Rabobank New Zealand Limited

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2025 Review of Key Capital Settings
Reserve Bank of New Zealand
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By email: capitalreview@rbnz.govt.nz

RABOBANK NEW ZEALAND SUBMISSION TO THE RESERVE BANK OF NEW ZEALAND'S REVIEW OF KEY CAPITAL SETTINGS

Introduction to Rabobank New Zealand

Rabobank is New Zealand's only specialist food and agribusiness bank. With over 530 staff working from 27 offices across New Zealand, we are part of a large international banking co-operative group based in the Netherlands.

Rabobank was originally founded in the 1890s by Dutch farmers as a small co-operative of banks to serve local rural communities. Rabobank Group now operates in 35 countries with over 49,000 employees and has become substantial global financial institution while retaining its strong co-operative ethos.

Bringing together deep connections to the New Zealand rural sector, specialist research expertise and an extensive international reach, we work closely with our farmer and grower clients under our local mission of *Growing a Better New Zealand Together.*

Furthermore, we have longstanding relationships across some of New Zealand's leading food and agribusinesses. We take a long-term view of supporting farmers, growers and food producers, who make a significant contribution to New Zealand's wider economic and social success.

It is within this context that we welcome the opportunity to make a submission to the Reserve Bank of New Zealand's Review of Key Capital Settings.

An overview of Rabobank’s approach to working with the rural sector

As a food and agribusiness banking specialist, Rabobank New Zealand’s lending portfolio is focused wholly on the New Zealand food and agribusiness value chain, including Kiwi farmers and growers, farm input companies, processors and exporters.

We do not provide residential and consumer lending, nor do we offer cash or retail branch services. Furthermore, we do not lend to businesses outside of the food and agribusiness value chain.

Since establishing in New Zealand in the 1990s, Rabobank has become one of New Zealand’s largest rural lenders and a significant provider of financial products and services to food and agribusinesses. We are located close to our clients, with our head office in Hamilton and our network of offices located throughout regional New Zealand.

Our business has grown significantly over the years and, as of June 30, 2025, we held 22 per cent of New Zealand’s rural lending market. Our total lending limits across rural and wholesale facilities to corporate food and agribusinesses now stand at approximately $17 billion.

In all, we have approximately 4,000 rural lending clients, 1,600 rural deposit/credit only rural clients and 31 wholesale (institutional) clients, in addition to approximately 54,000 customers in our Rabobank Online Savings business.

To date, 100% of our profits in New Zealand have remained in this country as retained earnings, financing our ongoing and growing commitment to supporting Kiwi farmers and growers. This is a compelling point of difference for us in the New Zealand market.

Our co-operative ethos remains in Rabobank’s DNA today. This, and our long-term commitment to supporting New Zealand farmers and growers through commodity, economic and climatic cycles, is the foundation of our business model.

Responding to the Reserve Bank’s Review of Key Capital Settings

Rabobank New Zealand submits that the Reserve Bank’s review of key capital settings is both welcome and timely.

Given the nature of Rabobank’s business as a rural banking specialist mandated within the Standardised risk weighting framework, we have restricted our comments to proposals for more granular Standardised capital risk weightings for agricultural lending. Separately, we have also contributed to the New Zealand Banking Association’s submission on behalf of the wider banking sector.

In short, we support the proposed new Standardised risk weightings for agricultural lending, particularly the recommended introduction of a three-tiered risk framework based on loan-to-value ratio (LVR) thresholds. We agree this approach would better align capital requirements with actual risk.

If introduced, this would provide extra flexibility in recognising the relative risk profiles of rural loans with lower LVR ratios and bring banks using the Standardised framework more closely into line with those using the Internal Ratings Based (IRB) approach.

It would mark a constructive departure from current requirements, which see all agricultural lending broadly receiving the same 100 per cent risk weighting under the existing Standardised approach, regardless of how risky the underlying lending is.

We also agree with the Reserve Bank that Standardised capital weightings should be calibrated more conservatively than under the IRB approach because IRB risk weights applied to each type of lending can vary widely. And, as the Reserve Bank also notes, Standardised frameworks tend to be less precise than IRB risk weights.

Similarly, we agree that it is fair and reasonable for the low-LVR weights to be set at a higher level for agriculture than those applied to low-LVR residential mortgage lending, given their respective risk profiles.

As we said in our submission to the Parliamentary Inquiry into Banking Competition last year, the risk profile for agricultural lending is quite different to residential lending. Agricultural lending is exposed to a range of external and international risks, including climate, market and commodity price risks, which make it a higher overall risk proposition than residential mortgage lending.

Rabobank believes the proposed changes to Standardised risk weightings for agricultural lending, while positive, will not significantly “move the dial” in terms of the provision of credit or the overall cost of funding for the agriculture sector. Capital is just one element feeding into the wider overall cost of rural funding equation.

And finally, we acknowledge that the proposed changes to the Standardised risk weighting framework will not materially alter the relative risk weightings for different classes of lending – for example, between residential and agricultural lending.

In summary, however, we are pleased to support the Reserve Bank’s proposed changes to Standardised risk weighting for the agriculture sector. Our comments above should be read alongside our answers below to the Reserve Bank’s specific questions about proposed Standardised risk weights.

Specific Reserve Bank questions about changes to Standardised risk weights

Q29: Do you agree that the Reserve Bank should introduce more granular Standardised risk weights for mortgage, corporate and agricultural lending?

We are broadly comfortable with the risk weights proposed. There needs to be a balance between granularity and simplicity. Ultimately, most lending categories could be broken into three broad segments: highly leveraged, acceptable leverage, low leverage. In this regard, we would observe a ‘low leverage’ category for agriculture could be introduced - i.e. below 30 per cent.

Q30: Do you have any comments on the proposed changes to Standardised risk weights for mortgage, corporate and agricultural lending?

See answer to Q29 above.

Q31: For deposit takers: Can you quantify the overall and sectoral impact that the proposed changes to standardised risk weights for residential mortgage, corporate, and agricultural lending would have on your institution?
We can comment only with respect to agricultural lending.

It should be noted that while Rabobank New Zealand appreciates the proposed changes in Standardised risk weights narrows the gap with IRB banks, we have had to compete in the market against the IRB banks on price for market share within the current framework. So relative funding costs have never been a factor in pricing decisions, but rather are reflected in Rabobank's lower return on capital.

In other words, the risk-weighted asset imbalance between IRB and Standardised banks has not lessened competition or competitive pricing to customers but simply makes Standardised banks relatively less profitable. Accordingly, we assess these changes will have little to no impact on availability of credit or price to agribusiness customers but rather will strengthen Standardised banks to compete.

Q.32: Would you expect more granular residential mortgage lending risk weights to lead to more differentiation in loan pricing to borrowers?

This is not applicable to Rabobank as a specialist rural bank.

Q.33: For deposit takers: Can you provide a lending breakdown for your institution by the following corporate sectors: rating, small and medium-sized enterprise retail, small and medium-sized enterprise corporate, and other unrated corporate?

As we have stated, Rabobank's lending is focused wholly on the rural sector. Our total lending limits across rural and wholesale facilities to corporate food and agribusinesses now stand at approximately $17 billion.

Thank you again for the opportunity to make this submission. Please do not hesitate to contact us if you require clarification or further information.

Todd Charteris
Chief Executive Officer
Rabobank New Zealand