

PRESS RELEASE

MARCH 29, 2021

DBRS Morningstar Downgrades Rabobank's LT Issuer Rating to AA (low), Trend Stable

BANKING ORGANIZATIONS

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

KEY RATING CONSIDERATIONS

The ratings downgrade reflects Rabobank's consistently weaker profitability and efficiency metrics when compared to similarly rated peers, as well as the headwinds that continue to affect these metrics. The Bank has made some progress over the course of the past few years with regards to cost-base reductions and balance sheet efficiency. However, the combination of more challenging macroeconomic conditions along with the ultra-low interest rate environment has meant that Rabobank continues to face pressure on revenues and difficulties in improving its cost-income ratio and net profitability to levels in line with peers. Reflecting these challenges, in 2021 the Bank has lengthened the time horizon to achieve its targets, making it harder for the Bank to close the gap with peers.

The Intrinsic Assessment of AA (low) takes into account the Bank's very strong retail and commercial franchise in its domestic Dutch market, as well as its global franchise in food & agriculture finance. It also incorporates Rabobank's solid funding profile, underpinned by a sound deposit base, diversified funding sources and good access to capital markets as well as a large liquidity buffer. The IA incorporates the Bank's robust regulatory capital position and substantial cushions over minimum regulatory requirements, which should enable Rabobank to withstand the impact of the expected asset quality deterioration due to the coronavirus (COVID-19) pandemic.

RATING DRIVERS

An upgrade of the Long-Term Issuer Rating is unlikely in the short-term given the recent downgrade. An upgrade would require a material improvement in profitability and efficiency metrics, combined with the Bank maintaining a low risk profile and robust capital levels.

The Long-Term Issuer Rating would be downgraded if asset quality indicators, profitability or capital cushions were to come under pressure and differ materially from similarly rated peers.

RATING RATIONALE

Rabobank is a leading universal bank in the Netherlands with a very strong domestic position in mortgage lending, while globally Rabobank is an acknowledged leader in the Food & Agri sector. Over the course of the Bank's 2016-2020 Strategic Framework, Rabobank was able to reduce its reliance on wholesale funding, implement the exit of all international retail banking business and non-core activities, as well as a sizeable net staff reduction. Nevertheless, the ongoing pressure from the low interest rate environment and higher credit impairments combined with elevated compliance and digitalisation costs made it challenging for the

Bank to achieve its efficiency and profitability targets. In 2020 the Bank announced a downward revision of its 2022 cost-income ratio (CIR) goal of mid-50% to low 60% and a return on equity (ROE) of at least 8% to 6-7%. And more recently, the time horizon for these targets has been pushed to 2024. Newly announced targets include further digitalization and a reduced footprint in its domestic retail banking division, a streamlined and simplified structure on its wholesale operations, and cost savings of EUR 600 million by 2024, which will in part result in the exit of circa 1,000 employees per annum over the next 5 years.

In DBRS Morningstar's view, Rabobank's earnings metrics have been positioned at the lower end of its peer group. Revenues in 2020 were adversely affected by factors such as the divestment of international operations, the low rate environment, lower customer activity levels across all business segments and a negative impact from the corporate investment portfolio. As a result, revenues were down 8% on a reported basis and 3.5% on an like-for-like basis Year-on-Year (YoY). Cost management remains proactive with operating expenses (including regulatory levies) declining 4.7% YoY. Nevertheless, the pressure on the revenue side, which we expect to continue in 2021, resulted in a deterioration in the CIR to 65.8% from 63.3% a year earlier. Impairment charges nearly doubled to EUR 1,913 million (0.46% of customer loans) in 2020 as a result of the COVID-19 pandemic. The Bank's ROE in 2020 was 2.7%, down from 5.3% in 2019. To date, Rabobank revenues do not include any impact from its participation in TLTRO III, which could result in an additional revenue benefit of EUR 175 million in 2021, with regards to the EUR 40 billion participation in 2020. We expect revenues to remain under pressure in 2021 and anticipate impairment charges to remain elevated, though less than in 2020.

