Daiwa Capital Markets

Coöperatieve Rabobank U.A. (Rabobank)

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	Sr. Preferred	Sr. Non-Preferred	Outlook
Moody's	Aa2	A3	Stable
S&P	A+	A-	Stable
Fitch	AA-	A+	Stable

Source: Moody's, S&P and Fitch;

Background and ownership

Coöperatieve Rabobank U.A. (Rabobank) is a Dutch cooperative bank and currently the second largest bank in the Netherlands with total assets of EUR667bn at 1H22. Rabobank has a 16% market share in mortgages (2021: 21%) and 35% among private savings (2021: 35%). It was founded in 1898 as an agricultural financing cooperative and still retains this status with a large food & agribusiness focus (around 85% of domestic market share). The bank is largely domestically focused with 68% of the private sector loan portfolio geared towards the Netherlands, 11% in North America, 8% in the rest of Europe, 7% in Australia and New Zealand, 4% in South America, and 2% in Asia. On 1 January 2016, the bank underwent a significant governance restructure, in which the local Rabobanks merged with the central organisation that carries the banking license under which all member banks operate. Rabobank today operates through 84 local Rabobanks with 2.2 million members, servicing 9.1 million customers domestically and 0.3 million abroad.

Rabobank – Key Data			
Key Ratios (%)	1H22	2021	2020
CET1	15.1	17.4	16.8
Total Capital	19.9	22.6	24.2
NPL	1.4	1.6	2.5
NPL Coverage	24	24	23
LCR	199	184	193
NSFR	132	130	128
Cost to Income	63.5	63.8	65.8
RoE	7.0	8.8	2.7
Balance Sheet (EURbn)			
Total assets	666.8	639.5	632.2
Loans to customers	436.3	436.4	436.2
Customer deposits	385.1	372.0	361.0
Debt securities issued	116.2	108.7	113.5
Liquidity Buffer	168	149	119
MREL	69.8	63.4	62.2
Total Equity	45.9	43.4	40.6
Income Statement (EURbn)			
Revenues	5.9	12.1	10.7
o/w NII	4.3	8.3	7.9
Operating Expenses	-3.3	-7.0	-6.5
Loan impairment charge	-0.04	0.4	-1.9
Net Income	1.5	3.7	1.1

Source: Company earnings reports

Main Activities

Rabobank's activities are split into four key business lines for management reporting purposes:

1. **Domestic Retail Banking (49% of aggregate gross income in 1H22),** provides loans in the residential mortgage market, savings services, payments, investments, and insurance for the Dutch market;
2. **Wholesale & Rural (W&R, 31%)** contains wholesale and corporate banking activities in the Netherlands and focuses on the food & agri sectors internationally;
3. **Leasing (14%)** supports manufacturers, vendors and distributors globally in their sales with products relevant to asset finance; and
4. **Property Development (3%)** mainly encompasses the activities of Bouwfonds Property Development (BPD), developing properties in the Netherlands and Germany.

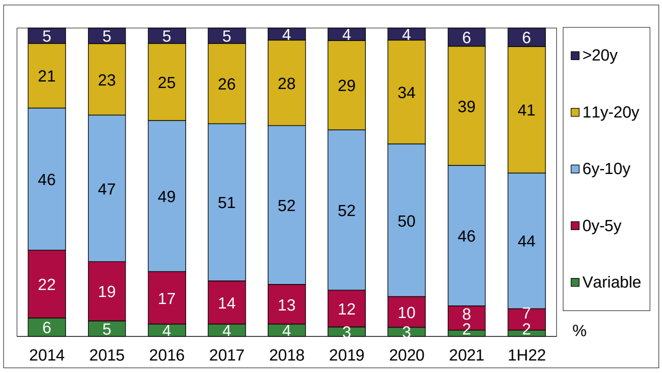
Following its 2016 restructuring, Rabobank focused on business rationalisation and staff reductions which helped pursue its cost reduction targets under the 2016-2020 strategy. Rabobank provided an update to its strategy in September 2020 in response to the Covid pandemic, continuing the focus on core-business activities. Management also wanted to simplify the organisational structure by creating a more effective and cost efficient operating model that exploits business opportunities provided to the lender through its role as the leading cooperative bank in the Netherlands. Since then, the bank has revised some of its near-term targets down and 2024 ambitions seem feasible. Rabo targets a CET1 ratio >14%, a cost to income ratio in the low 60% range and a return on equity (RoE) of 6-7%. Rabobank already meets the above levels but currently falls short of its longer-term financial ambitions of a cost to income ratio in the mid 50% range and a RoE >8% in a normalized interest rate environment.

