Analysis

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Contact	Phone
London	
Lynn Exton	44.20.7772.5454
David Golin	
Adel Satel	
Madrid	
Maria Cabanyes	34.91.310.14.54

Rabobank Nederland

The Aaa/P-1/A ratings of Rabobank reflects its leading position in the Dutch banking system, the consistency of the bank's earnings and the group's cross-support mechanism, which would ensure that resources of the whole Rabobank group would be available should Rabobank Nederland, the rated entity, encounter difficulties.

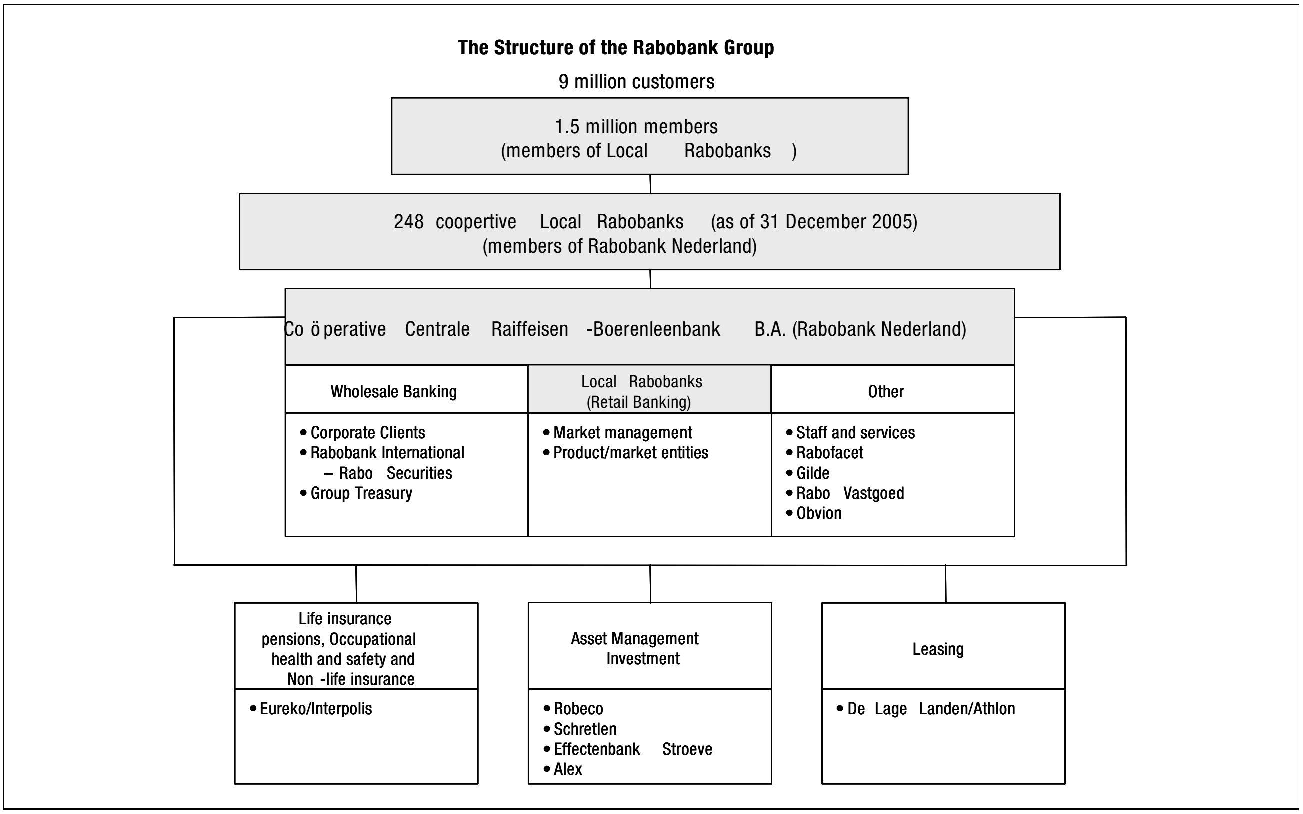
Competitive Position

RABOBANK'S CORPORATE STRUCTURE IS AN IMPORTANT CONSIDERATION FOR ITS RATINGS

"Rabobank Nederland" (Aaa/P-1/A) – abbreviated from Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. – is the central authority of the Rabobank group 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. It is to this central entity that the Aaa/P-1/A ratings refer.

The Rabobank group comprises the central entity, 248 co-operative member banks (as of 31 December 2005), and various other legal entities that are owned by the central entity. There is no rating on any member bank, or any legal entity in the group, other than the central entity.

In this report the central entity will be referred to as Rabobank Nederland, while the group in its entirety, including the member banks and the other legal entities will be referred to as the Rabobank group. The legal entities owned by Rabobank Nederland will be referred to as "specialised legal entities". The chart below shows the structure of the Rabobank Group as of December 2005.



Rabobank Nederland's deposit and financial strength ratings are driven not only by its intrinsically strong financial position, but also by its ability to draw on the resources of the group as a whole, which has a low risk profile, and by the formal and informal support agreements within the group.

There are three types of mutual support within the Rabobank group:

- A cross-guarantee exists between Rabobank Nederland, the member banks and some of the specialised legal entities[1] in which the commitments of each participating entity is guaranteed by all the others.
- Liquidity needs are handled through day-to-day treasury management which is the responsibility of Rabobank Nederland. Surplus funds in one member bank would be made available to another via Rabobank Nederland. Funding needs for the group as a whole, including wholesale funding, are managed by Rabobank Nederland.
- Issues of solvency are covered by compensation agreements under which member banks have an obligation to support other member banks. This support can be denied if a member bank has broken internal rules such as treasury limits or its Articles of Association. Via the intra-group credit support mechanism, local Rabobanks first cover each other's shortfalls, and then those of Rabobank Nederland or other group entities.

