

DBRS Morningstar Confirms 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) takes into account the Bank's market leading retail and commercial franchise in the Netherlands, as well as its global franchise in food & agriculture finance. The Bank continues to benefit from a 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 also incorporates the Bank's regulatory capital position and substantial cushions over minimum regulatory requirements, which should enable Rabobank to withstand the impact from regulatory changes as well as a potential deterioration in asset quality when support measures related coronavirus (COVID-19) pandemic are withdrawn or should the economy recover more slowly than expected.

The ratings also reflect 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. In recent years the Bank has made some progress in cost-base reductions and balance sheet efficiency. However, 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 international 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.

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, in excess of the expected impact from the regulatory changes would also be viewed negatively.

RATING RATIONALE

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

Rabobank is a leading Dutch bank with total assets of EUR 651 billion at end-June 2021. The Group offers a wide range of products and services across Retail Banking, Wholesale Banking, Rural Banking, Private Banking, Leasing and Real Estate. The Bank has a

very strong domestic position in mortgage lending, while globally Rabobank is an acknowledged leader in the Food & Agri sector. The Bank is targeting by 2024 a cost-income ratio (CIR) goal of low 60% and a return on equity (ROE) of 6-7%. These targets were revised downwards and pushed back from 2022, reflecting the challenging environment. As part of its cost efficiency programme (WIN) the Bank pursues further digitalisation and a reduced footprint in its domestic retail banking division, a streamlined and simplified structure on its wholesale operations, and gross 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.

Earnings Combined Building Block (BB) Assessment: Good

In DBRS Morningstar's view, Rabobank's earnings metrics are positioned at the lower end of its peer group. However, in H1 2021, the Group reported net profit of EUR 2,160 million, up from EUR 227 million in H1 2020. The significant increase was attributable to solid business performance, positive asset revaluations and releases of loan loss provisions due to improved macroeconomic conditions. However, net interest income remains under pressure due to the low rate environment. Cost management remains a key priority. Operating expenses (including regulatory levies) were up 4.2% YoY to EUR 3.5 billion in H1 2021, driven by higher other administrative costs, whilst lower external staff costs and travel expenses contributed to a 3% decrease in staff costs. Despite this increase, the Group's cost-income ratio (including regulatory levies) decreased to 58% in H1 2021 compared to 65.3% in H1 2020 (and 65.8% for FY2020), due to the strong rebound in other income. Going forward, we incorporate somewhat weaker revenues into our view in the absence of revaluation gains, while pressure from the low rate environment persists and loan growth may slow.

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

Asset quality indicators continued to improve in H1 2021 with a reported NPL ratio of 2.1% at end-June 2021, down from 2.5% at end-2020 (end-2019: 3.0%). This is 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, non-performing loans may still increase across various business client segments, as government support measures are withdrawn by year-end 2021. Exposure to sectors adversely affected by the pandemic was EUR 12.6 billion at end-H1 2021 (3% of the private sector loan portfolio) compared to EUR 15.3 billion at end-2020, split between hospitality, CRE (leisure and retail), wholesale and retail trade (automotive and fashion), rental and leasing and leisure. 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.

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

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 110% at end-H1 2021, driven by the influx of deposits, but still remains at the higher end compared to European peers. DBRS Morningstar notes that this partly reflects structural features of the Dutch market, as in the Netherlands a significant part of household savings is channeled 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 229% and NSFR at 132% at end-H1 2021.

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

In our opinion 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'). At end-June 2021, the Group had a Common Equity Tier 1 (CET1) ratio of 17.2%, up from 16.8% at end-2020. The increase was mainly due to the addition of net profit to retained earnings. With the expected impact from TRIM (Targeted Review of Internal Models) and Definition of Default already absorbed, the Bank estimates the impact from the remaining Basel IV RWA inflation to be on the lower end of 15-18% and it aims to have a fully-loaded CET1 ratio of >14.0% in 2024

Further details on the Scorecard Indicators and Building Block Assessments can be found at: <https://www.dbrsmorningstar.com/research/387597>

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>.

Notes:

All figures are in EUR unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (19 July 2021) <https://www.dbrsmorningstar.com/research/381742/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>

The sources of information used for this rating include Rabobank H1 2021 Interim Report, Rabobank H1 2021 Investor Presentation, Rabobank 2020 Annual Report, Rabobank FY2020 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/387596>

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

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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
05-Nov-21	Long-Term Issuer Rating	Confirmed	AA (low)	Stb	EU U
05-Nov-21	Short-Term Issuer Rating	Confirmed	R-1 (middle)	Stb	EU U
05-Nov-21	Long-Term Senior Debt	Confirmed	AA (low)	Stb	EU U
05-Nov-21	Short-Term Debt	Confirmed	R-1 (middle)	Stb	EU U
05-Nov-21	Short-Term Deposits	Confirmed	R-1 (middle)	Stb	EU U
05-Nov-21	Long Term Critical Obligations Rating	Confirmed	AA (high)	Stb	EU U
05-Nov-21	Short Term Critical Obligations Rating	Confirmed	R-1 (high)	Stb	EU U
05-Nov-21	Long-Term Deposits	Confirmed	AA (low)	Stb	EU U

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