Financial strength indicators

Profitability - Rabobank reported a decline of 27.2% yoy in net profit to EUR1.5bn in 1H22, which translated into a return on equity of 7%. The results were impacted by a combination of factors such as lower top-line revenue, higher costs and some normalisation of impairment charges. The latter stood at EUR42m compared with reversals of EUR274m the year before. Rabobank earnings have also been pressured by low interest rates until very recently when the ECB started to increase its main policy rates, albeit later than some other major central banks such as the Fed or Bank of England. Rabobank is highly dependent on net interest income (NII) that contributed 74% of its total income in 1H22. Nevertheless, NII grew 7% yoy to EUR4.38bn, partially driven by higher business volumes within the W&R and Leasing divisions. The bank states that the positive NII benefit from its TLTRO III participation was reduced to EUR131m (3% of total NII) compared to EUR192m during the same period last year. Total outstanding TLTRO III funding amounts of EUR55bn. Net fee and commission income was up 6% yoy to EUR1bn due to higher fees on payment accounts and on assets under management (AuM). The bank's cost to income ratio in 1H22 was 63.5% and although that falls within its current target range it is worse than the 58% reported in 1H21. While the increase in the ratio is driven by overall lower income and higher costs, part of it also derives from higher regulatory levies such as the temporary increase in the Dutch banking tax in 2021. Rabobank's leading domestic retail banking franchise should benefit from the higher interest rate environment and relatively robust Dutch borrower base but potential property value corrections may see those benefits eroded by higher loan loss provisions and losses incurred.

Asset quality - 1H22 total assets stood at EUR667bn and comprised of loans and advances to customers (65% of total), cash and equivalents (22%), derivatives (4%), interbank lending (3%) and others (6%). The large volume of lending products is in line with the lender's retail and corporate banking focus. The domestic mortgage portfolio accounted for 44% of group-wide loans, and the quality of its mortgage portfolio is deemed very high due to its very low NPL ratio of just 0.36%. The weighted-average loan-to-value (LTV) was 50%, indicative of a moderately leveraged borrower base. Fixed-rate mortgages make up 98% of the entire outstanding stock while only 7% have a fixed rate period equal or less than 5 years, mitigating potentially adverse effects on the loan book from sudden rises in interest rates. Rabobank's food & agricultural loan portfolio of EUR113bn is mostly extended internationally (65% of total) and to a lesser degree domestically (35%). Main sectoral exposures here are towards commodities (EUR32bn), animal protein (EUR23bn) and dairy (EUR20bn). Risks in this area stem from supply chain disruptions following the pandemic and the ongoing war in Ukraine, higher costs as well as the sector's transition to more sustainable means of operating. Overall the bank's NPL ratio was low at 1.4% in 1H22 and the coverage ratio stood at 24%. These strong levels are the result of prudent underwriting standards but also active management of its NPL portfolio and derisking efforts of the balance sheets over the past two years.

