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CREDIT OPINION

2 June 2017

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RATINGS

Rabobank

Domicile	Amsterdam, Netherlands
Long Term Debt	Aa2
Type	Senior Unsecured - Fgn Curr
Outlook	Negative
Long Term Deposit	Aa2
Type	LT Bank Deposits - Fgn Curr
Outlook	Negative

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Rabobank

Semiannual Update

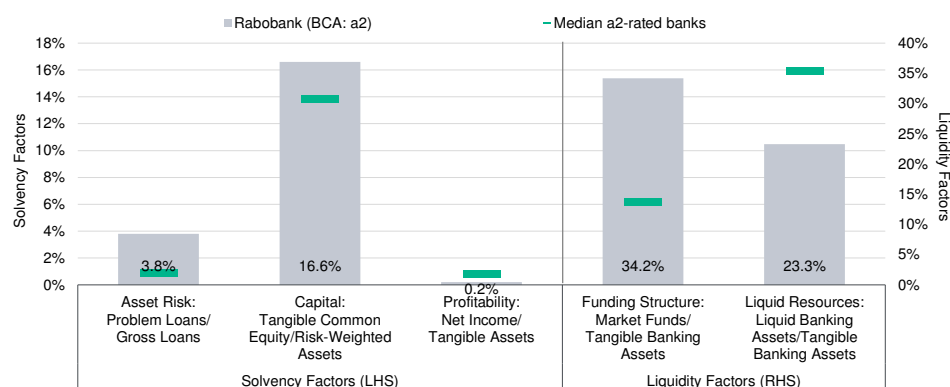
Summary Rating Rationale

Rabobank's long-term deposit and senior debt ratings of Aa2, negative outlook, reflect (1) the bank's baseline credit assessment (BCA) of a2; (2) two notches of uplift from our Advanced Loss Given Failure (LGF) analysis; and (3) one notch of uplift stemming from a moderate probability of government support. Rabobank's short-term deposit and senior debt ratings are Prime-1.

Rabobank's BCA of a2 is supported by the bank's conservative business profile, as well as its strong financial fundamentals. The bank's leading position in the Dutch banking sector and strong position in the agribusiness sector worldwide are the primary drivers for a relatively stable, albeit modest earnings generation capacity. Despite a period of lacklustre results between 2012 and 2014 owing to losses in Dutch commercial real estate (CRE) and more recently a number of large extraordinary items, we consider Rabobank's profitability resilient overall.

Exhibit 1

Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

The BCA is also underpinned by the bank's capital levels, which provide sound loss-absorption capacity, as well as its good asset quality overall. Rabobank heavily relies on wholesale funding, but this credit weakness is mitigated by the long duration of its debt issuance and sizeable liquidity buffers.

Credit Strengths

- » Leading market positions in the Netherlands offer pricing power and stable earnings generation
- » Asset quality is solid overall
- » Capitalisation levels provide sound loss absorption capacity
- » The bank has ample liquidity reserves and an extended term structure of funding
- » Large volume of subordinated debt and hybrid debt results in very low loss-given-failure for senior unsecured debt and deposits and a two-notch uplift from the BCA
- » Moderate probability of government support results in a one-notch uplift for senior unsecured debt and deposits

Credit Challenges

- » Net interest margins suffer from the low interest rate environment
- » Asset quality is inherently vulnerable to a deterioration in the domestic real estate markets
- » Profitability is modest and has recently been impacted by a series of large exceptional items
- » The bank has relatively large and structural wholesale funding needs

Rating Outlook

The senior unsecured debt and deposit ratings carry a negative outlook. The bank's BCA of a2 incorporates both the bank's current fundamentals and the prospects of further improvements under its Strategic Framework. These benefits are subject to some uncertainty and we have therefore assigned a negative outlook to the bank's deposit and senior unsecured debt ratings to reflect the possibility that they are not fully achieved.

Factors that Could Lead to an Upgrade

Rabobank's ratings are at the high end of banks' ratings globally, reflecting our view of the strong credit profile of the institution.

An upgrade of the BCA, and consequently of the deposit and senior unsecured debt ratings, is unlikely in the foreseeable future, as reflected in the negative outlook on the bank's ratings.

