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# Cooperatieve Rabobank U.A.

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# Cooperatieve Rabobank U.A.

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

+

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

+

| Additional Factors | 0 |
|---|---|

| Issuer Credit Rating |
|---|
| A+/Stable/A-1 |

## Major Rating Factors

| Strengths: | Weaknesses: |
|---|---|
| • Prioritization of long-term franchise growth over short-term returns.<br>• Market-leading franchise in The Netherlands.<br>• Strongly performing domestic residential mortgages that represent just under one-half of the loan book. | • Commercial real estate loan book has performed poorly, although we see signs of recovery.<br>• The bank is working through a variety of changes to its domestic and international operations as it emerges from a period of reputational damage. |

### Outlook: Stable

The stable outlook on Netherlands-based Cooperatieve Rabobank U.A. (Rabobank) reflects our expectation that Rabobank's capital position will continue to strengthen as it executes its medium-term optimization strategy to adapt to low interest rates and regulatory challenges. We also expect Rabobank's earnings will remain resilient over the next 18-24 months as the bank works through a variety of changes to its domestic and international operations.

We could lower our ratings if, contrary to our expectations, the risk-adjusted capital (RAC) ratio did not remain sustainably above 10%, especially if regulatory incentives to continue building core capital were lower than anticipated or if the pace of balance-sheet optimization slowed significantly.

At this time, given that Rabobank is undergoing a period of change, we consider an upgrade unlikely. We could raise our ratings if the bank's transformation resulted in a stronger risk profile, with supportive risk-diversification metrics by sector and geography, and better loss experience than peers.

## Rationale

The starting point for our ratings on Rabobank is its 'bbb+' anchor, which is primarily based on our view of the banking system in its home market of The Netherlands. We then adjust for the following bank-specific factors:

- A strong business position due to its market-leading franchise in Dutch retail banking and in the financing of the food and agriculture business globally.
- A strong capital and earnings assessment primarily driven by our projection of a RAC ratio remaining sustainably above 10% within the next 18 to 24 months.
- An adequate risk position, reflecting our assessment of the bank's relative overall loss experience.
- Average funding and adequate liquidity, since we consider that the 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 adjusted the resulting 'a' unsupported GCP upward by one notch, reflecting our view of Rabobank 's ALAC buffer, to arrive at the 'a+' supported group credit profile (GCP) or issuer credit rating (ICR).

### 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, based on the geographic distribution of its private sector customer lending, which is approximately as follows:

- The Netherlands (75%),
- North America (10%),
- New Zealand and Australia (5%),
- The rest of Europe (5%) and,
- The rest of the world (5%).

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 demonstrated by 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 of 2% in 2015, we believe that The Netherlands' real GDP growth will be 2% this year, before dropping to a 1.5% average during 2017-2019. The ongoing recovery continues to be fueled by strong domestic demand.

Although residential house prices have been on the rise since mid-2013, the recovery in the commercial real estate segment is lagging behind. We anticipate that the improving conditions for the private sector will remain to some extent constrained by still-elevated gross household leverage, and the subpar growth outlook in the European Economic and Monetary Union (eurozone) and the U.K., especially after the Brexit vote. Our trend on economic risk in the Netherlands is stable.

Our assessment of industry risks for Dutch banks 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 received state aid in the aftermath of the financial crisis and have completed large restructurings. Cost-optimization programs continue in the context of persistently low interest rates, and the 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 using life insurance and pension products, rather than 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. Our trend on industry risk in the Netherlands is stable.

