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Research Update:

Rabobank Nederland Outlook Revised To Stable On Government Support And ALAC Review; 'A+ / A-1' Ratings Affirmed

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

Research Update:

Rabobank Nederland Outlook Revised To Stable On Government Support And ALAC Review; 'A+/A-1' Ratings Affirmed

Overview

- We believe the prospect of extraordinary government support for Dutch banks is now uncertain in view of the country's well-advanced and effective resolution regime.
- We are therefore removing the one notch of uplift for government support that we had previously incorporated in the long-term counterparty credit ratings on Rabobank Nederland and its principal operating subsidiaries.
- However, we now include one notch in the long-term ratings because we consider that Rabobank Nederland already has substantial additional loss-absorbing capacity (ALAC).
- We are revising the outlook to stable from negative on Rabobank Nederland and affirming the long- and short-term counterparty credit ratings at 'A+/A-1'.
- The stable outlook reflects our expectation that Rabobank Nederland will continue to gradually build its ALAC buffer in the coming two years and that its intrinsic creditworthiness will remain solid.

Rating Action

As previously announced on Dec. 2, 2015, Standard & Poor's Ratings Services revised its outlook on Netherlands-based Rabobank Nederland to stable from negative. At the same time, we affirmed the long- and short-term counterparty credit ratings at 'A+/A-1'. We also revised the outlook on subsidiary Rabobank New Zealand Ltd. to stable from negative and affirmed the 'A/A-1' ratings.

We also affirmed the issue ratings on subordinated and hybrid capital instruments issued by these entities because we maintained the unsupported group credit profile (GCP) at 'a'.

Rationale

We believe that the prospect of extraordinary government support for the Dutch banking sector is now uncertain following the expected full implementation of the EU Bank Recovery and Resolution Directive, including bail-in powers, from Jan. 1, 2016. We do not completely exclude the possibility of such support and we consider that systemically important Dutch institutions such as Rabobank Nederland face several more years of structural and balance sheet reforms to address their "resolvability" (mitigating the systemic impact if they fail).

Nevertheless, we believe the Dutch government's ability and willingness to provide support is lower and less predictable under the enhanced resolution framework. We have therefore reclassified the tendency of The Netherlands to support private sector commercial banks as "uncertain" under our criteria, and removed the one notch that we previously included for government support in the long-term counterparty credit rating on Rabobank Nederland.

We have added one notch of uplift within Rabobank Nederland's 'a+' supported GCP because we consider that the bank is likely to maintain additional loss-absorbing capacity (ALAC) above our 5% threshold. We view the Dutch resolution regime as "effective" under our ALAC criteria because, among other factors, we believe it contains a well-defined bail-in process under which authorities would permit non-viable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities.

We include in our ALAC assessment most of the capital instruments issued by Rabobank Nederland because we believe they have capacity to absorb losses without triggering a default on senior obligations of Rabobank Nederland and they meet our other criteria for inclusion. On this basis, we calculate that ALAC was 5.2% of Standard & Poor's risk-weighted assets at year-end 2014, that is on a pro forma basis including the €1.5 billion Additional Tier 1 issuance in January 2015, which is above the 5% threshold for Rabobank Nederland that we consider necessary for one notch of uplift. We expect that this ALAC ratio will grow to at least the 7.5%-8.0% range by end-2017. This reflects our expectation that (i) Rabobank Nederland will gradually replace maturing capital instruments (some of which are not ALAC-eligible) with ALAC-eligible instruments, and (ii) that future regulatory requirements would lead Rabobank Nederland to maintain or maybe moderately increase its existing buffer of loss-absorbing capacity.

The unsupported GCP for Rabobank Nederland remains 'a'. We see Rabobank Nederland as being in the midst of emerging from a period of reputational damage by refreshing its senior management team and organizational structure, seeking improved efficiency in its domestic retail bank, and refocusing some of its international operations. That said, we believe that the strategy is plausible and that the bank is committed to further improving its capital measures.

As a result of the above, we have maintained the supported GCP, which now includes ALAC support instead of government support, at 'a+'.

Outlook

The stable outlook reflects our expectation that Rabobank Nederland's earnings will remain resilient, and reasonably predictable, over the next 18-24 months as it works through a variety of changes to its domestic and international operations.

If we have cause to doubt Rabobank Nederland's business stability or the success of the implementation of its strategy, relative to similarly highly rated peers, we could lower the ratings. We would reflect this view by lowering the business position assessment to "strong" from "very strong". Conceivably, however, this potential rating action could be negated if we consider at that time that Rabobank Nederland's ALAC is already above our higher ALAC threshold of 8%; it would, however, affect our hybrid ratings as we derive these from the unsupported GCP.