Factors that Could Lead to a Downgrade

The BCA could be downgraded if:

- » the bank were unable to improve its profitability as stated in its restructuring plan objectives
- » asset risks increased due to renewed weakness in the Dutch commercial real estate sector or rising deficiencies in the corporate loan portfolio and/or
- » the bank were to be unable to reduce wholesale funding in accordance with its stated objectives or if its funding and liquidity profiles deteriorated

Rabobank's long-term deposit and senior unsecured debt ratings would be downgraded as a consequence of:

- » a downgrade of the BCA and/or
- » increased loss-given-failure for senior debt and deposit holders due to lower levels of subordinated debt or a lower level of pari passu debt benefiting these creditors.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key Indicators

Exhibit 2

Rabobank (Consolidated Financials) [1]

	12-16 ²	12-15 ²	12-14 ²	12-13 ³	12-12 ³	CAGR/Avg. ⁴
Total Assets (EUR million)	632,643	642,780	637,891	638,603	699,814	-2.5 ⁵
Total Assets (USD million)	667,282	698,249	771,882	879,958	922,629	-7.8 ⁵
Tangible Common Equity (EUR million)	35,143	34,848	32,160	30,349	32,320	2.1 ⁵
Tangible Common Equity (USD million)	37,067	37,856	38,916	41,819	42,611	-3.4 ⁵
Problem Loans / Gross Loans (%)	3.6	3.8	3.9	3.5	2.3	3.4 ⁶
Tangible Common Equity / Risk Weighted Assets (%)	16.6	16.4	15.2	14.4	14.5	16.1 ⁷
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	38.9	41.8	44.7	41.2	30.7	39.5 ⁶
Net Interest Margin (%)	1.3	1.4	1.4	1.3	1.2	1.3 ⁶
PPI / Average RWA (%)	1.4	1.4	2.0	0.9	1.8	1.6 ⁷
Net Income / Tangible Assets (%)	0.2	0.2	0.3	0.2	0.3	0.2 ⁶
Cost / Income Ratio (%)	76.1	73.3	66.4	82.8	69.2	73.6 ⁶
Market Funds / Tangible Banking Assets (%)	34.2	35.9	39.4	39.1	42.8	38.3 ⁶
Liquid Banking Assets / Tangible Banking Assets (%)	23.3	21.6	21.0	21.3	23.0	22.0 ⁶
Gross Loans / Due to Customers (%)	132.4	137.2	144.4	142.4	146.3	140.5 ⁶

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; IFRS [3] Basel II; IFRS [4] May include rounding differences due to scale of reported amounts [5] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime [6] Simple average of periods presented for the latest accounting regime. [7] Simple average of Basel III periods presented

Source: Moody's Financial Metrics

Detailed Rating Considerations

Leading market positions in the Netherlands offer pricing power and stable earnings generation

Rabobank holds a leading position in domestic retail banking, which represented 54% of its revenues in 2016. The bank also has a strong international presence focusing on the food and agribusiness sector. We consider that Rabobank's franchise is one of the most robust amongst Dutch peers, resulting in strong pricing power and steady earnings generation.

In the Netherlands, Rabobank's operations are carried out by a large network of local Rabobank branches and are supported by the central wholesale banking capacities. The group has market shares of 21% in mortgages, 34% in savings and 41% in the Trade, Industry & Services segments of the SME market, whilst it reaches 84% in the domestic food and agribusiness (market shares as of year-end 2016).

International operations support Dutch clients operating internationally via the foreign branch network and allow the bank to capitalise on its knowledge and experience in the food and agribusiness sector with clients outside the Netherlands. This strategy is being pursued through its "wholesale banking and international rural and retail banking" entities in a selected number of countries. The private sector loan book comprises approximately 28% of international exposures, which are Europe excluding the Netherlands (7%), North America (11%), South America (3%), Australia & New Zealand (5%) and Asia (2%).

Asset quality is solid, yet vulnerable to deterioration in the domestic commercial real estate markets

We view Rabobank's asset quality as sound due to (1) its relatively conservative underwriting and investment policy and (2) its very limited exposure to countries in riskier parts of the euro area. Nevertheless, with 72% of its private sector lending in the Netherlands, Rabobank is naturally exposed to a deterioration of the Dutch economy. In 2012, 2013 and 2014, the bulk of the deterioration in asset quality came from the commercial real estate portfolio, a sector which has since then recovered. Rabobank's exposure to domestic commercial real estate decreased by 15% to €23.7 billion in 2016.

The domestic retail banking segment represented 65% of the bank's private-sector lending and produced very low impairment charges in 2016, with greenhouse horticulture (although recording provision releases for the second consecutive year) and shipping being the only segments facing difficult operating conditions. The strong performance of domestic retail banking illustrates the recovery of both

the Dutch economy and the housing market. The residential mortgage portfolio continued to perform well with a cost of risk (excluding non-recurring effects) of 3 bps in 2016, but its specific features with high loan-to-value (LTV) ratios and a material proportion of bullet rather than amortising loans make it vulnerable to a scenario of severe macroeconomic deterioration. New mortgages now have the statutory obligation to amortise in order to benefit from the tax deductibility of interests. In addition, LTVs are currently following a downward trend due to mortgage repayments and increasing house prices.