**Table 1**

| Cooperatieve Rabobank U.A. Key Figures | | | | | |
|---|---|---|---|---|---|
| | | --Year-ended Dec. 31-- | | | |
| **(Mil. €)** | **2016*** | **2015** | **2014** | **2013** | **2012** |
| Adjusted assets | 685,466 | 668,880 | 679,027 | 672,148 | 750,067 |
| Customer loans (gross) | 451,620 | 446,839 | 453,500 | 453,682 | 477,604 |
| Adjusted common equity | 27,847 | 27,699 | 26,324 | 26,403 | 29,415 |
| Operating revenues | 5,803 | 13,014 | 12,737 | 13,020 | 13,452 |
| Noninterest expenses | 3,818 | 8,094 | 8,222 | 8,807 | 9,027 |
| Core earnings | 1,069 | 2,270 | 1,264 | 780 | 1,137 |

*Data as of June 30.

### Business position: Resilient franchise likely to remain robust

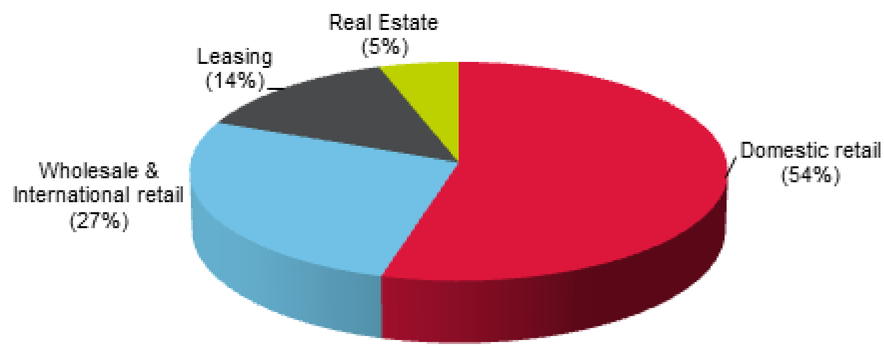
We consider Rabobank's business position to be strong. This is based upon our view of its market-leading domestic franchise in retail banking and in the financing of the food and agriculture business globally. International activities add to the diversity of its domestic business. The bank's relative business stability is demonstrated by its very high domestic market share and ability to convert this into reasonably predictable and recurring earnings. In addition, we consider the strategy to be prudent and note that as a cooperative organization it prioritizes steady, long-term franchise growth over short-term returns. Rabobank did not require support from the government during the financial crisis. In the meantime, we consider that the bank is undergoing a period of significant change as it executes its medium-term strategic plan, communicated in late 2015.

We believe the bank's business profile compares well with that of large international banking peers. Consequently, we have revised our view of Rabobank's business position to strong from very strong. The bank's key domestic peers are ING Bank 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, Crédit Mutuel, and Société Générale), as well as KBC Group, Danske Bank, Lloyds Banking Group, and Nordea. Many peers benefit from a solid franchise in more than one country or business sector.

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, and Australasia. We also view positively the capacity to generate stable revenues derived from the bank's domestic and commercial banking activities. This is underpinned by Rabobank's diversified product offering and its leading positions in Dutch household savings (a reported 35% market share at June 30, 2016), residential mortgages (20% market share ), and lending to trade, industry, and service sectors (40% market share). The bank's roots are in financing the Dutch agriculture sector, and it still dominates this market with a market share is around 85%. Owing to its solid franchise and good pricing power, the net interest margin is holding well.

**Chart 1**

Cooperatieve Rabobank U.A.--Operating Revenues By Business Segment (At mid-year 2016)




Source: Cooperatieve 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. In 2015, the bank continued this process of change and revised its governance structure to create "one bank", a change effective from Jan. 1, 2016. The pre-existing system was based on a two-layer organization, with 106 local banks, each operating under a different bank license, members of the central cooperative Rabobank Nederland acting as a service center and also in charge of the supervision of the local banks. Under the new structure, the local banks were merged with Rabobank to form a cooperative entity with a single banking license and representatives of the local banks sitting at the highest governing body, the General Members Council. Other measures include the gradual integration of FGH Bank, a subsidiary specialized in commercial real estate (CRE) financing, as part of the creation of a group center of expertise in this segment.

