S&P Global
Ratings

RatingsDirect®

Cooperatieve Rabobank U.A.

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

Secondary Contact:
Philippe Raposo, Paris (33) 1-4420-7377; philippe.raposo@spglobal.com

Table Of Contents

Cooperatieve Rabobank U.A.

SACP	a
Anchor	bbb+
Business Position	Strong +1
Capital and Earnings	Strong +1
Risk Position	Adequate 0
Funding	Average
Liquidity	Adequate
Funding and Liquidity	0

\+

Support	+1
ALAC Support	+1
GRE Support	0
Group Support	0
Sovereign Support	0

\+

Additional Factors	0

Issuer Credit Rating

A+/Positive/A-1

Resolution Counterparty Rating

AA-/--/A-1+

Major Rating Factors

Strengths:	Weaknesses:
• Clearly defined medium-term strategy, focusing on the strong domestic franchise and food and agriculture business globally. • Prioritization of long-term franchise growth over short-term returns, and good revenue predictability. • Market-leading presence in the Netherlands, with strongly performing domestic residential mortgages.	• Continuing adaptation to regulatory challenges, in particular changes to the Basel framework. • Like for European peers, persistently low interest rates put pressure on revenue generation. • Higher reliance on wholesale funding than European peers.

Outlook: Positive

The positive outlook on Cooperatieve Rabobank (Rabobank) stems from the wider positive economic trend S&P Global Ratings sees for banks operating in the Netherlands. We believe the systemic risks posed by commercial real estate (CRE) are abating and the gradual shift toward amortizing mortgages, combined with supportive property market dynamics, is positive for the creditworthiness of retail-focused banks, like Rabobank. This trend, which is medium term, could structurally reduce credit risks for Dutch banks, assuming external risks are not rising at the same time, notably related to the gradual economic slowdown in Europe and the U.K.'s exit from the EU (Brexit). We could revise our anchor score for banks mainly operating in the Netherlands to 'a-' from 'bbb+'. This could lead us to revise upward in the next 12 months our unsupported group credit profile (unsupported GCP) assessment on Rabobank to 'a+' and raise our long-term ratings by one notch, to 'AA-', all other factors remaining unchanged. This is assuming that the comparison with similarly rated European peers is favorable--for instance in relation to core earning generation and asset quality indicators. This means achieving a leaner cost structure and improved credit risk metrics, notably nonperforming loans (NPLs) and a controlled normalization of cost of risk.

We would revise the outlook to stable if the aforementioned risks create an environment that is not supportive enough to trigger a structural improvement of asset quality metrics and profitability. We would also revise the outlook to stable if we were to observe more rapid growth in customer loans in countries we deem riskier than domestic credit exposures, compared with our current expectations.

Rationale

Our ratings on Rabobank reflect the bank's market-leading franchise in Dutch retail banking and the financing of the food and agriculture business globally. The bank boasts a low-risk profile and a predictable earnings generation capacity. We also view positively the bank's conservative financial policy, partly due to its cooperative status, with a gradual strengthening of the capital base. We expect our risk-adjusted capital (RAC) ratio will stand sustainably above 10% in the coming years. The bank's asset mix combines a large and very-low-risk domestic mortgage loan book with other loans that we consider more risky, including a CRE loan book that the bank has reduced proactively and now manages at its target size. We consider that the bank displays average funding and adequate liquidity. Its relatively high loan-to-deposit ratio by international standards is mitigated by the improving maturity profile of its wholesale funding, the reliance on which has meaningfully reduced in recent years, and its sound liquidity buffers.

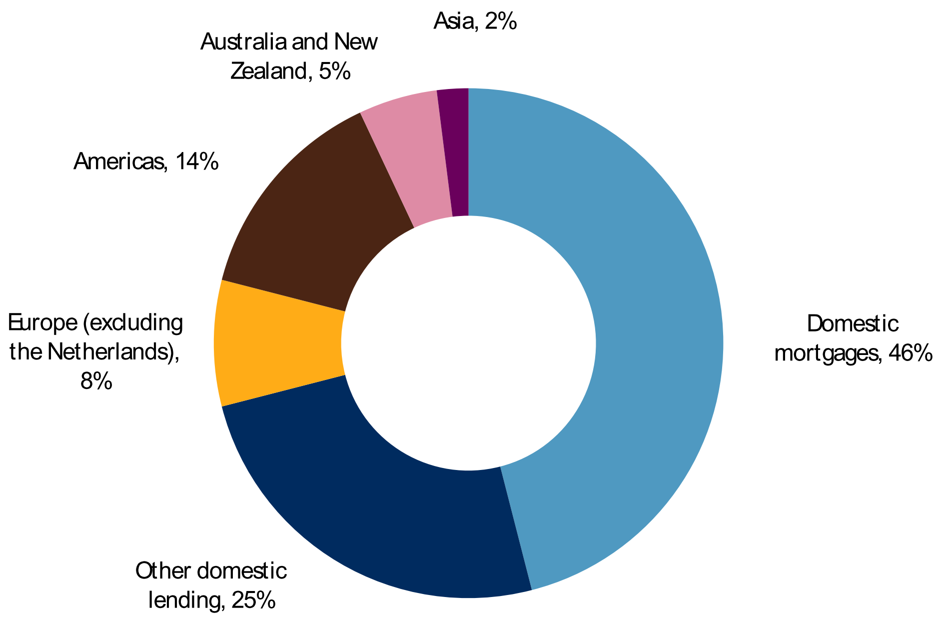
Finally, we adjust the resulting 'a' unsupported GCP upward by one notch, reflecting our view of Rabobank 's sizable additional loss-absorbing capacity (ALAC) buffer, to arrive at the 'A+' issuer credit rating.

Anchor: bbb+

The 'bbb+' anchor draws on our Banking Industry Country Risk Assessment (BICRA) methodology and our view of the weighted-average economic risk in the countries in which Rabobank operates (see chart 1).

Chart 1

Geographic Breakdown Of Rabobank 's Customer Loan Portfolio



Source: Rabobank investor presentation FY2018 results, S&P Global Ratings.

