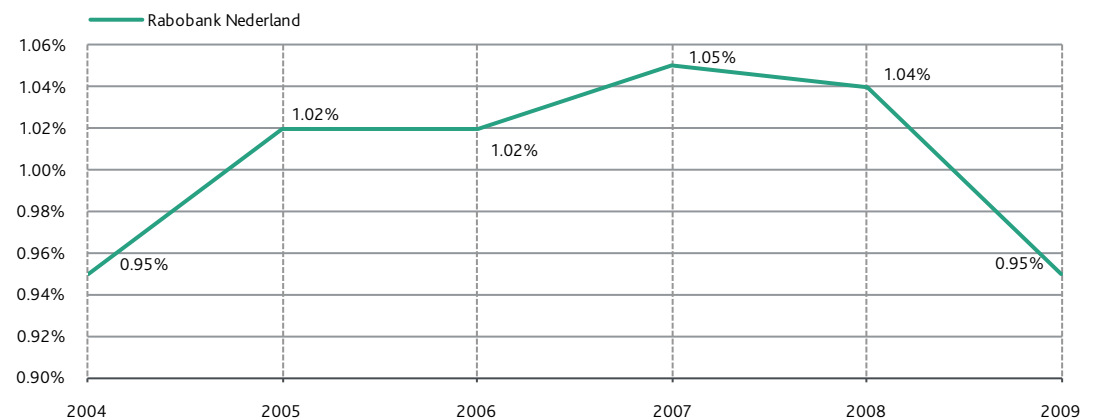
Moody's notes that Rabobank's cost of risk increased to 45 bps of gross loans in 2009 from 28 bps in 2008 and 7 bps in 2007 (Moody's own estimates). Admittedly, 2006 and 2007 were extremely favourable to banks in terms of asset quality, but Rabobank's cost of risk, in line with that of its Dutch peers, may rise as a result of subdued macro-economic conditions. However, we expect Rabobank to be in a better position given its tight underwriting policies (for more details, please refer to the Risk Positioning section, above).

FIGURE 6
Risk-Weighted Recurring Earning Power (PPI % avg. RWA)



Source: Moody's.

FIGURE 7
Net Income % Average Risk Weighted Assets



Source: Moody's.

Liquidity

Supported by a solid retail base

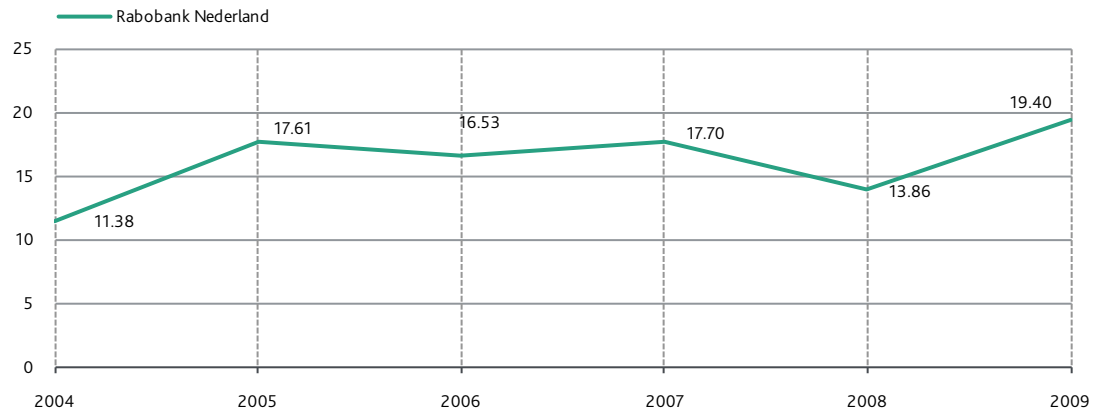
Rabobank's liquidity is managed centrally and is tightly controlled across the group. We have no concerns about the quality of the bank's liquidity management.

