

RESEARCH

Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland)

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Major Rating Factors**Strengths:**

- Stable business profile anchored by market-leading position in The Netherlands.
- Relatively resilient performance during economic downturn and market turbulence.
- Steady long-term earnings performance.
- Robust capital and liquidity positions.
- Cautious culture and management philosophy.
- High systemic importance in The Netherlands.

Counterparty Credit Rating

AAA/Negative/A-1+

Weaknesses:

- Cyclical increase in impairment losses weighs on current profitability.
- Legacy exposures to structured credit and monoline insurers.
- Mutual status constrains ability to raise capital, if required.

Rationale

The ratings on Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (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, Standard & Poor's Ratings Services sees 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 is likely to 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 repricing 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.

Profile: Leading Dutch Retail Bank

Rabobank Nederland's roots are in financing the Dutch agricultural sector, in which it retained a dominant market share of 84% at June 2009. It is also the market leader in Dutch retail savings (40% market share at June 2009), residential mortgages (30%), and small and midsize enterprise (SME) banking (41%), and is selectively expanding in the large corporate segment. It has steadily grown internationally over a number of years, but Dutch activities continue to dominate assets and headcount. In total, Rabobank Nederland employed more than 60,000 staff in 46 countries at June 2009.

In The Netherlands, in addition to its retail and corporate banking activities, Rabobank Nederland has a variety of specialist subsidiaries. These include De Lage Landen (leasing), Robeco (asset management), FGH Bank and Bouwfonds (real estate), and Obvion (mortgage broking). In addition, Rabobank Nederland, through its local banks, is the largest insurance broker in The Netherlands and sources products from subsidiaries of Eureko B.V. (A-/Negative/--), in which it has a 39% stake.

Rabobank Nederland's non-Dutch activities are primarily focused on financing the food and agriculture sectors. Its international network is consequently focused on major agricultural centers in Europe, the Americas, and Australasia. It also conducts wholesale, commercial, and retail banking outside The Netherlands. Wholesale banking activities are carried out under the trading name Rabobank International, which is a division of Rabobank Nederland rather than a separate legal entity.

Support And Ownership: Cooperative Organization Structure

Rabobank Nederland has an unusual corporate structure. At June 2009, its domestic retail and SME banking activities were carried out by a network of 152 local banks, which collectively had just over 1,000 branches in The Netherlands. Rabobank Nederland is a mutual entity that acts as the central clearer for the local banks, which are in turn the sole owners of Rabobank Nederland. Rabobank Nederland is responsible for the supervision of the local banks' solvency, liquidity, and operations on behalf of the Dutch central bank. If a local bank gets into financial or operational difficulties, Rabobank Nederland has a variety of powers ranging from closer monitoring of the bank's activities to the replacement of its management. The system is bound together by a cross-guarantee scheme under which Rabobank Nederland and the local banks are liable for each other's obligations. Certain of Rabobank Nederland's specialist subsidiaries are also included within this scheme. We view Rabobank Nederland and the other parties to the cross-guarantee as a unified credit risk. For regulatory and financial reporting purposes, they are similarly treated as a consolidated organization.

The local banks are cooperative associations which aim to serve the interests of qualifying customers known as members, of which there were 1.7 million at June 2009. Members are not entitled to the capital or profits of the local banks. The number of local banks has fallen steadily as Rabobank Nederland encouraged mergers to generate economies of scale. We expect the number to stabilize around the current level.

While we consider Rabobank Nederland to be a highly systemically important institution within The Netherlands, the ratings do not include any uplift for extraordinary government support. The Dutch government has provided considerable capital and funding support to certain domestic banks and insurers in 2008-2009. Due to its strong stand-alone profile, we note that Rabobank Nederland has not needed to draw on any of this support.

Strategy: Consistent Approach

Reflecting its cooperative status, Rabobank Nederland typically takes a long-term approach to strategic development. Its stated aim is to be the leading universal bank in The Netherlands, and to consolidate its position as the global leader in financing the food and agricultural sectors. We expect that the Dutch market will remain its primary focus. Its stated financial objectives are to grow net profits by 10% per year, achieve a return on equity (ROE) of 10%, and maintain a Basel II Tier 1 ratio of at least 12.5%. Like other banks, the economic and market turbulence has caused Rabobank Nederland to increase attention on balance sheet usage and funding metrics. For example, management has said that future lending activity will largely be determined by the pace of deposit growth.

Due to Rabobank Nederland's high market shares in the retail and SME segments of the mature Dutch banking system, we consider that it has limited domestic growth potential in the medium term. However, the market turbulence since mid-2007 created opportunities for Rabobank Nederland to gain further market share in the near term at the expense of other Dutch

banks, which have experienced varying degrees of balance sheet pressure. The realization of these opportunities led to very strong domestic deposit and loan growth in 2008. This volume growth continued in the first half of 2009, but at a slower rate, and the effect on revenues was offset by significant liability spread pressure. In the Dutch large corporate segment, Rabobank Nederland's market share ranks behind those of The Royal Bank of Scotland PLC and ING Bank N.V., and it sees scope to win business selectively in the coming years. We expect that it will proceed cautiously, focusing on risk-adjusted returns. A further priority for Rabobank Nederland in domestic banking is to modernize the IT infrastructure and increase cost efficiency. We understand that a program known as "Rabobank 2010" is in the process of being implemented across the local banks to update and centralize back office processing, improve customer service through the branch and direct channels, and achieve cost savings.

Rabobank Nederland has reportedly adopted an "all finance" approach through its local banks to strengthen customer relationships and find more substantial growth prospects by offering a wider range of financial products to domestic retail, SME, and corporate customers. The subsidiaries operating in markets such as asset management and leasing are primarily focused on supporting this strategy. Similarly, we understand that the rationale for the stake in Eureko is to enable Rabobank Nederland to influence the supply and design of the insurance products sold by its branches. We continue to monitor the effect of the Eureko shareholding and the subsidiaries' activities on the stability and quality of Rabobank Nederland's earnings.

Internationally, Rabobank Nederland has announced that it is refocusing on food and agriculture financing, its core market. This has resulted in the rationalization of its financial markets operations, where we expect that Rabobank Nederland will concentrate going forward on client-related business and traditional treasury and balance sheet management functions. Certain other international activities are clearly outside Rabobank Nederland's core market--commercial real estate lending in Ireland is an example--and we expect that capital will be reallocated away from these areas over time.