The economic risk score for The Netherlands is '3' on a scale of 1-10 ('1' is the lowest risk and '10' is the highest), and the weighted-average score for the mix of countries in which Rabobank operates is just above that mark.

We view the Dutch economy as wealthy, diversified, open, and competitive. Following average real GDP growth of 2.6% in 2016-2018, we believe that the Netherlands will post real GDP growth of 1.9% in 2019 and 1.6% in 2020. Strong domestic demand continues to propel the Dutch economy, which continues to outperform most of its eurozone peers, but the country is not immune to a slowdown due to rising external risks, notably Brexit, and global trade tensions. We note the strong recovery in the Dutch residential property market. Residential house prices have been rising steadily since mid-2013, following a 20% drop. In the most dynamic cities, including Amsterdam, property price growth has substantially accelerated, due to a lack of supply pushing country-average annual growth to about 9%. Prices are now above their peak during the last cycle. We are closely monitoring any overheating and expect price growth to slow given affordability issues and less buoyant economic conditions. Continued efforts to address the elevated gross household debt and maintaining sound underwriting standards in the strongly performing economy will be key for any potential revision of our economic risk score.

In our view, the Dutch banking system is concentrated. The competitive environment remains fairly stable, except in the mortgage lending segment. We consider the prospective profitability of domestic banking activities adequate.

Litigation and compliance-related risk has increased across the board in the past three years, and we observe that banks are under intense public scrutiny. We believe this limits their risk appetite, especially outside their home base. Cost-optimization programs continue amid persistently low interest rates. The cost of risk has improved, mitigating asset repricing and investment charges. The system's relatively large reliance on wholesale funding is partly attributable to households' propensity to save via life insurance and pension products, rather than bank deposits. Some government-related banks also display a specific operating model, including a broader reliance on wholesale funding, compared with commercial banks. Large Dutch banks benefit from the depth of the capital markets where they operate and the Dutch authorities' good track-record in providing liquidity support.

Table 1

Cooperatieve Rabobank U.A. Key Figures					
	--Year-ended Dec. 31--				
(Mil. €)	**2018**	**2017**	**2016**	**2015**	**2014**
Adjusted assets	587,789	600,279	659,843	677,334	679,027
Customer loans (gross)	427,397	425,163	444,226	455,457	453,500
Adjusted common equity	31,658	29,746	27,397	27,699	26,324
Operating revenues	11,900	11,999	12,501	13,014	12,737
Noninterest expenses	7,446	8,040	8,048	8,094	8,222
Core earnings	2,346	2,426	2,373	2,277	1,264

Business position: A low-risk leading retail bank in a wealthy country, with a global franchise in food and agriculture financing

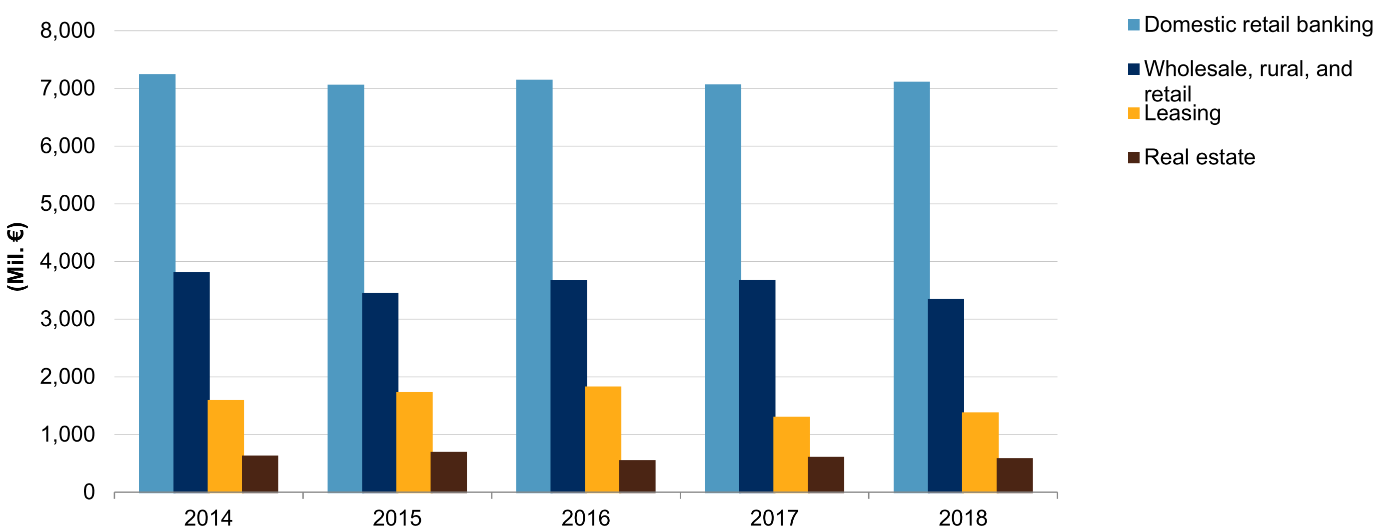
We view positively Rabobank's clearly defined strategy to focus on its leading franchise in the Dutch retail banking market and the financing of the food and agriculture business globally. International activities, with a clear sector focus, add to the diversity of its domestic business, with a good track record of sound operating performance. In addition, we consider the strategy to be prudent, notably financial planning and balance sheet management, and note that as a cooperative organization it prioritizes long-term franchise growth over short-term returns.

We believe Rabobank's business profile compares well with that of large international banking peers. The bank's key domestic peers are ING Groep 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 large French banks, especially those with cooperative status (Crédit Agricole, BPCE, and Crédit Mutuel), and other large cooperative banking groups in Germany, Finland, and Austria. The strength of Rabobank's business model lies in its strong retail franchise in a wealthy country, focus on low risk businesses, and brand recognition in the food and agriculture business globally.

