FitchRatings

Banks
Universal Commercial Banks
Netherlands

Cooperatieve Rabobank U.A.

Update

Key Rating Drivers

Strong Business and Risk Profiles: Cooperatieve Rabobank U.A.'s ratings are underpinned by its leading market position in the Netherlands, complemented by a solid franchise in global food and agriculture, a conservative risk profile, strong capitalisation and diversified funding.

Leading Domestic Franchise: Rabobank is a cooperative bank operating mainly a traditional retail and commercial banking business model in retail and SME banking in the Netherlands. Its business profile is supported by good international diversification, mainly leveraging on its expertise in farming and agribusiness globally.

Conservative Risk Profile: Rabobank's low risk appetite, conservative capital and liquidity management, and prudent underwriting are rating strengths. The bank's underwriting standards benefit from its focus on sectors and products where it has extensive expertise.

Resilient Asset Quality: A large exposure to low-risk and strongly performing Dutch residential mortgage loans (45% of loans), and well-collateralised SME and corporate lending support asset quality. Rabobank has recently significantly reduced its impaired loans ratio to levels that are now in line with the other large Dutch banks (end-2023: 2.1%). Fitch Ratings expects the ratio to remain broadly stable in 2024.

Adequate Profitability: Rabobank has a good record of generating adequate profitability, although, until recently, its cost efficiency has generally been weaker than similarly rated peers. Its sound earnings generation is underpinned by its leading domestic and food and agriculture franchises. The bank's operating profit/risk-weighted assets (RWAs) reached 2.5% in 2023 as it benefitted strongly from higher interest rates. We expect this ratio to decrease to around 2% in 2024.

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 2027 under Basel III end-game rules, includes a comfortable buffer of 300bp above minimum capital requirements as of May 2024. We expect the bank's CET1 ratio to remain comfortably above its medium-term target in 2024 and 2025.

Diversified Funding, Conservative Liquidity: Rabobank's diversified funding mix benefits from a 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 wholesale markets in several currencies and tenors, prudent liquidity management, and an ample liquidity buffer.

Ratings

Foreign Currency	
Long-Term IDR	A+
Short-Term IDR	F1
Derivative Counterparty Rating	AA-(dcr)
Viability Rating	a+
Government Support Rating	ns

Sovereign Risk (Netherlands)	
Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA

Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

2024 Global Housing and Mortgage Outlook Mid-Year Update (June 2024)
Global Economic Outlook (June 2024)
Netherlands (February 2024)
Fitch Affirms Rabobank at 'A+'; Outlook Stable (October 2023)

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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 or failure to durably maintain 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 positive rating 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 ratio consistently above 2.5%, reduces its impaired loans ratio to 1% or lower, and is expected to sustainably maintain its CET1 ratio above 16%.

Other Debt and Issuer Ratings

Rating level	Rating
Deposits	AA-/F1+
Senior preferred debt	AA-/F1+
Senior non-preferred debt	A+
Subordinated Tier 2 debt	A-
Additional Tier 1 instruments	BBB

Source: Fitch Ratings

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.

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 senior preferred creditors by the resolution buffers made of equity and more junior debt. Rabobank is subject to the minimum requirement for own funds and eligible liabilities (MREL), with a binding total requirement of 29.2% of RWAs from 1 January 2024. The bank has publicly stated that it intends to meet its MREL using own funds and subordinated and senior non-preferred instruments only. For the same reasons, we rate Rabobank's senior non-preferred debt at 'A+', in line with the Long-Term IDR.

Rabobank's short-term deposits and short-term senior preferred debt are rated 'F1+', which is the only short-term rating that maps to the 'AA-' long-term rating for these debt classes.

Rabobank's subordinated Tier 2 debt is rated two notches below its Viability Rating (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 or non-performance of the bank.