At year-end 2009, the group had the following funding sources:

- » Deposits (demand and savings), accounting for 59.3% of total funding and covered 66.0% of outstanding loans and mortgages.
- » Interbank (4.6% of total funding);
- » Market funds (35.6% of total funding); and
- » Subordinated debt excluding hybrids (0.5% of total funding).

(The percentages above are calculated as the proportion of each contributor relative to the sum of the above listed items.)

FIGURE 8
Market funds - liquid assets ratio (%)



(Due to banks + Market funds + Subordinated debt - Cash & central bank - Due from banks - Securities) / Total Assets
Source: Moody's.

As a bank primarily focused on the retail and agricultural businesses, Rabobank has a low proportion of liquid assets on its balance sheet, which mainly consists of loans and advances. We estimate that liquid assets accounted for 17.7% of total assets at year-end 2009 (estimated as the sum of cash, due from central banks, interbank and securities). We however view the bank's securities portfolio to be of higher than average quality. Also, the bank has secured additional liquidity buffers by internally securitising part of its loan portfolio to make them eligible for central bank refinancing. These additional buffers are reflected neither in the balance sheet, nor in the percentages above.

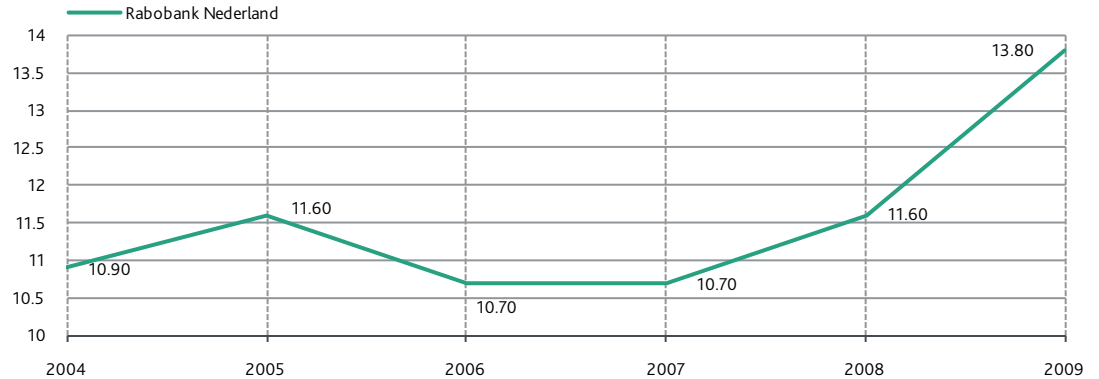
We further note that the proportion of liquid assets - excluding securitised loans as described above - decreased to 17.7% at year-end 2009, from 25.2% at year-end 2007 (YE 2006: 28.6%; YE 2005: 32.2%) as a consequence of the steady growth of the loan portfolio over the same period and the slight attrition of securities and interbank investments, in line with the bank's conservative risk profile. It was slightly up from 16.6% at year-end 2008 to 17.7% at year-end 2009, thanks to a stabilisation of the loan portfolio and an increase in cash.

Capital Adequacy

Provides adequate buffer

FIGURE 9

BIS Tier 1 Ratio (%)



Source: Moody's.

Rabobank's capital adequacy is solid and is a key element underpinning the current ratings. At year-end 2009, the Tier 1 ratio stood at 12.6% under Basel II (Moody's estimates with 80% transitional floor) and at 13.8% unfloored (as disclosed by the bank). It is our understanding that the bank aims to maintain its unfloored Tier 1 ratio in excess of 12.5%.

We note that RWAs are expected to decrease significantly as a result of the reduction of the floor imposed during the period of transition to Basel II. This is mainly explained by the high proportion of mortgage loans on Rabobank's balance sheet, as well as by collateral being taken into account in the calculation of required capital for corporate loans. In that respect, we note that the Basel Committee stated in July 2009 that capital floors will be kept in place beyond YE 2009, by which time Basel II is supposed to be fully implemented (i.e. without the transitional floors), thereby postponing the positive impact on Rabobank's solvency ratios.

