S&P Global
Ratings

Research

Cooperatieve Rabobank U.A.

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Cooperatieve Rabobank U.A.

SACP	a

\+

Support	+1

\+

Additional Factors	0

Anchor	bbb+	
Business Position	Strong	+1
Capital and Earnings	Strong	+1
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

ALAC Support	+1
GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
A+/Positive/A-1

Major Rating Factors

Strengths:	Weaknesses:
• Clearly defined medium-term strategy, focusing on the domestic franchise and food and agriculture business globally. • Prioritization of long-term franchise growth over short-term returns. • Market-leading presence in The Netherlands, with strongly performing domestic residential mortgages.	• Continuing adaptation to regulatory challenges, in particular changes to the Basel framework. • Like for European peers, the persistently low interest rates put pressure on revenue generation. • Higher reliance on wholesale funding than European peers.

Outlook: Positive

The positive outlooks on Rabobank and on its highly strategic subsidiary Rabobank New Zealand Ltd. stem from the positive economic trend S&P Global Ratings sees for banks operating in the Netherlands. We believe the risks posed by commercial real estate (CRE) are abating and the declining average loan-to-value (LTV) on mortgages at Rabobank, and countrywide, is also positive for banks' creditworthiness, especially retail-focused ones like Rabobank. Those trends, which are medium term, could structurally reduce risks for Dutch banks if they continue and we therefore may revise to 'a-' from 'bbb+' our anchor on banks operating mainly in the Netherlands in the next two years. This would allow us to revise upward our unsupported group credit profile (U-GCP) assessment on Rabobank to 'a+' and raise our long-term ratings by one notch, to 'AA-', all other factors remaining unchanged and assuming that the comparison with similarly rated peers is favorable, for instance in relation to core earning generation and asset quality indicators.

To upgrade the bank, we expect Rabobank will continue to strengthen its capital position, with a projected risk-adjusted capital (RAC) ratio sustainably higher than 10% in 2018, as it executes its medium-term optimization strategy to adapt to low interest rates and regulatory challenges. We expect Rabobank's earnings will remain resilient over the next 18-24 months but also asset quality metrics to improve gradually as the bank's core markets remain dynamic.

We would revise the outlook to stable if the performance of the Dutch CRE and residential real estate sectors were to diverge materially from our central expectations, in particular if house-price inflation continued to show signs of overheating. In the same vein, downward pressure could arise if, despite the improving economic conditions in the Netherlands, the bank's projected capital position or additional loss-absorption capacity (ALAC) buffer buildup did not meet our expectation and asset quality failed to improve closer to 'AA-' rated peers'. We would also revise the outlook to stable if we were to observe a more rapid growth of customer loans in countries we deem riskier, compared with our current expectations.

Rationale

Our ratings on Rabobank reflect the bank's market leading franchise in Dutch retail banking and in the financing of the food and agriculture business globally. The bank boasts a low risk profile and a very predictable earnings generation capacity. We also view positively the bank's conservative financial policy, partly due to its cooperative status, with a continued strengthening of the bank's capital base, by all measures, including our RAC ratio, which we expect will remain sustainably above 10% in the coming years. The bank's asset mix combines a large and very-low-risk domestic mortgage loan book, with other loans that we consider more risky, including a commercial real estate loan book that has been reduced proactively and now is managed at its target size. We consider that the bank displays average funding and adequate liquidity. Its relatively high loan-to-deposit ratio by international standards is mitigated by the improving maturity profile of Rabobank's wholesale funding and its sound liquidity buffers.

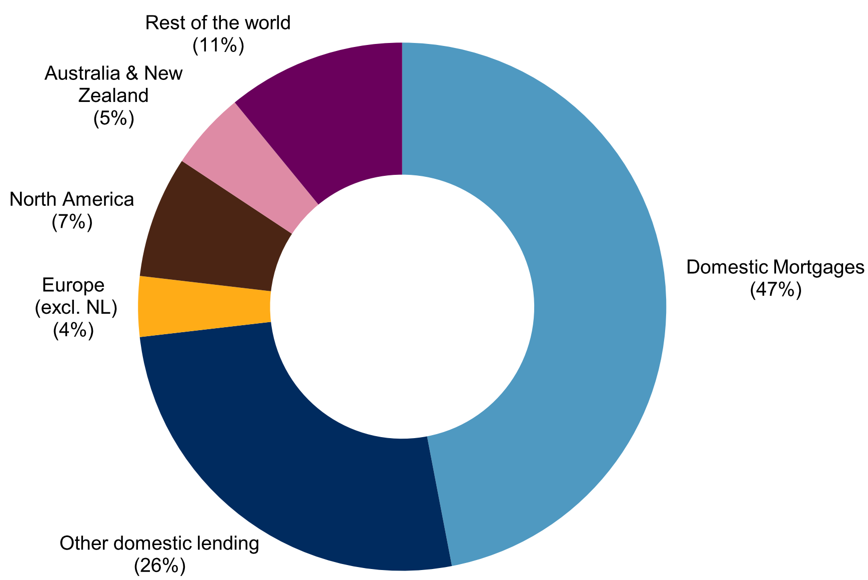
Finally, we adjust the resulting 'a' unsupported group credit profile (GCP) upward by one notch, reflecting our view of Rabobank 's sizable ALAC buffer, to arrive at the 'A+' issuer credit rating.