At this time, given our view that Rabobank Nederland is in the midst of a period of change, we consider that a ratings upgrade is unlikely. Nevertheless, we are cognizant that management is keen to improve the bank's capitalization and, over time, this may feed through to our own capital and earnings assessment in a positive manner. However, a positive rating action would also depend on a full comparison of the issuer credit rating on the bank with highly rated global peers.

Ratings Score Snapshot

Issuer Credit Rating	A+/Stable/A-1
SACP	a
Anchor	bbb+
Business Position	Very strong (+2)
Capital and Earnings	Adequate (0)
Risk Position	Adequate (0)
Funding and Liquidity	Average and (0) Adequate
Support	(+1)
ALAC Support	(+1)
GRE Support	(0)
Group Support	(0)
Sovereign Support	(0)
Additional Factors	(0)

Related Criteria And Research

Related criteria

- Criteria | Financial Institutions | Banks: Rating Methodology And Assumptions - Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Bank Capital Methodology And Assumptions - Dec. 6, 2010
- Criteria | Financial Institutions | Banks: Quantitative Metrics For

Rating Banks Globally: Methodology And Assumptions - Jul. 17, 2013

- Criteria | Financial Institutions | Commercial Paper I: Banks - Mar. 23, 2004
- Criteria | Financial Institutions | Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks - May 4, 2010
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, Apr.27, 2015
- Criteria | Financial Institutions | Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions - Jan. 29, 2015
- Criteria | Financial Institutions | Bank: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- General Criteria | Use Of CreditWatch And Outlooks - Sep. 14, 2009
- General Criteria | Group Rating Methodology - Nov. 19, 2013
- General Criteria | Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria | Criteria For Assigning 'CCC+', 'CCC', 'CCC-', 'CC' Ratings, Oct. 1, 2012
- General Criteria | S&P's National And Regional Scale Mapping Tables, Sep. 30, 2014
- General Criteria | National And Regional Scale Credit Ratings, Sep. 22, 2014
- General Criteria | Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria | Rating Government-Related Entities: Methodology And Assumptions, Mar. 25, 2015
- General Criteria | Use Of 'C' And 'D' Issue Credit Ratings For Hybrid Capital And Payment-In-Kind Instruments, Oct. 24, 2013

Related research

- Most European Bank Ratings Affirmed Following Government Support And ALAC Review, Dec. 2, 2015
- Credit FAQ: How Standard & Poor's Applied Its Government Support And ALAC Criteria To European Banks In December 2015, Dec. 2, 2015
- Standard & Poor's To Conclude Its Review Of Systemic Support For Remaining EU Banks By Early December 2015, Oct. 1, 2015
- Government And ALAC Support Ratings Uplift For Systemically Important European Banking Groups, Oct. 1, 2015
- How The Regulatory Reform Process Could Reshape Banks' Business Models And Affect Issuer Ratings, Aug. 18, 2014
- Standard & Poor's Takes Various Rating Actions On European Banks Following Government Support Review, April 29, 2014
- Credit FAQ: The Rating Impact Of Resolution Regimes For European Banks, April 29, 2014

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland) Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A., "Rabobank Nederland" (New York Branch)		
Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland), (London Branch)		
Counterparty Credit Rating	A+/Stable/A-1	A+/Negative/A-1
Rabobank New Zealand Ltd.		
Counterparty Credit Rating	A/Stable/A-1	A/Negative/A-1
Rabohypothekbank N.V.		
Counterparty Credit Rating	A+/Stable/--	A+/Negative/--
Rabobank Nederland (Hong Kong branch)		
Certificate Of Deposit	A+/A-1	
Certificate Of Deposit	cnA-1+	
Certificate Of Deposit	cnAAA	
Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland)		
Senior Unsecured	A+	
Senior Unsecured	A+p	
Senior Unsecured	cnAAA	
Subordinated	BBB+	
Junior Subordinated	BBB-	
Certificate Of Deposit	A+	
Certificate Of Deposit	A-1	
Certificate Of Deposit	cnA-1+	
Certificate Of Deposit	cnAAA	
Commercial Paper	A+	
Commercial Paper	A-1	
Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A., "Rabobank Nederland" (New York Branch)		
Senior Unsecured	A+	
Rabo Australia Ltd.		
Commercial Paper	A-1	
Rabo Capital Securities Ltd.		
Junior Subordinated	BBB-	
Rabobank Capital Funding Trust II		
Rabobank Capital Funding Trust III		

Rabobank Capital Funding Trust IV
Rabobank Capital Funding Trust V
Rabobank Capital Funding Trust VI
Preferred Stock BBB-

Rabobank USA Financial Corp.
Short-Term Counterparty Credit Rating A-1
Commercial Paper* A-1

*Co-issued by Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland) and Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A., "Rabobank Nederland" (New York Branch).

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