

Credit Update: Rabobank

Following our review, we would like to issue following recommendation:

Buy RABOBK 3.875 04/20/16 (ISIN: XS0619051971): 6M Horizon
Collateral Type: Senior Unsecured

Key Points:

Screening the list of European banks we tried to find a financial institution which fulfils the following requirements

- Strong sovereign background: therefore not being affected by the somewhat decreasing probability of public sector support for banks in case the European Restructuring Legislative is published and implemented (please see our Credit Update: "EC legislative proposal for bank restructuring" released on 9.11.2011)
- Not too strongly relying on issuance of covered bonds: if banks should continue to rely on covered bonds issuance, the senior unsecured debt of these institutions will be re-priced in medium and long term (as the covered bondholders will be paid before unsecured bondholders in the event of issuers bankruptcy); currently it is important to point out that the covered bonds have a preferential regulatory treatment also under Basel 3 and Solvency 2
- Stable financials

Rabobank itself fulfils all the above mentioned requirements. Based on the available news-flow, Rabobank will focus on sales of senior debt for its market funding unlike many other European banks (which are increasingly issuing covered bonds)

Additionally, we see the following strengths and weaknesses of Rabobank:

Strengths

Systematic importance and strong market shares in Netherlands; Some additional stability based on bank's cooperative background

Well diversified funding; Compared to the peers, the pressure from refinancing the maturing debt in 2012 is limited

Good asset quality

Losses from Irish subsidiary ACC Bank presumably limited, as provisions were already created for this entity; PIGS exposures are limited

Weaknesses

Profitability under pressure due to the low margin Dutch business

Asset quality might come under pressure, if the economy in Netherlands should worsen

For detailed information, please see our Special "Benelux Banks: Separating the wheat from the chaff" released on 11.8.2011

Reported Pre-tax Profit by Business Line 2010

