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DBRS: Rabobank Strategic Update Builds On Existing Strengths

Industry: Fin.Svc.--Banks & Trusts

DBRS Ratings Limited (DBRS) commented that Rabobank Nederland's (Rabobank or the Group) recent strategic update, whilst not transformational, builds on the Group's existing strengths and continues the efforts to improve the Group's operational efficiency through its ongoing multi-year programmes, entitled 'Vision 2016' and 'Mars'.

On December 9, 2015, Rabobank announced a new Strategic Framework for 2016-2020. This will include a significant further reshaping of its business, including a targeted reduction in Group RWAs through a potential balance sheet reduction of EUR 150 billion. The potential reduction in the balance sheet is to be driven in part by the sale of either residential mortgage and/or SME loan portfolios to investors, and the possible sale of assets not considered to be part of the Group's core Netherlands and international Food & Agriculture franchises. The Group also plans to utilise its balance sheet more flexibly with the adoption of an originate-to-distribute model for selected parts of the business.

As part of the investor update, the Group also announced several end-2020 financial targets, including a Common Equity Tier 1 (CET1) ratio of between 14-17%, a total capital ratio of between 25-30%, a reduction in debt securities to less than EUR 150 billion, a return on invested capital of 8%, and a cost-income ratio of 50%. These targets are to be achieved in part by a planned EUR 2.1 billion improvement in the Group's gross result by 2020, driven by both increased income and cost savings, which include staff reductions of approximately 9,000 full-time equivalents (FTEs) between 2016-2018.

DBRS views positively the announced strategy, with the focus on improving the Group's customer service, efficiency and capital deployment, as well as leveraging the Group's core strengths in the Netherlands and Food & Agriculture. These businesses both currently support the Group's strong franchise and contribute significantly to the earnings power of the Group. The successful completion of the strategic initiatives could lead to a more profitable and more efficient Group, with stronger capitalisation. DBRS does, however, recognise the execution risks involved, most notably in the form of additional cost reductions. Although DBRS positively notes that Rabobank is taking action to address its challenges, it will be important for the Group to demonstrate that it can achieve improved profitability, whilst making more effective use of capital, in a manner that does not damage its overall franchise strength.

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Other significant announcements include the approval of the Group's new governance structure, which will become operational in January 2016, and involves the 106 local Rabobanks and Rabobank Nederland becoming one legal entity with one banking license. As a result of the new structure, the legal name of Rabobank Nederland will change from Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. to Coöperatieve Rabobank U.A.

DBRS currently rates Rabobank Nederland at AA with a Stable trend for Long-Term Deposits & Senior Debt.

Notes:

All figures are in EUR unless otherwise noted.

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