We view positively the capacity to generate stable revenue derived from the bank's retail and commercial banking activities (see chart 2). This is underpinned by Rabobank's diversified product offering and a longstanding leading position in the local market, from Dutch household savings collection, to residential mortgage production, or the financing of the agriculture sector. Owing to its solid franchise, the interest margin is holding well and volatile sources of income are modest. We estimate that Rabobank's market share represents close to one-third of Dutch mortgage loans outstanding, and 33.3% of domestic retail deposits. Rabobank's primary international activities focus upon supporting Dutch clients and its traditional core market of food and agriculture financing. Its international network is consequently focused on major agriculture centers in Europe, the Americas, Australia, and New Zealand. Digital capabilities are also being developed to strengthen the bank's presence in global food chains and local communities. We estimate that revenue from international operations represents about one-third of total revenue. The good resilience of revenue must also be seen in the context of the bank's balance sheet optimization strategy and downsizing.

Chart 2

Rabobank's Reported Underlying Income By Business Lines



Source: Rabobank, S&P Global Ratings.

The bank is going through significant changes as it executes its 2016-2020 medium-term strategic plan focused on improving efficiency and earnings, while adapting to changing consumer behavior and regulatory requirements.

Rabobank's digital transformation targets three main areas of development: i) data-driven digital banking, preparing for a more open banking environment under Revised Payment Services Directive (PSD2) regulations in 2019; ii) innovation, in particular technology relating to the food and agribusiness; iii) organizational and information technology evolution. We believe Dutch banks are among the most advanced European banks in terms of digital transformation, benefiting from a receptive domestic franchise, which should help Rabobank expand its digital offering in the food and agriculture business internationally. Given the bank's areas of expertise, notably home financing and the food and agriculture business, we believe the increasing focus on sustainable finance also represents a growth area.

A change to the bank's governance structure was introduced in early 2016 when 106 local banks were merged with the central cooperative Rabobank to form a cooperative entity with a single banking license and improved efficiency. The ambition was also to strengthen internal processes following the identification of inappropriate conduct. Despite planned staff cuts, the targeted 53%-54% cost-to-income ratio for 2020 appears over ambitious in the context of lower interest rates for a longer period than anticipated. Rabobank reported a 65.9% cost-to-income ratio at end-2018. This is a material improvement compared with 71.3% at end-2017, however, low interest rates continue to weigh on revenue generation, and will complicate the pace of improvement. It is still above the average for the largest European banks, which we estimate at about 60% cost to income, not to mention 'AA-' rated Nordic banks, which all display a cost efficiency in the 40%-50% range.

Adapting to the reform of the Basel framework for calculating capital requirements for banks, also known as Basel IV, is another major challenge for the bank, like for other domestic peers. The potential risk-weighted assets increase is substantial, reportedly in the 30% range (pro forma end-2018 balance-sheet, without management actions) due to stricter rules on internal models, especially for the calculation of risk weights on retail mortgages. We believe this is manageable because of the long implementation timeframe. Rabobank has built the infrastructure required to reduce its risk-weighted assets (RWAs) in an orderly manner and maintain a more flexible balance sheet. The bank has taken some actions already, exiting legacy risky assets (CRE) or selling noncore capital-intensive businesses. The €1.1 billion sale of car lease specialist Athlon, finalized in December 2016, was a significant move in that direction, reducing RWAs but also taking out a slice of recurring revenue. We believe the bank's ambition is to continue this balance-sheet optimization strategy while keeping its existing business model intact, notably its strength in domestic retail. In March 2019, the bank announced the sale of its California-based Rabobank National Association (RNA), while retaining strategic activities in the financing of the agribusiness through its U.S.-based subsidiary Rabobank AgriFinance. In April, Rabobank also announced an agreement to sell a loan portfolio of about €800 million formerly owned by ACC Loan Management.

Table 2

Cooperatieve Rabobank U.A. Business Position

	--Year-ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
Total revenues from business line (mil. €)	12,020	12,002	12,805	13,014	12,857
Domestic retail banking/total revenue from business line (%)	59.1	58.8	53.6	53.8	57.9
Return on equity (%)	7.0	6.2	3.4	4.1	3.3

Capital and earnings: Management is focused on improving capitalization

We believe Rabobank's capital is a rating strength. We project its RAC ratio will stand sustainably above 10% in the coming two years. This reflects our view that Rabobank will remain focused on implementing its medium-term strategic objective to maintain a robust capital position, on the back of resilient earnings, low distribution, and a moderate increase of risk assets. Indeed, Rabobank aims to maintain a common equity Tier 1 (CET1) ratio above 14% by 2020, a strategic objective already met with 16% fully loaded at end-2018. Under the 2017 Supervisory Review and Evaluation Process, the CET1 ratio requirement is set at a minimum of 11.75% in 2019. With the continuing adaptation to the reform of the Basel framework, through balance sheet optimization, earnings retention, and the issuance of additional capital instruments (including Rabobank Certificates in early 2017), we believe capital can only strengthen by our measure.

We expect Rabobank's RAC ratio to be around 10% at end-2018, and improving further in the coming two years. The difference between our measure of capital and regulatory ratios generally reflects the more conservative standardized risk-weighting that we apply. Of note, we recognize the benefit of the Dutch government-supported Nationale Hypotheek Garantie (NHG) for mortgage financing by aligning the risk weight of 65% of the guaranteed portfolio with the risk weight we apply to Dutch government debt. The remaining 35% of the portfolio carries the standard risk weight we apply to prime residential mortgages in the Netherlands. The resulting average risk weight aims to capture the risk of non-eligibility, and other risks associated with the NHG scheme. At end-2018, the share of NHG mortgage loans represented 19.4% of the mortgage book.

We estimate that RAC will be in the 10.75%-11.25% by end-2020. The main assumptions supporting our forecast are:

- A broadly stable amount of S&P Global Ratings' RWAs in the next two years, in line with the bank's balance-sheet-optimization program. We note the balance sheet reduction at end-2018 (€590.4 billion versus €602.9 billion at end-2017), but the slightly increasing customer loan book , with the growth of financial leases and corporate loans more than offsetting the reduction of domestic mortgage loans.
- Resilient operating revenue of about €12 billion annually, despite the smaller balance sheet and repricing of assets in a low-interest-rate environment. This reflects Rabobank's ability to adjust its funding costs, stabilize interest revenue, and generate more fees and commissions, thanks to its solid franchise.
- Contained cost of risk at 15-20 basis points, increasing gradually after years of exceptionally low impairment charges partly due to the model-driven release of provisions.
- Improving efficiency, with a cost-to-income ratio trending down toward 60% according to our metrics, driven by the planned reduction of operating expense, including a smaller workforce.
- Resilient net income of €2.7 billion-€2.9 billion per year, with the stable remuneration of Certificate holders reflecting Rabobank's cooperative structure, and now reduced distribution to capital securities holders.
- The maintenance of a stable amount of certificates and additional Tier 1 instruments altogether compared to end-2018 figures.