At end-2015, Rabobank communicated its new medium-term strategy intended to improve efficiency, adapt to changing consumer behavior, and strengthen regulatory capital ratios by reducing the balance-sheet and improving earnings. The medium-term strategic objectives also include a refocus of international operations towards its core food and agri expertise and a planned reduction of the workforce in the range of 12,000 full-time equivalents (FTEs), a material reduction compared to a workforce of 52,000 at end 2015, and 49,000 at mid-year 2016.

Taken together, we consider this multiyear program of change at Rabobank a plausible strategy to simplify the organization, focus upon cost control in a low rate environment, and retain and build on its core strengths in its domestic franchise and the food and agri sector internationally.

**Table 2**

| Cooperatieve Rabobank U.A. Business Position | | | | | |
|---|---|---|---|---|---|
| | | --Year-ended Dec. 31-- | | | |
| **(%)** | **2016*** | **2015** | **2014** | **2013** | **2012** |
| Total revenues from business line (currency in millions) | 5,803.0 | 13,014.0 | 12,857.0 | 13,020.0 | 13,452.0 |
| Retail banking/total revenues from business line | 61.0 | 54.2 | 57.9 | 57.9 | 54.2 |
| Return on equity | 2.9 | 4.1 | 3.3 | 3.8 | 3.6 |

*Data as of June 30.

### Capital and earnings: Management is focused on improving capitalization

We view Rabobank's capital and earnings as strong and we project its risk-adjusted capital (RAC) ratio will reach a level sustainably above 10% in the next 18 to 24 months. This reflects our view that Rabobank will continue to implement its medium-term strategic plan announced in December 2015, aiming at strengthening regulatory capital ratios.

Indeed, one of the goals of this strategy is to prepare for potential changes in regulatory requirements, ranging from the reform of Basel risk weights for the calculation of capital adequacy to the creation of additional buffers, such as the minimum requirement for own funds and eligible liabilities (MREL). This is a challenge faced by the banking industry at large, and is particularly acute for Dutch banks because of country-specific characteristics, notably higher average loan-to-value (LTV) ratios than peers in their mortgage loan portfolios. Other credit factors mitigate the relatively high LTVs, but any drastic revision of Basel risk weights on mortgage loans in relation to LTV levels would put pressure on Dutch banks' regulatory metrics (see "Regulatory Uncertainty Shapes Dutch Banks' Capital Position," published Sept. 23, 2016, on RatingsDirect).

In 2016, Rabobank has contemplated certain measures in anticipation of regulatory changes. These include a material reduction of its risk-weighted assets. Because the scope and timing of the regulatory reforms are uncertain, we expect these measures will be adapted, as needed. In any case, we understand that Rabobank's proactive restructuring, along with earnings retention and the issuance of capital instruments, aims at maintaining a common equity Tier 1 ratio of at least 14% and a total capital ratio of at least 25% by 2020 under the potential regulatory change. These ratios stood at 13.4% and 23.5% respectively as of June 30, 2016. Under the 2016 Supervisory Review and Evaluation Process (SREP), the CET1 requirement was set at 11.75% in 2019.

Rabobank has executed a few measures since the beginning of the year in line with its deleveraging strategy, in particular the sale of lending portfolios and the sale of Athlon Car Lease. The bank estimated that this last transaction alone will improve the CET1 ratio by about 40 basis points (bps). We expect that the domestic real estate portfolio will continue to reduce, as the bank considers part of it as non-core assets. This portfolio reduced by 6% during the first half of the year.

We believe that, given management's commitment to execute its balance-sheet optimization strategy, our risk-adjusted capital (RAC) ratio for the bank will strengthen over the next 18 to 24 months. This ratio stood at 8.8% at year-end 2015, and we believe that it will be sustainably above 10% at the end of our forecast horizon and likely continue to improve. The difference between our measure of capital and regulatory ratios reflects the more conservative standardized risk-weighting that we apply.

