Commentary

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Insight beyond the rating.

DBRS: Year of Transition Weighs on Rabobank's FY16 Results

- In 2016, Coöperatieve Rabobank U.A. (Rabobank or the Group) reported a net profit of EUR 2.0 billion, down 9% year-on-year (YoY), principally driven by EUR 1.4 billion of exceptional items, including EUR 515 million of restructuring costs, and EUR 700 million impairment in the Group's stake in Achmea Holding N.V..

- On an underlying DBRS-adjusted basis (including payments on capital securities and regulatory levies, but excluding exceptional items), the Group reported income before provisions and taxes of EUR 3.6 billion in 2016, down 5% YoY, driven in part by a 40% YoY increase in regulatory levies, to EUR 483 million. Whilst the Group's net interest income (NII), adjusted for payments on capital securities, was down 4% YoY as a result of loan portfolio and balance sheet reductions as well as the lower rate environment and higher liquidity buffer costs, adjusted core revenues remained relatively resilient, at EUR 11.6 billion, supported by the Group's strategic move towards fee-generating business within Wholesale Banking and International Rural & Retail Banking.

- Costs remain a key focus for Rabobank, with the Group targeting a cost-income ratio of 50% (or 53%-54% including regulatory levies) in 2020. Whilst the Group's adjusted underlying cost-income ratio (which, in addition to the Group's payments on capital securities, trust preferred securities and minority interests, includes the resolution levy) increased marginally YoY to 69%, DBRS notes that operating costs were down YoY as restructuring progress resulted in a 6% YoY decrease in staff costs. Excluding the regulatory levies, the underlying cost-income ratio stood at 65.1% in 2016, vs. 65.3% in 2015. With the Group still in the midst of its restructuring programmes, which are specifically targeting cost reductions, DBRS would, however, expect Rabobank to continue to make progress on reducing its cost base.

- Impairment charges continued their downward trend, with a 70% YoY decrease to EUR 310 million, as more positive economic conditions have resulted in, amongst other things, fewer new defaults across the Group's wholesale and international rural banking, domestic retail and real estate portfolios. As a result, bad debt costs amounted to 7 bps of average lending, well below the long-term average of 36 basis points (bps).

- DBRS views Rabobank's capitalisation as solid, given its relatively low risk profile, and conservative business model. At end-2016, the Group reported a fully-loaded Common Equity Tier 1 (CET1) of 13.5%, a 150 bps increase YoY on retained earnings and lower risk-weighted assets, whilst the fully-loaded leverage ratio was 4.6%. In January 2017, Rabobank issued new 'Rabobank Certificates' for a nominal amount of EUR 1.5 billion, resulting in a pro-forma CET1 ratio of 14.3% on a fully loaded basis. At end-2016, the Group's buffer of more easily bail-in-able liabilities (consisting of retained earnings & reserves, Rabobank Certificates, hybrid & subordinated instruments and senior contingent notes) also stood at EUR 57.4 billion, corresponding to approximately 27% of RWAs.

Coöperatieve Rabobank U.A.	FY2016	1H16	FY15	1H15	FY14
IBPT/RWAs	1.4%	0.8%	1.7%	2.3%	1.7%
NPL Ratio	4.4%	4.4%	4.6%	4.8%	4.9%
Cost-to-income Ratio	75.8%	84.6%	70.4%	61.2%	70.9%
Net Loans-to-Deposits Ratio	121.8%	124.6%	126.2%	132.3%	131.7%
CET1 Ratio	13.5%	12.4%	12.0%	11.8%	11.8%

Table Key (QoQ % Change)	Improvement					Deterioration				
	More than 40%	21% to 40%	11% to 20%	6% to 10%	0% to 5%	0% to 5%	6% to 10%	11% to 20%	21% to 40%	More than 40%

Current DBRS Ratings: Coöperatieve Rabobank U.A		
Long-Term Deposits & Senior Debt	AA	Stable
Short-Term Debt	R-1 (high)	Stable

Footnotes:

IBPT/RWAs: Income before provisions and taxes (adjusted to include payments on capital securities, trust preferred securities III to VI and minority interests) / avg. risk-weighted-assets under Basel III

NPL Ratio: Non-performing loans / Total gross loans

Cost-to-income ratio: Total operating expenses (adjusted to include regulatory levies) / total gross operating income

Net Loans-to-Deposits Ratio: Net loans excluding repos / deposits excluding repos (when available)

CET1 Ratio: Fully loaded Basel III Common Equity Tier 1 (or transitional if not available)

Notes:

All figures are in Euro unless otherwise noted.

Sources: Company Documents and SNL Financial

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