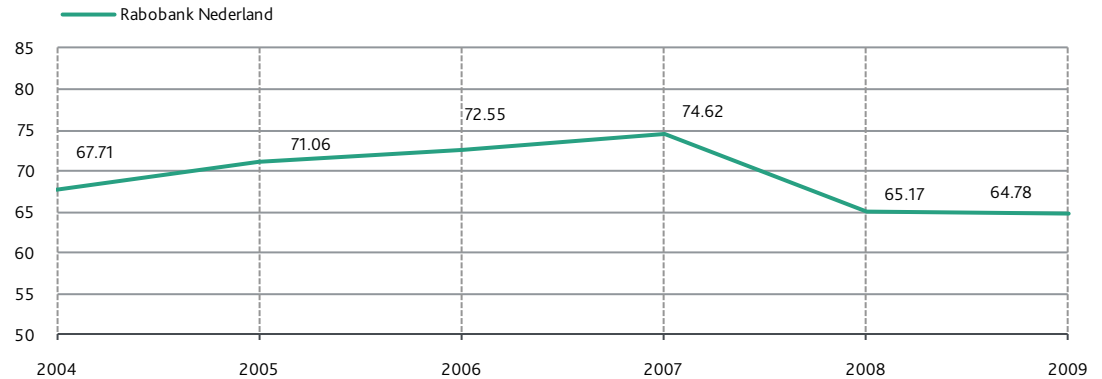
The bank has been able to maintain its solid capital adequacy in part through issuing membership certificates (MCs), which are recognised by the Dutch central bank as core Tier 1 capital, as well as through the issuance of trust preferred securities (TPS) and capital securities. We view the MCs as having extremely strong equity-like features.

Efficiency

Remains relatively low but improved in the recent period

FIGURE 10

Cost - Income Ratio (%)



Source: Moody's

Like its profitability, Rabobank's efficiency should be analysed in the context of the bank's co-operative structure and objectives. As the bank does not aim to maximise profitability, but rather tries to provide its members with low service charges, the cost-to-income ratio may appear to be inferior to that of peers in the same rating category.

We believe that Rabobank's profitability metrics should be adjusted to reflect the co-operative nature of its business and the impact it has on the bank's profit and loss account. However, even when doing so, we perceive Rabobank's efficiency to be relatively weak, albeit improving.

We note that Rabobank has made a concerted effort in recent years to improve efficiency across the group and in particular at the local Rabobanks via a programme it has named "Operation Service". The objective of Operation Service is to generate cost savings of EUR 200 million and to gradually reduce the number of full-time equivalent (FTE) employees by a further 1,200 at Rabobank Nederland. The bank also introduced a scorecard of performance measures for the local Rabobanks as a means of enhancing operating standards across the network. In addition, the number of local Rabobanks has been declining steadily as banks have merged and group functions have been streamlined; the total fell to 147 at year-end 2009. A programme, "Rabobank 2010", has been established to create more efficient processes within local banks.

Asset Quality

Lacklustre macroeconomic environments will weigh on asset quality

We view the bank's asset quality as strong due to its conservative underwriting policies with a stable and low level of impaired loans. Historically, Rabobank has experienced very low credit losses, which have been in the narrow range of between 13 and 28 basis points of gross loans (according to Moody's estimates).

This has been driven by the high proportion of domestic loans to individuals (around 67% of total loans at year-end 2009) coupled with the high proportion of mortgage loans in its loan book and the sound level of collateralisation of the impaired loans.

Moody's notes that Rabobank's cost of risk increased to 45 bps of gross loans in 2009 from 28 bps in 2008 and 7 bps in 2007 (Moody's own estimates). We expect Rabobank's cost of risk to rise further as a result of the subdued macro-economic environment. However, we also expect Rabobank to be in a relatively better position given its tight underwriting policies (for more details, please refer to the Risk Positioning section, above).