Anchor: bbb+

The 'bbb+' anchor draws on our Banking Industry Country Risk Assessment (BICRA) methodology and our view of the weighted-average economic risk in the countries in which Rabobank operates (see chart 1).

Chart 1

Geographic Breakdown Of Rabobank 's Customer Loan Portfolio



Source: Coop. Rabobank investor presentation FY2017 results, S&P Global Ratings.

The economic risk score for The Netherlands is '3' on a scale of 1-10 (1 is the lowest risk and 10 is the highest), and the weighted-average score for the countries in which Rabobank operates is just above that mark.

We base our assessment of economic risk on our view that the Dutch economy is wealthy, diversified, open, and competitive, as seen in its high income per capita, its net external asset position, recurrent and elevated current account surpluses, and a long track record of prudent and flexible macroeconomic policies. Following real GDP growth averaging 2.6% in 2016-2017, we believe that the Netherlands' real GDP growth will stand at 2% on average over 2018-2019. Strong domestic demand continues to fuel the ongoing recovery. We believe that supportive macroeconomic developments, the dynamics of the real estate markets--both residential and commercial--and, last but not least, the legal reforms introduced since 2013 and the banks' own restructuring efforts in this context, are gradually leading to receding economic imbalances in the country. In our view, the trend for economic risk is positive.

Our assessment of industry risk for Dutch banks at '3' incorporates high domestic concentration and our view of a stable competitive environment. We consider that the prospective profitability of domestic banking activities is adequate. Some of the large banks have completed large restructuring efforts in exchange for state aid. Cost optimization programs continue in the context of the persistently low-interest-rate environment, and cost of risk has also improved, mitigating asset repricing. The system's relatively large reliance on wholesale funding is partly attributable to households' propensity to save in life insurance and pension products, rather than in bank deposits. We consider that Dutch systemwide funding benefits from, among other things, the depth of the domestic capital market and the Dutch authorities' good track record in providing liquidity support.

Table 1

Cooperatieve Rabobank U.A. Key Figures					
	--Year-ended Dec. 31--				
(Mil. €)	2017	2016	2015	2014	2013
Adjusted assets	599,861	659,376	677,334	679,027	672,148
Customer loans (gross)	425,163	444,226	455,457	453,500	453,682
Adjusted common equity	28,532	27,397	27,699	26,324	26,403
Operating revenues	12,001	12,501	13,014	12,737	13,020
Noninterest expenses	8,216	8,048	8,094	8,222	8,807
Core earnings	2,296	2,373	2,277	1,264	780

Business position: A low-risk leading retail bank in a wealthy country

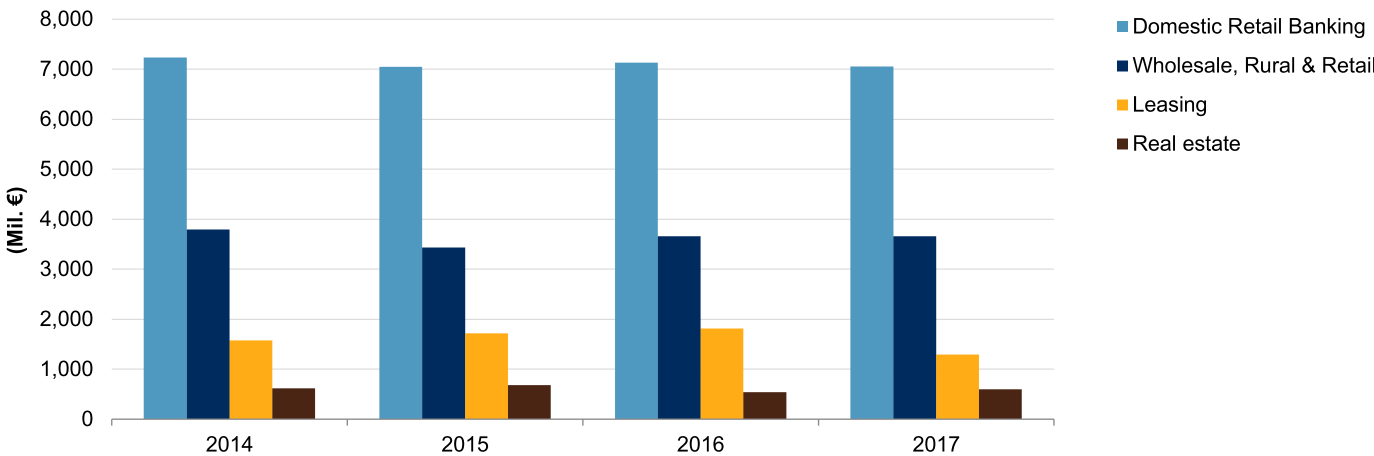
We consider Rabobank's business position to be strong. This is based upon our view of its leading domestic franchise in the Dutch retail banking market and in the financing of the food and agriculture business globally. International activities, with a clear sector focus, add to the diversity of its domestic business, and present limited risk. In addition, we consider the strategy to be prudent, notably financial planning and balance sheet management, and note that as a cooperative organization it prioritizes steady, long-term franchise growth over short-term returns.