The performance of other portfolios was also strong in 2016. Loan loss provisions more than halved to 26 bps in the wholesale and international rural & retail banking portfolio. The real estate segment, which had reported significant losses linked to Dutch CRE exposures in the recent past, reported net write-backs during 2016.

The bank's good asset quality is reflected in the score of aa2.

Capitalisation levels provide sound loss absorption capacity

We consider Rabobank's strong loss absorption capacity to be a key credit strength. At year-end 2016, Rabobank's phased-in Common Equity Tier 1 (CET1) ratio and Tier 1 ratio were 14.0% and 17.6% respectively, which provides comfortable room above the minimum required CET1 ratio of 9% in 2017. This requirement is made up of 7.5% of capital requirement imposed by the European Central Bank through the Supervisory Review and Evaluation Process (SREP) and 1.5% of systemic risk buffer imposed by the Dutch central bank for 2017. The fully loaded CET1 requirement is expected to be set at 11.75% in 2019, other things being equal, due to the phasing in of both the Capital Conservation Buffer (to 2.5%) and the Systemic Risk Buffer (to 3%).

Under our calculations, Rabobank's Tangible Common Equity was 16.6% at year-end 2016, benefiting from approximately 2.2 percentage points of high-trigger contingent capital instruments.

The bank's Tier 2 capital was 7.4% of risk-weighted assets at year-end 2016, bringing the group's total capital ratio to 25.0%. In its Strategic Framework 2016-2020, Rabobank targets a CET1 ratio above 14% and a total capital ratio above 25% by 2020.

Rabobank disclosed a buffer of equity, subordinated debt and Senior Contingent Notes of €58 billion at year-end 2016 which protects senior unsecured debt, equivalent to 27.5% of risk-weighted assets.

Our assigned capital score of aa2 reflects the bank's strong ratios and our belief that the bank's capitalisation is a strength.

Underlying profitability is improving after a period of lacklustre results

After a period of lacklustre results between 2012 and 2014, Rabobank's profitability rebounded on the back of improving macroeconomic conditions along with the improving performance of Dutch CRE exposures. Rabobank's loan loss provisions represented only 7 bps of average gross loans in 2016 versus 24 bps in 2015 and a long-run historical average of around 36 bps. Despite these improvements, profitability has remained relatively low due to a series of large net negative exceptional items totalling €1,372 million in 2016, which is almost twice the amount recorded in 2015 (€723 million).

Exceptional items include a €251 million book profit on the sale of Athlon, a profit of €106 million on the fair value of own debt and hedge accounting, €515 million of restructuring costs, €514 million of provisions for interest rate derivatives compensation and impairment worth €700 million on its stake in Achmea.

These exceptional items had an impact of 6 percentage points on Rabobank's cost-to-income ratio at 71% as of year-end 2016¹. Excluding these exceptional items, the cost-to-income ratio deteriorated by 1 percentage point year-over-year to 65%. The reduction of staff costs (-€265 million) was not sufficient to compensate for weaker net interest income (-€396 million) and higher contribution to bank tax, to the resolution fund and to the deposit guarantee scheme (+€139 million). The current cost-to-income ratio (65%), which excludes exceptional items, is well above the bank's 2020 internal target of 53%-54%.

We expect revenue growth to remain modest at best and the low interest rate environment, which had a moderate impact in recent semesters, is likely to progressively erode net interest margins. Nonetheless, we expect profitability to improve overall via continued efforts on operating expenses, as the restructuring progresses and staff reductions take place.

Our ba1 assigned score for profitability reflects the historical stability and quality of earnings of the bank, as well as the expected improvements.

Structural reliance on wholesale funding is mitigated by ample liquidity reserves and term structure of funding

Despite high reliance on wholesale funding, Rabobank's funding structure is robust and high liquidity buffers mitigate this structural feature of the Dutch banking system.

At year-end 2016, the group disclosed a loan-to-deposit ratio of 122%, significantly lower than the 132% level disclosed only two year earlier in 2014. The customer funding deficit remains elevated at €77 billion at year-end 2016, despite significant improvements. Rabobank is structurally reliant on wholesale funding (which totaled €189 billion as of year-end 2016, as disclosed by the bank) and a portion (36%) of its deposits is derived from (inter)national institutional and corporate investors, which may prove less stable than retail deposits.

