

RESEARCH

Research Update:

Rabobank Nederland Outlook Revised To Negative On Heightened Economic And Industry Risks; 'AAA/A-1+' Ratings Affirmed

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Overview

- We consider that Coöperative Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland) has performed relatively resiliently through the current economic and market turbulence.
- Nevertheless, it is experiencing elevated impairment losses and value adjustments on certain exposures.
- We are revising our outlook on Rabobank Nederland to negative from stable, and affirming our 'AAA/A-1+' counterparty credit ratings.
- The negative outlook reflects our expectation that the weak economic environment will continue to challenge the banking industry over the rating horizon.

Rating Action

On Dec. 8, 2009, Standard & Poor's Ratings Services revised its outlooks on Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland) and its subsidiaries Rabobank Australia Ltd. and Rabobank New Zealand Ltd. to negative from stable. At the same time, the 'AAA/A-1+' counterparty credit ratings on these entities were affirmed.

Rationale

The ratings on Rabobank Nederland reflect our view of its strong financial position, closely controlled risk profile, and leading franchise in The Netherlands.

To date, Rabobank Nederland has demonstrated relative resilience to the unfavorable economic and market environment in our view, largely due to its robust domestic retail business. Nevertheless, we see that following a strong overall performance in 2008, net earnings were 18% lower in the first half of 2009 due to increased impairment losses in Ireland and in certain Dutch corporate sectors. A further factor was domestic margin pressure caused by strong competition for deposits, which now appears to be abating. These factors were partly offset, we consider, by an easing of net losses on structured credit and monoline exposures to €253 million in the first half of 2009, from €1.2 billion in full-year 2008. According to the bank, Rabobank Nederland held €8.7 billion of structured credit assets at June 2009, of which 86% was 'AAA' rated, and had a €737 million exposure to monolines (net of value adjustments).

Rabobank Nederland's asset quality is anchored by its Dutch residential mortgage portfolio, which represents 45% of gross customer loans. Reported losses on this portfolio were 2 basis points (bps) in the first half of 2009, below the historic average of 3 bps. However, Rabobank Nederland's overall bad debt costs were 55 bps in the first half, above the 21 bps historic average and 31 bps charge in full-year 2008, due to the economic downturn in Ireland and, to a lesser extent, The Netherlands. Net charge-offs were less than 10 bps, but are likely to rise with unemployment and corporate insolvencies. The impairment allowances amassed in 2008-2009 should mitigate the risk of a further sharp increase in impairment losses in 2010, we believe, but we expect the charge to remain elevated.

As a mutual with no equity market access, Rabobank Nederland has consistently maintained a strong capital position, in our view. It targets a

Basel II Tier 1 ratio above 12.5% and the actual level at June 2009 was 13.0%. The pro forma risk-adjusted capital ratio after diversification adjustments was 8.3% at June 2009, which we think compares favorably with peers. Its funding and liquidity positions are strong and anchored by its market-leading domestic retail deposit base, which received a strong net inflow in 2008 and the first half of 2009 according to reported figures. We consider Rabobank Nederland to have high systemic importance within the Dutch banking system, reflecting its 40% share of the retail savings market at June 2009 and 30% share of residential mortgages.

Outlook

The negative outlook reflects our expectation that the weak economic environment will continue to challenge the banking industry over the rating horizon. We expect that Rabobank Nederland's balance sheet and performance will remain resilient relative to peers, but that it will be adversely affected by recessions in its key markets. In particular, we expect its impairment losses to remain elevated in the second half of 2009 and into 2010. A partial offset should come from an increasing net interest margin due to continued asset re-pricing and improved Dutch deposit spreads.

A negative rating action could result if we see that credit losses remain persistently high and Rabobank Nederland's risk-adjusted earnings fail to strengthen from the current level. We consider an important metric to be the coverage of impairment losses and value adjustments by preprovision earnings, excluding one-off items. In addition, a significant merger or acquisition would likely dilute its creditworthiness, in our view. The outlook could return to stable if we see a normalization of impairment losses and margins contributing to a strengthened underlying performance.

Related Research

- S&P Ratio Highlights Disparate Capital Strength Among The World's Biggest Banks, Nov. 30, 2009
- Industry Report Card: Government Support Is Pulling European Banks Through The Industry's Crisis And Recession, Nov. 25, 2009
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland) Counterparty Credit Rating	AAA/Negative/A-1+	AAA/Stable/A-1+
Rabobank New Zealand Ltd. Counterparty Credit Rating	AAA/Negative/A-1+	AAA/Stable/A-1+
Rabobank Australia Ltd. Counterparty Credit Rating	AAA/Negative/A-1+	AAA/Stable/A-1+
Rabohypotheekbank N.V. Counterparty Credit Rating	AAA/Negative/--	AAA/Stable/--

NB: This list does not include all ratings affected.

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