Accounting: IFRS Reporter

Rabobank Nederland has prepared its accounts under International Financial Reporting Standards (IFRS) since the 2005 financial year. It historically reported remarkably stable earnings growth under Dutch generally accepted accounting principles (GAAP), but has encountered more volatility under IFRS. A key difference is that there is less scope under IFRS to smooth impairment charges over an economic cycle.

Under amendments to IAS39 (international accounting standards) and IFRS7, Rabobank Nederland reclassified €12.1 billion of trading and available-for-sale assets as loans during the second half of 2008. The reclassification of trading assets benefited net profit in 2008 by €393 million, but this was partly offset by an additional impairment of €203 million arising from the reclassification of available-for-sale assets. At year-end 2008, the carrying value of the reclassified assets exceeded their fair value by €1.9 billion.

The revaluation reserve on Rabobank Nederland's available-for-sale assets was negative €898 million at year-end 2008 and was broadly unchanged during the first half of 2009. Almost half of these net unrealized fair-value losses at year-end 2008 emanated from Eureko, which is accounted for using the equity method. Without the accounting reclassifications of available-for-sale assets to loans, Rabobank Nederland reported that the unrealized fair-value losses would have been €730 million higher at year-end 2008. It does not revalue any of its own debt.

Rabobank Nederland recognizes the funding status of its employee defined-benefit pension schemes using the corridor approach. At year-end 2007, unrecognized cumulative actuarial gains reached €1.9 billion and Rabobank Nederland elected to take part of this sum into earnings in 2008-2009. This boosted net profit in 2008 by €240 million.

Rabobank Nederland had €16.0 billion of asset-backed commercial paper outstanding at June 2009 from four conduit programs. These conduits have been fully consolidated since the introduction of IFRS. The underlying assets are loans originated by Rabobank Nederland and customers' loans and receivables. Rabobank Nederland's former structured investment vehicle, called Tango, was closed in early 2008 and the remaining assets became fully consolidated from that point.

Risk Profile And Management: Relatively Cautious Approach

Rabobank Nederland typically has a cautious risk appetite and management philosophy and, as a mutual, is not driven by short-term performance indicators. In our view, its relatively low risk profile is a key ratings strength. Rabobank Nederland has not been immune to the effects of the economic downturn and market turbulence, but it has performed more resiliently than many peers.

Rabobank Nederland's economic capital model illustrates that credit and transfer risk is the primary source of risk (see table 1).

Table 1

Economic Capital Allocation By Division And Risk Type, June 30, 2009

(%)

By division:

Domestic retail banking	36
Wholesale banking and international retail banking	32
Real estate	7
Leasing	5
Asset management and investment	4
Other (including Eureko stake)	16
Total	100

By risk type:

Credit and transfer risk	57
Interest rate and market risk	17
Operational and business risk	16
Other risks	10
Total	100

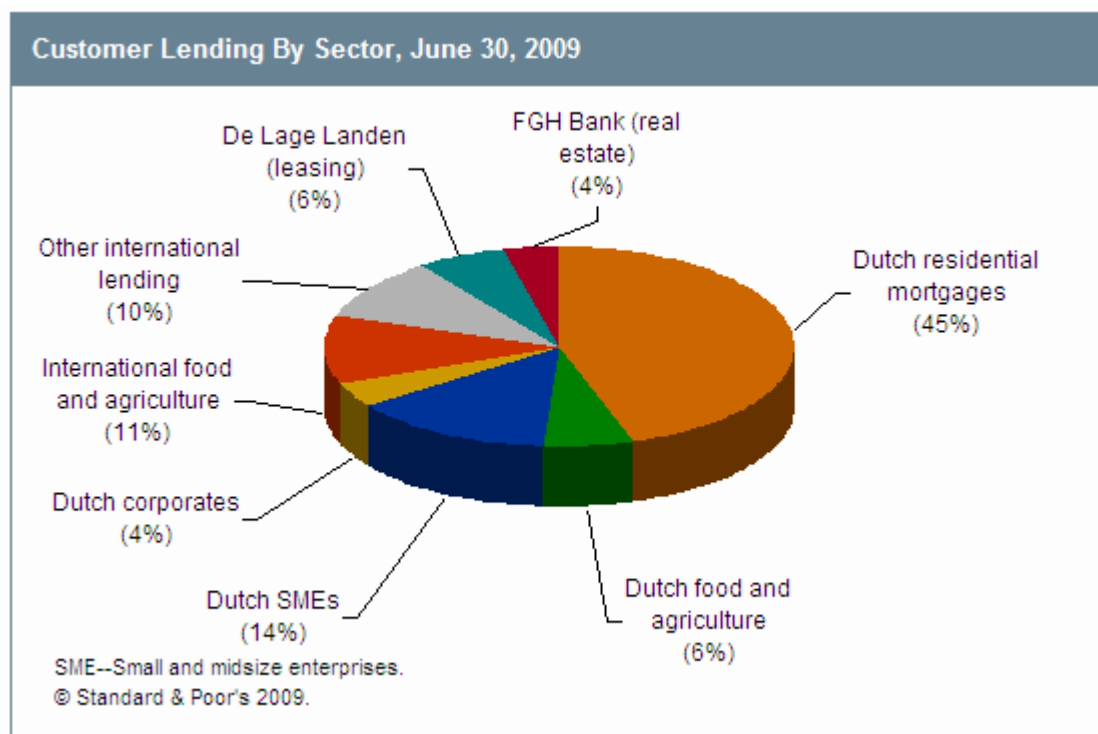
Enterprise risk management

We classify Rabobank Nederland's enterprise risk management as strong. This view reflects its risk governance and risk management approach as well as its generally conservative policies and culture.