CO-OPERATIVE STRUCTURE GIVES RABOBANK GREATER PRICING FLEXIBILITY

As a co-operative, Rabobank does not have to distribute part of its profits as a share dividend, nor does it have to adhere to ambitious performance targets set by external investors. However, it is subject to taxation. It could be argued, therefore, that Rabobank is able to operate on lower profit margins than its publicly held peers, and in fact the larger banks do sometimes complain that Rabobank is pricing certain products below (what those banks consider to be) economic rates. On the one hand, this gives Rabobank greater flexibility in managing customer relationships.

On the other hand, such lack of scrutiny from equity investors may lead a co-operative to operate with lower levels of efficiency, but in practice, Rabobank's efficiency indicators are comparable to those of its peers, and the bank has been taking steps to reduce costs and improve efficiency. Furthermore, if Rabobank were deemed by its members to be

1. *The participating entities of the cross-guarantee system are: the local member banks, Rabobank Nederland, Rabohypotheekbank, Raiffeisenhypotheekbank, Schretlen & Co, De Lage Landen International BV, De Lage Landen Financiering BV, De Lage Landen Trade Finance BV and De Lage Landen Financial Services BV. Rabobank International is a division of Rabobank Nederland and therefore its branches are also included in the cross-guarantee system. The following major entities in the Rabobank Group are not included in the cross-guarantee: Robeco, Rabo Vastgoed and FGH Bank (real estate); and international subsidiaries like ACC Bank (Ireland).*

an obstacle to maintaining competitiveness, it would be losing membership. In reality, Rabobank has been gaining members, with the total number of members standing at over 1.51 million as of year-end 2005.

Closed capital structure limits to some degree Rabo's strategic flexibility

As a co-operative, Rabobank Nederland does not issue share capital. Nor do any of the member banks. The specialised legal entities are capitalised by Rabobank Nederland and thus have no share capital. Rabobank Nederland has issued members' participation certificates which qualify as Tier 1 capital.

We believe that Rabobank's "closed" capital structure marginally affects the bank's strategic flexibility since it has no tradable share that it can use to fund mergers or acquisitions, and its ability to increase capital funds is limited to the extent to which it can retain earnings, issue member certificates, or issue additional hybrid Tier 1. Indeed, the bank has issued three hybrid Tier 1 issues in recent years, including an issue in 1999 of €650 million Trust Preferred Securities, US$1.750 billion in Non-cumulative Guaranteed Trust Preferred Securities issued in November 2003, and a further €2 billion in October 2004. (€650 million Trust preferred Securities were redeemed in 2005.[2])

Rabobank has undertaken a series of small acquisitions in recent years, but a large acquisition would be administratively difficult, as would a merger with a publicly held company. However, a merger with another co-operative institution (of which there are several in the Netherlands) via an exchange of shares similar to the transaction between Interpolis and Eureko/Achmea would be more straightforward. This could become an increasingly important issue as Rabobank tries to maintain its objective of being a major pan-European financial institution.

It should be noted that Rabobank's internal capital generation is sufficient to fund normal business development, and small-scale acquisitions. Net profits have been adding about 10% to the group's reserves in recent years and the group's capital ratios are strong.

THE MERGER BETWEEN INTERPOLIS AND ACHMEA HAS CREATED THE LARGEST INSURER IN THE NETHERLANDS

Moody's affirmed Rabobank's ratings in April 2005 following the company's announcement that it plans to merge its insurance company, Interpolis, with that of Achmea (not rated) which is owned by Eureko B.V. (not rated). The transaction was completed in October 31st 2005.

Following the completion of the transaction, Rabobank's stake in Eureko has increased from 5% to 37%. In addition Rabobank has increased Board representation at Eureko and the two parties intend to increase synergies in areas such as marketing and IT. Furthermore, as a result of this transaction, Rabobank's exposure to the insurance sector will not change. This acquisition has been accounted for as an equity investment (investments in associates) on Rabobank's balance sheet. (The amount of equity participations as a percentage of equity in Rabobank's balance sheet has increased from 3.62% as of the end of 2004 to 12.72% as of year-end 2005.)

Nevertheless, while recognising the franchise benefit of the transaction and increased product offer thanks to Achmea's expertise in the healthcare insurance market, Moody's will monitor the evolution of Rabobank's relationship with Eureko in light of its "Allfinance" strategy for the Dutch market and the implications for Rabobank's financial fundamentals and risk profile.

Franchise And Strategy

STRATEGY

Rabobank's strategy is to achieve market leadership in its domestic market as well as being the leading global bank to the food industry and agribusiness with its origins in the Netherlands. The group has identified three core growth centres:

1. Market leadership in the Netherlands
2. To realise further growth and integration of its Affiliated Institutions including Robeco, De Lage Landen, FGH Bank, Alex, Schretlen & Co., and Obvion
3. To be the leading Food & Agri bank operating in the international arena

In terms of financial objectives, Rabobank has announced the following targets:

- Tier 1 ratio of 10%
- Return on equity (ROE) of 10.0%

2. *For further discussion, please see Capitalisation section below.*

- Net profit growth of at least 12%

The table below shows Rabobank's actual performance against these targets:

In %	2001	2002	2003	2004*	2005*
Tier 1 ratio	9.9	10.3	10.8	10.9	11.6
ROE	9.2	9.6	9.4	9.0	9.1
Net profit growth	8	4	12	12.1	16
Source: Company Report					

2004 and 2005 figures are based on IFRS except for net profit growth of 2004, which is based on Dutch GAAP. The years 2001-2003 are as per Dutch GAAP.

STRONG DOMESTIC FRANCHISE AND LOW RISK PROFILE ARE THE KEY TO RABOBANK'S HIGH RATINGS

Rabobank is one of the three banks which dominate Dutch financial markets – the other two are ABN AMRO (Aa3/P-1/B) and ING (Aa2/P-1/B+). This dominant position could be eroded at the margin by smaller players targeting specific areas of activity – such as residential mortgages – but we do not expect the current oligopoly to change over the medium term. Rabobank has market shares of 39% in savings, 23% in residential mortgages, and estimated market shares of 38% of small- and medium-sized enterprise (SME) banking, and 83% of lending to the primary agricultural sector. The 1,249 offices of its member banks – all branded Rabobank – constitute by far the largest branch network in the country. These market shares have been consistent for many years.

