

April 2011



Rabobank Group Credit Summary Report

Domicile: Utrecht, The Netherlands
Parent Company: Rabobank Group

Moody's: AAA/P-1 Negative
S&P: AAA/A-1+ Negative

Rabobank Group, which operates on cooperative principles, is the second-largest Dutch banking organization by assets. Rabobank Group is comprised of 147 local cooperative banks, which operate through Rabobank Nederland, and a number of subsidiaries. Rabobank Nederland (“Rabobank”), which is a mutual entity owned by the cooperative banks, acts as the clearing agent for the group. Member banks are obligated to conduct their capital markets activities through Rabobank, rather than directly. Rabobank sets treasury limits and product and strategy guidelines, and is responsible for supervising the member banks’ solvency, liquidity and operations for the Dutch central bank. Cross-guarantees exist between Rabobank and the member banks under which claims on Rabobank are guaranteed by the member banks.

Rabobank offers retail banking, wholesale banking, asset management, leasing and real estate services. The bank provides a broad range of financial services in the Netherlands and focuses on the food and agribusiness sector internationally. Rabobank has a dominant share (84%) in the Dutch agricultural sector, as well as leading positions in Dutch retail savings (40%), residential mortgages (30%), and small and midsize enterprise banking (41%). Rabobank would like to strengthen its presence internationally, given that domestic opportunities are limited, but Dutch operations continue to dominate. Rabobank is focusing on major agricultural regions in Australia, Brazil, New Zealand, California and Poland, and has a 59% stake in Bank BGZ in Poland.

Rabobank’s performance in 2010 showed significant improvement over a challenging 2009, largely due to a substantial decrease in bad debt costs, which dropped 40% to 29 bp, still slightly above the long-term average. Moderate gains in income were mostly offset by correspondingly modest increases in expenses. All told, net profit increased 26%. Rabobank’s main focus is domestic, with 75% of the lending book in the Netherlands, where 61% of the exposure is in residential mortgages (loan losses of 3 bp). International lending is predominantly in the Americas (44%), followed by Europe excluding the Netherlands (30%) and Australia and New Zealand (20%).

In the domestic retail division, which accounted for 66% of net profits in 2010, higher interest income and lower staff costs helped boost profits, but lower debt costs were the major driver behind a 52% rise in profits vs. 2009. At 13 bp of average loans, bad debt costs are now just 2 bp above their long-term average, so substantial improvement is not anticipated going forward. In the wholesale and international retail banking division, the bank benefited from the sale of some of its equity interest in an Indian bank and higher trading income, but lower debt costs also were largely responsible for a 37% increase in net profit. Despite the marked (39%) drop in bad debt costs on the wholesale side to 64 bp, costs on the international side are still above average as problems in the Irish retail sector persist (total Irish loans EUR 4.6 billion or 1% of loans). Rabobank has a limited (EUR 5.8 billion, or under 1% of assets) portfolio of structured credits and modest exposure to government bonds of southern European countries and Ireland. Total group impaired loans stood at 2.1% at the end of 2010, with 43% reserve coverage.

Although Rabobank’s loan to deposit ratio is relatively high at 152%, substantially all of the portfolio is funded by customer deposits and long-term funding. Reliance on short term funding is relatively modest at 11% of liabilities.

Strong capital levels are a trademark of Rabobank, with the Tier One capital ratio at 15.7% at the end of 2010. 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). About 16% of Rabobank’s capital is in the form of member certificates, and 15% is hybrid capital.

Based on the consistent record of profitability, low tolerance for risk, extensive franchise in the Netherlands, and strong capital base, Rabobank continues to merit our highest rating of Q1.

Strengths:

- Large and diverse franchise in the Netherlands
- Consistent record of profitability
- Low tolerance for risk
- Solid capital and liquidity levels

Weaknesses:

- Mutual status limits ability to raise capital and make acquisitions
- Business concentrated in saturated domestic market place
- Exposure to Irish property market
- Legacy structured credit and monoline exposure

Key Statistics – Rabobank Group

(EUR millions)	2010	2009	2008	2007	2006	CAGR/ Average
Total Assets	652,536	607,483	612,120	570,503	556,455	4.06%
Equity	40,757	37,883	33,459	31,409	29,377	8.53%
Equity/Assets	6.2%	6.2%	5.5%	5.5%	5.3%	4.29%
Net Income	2,772	2,208	2,754	2,696	2,345	4.27%
Tier 1 Capital Ratio	15.7%	13.8%	12.7%	10.7%	10.7%	10.06%
Total Capital Ratio	16.3%	14.1%	13.0%	10.9%	11.0%	10.33%
Return on Average Assets	0.4%	0.4%	0.5%	0.5%	0.4%	0.00%
Return on Equity (period end)	8.6%	7.3%	9.7%	10.2%	9.4%	-2.20%

Sources: Company reports and SEC filings.

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