FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Rabobank at 'A+'; Outlook Stable

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Fitch Ratings - Paris - 15 Nov 2022: Fitch Ratings has affirmed Cooperatieve Rabobank U.A.'s (Rabobank) Long-Term Issuer Default Rating (IDR) at 'A+' with a Stable Outlook and Viability Rating (VR) at 'a+'. A full list of rating actions is below.

KEY RATING DRIVERS

Business, Risk Profiles, Strong Capital Drive Ratings: Rabobank's ratings are underpinned by its well-established leading market position in Dutch retail banking, complemented by a solid franchise in the global food and agriculture (F&A) sectors, conservative risk profile, strong capitalisation and diversified funding.

Leading Domestic Franchise: Rabobank is a cooperative bank operating mainly in the Netherlands where it is the leading bank in retail and SME banking. Its business profile is supported by good international diversification mainly through its solid franchise in global F&A. Its business model is geared towards traditional retail and commercial banking and has limited reliance on volatile businesses and this supports Fitch's assessment.

Conservative Risk Profile: Rabobank's risk profile underpinned by low risk appetite and prudent underwriting is a rating strength. This includes conservative capital management, which should remain central to the bank's strategy. Rabobank's underwriting standards are also conservative and benefit from its focus on sectors and products where it has extensive expertise.

Resilient and Improved Asset Quality: Rabobank's asset quality is supported by the bank's large exposure to low-risk and well-performing Dutch residential mortgage loans and well-collateralised SME and corporate lending. Following a more active approach to work-outs of its stock of impaired loans in recent years, Rabobank has significantly reduced its impaired loans ratio to levels that are now in line with large Dutch banks. Fitch expects Rabobank's impaired loans ratio to moderately deteriorate but to remain below 3% by end-2023, despite second-order effects from the war in Ukraine. Loan loss allowance coverage is low by international standards but reflects the highly secured nature of the loan book and low historical credit losses.

Adequate Profitability: Rabobank has a good record of generating adequate profitability, although its cost efficiency is generally weaker than similarly rated peers. Rabobank's sound earnings generation is underpinned by its leading domestic franchises in the Netherlands and globally in F&A. Although revenue is set to benefit from higher interest rates, we expect the operating profit/risk-weighted assets (RWAs), assessed in the context of conservative RWAs calculations, will be in line with Rabobank's long-term performance at about 1.4%, which is lower than the peer average.

Capitalisation a Rating Strength: Rabobank's capital and leverage ratios compare well with similarly rated peers, and are a rating strength. The bank's medium-term common equity Tier 1 ratio (CET1) target of at least 14% by 2024 under Basel III end-game rules includes a comfortable buffer of 330bp above current minimum capital requirements (including the countercyclical buffer in the Netherlands, which will be implemented in May 2023). We expect Rabobank's CET1 ratio will remain comfortably above its medium-term target in 2023.

Diversified Funding, Conservative Liquidity: Rabobank's funding mix is diversified and benefits from its strong retail and commercial deposit franchise in the Netherlands. The higher reliance on wholesale funding relative to some international peers is due to a structural shortage of deposits in the Netherlands where the pension system steers individuals' savings to pension funds. This is mitigated by low refinancing risk, given sound access to the international debt markets in several currencies, prudent liquidity management and an ample liquidity buffer.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Rabobank's ratings would come under pressure if its CET1 ratio fell materially below 14%, together with a deterioration in leverage, without a credible plan to restore these ratios. A sharper-than-expected weakening in asset quality, with Rabobank's impaired loans ratio increasing above 3% on a sustained basis, as well as a failure to durably set the bank's operating profit/RWAs at least at 1.5%, would also likely lead to a downgrade.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

There is limited upside potential for Rabobank's ratings. An upgrade would require a significant and structural improvement in profitability and asset quality while maintaining conservative risk appetite and capital management. For instance, we could upgrade the ratings if Rabobank delivers an operating profit/RWAs consistently above 2.5% and reduces the impaired loans ratio to 1% or lower, which is unlikely over Fitch's rating horizon given current ratios.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

SHORT-TERM IDR

Rabobank's Short-Term IDR of 'F1' is the lower of the two options that map to a 'A+' Long-Term IDR, driven by the bank's 'a+' score for funding and liquidity.