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

Significant Changes from Last Review

Solid Performance Should Continue

Rabobank's operating profit increased by 50% in 2023, benefitting from higher net interest income (NII), trading gains, and contribution from associates and joint ventures (predominantly Achmea B.V.). NII growth of 28% was driven by stronger deposit margins and loan growth, particularly in leasing. Contrary to our initial expectation, NII in 2024 should weaken only modestly because of a later start of the ECB's monetary policy easing. NII contraction will gain momentum in 2025, but it should remain at least 25% higher than the 2020 level.

Expenses, including regulatory levies, increased by a material 12% in 2023, mainly due to higher wages and a larger workforce, particularly in the field of financial economic crime (FEC). However, income growth was faster, meaning the bank's cost/income ratio improved to 57%. This level is unsustainable, with probable lower income in 2024, while costs should further increase as the bank plans investments in IT and FEC.

Tender Offer for Certificates

In May 2024, Rabobank settled its tender offer for certificates, which are eligible as CET1 capital. The offer was oversubscribed and resulted in EUR916 million reduction of CET1 capital (about 2% impact). We expect the bank's CET1 ratio to remain stable and strong at around 17% at end-2024.

Contained Asset Quality Pressure

We expect a broadly stable gross impaired loans ratio at just above 2%. Due to a slow pick-up in economic growth we forecast loan impairment charges (LICs) at around 25bp of gross loans, which is close to the through-the-cycle average. At end-2023 Rabobank held a management overlay of EUR315 million, which could cushion LICs representing 7bp of loans. The bank also deducted EUR1.25 billion (almost 30bp of loans) from its CET1 capital due to the estimated shortfall in expected losses under IFRS 9, which, if ever realised, would be capital neutral for the bank.

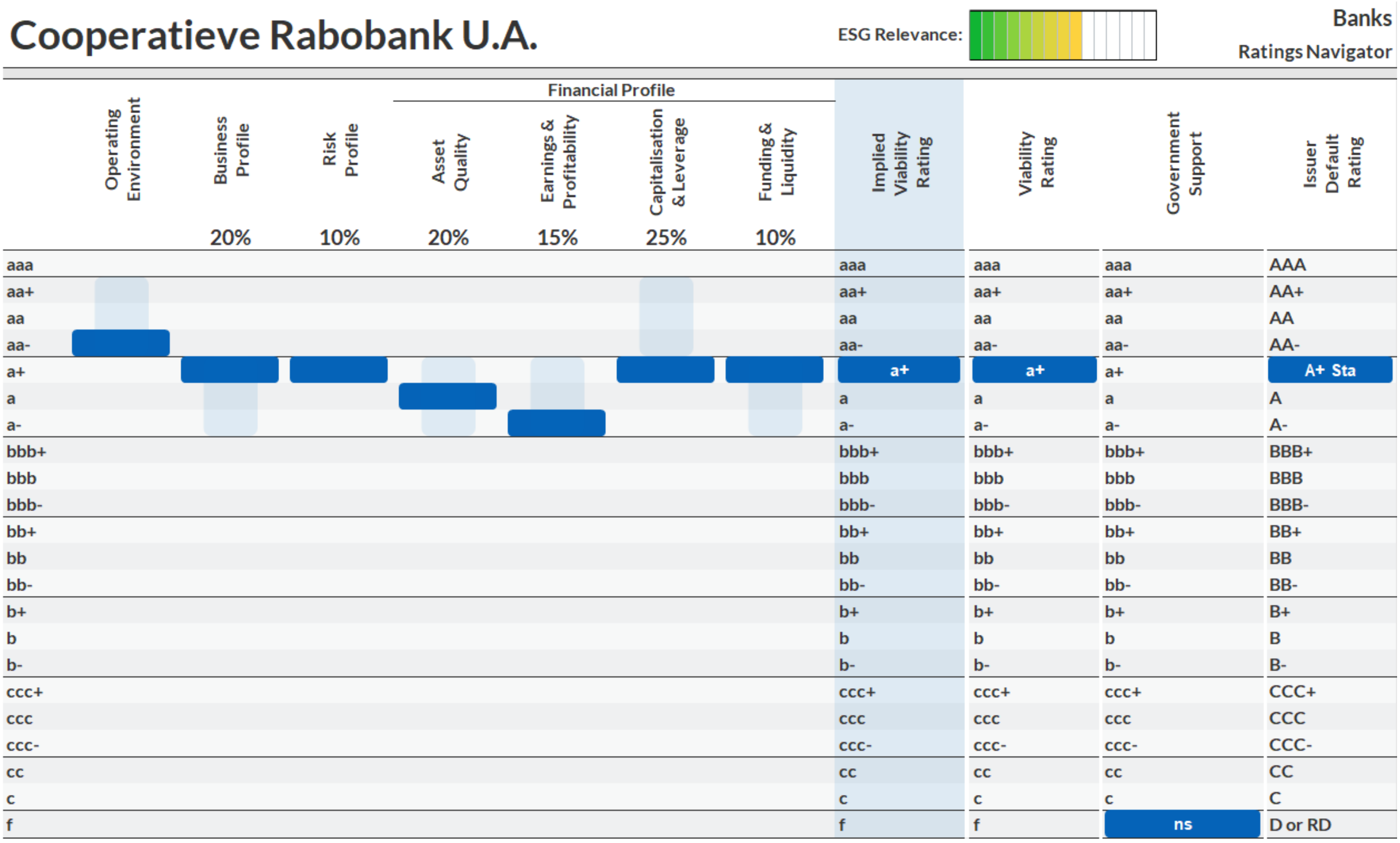
The impaired loan ratio in Rabobank's mortgage loan portfolio was only 0.5% at end-2023, and we expect it to remain stable in 2024, in line with domestic peers. The impact of higher interest rates is cushioned by a high share of fixed-rate mortgage loans, wage growth outpacing inflation and low unemployment. At end-2023, the average loan/value ratio (LTV) was 53%, and it is unlikely to deteriorate in the near term. We forecast Dutch home prices to increase 8%-10% in 2024, following growth of nearly 4% in 4M24, spurred by stabilized mortgage rates, wage growth and a persistent housing supply shortage. We have slightly raised the 2025 forecast to 5%-7%.