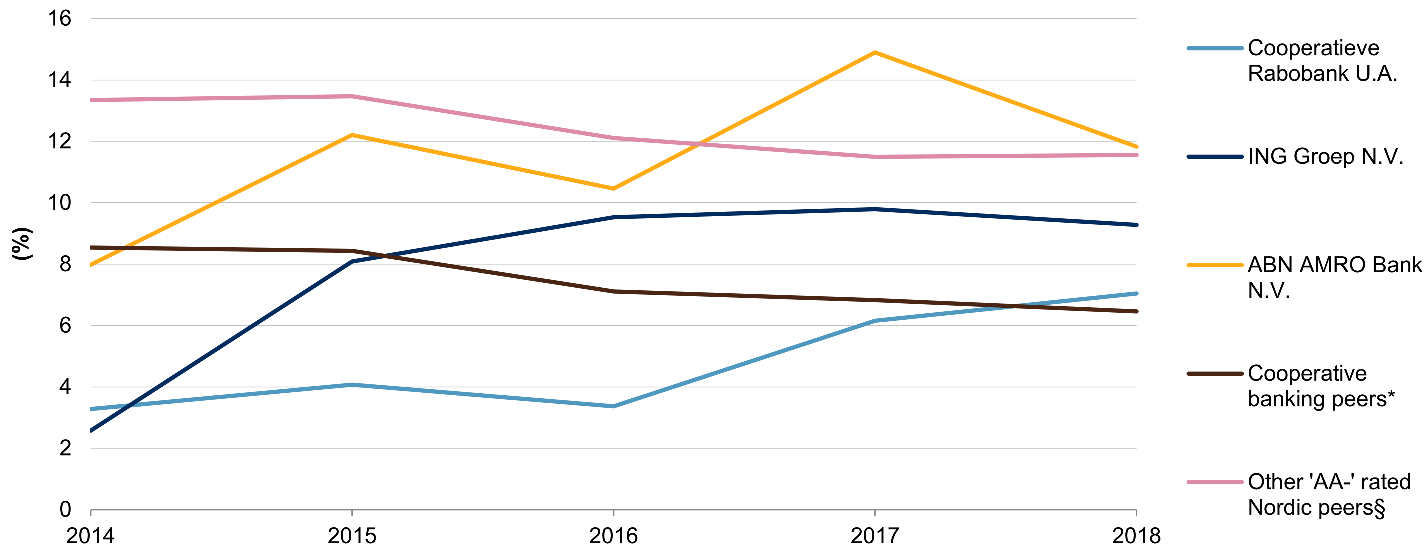
In our view, Rabobank's cooperative status restricts to some extent its ability to raise new core capital, if required. However, Rabobank has the capacity to issue deeply subordinated certificates classified as common equity Tier 1 capital, which we included within adjusted common equity. Rabobank has also demonstrated good access to the hybrid market. Overall, we believe the bank's cooperative status, and the low payout attached to it, supports a conservative financial policy.

We consider the quality of capital to be satisfactory. We calculate that adjusted common equity represented about 90% of total adjusted capital (TAC) at end-2018, which is a similar proportion to its international peer group. We include in TAC the Capital Requirements Directive (CRD) IV compliant 2015, 2016, and 2018 capital instruments (€3.75 billion in total at end-2018). We note that Rabobank has actively managed down its total amount of additional Tier 1 capital instruments outstanding (CRDIV compliant and grandfathered instruments altogether) and the costs attached to it.

For 2018, Rabobank reported a statutory profit before tax of €3.9 billion. Rabobank's earnings capacity to date has been somewhat constrained, in our view, by the cost structure of its domestic activities, and its traditionally lesser focus on profit maximization than commercial peers--due to its cooperative roots. We observe similar levels of return on equity at European cooperative peers, but also more stability in recent years (see chart 3).

Chart 3

Return On Average Common Equity For Rabobank And Peers



*Simple average. Cooperative banking peers include Crédit Mutuel, BPCE, Crédit Agricole, Coop. Banking Sector Germany, and OP Financial Group. §Simple average. Nordic 'AA-' rated peers include Nordea, Swedbank, SHB, and DNB. Source: S&P Global Ratings.

Table 3

Cooperatieve Rabobank U.A. Capital And Earnings					
	--Year-ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
Criteria reflected in RAC ratios	2017	2017	2017	2010	2010
Tier 1 capital ratio (%)	19.5	18.8	17.6	16.4	16
S&P Global Ratings' RAC ratio before diversification (%)	N/A	9.5	9.5	8.8	7.4
S&P Global Ratings' RAC ratio after diversification (%)	N/A	10.7	10.6	9.6	8.1
Adjusted common equity/total adjusted capital	89.5	91.5	86.1	85.8	88.8
Net interest income/operating revenue (%)	71.9	73.7	69.9	70.2	71.6
Fee income/operating revenues (%)	16.2	16.0	15.3	14.5	14.8
Noninterest expenses/operating revenue (%)	66.6	67.0	64.4	62.2	64.6
Preprovision operating income/average assets (%)	0.7	0.6	0.7	0.7	0.7
Core earnings/average managed assets (%)	0.4	0.4	0.4	0.3	0.2

RAC--Risk-adjusted capital. N/A--Not available.