Credit risk

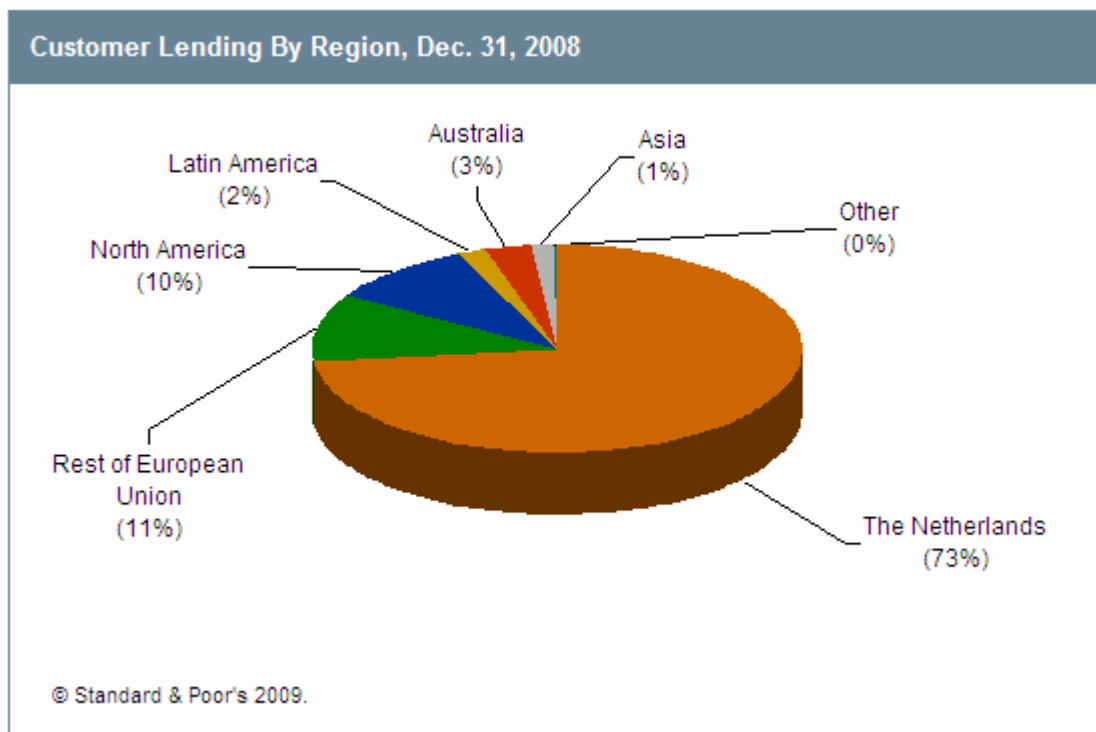
Rabobank Nederland's asset quality is underpinned by its large, prime Dutch residential mortgage book, which has shown resilience over a sustained period. The global food and agriculture loan book has also performed strongly. Nevertheless, Rabobank Nederland's provisioning increased markedly in the second half of 2008 and the first half of 2009 due to deteriorations in Irish commercial real estate and certain Dutch corporate sectors. We expect impairment losses to remain elevated into 2010, but to remain comfortably within Rabobank Nederland's preprovision earnings capacity. Rabobank Nederland believes that, when compared with other banks, it charges provisions against problem exposures at a relatively early stage. We consider that the impairment allowances amassed in 2008-2009 should mitigate the possibility of a further sharp increase in the impairment charge in 2010.

Chart 1



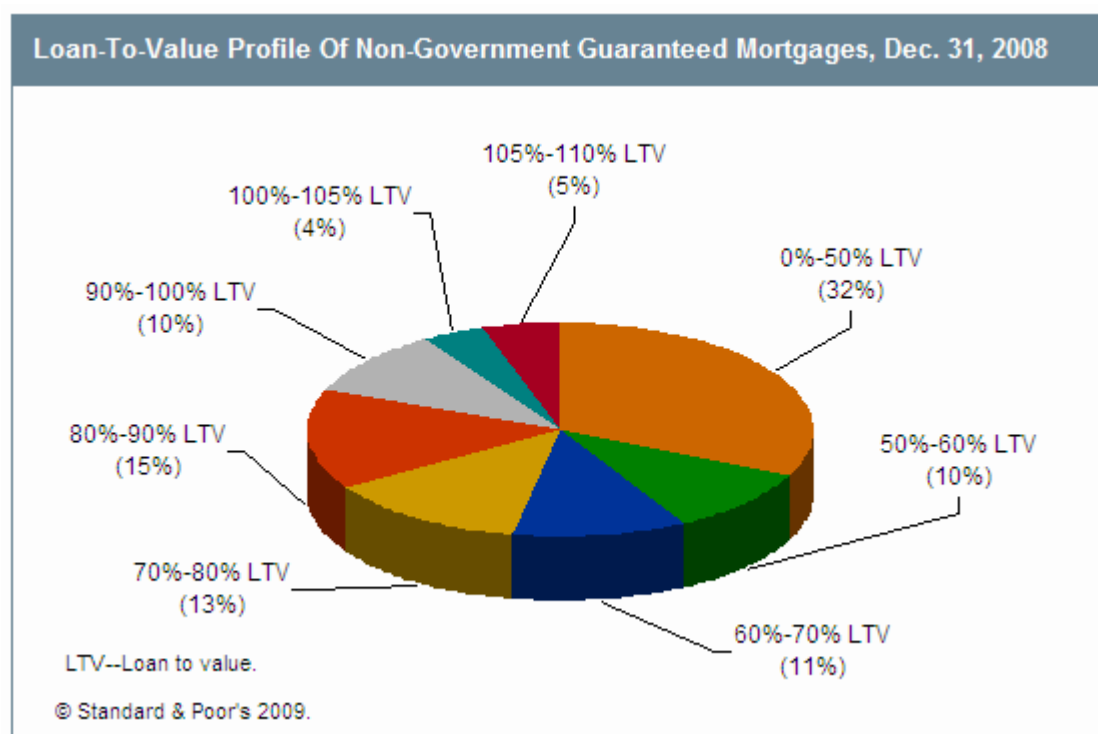
Customer lending represented 71% of the consolidated balance sheet at June 2009, and grew by 2% in the first half of the year. Of the gross loan portfolio, 47% was to private individuals, 17% to the food and agriculture sector, and the remaining 36% to the trade, industry, and services sectors. Domestic banking represents the majority of lending activity (see chart 1 and chart 2), and we believe this position is unlikely to change.