RABOBANK INCREASED THE PROPORTION OF EARNINGS FROM NON-RETAIL SOURCES TO ABOUT 50%

Although domestic retail banking is the bedrock of Rabobank's operations, the bank has grown the proportion of earnings from other sources to about 50%. The bank has achieved this through expanding its other businesses in other key areas of financial services:

- Insurance operations: As discussed above, in 2005 Rabobank increased its stake in Eureko N.V. (owner of Achmea Holding N.V.) from 5% to 37% and merged the insurance activities of Interpolis with those of Achmea. The all-share merger was closed in the fourth quarter of 2005. This followed the January 2004 cooperation agreement between the two parties in the area of health insurance which also resulted in Rabobank acquiring a minority stake of the Eureko Group. The merger has created the largest insurance company in the Netherlands ranked by premiums with a total premium of €9.8 billion on a pro-forma basis for the year 2005.
- Wholesale banking: Rabobank's key franchise is domestic retail banking, but it is also active in wholesale banking, both at home and abroad. The focus tends to be on food and agricultural business. Wholesale lending accounts for about a fifth
- of private sector lending and around 27% of net profits. The bank undertakes investment banking-type services for clients, but it does not seek to be a major player in the investment banking market. Rather, the bank's strategy has been to provide a wider range of products and services to its clients.

International operations are of growing importance for Rabobank

International operations are an area of growing strategic importance for Rabobank. The bank has pursued its international expansion through its "Country Banking" strategy: the acquisition of smaller banks that operate in rural areas of developed markets and with a specialisation in agricultural lending. In February 2006 Rabobank completed the acquisition of Central Coast Bancorp (unrated), the holding company for Community Bank of Central California (unrated). This transaction is consistent with Rabobank's strategy to expand its presence in California and in key agricultural communities across the US. As of December 2005, Community Bank had total assets of €1.2 billion and 14 retail branches. The Community Bank of Central California was merged into Rabobank N.A.[3] in February 2006.

In 2003, Rabobank acquired (i) Ag Services of America, a supplier of crop production financing, largely to corn and soya bean growers in the US, (ii) Lend Lease Agri-Business, which provides real-estate financing to agricultural producers, and (iii) the New Zealand rural lending portfolio of AMP Bank Limited. At year-end 2004, Rabobank International acquired a 35% stake of the Polish bank, BGZ (rated A2/P-1/E+). The European Bank for Reconstruction and Development (EBRD) simultaneously purchased 15% of BGZ capital. Rabobank is already present in Poland through its subsidiary, Rabobank Polska S.A. (unrated). Moody's believes that this venture in BGZ is a long-

3. *Rabobank N.A is a subsidiary of Utrecht America Holdings, which in turn an indirect subsidiary of Rabobank International, a division of the legal entity Rabobank Nederland. It is not included in the cross-guarantee system.*

term strategic investment. While Rabobank's international expansion has generally been of solid quality, in Moody's opinion, the diverse and growing international "footprint" raises Rabobank's risk profile, in terms of credit and operational risk.

- Asset management and private banking: The Group had €156 billion of third-party funds under management as of 31 December 2005. The main brand is Robeco. Private banking is offered to wealthy clients of local Rabobanks through Schretlen & Co. In 2003, Rabobank bought Alex the on-line brokerage business of Dexia Bank Nederland.
- Leasing: This activity is carried out by De Lage Landen International B.V., which specialises in providing factoring and leasing services to corporate borrowers. In early 2004, De Lage Landen acquired Telia Finans AB, a leader in the Scandinavian market in the leasing of IT and office equipment. As of 31 December 2005, about 49% of the leasing portfolio was based in Europe, 49% in North and South America, and 2% in Australia and New Zealand. In 2006 Rabobank Nederland has strengthened its leasing activity in the Dutch car leasing market thanks to the acquisition of Athlon, a local competitor of De Lage Landen. Athlon's operations are expected to be merged with those of De Lage Landen at the end of 2006.
- Real estate: Rabobank conducts its real estate activities through two subsidiaries, Rabo Vastgoed and FGH Bank. FGH Bank, which was acquired in October 2003, specialises in commercial real estate financing while Rabo Vastgoed is among the largest housing developers in the Netherlands. In 2005, Rabo created a real estate division which aims to strengthen the collaboration between the two entities and the local Rabobanks, with around 15-20% of FGH Bank's new lending now coming from this channel.

Rabobank –Contribution to net profit by business line 2004 and 2005

	2005	2004
Retail Banking	49.16%	42.22%
Wholesale Banking	27.51%	30.95%
Insurance	16.95%	11.94%
Asset Management	8.35%	7.70%
Leasing	8.55%	8.59%

Financial Fundamentals

As required by EU regulations, Rabobank adopted International Financial Reporting Standards (IFRS) for the year 2005. Accordingly, figures for the year 2004 have been restated in line with IFRS.

For more on Rabobank's transition to IFRS, please see Moody's research, Financial Reporting Assessment- Rabobank dated July 2005.

Financial fundamentals remain excellent

Rabobank's excellent financial condition remains a key factor underpinning its high ratings. The year 2005 was characterised by low levels of impairments, improved operating efficiency and solid lending volume.

Retail banking – profits generated by the local Rabobanks – typically accounts for over half of pre-tax and net profitability. Much of this is not high margin business but credit losses tend to be small and exposure granular. Rabobank's franchise is not under threat. About two-thirds of total lending done by the local Rabobanks is residential mortgages in the Netherlands, which have historically displayed very low delinquency and loss rates. The cost-to-income ratio of retail banking was 68.8% in 2005, modestly higher than the aggregate ratio for the bank as a whole.

