

**Rating Action: Moody's assigns (P)A3 to Rabobank's junior senior unsecured debt programme**

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13 Jul 2018

London, 13 July 2018 -- Moody's Investors Service, ("Moody's") today assigned a (P)A3 rating to Rabobank's long-term non-preferred senior unsecured debt programme. This rating action follows Rabobank's update of its EUR160 billion Global Medium Term Note Programme, under which the bank plans to issue debt explicitly designated as "Non-Preferred Senior Notes" in the documentation.

The non-preferred senior notes, referred to as "junior senior" unsecured notes by Moody's, will rank junior to senior preferred notes and senior to dated subordinated notes. They will initially be issued on a contractual basis, as the Dutch law enabling statutory qualification as non-preferred senior obligations for EU's Minimum Requirement for own funds and Eligible Liabilities (MREL) has not been enacted yet. Moody's understands legislation should be in place in the Netherlands by year-end 2018.

**RATINGS RATIONALE**

**RATING OF JUNIOR SENIOR INCORPORATES THE LIKELY MODERATE LOSS SEVERITY FOR THIS TYPE OF INSTRUMENT**

The (P)A3 rating assigned to the junior senior debt programme reflects (1) Rabobank's adjusted baseline credit assessment (BCA) of a3; (2) Moody's advanced Loss Given Failure (LGF) analysis, which indicates likely moderate loss severity for these instruments in the event of the bank's failure, leading to a position in line with the bank's adjusted BCA; and (3) Moody's assumption of a low probability of government support for this new instrument, resulting in no uplift. This is the first instance of junior senior unsecured debt programme in the Netherlands to which Moody's has assigned a rating.

Rabobank is subject to the EU's Bank Recovery and Resolution Directive (BRRD), which Moody's considers to provide an Operational Resolution Regime. Therefore, Moody's applies its Advanced LGF analysis in order to determine the loss-given-failure of the junior senior ratings. Given the current and future protection in the form of Tier 2, Additional Tier 1 (AT1) and residual equity provided to future junior senior notes, the LGF analysis indicates likely moderate loss-given-failure.

Although Rabobank has currently a large buffer of Tier 2 and AT1 which are subordinated to future issuance of junior senior notes, Moody's expects this buffer to diminish slightly in the next two years, as Rabobank reduces its AT1 buffer, offset by junior senior debt aimed at progressively building up a buffer of debt eligible for the bank's MREL, while protecting senior preferred creditors in a resolution.

The junior senior class of debt will be specifically created by the Dutch government in order to allow banks to issue a class of debt which is both senior to regulatory capital instruments and junior to other senior obligations, facilitating loss-absorption via a debt conversion or write-down of the junior senior notes in a resolution. Given that the very purpose of the junior senior notes is to provide additional loss absorption and improve the ability of authorities to conduct a smooth resolution of troubled banks, government support for these instruments is unlikely in Moody's view and the agency therefore attributes only a low probability to a scenario where the government would support this debt class. As a result there is no further uplift from government support.

**WHAT COULD CHANGE THE RATING UP/DOWN**

Rabobank's junior senior debt programme rating of (P)A3 would be upgraded or downgraded together with any upgrade or downgrade of Rabobank's adjusted BCA.

The junior senior instruments could be downgraded if, contrary to Moody's expectations, Rabobank were to reduce the current cushions of Tier 2 and "low-trigger" AT1 further than expected over the long term or issue lower-than-expected amounts of junior senior notes.

**LIST OF AFFECTED RATINGS**

Issuer: Rabobank

..Assignment:

....Junior Senior Unsecured MTN of (P)A3

#### PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Banks published in June 2018. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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Laurent Le Mouel  
Vice President - Senior Analyst  
Financial Institutions Group  
Moody's France SAS  
96 Boulevard Haussmann  
Paris 75008  
France  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Nicholas Hill  
MD - Banking  
Financial Institutions Group  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Releasing Office:  
Moody's Investors Service Ltd.  
One Canada Square  
Canary Wharf  
London E14 5FA  
United Kingdom

JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454



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