

**Rating Action: Moody's downgrades Rabobank's long-term ratings to Aa3; stable outlook**

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Global Credit Research - 27 Mar 2018

**Baseline credit assessment (BCA) downgraded to a3 from a2**

London, 27 March 2018 -- Moody's Investors Service today downgraded Rabobank's long-term senior unsecured debt and deposit ratings to Aa3 from Aa2 and revised their outlooks to stable from negative. At the same time, Moody's downgraded Rabobank's baseline credit assessment (BCA) and adjusted BCA to a3 from a2. The downgrade of Rabobank's BCA primarily reflects the challenges the bank has been facing in reducing its operating expenses and ultimately improving its profitability.

Moody's also downgraded Rabobank's long-term Counterparty Risk (CR) assessment to Aa2(cr) from Aa1(cr), its Senior Contingent Notes to Baa1(hyb) from A3(hyb), subordinated debt to Baa1 from A3 and 'low trigger' non-cumulative tier 1 capital securities to Baa3(hyb) from Baa2(hyb).

Concurrently, Moody's affirmed the bank's short-term programme and deposit ratings of Prime-1, its short-term CR assessment of Prime-1(cr) and its 'high trigger' additional tier 1 (AT1) securities of Baa3(hyb).

A list of affected ratings can be found at the end of this press release.

**RATINGS RATIONALE**

The downgrade of Rabobank's BCA to a3 reflects the fact that despite material improvements in asset risks, capital and funding, the bank's profitability improvement programme is unlikely to yield sufficient benefits to maintain a credit profile consistent with the previous relatively high BCA of a2. While Moody's recognizes that Rabobank increased its net profit in 2017, this was to a large extent driven by numerous one-off items and a reversal of loan loss provisions. Further improvements in efficiency will likely be offset by net interest margin pressure and normalised cost of risk meaning earnings will remain structurally weaker than peers'.

Rabobank's reported underlying cost-to-income ratio, excluding exceptional items but including regulatory levies, was 65.3% in 2017, up from 64.8% in 2016, which is significantly weaker than the bank's target of 53%-54% to be achieved by 2020. Moody's expects the bank to significantly decrease operating expenses in 2018, as large pension-related expenses subside and the benefits of continuing staff reductions will progressively materialize. However, net interest revenues, which represented a high 74% of the bank's net banking revenues in 2017, will suffer from prolonged low interest rates and resulting pressure on asset yields, given that funding costs are unlikely to decline further. In addition, the bank's loan-loss charges are currently at record low levels (with net recoveries of 5 bps of the private sector loan book in 2017 versus a net cost of 7 bps in 2016) thanks to provision reversals, which are now likely to diminish. Moody's expects credit costs to modestly increase in 2018, resulting in net income close to that of 2017.

The BCA of a3 adequately reflects Rabobank's significant improvements in its capital and funding profile in 2017. The bank increased its fully-loaded common equity tier 1 (CET1) ratio by two percentage points to 15.5%, above its 14% minimum target for 2020, in part via the issuance of €1.5 billion of "Rabobank Certificates", CET1-eligible mutual shares typically issued by cooperative banking groups. In parallel, the bank reduced its wholesale funding to €160 billion at year-end 2017 (2016: €189 billion), which brings it close to its €150 billion target. The bank also issued its first covered bonds in May 2017, raising €2.5 billion.

The downgrade of Rabobank's long-term senior unsecured debt and deposit ratings to Aa3 from Aa2 results from (1) the lower BCA and adjusted BCA of a3; (2) two notches of uplift under Moody's advanced Loss Given Failure (LGF) analysis; and (3) Moody's assumption of a moderate probability of government support for both deposits and senior unsecured debt, resulting in one notch of uplift.

**AFFIRMATION OF ADDITIONAL TIER I SECURITIES**

The affirmation of Rabobank's AT1 securities rating of Baa3(hyb) reflects Moody's approach to the rating of 'high trigger' securities, which takes account of their ranking within the bank's liability structure and the risk of a

coupon suspension. Moody's uses a model to assess the probability of Rabobank's CET1 ratio reaching the contractual trigger of 7%. The model output is based upon Rabobank's BCA of a3, the bank's CET1 ratio (15.8%) as of year-end 2017 and the 7% trigger. The assigned rating of Baa3(hyb) is unchanged from the current rating, because the distance to trigger increased by close to two percentage points in 2017, offsetting the impact of the downgrade of Rabobank's BCA. The rating is not constrained by Moody's rating on the non-viability AT1 instruments, as the agency also rates these securities Baa3(hyb), three notches below Rabobank's adjusted BCA of a3.