Chart 2



Loan losses on Rabobank Nederland's Dutch residential mortgage portfolio have averaged 3 bps per year historically, and were 2 bps in the first half of 2009. Some 10% of the portfolio is guaranteed under the Dutch government's National Mortgage Guarantee Scheme. The average loan to value (LTV) of the portfolio is 57%, but a little higher for the nonguaranteed element (see chart 3). LTV ratios and mortgage indebtedness are generally higher in The Netherlands than in many other continental European countries because most mortgage interest payments are tax-deductible. As a result, mortgage borrowers typically take out interest-only loans and build up funds in insurance or savings products to repay the loan principal at maturity. The Dutch housing market experienced relatively little speculation prior to 2007 as nonprime products are effectively prohibited by a lending code of conduct, the tax deductibility of mortgage interest applies only to first homes, and there are relatively high tax and legal costs on house purchases. As a result, house prices increased less dramatically than those in countries such as the U.S., U.K., Ireland, and Spain. In recent times, prices have fallen as a result of the Dutch recession and increased taxation on high value homes, but a shortage of housing stock is likely to limit the extent of the decline. In a three-year stress testing exercise including a 10% fall in house prices and a four percentage point increase in unemployment in each year, Rabobank Nederland estimated that loan losses on its domestic mortgage lending would peak in the third year at 30 bps, which indicates the relative resilience of the portfolio.

Chart 3



Under Dutch GAAP, Rabobank Nederland determined the level of provisions using a dynamic method based on a long-term weighted average. This smoothed the impairment charge around a long-run average of 21 bps of average loans. The provisioning policy has changed under IFRS to take account of a point-in-time estimate of incurred losses, leading to greater volatility in charges. The global economic deterioration caused loan losses to increase significantly in the second half of 2008 and first half of 2009. The impairment charge was 31 bps in the 2008 full year and 55 bps in the first half of 2009. Impaired loans represented 2.0% of private sector lending at June 2009 and balance sheet provisions covered 53% of provisioned loans.

The increase in the impairment charge since mid-2008 was, in our view, primarily driven by a severe deterioration in the commercial real estate market in Ireland, and to a lesser extent by the effect of the Dutch recession on domestic corporates. Rabobank Nederland had €5.6 billion of gross customer loans in Ireland at June 2009, which was just over 1% of its total portfolio, and roughly half of this was in commercial real estate and construction. Ireland's sharp recession and asset price declines in Ireland has had a significant adverse impact on Rabobank Nederland's commercial real estate exposure and resulted in high provisioning requirements. In The Netherlands, the greenhouse horticulture sector was weakened by low prices for its products, and this caused Rabobank Nederland to raise provisions in the first half of 2009. Other Dutch corporate sectors were also pressured by lower domestic and export demand. Looking forward, we expect that Rabobank Nederland's provisioning will remain elevated, and is likely to increase in the domestic portfolios due to the lagged effect of the Dutch recession. Internationally, the large amount of provisions taken to date on Irish real estate lending should mitigate the need for further charges, and this may offset the upward trend on the domestic portfolios.

Market risk

In common with many peers, Rabobank Nederland has reduced non-customer-related financial markets activity since mid-2007. It previously had a reasonably active trading business centered in New York and London, but has now downsized the balance sheet usage and headcount of these activities. This, together with the accounting reclassifications, is reflected in a much lower level of trading assets on its balance sheet. We expect that the financial markets unit will focus on customer-related flow business and traditional treasury functions going forward.

Calculated according to a historical simulation model with a one day holding period and 97.5% confidence interval, Rabobank Nederland's value at risk (VAR) averaged €39 million in 2008, which was 50% higher than in 2007. This was due to market volatility, which offset the reduced size of the underlying positions. It did not report VAR data for the first half of 2009.

Rabobank Nederland took €1.2 billion of post-tax charges on structured credit and monoline exposures in 2008, and a further €253 million in the first half of 2009. It held €8.7 billion of structured credit assets at June 2009, of which 86% were 'AAA' rated at that date (see table 2). This portfolio is in run-off and declined by €2.3 billion over the 12 months ending June 2009. Following the reclassifications in the second half of 2008, the vast majority of these exposures are now accounted for as loans. Rabobank Nederland took a €74 million post-tax charge on the structured credit portfolio in the first half of 2009, primarily against U.S. exposures. The first half charge on monolines was €179 million. Rabobank Nederland's notional exposure to monolines net of the fair value of the hedged investment was €1.8 billion at June 2009. It had taken €1.0 billion of provisions against this exposure, leaving a residual counterparty risk of €737 million. We consider that further

provisions on Rabobank Nederland's structured credit and monoline risks are probable, but the run rate appears likely to be similar to or lower than the level seen in the first half of 2009.

Table 2

Structured Credit Exposures By Product And Rating, June 30, 2009

By product (Bil. €)

Nonsubprime RMBS	3.9
CDOs, CLOs, and other corporate exposures	2.3
Commercial real estate	1.3
Other ABS	0.9
ABS CDOs	0.2
U.S. subprime	0.2

By rating (%)

AAA	86
AA	6
A	2
BBB or lower	6

CDO--Collateralized debt obligations. CLO--Collateralized loan obligations. RMBS--Residential mortgage-backed securities. ABS--Asset-backed securities.

Funding and liquidity risk

Rabobank Nederland has coped well with the reduced level of liquidity in international funding markets since mid-2007. This is due to the management of its balance sheet, particularly its self-imposed requirement that customer lending must be broadly matched by deposits and long-term funding (see table 3). Deposits historically comprised a higher proportion of total funding, but strong competition in the mature Dutch market has required greater diversification.

Table 3

Rabobank Nederland--Balance Sheet, June 30, 2009

(%)

Assets

Loans	71
Securities	9
Banks and cash	8
Derivatives	7
Other	5
Total	100

Liabilities

Deposits	46
Long-term funding	20
Short-term funding	13
Banks	4
Derivatives	9
Other	2
Capital	7
Total	100

Due to pressures on other Dutch banks, Rabobank Nederland's deposit base has benefited from a "flight to quality" effect during the current market turbulence. This was most apparent in 2008 and was largely achieved without matching market-leading interest rates. Dutch customer deposits increased by €25 billion, or 16%, in 2008, and by a further €5.5 billion in the first half of 2009. Reliance on short-term wholesale funding has declined due to this deposit growth, as well as a lengthening of the maturity profile of wholesale funding and the downsizing of the financial markets business. Unlike its major Dutch competitors, Rabobank Nederland has not needed to make use of government guarantees on debt issues. It retains comparatively good access to wholesale funding markets and has been active in issuing term debt in 2009.

