Rabobank, National Association

Public Disclosure of Dodd-Frank Act Stress Test Results

Summary of Results

<u>**Executive Summary**</u>

Rabobank, N.A. (the Bank) is a California-based national bank that provides personalized service and a full array of quality products to individuals, businesses, organizations and agricultural clients. With 100 retail branches, the Bank serves the needs of communities from Red Bluff to the Imperial Valley through a regional structure that promotes active community involvement by our employees. The Bank is part of the Rabobank Group, which is a global financial service provider and the premier lender to the global food and agricultural industry.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and the implementing regulations require that annual company-run stress tests be performed by certain financial institutions, referred to as covered institutions, that have total consolidated assets between $10 billion and $50 billion. The Bank reported total assets of $14,547 million as of 12/31/2016 and is thus a covered institution subject to these company-run Dodd-Frank Act Stress Test (DFAST) requirements. The Bank is required to conduct an annual company-run stress test and disclose the results of the Severely Adverse scenario of the DFAST annually.

These stress tests are designed to evaluate whether financial institutions have sufficient capital to withstand a severe economic downturn and thereby assist regulators in assessing the resilience of the U.S. banking system under severe economic conditions. The Severely Adverse scenario is a hypothetical scenario provided by the Bank's primary regulator, the Office of the Comptroller of the Currency (OCC). Key attributes of this scenario include high levels of unemployment, rapid reductions in asset prices, and widening credit spreads. To evaluate its ability to withstand such harsh conditions, the Bank has developed its own methodologies and models as described below. Since the Bank's exposures and methodologies differ considerably from those of other banks, the results of the Bank's stress tests may not be comparable to those of other institutions.

The projections contained herein are based on the Severely Adverse scenario provided by the OCC (Supervisory Severely Adverse Scenario). Accordingly, these projections represent hypothetical estimates that involve an economic outcome more adverse than expected, and are not the Bank's actual projections of expected pre-provision net revenue, losses, net income before taxes or capital ratios.

In light of the supervisory emphasis on capital, the Bank has focused considerable attention on the value of the stress testing process in evaluating its own capital adequacy under potentially severely adverse economic conditions. The results of the Bank's annual DFAST indicate that the Bank remains well capitalized, with capital in excess of the regulatory minimum levels, throughout the course of the hypothetical Supervisory Severely Adverse Scenario, as summarized in DFAST Results table in Section 5 below. The supervisory variables, as well as the narrative describing the underlying scenarios, are available at the OCC's website: http://www.occ.gov/tools-forms/forms/bank-operations/stress-test-reporting.html.

1. **Governance over the Stress Testing Process**

The Bank has implemented an extensive review and challenge framework that includes Senior Management. The Bank's review and challenge framework ensures that models, model outputs and risk assessments are designed and used with input from appropriate sources. The design of the models and their results were examined by both an external validation team and a model governance committee consisting of modeling experts across the Rabobank Group. Model assumptions and outputs are subject to rigorous review and challenge by the people and bodies referenced above.

2. **Summary Description of Risks**

The Bank's stress testing process is designed to provide an evaluation of the impact of adverse economic scenarios on certain risks, as described below.

Credit Risk
Credit risk is the risk of loss resulting from the failure of a borrower to honor its financial obligation to the Bank and arises primarily from lending activities. There is extensive coverage of credit risk, as this is the risk type with the largest impact on the Bank's regulatory capital, via the provision for loan and lease losses.

Interest Rate Risk (including loan book, securities, deposits, and borrowings)
Interest rate risk is the potential reduction of net interest income, and ultimately capital, due to adverse changes in interest rates. The Bank provides extensive coverage of interest rate risk related to the loan book, the interest income of the securities portfolio, deposits, and borrowings.

Market Risk
Market risk is the potential reduction in income, and ultimately capital, due to adverse changes in the market value of traded financial instruments. The Bank has no trading securities and the only amounts reported in Schedule RC-D "Trading Assets and Liabilities" of the FFIEC Consolidated Reports of Condition and Income (Call Report) are from derivatives. The Bank has securities designated as Available-For-Sale (AFS), and the market risk of certain of these securities is modeled in determining the amount of Accumulated Other Comprehensive Income (AOCI) under U.S. GAAP. Only for these securities has market risk been captured in the DFAST.

Operational Risk
Operational risk is the potential for loss due to external events, inadequate or failed processes, systems, and human factors. There is some coverage of operational risk in the Bank's DFAST process to the extent that operational risks give rise to operational losses.

3. **Stress Testing Methodology**

The discussion below summarizes the methodologies employed by the Bank to estimate the underlying income statement and balance sheet items that are relevant to stress testing its overall capitalization. The Bank's core DFAST methodologies includes credit loss models for projected credit losses across the DFAST

horizon, pre-provision net revenue (PPNR) models that forecast the net interest income, noninterest income, and noninterest expense, and balance sheet projection methods.