Nevertheless, we believe that Rabobank's reliance on wholesale funding, which is also the case for other Dutch banks, is largely mitigated by its conservative asset and liability management, based on an adequate duration of the bank's funding and a substantial liquidity portfolio. Of the €191 billion gross wholesale funding outstanding at year-end 2016, approximately €114 billion was long-term debt (excluding the portion of long-term debt with residual maturity of less than one year). Out of this, €45 billion had residual maturities of five years or more. As of year-end 2016, the bank's liquidity buffer, consisting of cash, high-quality government bonds and central bank-eligible internal RMBS amounted to €141 billion, representing around 192% of the bank's net interbank borrowings and short-term debt securities (including the portion of long-term debt, the residual maturity of which is less than one year), resulting in a very robust liquidity profile.

The Basel 3 liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) of Rabobank stood at 130% and 119% respectively at year-end 2016, which we view as relatively strong.

The assigned combined liquidity score of baa1 is the result of significant upward adjustments to account for the favourable term structure of market funding, the quality of liquid assets and a low asset encumbrance.

Overall, our assigned BCA is a2, one notch above our assessment of the bank's Financial Profile of a3, a reflection of our view that the Financial Profile will progressively improve thanks to the bank's restructuring efforts.

Notching Considerations

LOSS GIVEN FAILURE

Rabobank is subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider to be an Operational Resolution Regime. We assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in "junior" wholesale deposits, a 5% run-off in preferred deposits, a proportion of junior deposits of 26% of total customer deposits and assign a 25% probability to deposits being preferred to senior unsecured debt. These assumptions are in keeping with our standard assumptions.

Our LGF analysis indicates very low loss-given-failure for deposits and senior unsecured debt, leading us to assign a two-notch uplift above the Adjusted BCA.

Our LGF analysis indicates high loss-given-failure for junior debt securities, leading us to make a negative adjustment of one notch below the Adjusted BCA. We also incorporate additional notching for junior subordinated and hybrid debt instruments reflecting the coupon features.

GOVERNMENT SUPPORT

We believe there is a moderate probability of government support for deposits and debt, resulting in one notch of uplift for both the long-term deposits and senior unsecured debt of the bank.

For subordinated and other junior securities, we continue to believe that the probability of government support is low and these ratings do not therefore include any related uplift. Junior securities also include additional downward notching from the BCA reflecting coupon suspension risk ahead of a potential failure.

COUNTERPARTY RISK ASSESSMENT

The Counterparty Risk (CR) assessment is positioned at Aa1(cr)/Prime-1(cr), four notches above the Adjusted BCA of a2, based on the cushion against default provided to the senior obligations represented by the CR assessment by subordinated instruments and one notch of uplift from our assumption for a moderate probability of government support. The main difference with our Advanced LGF approach used to determine instrument ratings is that the CR assessment captures the probability of default on certain senior obligations, rather than expected loss, therefore we focus purely on subordination and take no account of the volume of the instrument class.

ABOUT MOODY'S BANK SCORECARD

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Methodology and Scorecard Factors

Exhibit 3

Rabobank

Macro Factors

Weighted Macro Profile **Strong +** **100%**

Factor	Historic Ratio	Macro Adjusted Score	Credit Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	3.8%	a3	← →	a2	Quality of assets	Sector concentration
Capital						
TCE / RWA	16.6%	aa2	← →	aa2	Risk-weighted capitalisation	
Profitability						
Net Income / Tangible Assets	0.2%	b1	↑	ba1	Earnings quality	
Combined Solvency Score		a3		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	34.2%	ba1	↑	baa2	Term structure	Deposit quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	23.3%	baa1	← →	a3	Quality of liquid assets	Asset encumbrance
Combined Liquidity Score		baa3		baa1		
Financial Profile				a3		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Aaa		
Scorecard Calculated BCA range				a2-baa1		
Assigned BCA				a2		
Affiliate Support notching				0		
Adjusted BCA				a2		

Balance Sheet	in-scope (EUR million)	% in-scope	at-failure (EUR million)	% at-failure
Other liabilities	135,195	21.4%	170,662	27.0%
Deposits	347,712	55.1%	312,245	49.4%
Preferred deposits	257,307	40.7%	244,442	38.7%
Junior Deposits	90,405	14.3%	67,804	10.7%
Senior unsecured bank debt	107,950	17.1%	107,950	17.1%
Dated subordinated bank debt	18,111	2.9%	18,111	2.9%
Preference shares (bank)	3,639	0.6%	3,639	0.6%
Equity	18,947	3.0%	18,947	3.0%
Total Tangible Banking Assets	631,554	100%	631,554	100%

