

PRESS RELEASE

NOVEMBER 04, 2022

DBRS Morningstar Confirms Coöperatieve Rabobank's LT Issuer Rating at AA (low), Trend Remains Stable

BANKING ORGANIZATIONS

DBRS Ratings GmbH (DBRS Morningstar) confirmed the Long-Term Issuer Rating of Coöperatieve Rabobank U.A. (Rabobank or the Bank) at AA (low) and the Short-Term Issuer Rating at R-1 (middle). The trend on all ratings remains Stable. The support assessment remains SA3 and the Intrinsic Assessment (IA) also remains AA (low). See the full list of ratings at the end of this press release.

KEY RATING CONSIDERATIONS

The Intrinsic Assessment of AA (low) reflects the Bank's market leading retail and commercial franchise in the Netherlands, as well as its global franchise in food & agriculture finance. Credit metrics have been improving in recent years and the Bank's funding profile is solid, supported by a sound deposit base, diversified funding sources, good access to capital markets, and a large liquidity buffer. The Bank's healthy capital cushions above regulatory minimum requirements put the Bank in a strong position given the economic uncertainty resulting from factors such as high inflation and energy prices, supply chain disruptions and higher interest burdens for borrowers. The IA also reflects Rabobank's weaker profitability and efficiency metrics when compared to similarly rated peers, which is partly mitigated by the relative resilience of the Bank's core revenues.

The Stable trend reflects our expectation that Rabobank is likely to benefit from revenue tailwinds as interest rates rise. However, this could be offset by lower loan growth and higher provisioning as the economy weakens.

RATING DRIVERS

An upgrade of the Long-Term Issuer Rating would require a material improvement in profitability and efficiency metrics, combined with the Bank maintaining its low risk profile and robust capital levels.

The Long-Term Issuer Rating would be downgraded in case of a significant deterioration in asset quality indicators or profitability. A substantial reduction in its capital cushions would also be viewed negatively.

RATING RATIONALE

Franchise Combined Building Block (BB) Assessment: Very Strong/Strong

Rabobank is a one of the three major Dutch banks. With total assets of EUR 667 billion at end-June 2022, the Group is active in Retail Banking, Wholesale Banking, Rural Banking, Leasing and Real Estate. In the Netherlands the Bank has a very strong domestic position in mortgage lending. Rabobank is also a leader in the global Food & Agri finance business. In a normalised rate environment the Bank has a long-term cost-income ratio ambition in the mid-50% range and a return on equity (ROE) ambition above 8%. While we view the current interest rate developments as supportive of revenues, at the same time high inflation, energy supply and other challenges have contributed to new uncertainties regarding financial targets, not just for Rabobank but the banking sector overall. Once the new chairman of the management board is officially appointed, we anticipate some refinements of Rabobank's strategy,

but expect the main focus to remain on compliance, digitalisation, ESG transitioning and cost control.

Earnings Combined Building Block (BB) Assessment: Good

Rabobank's earnings metrics position the Bank at the lower end of its peer group. However, DBRS also notes the long-term resilience of core revenues, comprising net interest income and fees and commissions. In H1 2022, the Group reported net profit of EUR 1,571 million, down from EUR 2,160 million in H1 2021, mainly driven by a reversal of loan impairment charges and the book gains on equity stakes as stock markets weakened. This was partly offset by an improvement in net interest income (NII) and fees & commission income. Rabobank's return on equity (ROE) was 7.0% in H1 2022, in line with the Bank's 2024 ambition. Going forward, we anticipate a number of offsetting factors to affect earnings. In the short-term, we expect revenue tailwinds from the increase in interest rates, while lending volumes are still solid. However, in our view, the weakening economic environment could lead to lower loan demand and higher loan loss provisions over the medium term.

Risk Combined Building Block (BB) Assessment: Strong/Good

In DBRS Morningstar's view, Rabobank's risk profile is conservative. The loan portfolio is weighted towards the Netherlands, with 68% of the private sector loan book (including retail, wholesale, leasing, commercial real estate, and property development loans) in its domestic market at end-H1 2022. Rabobank's non-performing loan (NPL) ratio declined significantly in recent years, due to a pro-active NPL reduction strategy. The gross NPL ratio, as calculated by DBRS Morningstar was 1.9% at end-June 2022, down from 2.1% at end-FY21 and from a level of 4.2% at end-2018. Rabobank's customers also benefitted from government support measures related to the impact from the COVID-19 pandemic and the economic rebound in 2021 and H1 2022. We note that Rabobank's NPL definition is conservative. Going forward, we believe that the current economic conditions, including higher interest rates, supply chain disruptions, inflation and high energy prices in particular could lead to a manageable deterioration in asset quality. In terms of operational risk, we note that in 2021, the Dutch Central Bank (DNB) issued a draft instruction, which ordered the Group to remedy the deficiencies in its compliance with the Dutch Anti-Money Laundering Act and Anti-Terrorist Act by end-December 2024. At the same time, the DNB announced the start of a punitive enforcement procedure. We would anticipate that any potential fines would not have a material impact on the Bank's capital ratios.