DERIVATIVE COUNTERPARTY RATING, DEPOSITS AND SENIOR DEBT

Rabobank's Derivative Counterparty Rating (DCR) and long-term senior preferred debt and deposit ratings are one notch above the bank's Long-Term IDR. This reflects the protection offered to preferred creditors by the resolution buffers of equity and more junior debt. Rabobank is subject to the minimum requirement for own funds and eligible liabilities (MREL), with a binding requirement of 27.6% of RWAs since 1 January 2022. The bank has publicly stated that it intends to meet its MREL using subordinated and senior non-preferred (SNP) instruments only. For the same reasons, we rate Rabobank's SNP debt at 'A+', in line with the Long-Term IDR.

SUBORDINATED DEBT AND JUNIOR SUBORDINATED DEBT

Rabobank's subordinated Tier 2 debt is rated two notches below its VR. This is in line with Fitch's baseline notching for loss severity as Fitch expects recoveries to be poor for this type of debt in the event of default/non-performance of the bank.

Additional Tier 1 (AT1) instruments with fully discretionary coupons and legacy hybrid debt with partly discretionary coupons are rated four notches below the VR, in line with the baseline notching for this type of debt. This comprises two notches each for loss severity and two notches for non-performance risk. Our assessment is based on the fact that there is significant distance between the bank's CET1 ratio and mandatory coupon omission triggers.

No Government Support Factored into Ratings

Rabobank's Government Support Rating (GSR) of 'no support' reflects Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign in the event that the bank becomes nonviable. The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for resolving banks that requires senior creditors participating in losses, if necessary, instead of, or ahead of a bank receiving sovereign support.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

Rabobank's Short-Term IDR is primarily sensitive to changes in Rabobank's Long-Term IDR and its funding and liquidity score.

The DCR, SP, SNP and deposit ratings are primarily sensitive to Rabobank's Long-Term IDR. In addition, these ratings could be downgraded if Fitch no longer expects Rabobank to meet its MREL without recourse to SP debt and if the buffer of SNP and more junior debt declines below 10% of RWAs on a sustained basis.

The subordinated Tier 2 debt and AT1 ratings are sensitive to a change in Rabobank's VR. In addition, the AT1 ratings could be downgraded if non-performance risk increases relative to the risk captured in the bank's VR, for example if capital buffers over regulatory requirements are eroded.

An upgrade of Rabobank's GSR would be contingent on a positive change in the sovereign's propensity to support the bank. In Fitch's view, this is highly unlikely, although not impossible

VR ADJUSTMENTS

The Asset Quality score of 'a' has been assigned above the 'bbb' category implied score due to the following adjustment reasons: loan classification policies (positive) and historical and future metrics (positive).

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Rabobank has an ESG Relevance Score of '3' for Exposure to Environmental Impacts sub factor, instead of the standard score of '2' assigned to most European banks. The slightly different score at Rabobank reflects our opinion that physical climate and policy risks have a minimal impact on the bank's risk profile and asset quality given the bank's higher-than-peer exposure to the food & agriculture sector and strong presence in the Netherlands, a country highly sensitive to climate change risk.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Cooperatieve Rabobank U.A.	LT IDR	A+ Rating Outlook Stable	Affirmed	A+ Rating Outlook Stable
	ST IDR	F1	Affirmed	F1
	Viability	a+	Affirmed	a+
	DCR	AA-(dcr)	Affirmed	AA-(dcr)

	Government Support	ns	Affirmed	ns
subordinated	LT	BBB	Affirmed	BBB
Senior preferred	LT	AA-	Affirmed	AA-
long-term deposits	LT	AA-	Affirmed	AA-
Senior non-preferred	LT	A+	Affirmed	A+
subordinated	LT	A-	Affirmed	A-

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 07 Sep 2022) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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Cooperatieve Rabobank U.A.	EU Issued, UK Endorsed

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Banks Europe Netherlands