Credit Loss Projections

The Bank employed a number of statistical models to project credit losses across the DFAST horizon. The modeling process started by determining which macroeconomic variables were the most important drivers of credit loss for each loan type. In the specification process, the modeling team focused on variables that provide insight into 1) the ability of borrowers to continue to make payments, and 2) collateral value and the associated non-default exit options available to the borrowers if they have difficulty making payments (such as the option of refinancing or engaging in an orderly sale). The Bank considered the full set of variables provided by the regulators as well as a number of additional variables based on its specific exposures. The modeling team then developed multivariable regression models built from these variables to estimate loss across the DFAST horizon.

Interest Income Projections (Revenue and Expense)

The primary tool employed by the Bank for net interest income projections was its Asset Liability Management (ALM) software system. The net income projection process used the scenario interest rate assumptions provided by the OCC, together with the contractual terms and balances for interest rate sensitive balance sheet accounts to forecast principal, interest, and prepayment cash flows on each interest rate sensitive instrument in the portfolio. Changes in portfolio balance and mix, together with predicted customer optionality, were combined to produce a forecast of net interest income.

Non-Interest Income and Expense Projections

Non-interest income is projected based on the underlying macroeconomic variables and uses primary and secondary drivers such as balance sheet size to project key components of non-interest income.

Non-interest expense is projected by segmenting it into components and then calculating an estimate based on primary and secondary drivers such as macroeconomic data and projected balances to forecast these items. Non-interest expense projections are primarily based upon forecasted asset balances, levels of distressed loans, and operational losses. Categories of the expense forecast include salaries and benefits, occupancy expense, operating losses, amortization of intangibles, and other operating expenses (e.g., data processing, regulatory/legal, advertising/promotion, depreciation, professional fees, travel, and other).

Balance Sheet Projections

Balance sheet projections for the supervisory scenarios are driven primarily by loan growth expectations. Investment balances are assumed to remain unchanged throughout each of the scenarios other than to absorb any projected excess liquidity, since the Bank's strategy is to utilize investments primarily for required contingent liquidity and collateral, not for income. The growth rate assumptions for interest bearing balance sheet items- loans, deposits, borrowings, and investments- are inputs into the ALM model, along with prepayment assumptions, utilization rates for committed lines of credit, and deposit decay estimates.

Calculation of Capital Ratios

Capital ratios are calculated in a manner consistent with regulatory requirements. Risk-weighted assets are calculated from the projected balance sheet.

4. Potential Capital Actions

As a privately owned bank, the Bank is not impacted by dividend expectations from public shareholders or concerns related to share price fluctuations. The Bank has not historically paid dividends and does not plan to pay any dividends to its parent in the foreseeable future due to its strategic growth plans.

In the Supervisory Severely Adverse Scenario, regulatory capital ratios remain well above their respective regulatory minimums, exhibiting a resiliency to stressed economic conditions. Accordingly, the Bank does not anticipate any capital actions based on the results of the stress scenarios.

5. DFAST Results under the Severely Adverse Scenario (December 31, 2016 through March 31, 2019)

The results of the 2017 DFAST indicate that the Bank has sufficient financial resources to withstand even a lengthy recession such as that specified in the Supervisory Severely Adverse Scenario. In that hypothetical scenario, the minimum pro forma common equity Tier 1 (CET1) risk-based capital ratio is projected to be 12.49%. This ratio is well above the minimum regulatory level of 4.50%.

The table below presents the Bank's actual capital ratios at December 31, 2016 as well as the pro forma regulatory capital ratios at the end of the nine-quarter DFAST horizon. In addition, the table shows the minimum level for each ratio across the DFAST horizon. As shown in the table, the Bank's regulatory capital levels exceed the regulatory minimums for all quarters across the DFAST horizon.

DFAST Results under the Severely Adverse Scenario				
			Stressed Capital Ratios	
	Regulatory Minimum	Actual 4Q2016	1Q2019	Minimum During Nine Quarter Forecast
Tier 1 risk-based capital ratio	6.00%	13.99%	12.65%	12.49%
Tier 1 leverage ratio	4.00%	11.12%	10.37%	10.37%
Total risk-based capital ratio	8.00%	15.24%	13.91%	13.75%
Common equity tier 1 capital ratio	4.50%	13.99%	12.65%	12.49%

The table below presents the Bank's loss, PPNR, provisions for losses, and net income before taxes over the nine-quarter DFAST horizon. Management performed a pro forma analysis of goodwill in the Supervisory Severely Adverse Scenario and determined that goodwill would be impaired in that hypothetical scenario, resulting in a full write-off of goodwill. Goodwill is not included in the definition of regulatory capital and thus the impairment of goodwill in this scenario does not affect the capital ratios of the Bank.

| Projected Losses, Revenues, and Net Income before Taxes through 1Q2019		
	Millions of Dollars	Percent of Average Assets
Pre-Provision net revenue	-74.1	-0.52%
Other revenue	0.0	0.00%
less		
Provisions	-244.1	-1.69%
Realized losses/gains on securities	0.0	0.00%
Other losses/gains	0.0	0.00%
equals		
Net income before taxes	-318.2	-2.21%

The table below summarizes the Bank's projected losses by loan type across the nine-quarter DFAST horizon.