Funding and Liquidity Combined Building Block (BB) Assessment: Strong/Good

DBRS Morningstar considers that Rabobank has a solid funding profile, supported by a stable deposit base, diversified funding sources and no significant refinancing concentration. The Group's loan-to-deposit ratio (LTD) as calculated by DBRS Morningstar was 112% at end-H1 2022, stabilising around this level since end-2020, when lockdowns led to an increase in savings and higher liquidity balances by corporate customers. However, the Group's LTD ratio is somewhat weaker than its international peers, which partly reflects the structural features of Rabobank's domestic market, as in the Netherlands a significant part of household savings is channelled through insurance pension schemes. We consider that this is mitigated by the Group's diversified funding mix, extended maturity profile and good liquidity. Rabobank reported a liquidity coverage ratio (LCR) of 199% and a net stable funding ratio (NSFR) of 132% at end-June 2022 which is well above the 100% requirement.

Capitalisation Combined Building Block (BB) Assessment: Strong/Good

DBRS Morningstar views Rabobank's capital position as solid. As a result of expected regulatory changes the Common Equity Tier 1 (CET1) ratio declined to 15.1% at end-H1 2022 from 17.4% at year-end 2021. However, this still represents a 500 bps cushion above regulatory minimum requirements and also well above the Group's ambition of a CET1 ratio of at least 14%. At this point, no further impact from the implementation of Basel IV is expected. The capital cushion positions Rabobank well, especially if the DNB activates a 1% countercyclical risk buffer in May 2023 or if RWAs were to increase as a result of increased credit risk in the case of an economic slowdown.

Further details on the Scorecard Indicators and Building Block Assessments can be found at <https://www.dbrsmorningstar.com/research/404929>

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

Governance (G) Factors

The subfactor 'corporate governance' is relevant to the rating of Rabobank, and this is reflected in the franchise grid grades for the bank. At end the of 2021, Rabobank received a draft instruction from the Dutch Central Bank (DNB) to rectify its deficiencies in its compliance and risk framework related to the Dutch Anti-Money Laundering and Anti-Terrorist Financing Act by December 2024 at the latest. DNB also announced that a punitive enforcement procedure will commence, with the final outcome still unknown. In the first half of 2022, Rabobank invested EUR 294 million in a know your customer (KYC) compliance program. DBRS Morningstar will continue to closely monitor the development of this and any further announcements made by DNB.

This G factor is new and was not present in the prior credit rating disclosure.

There were no Environmental/ Social factor(s) that had a significant or relevant effect on the credit analysis

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at <https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>. (17 May 2022)

Notes:

All figures are in EUR unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations <https://www.dbrsmorningstar.com/research/398692/global-methodology-for-rating-banks-and-banking-organisations> (23 June 2022). In addition DBRS Morningstar uses the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings, <https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings> (17 May 2022) in its consideration of ESG factors.

The sources of information used for this rating include Morningstar Inc. and Company Documents, Rabobank Annual Report 2021, Rabobank Investor Presentation FY2021 & H1 2022, Rabobank Interim Report 2022, Rabobank ESG Presentation October 2022. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

DBRS Morningstar does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. DBRS Morningstar's outlooks and ratings are under regular surveillance.

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. DBRS Morningstar understands further information on DBRS Morningstar historical default rates may be published by the Financial Conduct Authority (FCA) on its webpage: <https://www.fca.org.uk/firms/credit-rating-agencies>.

The sensitivity analysis of the relevant key rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/404930>

This rating is endorsed by DBRS Ratings Limited for use in the United Kingdom.

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Initial Rating Date: 09/04/2003

Last Rating Date: 05/11/2021

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For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

Ratings

Cooperatieve Rabobank U.A.

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
04-Nov-22	Long-Term Issuer Rating	Confirmed	AA (low)	Stb	EU U
04-Nov-22	Short-Term Issuer Rating	Confirmed	R-1 (middle)	Stb	EU U
04-Nov-22	Long-Term Senior Debt	Confirmed	AA (low)	Stb	EU U
04-Nov-22	Short-Term Debt	Confirmed	R-1 (middle)	Stb	EU U
04-Nov-22	Short-Term Deposits	Confirmed	R-1 (middle)	Stb	EU U
04-Nov-22	Long Term Critical Obligations Rating	Confirmed	AA (high)	Stb	EU U
04-Nov-22	Short Term Critical Obligations Rating	Confirmed	R-1 (high)	Stb	EU U
04-Nov-22	Long-Term Deposits	Confirmed	AA (low)	Stb	EU U

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