Sustained focus on improving operating efficiency

Rabobank has made a concerted effort 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 200 million and to gradually reduce the number of full-time equivalent (FTE) employees by a further 1,200 at Rabobank Nederland. The implementation period is estimated to be up to two years, until 2006. The bank has introduced a scorecard of performance measures for the local Rabobanks as a means of enhancing operating standards across the network. Staffing in the local Rabobanks has been falling, with 1,643 positions cut in 2002; 1,921 in 2003, 934 in 2004 and 73 in 2005. The total group FTE dropped to 45,580 as of year-end 2005 from 50,216 as of year-end 2004. This drop was mainly caused by the deconsolidation of Interpolis. In addition, the number of local Rabobanks has been declining steadily as banks have been merging and group functions streamlined. (The number of local Rabobanks fell to 248 as of December 2005 from 595 as of year-end 1994.) Rabo is also seeking to increase its operating efficiency in its cash processing business-in June 2006 the bank announced that it would be establishing a cash processing company, to be named Gavea, which jointly with ABN AMRO. The objective with the creation of Gavea is to increase the cost efficiencies in areas such as IT and processing. [4]

Loan portfolio

Breakdown of private sector loans portfolio – year-end 2005		
	€ billion	%
Retail banking	200.7	65.9
Mortgages	137.8	45.2
Other loans to individuals	3.9	1.3
Corporates	59.0	19.4
Wholesale and international retail lending	54.2	32.3
Other lending	23.2	1.8
Total private sector lending	278.1	100
Total balance sheet	506.2	
Private sector loans as % total balance sheet	55	

RETAIL DEPOSITS FUND A SIGNIFICANT PORTION OF THE RETAIL LOAN PORTFOLIO

Funds raised by local Rabobanks accounted for 17.3% of total liabilities at the end of 2005, and 68.3% of all customers' deposits (both retail and business). Wholesale lending is effectively financed by wholesale funding.[5] With the loan growth rate having outstripped the growth rate of deposits in the past few years, the bank has increasingly relied on market funding in order to sustain its growth (in 2005 these represented 32% of total funding, up from 18% in 2001). As of December 2005 customer deposits represented 42.5% of total funding, down from 54% in 2001.

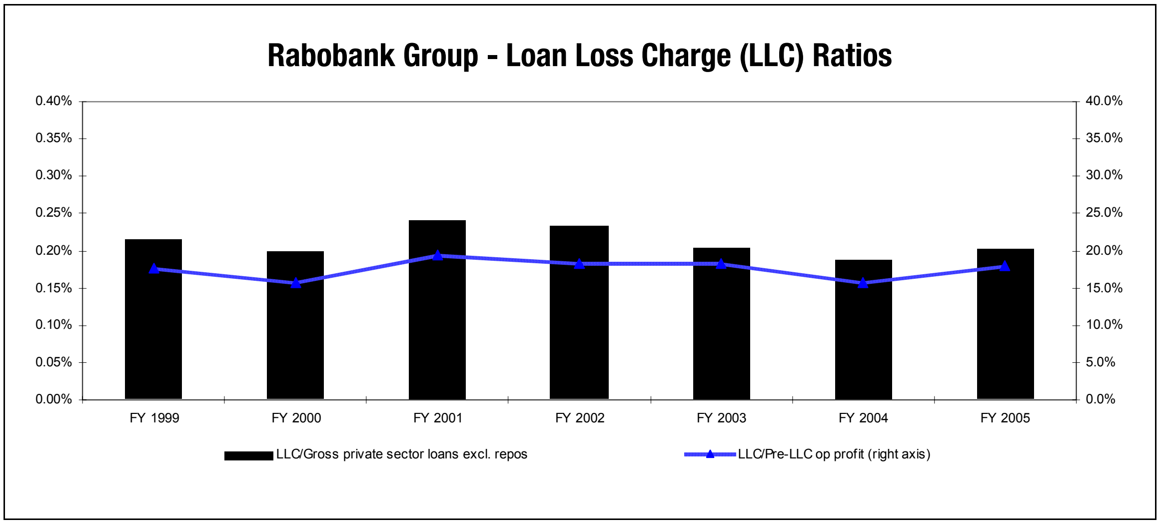
Funding profile, year-end 2005		
	€ billion	%
Funds from individuals	97.729	19.3
Of which, raised by local Rabobanks	87,743	17.3
Funds from businesses	88.730	17.5
Of which, raised by local Rabobanks	39,639	7.8
Debt securities	135.325	26.7
Banks	109.988	21.7
Other liabilities	48.113	9.5
Equity	26.349	5.3
Total liabilities, including equity	506.234	100

LOW IMPACT OF THE COST OF CREDIT RISK ON EARNINGS POWER

Historically Rabobank has experienced very low credit losses which have been in the narrow fluctuation range of between 19 and 27 basis points of gross private sector loans.[6] This was confirmed in 2005 when value adjustments to receivables as percentage of private sector lending stood at 20 basis points and at 16 basis points as a percentage of pre-provision income.

The maximum toll of the credit charge on pre-provision earnings has been between 22% and 23% (experienced in late 2001 and late 2003), which is very modest in comparison to peers.

4. *See press release dated 30 June 2006*
5. *For more on Rabobank's short term funding programmes, please see the Liquidity Risk Assessment (LRA) on www.moodys.com*
6. *Excluding Repo loans 'or professional securities transactions related lending' in Rabobank's terminology.*



GOING FORWARD, RABOBANK EXPECTS THE LOAN LOSS CHARGE TO REMAIN IN A RELATIVELY STABLE 20-25 BASIS POINT RANGE

Historically, accounting policies have partly contributed to the relatively low volatility of the loan loss charge. Rabobank's loan loss charge termed "value adjustments to receivables" under Dutch accounting principles have been calculated with reference to:

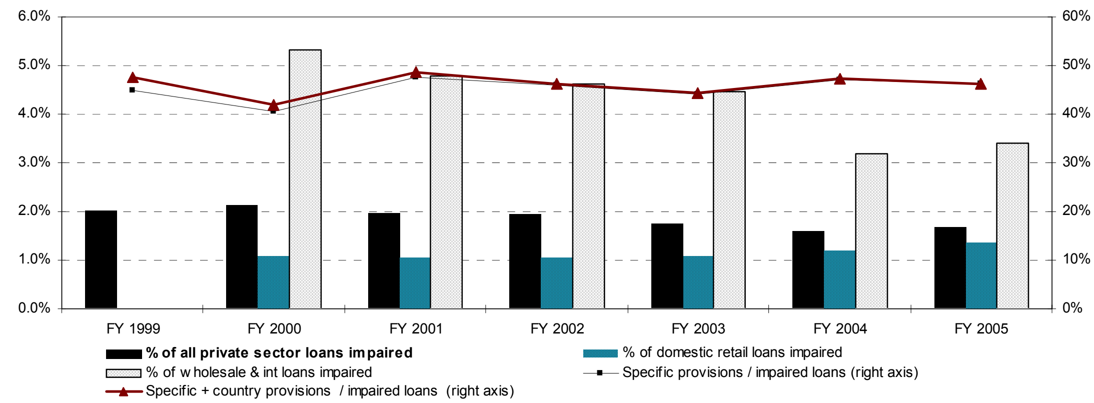
1. A core statistical element – a rolling long-term weighted average of actual loan losses (charge-offs) to lending, being applied to the current portfolio, with a 65% weighting for the last three years
2. Adjustments to the core calculations for specific impaired loans – significant differences arising from the aggregation of the individual or bottom-up assessments on loans which have been identified as impaired during the accounting period

The approach is not substantially different under IFRS. Specific provision charges on impaired loans are based on the same methodology as the adjustments based on the bottom-up assessments – both the Dutch accounting adjustments and the IFRS specific charges use the present value of the expected cash flows from these loans. Collective provisions under IFRS also have a statistical look-back element incorporated; historically-observed expected loss ratios for each internal rating class will determine the collective charge in the accounting period arising from the migration between the 20 performing classes.

STABLE, LOW IMPAIRED LOAN LEVELS HAVE ALSO BEEN EVIDENT

The ratio of overall impaired loans to private sector non-repo lending showed a marked resilience to the general downturn in credit quality facing most internationally active banks from late 2001 to 2003. This ratio even declined slightly in these years, from 2.1% in 2000 to 1.8% at year-end 2003. With the pro-active management of wholesale exposures, the group has benefited from the industry-wide improvement in international wholesale credit quality – in 2005 the overall ratio fell to 1.7%. The positive developments in the wholesale book were partially offset by an increase in impaired loans at the member banks' retail SME and agricultural portfolios, caused by the difficult domestic environment and by more intense competition faced by Dutch producers in international markets. Nevertheless, Rabobank witnessed an increase in the level of impaired loans in the wholesale foreign operations.

Rabobank Group – Impaired Loans and Coverage Ratios



**Marked-to-market trading portfolio result within headline reported financial trading result*

*** Period average VaR adjusted from reported 1-day to regulatory-standard 10-day by multiplying disclosed figures by square root of 10. Where historically the disclosure has been to a 97.5% confidence interval, this has been further adjusted to a 99% confidence interval by multiplying the disclosed figure by a factor of 1.187*

The coverage ratio of impaired loans by provisions has remained stable at around 50.7% in 2005. The retail portfolio (which has a large mortgage-backed element) has in the past been in the range of 52%-63% – this is respectable by sector standards, particularly given loan-to-value ratios below 80% for non-government backed residential mortgages. For the wholesale and international retail portfolio, the specific provisions coverage ratio has fluctuated between 35% and 45%; it has now improved and stands at 53.1%. In this regard, it is important to note that the impaired category is substantially wider than a standard 90-day-overdue category. The credit process[7] appears to result in a wider range of "performing-but-early-warning-flagged" wholesale loans that fall into a substandard score than might be the case at peer institutions. On first scoring as sub-standard (that is, when first recorded as impaired), a relatively low percentage provisioning ratio is set aside for these individual loans. Given the relatively heavy weight of the "sub-standard-but-performing" score within impaired loans, the overall reported provision cover ratio is lower than at some peer institutions.

PORTFOLIO EVOLUTION SHOULD HELP MAINTAIN THE OVERALL STABLE QUALITY OF THE PORTFOLIO AND OF PROVISION REQUIREMENTS

A steady focus on capturing growth in the Dutch household sector has ensured that private individuals account for almost half of the loan portfolio.

Rabobank Group: Distribution of Private Sector Loan Portfolio†

% of private sector lending	2004	2005
Private customers	53	53
Agriculture	16	17
Trade, Industry, Services	31	30
Total	100%	100%

†: net of provisions, excluding repo loans

Lending operations in wholesale markets outside the Netherlands have been restructured in order to focus on the core agriculture and agri-business sectors, the bank's historical core expertise. The loan loss experience in agriculture and household mortgage lending are indicated to be extremely low – well under half the average loan loss experience levels of the group as a whole. In the case of the agricultural and agri-business portfolio, geographic diversification involving a number of global regions would also appear to benefit the overall default experience.

7. *As detailed at the end of this sub-section on credit risk.*

Ultimately, a very tight credit process should continue to play a very important part in maintaining Rabobank's superior and historically stable credit quality

Key elements of the process include:

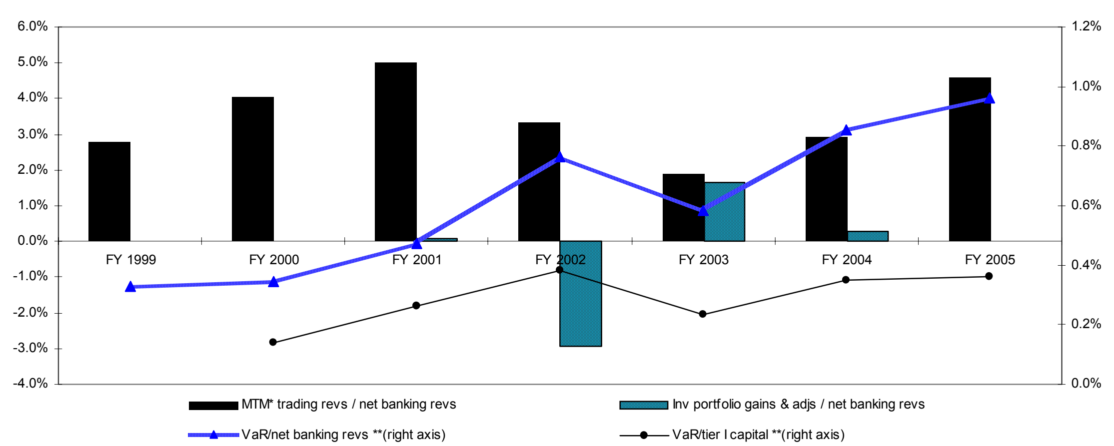
- Rigorous scoring of wholesale and other corporate credits and evaluation by a credit function which has independent reporting lines
- Above-average frequency of exposure reviews, determined by the latest internal score, leading to early alerts
- The application of standards in scoring and credit selection across the co-operative member banks and other group entities (which have credit risk officers whose quality and experience are monitored by a group risk function) as well as across subsidiaries
- Tightly defined credit delegations across the group, with authorities being determined by the score assigned by the independent credit function.
- Single obligor exposure monitoring and limit-setting capturing the exposures of all member banks (as well as all units holding securities)
- A large internal audit function empowered across the group appears to play a key role in ensuring standards being applied and maintained.

MARKET RISK APPETITE REMAINS MODEST

Rabobank's market risk appetite, as measured by industry standard risk measures rather than by accounting measures, remained modest.[8] The reported combined value-at-risk (VaR) of the mark-to-market trading was €19 million year average compared to €17 million in 2004. This represents a 97.5 % confidence level with a one-day holding period assumption,[9] and amounts to 0.25% of operating income and negligible compared to Tier 1 capital, below the norms of international peers, and below Rabobank's peak levels. (The VaR increased to €107 million if a 99.99 % confidence level is used, which is the level that the bank uses for its internal Economic Capital allocation.)

The trading result increased marginally in 2005 by 12% to €373 million which contributed to the overall banking revenues by around 4%, well within the modest range of 2%-5% historically experienced at the Rabobank group.

Rabobank Group – Trading result contribution to net banking revenues and VaR



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8. *Limits on these measures are determined by the Balance Sheet Risk Management Committee, which sets these annually and reviews limit utilisation monthly*
9. *Using historical simulation;the risk factors include credit spread, foreign exchange, interest rates and shares; the diversification benefit is about 30%, which would appear to be credible.*

CHALLENGE OF MAINTAINING RABOBANK'S LEADING-EDGE CAPTURE OF MARKET AND CREDIT RISKS ARISING FROM INSURANCE ACTIVITIES

With its previous existing insurance ownership structure (a clear majority ownership of Interpolis) the Rabobank group had been able to provide a rare example of an institution capable of capturing key factor, obligor and sector exposures, and concentrations arising from the totality of its banking and insurance operations. Interest rate VaR, earnings-at-risk and fair value risk have included the impact of changes which are not at policy holders risk (insurance unit open positions, which have been minimal). The monitoring of credit exposures to individual obligors has included the bond holdings of the insurance unit, as have, for instance the monitoring of equity and credit exposures to commercial and residential real estate. Appetite-setting at the consolidated level[10] has reportedly taken these exposures into account.

Rabobank is keen to emphasise the cultural and risk appetite similarities of Achmea and Interpolis, which a number of years of negotiation and due diligence has apparently enabled it to recognise. Moody's is also aware of the prevalence of similar ALM practices and limited open position risk appetites at Achmea. However, replicating the leading-edge capture of factor risks and concentrations that it had via a 92%-owned structure at a larger 37%-owned unit presents a clear challenge for Rabobank.

RABOBANK REMAINS STRONGLY CAPITALISED BUT GREATER RELIANCE ON HYBRIDS WOULD LIKELY PRESSURE RATINGS

As discussed above, Rabobank is committed to maintaining a regulatory Tier 1 capital of at least 10%. It has been able to maintain this high level in part through issuing Membership Certificates (MCS), which are recognised by the Dutch Central Bank as Tier 1 capital, as well as through the issuance of Trust Preferred Securities (TPS). In 2005, the bank issued €2 billion in new MCS. At the year-end 2005, MCS accounted for 23.4 % of total Tier 1 capital. We view the MCS as having extremely strong equity-like features.

In April 2005 Rabobank also issued €1 billion of lower Tier 2 due in 2015. The security was issued in order to take advantage of a 2002 change in the Dutch Central Bank regulations regarding supervisory deductions such as investments greater than 10% in other financial institutions. Whereas formerly such deductions were 100% deducted from Tier 1capital, these are now taken from Tier 2 and if this is insufficient, from Tier 1. (Please see the related press release on moodys.com). This is the only debt in Rabobank's Tier 2 capital.

Moody's notes that the proportion of hybrid securities in Rabobank's capital structure has increased over the last five years. In our opinion, Rabobank's quality of capital, while still very strong, has shifted slightly from its previously exceptional levels. While this is partly offset by the consistency of the bank's earnings over many years, Moody's believes that the continued leveraging of its core capital would put pressure on the bank's ratings.