The main assumptions supporting our forecast are:

- A reduction of our risk-weighted assets figure for Rabobank by 3%-4% per year, in line with the bank's balance-sheet-optimization program.
- Resilient operating revenues of €11.5 billion-€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 of 20bps to 25bps per year on average, and improving efficiency, with the cost-to-income ratio trending down toward 55% with the planned reduction of operating expenses, including a smaller workforce.
- Resilient core earnings at around €2 billion per year, with limited distributions, reflecting Rabobank's cooperative structure.
- Continued issuance of capital instruments to replace additional Tier 1 (AT1) instruments that do not meet Capital Requirements Directive (CRD) IV standards. In April 2016, Rabobank issued a €1.25 billion AT1 instrument that contributed to the replacement of non-CRDIV compliant instruments.

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.

We consider the quality of capital to be satisfactory. We calculate that adjusted common equity represented about 85% of total adjusted capital (TAC) at June 30, 2016, which is a similar proportion to its international peer group. Rabobank's only hybrid instruments eligible for TAC are the 2015 and 2016 AT1 issues. In July 2016, Rabobank redeemed a non-CRD IV-compliant $2,000 million capital securities instrument at its call date.

In the first half of 2016, Rabobank reported a statutory profit before tax of €1,133 million, much lower than the €2,017 million in the same period in 2015. Earnings were negatively impacted by the €514 million additional provision taken as part of Rabobank's agreement to join the Dutch Derivatives Committee recovery framework set in place to compensate small and midsize enterprise (SME) customers for the sale of interest rate derivatives and by a €190 million provision to cover restructuring costs. 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 cost-to-income ratio in the first half of 2016, by our measures, was quite high, at above 65%, whereas large domestic peers display ratios below 60%.

**Table 3**

**Cooperatieve Rabobank U.A. Capital And Earnings**

| | | --Year-ended Dec. 31-- | | | |
|---|---|---|---|---|---|
| **(%)** | **2016*** | **2015** | **2014** | **2013** | **2012** |
| Tier 1 capital ratio | 16.8 | 16.4 | 16.0 | 16.6 | 17.2 |
| S&P RAC ratio before diversification | N.A. | 8.8 | 7.4 | 7.0 | 7.2 |
| S&P RAC ratio after diversification | N.A. | 9.6 | 8.1 | 8.2 | 8.2 |
| Adjusted common equity/total adjusted capital | 83.7 | 85.8 | 88.8 | 90.2 | 91.1 |
| Net interest income/operating revenues | 75.4 | 70.2 | 71.6 | 69.8 | 67.6 |
| Fee income/operating revenues | 16.9 | 14.5 | 14.8 | 15.4 | 16.4 |
| Noninterest expenses/operating revenues | 65.8 | 62.2 | 64.6 | 67.6 | 67.1 |
| Preprovision operating income/average assets | 0.6 | 0.7 | 0.7 | 0.6 | 0.6 |
| Core earnings/average managed assets | 0.3 | 0.3 | 0.2 | 0.1 | 0.2 |

*Data as of June 30. N.A.--Not available.