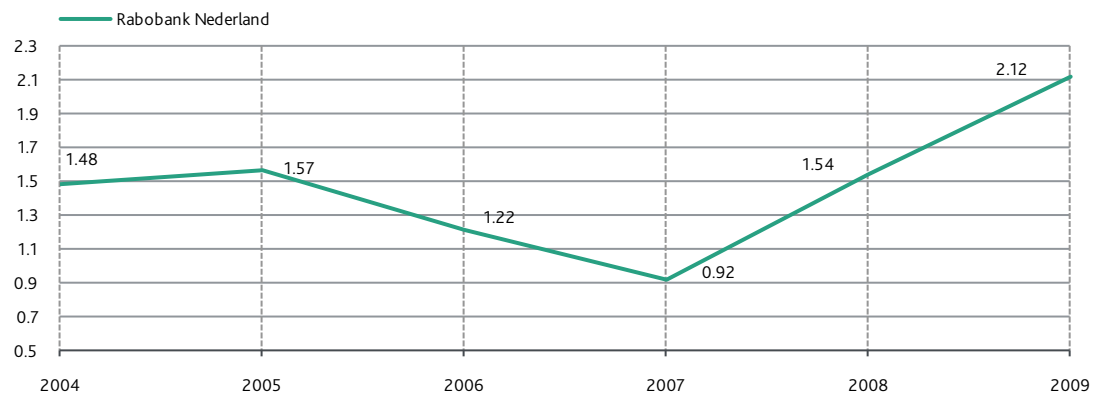
FIGURE 11
Evolution of Rabobank's cost of risk (in % of unweighted loans)

	FY 2007	FY 2008	FY 2009
Cost of risk (annualised) (1)	0.07%	0.28%	0.45%

(1) As percentage of gross loans at end of period.

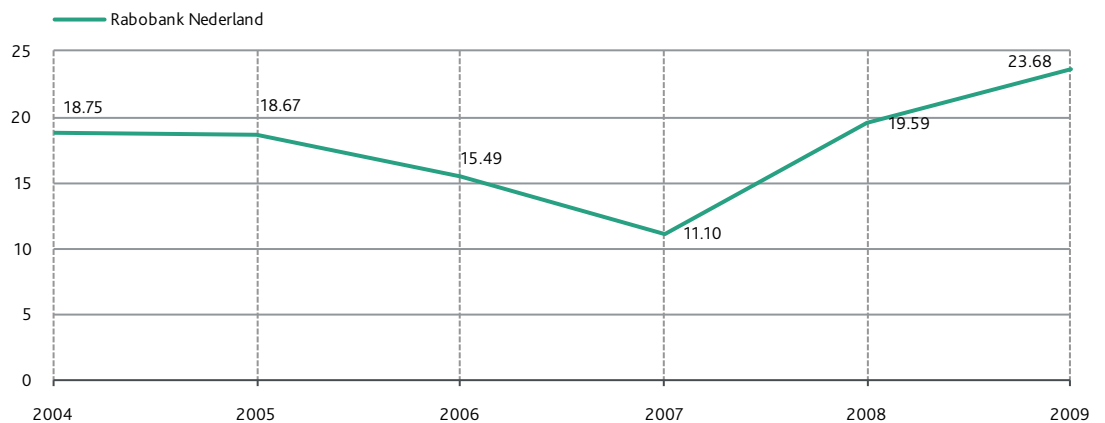
Source: Moody's Investors Service

FIGURE 12
Problem Loans % Gross Loans



Source: Moody's

FIGURE 13
Problem Loans % (Shareholders' Equity + LLR)



Source: Moody's

Discussion of Support Considerations

Very high probability of systemic support results in two-notch uplift for deposit rating

Moody's assigns a long-term Global Local Currency deposit rating of Aaa to Rabobank Nederland. This rating is supported by Rabobank Nederland's Baseline Credit Assessment of Aa2 (which is mapped from the BFSR of B+, please see Figure 14) and by Moody's assessment that there is a very high probability of systemic support, which is based on its key position in the Dutch banking system. This results in a two-notch uplift for this rating from the bank's Baseline Credit Assessment.