Risks in Commercial Real Estate Lending Mitigated

Rabobank's commercial real estate (CRE) lending represented 5% of loans, or about 50% of CET1 capital, at end-2023. This portfolio is almost fully located in the Netherlands and has not grown since 2018. The average LTV notably improved to 51% at end-2023, from about 70% at end-2017. Only 4% of loans had LTVs above 80%. We estimate that the average LTV did not deteriorate materially in 1H24 due to moderate pressure on property prices, underpinned by low vacancies, and a pickup in transaction activity.

We expect the impaired loans ratio in CRE to modestly weaken from 1.6% at end-2023, but to remain stronger than those of international peers. The credit risk is materially reduced by a high share (about 70% at end-2023) of loans with fixed interest rates and good diversification of financed assets. Exposure to vulnerable project development was manageable at EUR1.5 billion at end-2023 (all classified as Stage 2).

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The capitalisation score of 'a+' has been assigned below the 'aa' implied category score due to the following adjustment reason: capital flexibility and ordinary support (negative).

Financials

Financial Statements

	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	Year end (USDm)	Year end (EURm)	Year end (EURm)	Year end (EURm)	Year end (EURm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	12,832	11,712	9,149	8,351	7,997
Net fees and commissions	2,291	2,091	2,106	2,008	1,780
Other operating income	1,752	1,599	816	1,802	986
Total operating income	16,874	15,402	12,071	12,161	10,763
Operating costs	9,434	8,611	7,716	7,766	7,090
Pre-impairment operating profit	7,440	6,791	4,355	4,395	3,673
Loan and other impairment charges	797	727	344	-474	1,913
Operating profit	6,644	6,064	4,011	4,869	1,760
Other non-operating items (net)	-112	-102	-92	8	-264
Tax	1,737	1,585	1,133	1,185	400
Net income	4,795	4,377	2,786	3,692	1,096
Other comprehensive income	-401	-366	-61	378	-663
Fitch comprehensive income	4,394	4,011	2,725	4,070	433
Summary balance sheet					
Assets					
Gross loans	467,555	426,757	423,224	426,064	423,527
- Of which impaired	9,857	8,997	8,462	9,118	13,507
Loan loss allowances	3,187	2,909	2,862	3,497	4,700
Net loans	464,368	423,848	420,362	422,567	418,827
Interbank	5,705	5,207	5,975	5,475	5,580
Derivatives	24,094	21,992	26,865	22,971	29,638
Other securities and earning assets	65,298	59,600	32,425	51,744	57,535
Total earning assets	559,465	510,647	485,627	502,757	511,580
Cash and due from banks	99,195	90,539	129,580	120,533	108,466
Other assets	13,816	12,610	13,306	16,285	12,212
Total assets	672,475	613,796	628,513	639,575	632,258
Liabilities					
Customer deposits	428,687	391,281	395,847	371,504	360,478
Interbank and other short-term funding	62,906	57,417	71,372	99,592	84,873
Other long-term funding	101,508	92,651	85,798	96,349	108,228
Trading liabilities and derivatives	17,430	15,909	21,741	20,129	29,400
Total funding and derivatives	610,532	557,258	574,758	587,574	582,979
Other liabilities	7,556	6,897	7,397	8,599	8,647
Preference shares and hybrid capital	5,451	4,975	4,971	3,978	4,482
Total equity	48,936	44,666	41,387	39,424	36,150
Total liabilities and equity	672,475	613,796	628,513	639,575	632,258
Exchange rate		USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963

Source: Fitch Ratings, Fitch Solutions, Rabobank

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.5	1.7	2.3	0.9
Net interest income/average earning assets	2.4	1.8	1.6	1.6
Non-interest expense/gross revenue	57.0	64.5	65.7	67.0
Net income/average equity	10.1	6.9	9.7	3.0
Asset quality				
Impaired loans ratio	2.1	2.0	2.1	3.2
Growth in gross loans	0.8	-0.7	0.6	-1.7
Loan loss allowances/impaired loans	32.3	33.8	38.4	34.8
Loan impairment charges/average gross loans (bp)	16	7	-10	45
Capitalisation				
Common equity Tier 1 ratio	17.1	16.0	17.4	16.8
Tangible common equity/tangible assets	7.1	6.4	6.0	5.6
Basel leverage ratio	7.1	6.6	7.3	7.0
Net impaired loans/common equity Tier 1	14.6	14.6	15.3	25.4
Funding and liquidity				
Gross loans/customer deposits	109.1	106.9	114.7	117.5
Gross loans/customer deposits + covered bonds	103.5	102.3	n.a.	113.3
Liquidity coverage ratio	161.2	173.5	184.0	193.0
Customer deposits/total non-equity funding	71.6	70.8	64.9	64.5
Net stable funding ratio	132.1	130.7	129.5	128.0

Source: Fitch Ratings, Fitch Solutions, Rabobank

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	a+ to a-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	AAA/ Stable
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Neutral
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Negative
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

No Support in the Ratings

Rabobank's Government Support Rating 'No Support' (ns) reflects Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign in the event that the bank becomes non-viable. 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.

Environmental, Social and Governance Considerations

FitchRatings **Cooperatieve Rabobank U.A.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Cooperatieve Rabobank U.A. has 6 ESG potential rating drivers

- Cooperatieve Rabobank U.A. has exposure to impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations but this has very low impact on the rating.
- Cooperatieve Rabobank U.A. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	6	issues	3
not a rating driver	3	issues	2
	5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	3	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

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-peers exposure to the food and agriculture sector and strong presence in the Netherlands, a country highly sensitive to climate change risk.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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