Projected loan losses, by loan type, 1Q2017 - 1Q2019		
	Millions of Dollars	Portfolio 9 quarter loss rate
Total Loan Losses	172.9	1.68%
First Lien Mortgages Domestic	12.1	0.92%
Junior Lien Mortgages & HELOCs, Domestic	8.4	4.19%
Commercial and Industrial	28.1	5.07%
Commercial Real Estate	77.1	2.24%
Credit Cards	0.0	0.00%
Other Consumer Loans	0.0	0.00%
All Other Loans	47.2	0.99%

6. An Explanation of the Most Significant Causes for the Changes in Regulatory Capital

Capital ratios in the Severely Adverse Scenario are driven by four key factors: a) credit losses (leading to higher provision expense), b) asset growth (resulting in higher risk-weighted assets), c) net income excluding provision, and d) other impacts. The chart below shows the components of the changes in common equity Tier 1 (CET1) risk-based capital over the scenario horizon.

DFAST 2017 - Tier 1 Capital Attribution - Severe Scenario
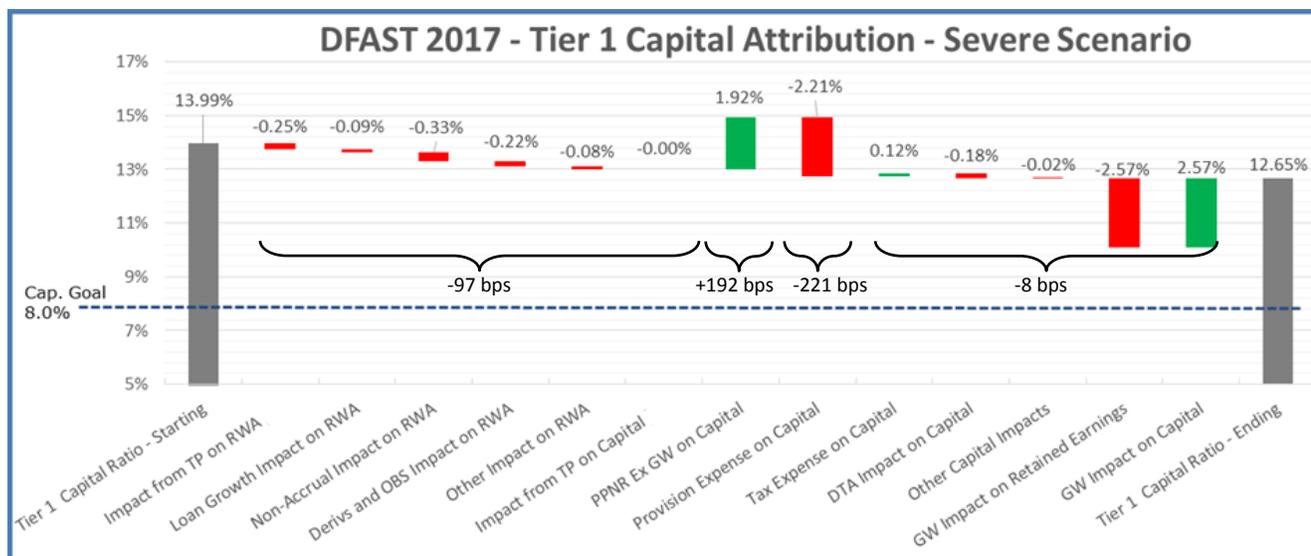
Abbreviations used in the chart: TP: Transition Period; RWA: Risk-Weighted Assets; OBS: Off Balance Sheet; DTA: Deferred Tax Asset; GW: Goodwill

Summarizing by the four key factors:

a) Credit Losses (leading to higher provision expense): Credit losses and allowance requirements on the existing portfolio reduced the capital ratio by 221 basis points.

b) Asset Growth (resulting in higher risk-weighted assets): The increased weighting from 100% to 250% for deferred tax assets resulted in a 25 basis point decline. The increase in non-accruing loans increased the risk weighting of loans and resulted in a reduction of the CET1 ratio by 33 basis points. Additional risk-weighted impacts sum to -39 basis points. In total, increases in the risk-weighted assets reduced the CET1 ratio by 97 basis points.

c) Pre-Provision Net Revenue (excluding goodwill): Net income excluding provision and goodwill impairment increased the capital ratio by 192 basis points over the DFAST horizon.

d) Other Impacts: Other miscellaneous items, including growth in DTA's and tax credits from operating losses, nets to an 8 basis point decline in the capital ratio.

In total, the CET1 capital ratio was projected to decline from 13.99% to 12.65% over the DFAST horizon under the Supervisory Severely Adverse Scenario. Thus, this capital ratio remained well above the regulatory minimum of 4.50% throughout the nine-quarter period.