**Table 4**

**Cooperatieve Rabobank U.A. RACF [Risk-Adjusted Capital Framework] Data**

| **(Mil. €)** | **Exposure*** | **Basel II RWA** | **Average Basel II RW (%)** | **S&P RWA** | **Average S&P RW (%)** |
|---|---|---|---|---|---|
| **Credit risk** | | | | | |
| Government and central banks | 138,188 | 6,972 | 5 | 4,355 | 3 |
| Institutions | 19,962 | 6,774 | 34 | 5,549 | 28 |
| Corporate | 224,604 | 94,298 | 42 | 177,920 | 79 |
| Retail | 224,529 | 44,815 | 20 | 85,254 | 38 |
| Of which mortgage | 188,047 | 32,414 | 17 | 56,821 | 30 |
| Securitization§ | 12,154 | 2,219 | 18 | 6,128 | 50 |
| Other assets | 4,228 | 15,026 | 355 | 4,756 | 113 |
| Total credit risk | 623,664 | 170,104 | 27 | 283,962 | 46 |
| **Market risk** | | | | | |
| Equity in the banking book† | 5,309 | 13,465 | 594 | 55,777 | 1,051 |
| Trading book market risk | -- | 3,260 | -- | 4,531 | -- |
| Total market risk | -- | 16,726 | -- | 60,308 | -- |
| **Insurance risk** | | | | | |
| Total insurance risk | -- | -- | -- | 0 | -- |
| **Operational risk** | | | | | |
| Total operational risk | -- | 24,511 | -- | 23,709 | -- |
| **(Mil. €)** | | **Basel II RWA** | | **S&P RWA** | **% of S&P RWA** |
| **Diversification adjustments** | | | | | |
| RWA before diversification | | 213,092 | | 367,978 | 100 |

**Table 4**

| Cooperatieve Rabobank U.A. RACF [Risk-Adjusted Capital Framework] Data (cont.) | | | | |
|---|---|---|---|---|
| Total Diversification/Concentration Adjustments | -- | | (30,870) | (8) |
| RWA after diversification | 213,092 | | 337,108 | 92 |
| **(Mil. €)** | **Tier 1 capital** | **Tier 1 ratio (%)** | **Total adjusted capital** | **S&P RAC ratio (%)** |
| **Capital ratio** | | | | |
| Capital ratio before adjustments | 35,052 | 16.4 | 32,290 | 8.8 |
| Capital ratio after adjustments‡ | 35,052 | 16.4 | 32,290 | 9.6 |

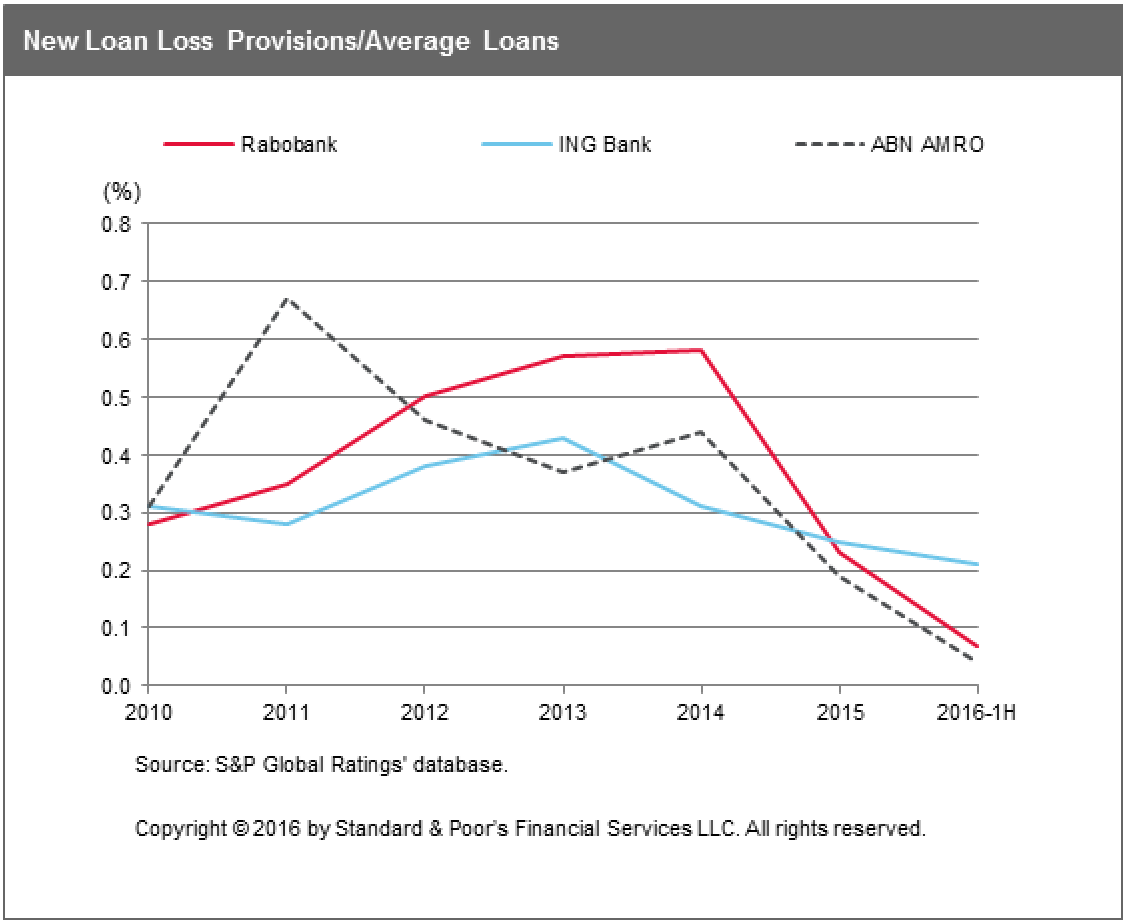
*Exposure at default. §Securitization exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Exposure and S&PGR's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are 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, 2015, S&PGR.

