

**Bulletin:**

## **Rabobank's Planned Sale Of Operations In California Is In Line With International Strategy**

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PARIS (S&P Global Ratings) March 19, 2019--Dutch bank Cooperatieve Rabobank U.A. (A+/Positive/A-1) announced on Friday March 15, that it intends to transfer about \$5 billion of assets in the food and agriculture sector to its fully owned U.S.-based subsidiary, Rabo AgriFinance, from its California-based subsidiary Rabobank National Association (RNA). It will then sell RNA to Mechanics Bank (not rated). In our view, this move is consistent with Rabobank's medium-term strategy to focus on reinforcing its market-leading franchise in the Netherlands and in the food and agriculture business globally.

What's more, we believe it will help reduce Rabobank's high cost base, which remains a major challenge given the low-interest-rate environment in Europe. The group's cost-to-income ratio was 65.9% at the end of 2018, similar to that of other large European cooperative groups but well above the average for the 50 largest European banks we rate, which is closer to 50%.

We view this sale as another example of Rabobank's active balance-sheet optimization, which is intended to help it adapt to medium-term regulatory changes, including the evolving Basel framework for capital adequacy calculation, while maintaining superior regulatory capital adequacy metrics. Rabobank estimates that this transaction would improve its common equity tier 1 ratio, by about 40 basis points, from an already solid 16.0% at year-end

2018. The transaction will also lead to a modest increase in our risk-adjusted capital ratio, which we expect will comfortably exceed a strong 10% in 2019.

Rabobank has indicated that the total consideration will likely be approximately \$2.1 billion, including a material exceptional pre-closing dividend. As part of the transaction, Rabobank will own a 9.9% stake in the combined bank. The sale is likely to close during the third quarter of 2019, subject to regulatory approval.

This report does not constitute a rating action.

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