We believe the bank's business profile compares well with that of large international banking peers. The bank's key domestic peers are ING Groep N.V., which is more diverse geographically but has a smaller domestic market share; and ABN AMRO Bank N.V., another leading domestic bank. Other peers operating in countries with similar industry risk as the Netherlands are large French banks, especially those with cooperative status (Crédit Agricole, BPCE, and Crédit Mutuel), and other large cooperative banking groups in Germany and Austria. The strength of Rabobank's business model indeed lies in strong retail franchise in a wealthy country and focus on low risk businesses.

We view positively the capacity to generate stable revenues derived from the bank's retail and commercial banking activities (see chart 2). This is underpinned by Rabobank's diversified product offering and its leading positions in Dutch household savings (a reported 34% market share), residential mortgages (22% market share in new production), and the financing of the agriculture sector (86% market share). Owing to its solid franchise and good pricing power, the net interest margin is holding well and volatile sources of income are modest. Rabobank's primary international activities focus upon supporting Dutch clients and its traditional core market of food and agriculture financing. Its international network is consequently focused on major agriculture centers in Europe, the Americas, Australia, and New Zealand. Digital capabilities are also being developed to strengthen the bank's presence in global food chains and local communities.

Chart 2

Reported Underlying Income By Business Lines



Source: Coop. Rabobank, S&P Global Ratings.

The bank is going through significant changes as it executes its medium-term strategic plan focused on improving efficiency and earnings and adapting to changing consumer behavior. Indeed the bank boasts a modest return on equity averaging 4% since 2012, largely due to a large cost base. Despite the planned staff reduction, the targeted 53%-54% cost-to-income ratio for 2020 looks ambitious as the average over the past five years is closer to 65%. A change to the bank's governance structure was introduced in early 2016, with the merger of 106 local banks with the central cooperative Rabobank, to form a cooperative entity with a single banking license and therefore improved efficiency.

On Dec. 7, 2017, the Basel Committee on Banking Supervision (BCBS) published the long-awaited framework for calculating capital requirements for banks, also known as Basel IV. The risk-weighted assets increase is substantial due to stricter rules on internal models, and in particular of an aggregated output floor at 72.5% (see capital section). But it remains largely manageable because of the long implementation timeframe. Therefore, we believe the bank is likely to preserve its existing business model intact, and notably its strength in retail, and we expect the balance sheet reduction efforts will focus essentially on exiting some legacy risky assets (CRE) or selling noncore capital intensive businesses.

Table 2

Cooperatieve Rabobank U.A. Business Position					
	--Year-ended Dec. 31--				
(%)	2017	2016	2015	2014	2013
Total revenues from business line (mil. €)	12,002	12,805	13,014	12,857	13,020
Domestic retail banking/total revenues from business line	58.8	53.6	53.8	57.9	57.9
Return on equity	6.2	3.4	4.1	3.3	3.8

Capital and earnings: Management is focused on improving capitalization

We view Rabobank's capital and earnings as strong. We project its RAC ratio will remain sustainably above 10% in the next 18 to 24 months. This reflects our view that Rabobank will remain focused on implementing its medium-term strategic objective to maintain a robust capital position. Indeed, Rabobank aims to display a common equity tier 1 (CET1) ratio above 14% by 2020 and a total regulatory capital ratio above 25%. The two objectives were already met at end-2017 (15.5% and 26.2%, respectively). Under the 2017 Supervisory Review and Evaluation Process (SREP), the CET1 ratio requirement is expected to be set at a minimum of 11.75% in 2019.