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

Our risk position assessment for Rabobank is adequate. In our view, Rabobank's risk position is broadly in line with other large Dutch peers or international peers with a similar economic risk and product mix. In particular, we consider that its overall loss experience has been dampened by weaknesses in its CRE and SME portfolios in 2012-2014. Credit performance has improved since then and we expect the level of performance to remain largely unchanged. This improvement is consistent with data that we observe at other Dutch banks. Looking ahead to the 2015-2017 period, our assumption of a 20-25bp loss rate average is not superior to our expectations for the major Dutch banks' estimates (see chart 2).

Loan losses have arisen mainly from its CRE and SME exposures. Rabobank's domestic CRE book is not excessively large in relative terms at about 6% of total loans, but 20% of the book was still nonperforming as of June 30, 2016 (€5.3 billion), with reported allowance at €1.8 billion (34% coverage). New CRE provisions have remained modest since 2015, compared to the past few years, in part reflecting the improved operating environment, and we assume that this will remain the case. The stock of nonperforming loans to domestic SMEs, around €7 billion or 10% of the corresponding portfolio, was 47% covered at the same date.

**Chart 2**



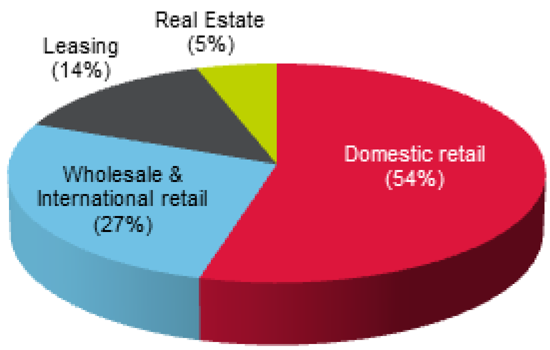

Although its domestic market accounts for around three-quarters of total lending, Rabobank is active across all parts of the Dutch economy without undue concentrations. This is reflected in a diversification benefit of 8% at end-2015 under our RAC methodology. International operations are focused on the food and agriculture sectors in which Rabobank has longstanding expertise and competitive advantages. Consistent with our observations on its strategic plan, we expect total new lending growth to be fairly cautious.

We observe that Rabobank's two largest loan portfolios are performing well. First, residential mortgages, 48% of the net loan book at June 30, 2016, have consistently performed better than Dutch peers. The bank reported a nonperforming loan ratio of 0.46% at June 30, 2016. 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 bias toward older customers away from the largest cities. The average LTV on the domestic residential mortgage portfolio was 71% at June 30, 2016. Second, food and agribusiness, 23% of the net loan book, is well diversified by type and by geography. About two-thirds of the book is international. While there are some pockets of weakness, for example Dutch greenhouse horticulture, we expect credit performance to remain sound.