The Netherlands are, in Moody's view, a low-support environment country but Moody's assessment of the probability of support for Rabobank Nederland results from its operations and its importance in the Netherlands as well as taking account of the potential for disruption to the Dutch financial market that could result from the failure and default of such an important institution.

The deposit/debt ratings are Aaa/Prime-1.

Discussion of Support Considerations

FIGURE 14:

Mapping the BFSR to the Baseline Credit Assessment (BCA)

The discussions of qualitative and quantitative rating drivers presented in this report forms the analytical basis for assigning a Bank Financial Strength Rating (BFSR) of “B+” to **Rabobank Nederland**.

BFSRs are Moody's opinions on the intrinsic safety and soundness of a bank enterprise and, in effect, address the susceptibility of a particular institution to financial distress.

The BFSR array of ratings is not on Moody's traditional rating scale (Aaa, Aa, etc.). There is a useful method, however, for translating BFSRs to Moody's traditional scale – the baseline credit assessment. In effect, the baseline credit assessment measures a bank's stand-alone default risk assuming there is no systemic or other external support.

Rabobank Nederland's “B+” BFSR maps to a baseline credit assessment of Aa2, yet, considering external support factors, its deposit ratings are Aaa.

BFSR/Baseline Risk Assessment Mapping for Rabobank Nederland

BFSR	BASELINE CREDIT ASSESSMENT (BCA)
A	Aaa
A-	Aa1
B+	Aa2
B	Aa3
B-	A1
C+	A2
C	A3
C-	Baa1
C-	Baa2
D+	Baa3
D+	Ba1
D	Ba2
D-	Ba3
E+	B1
E+	B2
E+	B3
E	Caa1
E	Caa2
E	Caa3

Company Annual Statistics

Rabobank Nederland

	12/31/09	[8]12/31/08	12/31/07	12/31/06	12/31/05
Summary Balance Sheet (EUR million)					
Cash & central bank	16,565	7,105	2,129	1,630	2,923
Due from banks	35,641	33,776	43,218	49,086	53,065
Securities	55,650	60,894	98,526	108,707	107,012
Gross loans	438,439	420,322	375,260	357,840	306,889
Loan loss reserves (LLR)	-4,569	-3,299	-2,292	-2,916	-2,438
Insurance assets	--	--	--	--	--
Fixed assets	7,487	6,908	6,677	6,360	3,883
Other assets	58,485	86,414	46,985	35,748	35,239
Total assets	607,698	612,120	570,503	556,455	506,573
Total assets (USD million) [1]	871,889	850,876	834,105	733,771	597,529
Total assets (EUR million)	607,698	612,120	570,503	556,455	506,573
Demand deposits	286,338	304,214	249,515	234,917	186,427
Savings deposits [2]	--	--	--	--	--
Due to banks	22,429	23,891	73,428	94,626	109,749
Market funds	199,071	160,576	169,115	154,336	139,836
Insurance liabilities	--	--	--	--	--
Other liabilities	59,400	87,821	44,776	40,749	41,567
Total liabilities	567,238	576,502	536,834	524,628	477,579
Subordinated debt	2,362	2,159	2,294	2,450	2,645
Shareholders' equity	34,675	29,820	28,662	25,193	23,353
Total capital funds	40,460	35,618	33,669	31,827	28,994
Total liabilities & capital funds	607,698	612,120	570,503	556,455	506,573
Derivatives - notional amount	--	2,540,166	2,323,804	2,193,641	--
Derivatives - replacement value	39,091	66,759	26,089	18,992	--
Contingent liabilities	--	42,651	47,738	47,369	68,898
Risk weighted assets (RWA)	233,372	238,080	266,573	247,458	213,901
Assets under management (EUR million) [3]	230,400	183,600	301,300	291,200	224,200
Number of employees	59,311	60,568	52,655	48,076	45,580
Summary Income Statement					
=+Interest income	19,766	27,245	29,356	25,059	19,716
=-Interest expense	11,720	18,728	22,585	18,587	13,455
=Net Interest income	8,046	8,517	6,771	6,472	6,261
=+Trading income	-88	-1,206	-451	246	-146
=+Fee & commission income	2,575	2,889	2,857	2,296	2,060
=+Insurance income (Net)	--	--	--	--	--
=+Dividend income and other operating income	742	1,478	1,092	479	609

