

## **FITCH RATES RABOBANK'S SENIOR NON-PREFERRED DEBT 'AA-'**

Fitch Ratings-London-14 May 2018: Fitch Ratings has assigned Cooperatieve Rabobank U.A.'s (Rabobank; AA-/Stable) senior non-preferred debt to be issued under the bank's EUR160 billion global medium term note programme a 'AA-' long-term rating. This debt will initially rank equally with other senior unsecured instruments, but will automatically become senior non-preferred debt once the relevant Dutch legislation is in place.

The rating is assigned to the programme. There is no assurance that notes issued under the programme will be assigned a rating, or that the rating assigned to a specific issue under the programme will have the same rating as the rating assigned to the programme.

The introduction of this new debt class does not affect the 'AA-' long-term rating of Rabobank's existing senior debt, which following the expected legislative change will become senior preferred obligations of the bank.

Under its criteria, Fitch requires a high burden of proof to notch senior debt up or down from a bank's Issuer Default Rating (IDR) based on recovery prospects, particularly at high rating levels. This is because the structure of a bank's balance sheet is likely to be very different at the point of failure and default is unlikely to result in liquidation for systemically important banks.

Additionally, Fitch believes the difference in default risk between the senior preferred and senior non-preferred debt will initially be very small until the bank has larger buffers of senior non-preferred debt. Over time, a build-up of senior non-preferred notes in combination with Rabobank's already sizeable qualifying junior debt (QJD) buffer could result in a level of protection for senior preferred notes warranting a long-term rating one notch higher than the bank's Long-Term IDR and senior non-preferred debt ratings.

Rabobank's Long-Term IDR and senior debt ratings already benefit from one-notch uplift over the bank's Viability Rating (VR) due to Rabobank's significant QJD buffer (11.3% of risk-weighted assets (RWA) at end-2017), which is above our estimate of Rabobank's 'recapitalisation amount' (10% of RWA). Under Fitch's criteria, for the senior preferred notes to achieve an additional one-notch uplift over the Long-Term IDR, provided that Rabobank's QJD buffer remains above the estimated 'recapitalisation amount', the combined buffer of QJD and senior non-preferred debt would need to be at least two times the 'recapitalisation amount'.

### **KEY RATING DRIVERS**

The senior non-preferred debt is rated in line with Rabobank's Long-Term IDR and existing senior debt rating. Fitch views the probability of default on the senior non-preferred notes as the same as the probability of default of the bank.

The senior non-preferred debt will become a new debt class once the relevant new legislation becomes effective in the Netherlands. The draft bill is being reviewed by the Dutch parliament and should come into force no later than end-2018. Once the law is passed, it will effectively make these instruments subordinated to existing senior debt (which will become senior preferred debt) and senior to subordinated debt. The new senior non-preferred notes can be bailed in before senior preferred debt in the event of resolution under the EU's Bank Recovery and Resolution Directive.

### **RATING SENSITIVITIES**

The rating of senior non-preferred debt is sensitive to changes in Rabobank's Long-Term IDR. The Long-term IDR is sensitive to changes in Rabobank's VR and to a material reduction of its QJD buffer, in particular should it fall below 10% of RWA. The senior non-preferred debt rating is also sensitive to the final relevant Dutch legislation being materially different to what Fitch anticipates.

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Applicable Criteria

Bank Rating Criteria (pub. 23 Mar 2018)

<https://www.fitchratings.com/site/re/10023430>

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