Mortgage portfolio by fixed-rate interest rate period



Source: Company reports

Funding & Liquidity – Total non-equity funding amounted to EUR621bn at 1H22, of which 62% came from customer deposits, 19% from debt securities, 12% interbank deposits and 7% others. The reported loan to deposit ratio of 117% is improved from previous years where it stood around 125%, thanks to the pandemic-induced increase in customer deposits. The relatively sizeable EUR116bn of debt securities in issue highlight the bank's dependence on wholesale funding, which it managed to reduce from a recent high of EUR141bn back in 1H18. As per its most recent investor presentation, Rabobank's funding strategy is to further diversify its funding base subject to economic considerations. 2022 long-term funding targets were lowered to EUR12-14bn from EUR15-20bn, mainly due to higher than expected deposit levels. Rabo has only specified the need for EUR3-5bn in senior non-preferred (SNP) funding on average for the coming years, with other needs to be filled by a mix of covered bonds and senior preferred (SP) notes. According to Bloomberg data, Rabobank has already slightly exceeded its funding targets by issuing EUR14.5bn in 2022 split by covered bonds (48% of total), SNP (36%), AT1 (7%), Tier 2 (6%) and SP (3%). In recent years, SNP debt instruments have diminished the role Tier 2 bonds as the company's key instrument to meet MREL requirements. In March 2021 Rabo received its updated MREL requirements that have been binding since January 2022. The total requirement including CBR is 27.6% of RWA. This contains a subordination requirement of 22.2% and non-subordinated requirement of 5.4%. As of 1H22 Rabobank had a subordinated MREL position of 27.8% comfortably meeting requirements. Total own funds and MREL eligible liabilities stand at 31.5%. Liquidity indicators such as the LCR and NSFR ratio were robust at 199% and 132% respectively. The bank's liquidity buffer of EUR168bn, which consists of 90% HQLA provides additional comfort that the bank can address short-term liquidity concerns if needed.

ESG funding

Rabobank developed its Sustainable Funding Framework in 2016 and has updated it several times since then, the latest iteration dated June 2021. It is based on ICMA's green and social bond principles, among others. Additionally, Rabobank intends to further align its framework with the EU Green Bond Standard and a potential EU Social Bond Standard. The current framework allows for the issuance of several types of sustainable instruments such as bonds, loans, derivatives, commercial paper and certificates of deposit. The bank issued its first green bond in 2016 and currently has three further green bonds outstanding, for a total of EUR2.4bn. The bonds were issued in EUR and USD between 2019 and 2021 and saw their proceeds allocated to renewable energy projects. Given Rabobank's prominent role in the Dutch mortgage market it has started offering clients sustainable mortgages that currently amount to EUR45bn. These products focus on improvements around energy consumption and labels. Sustainable AuM account for 60% of total AuM and offer clients the opportunity to invest in funds which target a 30% lower CO_2 intensity compared to benchmarks.

Capitalisation - The bank reports a CET1 ratio of 15.1% as of 1H22, down 230bps since FY21. The decrease in the ratio was mainly due to RWA inflation (+EUR39.6bn), increasing RWA density (RWA/Total assets) to 37.6%. The RWA increase came from higher lending volumes but also reflects macro-prudential add-ons for mortgages and internal model changes in line with EBA guidelines. These increases were partially offset by retained earnings. The bank's CET1 ratio remains comfortably above its own 14% guidance and the MDA trigger level of 10.1%, effective March 2022. Rabo stated that the remaining Basel IV impacts on its regulatory capital profile are expected to be negligible as the anticipated RWA increases have now largely been recorded.

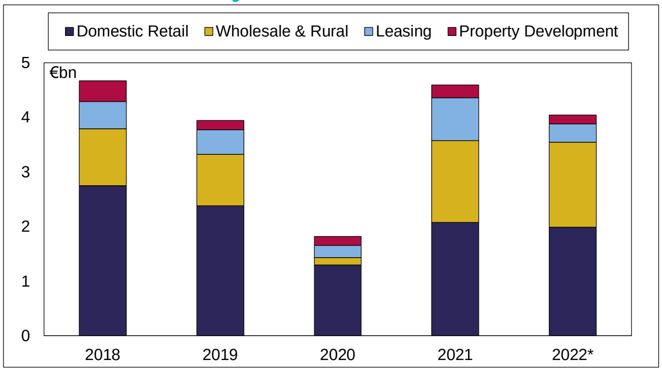
Rating agencies' views

Moody's: In September 2021, Moody's last affirmed the ratings of Rabobank. The most recent credit opinion from July 2022 states that Rabobank's baseline credit assessment (BCA) of a3 reflects the agency's expectation that the bank's well-entrenched franchise and low risk profile, as well as its strong financial fundamentals, will continue to support its strong solvency profile. The bank's leading position, both in the Netherlands' retail and wholesale markets, and strong franchise in the agribusiness sector globally are the primary drivers of its relatively stable, although modest, underlying earnings generation capacity. The BCA is also underpinned by the bank's good capitalisation, which provides a sound loss-absorption capacity, although Moody's expect a moderate asset quality deterioration over the outlook period as a result of the negative impact on European economies of the military conflict in Ukraine and the phasing out of the coronavirus-related government support measures. Rabobank relies on wholesale funding, but this reliance has been markedly reduced over the last few years and is mitigated by sizeable liquidity buffers, the duration of its funding, and a good track record of market access.