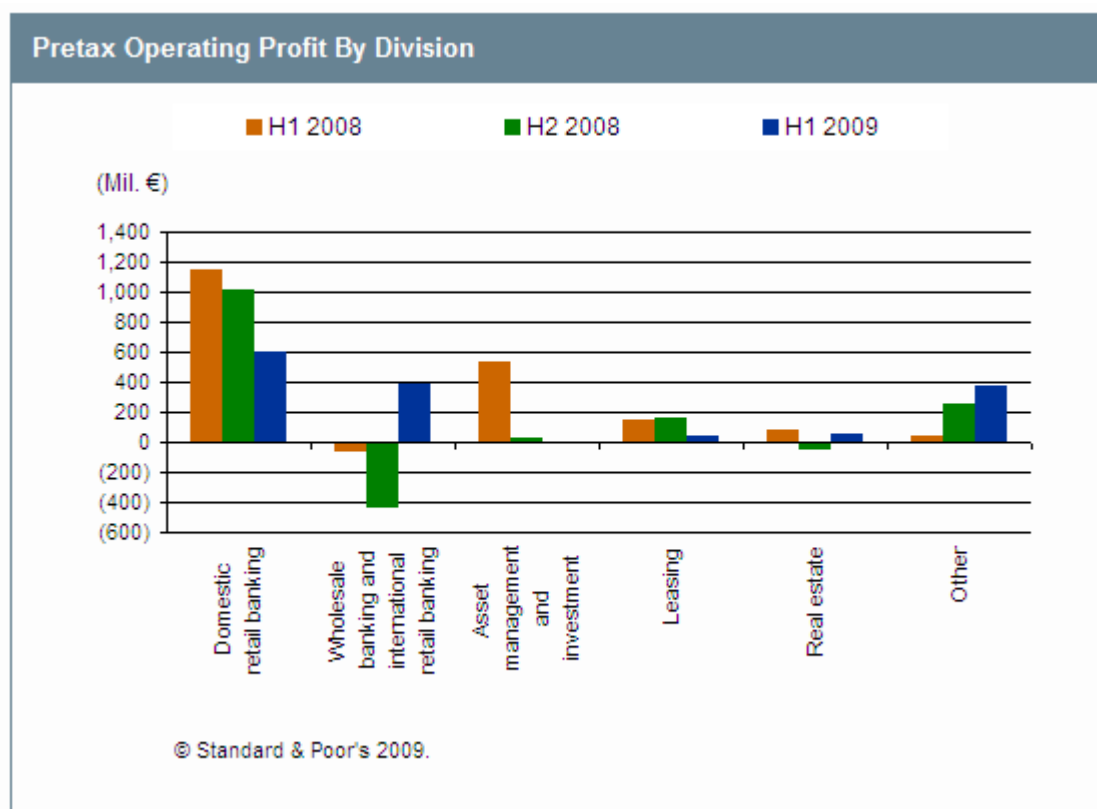
Liquidity is strong in our view. Rabobank Nederland maintains a high level of liquid assets on its balance sheet, including significant eligible collateral that could be used, if necessary, to raise repo funding from the European Central Bank.

Profitability: Comfortably Profitable Through Economic Downturn

Reflecting its cooperative status, Rabobank Nederland's earnings are not as strong as many publicly listed peers' during favorable economic and market conditions, but its performance has seen steady growth over a sustained period and has been relatively resilient during the current downturn. In our view, this is primarily due to its strong domestic focus, which has traditionally shielded it from negative international developments, even if it is sensitive to downturns in the Dutch economy. Unsurprisingly, it did not achieve its 10% ROE and 10% net earnings growth targets in the second half of 2008 and first half of 2009 due to the challenging economic and market environment. However, the avoidance of material earnings volatility is more significant from a rating perspective in the near term.

Rabobank Nederland's €1.3 billion net earnings for the first half of 2009 were 18% lower than the first half of 2008, but 15% higher than the second half of 2008. The decline from the first half of 2008 was driven by higher impairment losses and significant pressure on Dutch deposit spreads, partly offset by lower charges on structured credit and monolines and stronger business volumes and margins in wholesale banking. The earnings for both periods were flattered by broadly similar one-off gains. In particular, there was a €276 million net gain (booked in the asset management and investment division) from the sale of Alex Beleggersbank, an online brokerage, in the first half of 2008, and an undisclosed gain (mostly booked in the "Other" segment) from the buyback of certain securitization issues and an exchange of regulatory capital instruments in the first half of 2009.

Chart 4



On a divisional basis, earnings fell in the domestic banking business in the first half of 2009 (see chart 4) as impairment losses increased to 34 bps from negative 8 bps in the first half of 2008, reflecting pressures on corporate borrowers. In addition, margins were squeezed by competition for deposits. In wholesale and international banking, stronger customer trading activity and lower losses on structured credit and monolines more than offset the higher provision charge in Ireland. Asset management earnings declined due to the nonrecurrence of the Alex disposal proceeds and unfavorable equity markets, while the leasing business experienced higher bad debts. Rabobank Nederland's earnings from its stake in Eureko improved.

Operating expenses fell by 1% in the first half of 2009, primarily due to a 4% decline in staff costs. Expense ratios have been relatively high traditionally, reflecting the group's cooperative structure, extensive branch network, role as a payment agent for corporations, and international expansion. The focus on the efficiency of the Dutch banking business has helped the cost-to-income ratio to improve steadily, but it remains relatively high on an underlying basis relative to many international peers. Cost cutting programs in domestic banking and asset management were the drivers of the fall in expenses in the first half of 2009, and should also be visible in future periods.

