FITCH AFFIRMS RABOBANK AT 'AA-'; OUTLOOK STABLE

Fitch Ratings-London/Paris-24 November 2017: Fitch Ratings has affirmed Cooperatieve Rabobank U.A.'s (Rabobank) Long-Term Issuer Default Rating (IDR) at 'AA-' with a Stable Outlook, Viability Rating (VR) at 'a+' and Short-Term IDR at 'F1+'. A full list of rating actions is at the end of this Rating Action Commentary.

The rating actions are part of a portfolio review of major Dutch banking groups rated by Fitch.

KEY RATING DRIVERS

IDRS, DERIVATIVE COUNTERPARTY RATING AND SENIOR DEBT

Rabobank's Long-Term IDR and senior debt ratings are one notch above its VR because Fitch believes the risk of default on senior obligations, as measured by the Long-Term IDR, is lower than the risk of the bank failing, as measured by its VR.

The one-notch uplift reflects the bank's significant qualifying junior debt buffer, which could be made available to protect senior obligations from default in case of failure, either under a resolution process or as part of a private-sector solution (ie distressed debt exchange) to avoid a resolution action.

Without such a private-sector solution, we would expect a resolution action to be taken on Rabobank when it breaches minimum capital requirements, and we have assumed that the intervention point would be around the bank's current minimum common equity Tier 1 (CET1) requirement of 6.25% (Pillar 1 and Pillar 2 - excluding the combined buffer requirements (CBR)). We further assume Rabobank would need to meet its total minimum capital requirement immediately after a resolution action, which on a fully loaded basis, including the CBR, currently amounts to 15.25% of total risk-weighted assets (RWA). Taking into account additional undisclosed Pillar 2 guidance as well as a potential risk-weight increase in a stress scenario, a qualifying junior debt buffer of 10% of RWA would most likely be sufficient to restore the group's viability without hitting senior credits.

At end-June 2017, the qualifying junior debt buffer was 11.2% of RWA. Fitch has assumed that the bank will maintain a sufficient buffer, given its stated targets of CET1 and total capital ratios of at least 14% and at least 25% respectively by 2020.

The Derivative Counterparty Rating (DCR) is at the same level as the Long-Term IDR because under Dutch legislation, derivative counterparties have no preferential status over other senior obligations in a resolution scenario.

VR

Rabobank's VR is underpinned by its modest risk appetite, which Fitch believes will remain central to the bank's strategy. The rating is also supported by the bank's leading market position in Dutch retail banking, complemented by a solid franchise in the global food and agriculture sectors. The rating factors in the expectation that Rabobank's capital ratios will remain sound while the amount of unreserved non-performing loans (NPLs) will decrease, and that the bank will maintain prudent liquidity and diversified funding.

We expect Rabobank to maintain a prudent approach to risk, reflected in low-risk underwriting standards, particularly in mortgage lending, and a conservative approach to capital and liquidity management. We also expect the bank to focus on core markets and business segments.

The overall quality of Rabobank's loan book is weaker than domestic peers', with the ratio of NPLs to gross loans at 4.2% at end-June 2017. This ratio has, however, been gradually improving, and we expect the trend to continue in the remainder of 2017 and in 2018. The NPL ratio is affected by the bank's weaker-quality commercial real estate loans, which accounted for over a fifth of Rabobank's total NPLs at end-June 2017 despite being only about 5% of total loans. The bank's reserve coverage of slightly below 40% is relatively low but acceptable in light of a high share of well-collateralised loans. Rabobank's large residential mortgage loan portfolio, which represents just under half of total loans, has proved particularly resilient through the cycle compared with domestic peers'.

Rabobank's underlying profitability has improved in recent years, largely as a result of lower loan impairment charges (LICs). While LICs are currently at an unsustainably low level (the bank reported releases of provisions in 1H17), we expect Rabobank to continue to benefit from the benign operating environment in the Netherlands and the current low interest rates, which reduce borrowers' debt service costs.

Cost efficiency is weaker than at domestic peers but is in line with other highly rated European cooperative groups. Fitch expects cost efficiency and structural profitability to improve as Rabobank continues to implement its cost-cutting initiatives. By end-June 2017, the bank had achieved about half of its targeted 12,000 staff reduction for 2016-2018. The target is equivalent to almost a quarter of the end-2015 total workforce.

Rabobank's capital ratios are solid. At end-June 2017, its Fitch Core Capital (FCC)/RWA ratio was 14.9% and its fully loaded CET1 ratio was 14.7%. However, net NPLs represented slightly over 35% of FCC at the same date, a high level compared to similarly rated peers. This should improve as the stock of impaired loans continues to decrease. The bank's fully loaded leverage ratio of 5.1% at end-June 2017 compared well with peers.

