S&P Global
Ratings

Research

Research Update:

Netherlands-Based Cooperatieve Rabobank Affirmed At 'A+/A-1' On Balance Sheet Optimization; Outlook Stable

Primary Credit Analyst:
Nicolas Hardy, Paris (33) 1-4420-7318; nicolas.hardy@spglobal.com

Secondary Contact:
Alexandre Birry, London (44) 20-7176-7108; alexandre.birry@spglobal.com

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Overview

- We believe Cooperatieve Rabobank's ongoing balance-sheet optimization strategy will bolster our capital measure for the bank in the next 18 to 24 months.
- The strategy entails medium-term balance-sheet downsizing and a refocus on core banking activities in the Netherlands, and the financing of the food and agriculture business globally, where Rabobank is a market leader.
- We are affirming our 'A+/A-1' ratings on Rabobank.
- The stable outlook reflects our expectation that Rabobank's capital position will continue to strengthen and its earnings will remain resilient over the next 18-24 months as it follows its optimization plan.

Rating Action

On Nov. 10, 2016, S&P Global Ratings affirmed its 'A+/A-1' long- and short-term counterparty credit ratings on Netherlands-based Cooperatieve Rabobank U.A. The outlook is stable.

At the same time, we have affirmed our issue ratings on the bank's subordinated and hybrid capital instruments.

Rationale

The affirmation stems from our view that Rabobank will continue to implement its medium-term strategic plan announced in December last year. This strategy is intended to improve efficiency, help the bank adapt to changing consumer behavior, and through active balance-sheet management and earnings improvement, lead to stronger regulatory capital ratios. One of the goals of this strategy is to prepare for potential changes in regulatory requirements, ranging from the reform of Basel risk weights for the calculation of capital adequacy to the creation of additional buffers, like the minimum requirement for own funds and eligible liabilities (MREL). This is a challenge faced by the banking industry at large, and is particularly acute for Dutch banks because of country-specific characteristics, notably higher average loan to value (LTV) ratios than peers' in their mortgage loan portfolios. Other credit factors mitigate the relatively high LTVs, but any drastic revision of Basel risk weights on mortgage loans in relation to LTV levels would put pressure on Dutch banks' compliance with current regulatory requirements (see "Regulatory

Uncertainty Shapes Dutch Banks' Capital Position," published Sept. 23, 2016, on RatingsDirect).

This year Rabobank has been contemplating certain measures in anticipation of regulatory changes. These include a reduction of its risk-weighted assets, translating into a balance-sheet reduction of up to €150 billion by 2020 compared with its total asset size of €680 billion at year-end 2014. Because the scope and timing of the regulatory reforms are uncertain, we expect these measures will be adapted, as needed. In any case, we understand that Rabobank's proactive restructuring, along with earnings retention and the issuance of capital instruments, aims at maintaining a common equity Tier 1 ratio of at least 14% and a total capital ratio of at least 25% by 2020 under the potential regulatory change. These ratios stood at 13.4% and 23.5% respectively as of June 30, 2016.

We believe that, given management's commitment to execute its balance-sheet optimization strategy, our risk-adjusted capital (RAC) ratio for the bank will strengthen over the next 18 to 24 months. This ratio stood at 8.8% at year-end 2015, and we believe that it will be sustainably above 10% at the end of our forecast horizon and likely continue to improve. The main assumptions supporting our forecast are:

- A reduction of our risk-weighted assets figure for Rabobank by 3%-4% per year, in line with the bank's balance-sheet optimization program.
- Resilient operating revenues of €11.5 billion-€12 billion annually, despite the smaller balance sheet and repricing of assets in a low-interest-rate environment, reflecting Rabobank's ability to adjust its funding cost, stabilize interest revenues, and generate more fees and commissions, thanks to its solid domestic retail and specialized global food and agriculture business franchise.
- Contained cost of risk of 20 basis points (bps) to 25bps per annum on average, and improving efficiency, with the cost-to-income ratio trending toward 55% following planned reduction of the bank's workforce of about 12,000 full-time equivalent (FTE) by year-end 2018, from 52,000 FTE at year-end 2015.
- Resilient core earnings at around €2 billion per year, with limited distributions, reflecting Rabobank's cooperative structure.
- Continued issuance of capital instruments to replace additional Tier 1 (AT1) instruments that do not meet Capital Requirements Directive (CRD) IV standards. In April 2016, Rabobank issued a €1.25 billion AT1 instrument that contributed to the replacement of non-CRD IV compliant instruments.