Composition of Rabobank's Tier 1 and Tier 2 Capital:

	31-12-2001	31-12-2002	31-12-2003	31-12-2004*	31-12-2005*
Member Certificates	2,276	3,851	3,853	3,840	5,811
Other reserves	9,687	10,164	11,158	15,172	13,469
Fund for general banking risks	1,679	1,679	1,679		-
Trust Preferred Securities (TPS)	650	650	2,037	3,804	3,575
Third-party interests treated as qualifying Tier 1 capital	890	858	933	637	749
Deductions	- 90	N.A.	N.A.	-109	-125
Total Tier 1 capital	**15,092**	**17,202**	**19,660**	**21,404**	**24,860**
Revaluation reserves	417	246	222	47	93
Deductions	N.A.	- 131	- 141	-391	-773
Subordinated loans treated as qualifying Tier 2 capital	33	97	151	145	1,092
Total Tier 1 and Tier 2 capital	**15,542**	**17,414**	**19,892**	**21,205**	**25,272**
Required Solvency	12,225	13,268	14,626	15,684	17,112
Total Risk-Weighted Assets	152,812	165,843	182,820	196,052	213,901
Tier 1 ratio	9.9%	10.3%	10.8%	10.9%	11.6%
Tier 1 + Tier 2	10.2%	10.5%	10.9%	10.8%	11.8%
TPS/Tier 1	4.3%	3.8%	10.4%	17.8%	14.4%

** IFRS*

10. Limits determined by the Balance Sheet Risk Management Committee

RABOBANK USES ECONOMIC CAPITAL FOR CAPITAL ALLOCATION

Similar to other large financial services group, Rabobank uses an economic capital[11] model for allocating capital across its business units and types of risk. As of year-end 2005, the Rabobank Group's total economic capital stood at €14.9 billion, up from €13 billion as of year-end 2004. In terms of the allocation of economic capital to the types of risk, credit risk is the largest consumer of economic capital with 49% as of year-end 2005, followed by interest rate and market risk (23%), business risk (13%), operational risk (10%), insurance risk (4%) and country risk (1%). However, this allocation of capital will change in 2006 following the sale of Interpolis to Eureko/Achmea. In 2005 the amount of economic capital absorbed by credit risk increased from the 2004 level of 43% due to increased loan volume as well as changes in the model and data quality enhancements. At the same time, capital absorbed by market risk was reduced following the sale of Effectenbank Stroeve and Gilde Investment Management.

In terms of business units, domestic retail banking is the largest user of economic capital with 46% as of year-end 2005, followed by wholesale banking and international retail banking (34%), and participating interests (20%).

11. *Economic capital is defined by Rabobank as the amount of capital to be held by the bank to absorb any unexpected losses without becoming insolvent, based on a one-year period and a confidence level set by Rabobank. The bank uses a 99.99% confidence level.*

Related Research

Banking System Outlook:

Netherlands, September 2005 (94365)

Banking Statistical Supplement:

Netherlands, August 2005 (94028)

Liquidity Risk Assessment:

Rabobank Nederland, February 2, 2006

Financial Reporting Assessment:

Rabobank Group, July 2005 (93613)

Expected Impact of International Financial Reporting Standards (IFRS) on Dutch Banks, September 2004 (88919)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Rabobank Nederland (Consolidated)

	12/31/05	12/31/04	12/31/03	12/31/02	12/31/01
Summary Balance Sheet (EUR million)					
Cash & central bank	2,923	7,269	7,117	3,807	3,736
Due from banks	53,065	41,050	41,919	47,229	40,078
Securities	107,011	115,671	84,445	82,547	96,547
Gross loans	306,808	275,963	252,731	227,037	210,367
Loan loss reserves (LLR)	-2,357	-2,017	-1,934	-1,785	-1,753
Insurance assets	0	0	0	0	0
Fixed assets	3,883	4,491	3,964	3,870	3,756
Other assets	34,901	41,147	15,063	12,015	10,948
Total assets	506,234	483,574	403,305	374,720	363,679
Total assets (USD million) [1]	597,129	657,298	506,228	392,744	322,147
Total assets (EUR million)	506,234	483,574	403,305	374,720	363,679
Demand deposits	48,240	43,376	101,012	105,360	109,114
Savings deposits [2]	132,827	130,199	71,559	66,272	63,060
Due to banks	109,988	96,444	82,856	85,886	80,014
Market funds	148,058	120,457	80,695	61,739	58,514
Insurance liabilities	3	17,882	0	0	0
Other liabilities	38,124	50,083	43,597	34,255	34,562
Total liabilities	477,240	458,441	379,719	353,512	345,264
Subordinated debt	2,645	2,129	2,211	111	52
Shareholders' equity	23,353	19,735	15,233	14,911	13,030
Total capital funds	28,994	25,133	23,586	21,208	18,415
Total liabilities & capital funds	506,234	483,574	403,305	374,720	363,679
Derivatives - notional amount	2,073,428	2,181,834	1,970,027	1,699,650	2,212,747
Derivatives - replacement value	0	0	25,050	24,561	20,145
Contingent liabilities	68,898	62,867	32,552	34,806	35,326
Risk weighted assets (RWA)	213,901	196,052	182,820	165,843	152,812
Assets under management (EUR million) [3]	224,200	223,400	184,000	168,000	194,400
Number of employees	50,988	56,324	57,576	51,867	52,173
Summary Income Statement					
+Interest income	22,101	18,580	17,078	17,544	19,387
-Interest expense	15,694	12,385	11,173	12,202	14,383
=Net interest income	6,407	6,195	5,905	5,342	5,004
+Trading income	393	243	170	285	422
+Fee & commission income	2,217	1,872	1,572	1,515	1,524
+Insurance income (net)	353	214	724	728	810
+Dividend income and other operating income	38	27	647	551	640
=Operating income	9,408	8,551	9,018	8,421	8,400
-Personnel expenses	3,880	3,683	3,770	3,682	3,565
-Other operating expenses	1,953	2,173	2,101	1,789	2,032
= Operating funds flow	3,575	2,695	3,147	2,950	2,803
-Amortisation/depreciation	331	321	372	368	368
(Total operating expenses)	6,164	6,177	6,243	5,839	5,965
=Preprovision income (PPI)	3,244	2,374	2,775	2,582	2,435
-Loan loss provisions	517	479	575	500	480
+Impairment of goodwill, fixed assets and investments [4]	-271	572	148	-109	-25
+Result of subsidiaries and associates	226	99	0	0	0
+Non-recurring items	0	0	0	0	0
=Pretax income	2,682	2,566	2,348	1,973	1,930
-Taxes	599	773	712	514	532
=Net income	2,083	1,793	1,636	1,459	1,398
-Minority interests	184	164	266	209	192
=Net income (group share)	1,899	1,629	1,370	1,250	1,206
Growth Rates (%)					
Gross loans	11.18	9.19	11.32	7.92	8.82
Total assets	4.69	19.90	7.63	3.04	6.05
Customer deposits (demand and savings)	4.32	0.58	0.55	-0.31	17.36
Net interest income	3.42	4.91	10.54	6.75	11.80
Fee and commission income	18.43	19.08	3.76	-0.59	5.03
Operating expenses	-0.21	-1.06	6.92	-2.11	9.27
Preprovision income	36.65	-14.45	7.47	6.04	10.33
Net income	16.57	18.91	9.60	3.65	1.01

