FITCH AFFIRMS RABOBANK FOLLOWING GROUP RESTRUCTURING

Fitch Ratings-Paris/London-14 January 2016: Fitch Ratings has affirmed Cooperatieve Rabobank U.A.'s (Rabobank) Long-term Issuer Default Rating (IDR) at 'AA-' with a Stable Outlook following the group's restructuring, which was effective 1 January 2016. At the same time, the agency has assigned Rabobank a Viability Rating (VR) of 'a+'.

Cooperatieve Rabobank U.A. is the new legal name of Cooperatieve Centrale Raiffeisen-Boerenleenbank BA, previously the central institution of the Rabobank Group, into which all 106 local member banks were merged on 1 January 2016. In line with its criteria, Fitch previously did not assign a VR, Support Rating and Support Rating Floor to the central institution. Following the group restructuring, Fitch has assigned the merged entity a VR, Support Rating and Support Rating Floor.

The agency has also withdrawn the ratings of Rabobank Group, which as such no longer exists. A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS
VR - RABOBANK
Rabobank's VR is supported by the bank's modest risk appetite, which Fitch views as a factor of higher importance in deriving its rating. The rating also factors in the group's leading market positions in retail banking in the Netherlands, solid and improving capitalisation, and robust funding and conservative liquidity management.

Rabobank has a low to moderate risk appetite and its refocused strategy, in particular on core activities, has put an even greater emphasis on a prudent approach to risk-taking. Risk controls have been essentially centralised and merging into one bank further strengthens this.

Asset quality is in line with its domestic peers and is expected to improve as the Dutch economy continues to recover. During the tough economic conditions in the Netherlands over the past few years, Rabobank's large residential mortgage loan portfolio has proven to be particularly resilient compared with peers, which in Fitch's view reflects conservative underwriting standards. The de-risking in commercial real estate lending is reducing tail downside risks. The agency does not expect the group to deviate from its focus on its core banking activities, and this supports the Stable Outlook.

Underlying profitability improved in 2014 and 2015, and Fitch expects further improvements to feed through in 2016 and 2017, including cyclical improvement in loan impairment charges. Weaker profitability compared with similarly rated peers reflects Rabobank's high cost base and cooperative nature. Fitch expects the gap to reduce and structural profitability to improve through the announced reduction of the bank's workforce by an additional 9,000 (around 20% of staff). Its new simplified group structure will also support an improvement in the cost base.

Rabobank's fully loaded common equity Tier 1 ratio was 11.8% at end-June 2015. This does not compare favourably with similarly rated peers, but Fitch's expectation that the bank will take measures to strengthen this to level in line with similarly rated peers is factored into the rating. The bank targets a phased-in common equity Tier 1 to weighted risks ratio in the 14%-17% range by 2020. To meet higher capital requirements, including revisions of Basel 3, and strengthen its balance sheet flexibility, Rabobank is considering reducing its assets significantly, through sales of assets in non-core businesses or true sales of loan portfolios.

Rabobank is structurally reliant on wholesale funding, making it sensitive to investor confidence. However, the group's liquidity buffer is ample and liquidity management is prudent, a further reflection of the cautious approach to risk.

IDRS AND SENIOR DEBT RATINGS - RABOBANK
Rabobank's Long-term IDR and senior debt ratings are one notch above the group's VR because we believe that the risk of default on senior obligations, as measured by the Long-term IDR, is lower than the risk of the group failing, as measured by its VR.

The bank has built up a significant junior debt buffer, issuing in 2015 Tier 2 and additional Tier 1 instruments, 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 being taken on Rabobank when it breaches minimum capital requirements. Pillar 2 requirements are not disclosed for Rabobank, but we have assumed that the intervention point would be around 6%-7% of weighted risks. Fitch believes that Rabobank would need to meet its minimum capital requirements immediately after a resolution action. Given Rabobank's systemic importance, Fitch believes minimum capital requirements will include most, if not all, of its combined buffer requirements. On a risk-weighted basis therefore, Fitch has estimated that post resolution action a common equity Tier 1 capital requirements in the 12%-15% range is plausible under a bail-in scenario.