Rabobank Nederland

	12/31/09	[8]12/31/08	12/31/07	12/31/06	12/31/05
=operating income	11,275	11,678	10,269	9,493	8,784
=-Personnel expenses	3,869	4,290	4,400	4,117	3,880
=-other operating expenses	2,908	2,796	2,779	2,429	2,031
= operating funds flow	4,498	4,592	3,090	2,947	2,873
=-Amortisation/depreciation	527	525	484	341	331
(Total operating expenses)	7,304	7,611	7,663	6,887	6,242
=Pre-provision income (PPI)	3,971	4,067	2,606	2,606	2,542
=-Loan loss provisions	1,959	1,189	266	450	517
+Impairment of goodwill, fixed assets and investments [4]	--	--	--	--	--
=+Result of subsidiaries and associates	592	-26	753	556	579
=+Non-recurring items	--	--	--	--	--
=Pretax income	2,604	2,852	3,093	2,712	2,604
=-Taxes	316	98	397	367	521
=Net income	2,288	2,754	2,696	2,345	2,083
=-Minority interests	109	155	303	201	184
=Net income (group share)	2,179	2,599	2,393	2,144	1,899
Growth Rates (%)					
Gross loans	4.31	12.01	4.87	16.6	11.21
Total assets	-0.72	7.29	2.52	9.85	4.76
Customer deposits (demand and savings)	-5.88	21.92	6.21	26.01	7.4
Net interest income	-5.53	25.79	4.62	3.37	1.07
Fee and commission income	-10.87	1.12	24.43	11.46	10.04
Operating expenses	-4.03	-0.68	11.27	10.33	1.05
Pre-provision income	-2.36	56.06	0	2.52	-13.71
Net income	-16.16	8.61	11.61	12.9	16.57
Income Statement in % Average Risk-Weighted Assets					
Net interest income	3.33	3.38	2.63	2.81	3.05
Trading income	-0.04	-0.48	-0.18	0.11	-0.07
Fee and commission income	1.07	1.14	1.11	1	1
Insurance income	--	--	--	--	--
Operating income	4.67	4.63	4	4.12	4.29
Operating expenses	3.02	3.02	2.98	2.99	3.05
Pre-provision income	1.64	1.61	1.01	1.13	1.24
Loan loss provisions	0.81	0.47	0.1	0.2	0.25
Extraordinary profit	0	0	0	0	0
Net income	0.95	1.09	1.05	1.02	1.02