Capital: Strong Risk-Adjusted Ratios

Capitalization is strong in the context of Rabobank Nederland's risk profile and relative to peers. The Basel II Tier 1 ratio is

above the 12.5% internal target, and we believe it is likely to remain so, and Rabobank Nederland also has a strong capital position according to our risk-adjusted capital (RAC) framework. Solid earnings generation and the absence of dividend requirements have enabled Rabobank Nederland to maintain strong capital reserves and to self-fund balance sheet growth. As a mutual, it does not have access to the equity market, and this is one of the reasons why it maintains strong capital ratios. We note that Rabobank Nederland is the only major Dutch bank that has not needed capital from the government.

At June 2009, the Basel II Tier 1 ratio was 13.0%, up from 12.7% at year-end 2008 due to hybrid capital issuance and retained earnings. The regulatory Tier 1 ratio would look slightly less favorable if the capital invested in insurance activities were fully deducted. Under Basel II, the stake in Eureko is risk weighted at 400%, which results in a capital charge of 32%.

Our RAC framework also indicates a strong capital position relative to peers. Rabobank Nederland's RAC ratio after diversification adjustments was 7.9% at year-end 2008 (see table 4). Before these adjustments, the ratio was 6.7%. On a pro forma basis, the ratio after diversification adjustments increased to 8.3% at June 2009, which placed it in the top quintile of an international peer group of 45 major banks (see "S&P Ratio Highlights Disparate Capital Strength Among The World's Biggest Banks," published on Nov. 30, 2009).

Table 4

Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland) Risk-Adjusted Capital Data

(Mil. €)	Exposure*	Basel II RWA	Average Basel II RW (%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Credit risk					
Government and central banks	28,288	1,338	5	884	3
Institutions	41,737	14,800	35	6,715	16
Corporate	215,519	90,925	42	168,629	78
Retail	224,281	35,475	16	77,102	34
Of which mortgage	158,756	14,575	9	30,410	19
Securitization	54,887	20,538	37	18,918	34
Other assets	29,303	37,375	128	43,955	150
Total credit risk	594,015	200,450	34	316,203	53
Market risk					
Equity in the banking book¶	5,324	14,838	279	51,691	971
Trading book market risk --	--	5,588 --	--	22,350 --	--
Total market risk	--	20,425	--	74,041	--
Insurance risk					
Total insurance risk	--	--	--	0	--
Operational risk					
Total operational risk	--	17,200	--	24,143	--
(Mil. €)		Basel II RWA		Standard & Poor's RWA	% of Standard & Poor's RWA
Diversification adjustments					
RWA before diversification		238,075		414,387	100
Total adjustments to RWA		--		(59,996)	(14)
RWA after diversification		238,075		354,391	86
(Mil. €)		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	Standard & Poor's RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		30,358	12.8	27,860	6.7
Capital ratio after adjustments§		30,358	12.7	27,860	7.9

*Exposure at default. ¶Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. §Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2008, Standard & Poor's.

The quality of Tier 1 capital has declined in recent years as Rabobank Nederland placed more reliance on various types of hybrid instruments, but equity capital ratios still compare well with peers'. At year-end 2008, membership certificates represented 21% of Basel II Tier 1 capital (after deductions) and trust preferred and capital securities were a further 16%.

The membership certificates were first issued in 2000 and represent a pragmatic response to the limits that the cooperative organization structure places on financial flexibility. Given their strong equity-like nature, we classify the membership certificates as a "high" equity content hybrid instrument.

In the first half of 2009, Rabobank Nederland completed a liability management exercise in which it replaced some old special purpose vehicle-issued trust preferred securities issues with new directly-issued capital securities. The conversion prices were below par, reflecting market conditions, and Rabobank Nederland consequently booked a profit on the exchange. In total, it issued €2.9 billion of the new capital securities: €1.4 billion under the exchange offer and €1.5 billion in response to strong demand for the new instrument. The issue has a step-up in excess of 200 bps and therefore is not eligible for inclusion in our capital measures under criteria published subsequent to the issue date (see "Criteria Assumptions Regarding Coupon Step-Ups In Equity Hybrids Issued By Banks And Insurers," published on Sept. 16, 2009).

According to its internal models, Rabobank Nederland's economic capital requirement was €22.5 billion at June 2009, materially lower than its €31.2 billion Tier 1 capital base. We do not expect it to manage down balance sheet capital toward the economic capital figure.

Table 5

Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland) Asset Quality, Funding, And Liquidity Ratios

(%)	--Year-ended Dec. 31 --				
	2009*	2008	2007	2006	2005
Gross nonperforming assets/customer loans plus other real estate owned	1.8	1.5	1.1	1.2	1.6
Net nonperforming assets/customer loans plus other real estate owned	0.9	0.8	0.5	0.6	0.8
Loan loss reserves/gross nonperforming assets	53.3	50.2	56.1	53.6	50.6
Loan loss reserves/customer loans	1.0	0.8	0.6	0.7	0.8
New loan loss provisions/average customer loans	0.5	0.3	0.2	0.1	0.2
Net charge-offs/average customer loans	N.M.	0.1	0.1	N.M.	N.M.
Customer deposits/funding base	59.0	65.3	52.8	47.1	43.1
Total loans/customer deposits	154.5	141.5	152.7	165.5	164.6
Total loans/customer deposits plus long-term funds	137.0	127.5	134.8	145.7	143.9
Customer loans (net)/assets (adjusted)	71.3	70.1	65.7	64.0	60.2

*Data as of June 30.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 6

Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland) Profitability Ratios

(%)	--Year-ended Dec. 31 --				
	2009*	2008	2007	2006	2005
Net interest income/average earning assets	1.5	1.7	1.3	1.3	1.4
Net interest income/revenues	62.1	73.1	58.9	64.4	68.9
Fee income/revenues	19.4	24.8	24.8	22.8	23.8
Market-sensitive income/revenues	0.0	(10.4)	0.2	2.5	4.0
Noninterest income/revenues	37.9	26.9	41.1	35.6	31.1
Personnel expense/revenues	33.6	36.8	38.7	41.0	41.7
Noninterest expenses/revenues	59.1	65.3	67.0	68.5	66.2
Net operating income before provision/revenues	40.9	34.7	33.0	31.5	33.8
New loan loss provisions/revenues	17.9	10.2	6.5	4.5	5.6
Net operating income before loan loss provisions/loan loss provisions	229.0	339.9	510.8	702.7	607.5
Net operating income after loan loss provisions/revenues	23.1	24.5	26.5	27.0	28.2
Pretax profit/revenues	23.1	24.5	26.5	27.0	28.2
Tax/pretax profit	8.8	3.4	12.7	13.5	22.8
Core earnings/revenues	21.0	23.6	23.1	23.3	21.8
Core earnings/average adjusted assets	0.4	0.5	0.5	0.4	0.4
Noninterest expenses/average adjusted assets	1.2	1.3	1.4	1.3	1.3
Core earnings/average risk-weighted assets	N.M.	2.1	1.0	1.0	1.0
Core earnings/average adjusted common equity	13.7	15.3	15.4	14.3	13.2