Debt class	De jure waterfall		De facto waterfall		Notching		LGF notching guidance versus BCA	Assigned LGF notching	Additional notching	Preliminary Rating Assessment
	Instrument Subordination	Sub-volume + ordination	Instrument Subordination	Sub-volume + ordination	De jure	De facto				
Counterparty Risk Assessment	34.3%	34.3%	34.3%	34.3%	3	3	3	3	0	aa2 (cr)
Deposits	34.3%	6.4%	34.3%	23.5%	2	3	2	2	0	aa3
Senior unsecured bank debt	34.3%	6.4%	23.5%	6.4%	2	2	2	2	0	aa3
Dated subordinated bank debt	6.4%	3.6%	6.4%	3.6%	-1	-1	-1	-1	0	a3
Non-cumulative bank preference shares	3.6%	3.0%	3.6%	3.0%	-1	-1	-1	-1	-2	baa2 (hyb)

Instrument class	Loss Given Failure notching	Additional Notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Assessment	3	0	aa2 (cr)	1	Aa1 (cr)	--
Deposits	2	0	aa3	1	Aa2	Aa2
Senior unsecured bank debt	2	0	aa3 (hyb)	1	Aa2	Aa2
Dated subordinated bank debt	-1	0	a3	0	A3	A3
Non-cumulative bank preference shares	-1	-2	baa2 (hyb)	0	Baa2 (hyb)	Baa2 (hyb)

Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
RABOBANK	
Outlook	Negative
Bank Deposits	Aa2/P-1
Baseline Credit Assessment	a2
Adjusted Baseline Credit Assessment	a2
Counterparty Risk Assessment	Aa1(cr)/P-1(cr)
Issuer Rating	Aa2
Senior Unsecured -Fgn Curr	Aa2
Senior Unsecured -Dom Curr	A3
Subordinate	A3
Pref. Stock Non-cumulative -Fgn Curr	Baa2 (hyb)
Pref. Stock Non-cumulative -Dom Curr	Baa3 (hyb)
Commercial Paper	P-1
Other Short Term	(P)P-1
RABOBANK AUSTRALIA LIMITED	
Outlook	Negative
Bkd Bank Deposits -Dom Curr	Aa2/P-1
RABOBANK IRELAND PLC	
Bkd Commercial Paper	P-1
RABOBANK NEDERLAND, SINGAPORE BRANCH	
Counterparty Risk Assessment	Aa1(cr)/P-1(cr)
Commercial Paper -Dom Curr	P-1
RABOBANK NEDERLAND, THE NETHERLANDS BRANCH	
Counterparty Risk Assessment	Aa1(cr)/P-1(cr)
RABOBANK NEDERLAND, NEW ZEALAND BRANCH	
Outlook	Negative
Counterparty Risk Assessment	Aa1(cr)/P-1(cr)
Senior Unsecured -Dom Curr	Aa2
Commercial Paper	P-1
Other Short Term	(P)P-1
RABOBANK NEDERLAND, AUSTRALIA BRANCH	
Outlook	Negative
Counterparty Risk Assessment	Aa1(cr)/P-1(cr)
Senior Unsecured	Aa2

Commercial Paper	P-1
Other Short Term	(P)P-1
RABOBANK NEDERLAND, NEW YORK BRANCH	
Outlook	Negative
Bank Deposits	Aa2/--
Counterparty Risk Assessment	Aa1(cr)/P-1(cr)
Senior Unsecured	Aa2
Commercial Paper	P-1
Other Short Term	(P)P-1
RABOBANK USA FINANCIAL CORPORATION	
Bkd Commercial Paper	P-1
FRIESLAND BANK N.V.	
Outlook	Negative
Bank Deposits	Aa2/P-1
Senior Unsecured MTN -Dom Curr	(P)Aa2
Subordinate MTN -Dom Curr	(P)A3
Other Short Term -Dom Curr	(P)P-1
RABOBANK NEDERLAND, HONG KONG BRANCH	
Counterparty Risk Assessment	Aa1(cr)/P-1(cr)
RABOBANK NEDERLAND, PARIS BRANCH	
Counterparty Risk Assessment	Aa1(cr)/P-1(cr)
RABOBANK CAPITAL FUNDING TRUST IV	
Pref. Stock Non-cumulative	Baa2 (hyb)
RABO CAPITAL SECURITIES LIMITED	
Pref. Stock Non-cumulative -Dom Curr	Baa2 (hyb)
RABOBANK POLSKA SA	
Bkd Commercial Paper -Dom Curr	P-1

Source: Moody's Investors Service

Endnotes

¹ For consistency reasons, in this report we will only refer to the cost-to-income ratio that includes regulatory levies.

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