#### STABLE OUTLOOK

The outlook on Rabobank's long-term deposit and senior unsecured debt ratings is stable because Moody's does not anticipate any significant change in the bank's creditworthiness over the next two-to-three years.

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

An upgrade of the BCA, and consequently of the long-term deposit and senior unsecured debt ratings, may occur if (1) Rabobank improves its structural profitability beyond its current plans; (2) its capital continues to steadily increase; and (3) asset risks remain very low. In addition, the bank's long-term deposit and senior unsecured debt ratings could be upgraded if there were a lower loss-given-failure for senior debt and deposit holders due to higher levels of subordinated debt.

The BCA could be downgraded if (1) the bank's profitability was significantly impaired; or (2) the cost of risk in the bank's loan portfolio were to increase materially. In addition, Rabobank's long-term deposit and senior unsecured debt ratings would be downgraded as a consequence of a downgrade of the BCA.

#### LIST OF AFFECTED RATINGS

Issuer: Rabobank

- ...Adjusted Baseline Credit Assessment, downgraded to a3 from a2
- ...Baseline Credit Assessment, downgraded to a3 from a2
- ...Long-term Counterparty Risk Assessment, downgraded to Aa2(cr) from Aa1(cr)
- ...Long-term Bank Deposits, downgraded to Aa3 Stable from Aa2 Negative
- ...Long-term Deposit Note/CD Program, downgraded to (P)Aa3 from (P)Aa2
- ...Long-term Issuer Rating, downgraded to Aa3 Stable from Aa2 Negative
- ...Senior Unsecured Regular Bond/Debenture, downgraded to Aa3 Stable from Aa2 Negative
- ...Senior Unsecured Regular Bond/Debenture, downgraded to Baa1(hyb) from A3(hyb)
- ...Backed Senior Unsecured Regular Bond/Debenture, downgraded to Aa3 Stable from Aa2 Negative
- ...Senior Unsecured Medium-Term Note Program, downgraded to (P)Aa3 from (P)Aa2
- ...Backed Senior Unsecured Medium-Term Note Program, downgraded to (P)Aa3 from (P)Aa2
- ...Subordinate Regular Bond/Debenture, downgraded to Baa1 from A3
- ...Subordinate Medium-Term Note Program, downgraded to (P)Baa1 from (P)A3
- ...Backed Subordinate Regular Bond/Debenture, downgraded to Baa1 from A3
- ...Preferred Stock Non-cumulative, downgraded to Baa3 (hyb) from Baa2 (hyb)
- ..Affirmations:
  - ...Preferred Stock Non-cumulative, affirmed Baa3(hyb)
  - ...Short-term Counterparty Risk Assessment, affirmed P-1(cr)

...Short-term Bank Deposits, affirmed P-1  
...Short-term Deposit Note/CD Program, affirmed P-1/(P)P-1  
...Other Short Term, affirmed (P)P-1  
...Backed Other Short Term, affirmed (P)P-1  
...Commercial Paper, affirmed P-1

..Outlook Action:

...Outlook changed to Stable from Negative

Issuer: Friesland Bank N.V.

..Downgrades:

...Long-term Bank Deposits, downgraded to Aa3 Stable from Aa2 Negative  
...Senior Unsecured Medium-Term Note Program, downgraded to (P)Aa3 from (P)Aa2  
...Subordinate Medium-Term Note Program, downgraded to (P)Baa1 from (P)A3  
...Backed Subordinate Regular Bond/Debenture, downgraded to Baa1 from A3

..Affirmations:

...Short-term Bank Deposits, affirmed P-1

...Other Short Term, affirmed (P)P-1

..Outlook Action:

...Outlook changed to Stable from Negative

Issuer: Rabo Capital Securities Limited

..Downgrade:

...Preferred Stock Non-cumulative, downgraded to Baa3(hyb) from Baa2(hyb)

..No Outlook

Issuer: Rabobank Australia Limited

..Downgrade:

...Backed long-term Bank Deposit, downgraded to Aa3 Stable from Aa2 Negative

..Affirmations:

...Backed short-term Bank Deposit, affirmed P-1

..Outlook Action:

...Outlook changed to Stable from Negative

Issuer: Rabobank Capital Funding Trust IV

..Downgrade:

...Preferred Stock Non-cumulative, downgraded to Baa3(hyb) from Baa2(hyb)

..No Outlook

Issuer: Rabobank Ireland plc

..Affirmation:

...Backed Commercial Paper, affirmed P-1

..No Outlook

Issuer: Rabobank Nederland, Australia Branch

..Downgrades:

...Long-term Counterparty Risk Assessment, downgraded to Aa2(cr) from Aa1(cr)

...Senior Unsecured Medium-Term Note Program, downgraded to (P)Aa3 from (P)Aa2

...Senior Unsecured Regular Bond/Debenture, downgraded to Aa3 Stable from Aa2 Negative

..Affirmations:

...Short-term Counterparty Risk Assessment, affirmed P-1(cr)

...Other Short Term, affirmed (P)P-1

...Commercial Paper, Affirmed P-1

..Outlook Action:

...Outlook changed to Stable from Negative

Issuer: Rabobank Nederland, Hong Kong Branch

..Downgrades:

...Long-term Counterparty Risk Assessment, downgraded to Aa2(cr) from Aa1(cr)

...Long-term Deposit Note/CD Program, downgraded to (P)Aa3 from (P)Aa2

..Affirmations:

...Short-term Counterparty Risk Assessment, affirmed P-1(cr)

...Short-term Deposit Note/CD Program, affirmed (P)P-1

..No Outlook

Issuer: Rabobank Nederland, New York Branch

..Downgrades:

...Long-term Counterparty Risk Assessment, downgraded to Aa2(cr) from Aa1(cr)

...Long-term Bank Deposit, downgraded to Aa3 Stable from Aa2 Negative

...Long-term Deposit Note/CD Program, downgraded to (P)Aa3 from (P)Aa2

...Senior Unsecured Regular Bond/Debenture, downgraded to Aa3 Stable from Aa2 Negative

...Senior Unsecured Medium-Term Note Program, downgraded to (P)Aa3 from (P)Aa2

..Affirmations:

...Short-term Counterparty Risk Assessment, affirmed P-1(cr)

...Short-term Deposit Note/CD Program, affirmed (P)P-1

...Commercial Paper, affirmed P-1

...Other Short Term, affirmed (P)P-1

..Outlook Action:

...Outlook changed to Stable from Negative

Issuer: Rabobank Nederland, New Zealand Branch

..Downgrades:

...Long-term Counterparty Risk Assessment, downgraded to Aa2(cr) from Aa1(cr)

...Senior Unsecured Medium-Term Note Program, downgraded to (P)Aa3 from (P)Aa2

...Senior Unsecured Regular Bond/Debenture, downgraded to Aa3 Stable from Aa2 Negative

..Affirmations:

...Short-term Counterparty Risk Assessment, affirmed P-1(cr)

...Short-term Deposit Note/CD Program, affirmed P-1

...Commercial Paper, affirmed P-1

...Other Short Term, affirmed (P)P-1

..Outlook Action:

...Outlook changed to Stable from Negative

Issuer: Rabobank Nederland, Paris Branch

..Downgrade:

...Long-term Counterparty Risk Assessment, downgraded to Aa2(cr) from Aa1(cr)

..Affirmations:

...Short-term Counterparty Risk Assessment, affirmed P-1(cr)

...Short-term Deposit Note/CD Program, affirmed P-1

..No Outlook

Issuer: Rabobank Nederland, Singapore Branch

..Downgrade:

...Long-term Counterparty Risk Assessment, downgraded to Aa2(cr) from Aa1(cr)

..Affirmations:

...Short-term Counterparty Risk Assessment, affirmed P-1(cr)

...Commercial Paper, affirmed P-1

..No Outlook

Issuer: Rabobank Nederland, The Netherlands Branch

..Downgrade:

...Long-term Counterparty Risk Assessment, downgraded to Aa2(cr) from Aa1(cr)

..Affirmation:

...Short-term Counterparty Risk Assessment, affirmed P-1(cr)

..No Outlook

Issuer: Rabobank Polska SA

..Affirmation:

...Backed Commercial Paper, affirmed P-1

..No Outlook

Issuer: Rabobank USA Financial Corporation

..Affirmation:

...Backed Commercial Paper, affirmed P-1

..No Outlook

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in September 2017. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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