Rabobank remains structurally reliant on wholesale funding, making it sensitive to investor confidence. The group's liquidity management is prudent, and its liquidity buffer is ample with a total buffer of High-Quality Liquid Assets of EUR91 billion (15% of assets) at end-June 2017 compared to the bank's total wholesale funding of EUR171 billion.

SUPPORT RATING AND SUPPORT RATING FLOOR
The '5' Support Rating and 'No Floor' Support Rating Floor reflect Fitch's view that senior creditors can no longer rely on receiving full extraordinary support from the sovereign if Rabobank becomes non-viable. The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for resolving banks that is likely to require senior creditors participating in losses, if necessary, instead or ahead of a bank receiving sovereign support.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES
Subordinated debt and hybrid securities issued by Rabobank are notched off its VR. In accordance with Fitch's criteria, subordinated (lower Tier 2) debt is rated one notch below Rabobank's VR to reflect the higher loss severity of this type of debt compared with average recoveries.

The non-innovative old-style Tier 1 securities are rated four notches below Rabobank's VR to reflect the higher loss severity risk of these securities compared with average recoveries (two notches from the VR) and the high risk of non-performance (an additional two notches).

The additional Tier 1 capital notes are rated five notches below Rabobank's VR. Two notches represent the potentially high loss severity associated with the deeply subordinated securities. The other three notches represent Fitch's assessment of the incremental non-performance risk of the

securities, taking into account their fully discretionary coupon payments, which Fitch considers the most easily triggered form of loss absorption.

RATING SENSITIVITIES
IDRS, DCR AND SENIOR DEBT
The Long-Term IDR, DCR and senior debt ratings are sensitive to a change in the bank's VR as they are notched up from its VR.

These ratings are also sensitive to a material reduction in the size of the qualifying junior debt buffer, in particular should it fall below 10% of RWA. The notching is also sensitive to changes in assumptions on the resolution intervention point and post-resolution capital needs, and the development of resolution planning more generally.

The Long-Term IDR would be downgraded if the bank replaced a substantial amount of qualifying junior debt with non-preferred senior notes, but preferred senior debt might in this case receive a one-notch uplift from the Long-Term IDR, provided the combined buffer of qualifying junior debt and non-preferred senior notes exceeded 10% of RWA.

VR
Rabobank's VR is sensitive to material setbacks in the improving trend in the bank's structural profitability or a failure to reduce the ratio of net impaired loans to capital. A reduced focus on maintaining a high liquidity buffer would also put pressure on the ratings, due to the group's wholesale funding reliance. Rabobank's ratings are also sensitive to investor sentiment turning against it. An upgrade of the VR is unlikely given its already high level.

SUPPORT RATING AND SUPPORT RATING FLOOR
An upgrade of the Support Rating or upward revision of the Support Rating Floor would be contingent on a positive change in the Dutch sovereign's propensity to support its banks. This is highly unlikely, in Fitch's view, although not impossible.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES
Subordinated debt and other hybrid capital are all notched down from the bank's VR in accordance with Fitch's assessment of each instrument's respective non-performance and relative loss severity risk profiles, which vary considerably. Their ratings are primarily sensitive to any change in Rabobank's VR.

Additional Tier 1 capital notes are also sensitive to Fitch changing its assessment of the probability of their non-performance relative to the risk captured in Rabobank's VR.

The rating actions are as follows:

Cooperatieve Rabobank U.A.
Long-Term IDR: affirmed at 'AA-'; Outlook Stable
Short-Term IDR: affirmed at 'F1+'
VR: affirmed at 'a+'
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
Derivative counterparty rating: affirmed at 'AA-(dcr)'
Long-term senior unsecured debt and programme ratings: affirmed at 'AA-'
Short-term senior unsecured debt and programme ratings: affirmed at 'F1+'
Commercial paper: affirmed at 'F1+'
Senior long-term market-linked notes: affirmed at 'AA-emr'
Subordinated debt and Tier 2 programme: affirmed at 'A'
Hybrid capital (non-innovative Tier 1): affirmed at 'BBB'

Additional Tier 1 capital notes (XS1171914515, XS1400626690): affirmed at 'BBB-'

Contact:

Primary Analyst
Bjorn Norrman
Senior Director
+44 20 3530 1330
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Secondary Analyst
Konstantin Yakimovich
Director
+44 20 3530 1789

Committee Chairperson
Olivia Perney Guillot
Senior Director
+33 1 44 29 91 74

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email:
peter.fitzpatrick@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Global Bank Rating Criteria (pub. 25 Nov 2016)
https://www.fitchratings.com/site/re/891051

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.
Copyright © 2017 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch’s factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch’s ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.
The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged

in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.
For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001