



*Insight beyond the rating.*

## DBRS: Rabobank 1H16 Profit Down on Exceptional Items; Restructuring Progress Evident

- In 1H16, Coöperatieve Rabobank U.A. (Rabobank or the Bank) reported a net profit of EUR 924 million, down 39% year-on-year (YoY), largely due to EUR 990 million of exceptional items, including EUR 514 million of additional provisions for SME interest rate derivatives, and EUR 190 million of restructuring costs.
- On an underlying DBRS-adjusted basis (including payments on capital securities and regulatory levies, but excluding exceptional items), the Bank reported income before provisions and taxes (IBPT) of EUR 1.8 billion, down 13% YoY, driven by reduced underlying revenue and YoY doubling of regulatory levies, to EUR 246 million. Whilst underlying revenue was down 6% YoY in 1H16, DBRS notes that other income in 1H15 was supported by one-offs, including the sale of Rabobank's interest in the Agricultural Bank of China. DBRS also notes positively that in 1H16, the Bank's 12 month rolling average net interest margin (NIM) was up 1 basis point (bps) YoY, to 1.33%, whilst net fee and commission income was up 2% YoY partly reflecting the Bank's strategic move towards more fee-generating business within Wholesale Banking and International Rural & Retail Banking (WRR).
- Costs remain a key focus for Rabobank, with the Bank targeting a cost-income ratio, including regulatory levies, of between 53%-54% in 2020. Whilst the Bank's underlying cost-income ratio increased marginally YoY to 68%, DBRS notes that operating costs were down 3% YoY as restructuring progress resulted in a 6% YoY decrease in staff costs. Further restructuring progress in 1H16 was illustrated by the sale of a EUR 1 billion residential mortgage portfolio to VIVAT and the agreed sale of the Bank's lease subsidiary, Athlon Car Lease, to Mercedes Benz Financial Services for EUR 1.1 billion.
- Impairment charges continued their downward trend, with a 58% YoY decrease to EUR 148 million, as more positive economic conditions have resulted in, amongst other things, fewer new defaults across the Bank's wholesale and international retail 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 bps. Rabobank's overall asset quality improved, with the non-performing loan ratio at 4.4% at end-1H16, down 20 bps from end-2015.
- Rabobank has continued to strengthen its balance sheet, and the Bank's fully-loaded Common Equity Tier 1 (CET1) ratio was 12.4% at end-1H16, an increase of 40 bps from end-2015, whilst the fully-loaded leverage ratio was 4.1%. On a transitional basis, the CET1 ratio was 13.4%, well in advance of the Bank's minimum SREP requirement, and the leverage ratio was 5.1%. DBRS also notes that regulatory capital ratios remained solid under the recent EBA stress test. On a fully-loaded CET1 basis, Rabobank's modelled CET1 ratio under the adverse scenario fell to 8.1% in 2018, from a starting point of 12% at end-2015.

	1H16	FY15 Coöperatieve Rabobank U.A.	1H15 Coöperatieve Rabobank U.A.	FY14 Coöperatieve Rabobank U.A.	1H14 Coöperatieve Rabobank U.A.
IBPT/RWAs	0.8%	1.7%	2.3%	1.7%	1.7%
NPL Ratio	4.4%	4.6%	4.8%	4.9%	3.2%
Cost-to-income Ratio	84.6%	70.4%	61.2%	70.9%	69.2%
Net Loans-to-Deposits Ratio	124.6%	126.2%	132.3%	131.7%	134.0%
CET1 Ratio	12.4%	12.0%	11.8%	11.8%	10.8%

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%

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

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 - Half year ratios are annualised
NPL Ratio:	Non-performing loans / Total gross loans
Cost-to-income ratio:	Total operating expenses/total gross operating income (adjusted to include payments on capital securities, trust preferred securities III to VI and minority interests)
Net Loans-to-Deposits Ratio:	Net private sector loans / deposits excluding repos (when available)
CET1 Ratio:	Basel III Common Equity Tier 1

**Notes:**

All figures are in EUR unless otherwise noted.

Sources: Company Documents and SNL Financial

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