In the meantime, the bank estimates that the expected changes to the Basel framework, from 2022, could lead to a 30%-35% increase of its risk-weighted assets (RWA), based on its balance sheet at end-2017 and everything else being equal. Rabobank has already actively anticipated those changes through restructuring, earnings retention, and the issuance of additional capital instruments (Rabobank Certificates in early 2017). Rabobank has also built the infrastructure required to reduce its RWA in an orderly manner and maintain a more flexible balance sheet. It will continue to reduce its non-core legacy assets, such as parts of its CRE exposure. Key measures included the sale of various lending portfolios and the sale of Athlon Car Lease.

Rabobank's RAC ratio stood at 9.5% at year-end 2016. The difference between our measure of capital and regulatory ratios reflects the more conservative standardized risk-weighting that we apply. We estimate that RAC has already exceeded 10% in 2017 and will range between 11.0% and 11.5% by end 2019. The main assumptions supporting our forecast are:

- A reduction of our RWA figure for Rabobank by about 2%-3% in the next two years, in line with the bank's balance-sheet-optimization program, notably assets with high risk-weights, like CRE ones.
- Resilient operating revenues of about €12 billion annually, despite the smaller balance sheet and repricing of assets in a low-interest-rate environment, reflecting Rabobank's ability to adjust its funding cost, stabilize interest revenues, and generate more fees and commissions, thanks to its solid domestic retail and specialized global food and agriculture business franchise.
- Contained cost of risk, in the €300 million-€500 million range per year, equivalent to a 10-15 basis points (bps) and improving efficiency, with the cost-to-income ratio trending down toward 60% according to our metrics, with the planned reduction of operating expenses, including a smaller workforce.
- Resilient core earnings of €2.5-2.7 billion per year, with stable remuneration of certificate holders and capital securities holders, reflecting Rabobank's cooperative structure.
- The maintenance of a stable amount of certificates and additional tier 1 instruments altogether.

In our view, Rabobank's cooperative status restricts to some extent its ability to raise new core capital, if required. However, Rabobank has the capacity to issue deeply subordinated certificates classified as common equity Tier 1 capital, which are listed and which we include within adjusted common equity. Rabobank has also demonstrated good access to the hybrid market. Overall, we believe the bank's cooperative status, and the low payout attached to it, supports a conservative financial policy.

We consider the quality of capital to be satisfactory. We calculate that adjusted common equity represented about 90% of total adjusted capital (TAC) at year-end 2017, which is a similar proportion to its international peer group. We include in TAC the CRD IV compliant 2015 and 2016 capital instruments.

For 2017, Rabobank reported a statutory profit before tax of €3.6 billion. Rabobank's earnings capacity to date has been somewhat constrained, in our view, by the cost structure of its domestic activities, and--due to its cooperative roots--its traditionally lesser focus on profit maximization than commercial peers. For example, its reported cost-to-income ratio stood at 71.3% for 2017, including a one-off €310 million provision in anticipation of a potential settlement agreement, compared with a target set at 53%-54% by 2020. Large domestic peers display ratios below 60%.

Table 3

Cooperatieve Rabobank U.A. Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Criteria reflected in RAC ratios	2017	2017	2010	2010	2010
Tier 1 capital ratio	18.8	17.6	16.4	16.0	16.6
S&P RAC ratio before diversification	N.A.	9.5	8.8	7.4	7.0
S&P RAC ratio after diversification	N.A.	10.6	9.6	8.1	8.2
Adjusted common equity/total adjusted capital	91.5	86.1	85.8	88.8	90.2
Net interest income/operating revenues	73.7	69.9	70.2	71.6	69.8
Fee income/operating revenues	15.9	15.3	14.5	14.8	15.4
Noninterest expenses/operating revenues	68.5	64.4	62.2	64.6	67.6
Preprovision operating income/average assets	0.6	0.7	0.7	0.7	0.6
Core earnings/average managed assets	0.4	0.4	0.3	0.2	0.1

RAC--Risk-adjusted capital. N.A.--Not available.