Rabobank Nederland (Consolidated)

	12/31/05	12/31/04	12/31/03	12/31/02	12/31/01
Income Statement in % Average Risk Weighted Assets					
Net interest income	3.13	3.27	3.39	3.35	3.39
Trading income	0.19	0.13	0.10	0.18	0.29
Fee and commission income	1.08	0.99	0.90	0.95	1.03
Insurance income	0.17	0.11	0.42	0.46	0.55
Operating income	4.59	4.51	5.17	5.29	5.69
Operating expenses	3.01	3.26	3.58	3.66	4.04
Preprovision income	1.58	1.25	1.59	1.62	1.65
Loan loss provisions	0.25	0.25	0.33	0.31	0.33
Extraordinary profit	0.00	0.00	0.00	0.00	0.00
Net income	1.02	0.95	0.94	0.92	0.95
Liquidity, Funding (including sub debt) & Balance Sheet Composition					
Avg. liquid assets % avg. total assets	33.04	33.54	34.33	37.10	39.43
Avg. gross loans % avg. total assets	58.88	59.61	61.66	59.24	57.13
Avg. customer deposits % avg. total funding	42.50	47.36	52.33	54.56	53.93
Avg. interbank funds % avg. total funding	24.74	24.53	25.66	26.33	27.72
Avg. market funds (excl. interbank) % avg. total funding	32.18	27.52	21.66	19.08	18.33
Avg. sub debt % avg. total funding	0.57	0.59	0.35	0.03	0.02
Avg. liquid assets % avg. customer deposits	92.20	85.94	77.59	79.68	87.38
Avg. gross loans % avg. customer deposits	164.33	152.74	139.39	127.22	126.59
Avg. market funds reliance [5]	-7.56	-17.46	-26.82	-35.87	-42.95
Avg. RWA % avg. total assets	41.42	42.72	44.81	43.15	41.76
Breakdown of Operating Income in %					
Net interest income % operating income	68.10	72.45	65.48	63.44	59.57
Trading income % operating income	4.18	2.84	1.89	3.38	5.02
Fee & commission income % operating income	23.57	21.89	17.43	17.99	18.14
Insurance income % operating income	3.75	2.50	8.03	8.65	9.64
Other operating income % operating income	0.40	0.32	7.17	6.54	7.62
Profitability					
Yield on avg. earning assets (%)	4.91	4.58	4.73	4.98	5.73
Cost of interest bearing liabilities (%)	3.76	3.39	3.40	3.87	4.86
Net interest margin (%) [6]	1.42	1.53	1.70	1.52	1.48
Recurring earning power (Pre-prov. inc. % avg. assets)	0.66	0.54	0.71	0.70	0.69
Risk-weighted recurring earning power (PPI % avg. RWA)	1.58	1.25	1.59	1.62	1.65
Post-provision income % avg. assets	0.55	0.43	0.57	0.56	0.55
Post-provision income % avg. risk weighted assets	1.33	1.00	1.26	1.31	1.33
Return on average assets (%)	0.42	0.40	0.42	0.40	0.40
Return on avg. RWA (%)	1.02	0.95	0.94	0.92	0.95
Post-provision income % tier 1 capital	10.97	8.85	11.14	12.19	12.57
Return on equity (period end) (%)	8.13	8.25	8.99	8.38	9.26
Net interest income coverage of loan loss provisions	12.39	12.93	10.27	10.68	10.42
Loan loss provisions % preprovision income	15.94	20.18	20.72	19.36	19.71
Pre-tax income % operating income	28.51	30.01	26.04	23.43	22.98
Internal capital growth (%)	9.62	10.69	9.19	9.59	9.20
Dividend payout ratio (%)	0.00	0.00	0.00	0.00	0.00
Efficiency					
Cost/income ratio (op. expenses % op. income) [7]	65.52	72.24	69.23	69.34	71.01
Adjusted cost/income ratio (incl. non-operating items)	66.00	64.39	67.59	70.63	71.31
Operating expenses % average assets	1.25	1.39	1.60	1.58	1.69
Operating income / employee (EUR thousand)	184.51	151.82	156.63	162.36	161.00
Operating expenses / employee (EUR thousand)	120.89	109.67	108.43	112.58	114.33
PPI / employee (EUR thousand)	63.62	42.15	48.20	49.78	46.67
Asset Quality and Risk Measurement					
Problem loans % gross loans	1.57	1.48	1.71	1.82	1.87
LLR % problem loans	48.96	49.45	44.84	43.12	44.61
LLR % gross loans	0.77	0.73	0.77	0.79	0.83
Loan loss provisions % gross loans	0.17	0.17	0.23	0.22	0.23
Problem loans % (shareholders' equity + LLR)	18.72	18.75	25.12	24.80	26.58
Replacement value % shareholder's equity	0.00	0.00	164.45	164.72	154.60
Capital Adequacy (Period End)					
Tier 1 ratio (%)	11.60	10.90	10.80	10.30	10.18
Total capital ratio (%)	11.80	10.80	10.90	10.50	10.47
Shareholders' equity % total assets	4.61	4.08	3.78	3.98	3.58
Equity participations % shareholders' equity	12.72	3.62	1.32	1.23	1.20

[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.

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Author	Associate Analyst:	Statistical Analyst:	Production Manager
Lynn Exton	*David Golin*	*Georgios Banos*	*William L. Thompson*