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DBRS Confirms Coöperatieve Rabobank at AA, Stable Trend

Industry: Fin.Svc.--Banks & Trusts

DBRS Ratings Limited (DBRS) confirmed the ratings of Coöperatieve Rabobank U.A. (Rabobank or the Group), including the Long-Term Issuer Rating of AA, and the Short-Term Issuer rating of R-1 (high). The trend on all the ratings remains Stable. Concurrently, DBRS confirmed the Group's Intrinsic Assessment (IA) at AA and Support Assessment at SA3. A full list of rating actions is included at the end of this press release.

The confirmation of the ratings and the Stable trend take into consideration Rabobank's leading franchise in the Dutch retail & SME market as well as its strong global presence in food and agriculture financing. The ratings incorporate the Group's strengthened capital position, sound asset quality, and improving profitability. Conversely, the ratings also reflect the Group's modest, albeit improving, efficiency levels and still high reliance on wholesale funding.

The Group's profitability improved in 1H17, thanks to supportive economic conditions as well as lower non-recurring charges. DBRS-adjusted income before provisions and taxes (IBPT), which includes payments on the Group's capital securities, trust preferred securities and minority interests, increased 69% YoY to EUR 1.6 billion in 1H17, from EUR 920 million a year earlier. This was mainly driven by lower one-off costs, as in 1H16 the Group incurred significant SME derivative related provisions (EUR 514 million). Excluding non-recurring items, as well as the contribution of Athlon which was sold at end-2016, DBRS-adjusted IBPT improved 12% YoY to EUR 1.8 billion, thanks to resilient revenue generation as well as loan impairment write-backs. Rabobank's efficiency, however, remained modest, with a reported cost-to-income ratio (including regulatory levies) at 67.6% for 1H17. DBRS does however note that cost cutting initiatives are under way, with the exit of ~6,100 FTEs since end-2015, compared to a targeted reduction of 12,000 FTEs for the 2016-2018 period.

DBRS views Rabobank's risk profile as sound. At end-June 2017, total non performing loans (NPLs) accounted for 4.4% of total private sector loans, unchanged from end-2016. This was supported by the strong quality of its domestic residential mortgage lending, which represented almost half of the loan book, with an NPL ratio of 0.7%, from 1.0% in June 2016. Rabobank's domestic commercial real estate exposure continues to present challenges. The Group, however, is making progress in deleveraging this portfolio, through disposals and recoveries, with the stock of NPLs decreasing 27%

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YoY to EUR 3.8 billion at end-June 2017 and the NPL ratio improving to 16%, from 19% in June 2016.

Rabobank maintains a solid funding profile, with a large liquidity buffer mitigating its reliance on wholesale funding. Following good deposit growth and deleveraging efforts, Rabobank's loan-to-deposit ratio improved to 122% in June 2017, from 126% at end-2015. In line with the Group's Strategic Framework 2016-2020, wholesale funding usage continued to reduce, reaching EUR 171 billion at end-June 2017, from EUR 203 billion at end-December 2015. Although considerable, reliance on wholesale funds is mitigated by the diversified funding mix and maturity profile as well as the Group's solid liquidity position. As of end-June 2017, Rabobank's liquidity buffer, comprising high quality liquid assets (HQLA) and retained residential mortgage backed securities (RMBS), stood at EUR 121.9 billion.

DBRS considers Rabobank's capital position as strong. The Group's CET1 ratio strengthened to 15.0% (or 14.7% fully loaded) at end-June 2017, from 14.0% (or 13.5%) at end-2016, thanks to the issuance of EUR 1.6 billion of Rabobank certificates in January 2017, retained profits and deleveraging. This provides a significant buffer over the 9% minimum CET1 SREP requirement set for 2017. Rabobank is well positioned for regulatory requirements on loss absorbency capacity, with a buffer of bail-inable liabilities, comprising retained earnings & reserves, Rabobank Certificates, hybrid and subordinated instruments and senior contingent notes, of EUR 57.4 billion, equivalent to 9.2% of total assets and 28% of risk weighted assets (RWA). There are a number of potential challenges ahead with regards to regulatory capital and RWA requirements, including the proposed revisions of the internal rating based approach (IRB) for credit risk, which might introduce output floors on risk weights. In order to mitigate the potential impact, Rabobank has been proactively optimising its balance sheet through sales of non-core assets and low risk-weighted loans.

RATING DRIVERS

Positive rating pressure is unlikely in the medium term, given the already high rating level. However, any upside would require a successful execution of the strategic plan with regards to efficiency improvements as well as wholesale funding reduction, together with a substantial strengthening of profitability, whilst maintaining solid asset quality and capital position. Conversely, an inability to improve profitability, or a material deterioration in asset quality or capital could have negative rating implications.

The Grid Summary Grades for Coöperatieve Rabobank U.A. are as follows: Franchise Strength – Very Strong/Strong; Earnings – Strong; Risk Profile – Strong; Funding & Liquidity – Very Strong/Strong; Capitalisation – Very Strong/Strong.

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Notes:

All figures are in Euros unless otherwise noted.

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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 Issuer Rating	Confirmed	AA	Stb	Nov 8, 2017
Coöperatieve Rabobank U.A.	Short-Term Issuer Rating	Confirmed	R-1 (high)	Stb	Nov 8, 2017
Coöperatieve Rabobank U.A.	Long-Term Senior Debt	Confirmed	AA	Stb	Nov 8, 2017
Coöperatieve Rabobank U.A.	Short-Term Debt	Confirmed	R-1 (high)	Stb	Nov 8, 2017
Coöperatieve Rabobank U.A.	Long-Term Deposits	Confirmed	AA	Stb	Nov 8, 2017
Coöperatieve Rabobank U.A.	Short-Term Deposits	Confirmed	R-1 (high)	Stb	Nov 8, 2017
Coöperatieve Rabobank U.A.	Long Term Critical Obligations Rating	Confirmed	AAA	Stb	Nov 8, 2017
Coöperatieve Rabobank U.A.	Short Term Critical Obligations Rating	Confirmed	R-1 (high)	Stb	Nov 8, 2017

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