Asset quality indicators improved in 2020, with Rabobank's NPL ratio standing at 2.5% at end-FY20, (end-2019: 3.0%, end-2018: 3.5%). This was the result of the execution of Rabobank's NPL strategy, as well as the various bank-specific and government-related support measures, which have prevented asset quality deterioration. However, Rabobank is anticipating a substantial inflow of non-performing loans across its business client segments in 2021, resulting in an increase in NPLs. The Bank granted payment holidays to customers accounting for c.5% of the private sector loan portfolio, predominantly domestic retail banking and leasing customers. Of the payment holidays granted, 96% had expired by December 2020, with 89% of these exposures performing. Exposure to sectors adversely affected by the pandemic was EUR 15.3 billion at end-2020, equal to 3.7% of the private sector loan portfolio, and was split between food services, flowers, leisure and entertainment, non-food retail and transport.

DBRS Morningstar will continue to monitor the Bank's operational risk given the recent investigation from the Dutch Central Bank (DNB) that concluded that Rabobank did not meet the requirements of the injunction regarding its Know-Your-Customer (KYC) activities, received from DNB in September 2018.

Rabobank maintains a solid funding profile, supported by a stable deposit base. Over recent years, the Bank's loan-to-deposit ratio (LTD) stabilised at around 120% as per DBRS Morningstar calculations. The LTD improved to 112% at end-2020, due to a combination of higher deposits and lower lending, but still remains at the higher end compared to European peers. DBRS Morningstar notes that this partly reflects structural features of Rabobank's domestic market, as in the Netherlands a significant part of household savings is channelled through local pension schemes. In our view, the Bank's higher usage of wholesale funding is mitigated by its diversified funding mix and extended maturity profile, with no significant refinancing concentrations. Liquidity indicators are also sound with LCR at 193% and NSFR at 128% at end-2020.

We consider that Rabobank has a strong capital position, although stricter regulatory requirements will likely result in lower capital ratios going forward. However, capital cushions over minimum regulatory requirements are sound in the context of future capital requirements, including the implementation of the finalised Basel III rules ('Basel IV') to be introduced from 2023. At end-2020, Rabobank reported a Common Equity Tier 1 (CET1) ratio of 16.8%, implying a cushion of 680 bps over the MDA trigger. With the expected impact from TRIM (Targeted Review of Internal Models) and Definition of Default already absorbed, the Bank estimates the impact for remaining Basel IV RWA inflation to be around 15-18% and has an ambition of a fully-loaded CET1 ratio of >14.0% in 2024.

ESG CONSIDERATIONS

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/373262>.

The Grid Summary Grades for Coöperatieve Rabobank U.A are as follows: Franchise: Very Strong/ Strong; Earnings Power: Strong/ Good, Risk Profile: Strong; Funding/Liquidity: Very Strong/Strong; Capitalisation: Strong

Notes:

All figures are in EUR unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (8 June 2020) <https://www.dbrsmorningstar.com/research/362170/global-methodology-for-rating-banks-and-banking-organisations> . Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (3 February 2021) <https://www.dbrsmorningstar.com/research/373262/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>

For more information regarding rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: <https://www.dbrsmorningstar.com/research/357883>

The sources of information used for this rating include Coöperatieve Rabobank U.A 2020 Annual Report, Coöperatieve Rabobank U.A 2020 Investor Presentation and S&P Global Market Intelligence. 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.

Generally, the conditions that lead to the assignment of a Negative or Positive trend are 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: <http://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/376021>

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

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Initial Rating Date: May 16, 2001

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

Ratings

Coöperatieve Rabobank U.A.

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
29-Mar-21	Long-Term Issuer Rating	Downgraded	AA (low)	Stb	EU U
29-Mar-21	Short-Term Issuer Rating	Downgraded	R-1 (middle)	Stb	EU U
29-Mar-21	Long-Term Senior Debt	Downgraded	AA (low)	Stb	EU U
29-Mar-21	Short-Term Debt	Downgraded	R-1 (middle)	Stb	EU U
29-Mar-21	Short-Term Deposits	Downgraded	R-1 (middle)	Stb	EU U
29-Mar-21	Long Term Critical Obligations Rating	Downgraded	AA (high)	Stb	EU U
29-Mar-21	Short Term Critical Obligations Rating	Trend Change	R-1 (high)	Stb	EU U
29-Mar-21	Long-Term Deposits	Downgraded	AA (low)	Stb	EU U

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