We assume that underlying credit growth will be mild for the foreseeable future. In fact, we expect the total loan book to shrink as the CRE book declines and some non-food and agri international exposures are reduced.

**Chart 3**

Cooperatieve Rabobank Operating Revenues by Business Segment (At mid-year 2016)




Source: Rabobank, S&P Global Ratings.



**Table 5**

**Cooperatieve Rabobank U.A. Risk Position**

| | | --Year-ended Dec. 31-- | | | |
|---|---|---|---|---|---|
| **(%)** | **2016*** | **2015** | **2014** | **2013** | **2012** |
| Growth in customer loans | 2.1 | (1.5) | (0.0) | (5.0) | 2.9 |
| Total diversification adjustment / S&P RWA before diversification | N.A. | (8.4) | (9.0) | (14.0) | (12.4) |
| New loan loss provisions/average customer loans | 0.1 | 0.2 | 0.6 | 0.6 | 0.5 |
| Net charge-offs/average customer loans | N.A. | 0.5 | 0.5 | 0.4 | 0.5 |
| Gross nonperforming assets/customer loans + other real estate owned | 4.2 | 4.4 | 4.7 | 2.8 | 2.3 |
| Loan loss reserves/gross nonperforming assets | 42.6 | 42.9 | 44.0 | 32.6 | 33.2 |

*Data as of June 30. 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 124% at June 30, 2016, 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. We understand that management targets a loan-to-deposit ratio of 130% at end 2016. Rabobank met the Basel III liquidity and funding requirements at June 30, 2016, with a liquidity coverage ratio of 127% and a net stable funding ratio of 116%.

Over the next two years, we assume that the loan book will shrink, customer deposits will exhibit stability, and reliance on wholesale funding will reduce somewhat. Moreover, we assume that the existing liquidity buffer and fairly low reliance on short-term wholesale funding (for which we judge Rabobank's profile to be broadly similar to ABN AMRO and ING Bank) will persist.

Rabobank's funding profile is underpinned by its large, granular, and stable domestic deposit base. The bank states that its market share is 35%, which is very healthy on 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 expect Rabobank's market share will not 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 103% at June 30, 2016, up slightly on the year before, and we expect little change at year-end 2016. At end-2016, Rabobank also announced its intention to further diversify its funding profile by starting to issue covered bonds.

Rabobank's liquidity position has strengthened materially over the past few years. The bank maintains a surplus of liquid assets well in excess of regulatory requirements. At June 30, 2016, it reported a liquidity buffer of €144 billion (including 67% of level 1 assets), which comfortably exceeds reported short-term wholesale funding. A sizable portion of the liquidity buffer comprises deposits at central banks and Dutch government bonds. Our measure of broad liquid assets to short-term wholesale funding was 1.36x at June 30, 2016.

**Table 6**

**Cooperatieve Rabobank U.A. Funding And Liquidity**

| | | --Year-ended Dec. 31-- | | | |
|---|---|---|---|---|---|
| **(%)** | **2016*** | **2015** | **2014** | **2013** | **2012** |
| Core deposits/funding base | 59.7 | 59.2 | 56.9 | 57.1 | 53.4 |
| Customer loans (net)/customer deposits | 129.5 | 130.1 | 136.9 | 137.1 | 142.7 |
| Long term funding ratio | 83.5 | 83.5 | 81.8 | 81.8 | 79.0 |
| Stable funding ratio | 103.1 | 103.7 | 100.2 | 98.4 | 97.5 |
| Short-term wholesale funding/funding base | 17.5 | 17.5 | 19.3 | 19.2 | 22.2 |
| Broad liquid assets/short-term wholesale funding (x) | 1.4 | 1.4 | 1.2 | 1.2 | 1.1 |
| Net broad liquid assets/short-term customer deposits | 11.8 | 12.3 | 7.8 | 6.7 | 5.2 |
| Short-term wholesale funding/total wholesale funding | 42.5 | 42.2 | 44.1 | 44.3 | 47.3 |

*Data as of June 30.