Rabobank Nederland

	12/31/09	[8]12/31/08	12/31/07	12/31/06	12/31/05
Liquidity, Funding (including sub debt) & Balance Sheet Composition					
Avg. liquid assets % avg. total assets	17.17	20.74	27.81	31.01	33.21
Avg. gross loans % avg. total assets	70.78	67.7	64.08	61.98	58.33
Avg. customer deposits % avg. total funding	57.95	55.31	47.78	44.62	43.03
Avg. interbank funds % avg. total funding	4.77	10.38	18.52	22.31	24.25
Avg. market funds (excl. interbank) % avg. total funding	36.83	33.87	33.21	32.53	32.07
Avg. sub debt % avg. total funding	0.46	0.44	0.48	0.55	0.65
Avg. liquid assets % avg. customer deposits	35.99	44.63	66.92	79.6	93.33
Avg. gross loans % avg. customer deposits	148.36	145.7	154.21	159.09	163.94
Avg. market funds reliance [5]	19.11	11.39	1.63	-4.4	-11.9
Avg. RWA % avg. total assets	39.5	43.25	44.86	43.68	40.99
Breakdown of Operating Income in %					
Net interest income % operating income	71.36	72.93	65.94	68.18	71.28
Trading income % operating income	-0.78	-10.33	-4.39	2.59	-1.66
Fee & commission income % operating income	22.84	24.74	27.82	24.19	23.45
Insurance income % operating income	--	--	--	--	--
Other operating income % operating income	6.58	12.66	10.63	5.05	6.93
Profitability					
Yield on avg. earning assets (%)	3.76	5.32	5.6	5.12	4.37
Cost of interest bearing liabilities (%)	2.33	3.82	4.53	4.03	3.25
Net interest margin (%) [6]	1.53	1.66	1.29	1.32	1.39
Recurring earning power (Pre-prov. inc. % avg. assets)	0.65	0.7	0.45	0.49	0.51
Risk-weighted recurring earning power (PPI % avg. RWA)	1.64	1.61	1.01	1.13	1.24
Post-provision income % avg. assets	0.33	0.49	0.41	0.41	0.4
Post-provision income % avg. risk weighted assets	0.83	1.14	0.91	0.93	0.99
Return on average assets (%)	0.37	0.47	0.47	0.44	0.42
Return on avg. RWA (%)	0.95	1.09	1.05	1.02	1.02
Post-provision income % tier 1 capital	6.25	9.48	8.22	8.17	8.15
Return on equity (period end) (%)	6.28	8.72	8.35	8.51	8.13
Net interest income coverage of loan loss provisions	4.11	7.16	25.45	14.38	12.11
Loan loss provisions % pre-provision income	49.33	29.24	10.21	17.27	20.34
Pre-tax income % operating income	23.1	24.42	30.12	28.57	29.64
Internal capital growth (%)	7.31	9.07	9.5	9.18	9.62
Dividend payout ratio (%)	--	--	--	--	--

Rabobank Nederland

	12/31/09	[8]12/31/08	12/31/07	12/31/06	12/31/05
Efficiency					
Cost/income ratio (op. expenses % op. income) [7]	64.78	65.17	74.62	72.55	71.06
Adjusted cost/income ratio (incl. non-operating items)	59.53	65.4	67.29	66.69	64.47
Operating expenses % average assets	1.19	1.3	1.34	1.3	1.25
Operating income / employee (EUR thousand)	190.1	192.81	195.02	197.46	192.72
Operating expenses / employee (EUR thousand)	123.15	125.66	145.53	143.25	136.95
PPI / employee (EUR thousand)	66.95	67.15	49.49	54.21	55.77
Asset Quality and Risk Measurement					
Problem loans % gross loans	2.12	1.56	0.92	1.22	1.57
LLR % problem loans	49.16	50.19	66.72	66.96	50.64
LLR % gross loans	1.04	0.78	0.61	0.81	0.79
Loan loss provisions % gross loans	0.45	0.28	0.07	0.13	0.17
Problem loans % (shareholders' equity + LLR)	23.68	19.85	11.1	15.49	18.67
Replacement value % shareholder's equity	112.74	223.87	91.02	75.39	--
Capital Adequacy (Period End)					
Tier 1 ratio (%)	13.8	12.7	10.7	10.7	11.6
Total capital ratio (%)	14.1	13	10.9	11	11.8
Shareholders' equity % total assets	5.71	4.87	5.02	4.53	4.61
Equity participations % shareholders' equity	11.7	11.59	15.9	12.9	12.72

Footnotes:

[1] Historical exchange rates are applied accordingly for USD and EUR figures.

[2] Full disclosure may not be available for all years. The amount is then included in demand deposits.

[3] As reported by the bank.

[4] Includes goodwill amortisation (pre-IFRS).

[5] Avg. [(market funds-liquid assets) % (earning assets-liquid assets)].

[6] Although not part of net interest income calculation, the NIM includes dividend income.

[7] Cost/income ratio excludes goodwill amortisation, which is included together with net non-operating income in the adjusted cost/income ratio.

[8] Statement period in which the bank switched to Basel II accounting framework.

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Banking System Outlook:

- » [The Netherlands, July 2009 \(118424\)](#)

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- » [Frequently Asked Questions: Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt – November 17, 2009 \(120614\)](#)

Rating Methodology:

- » [Bank Financial Strength Rating methodology, February 2007 \(102151\)](#)
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