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## **DBRS Confirms Rabobank at AA, Trend Stable**

**Industry: Fin.Svc.--Banks & Trusts**

DBRS Ratings Limited (DBRS) has today confirmed the ratings of Coöperatieve Rabobank U.A. (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 is Stable. The Intrinsic Assessment (IA) for Rabobank is AA, while the support assessment remains SA3. As a result, the Group's final ratings are positioned in line with the IA.

The confirmation of the ratings reflect the Group's extremely strong franchise including 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 acknowledged as a global leader. The ratings also incorporate the Group's solid capital position, conservative risk profile, and improving funding and liquidity profile, which is supported by an increased retail deposit base. Whilst DBRS does not expect the Group's profitability ratios to be at the top-end of the peer group, given its cooperative status and operating model, the current ratings incorporate DBRS' expectations that earnings could be pressured as a result of the low interest rate environment and the Group's ongoing restructuring efforts.

The Group's underlying profitability remained solid in 1H16, supported in part by the sustained recovery of the Dutch economy. Although DBRS adjusted income before provisions and taxes (IBPT), (including payments on the Group's capital securities, trust preferred securities and minority interests), was down 67% year-on-year (YoY) in 1H16, to EUR 820 million, this largely reflected exceptional items of EUR 990 million, including EUR 514 million of additional provisions for adopting the SME interest rate derivatives recovery framework and EUR 190 million of restructuring costs. Excluding these exceptional items, DBRS adjusted IBPT was down 13% YoY to EUR 1.8 billion, partly driven by increased regulatory levies. DBRS, however, notes that despite the persistently low interest rate environment, adjusted core revenues remained resilient, at EUR 4.9 billion in 1H16, supported by the Group's strategic move towards more fee-generating business within Wholesale Banking and International Rural & Retail Banking.

DBRS views Rabobank's risk profile as generally conservative. At end-1H16, the Group's loan portfolio totalled EUR 463.7 billion of which total exposure to private individuals was EUR 204.3 billion, primarily in the form of residential mortgages. The rest of the portfolio mainly consists of the



food and agribusiness, and lending to corporate customers and SMEs, labelled as trade, industry and services (TIS) by the Bank. DBRS continues to view Rabobank's domestic Commercial Real Estate (CRE) exposure as challenged, given the non-performing loan (NPL) ratio of 19.9% at end-1H16. DBRS does, however, note the Group's progress in deleveraging this exposure, with a 12% YoY reduction in loans outstanding, to EUR 26.4 billion at end-1H16, and the 56% YoY decrease in domestic CRE loan impairment charges, to EUR 19 million in 1H16. Rabobank has also made improvements to its funding profile in recent years, with further growth in customer deposits helping to reduce the Group's private sector loan to deposit ratio to 124% at end-1H16. Although the Group's use of wholesale funding is still significant at EUR 201 billion at end-1H16, DBRS notes that this will be progressively managed down as the Group pursues the targeted reduction of its balance sheet.

DBRS views Rabobank as having solid capitalisation. With total capital, on a transitional basis, of EUR 49.2 billion (equivalent to 23.5% of RWAs), and more easily bail-in-able liabilities (consisting of retained earnings & reserves, Rabobank Certificates, hybrid & subordinated instruments and senior contingent notes) of EUR 56.6 billion at end-1H16 (27.1% of RWAs), Rabobank is well positioned for regulatory requirements on loss absorbing capacity. DBRS also notes that the Group's 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. At end-1H16, Rabobank also reported a solid fully-loaded CRDIV Common Equity Tier 1 (CET1) ratio of 12.4%, an increase of 40 basis points (bps) from end-2015, and a fully-loaded Basel 3 leverage ratio of 4.1%.

#### RATING DRIVERS

Upward pressure on the ratings is unlikely in the medium term given the already high rating level. Upward pressure could, however, arise if the Group is successful in executing its strategic plans with regards to cost reductions, whilst also achieving a substantial improvement in profitability.

Failure to achieve strategic targets could, however, result in further 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 wholesale & retail international lending were to deteriorate.

#### Notes:

All figures are in EUR unless otherwise noted.

The principal applicable methodology is the Global Methodology for Rating Banks and Banking Organisations (July 2016). Other applicable methodologies include the DBRS Criteria – Support

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Assessments for Banks and Banking Organisations (March 2016), Rating Bank Capital Securities – Subordinated, Hybrid, Preferred & Contingent Capital Securities (February 2016) and Critical Obligations Rating Criteria (February 2016). These can be found at:  
<http://www.dbrs.com/about/methodologies>

The sources of information used for this rating include company documents, the European Central Bank, the European Banking Authority and SNL Financial. DBRS considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

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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

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Initial Rating Date: May 16, 2001  
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Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Coöperatieve Rabobank U.A.	Long-Term Deposits & Senior Debt	Confirmed	AA	Stb	Nov 10, 2016
Coöperatieve Rabobank U.A.	Short-Term Debt	Confirmed	R-1 (high)	Stb	Nov 10, 2016
Coöperatieve Rabobank U.A.	Long Term Critical Obligations Rating	Confirmed	AAA	Stb	Nov 10, 2016
Coöperatieve Rabobank U.A.	Short Term Critical Obligations Rating	Confirmed	R-1 (high)	Stb	Nov 10, 2016

For more information on this credit or on this industry, visit [www.dbrs.com](http://www.dbrs.com) or contact us at [info@dbrs.com](mailto:info@dbrs.com).

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