Press Release

Date of Release: November 13, 2015

Insight beyond the rating.

DBRS Confirms Rabobank at AA, Trend now Stable

Industry: Fin.Svc.--Banks & Trusts

DBRS Ratings Limited (DBRS) has today confirmed its ratings for Rabobank Nederland (Rabobank or the Group), including the Long-Term Deposits & Senior Debt ratings at AA, and the Short-Term Debt rating at R-1 (high). The trend on all ratings has been revised to Stable, from Negative. The Group's intrinsic assessment (IA) is AA, whilst the support assessment remains SA3, reflecting DBRS's view that developments in European regulation and legislation mean that there is less certainty about the likelihood of timely systemic support. As a result, the Group's final ratings are positioned in line with its IA.

The confirmation of the ratings, and the change in the trend to Stable, reflects the recent improvement in the Group's underlying income before provisions and taxes (IBPT), the continuing progress being made in reducing the Group's cost base, as well as the recovering Dutch economy and the benefit of this on the Group's provisioning charges. Supporting the current rating level is the overall strength of the Group's franchise, which includes market-leading positions in retail savings, residential mortgages, small to mid-sized enterprises and food and agricultural lending in the Netherlands, as well as its international food and agribusiness franchise where Rabobank is an acknowledged global leader. Upward pressure on the ratings is unlikely in the medium-term, but could arise if the Group is successful in executing its strategic plans with regards to profitability, cost reductions and capital, while maintaining its moderate risk profile. Failure to achieve strategic targets could, however, result in downward pressure on the ratings, especially if it resulted in a failure to maintain an acceptable level of consistent profitability. Additional pressure could arise if the credit quality of the Group's real estate or wholesale & retail international lending were to deteriorate further.

The high ratings of Rabobank reflect the Group's franchise which remains extremely strong, with the core focus remaining on the retail and commercial operations in the Netherlands where the Group has market leading positions, and the food and agribusiness, where Rabobank is acknowledged as a global leader. Rabobank is in the midst of a multi-year strategic restructuring, known as 'Vision 2016', which was initiated in 2013 and aimed at improving customer service, and streamlining the organisation of the Group in order to improve operational efficiency. From a ratings perspective, DBRS views these developments positively. DBRS notes that ongoing execution risks remain, however the Group continues to make progress, with staff reductions of approximately 7,000 by end-1H15, the sale of BGZ Bank in Poland, and the expected approval of the Group's proposed new governance structure by the Central Delegates Assembly in December 2015. The new structure, which is expected to become fully operational in January 2016, will result in the local Rabobanks and Rabobank Nederland (the central entity) becoming one legal entity with one banking licence.

Rabobank's earnings generation has been subdued in recent years, driven in part by the challenging operating environment in the Netherlands. Positively though, as the Dutch economy entered a sustained recovery in 2015, Rabobank's profitability has improved, with a DBRS adjusted net profit of EUR 1.1 billion, up 53% year-on-year (YoY). Excluding the one-off goodwill impairment of EUR 600 million for Rabobank NA (the Group's California based retail operation), the Group would have reported an adjusted net profit of EUR 1.7 billion, an increase of 140% YoY. Although adjustments continue to be made as part of Vision 2016, DBRS would still not expect profitability ratios to be at the top-end of the peer group, given the Group's co-operative structure and operating model.

Overall, DBRS views Rabobank's risk profile as conservative. At end-1H15, the Group's loan portfolio totalled EUR 467.2 billion of which total exposure to private individuals was EUR 210.7 billion, primarily in the form of residential mortgages. The rest of the portfolio consists of the food and agribusiness, and lending to corporate customers and SMEs, labelled as trade, industry and services (TIS) by the Group. At end-1H15, non-performing loans (NPLs) accounted for 4.8% of the total private sector loan portfolio, although DBRS notes that this is somewhat inflated by the Group's commercial real estate (CRE) exposures. DBRS continues to view Rabobank's CRE exposure as a challenge and will continue to closely monitor this portfolio. Rabobank suffered both a financial and reputational impact as a result of the Libor and Euribor investigations in 2013, and DBRS notes that Rabobank continues to take steps to improve its control and compliance frameworks, and in response to the Libor issue, has increased its spending on remedial measures, including expanding its compliance function. However, DBRS notes that Rabobank NA is currently being investigated with regard to potential breaches of anti-money laundering regulations, emphasising the need for the Group to continue to invest in its control and compliance frameworks.

DBRS views Rabobank as having solid capitalisation, given its relatively low risk profile, conservative business model and overall operating philosophy. DBRS considers the conservative approach to capital management as prudent given Rabobank's mutual status. It is the Group's strategy to primarily rely on retained earnings to grow equity capital, but Rabobank has also developed the ability to raise equity capital through "Rabobank Certificates" that are compatible with its mutual status and has enhanced its financial flexibility as a result of these Certificates being listed on the Euronext Stock Exchange since January 2014. At end-1H15, the Group's fully-loaded CRDIV Common Equity Tier 1 (CET1) ratio was 11.8%, and the fully-loaded leverage ratio was 3.9%.

DBRS also notes that the Group has built a strong buffer of bail-in-able capital, amounting to EUR 54.5 billion at end-1H15, based on gross numbers, and equivalent to 25.1% of risk-weighted assets (RWAs). On a pro-forma basis, including Tier 2 instruments issued in July and August 2015, Rabobank's bail-in buffer was equivalent to 27% of RWAs at end-1H15. This large buffer of subordinated debt provides further comfort to senior debt investors and allows Rabobank to access the funding markets in a cost effective manner.

Notes:
All figures are in EUR unless otherwise noted.

The principal applicable methodology is the Global Methodology for Rating Banks and Banking Organisations (June 2015). Other applicable methodologies include the DBRS Criteria: Support Assessments for Banks and Banking Organisations (March 2015) and DBRS Criteria: Rating Bank Capital Securities – Subordinated, Hybrid, Preferred & Contingent Capital Securities (February 2015). These can be found can be found at: http://www.dbrs.com/about/methodologies

The sources of information used for this rating include company reports and SNL Financial. DBRS considers the information available to it for the purposes of providing this rating was of satisfactory quality.

DBRS does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

Generally, the conditions that lead to the assignment of a Negative or Positive Trend are resolved within a twelve month period. DBRS's outlooks and ratings are under regular surveillance

For further information on DBRS historic default rates published by the European Securities and Markets Administration ("ESMA") in a central repository, see:
http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

Ratings assigned by DBRS Ratings Limited are subject to EU regulations only.

Lead Analyst: Ross Abercromby
Rating Committee Chair: Roger Lister
Initial Rating Date: May 16, 2001
Most Recent Rating Update: September 29, 2015

DBRS Ratings Limited
1 Minster Court, 10th Floor
Mincing Lane
London
EC3R 7AA
United Kingdom
Registered in England and Wales: No. 7139960

Information regarding DBRS ratings, including definitions, policies and methodologies are available on www.dbrs.com.

Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Rabobank Nederland	Long-Term Deposits & Senior Debt	Trend Change	AA	Stb	Nov 13, 2015
Rabobank Nederland	Short-Term Debt	Trend Change	R-1 (high)	Stb	Nov 13, 2015

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

Ross Abercromby
Senior Vice President - Global FIG
+44 20 7855 6657
rabercromby@dbrs.com

David Laterza, CPA
Senior Vice President, Head of US Non-Bank FIG - Global FIG
+1 212 806 3270
dlaterza@dbrs.com

Alan G. Reid
Group Managing Director – Financial Institutions and Sovereign Group
+1 212 806 3232
areid@dbrs.com

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