



STANDISH



Rabobank Nederland

RATING: Q1
Other Ratings as of: December 2008
Moody's: Aaa
S&P: AAA
Fitch: AA+

State of Domicile: Utrecht, The Netherlands
Parent Company: Rabobank Group

The Rabobank Group was founded in the Netherlands in the nineteenth century. The entity was established on the basis of co-operative principles, which gave its members, primarily small farmers, access to credit and financial security. Today, the Rabobank Group comprises 218 co-operative Rabobanks and a number of specialized companies such as Rabobank International (investment and international corporate banking), Robeco Group (asset management) and De Lage Landen (leasing and trade finance). In 2005, Rabobank Group merged its insurance subsidiary, Interpolis, with the Dutch subsidiary of Eureko in exchange for a 37% stake in Eureko, and Rabobank Group is now the main distribution channel for this business. Rabobank Group has over nine million customers and 1.6 million members as well as over 230 offices in 37 countries. Rabobank Nederland ("Rabobank") is the central authority of the group. Member banks are obligated to conduct their treasury business through Rabobank rather than directly among themselves. Rabobank sets treasury limits and product and strategy guidelines.

Rabobank is one of the three Dutch banks that dominate the domestic financial market, along with ABN AMRO and ING, and it is unlikely that smaller local players will erode the market share and standing that these three companies have built. Among the three, Rabobank has the strongest position in retail financial services. In the Netherlands, the bank holds 39% of savings deposits and a leading 24% share of residential mortgages. Further, it has banking relationships with 38% of Dutch small- and mid-sized businesses and makes over 80% of loans to domestic agricultural companies and farmers.

Three types of mutual support agreements exist within the Rabobank Group: (i) liquidity needs are handled through daily treasury management which is the responsibility of Rabobank, (ii) solvency issues are covered by an agreement under which member banks are obligated to support other member banks and (iii) cross guarantees exist between Rabobank and the member banks under which claims on Rabobank are guaranteed by the member banks. These support agreements add greatly to the credit strength of the bank.

Rabobank would like to strengthen its presence internationally, having set a goal to increase international profits from one-third of its earnings to one-half. Domestically, growth opportunities are limited. In 2004, Rabobank tried unsuccessfully to purchase Farm Credit Services of America (FCSA), a Nebraska-based member of the Farm Credit System.

Rabobank has been successful in acquiring other government lenders in Australia, Ireland, and Canada, as well as stakes in lenders in India, Poland and elsewhere. Rabobank's goal is to become the 'world's food and agri bank.' In early 2006, Rabobank closed on its acquisition of Community Bank of Central California, a modest-sized acquisition. In 2008, Rabobank announced its legal merger with Hagabank and Bank Hagakita, giving it the largest banking network in Indonesia. Acquisitions do underscore a limitation of Rabobank; as a cooperative, it has no equity to use as currency in an acquisition, and must carefully manage leverage ratios and risk within a conservative cooperative structure.

The bank's cooperative structure removes shareholder pressure for high returns, although the bank generates solid levels of profitability. Total income for 2007 rose 14.4%, due mainly to strong mortgage lending and higher investment commission income. Strong revenue growth was dampened, however, by a higher expense growth. The bank has embarked on a multi-year reorganization labeled Operation Service, through which it is attempting to cut EUR200 million of costs out of its domestic banking franchise. Targets include reducing headquarters headcount by 17% and rationalizing local Rabobanks to 150 by year-end 2007 from the current 218 (was 445 at its high). The efficiency ratio, however, has not demonstrated any meaningful improvement yet, stubbornly sitting at 67.0% at the end of 2007.

The loan book is concentrated both by geography (79% of loans are Dutch-based) and by purpose (largely to individuals, with the largest concentration in low-risk residential mortgages). Rabobank maintains an expertise in agricultural lending, both domestically and abroad, with traditionally low loan losses in that book.

Strong capital levels are another trademark of Rabobank. Management targets a high minimum Tier 1 ratio of 10%, with the ratio pegged at 10.7% at year-end 2007. Without public ownership, equity markets cannot be tapped for funding, thus capital levels are supported through internal capital retention as well as "membership certificates" (equity stakes contributed by the bank's large member base).

Based on the support agreements among the Rabobanks, good asset quality, stable profitability and strong capitalization, Rabobank Nederland continues to merit our highest rating of Q1 in the Standish Credit Universe.

Rabobank Nederland

Strengths:

- Large and diverse franchise in the Netherlands market
- Consistent profitability, led by dependable domestic retail results
- Low-risk and stable asset quality (residential mortgages, agricultural loans)
- Solid core capital levels (Tier 1 consistently above 10%)
- Support guarantees within Rabobank Group enhances the bank's credit quality

Weaknesses:

- Business concentrated in saturated domestic market place (Netherlands), stifling growth possibilities
- Overseas acquisitions pose integration risk, while acquisitions must also be done for cash
- Co-operative nature does not provide emphasis on profitability, although the recent focus on efficiency may have tangible, positive results over the next few years

Key Statistics

(EUR millions)	2007	2006	2005	2004	2003	CAGR/ Average
Total Assets	570,503	556,455	506,573	483,574	403,305	9.06%
Equity	31,375	29,377	26,349	23,004	15,233	19.80%
Equity Assets	5.50%	5.28%	5.20%	4.76%	3.78%	4.90%
Net Income	2,662	2,345	2,083	1,793	1,370	18.07%
Tier 1 Capital Ratio	10.7%	10.7%	11.6%	10.9%	10.8%	10.94%
Total Capital Ratio	10.9%	11.0%	11.8%	10.8%	10.9%	11.08%
Return on Average Assets	0.47%	0.44%	0.42%	0.40%	0.35%	0.42%
Return on Average Equity	10.10%	9.40%	9.70%	9.10%	9.60%	9.58%

Source: Company reports and SEC filings.



► A BNY MELLON ASSET MANAGEMENT COMPANYSM

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