Table 4

Cooperatieve Rabobank U.A. Risk-Adjusted Capital Framework Data

(Mil. €)	**Exposure***	**Basel III RWA**	**Average Basel III RW (%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk					
Government and central banks	159,146	7,875	5	4,389	3
Institutions and CCPs	19,487	7,018	36	4,588	24
Corporate	223,450	91,942	41	180,572	81
Retail	221,344	48,024	22	92,909	42
Of which mortgages	160,396	25,905	16	46,047	29
Securitization§	12,115	1,798	15	5,813	48
Other assets†	3,449	11,849	344	3,880	113
Total credit risk	638,991	168,507	26	292,152	46
Credit valuation adjustment					
Total credit valuation adjustment	--	1,450	--	1,993	--
Market risk					
Equity in the banking book	1,458	10,263	704	12,580	863
Trading book market risk	--	3,884	--	6,201	--
Total market risk	--	14,147	--	18,781	--

Table 4

Cooperatieve Rabobank U.A. Risk-Adjusted Capital Framework Data (cont.)					
Operational risk					
Total operational risk	--	27,108	--	23,290	--
(Mil. €)		**Basel III RWA**		**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	211,212	--	336,217	100
Total Diversification/Concentration Adjustments	--	--	--	(36,613)	(11)
RWA after diversification	--	211,212	--	299,604	89
(Mil. €)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments	--	37,079	17.6	31,819	9.5
Capital ratio after adjustments‡	--	37,079	17.6	31,819	10.6

*Exposure at default. §Securitization exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2016, S&P Global.

Risk position: Credit loss track record broadly in line with peers

We assess Rabobank's risk position as adequate. It is broadly in line with large Dutch peers and international peers with a similar economic risk and product mix. In 2012-2015, the bank's overall loss experience has been dampened by weaknesses in its CRE and small and midsize enterprise (SME) portfolios. Credit performance has improved since then and we expect the level of performance to remain largely unchanged.

Although its domestic market accounts for around three-quarters of total lending, Rabobank is active across all parts of the Dutch economy. International operations are focused on the food and agriculture sectors, in which Rabobank has longstanding expertise and competitive advantages.

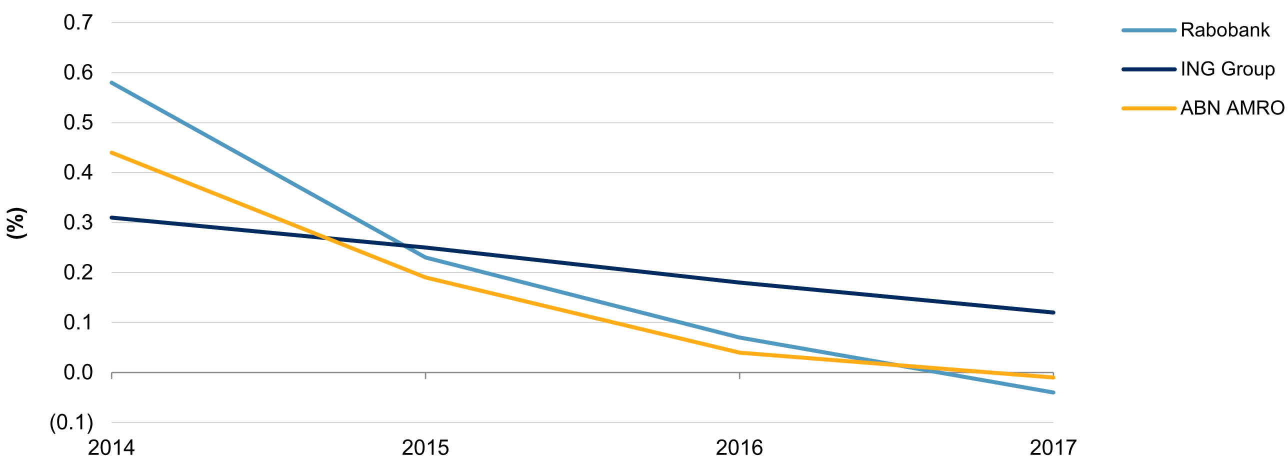
Rabobank's two largest loan portfolios are performing well. First, domestic residential mortgages, 47% of the loan book on Dec. 31, 2017 (€193 billion), have consistently performed better than those of Dutch peers. The bank reported a nonperforming loan ratio of 0.58% on Dec. 31, 2017. Provision charges are typically low, and lower than the system average. In part, we believe this differential reflects Rabobank's focus on non-intermediary-sourced lending, lower LTV lending, and a bias toward older customers away from the largest cities. The average LTV on the domestic residential mortgage portfolio was 69% on Dec. 31, 2017. Nevertheless, 21% of mortgage lending has an LTV above 90% at the same date (27.4% as of June 30, 2017), which is high by European standards but offset by a good track record of sound performance. About 20% of the mortgage portfolio is covered by the Dutch national mortgage guarantee scheme (broadly akin to a sovereign guarantee, in our view).

Second, food and agribusiness, 24% of the loan book (€97.8 billion), is well diversified by type and by geography. About two-thirds of this portfolio is international.

We expect credit performance to remain sound. Cost of risk has fallen for the last three years, beyond expectations, similar to the performance of domestic peers (see chart 3). We expect cost of risk to be more reflective of the quality of the book going forward, in the 10-15 basis point range, with a much lower offsetting impact of model-driven release of provisions.