Table 4

Cooperatieve Rabobank U.A. Risk-Adjusted Capital Framework Data

(Mil. €)	Exposure*	Basel III RWA	Average Basel III RW (%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government and central banks	118,538	7,182	6	1,802	2
Institutions and CCPs	16,412	7,415	45	5,063	31
Corporate	214,129	83,997	39	179,724	84
Retail	231,703	45,674	20	95,592	41
Of which mortgages	173,503	25,247	15	49,946	29
Securitization§	13,372	1,862	14	5,041	38
Other assets†	4,476	11,843	265	8,758	196
Total credit risk	598,630	157,973	26	295,980	49
Credit valuation adjustment					
Total credit valuation adjustment	--	896	--	1,623	--
Market risk					
Equity in the banking book	1,682	9,752	580	14,330	852
Trading book market risk	--	3,745	--	6,627	--
Total market risk	--	13,497	--	20,957	--
Operational risk					
Total operational risk	--	25,890	--	22,517	--
(Mil. €)		**Basel III RWA**		**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	198,256	--	341,076	100
Total Diversification/Concentration Adjustments	--	--	--	(37,226)	(11)
RWA after diversification	--	198,256	--	303,850	89
(Mil. €)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments	--	37,204	18.8	32,496	9.5
Capital ratio after adjustments‡	--	37,204	18.8	32,496	10.7

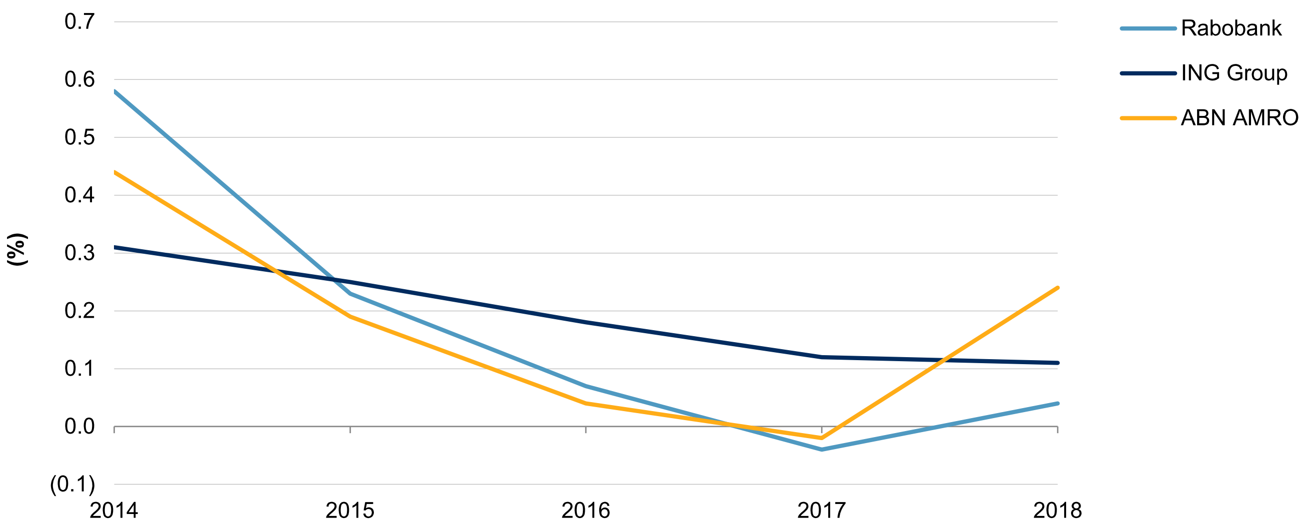
*Exposure at default. §Securitization exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2017, S&P Global Ratings.

Risk position: Credit loss track record broadly in line with peers

Rabobank displays an overall low risk profile, being a commercial lender focusing on its historical areas of expertise, domestically and internationally. Exposure to market risk is small. We note that the bank's credit loss experience has improved materially in the past three years, having been dampened in 2012-2015 by weaknesses in its CRE and small and midsize enterprise (SME) portfolios. Apart from the expected normalization of the cost of risk, we expect asset quality metrics to remain resilient, reflecting Rabobank's low risk exposure under its asset-based model, and de-risking strategy in recent years.

Chart 4

Rabobank's New Loan Loss Provisions/Average Loans



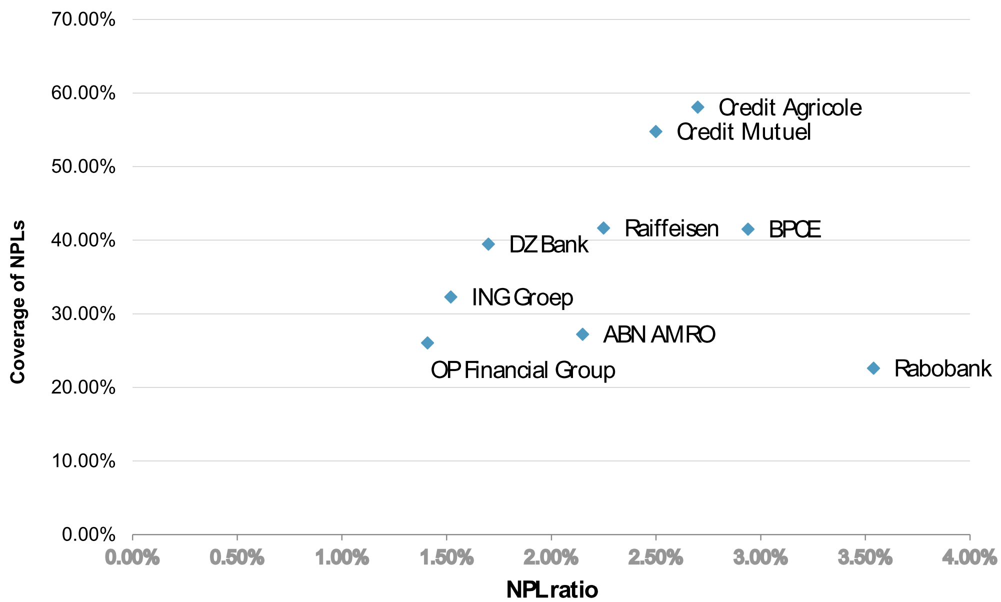
Source: Banks' annual reports, S&P Global Ratings.

Rabobank reported an overall NPL ratio of 3.5% at end-2018, under the European Banking Authority (EBA) definition of default (including the adjusted definition of default for mortgage and retail SME portfolios). We understand that, excluding the recently announced sale of a noncore portfolio relating to ACC, the NPL ratio would have been 3.2%. This reported NPL ratio is higher than domestic peers and other large European cooperative groups (see chart 5 below). We understand this relatively high level is due to the bank's conservative write-off policy, backed by a high level of collateralization, high cure rates and recovery rates.

