

## DBRS Morningstar Revises Rabobank's Trend To Negative from Stable, Confirms AA/R-1 (high)

### BANKING ORGANIZATIONS

DBRS Ratings GmbH (DBRS Morningstar) confirmed the Long-Term Issuer Rating of Coöperatieve Rabobank U.A's (Rabobank or the Group) at AA and the Short-Term Issuer Rating at R-1 (high). The trend on all ratings has been changed to Negative from Stable. The support assessment remains SA3 and the Intrinsic Assessment (IA) was maintained at AA. See the full list of ratings at the end of this press release.

### KEY RATING CONSIDERATIONS

The change of the trend to Negative on Rabobank's ratings reflects our view that the scale of economic and market disruption resulting from the coronavirus (COVID-19) pandemic is negatively affecting the Group's operating environment. This will translate in lower revenues and higher loan loss provisions in 2020 for the Group, on the back of profitability and efficiency levels that are already modest relative to similarly rated peers.

The confirmation of Rabobank's Long-Term Issuer rating at AA takes into account the Group's robust regulatory capital position and substantial cushions over minimum regulatory requirements which should withstand the impact of expected asset quality deterioration. The ratings continue to reflect the Group's very strong retail and commercial franchise in the Netherlands, as well as its global franchise in food & agriculture financing.

The implications for the medium to long-term will depend on the evolution of the outbreak, the length of the economic shutdown, as well as the transition phase of the recovery. Downward rating pressure would intensify should the crisis be prolonged.

### RATING DRIVERS

An upgrade of the Long-Term Issuer rating is unlikely given the change in trend and the already high rating level. A return of the trend to Stable would require a material improvement in profitability metrics, whilst maintaining a low risk profile and robust capital levels.

A downgrade of the Long-Term Issuer Rating could arise if profitability and asset quality metrics deteriorate significantly, despite mitigating initiatives. A significant reduction of capital cushions would also add negative rating pressure.

### RATING RATIONALE

We expect the economic consequence resulting from the COVID-19 pandemic in a very low interest rate environment will translate into lower revenues and high loan loss provisions for the remainder of 2020 and 2021. Nevertheless, DBRS Morningstar views Rabobank's leading market positions in the Netherlands, as well as its global franchise in food & agriculture financing, along with ample capital cushions, as mitigating factors.

Operating revenues are expected to weaken in spite of currently high levels of wholesale lending activity, partly due to lower volumes later in the year as well as ongoing pressure on net interest income from the ultra-low interest rates. While DBRS Morningstar recognises that costs are being proactively managed, the cost-income ratio is likely to remain above 60%, and the Group's ROE target remains at a low range of 6-7%, but still might not be met by the Group. Based on Rabobank's April 2020 macroeconomic scenario, loan impairment charges are expected to be around EUR 2 billion in 2020, up from EUR 1 billion in 2019. This compares to the Group's IBPT of EUR 3.6 billion in 2019. However, a potential downwards revision of macroeconomic scenarios could result in higher provision estimates.

In response to the COVID-19 outbreak, the Dutch authorities introduced several measures to support corporate and retail customers, including the introduction of debt moratoriums. Rabobank has also taken steps to support customers affected by COVID-19 both inside and outside the Netherlands through measures such as deferrals of loan repayments, new liquidity facilities and waivers and/or loosening of existing covenants. At end-March 2020, the Group's NPL ratio, under the EBA definition, was 2.7% - down from 3.0% at end-2019, and the Group's domestic residential mortgage lending, which accounts for approximately half of the private sector loan book, had a very low NPL ratio of 0.86% at end Q1 2020, partly offset by higher NPLs in the wholesale business. At the same time, Rabobank is anticipating a potentially substantial increase on its NPL ratio, notably in the more volatile wholesale segment. The measures by the Dutch government as well as the Group's own measures are likely to absorb some of the negative impact of the COVID-19 crisis in 2020, but it is uncertain if these measures will prevent the build-up of new NPLs. Based on its current macroeconomic scenario, Rabobank is now expecting an annualised cost of risk of 50 bps for 2020, which represents more or less double the Group's through-the-cycle run rate of 20-25 bps.

A key consideration for the confirmation of the ratings is Rabobank's strong capital position with significant cushions over regulatory minimum requirements to date. As of 1 January 2020, Rabobank reported a pro-forma CET1 ratio of 16.7% (adjusted for the removal of macro prudential measures regarding the introduction of a mortgage risk weight floor, which was originally expected to be activated in the Netherlands in autumn 2020), significantly above the minimum SREP requirement of 11.81% as of end-2019. In 2020, SREP capital requirements equaled 10.02% as the European Central Bank and the Dutch Central Bank introduced various measures in response to the COVID-19 pandemic, including the lowering of Rabobank's systemic risk buffer, and the countercyclical buffer. Rabobank still expects RWA inflation of around 25% as a result of the finalisation of Basel III rules, which has now been postponed by one year to January 2023 with a transition period of 5 years.

## ESG CONSIDERATIONS

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework and its methodologies can be found at: <https://www.dbrsmorningstar.com/research/357792>.

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 (11 June 2019) <https://www.dbrsmorningstar.com/research/346375/global-methodology-for-rating-banks-and-banking-organisations>.

The sources of information used for this rating include Rabobank's FY19 debt investor presentation, Rabobank's Webcast "Covid-19 Update", Rabobank's Annual Report for 2019, Rabobank's FY19 Results Press Release and Earnings Transcript, De Nederlandsche Bank (Dutch Central Bank), 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>.

The sensitivity analysis of the relevant key rating assumptions can be found at: <http://www.dbrsmorningstar.com/research/361437>

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Initial Rating Date: May 16, 2001

Last Rating Date: October 30, 2019

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## Ratings

### Coöperatieve Rabobank U.A.

Date Issued	Debt Rated	Action	Rating	Trend	Issued
26-May-20	Long-Term Issuer Rating	Trend Change	AA	Neg	
26-May-20	Short-Term Issuer Rating	Trend Change	R-1 (high)	Neg	
26-May-20	Long-Term Senior Debt	Trend Change	AA	Neg	
26-May-20	Short-Term Debt	Trend Change	R-1 (high)	Neg	
26-May-20	Short-Term Deposits	Trend Change	R-1 (high)	Neg	

Date Issued	Debt Rated	Action	Rating	Trend	Issued
26-May-20	Long Term Critical Obligations Rating	Trend Change	AAA	Neg	
26-May-20	Short Term Critical Obligations Rating	Trend Change	R-1 (high)	Neg	
26-May-20	Long-Term Deposits	Trend Change	AA	Neg	

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