Chart 3

Rabobank's New Loan Loss Provisions/Average Loans



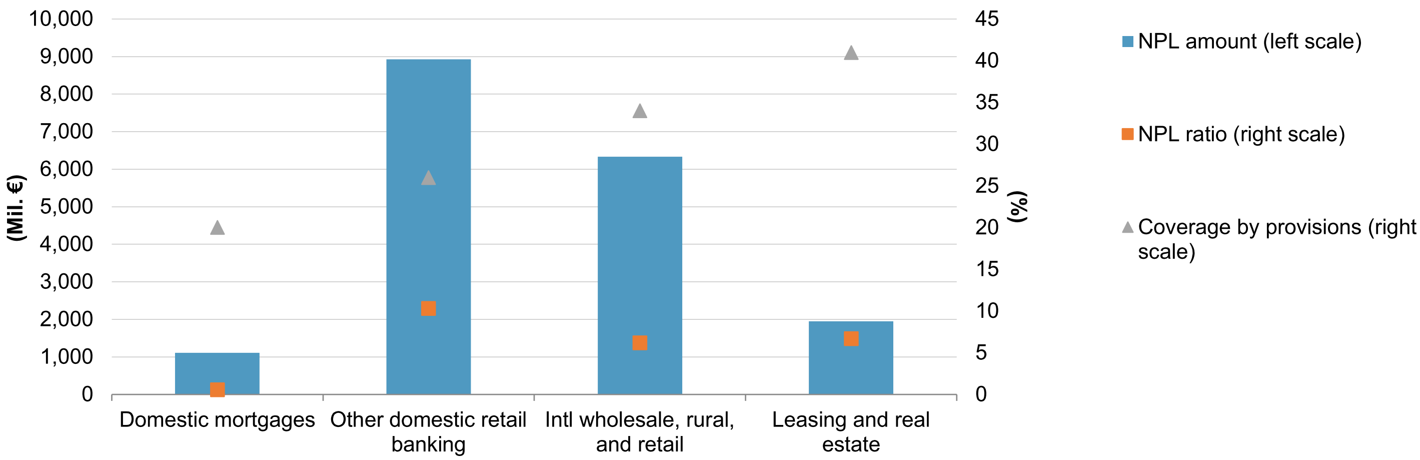
Source: Banks' annual reports, S&P Global Ratings.

There are some pockets of weakness that are legacies of the past downturn. For instance, the Dutch horticulture, CRE, and SME sectors were adversely impacted.

Rabobank's domestic CRE book is not excessively large in relative terms at about 6% of total loans (€22.9 billion at end 2017), but about 15% of the book was nonperforming as of Dec. 31, 2017. New CRE provisions have remained modest since 2015, in part reflecting the improved operating environment, and we assume that this will remain the case. Rabobank has continued to actively manage down its CRE portfolio (-15% reduction in 2016; -2% in 2017), but intends to continue operating in this field (see chart 4).

Chart 4

Asset Quality Indicators For Rabobank's Main Loan Portfolios



NPL--Nonperforming loans. Source: Coop. Rabobank, S&P Global Ratings.

Since 2013, the bank has taken a number of steps to strengthen its compliance, risk management, and controls. These initiatives followed the identification of internal inappropriate conduct related to interbank rate submissions. These steps have included changes to the management team, significant culture change initiatives, and aligning the bank into one operation so that its international activities are no longer managed separately from the rest of the bank. At end-2017, the bank posted a €310 million provision in anticipation of a settlement linked to historical anti-money laundering compliance issues in the U.S. Like for peers, the bank remains exposed to litigation risk through other ageing and ongoing legal cases and arbitration proceedings. The bank describes in its 2017 annual report the most relevant legal and regulatory claims that could give rise to liability.

Table 5

Cooperatieve Rabobank U.A. Risk Position

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Growth in customer loans	(4.3)	(2.5)	0.4	0.0	(5.0)
Total diversification adjustment / S&P RWA before diversification	N.A.	(10.9)	(8.4)	(9.0)	(14.0)
New loan loss provisions/average customer loans	(0.0)	0.1	0.2	0.6	0.6
Net charge-offs/average customer loans	0.4	0.3	0.5	0.5	0.4
Gross nonperforming assets/customer loans + other real estate owned	4.3	4.2	4.3	4.7	2.8
Loan loss reserves/gross nonperforming assets	29.7	40.4	43.0	44.0	32.6

N.A.--Not available.