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

In our view, Rabobank has high systemic importance in the Netherlands, mainly reflecting its material market share in retail deposits. 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 notching uplift for possible future Dutch government support.

However, we view the Dutch resolution regime as "effective" under our additional loss-absorbing capital (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.

Our ALAC calculation at year-end 2015 includes regulatory capital instruments that have defined principal write-down triggers. On this basis, we calculate that ALAC was 7.4% of S&P's risk-weighted assets at year-end, of which "excess" TAC was 1.8%. 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.

### 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 US 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. as a highly strategic subsidiary. This reflects its integral role in relation to the group-wide strategy, which emphasizes food and agriculture lending.

### Additional rating factors

No additional factors affect the ratings.

## Related Criteria And Research

### Related Criteria

- Criteria - Financial Institutions - Banks: Assessing Bank Branch Creditworthiness - October 14, 2013
- General Criteria: Guarantee Criteria - October 21, 2016
- General Criteria: Group Rating Methodology - November 19, 2013
- 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 - January 29, 2015
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework - June 22, 2012
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions - November 09, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions - December 06, 2010
- Criteria - Financial Institutions - Banks: Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks - May 04, 2010

- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks - March 23, 2004 General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables - June 01, 2016
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises - December 19, 2014
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- General Criteria: National And Regional Scale Credit Ratings - September 22, 2014

## Related Research

- Rabobank New Zealand Ltd., Dec. 04, 2016
- Netherlands-Based Cooperatieve Rabobank Affirmed At 'A+/A-1' On Balance Sheet Optimization; Outlook Stable, November 10, 2016
- Regulatory Uncertainty Shapes Dutch Banks' Capital Position, Sept. 23, 2016
- Dutch Banks Ratings Unaffected By Developments In Interest-Rate Derivatives Litigation, July, 7, 2016

**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 December 28, 2016) | |
|---|---|
| **Cooperatieve Rabobank U.A.** | |
| Counterparty Credit Rating | A+/Stable/A-1 |
| Certificate Of Deposit | |
| *Local Currency* | A-1 |
| Commercial Paper | |
| *Foreign Currency* | A-1 |
| *Local Currency* | A+/A-1 |
| Junior Subordinated | BBB- |
| Senior Unsecured<br>*Greater China Regional Scale* | cnAAA |
| Senior Unsecured | A+ |
| Senior Unsecured | A-1 |
| Short-Term Debt | A-1 |
| Subordinated | BBB+ |
| **Counterparty Credit Ratings History** | |
| 02-Dec-2015 | A+/Stable/A-1 |

| Ratings Detail (As Of December 28, 2016) (cont.) | |
|---|---|
| 04-Nov-2014 | A+/Negative/A-1 |
| 04-Nov-2013 | AA-/Negative/A-1+ |
| 16-Nov-2012 | AA-/Stable/A-1+ |
| 23-Jan-2012 | AA/Negative/A-1+ |
| **Sovereign Rating** | |
| Netherlands (State of The) | 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 |
| **Cooperatieve Rabobank U.A. (Rabobank), New York Branch** | |
| Issuer Credit Rating | A+/Stable/A-1 |
| Senior Unsecured | A+ |
| **Cooperatieve Rabobank U.A. trading as Rabobank London** | |
| Issuer Credit Rating | A+/Stable/A-1 |
| **Rabobank New Zealand Ltd.** | |
| Issuer Credit Rating | A/Stable/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+/Stable/-- |

*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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