Pretax profit/average common equity (%) 14.0 14.4 16.4 16.5 17.7

*Data as of June 30.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 7

Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland) Capital Ratios

(%)	--Year-ended Dec. 31 --				
	2009*	2008	2007	2006	2005
Adjusted common equity/risk assets (%)	N.M.	N.M.	6.6	6.9	7.4
Tier 1 capital ratio	13.0	12.7	10.7	10.7	11.6
Adjusted total equity/adjusted assets	4.8	4.6	4.6	4.6	4.7
Adjusted total equity/managed assets	4.8	4.6	4.6	4.6	4.7
Adjusted total equity plus loan loss reserves (specific)/customer loans (gross)	7.7	7.3	7.6	7.8	8.5
Common dividend payout ratio	0.0	0.0	0.0	0.0	0.0

*Data as of June 30.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 8

Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland) Summary Balance Sheet

(Mil. €)	--Year-ended Dec. 31 --				
	2009*	2008	2007	2006	2005
Assets					
Cash and money market instruments	50,744.0	40,881.0	45,347.0	50,716.0	55,988.0
Securities	54,713.0	51,634.0	98,526.0	108,707.0	107,011.0
Trading securities (marked to market)	10,632.0	11,576.0	29,179.0	36,789.0	39,011.0
Nontrading securities	44,081.0	40,058.0	69,347.0	71,918.0	68,000.0
Mortgage-backed securities included above	0.0	0.0	0.0	0.0	0.0
Loans to banks (net)	0.0	0.0	0.0	0.0	0.0
Customer loans (gross)	440,091.0	429,582.0	375,323.0	357,257.0	306,889.0
Loan loss reserves	4,280.0	3,299.0	2,355.0	2,333.0	2,438.0
Customer loans (net)	435,811.0	426,283.0	372,968.0	354,924.0	304,451.0
Earning assets	530,459.0	514,992.0	517,067.0	515,050.0	466,965.0
Equity interests/participations (nonfinancial)	3,945.0	3,455.0	4,558.0	3,250.0	2,971.0
Investments in unconsolidated subsidiaries (financial companies)					
Intangibles (nonservicing)	3,741.0	3,728.0	3,183.0	1,844.0	252.0
Interest-only strips					
Fixed assets	7,026.0	6,908.0	6,677.0	6,360.0	3,115.0
Derivatives credit amount	45,043.0	66,759.0	26,089.0	18,992.0	24,135.0
Accrued receivables	0.0	3,757.0	4,455.0	0.0	0.0
All other assets	14,338.0	8,715.0	8,700.0	11,662.0	8,311.0
Total assets	615,361.0	612,120.0	570,503.0	556,455.0	506,234.0
Intangibles (nonservicing)	3,741.0	3,728.0	3,183.0	1,844.0	252.0
Minus insurance statutory funds	0.0	0.0	0.0	0.0	0.0
Adjusted assets	611,620.0	608,392.0	567,320.0	554,611.0	505,982.0
Liabilities					
Total deposits	310,604.0	357,733.0	334,152.0	329,543.0	296,447.0
Noncore deposits	25,696.0	54,183.0	88,331.0	113,644.0	109,988.0
Core/customer deposits	284,908.0	303,550.0	245,821.0	215,899.0	186,459.0
Acceptances	0.0	0.0	0.0	0.0	0.0
Repurchase agreements		2,376.0	11,110.0		
Other borrowings	172,370.0	104,677.0	120,598.0	129,187.0	136,487.0
Other other borrowings	171,210.0	80,430.0	84,844.0	128,066.0	135,325.0
Other credit reserves					

Other liabilities	99,318.0	114,796.0	73,089.0	69,492.0	47,715.0
Total liabilities	582,292.0	579,582.0	538,949.0	528,222.0	480,649.0
Total equity	33,069.0	32,538.0	31,554.0	28,233.0	25,585.0
Mandatorily convertible securities	6,275.0	6,236.0	6,233.0	5,808.0	5,811.0
Limited life preferred and quasi equity	0.0	0.0	0.0	0.0	0.0
Enhanced trust preferred	0.0	0.0	0.0	0.0	0.0
Minority interest-equity	1,459.0	1,461.0	1,703.0	1,711.0	749.0
Common shareholders' equity (reported)	21,289.0	20,074.0	19,650.0	17,426.0	15,450.0
Share capital and surplus					
Revaluation reserve	(766.0)	(766.0)	654.0	293.0	185.0
Retained profits	22,519.0	21,304.0	19,123.0	17,055.0	15,172.0
Other equity					
Total liabilities and equity	615,361.0	612,120.0	570,503.0	556,455.0	506,234.0

*Data as of June 30.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 9

Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland) Equity Reconciliation Table