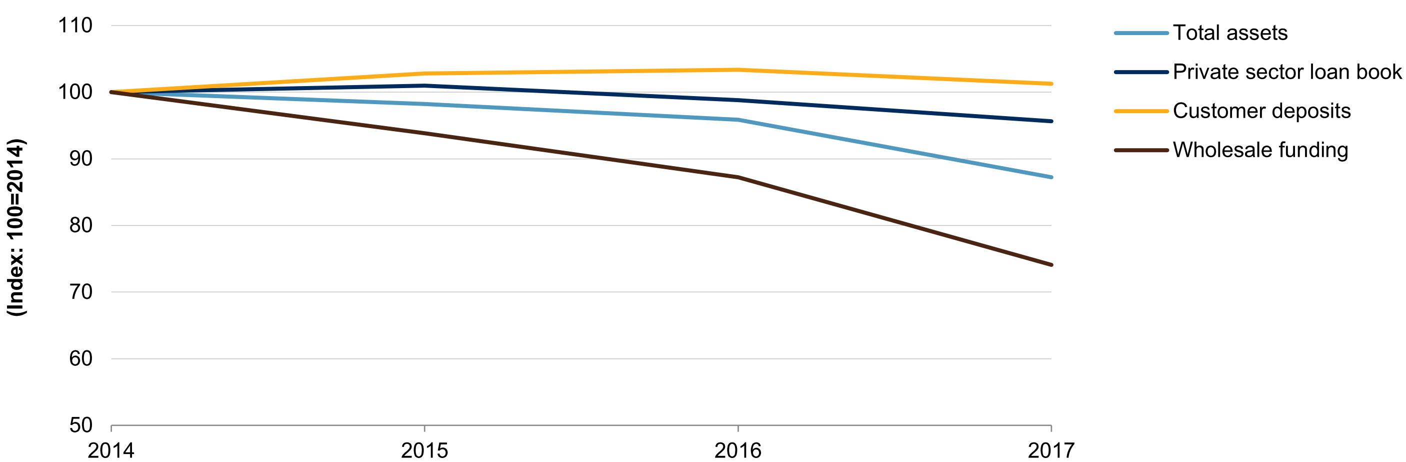
Funding and liquidity: Strong deposit franchise and well-managed wholesale funding base

We consider Rabobank's funding as average and its liquidity as adequate. Its reported loan-to-deposit ratio is relatively high, standing at 120% on Dec. 31, 2017, despite its leadership position in the domestic deposit market. However, we acknowledge that this profile is typical in the Dutch market due to the large amount of mortgage debt outstanding, owing to tax relief, and because Dutch household savings are typically channeled into investments such as life insurance and pension products. Rabobank amply met the Basel III liquidity and funding requirements on Dec. 31, 2017, with a liquidity coverage ratio of 123% and a net stable funding ratio of 119%.

Over the next two years, we assume that the loan book will moderately decline and customer deposits will exhibit stability, due to the bank strong retail franchise. Managing the amount of wholesale funding below €150 billion ranks among the bank's strategic objectives, and the main driver of the bank's balance sheet reduction (see chart 5). Since 2012, Rabobank's amount of issuance has been less than amortizing debt instruments. The target funding program for 2018 stands at a modest €10 billion-€12 billion, compared with maturing senior debt of about €21 billion. Moreover, we assume that the existing liquidity buffer and fairly low reliance on short-term wholesale funding will persist (we judge Rabobank's profile to be broadly similar to ABN AMRO's and ING Bank's in this respect).

Chart 5

Evolution Of Rabobank's Main Balance Sheet Items



Source: Coop. Rabobank ; S&P Global Ratings.

Rabobank's funding profile is underpinned by its large, granular, and stable domestic deposit base. The bank states that its market share is 34%, which is very healthy in an international comparison. Market share has fallen slightly in recent years, from about 40%, in part as peers seek to rebalance their funding profiles, but we don't expect Rabobank's market share to fall materially below the 35% mark. Wholesale funding is diversified and has a satisfactory maturity profile. We calculate that Rabobank's stable funding ratio was a satisfactory 108% on Dec. 31, 2017, up slightly on the year before, and we expect little change in the future. Rabobank has also diversified its funding profile, with the issuance of covered bonds since 2017.

Rabobank's liquidity position has strengthened over the past few years. The bank maintains a surplus of liquid assets well in excess of regulatory requirements. On Dec. 31, 2017, it reported a high-quality-liquid-asset buffer of €86 billion.

A sizable portion of the liquidity buffer comprises deposits at central banks and Dutch government bonds. Rabobank has been managing down the cash part of this buffer, with a higher portion of bonds. Our measure of broad liquid assets to short-term wholesale funding was 1.58x on Dec. 31, 2017.