Following the sale and write-offs of highly provisioned NPLs, the coverage ratio of NPLs by provisions has reduced to 22% (versus 24% as of Jan. 1, 2018). We observe that it is aligned with metrics displayed by other large Dutch banks, reflecting the asset-based nature of their loan books and country-specific parameters, including full recourse and extended collateralization.

Chart 5

Rabobank’s Provisioning Policy Is In Line With Dutch Peers, But Materially Lower Than Other European Cooperative Groups



Data as of June 30, 2018. NPL--Nonperforming loan. Source: EBA EU-wide transparency exercise, S&P Global Ratings.

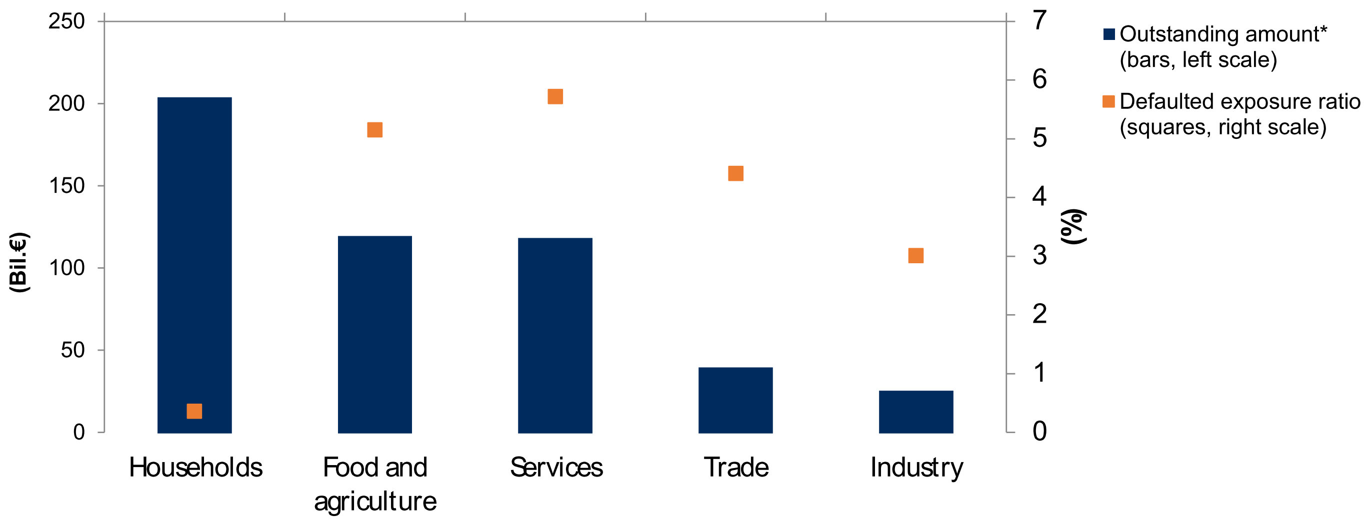
Although its domestic market accounts for around three-quarters of total lending, Rabobank is active across all parts of the Dutch economy. International operations are focused on the food and agriculture sectors, in which Rabobank has longstanding expertise and competitive advantages.

Rabobank's largest loan portfolio, made of domestic residential mortgages, is performing well. It represented 46% of the loan book on Dec. 31, 2018 (€190 billion). The bank reported a low NPL ratio of 1.08% at end-2018 and a percentage of loans in arrears (90 days past due) of 0.30%. Provision charges for this portfolio are typically low, and lower than the system average. The weighted average loan-to-value (LTV) on the domestic residential mortgage portfolio was 64% on Dec. 31, 2018, materially improved compared with 69% a year before but mainly reflecting property price dynamics in the country. The portion of mortgage loans with an LTV above 90% remains high by European standards at close to 14%, but this is offset by a track record of sound performance. More than half of the book comprises interest only and partial interest-only loans, which we expect will decrease gradually because of the tax revision of this financing scheme.

The food and agriculture business, representing about 25% of the group's loan book (€103.1 billion), is well diversified by type, and geography. About two-thirds of this portfolio is international. We note under the bank's Pillar 3 reporting that lending to the food and agriculture business concentrates about one-third of the bank's defaulted credit exposures and displays, along with the services sector, the highest defaulted loans ratio (see chart 6). In the meantime, Rabobank believes that its current high stock of NPLs in some agricultural sectors also reflects its long-term commitment to these sectors and good track record of low credit losses through the cycle.

Chart 6

Rabobank Displays A Balanced Breakdown Of Credit Exposures



*Sum of defaulted and non-defaulted credit exposures. Source: Rabobank, S&P Global Ratings.

Rabobank's domestic CRE book is not excessively large in relative terms, at about 5% of total loans (€20.7 billion at end-2018). We note the ongoing efforts to reduce NPLs. New CRE provisions have remained modest since 2015, in part reflecting the improved operating environment, and we assume that this will remain the case. Rabobank has actively managed down its CRE portfolio, but intends to continue operating in this field. We understand that the current portfolio size is in line with the bank's risk appetite.

Since 2013, the bank has taken a number of steps to strengthen its compliance, risk management, and controls. These initiatives followed the identification of inappropriate conduct related to interbank rate submissions. These steps have included changes to the management team, significant company culture initiatives, and the alignment of the bank into one operation so that its international activities are no longer managed separately.

Like peers, the bank remains exposed to litigation risk through other aging and ongoing legal cases and arbitration proceedings. The bank describes in its 2018 annual report the most relevant legal and regulatory claims that could give rise to liability. We note that there is no ongoing investigation relating to the monitoring of illegal financial flows listed there.

Table 5

Cooperatieve Rabobank U.A. Risk Position

	--Year-ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
Growth in customer loans (%)	0.5	(4.3)	(2.5)	0.4	0
Total diversification adjustment/S&P Global Ratings' RWA before diversification (%)	N/A	(11.0)	(10.9)	(8.4)	(9.0)
New loan loss provisions/average customer loans (%)	0	0	0.1	0.2	0.6
Gross nonperforming assets/customer loans + other real estate owned (%)	3.7	4.3	4.2	4.3	4.7
Loan loss reserves/gross nonperforming assets (%)	23.4	29.7	40.4	43.0	44.0

N/A--Not applicable.

