

## ISSUER COMMENT

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## Rabobank

FY2015 Results: Net results supported by lower loan loss charges

### Summary opinion

Rabobank (Aa2/Aa2 stable, a2<sup>1</sup>) reported a full year 2015 net income of €2.2 billion, up 20% from the previous year. The solid performance was mainly driven by a sharp drop in cost of risk, reflecting the recovery of the Dutch economy and better performance of the domestic commercial real estate (CRE) exposures.

### Strong results impacted by non-recurring charges

Rabobank's net banking income increased by 1% from 2014<sup>2</sup> on the back of stable net interest income of €9.1 billion and fees and commissions increasing by a modest 1%. The lending volumes were down 0.8%, notably due to large repayments on Dutch residential mortgages. In the meantime, interest margins were under pressure in the Dutch mortgage market and in corporate lending globally, while better margins in the leasing activities and real estate segment compensated for this effect. We believe that protracted low interest rates will likely continue to exert negative pressure on the profitability of retail and international wholesale activities going forward. In addition, domestic market shares for mortgages and savings declined to 20% and 35% in 2015, from 22% and 36%, respectively. The slight decline in the market share for mortgages was due to intense competition coming from pension funds and insurers in the Netherlands. Nonetheless, commercial activity was resilient overall, illustrating the deep footprint of the bank's retail franchise in the Netherlands and its strong positions in the food & agri business globally.

Operating expenses increased by 1% to €8.1 billion in 2015, but include a €470 million provision for reorganisation and legal costs. The bank's cost-to-income ratio remained stable at 63%, although the positive underlying trend is confirmed. As pre-provision income was broadly stable (+1%) for the year, the net profit increase was essentially due to a strong decline in provisioning. The cost of risk decreased by €1.6 billion to €1.0 billion in 2015, as impairment charges declined in most segments, except in the wholesale banking and international retail segment. The cost of risk decreased to only 24 basis points (bps) of the average loan portfolio, from 60 bps in 2014 and below the long-term average of 36 bps. The net profit was negatively impacted by a €604 million goodwill impairment on Rabobank's California-based retail operations and a €172 million contribution to the National Resolution Fund, but nonetheless increased by 20% year-over-year.

### Improved asset quality trends

Post-recent issues on domestic CRE exposures, Rabobank's asset quality has largely stabilised. Non-performing exposures represented 4.6% of the private-sector loan book at year-end 2015, down from 4.9% in 2014, owing to better performance of the lending

portfolios of the domestic retail and wholesale and international retail segments. Provision charges decreased by €1,079 million in the domestic retail activities, which benefited from an improvement in the Dutch economy. While the performance of the commercial real estate portfolio has improved, part of it still faces pressure, notably the exposures to offices and non-food retail real estate.

Rabobank reported a total exposure to the oil and gas sector of €9.8 billion at year-end 2015, 79% of which is exposure to commodity traders, which are less sensitive to oil price levels. Rabobank did not report specific provisions related to these exposures at this point.

## Steady improvement in the Core Equity Tier 1 ratio (CET1 ratio); liquidity remains good

### Capital

As of year-end 2015, Rabobank reported a CET1 ratio of 13.5% on a transitional basis and 12.0% on a Basel III fully loaded basis. The total capital ratio stood at 23.2% at year-end 2015, compared to 20.8% at 1 January 2015, thanks to the addition of €0.9 billion to retained earnings and the recent issuance of Additional Tier 1 and Tier 2 instruments. The leverage ratio stood at 5.1% on a transitional basis and 3.9% on a fully loaded basis at year-end 2015.

The current CET1 ratio of 13.5% leaves a headroom of above three percentage points on top of the bank's required Combined Buffer of 10.25% for 2016. This buffer requirement is comprised of European Central Bank's Supervisory Review and Evaluation Process (SREP) requirement of 9.5% and the additional 0.75% Systemic buffer. The phasing out of transitional measures in the calculation of the CET1 ratio, as well as the increasing Systemic buffer to 3% over four year, will exert a degree of pressure on capitalisation over time. We believe that Rabobank's Strategic Framework announced at the end of 2015 proactively addresses this issue.

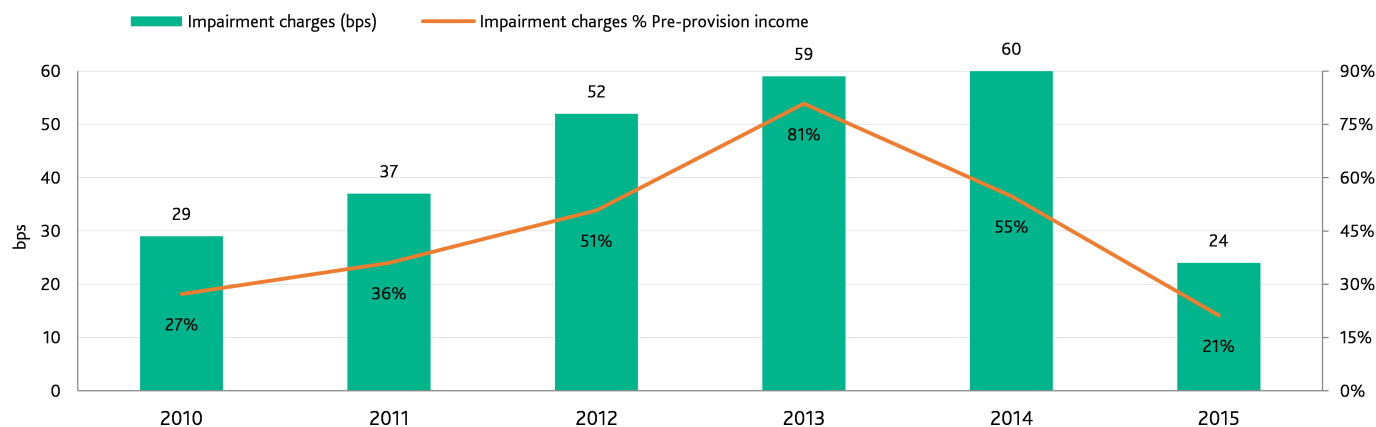
### Liquidity

Rabobank disclosed a loan-to-deposit ratio of 125% at year-end 2015, down from the 132% at year-end 2014. This evolution results from a €10 billion increase of customer deposits and a contraction of the loan book by €3 billion during 2015. The improvement may not be sustainable in 2016, as a large part of the recent deposit growth came from temporary institutional and corporate liquidity surpluses.

Rabobank's high quality liquid asset (HQLA) buffer of €98 billion covers short-term debt, including the short-term portion of long-term issued debt, by 106%. The total liquidity buffer (which includes internal securitisation) covers this debt by 154%. The bank recorded a liquidity coverage ratio of 128% and a net stable funding ratio of 116% as of year-end 2015.

Exhibit 1

### Rabobank's impairment charges decreased to 24 bps of average outstanding loans in 2015



Source: Rabobank.

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## Endnotes

- [1](#) The bank ratings shown in this report are Rabobank Nederland's deposit rating, senior unsecured debt rating and baseline credit assessment.
- [2](#) Unless otherwise noted, all comparisons reported in this summary are year-over-year.

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