Table 6

Cooperatieve Rabobank U.A. Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2017	2016	2015	2014	2013
Core deposits/funding base	64.9	61.3	59.8	56.9	57.1
Customer loans (net)/customer deposits	123.2	125.7	129.4	136.9	137.1
Long term funding ratio	88.2	84.6	83.7	81.8	81.8
Stable funding ratio	108.6	107.6	103.7	100.2	98.4
Short-term wholesale funding/funding base	12.7	16.3	17.3	19.3	19.2
Broad liquid assets/short-term wholesale funding (x)	1.8	1.6	1.4	1.2	1.2
Net broad liquid assets/short-term customer deposits	17.8	17.2	12.5	7.8	6.7
Short-term wholesale funding/total wholesale funding	35.0	41.3	42.2	44.1	44.3

External support: ALAC has replaced government support in Dutch bank ratings

In our view, Rabobank has high systemic importance in the Netherlands, given its significant market share in various sectors, including retail banking. Since December 2015, we have regarded the prospect of extraordinary government support for Dutch banks as uncertain in view of the country's well-advanced and effective resolution regime. As a result, systemic banks are not eligible for rating uplift for possible future Dutch government support.

However, 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 nonviable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities.

Our ALAC calculation at year-end 2016 includes regulatory capital instruments that have defined principal write-down triggers. On this basis, we estimate that ALAC was 6.0% of S&P's risk-weighted assets, mainly made up of subordinated instruments. We assume that this metric will remain above our 5% threshold as the bank executes its medium-term strategy aimed at strengthening regulatory capital ratios. We believe future regulatory requirements will likely contribute to strengthening the ALAC buffer, above 6% in the next two years. Rabobank has already announced that it may issue nonpreferred senior debt when the legal framework has been set, likely end 2018-early 2019.

Core and highly strategic subsidiaries

The 'A-1' short-term rating on Rabobank USA Financial Corp. reflects the core status of this subsidiary, acting as a funding vehicle for the U.S. market.

The 'A+' long-term rating on the domestic subsidiary Rabohypotheekbank N.V. reflects our view of its core status within the group, as it contributes to the execution of the group integral strategy in domestic retail banking.

We classify Rabobank New Zealand Ltd. (Rabobank NZ) as a highly strategic subsidiary. This reflects its integral role in relation to the group-wide strategy, which emphasizes food and agriculture lending. Despite its relatively small size, Rabobank NZ is part of a somewhat larger subregional group, also including Rabobank Australia. Beyond its strategic focus, there is a high level of interconnectivity with the group in our view, as it largely relies on intra-group funding. Consequently, we include in our ratings on Rabobank NZ, the benefit of the group ALAC build-up. We monitor progress made in refining Rabobank's resolution strategy. Any sign indicating that this subsidiary would likely be set aside in a resolution scenario would trigger a revision of our current approach.

Additional rating factors

No additional factors affect the ratings.

Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
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- The Basel Capital Compromise For Banks: Less Impact Than Meets The Eye, Dec. 8, 2017
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Anchor Matrix

Industry Risk	Economic Risk									
	1	2	**3**	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	**bbb+**	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of March 23, 2018)

Cooperatieve Rabobank U.A.	
Issuer Credit Rating	A+/Positive/A-1
Commercial Paper	
Foreign Currency	A-1
Local Currency	A+/A-1
Junior Subordinated	BBB-
Senior Unsecured	A+
Senior Unsecured	A-1
Short-Term Debt	A-1
Subordinated	BBB+
Issuer Credit Ratings History	
15-Sep-2017	A+/Positive/A-1
02-Dec-2015	A+/Stable/A-1
04-Nov-2014	A+/Negative/A-1
04-Nov-2013	AA-/Negative/A-1+
Sovereign Rating	
Netherlands	AAA/Stable/A-1+
Related Entities	
Cooperatieve Rabobank U.A., Australia Branch	
Senior Unsecured	A+
Senior Unsecured	A-1
Short-Term Debt	A-1
Subordinated	BBB+
Cooperatieve Rabobank U.A., New Zealand Branch	
Senior Unsecured	A+
Senior Unsecured	A-1

Ratings Detail (As Of March 23, 2018) (cont.)	
Cooperatieve Rabobank U.A. (Rabobank), New York Branch	
Issuer Credit Rating	A+/Positive/A-1
Senior Unsecured	A+
Cooperatieve Rabobank U.A. trading as Rabobank London	
Issuer Credit Rating	A+/Positive/A-1
Rabobank New Zealand Ltd.	
Issuer Credit Rating	A/Positive/A-1
Rabobank USA Financial Corp.	
Issuer Credit Rating	--/--/A-1
Rabo Capital Securities Ltd.	
Junior Subordinated	BBB-
Rabohypotheekbank N.V.	
Issuer Credit Rating	A+/Positive/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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