Funding and liquidity: Strong deposit franchise and executed downsizing of wholesale funding

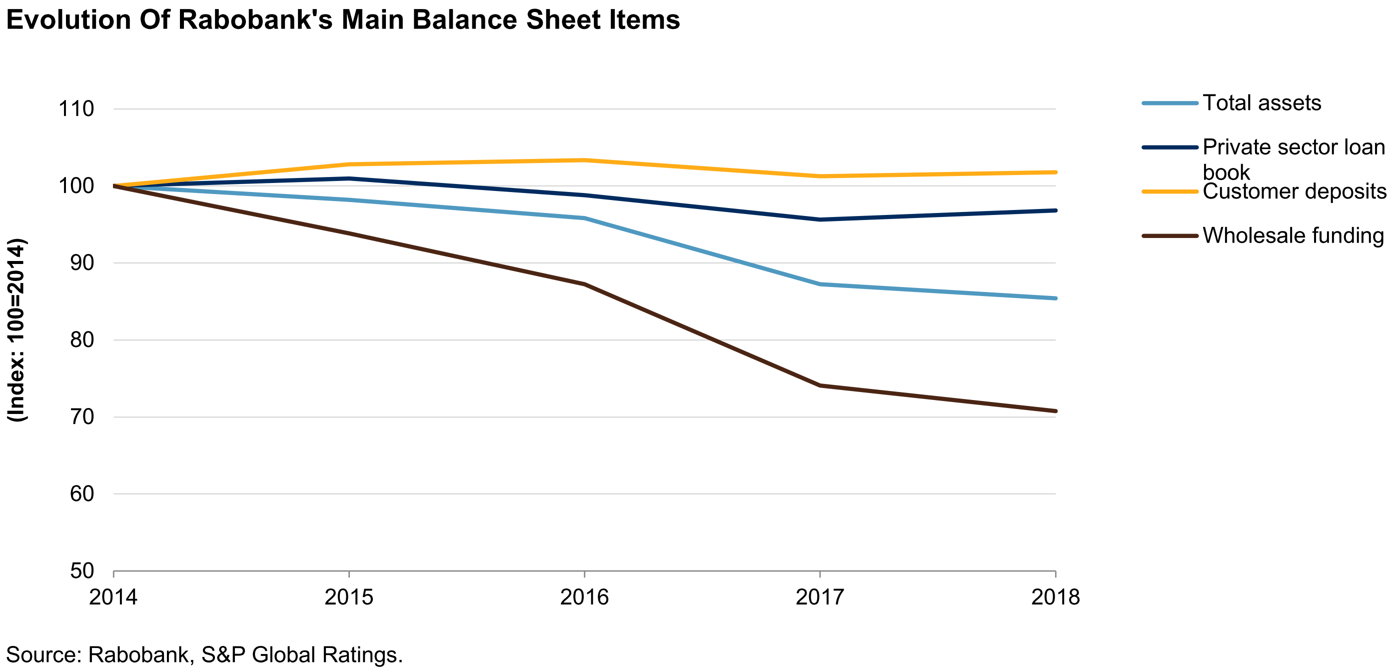
We consider Rabobank's funding and liquidity profile neutral for the rating. Rabobank's funding profile is underpinned by its large, granular, and stable domestic deposit base. Wholesale funding is diversified and has a satisfactory maturity profile. Moreover, we assume that the existing liquidity buffer and fairly low reliance on short-term wholesale funding will persist.

Rabobank displays a high loan-to-deposit ratio compared with many large European peers, especially other retail-focused cooperative groups, despite its leadership position in the domestic deposit market, a situation that also reflects the specificities of the Dutch market. Its reported loan-to-deposit ratio stood at 121% on Dec. 31, 2018, in line with previous years. In the meantime, we estimate our stable funding ratio stood at an adequate 107.5%.

While reducing the size of its balance sheet (see chart 7), Rabobank has actively managed down its reliance on wholesale funding, with a strategic objective to reach €150 billion of wholesale funding met at end-2018. Since 2012, Rabobank's issuances have been less than the total amount of amortizing debt instruments. The target funding program for 2019 stands at a modest €10 billion-€12 billion. Rabobank has also diversified its funding profile, with the issuance of covered bonds since 2017. We note that under this strategy, Rabobank has reduced its intragroup funding to its leasing subsidiary DLL in the U.S. Recourse to the European Central Bank's targeted long-term refinancing operations represents a modest €5 billion outstanding amount, which we consider opportunistic.

Rabobank amply met the Basel III liquidity and funding requirements on Dec. 31, 2018, with a liquidity-coverage ratio of 135% and a net stable-funding ratio of 119%.

Chart 7



Rabobank's liquidity position has strengthened over the past few years. The bank maintains a surplus of liquid assets well in excess of regulatory requirements. On Dec. 31, 2018, it reported a high-quality-liquid-asset buffer of €87 billion. A sizable portion of the liquidity buffer comprises deposits at central banks and Dutch government bonds. Rabobank has been managing down the cash part of this buffer, with a higher portion of bonds. We estimate our measure of broad liquid assets to short-term wholesale funding was 1.7x on Dec. 31, 2018.

Table 6

Cooperatieve Rabobank U.A. Funding And Liquidity

	--Year-ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
Core deposits/funding base (%)	65.1	64.5	61.3	59.8	56.9
Customer loans (net)/customer deposits (%)	123.7	123.2	125.7	129.4	136.9
Long-term funding ratio (%)	88.1	88.2	84.6	83.7	81.8
Stable funding ratio (%)	108.8	108.5	107.5	103.7	100.2
Short-term wholesale funding/funding base (%)	12.8	12.6	16.3	17.3	19.3
Broad liquid assets/short-term wholesale funding (x)	1.7	1.8	1.6	1.4	1.2
Net broad liquid assets/short-term customer deposits (%)	14.5	17.8	17.2	12.5	7.8
Short-term wholesale funding/total wholesale funding (%)	35.9	35.0	41.3	42.2	44.1

Support: ALAC has replaced government support in our Dutch bank ratings

In our view, Rabobank has high systemic importance in the Netherlands, given its significant market share in various sectors, including retail banking. Since December 2015, however, we have regarded the prospect of extraordinary government support for Dutch banks as uncertain in light of the country's well-advanced and effective resolution regime. Consequently, systemic banks are not eligible for rating uplift regarding possible future Dutch government support.