S&P: The most recent rating report from April 2022 states that Rabobank benefits from a clearly defined medium-term strategy focusing on its strong domestic franchise and financing the global food and agriculture business. A market-leading presence in the Netherlands, with a track record of strongly performing domestic residential mortgages. As well as, prioritization of long-term customer franchise growth over short-term returns, leading to predictable strategy and revenue. Key risks include profitability pressure, which would continue in the event of persistent low interest rates in Europe, and renewed inflation. Lower cost-efficiency compared with highly rated European peers, in particular those in the Nordics, although average in the Dutch context and compares well with French and German cooperatives. Higher than average reliance on wholesale funding.

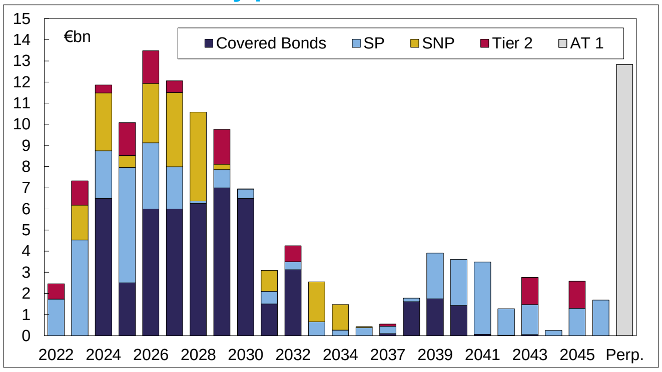
Fitch: In November 2021, Fitch revised the Outlook on Cooperatieve Rabobank U.A.'s Long-Term Issuer Default Rating (IDR) to Stable from Negative and affirmed the Long-Term IDR at 'A+'. The revision of the Outlook reflects better than anticipated financial performance of the bank during the pandemic and the stabilisation of the Dutch operating environment. Fitch's updated economic assumptions for the Netherlands indicate a strong economic recovery, despite some remaining risks related to the pandemic, supply chain disruptions and rising energy prices. Consequently, Fitch believe that downside risks to Rabobank's profitability, asset quality and capitalisation have receded.

Profit before tax by business line



*Source: Company reports; *annualised from 1H22 figures*

Wholesale maturity profile



Source: Bloomberg

Recent Benchmark Transactions

Issue Date	Security	Maturity/Call	Currency	Size (m)	Coupon (%)	Yield (%)	Final Spread (bps)
22/08/2022	Tier 2	10.25NC5.25	EUR	750	3.875	3.912	MS + 195
15/08/2022	SP	2Y	USD	1,000	3.875	3.899	T + 70
15/08/2022	SNP	6NC5	USD	1,250	4.655	4.655	T + 175
30/03/2022	SNP	6NC5	USD	1,250	3.649	3.649	T + 122
30/03/2022	SNP	11NC10	USD	1,000	3.758	3.758	T + 142
30/03/2022	AT1	PNC7	EUR	1,000	4.875	4.875	MS + 371.7
19/01/2022	Sr. Unsecured	5Y	AUD	700	BBSW + 73	BBSW + 73	BBSW + 73
05/01/2022	SP	3Y	USD	1,000	1.375	1.443	T + 37
05/01/2022	SP	3Y (FRN)	USD	450	SOFR MS+38	SOFR MS+38	SOFR MS+38
04/01/2022	SNP	6.5NC5.5	GBP	400	1.875	1.893	G + 105

Source: BondRadar

This is an issuer profile and contains factual statements only. All statements are sourced from the issuer's financial reports, which can be found at https://www.rabobank.com/en/investors/index.html

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- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.
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