(Mil. €)	--Year-ended Dec. 31 --				
	2009*	2008	2007	2006	2005
Common shareholders' equity (reported)	21,289.0	20,074.0	19,650.0	17,426.0	15,450.0
Plus minority interest (equity)	1,459.0	1,461.0	1,703.0	1,711.0	749.0
Minus dividends (not yet distributed)	0.0	0.0	0.0	0.0	0.0
Minus revaluation reserves	766.0	766.0	(654.0)	(293.0)	(185.0)
Minus nonservicing intangibles	(3,741.0)	(3,728.0)	(3,183.0)	(1,844.0)	(252.0)
Minus interest-only strips (net)	0.0	0.0	0.0	0.0	0.0
Minus tax loss carryforwards	0.0	0.0	0.0	0.0	0.0
Minus postretirement benefit adjustment	0.0	0.0	0.0	0.0	0.0
Adjusted common equity	19,773.0	18,573.0	17,516.0	17,000.0	15,762.0
Plus admissible preferred and hybrids	9,886.5	9,286.5	8,758.0	8,500.0	7,881.0
Plus general reserves	0.0	0.0	0.0	0.0	0.0
Plus unrealized gains	0.0	0.0	0.0	0.0	
Minus equity in unconsolidated subsidiaries	0.0	0.0	0.0	0.0	0.0
Minus capital of insurance subsidiaries	0.0	0.0	0.0		
Minus adjustment for securitized assets	0.0	0.0	0.0	0.0	0.0
Minus other adjustments	0.0	0.0	0.0		
Adjusted total equity	29,659.5	27,859.5	26,274.0	25,500.0	23,643.0

*Data as of June 30.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 10

Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland) Profit And Loss

(Mil. €)	--Year-ended Dec. 31 --				
	2009*	2008	2007	2006	2005
Net interest income	3,885.0	8,517.0	6,771.0	6,472.0	6,407.0
Interest income	3,885.0	27,245.0	29,356.0	25,059.0	22,101.0
Interest expense	0.0	18,728.0	22,585.0	18,587.0	15,694.0
Operating noninterest income	2,372.0	3,135.0	4,728.0	3,577.0	2,898.0
Fees and commissions	1,216.0	2,889.0	2,857.0	2,296.0	2,217.0
Net brokerage commissions	0.0	0.0	0.0	0.0	0.0
Trading gains	0.0	(1,155.0)	(38.0)	246.0	373.0
Other market-sensitive income		(51.0)	64.0	7.0	0.0
Net insurance income	0.0	0.0	0.0	0.0	0.0

Equity in earnings of unconsolidated subsidiaries	0.0	(26.0)	753.0	556.0	0.0
Other noninterest income	1,156.0	1,478.0	1,092.0	472.0	308.0
Operating revenues	6,257.0	11,652.0	11,499.0	10,049.0	9,305.0
Noninterest expenses	3,695.0	7,611.0	7,709.0	6,887.0	6,164.0
Personnel expenses	2,101.0	4,290.0	4,445.0	4,117.0	3,880.0
Other general and administrative expense	1,337.0	2,796.0	2,846.0	2,429.0	1,953.0
Net operating income before loss provisions	2,562.0	4,041.0	3,790.0	3,162.0	3,141.0
Credit loss provisions (net new)	1,119.0	1,189.0	742.0	450.0	517.0
Net operating income after loss provisions	1,443.0	2,852.0	3,048.0	2,712.0	2,624.0
Nonrecurring/special income	0.0	0.0	0.0	0.0	0.0
Nonrecurring/special expense	0.0	0.0	0.0	0.0	0.0
Amortization of intangibles	0.0	0.0	0.0	0.0	0.0
Impairment of intangibles	0.0	0.0	0.0	0.0	
Pretax profit	1,443.0	2,852.0	3,048.0	2,712.0	2,624.0
Tax expense/credit	127.0	98.0	386.0	367.0	599.0
Net income (before minority interest)	1,316.0	2,754.0	2,662.0	2,345.0	2,025.0
Minority interest in consolidated subsidiaries	77.0	665.0	725.0	588.0	506.0
Net income before extraordinary	1,239.0	2,089.0	1,937.0	1,757.0	1,577.0
Net income after extraordinary	1,239.0	2,089.0	1,937.0	1,757.0	1,577.0

*Data as of June 30.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 11

Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland) Core Earnings Reconciliation Table

(Mil. €)	--Year-ended Dec. 31 --				
	2009*	2008	2007	2006	2005
Net income (before minority interest)	1,316.0	2,754.0	2,662.0	2,345.0	2,025.0
Minus nonrecurring/special income	0.0	0.0	0.0	0.0	0.0
Plus nonrecurring/special expense	0.0	0.0	0.0	0.0	0.0
Plus or minus tax impact of adjustments	0.0	0.0	0.0	0.0	0.0
Plus amortization/ impairment of goodwill/ intangibles	0.0	0.0	0.0	0.0	0.0
Minus preferred dividends	0.0	0.0	0.0	0.0	0.0
Plus or minus other earnings adjustments	0.0	0.0	0.0	0.0	
Core earnings	1,316.0	2,754.0	2,662.0	2,345.0	2,025.0

*Data as of June 30.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Ratings Detail (As Of 16-Dec-2009)*

Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland)

Counterparty Credit Rating	AAA/Negative/A-1+
Certificate Of Deposit	AAA/A-1+
Commercial Paper	
<i>Foreign Currency</i>	A-1+
<i>Local Currency</i>	AAA/A-1+
Junior Subordinated (11 Issues)	AA-
Preferred Stock (5 Issues)	AA-
Senior Unsecured (843 Issues)	AAA
Senior Unsecured (1 Issue)	AAA/A-1+
Short-Term Debt (4 Issues)	A-1+
Subordinated (3 Issues)	AA+

Counterparty Credit Ratings History

08-Dec-2009	<i>Foreign Currency</i>	AAA/Negative/A-1+
04-Nov-1996		AAA/Stable/A-1+
31-Jul-1990		AAA/Negative/A-1+

08-Dec-2009	<i>Local Currency</i>	AAA/Negative/A-1+
04-Nov-1996		AAA/Stable/A-1+
15-Nov-1994		AAA/Negative/A-1+

Sovereign Rating

Netherlands (State of The)	AAA/Stable/A-1+
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Related Entities**Rabobank Australia Ltd.**

Issuer Credit Rating	AAA/Negative/A-1+
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Certificate Of Deposit	AAA
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Rabobank Nederland (Australia Branch)

Commercial Paper <i>Foreign Currency</i>	A-1+
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Rabobank New Zealand Ltd.

Issuer Credit Rating	AAA/Negative/A-1+
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Rabobank USA Financial Corp.

Issuer Credit Rating	--/--/A-1+
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Rabo Capital Securities Ltd.

Junior Subordinated (1 Issue)	AA-
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Rabohypotheekbank N.V.

Issuer Credit Rating	AAA/Negative/--
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*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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