At end-June 2015, the qualifying junior debt buffer amounted to around 10% of risk exposure amount. At present, taking into account the around EUR3bn-equivalent Tier 2 debt issuance in 2H15, the buffer was above 11% of end-June 2015 weighted risks, which means that taking Fitch's view of the regulatory intervention point and post-resolution capital needs, this should be sufficient to restore the group's viability without hitting senior creditors.

We have also assumed that the group will further strengthen this junior debt buffer, in line with its stated target of a total capital ratio in the 25%-30% range over the next few years to increase protection for its senior creditors and meet potential additional capital requirements through capital and subordinated instruments.

SUPPORT RATING AND SUPPORT RATING FLOOR - RABOBANK
Following the change in the group structure, Fitch has assigned a Support Rating and a Support Rating Floor to Rabobank. They reflect Fitch's view that senior creditors can no longer rely on receiving full extraordinary support from the sovereign in the event that Rabobank becomes non-viable. In Fitch's view, the EU's Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) for eurozone banks are now sufficiently progressed to provide a framework for resolving banks that is likely to require senior creditors participating in losses, if necessary, instead of or ahead of a bank receiving sovereign support. In the EU, BRRD has been effective in member states since 1 January 2015 and the bail-in tool since 1 January 2016.

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

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

The perpetual non-cumulative capital securities (XS0583302996 and XS0703303262) and the additional Tier 1 capital notes (XS1171914515) 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.

SUBSIDIARY AND AFFILIATED COMPANY - RABOBANK GROUP

The Rabobank Group was not a legal entity but a cooperative group whose core structure consisted of 106 local cooperative banks, which owned their central institution, Cooperatieve Centrale Raiffeisen-Boerenleenbank BA. There was a mutual support mechanism between the local banks, central organisation and large operating subsidiaries. Fitch based its analysis of Rabobank Group's creditworthiness on consolidated figures for the group. As the local banks have been merged into the central institution, Rabobank Group as such no longer exists. Fitch has withdrawn all of Rabobank Group's ratings.

RATING SENSITIVITIES

VR

Rabobank's VR is sensitive to a setback in the improving trend in the bank's structural profitability or delays in strengthening capitalisation. A reduced focus on maintaining high liquidity buffer, given the group's wholesale funding reliance, would also put negative pressure on the ratings. Rabobank's ratings are also sensitive to investor sentiment turning against it. An upgrade is unlikely in the near future given its already high level.

IDRS AND SENIOR DEBT RATINGS

As the Long-term IDR and senior debt ratings are notched up from the bank's VR, they are sensitive to a change in the bank's VR.

The Long-term IDR and senior debt ratings are also sensitive to a material reduction in the size of the qualifying junior debt buffer. Our base case is that the ratio will increase and would need to be at a minimum of 10% to be able to afford protection to senior creditors. The notching is sensitive to changes in assumptions on resolution intervention point and post-resolution capital needs, and the development of resolution planning more generally.

SUPPORT RATING AND SUPPORT RATING FLOOR

Any 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. While not impossible, this is highly unlikely, in Fitch's view.

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.

Perpetual non-cumulative capital securities and 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. (Rabobank)
Long-term IDR: affirmed at 'AA-'; Outlook Stable
Short-term IDR: affirmed at 'F1+'
VR: assigned at 'a+'
Support Rating: assigned at '5'
Support Rating Floor: assigned at 'No floor'
Long-term senior unsecured debt (EMTN and GMTN): affirmed at 'AA-'
Short-term senior unsecured debt (EMTN and GMTN): affirmed at 'F1+'
Commercial Paper: affirmed at 'F1+'
Senior Long-term market-linked notes: affirmed at 'AA-emr'
Subordinated debt: affirmed at 'A'
Hybrid capital (non innovative Tier 1 and preferred stock): affirmed at 'BBB'
Perpetual non-cumulative capital securities (XS0583302996 and XS0703303262): affirmed at 'BBB-'
Additional Tier 1 capital notes (XS1171914515): affirmed at 'BBB-'

Rabobank Group
Long-term IDR: 'AA-' Outlook Stable; withdrawn
Short-term IDR: 'F1+'; withdrawn
VR: 'a+'; withdrawn
Support Rating: '5'; withdrawn
Support Rating Floor: 'No floor'; withdrawn

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Applicable Criteria
Global Bank Rating Criteria (pub. 20 Mar 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=863501