Because we expect that Rabobank's capital position will strengthen, we have revised our assessment of its capital and earnings to strong from adequate.

As Rabobank executes its balance-sheet optimization strategy and refocuses on core activities, such as banking services for Dutch retail and small and midsize enterprises clients, and the global food and agriculture sector, we believe its business profile better compares with that of large international banking peers. Consequently, we have revised our view of Rabobank's business position to strong from very strong. The bank's key domestic peers are ING Bank N.V., which is more diverse geographically but has a smaller domestic market share; and ABN AMRO Bank N.V., another leading domestic bank. Other peers operating in countries with similar industry risk as the Netherlands are leading players, like large French banks, especially those with cooperative status (Crédit Agricole, BPCE, Crédit Mutuel, and Société Générale), as well as KBC Group, Danske Bank, Lloyds Banking Group, and Nordea. Many peers benefit from a solid franchise in more than one country or business sector.

Combined, the revision of our business position and capital and earnings assessments has no impact on Rabobank's 'a' unsupported group credit profile. We also consider that Rabobank will maintain a sizable buffer of additional loss-absorbing capacity, well above the required threshold of 5% of the S&P Global Ratings risk-weighted assets figure for the bank. We estimate that this buffer will stand in the 6.25%-6.75% range by year-end 2018.

Outlook

The stable outlook reflects our expectation that Rabobank's capital position will continue to strengthen as it executes its medium-term optimization strategy to adapt to low interest rates and regulatory challenges. We also expect Rabobank's earnings will remain resilient over the next 18-24 months as the bank works through a variety of changes to its domestic and international operations.

We could lower our ratings if, contrary to our expectations, the RAC ratio did not remain sustainably above 10%, especially if regulatory incentives to continue building core capital were lower than anticipated or if the pace of balance-sheet optimization slowed significantly.

At this time, given that Rabobank is undergoing a period of change, we consider an upgrade to be unlikely. We could raise our ratings if the bank's transformation resulted in a stronger risk profile, with supportive risk-diversification metrics by sector and geography, and better loss experience than peers.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	A+/Stable/A-1	A+/Stable/A-1
SACP	a	a
Anchor	bbb+	bbb+
Business Position	Strong (+1)	Very strong (+2)
Capital and Earnings	Strong (+1)	Adequate (0)
Risk Position	Adequate (0)	Adequate (0)
Funding and	Average and (0)	Average and (0)

Liquidity	Adequate	Adequate
Support	+1	+1
ALAC Support	+1	+1
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Additional Factors	0	0

Related Criteria And Research

Related Criteria

- Criteria - Financial Institutions - Banks: Assessing Bank Branch Creditworthiness - October 14, 2013
- General Criteria: Guarantee Criteria - October 21, 2016
- General Criteria: Group Rating Methodology - November 19, 2013
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity - April 27, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions - January 29, 2015
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework - June 22, 2012
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions - November 09, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions - December 06, 2010
- Criteria - Financial Institutions - Banks: Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks - May 04, 2010
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks - March 23, 2004
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables - June 01, 2016
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises - December 19, 2014
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- General Criteria: National And Regional Scale Credit Ratings - September 22, 2014

Related Research

- Regulatory Uncertainty Shapes Dutch Banks' Capital Position, Sept. 23, 2016

Ratings List

Ratings Affirmed

Cooperatieve Rabobank U.A.	
Counterparty Credit Rating	A+/Stable/A-1
Senior Unsecured	A+
Senior Unsecured	A+p
Senior Unsecured	cnAAA
Subordinated	BBB+
Junior Subordinated	BBB-
Short-Term Debt	A-1
Certificate Of Deposit	A+/A-1
Certificate Of Deposit	cnAAA/cnA-1+
Commercial Paper	A+/A-1
Rabobank New Zealand Ltd.	
Counterparty Credit Rating	A/Stable/A-1
Rabobank USA Financial Corp.	
Commercial Paper	A-1
Rabohypotheekbank N.V.	
Counterparty Credit Rating	A+/Stable/--

N.B. This list does not include all ratings affected.

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@spglobal.com

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.