

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 CREDIT RATING CONSIDERATIONS

The Intrinsic Assessment of AA (low) takes into account Rabobank's strong retail and commercial franchise in the Netherlands, as well as its strong footprint in the global food & agriculture finance business. The Bank also benefits from solid asset quality metrics, a well-diversified funding profile, and strong liquidity. Healthy capital cushions well-above regulatory minimum requirements further support the Bank's credit profile, especially given the current economic weakness, higher interest rates burdens for borrowers, and geopolitical risks that could weigh on asset quality. The IA also reflects Rabobank's somewhat weaker profitability and efficiency metrics when compared to similarly rated peers, albeit improved from the previous year due to the sharp increase in interest rates.

The Stable trend reflects our expectation that Rabobank will continue to benefit from the high interest rate environment, although these benefits are receding, as margins have likely peaked, while loan demand is weakening, expenses are still on the rise, and credit provisions are likely to increase.

CREDIT RATING DRIVERS

An upgrade of the Long-Term Issuer Rating would require a material and sustainable 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.

CREDIT RATING RATIONALE

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

Rabobank is one of three major Dutch banks with total assets of EUR 630 billion at end-June 2023. The Bank is active in Domestic Retail Banking, Wholesale & Rural Banking, Leasing and Property Development. Domestic Retail Banking is Rabobank's biggest contributor to revenues and benefits from a mature and highly concentrated market. Rabobank has a strong position in mortgage lending in the Netherlands with a market share of 19%. The Bank is also a leader in the global Food & Agri finance business. The Bank has been pursuing continued digitalisation and a reduced footprint in Domestic Retail Banking, a more streamlined and simplified structure in its wholesale operations and is on track to achieve gross cost savings of EUR 600 million by 2024 as part of

the Bank's cost initiative WIN. Over the medium-term the Bank has a cost-income ratio ambition in the mid-50% range and a return on equity (ROE) ambition above 8%. Strategically, Rabobank seeks to further strengthen its franchises in the Netherlands, in Food & Agri and Vendor Finance, while focusing on food system and energy transition.

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

Rabobank's profitability has improved in H1 2023 amid higher interest rates. In H1 2023, the Bank reported a net profit of EUR 2,528 million, up from EUR 1,276 million in H1 2022 mainly driven by strong net interest income, which offset higher operating expenses and cost-of-risk. This translated into a return on equity of 10.7% in H1 2023, a sharp rise from 5.6% in H1 2022. However, in our view, profits are expected to peak this year. While the Bank should still benefit from the higher interest rate environment, we are seeing pressure from increasing deposits rates and the reduction of the ECB minimum reserve rate to 0% on September 20, 2023 from the deposit facility rate, which was 4%. In addition, the tight monetary policy is dampening loan demand, while administrative costs are still rising and cost of risk could increase amid sluggish economic growth and higher borrowing costs for customers. Moreover, there is a risk of higher bank levies.

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 in its domestic market at end-H1 2023. Rabobank's non-performing loan (NPL) ratio improved between 2018 and 2021 due to a pro-active NPL reduction strategy, and has remained largely stable since then. The small increase in the NPL ratio as calculated by DBRS Morningstar from 2.0% at end-2022 to 2.2% at end H1 2023, was due to a more conservative NPL classification approach rather than credit deterioration. Going forward, we believe that weaker economic conditions and high interest rates could lead to a gradual deterioration in asset quality. However, unemployment is very low in the Netherlands and mortgages typically have long fixed-rate periods, supporting stability in Rabobank's large mortgage portfolio. In December 2022, Rabobank announced that it is under investigation by public prosecutors for allegedly violating Anti Money Laundering Laws. DBRS Morningstar believes the Bank has assigned considerable resources to addressing the issue and does not anticipate that any potential fines would have a material impact on the Bank's credit strength.

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

DBRS Morningstar considers that Rabobank has a solid funding profile. The Bank's reported loan-to-deposit ratio (LTD) of 109% at end-H1 2023 has been stable around this level since end-2020. Rabobank's LTD ratio is somewhat weaker than its international peers, however, in our view the stability of Rabobank's deposit base is supported by its granularity and focus on its home market. The overall funding profile also benefits from a diversified funding mix, extended maturity profile, and strong liquidity. The Bank's liquidity coverage ratio (LCR) was 169% (or 149% excluding a remaining TLTRO III position of EUR 15 billion). The net stable funding ratio (NSFR) of 134% at end-June 2023 was well above the 100% requirement.

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

DRBR Morningstar views Rabobank's capital position as solid. The Common Equity Tier 1 (CET1) ratio increased to 16.7% at end-H1 2023 from 16.0% at year-end 2022 mainly from retained earnings. This represents a 600 bps cushion above the regulatory minimum requirement of 10.7% and is also well above the Bank's ambition 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 when the DNB increases the countercyclical risk buffer for Dutch exposures to 2% in 2024 from 1% currently, or if RWAs were to increase as a result of higher credit risk associated to the current economic slowdown.

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

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

Governance

The subfactor 'corporate governance' is relevant to the rating of Rabobank, and this is reflected in the franchise grid grades for the bank. In 2021, Rabobank received an 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. In December 2022, Dutch Public Prosecutor's Office announced a criminal investigation of Rabobank for allegedly violating Anti Money Laundering Laws. Rabobank has invested significant resources into AML procedures, but might still incur a fine.

There were no Social or Environmental factors 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 (4 July 2023) - <https://www.dbrsmorningstar.com/research/416784/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>.

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/415978/global-methodology-for-rating-banks-and-banking-organisations> (22 June 2023). 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/416784/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings> in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: <https://www.dbrsmorningstar.com/about/methodologies>.

The sources of information used for this credit rating include Morningstar Inc. and Company Documents, Rabobank Annual Report 2022, Rabobank Investor Presentation FY2022 & H1 2023, Rabobank Interim Report 2023, Rabobank ESG Presentation October 2023. DBRS Morningstar considers the information available to it for the purposes of providing this credit rating to be of satisfactory quality.

DBRS Morningstar does not audit the information it receives in connection with the credit 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 credit 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://registers.esma.europa.eu/cerep-publication>. For further information on DBRS Morningstar historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see <https://data.fca.org.uk/#/ceres/craStats>.

The sensitivity analysis of the relevant key credit rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/422759>

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

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Initial Rating Date: November 21, 2003

Last Rating Date: November 4, 2022

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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
02-Nov-23	Long-Term Issuer Rating	Confirmed	AA (low)	Stb	EU U
02-Nov-23	Short-Term Issuer Rating	Confirmed	R-1 (middle)	Stb	EU U
02-Nov-23	Long-Term Senior Debt	Confirmed	AA (low)	Stb	EU U
02-Nov-23	Short-Term Debt	Confirmed	R-1 (middle)	Stb	EU U
02-Nov-23	Short-Term Deposits	Confirmed	R-1 (middle)	Stb	EU U
02-Nov-23	Long Term Critical Obligations Rating	Confirmed	AA (high)	Stb	EU U
02-Nov-23	Short Term Critical Obligations Rating	Confirmed	R-1 (high)	Stb	EU U
02-Nov-23	Long-Term Deposits	Confirmed	AA (low)	Stb	EU U
02-Nov-23	EUR 20,000,000,000 Negotiable European Commercial Paper Programme	Confirmed	R-1 (middle)	Stb	EU U

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