FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Rabobank at 'A+'; Outlook Stable

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Fitch Ratings - Paris - 31 Oct 2023: Fitch Ratings has affirmed Cooperatieve Rabobank U.A.'s (Rabobank) Long-Term Issuer Default Rating (IDR) at 'A+' with a Stable Outlook and Viability Rating (VR) at 'a+'. A full list of rating actions is below.

KEY RATING DRIVERS

Strong Business and Risk Profiles: Rabobank'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: Rabobank's asset quality is supported by its large exposure to low-risk and well-performing Dutch residential mortgage loans, and well-collateralised SME and corporate lending. Following a more active approach to work-outs of its stock of impaired loans in recent years, Rabobank has significantly reduced its impaired loans ratio to levels that are now in line with the other large Dutch banks. Fitch expects Rabobank's impaired loans ratio to deteriorate slightly over the next 18 months, but to remain around 2%, which would be better than the European average.

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. Rabobank's sound earnings generation is underpinned by its leading domestic and food and agriculture franchises. The bank is benefiting strongly from higher interest rates, leading to an 2.8% annualised operating profit/risk-weighted assets (RWAs) in 1H23, despite higher RWA density than peers. We expect Rabobank to maintain this ratio above 2% over the next 18 months.

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 2024 under Basel III end-game rules includes a comfortable buffer of 300bp above minimum capital requirements as of May 2024. We expect Rabobank's CET1 ratio will remain comfortably above its medium-term target in the next two years (16.7% at end-June 2023).

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

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 upside 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 consistently above 2.5%, reduces the impaired loans ratio to 1% or lower, and is expected to sustainably maintain its CET1 ratio above 16%.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

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 requirement of 29.1% of RWAs from 1 January 2024. The bank has publicly stated that it intends to meet its MREL using 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 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/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 significant distance between the bank's CET1 ratio and mandatory coupon omission triggers.

No Government Support Factored In: Rabobank's Government Support Rating (GSR) of 'no support' reflects Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign in the event that the bank becomes nonviable. 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.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

Rabobank's Short-Term IDR is primarily sensitive to changes in Rabobank's Long-Term IDR and its funding and liquidity score.

The DCR, senior preferred and senior non-preferred debt and deposit ratings are primarily sensitive to Rabobank's Long-Term IDR. In addition, these ratings could be downgraded if Fitch no longer expects Rabobank to meet its MREL without recourse to senior preferred debt and if the buffer of senior non-preferred and more junior debt durably declines below 10% of RWAs.

The subordinated Tier 2 debt and AT1 ratings are sensitive to a change in Rabobank's VR. In addition, the AT1 ratings could be downgraded if non-performance risk increases relative to the risk captured in the bank's VR, for example if capital buffers over regulatory requirements are eroded.

An upgrade of Rabobank's GSR would be contingent on a positive change in the sovereign's propensity to support the bank. In Fitch's view, this is highly unlikely, although not impossible

VR ADJUSTMENTS

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

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

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-peer exposure to the food & 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.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Cooperatieve Rabobank U.A.	LT IDR	A+ Rating Outlook Stable	Affirmed	A+ Rating Outlook Stable
	ST IDR	F1	Affirmed	F1
	Viability	a+	Affirmed	a+
	DCR	AA-(dcr)	Affirmed	AA-(dcr)
	Government Support	ns	Affirmed	ns
subordinated	LT	BBB	Affirmed	BBB
Senior preferred	LT	AA-	Affirmed	AA-
long-term deposits	LT	AA-	Affirmed	AA-
Senior non-preferred	LT	A+	Affirmed	A+
subordinated	LT	A-	Affirmed	A-

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Olivia Perney
Managing Director
Primary Rating Analyst
+33 1 44 29 91 74
olivia.perney@fitchratings.com

Fitch Ratings Ireland Ltd
28 avenue Victor Hugo Paris 75116

Francesca Vasciminno
Senior Director
Secondary Rating Analyst
+39 02 9475 7057
francesca.vasciminno@fitchratings.com

Rafael Quina
Senior Director
Committee Chairperson
+33 1 44 29 91 81
rafael.quina@fitchratings.com

MEDIA CONTACTS

Peter Fitzpatrick
London
+44 20 3530 1103
peter.fitzpatrick@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 01 Sep 2023) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

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