Nevertheless, we consider the Dutch resolution regime effective under our ALAC criteria because, among other factors, we believe it contains a well-defined bail-in process under which authorities would permit nonviable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities.

Our ALAC calculation includes regulatory capital instruments that have defined principal write-down triggers. On this basis, the ALAC buffer was 5.4% of adjusted risk-weighted assets at end-2017, mainly comprising subordinated instruments, and that it is increasing to above 6%. We note Rabobank's publicly stated intention to comply with its minimum required eligible own funds and liabilities (MREL) requirement by issuing, on top of its existing regulatory capital layers, nonpreferred senior (NPS) debt. Indeed, the Dutch legal framework introducing this instrument in the hierarchy of claims in liquidation (hence in resolution) was amended in December 2018, and Rabobank already issued about €2 billion during second-half 2018 and €1.25 billion during first-quarter 2019. We understand that Rabobank plans to optimize the balance between senior nonpreferred instruments and Tier 2 capital instruments to comply with MREL, while maintaining a sizable layer of Tier 2 instruments protecting NPS holders. Rabobank estimated its MREL buffer at 28.25% at end-2018, excluding eligible senior preferred instruments under its conservative policy, whereas the requirement was set at 30.96%. Rabobank indicated it plans to issue €3 billion-€5 billion of NPS instruments annually for 2019-2021. In our ALAC forecast, we assume that Tier 2 instruments will represent about 7% of regulatory RWAs (equivalent to about €14 billion at end-2018).

Resolution counterparty ratings (RCR)

We have assigned RCRs to Cooperatieve Rabobank U.A. as well as its New York Branch and London Branch, and Rabohypotheekbank N.V., because we assess the resolution regime to be effective in the Netherlands and consider that the bank is likely to be subject to a resolution that entails a bail-in if it reaches nonviability. An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institution. We position the long-term RCR up to one notch above the long-term issuer credit rating (ICR) when the ICR ranges from 'BBB-' to 'A+'.

Core and highly strategic subsidiaries

The 'A-1' short-term rating on Rabobank USA Financial Corp. reflects the core status of this subsidiary, acting as a funding vehicle for the U.S. market.

The 'A+' long-term rating on the domestic subsidiary Rabohypotheekbank N.V. reflects our view of its core status within the group, because it contributes to the execution of the group domestic retail banking strategy.

We classify Rabobank New Zealand Ltd. (Rabobank NZ) as a highly strategic subsidiary. This reflects its integral role in relation to the group-wide strategy, which emphasizes food and agriculture lending. Despite its relatively small size, Rabobank NZ is part of a somewhat larger sub-regional group, also including Rabobank Australia. Beyond its strategic focus, there is a high level of interconnectivity within the group, in our view, because it largely relies on intragroup funding. Consequently, we include in our ratings on Rabobank NZ, the benefit of the group ALAC build-up. We monitor progress made in refining Rabobank's resolution strategy. Any sign indicating that this subsidiary would likely be set aside in a resolution scenario would trigger a revision of our current approach.

Related Criteria

- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- 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, Jan. 29, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Rabobank's Planned Sale Of Operations In California Is In Line With International Strategy, March 19, 2019
- The Top Trends Shaping European Bank Ratings In 2019, Feb. 28, 2019
- Rabobank New Zealand Ltd., Dec. 20, 2018
- 31 European Banking Groups Assigned Resolution Counterparty Ratings; Four Collateralized Notes Upgraded; UCO Removed, June 12, 2018
- Banking Industry Country Risk Assessment: The Netherlands, June 11, 2018

Anchor Matrix

Industry Risk	Economic Risk 1	2	**3**	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	**bbb+**	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of April 30, 2019)*

Cooperatieve Rabobank U.A.	
Issuer Credit Rating	A+/Positive/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
Foreign Currency	A-1
Local Currency	A+/A-1
Junior Subordinated	BBB-
Senior Subordinated	A-
Senior Unsecured	A+
Senior Unsecured	A-1
Short-Term Debt	A-1
Subordinated	BBB+
Issuer Credit Ratings History	
15-Sep-2017	A+/Positive/A-1
02-Dec-2015	A+/Stable/A-1
04-Nov-2014	A+/Negative/A-1
Sovereign Rating	
Netherlands	AAA/Stable/A-1+
Related Entities	
Cooperatieve Rabobank U.A. (Australia Branch)	
Commercial Paper	
Local Currency	A+/A-1
Senior Subordinated	A-
Senior Unsecured	A+
Senior Unsecured	A-1
Short-Term Debt	A-1
Subordinated	BBB+

Ratings Detail (As Of April 30, 2019)*(cont.)	
Cooperatieve Rabobank U.A. (New York Branch)	
Issuer Credit Rating	A+/Positive/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Senior Unsecured	A+
Cooperatieve Rabobank U.A. (New Zealand Branch)	
Commercial Paper	
Local Currency	A+/A-1
Senior Subordinated	A-
Senior Unsecured	A+
Senior Unsecured	A-1
Cooperatieve Rabobank U.A. (Singapore Branch)	
Senior Unsecured	A+
Cooperatieve Rabobank U.A. trading as Rabobank London	
Issuer Credit Rating	A+/Positive/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
Local Currency	A+/A-1
Rabobank New Zealand Ltd.	
Issuer Credit Rating	A/Positive/A-1
Rabobank USA Financial Corp.	
Issuer Credit Rating	--/--/A-1
Rabo Capital Securities Ltd.	
Junior Subordinated	BBB-
Rabohypotheekbank N.V.	
Issuer Credit Rating	A+/Positive/--
Resolution Counterparty Rating	AA-/--/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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