

DBRS Morningstar Confirms Coöperatieve Rabobank at AA, Stable Trend

BANKS & TRUSTS

DBRS Ratings Limited (DBRS Morningstar) confirmed the ratings of Coöperatieve Rabobank U.A's (Rabobank or the Group), including the Long-Term Issuer Rating at AA and the Short-Term Issuer Rating at R-1 (high). The trend on all ratings is Stable. See a full list of ratings at the end of this press release.

KEY RATING CONSIDERATIONS

The confirmation of the ratings takes into consideration the Group's very strong retail and commercial franchise in the Netherlands, as well as its global franchise in food & agriculture financing. The ratings also incorporate the strong financial fundamentals of Rabobank, including a strong capital position and sound asset quality as well as the Group's strengthened funding profile and large liquidity buffers. Conversely, the ratings also reflect Rabobank's still modest profitability and efficiency levels relative to similarly rated peers.

RATING DRIVERS

Upwards pressure on the ratings is unlikely at the moment, given the already high rating level, and would require a significant improvement in profitability and efficiency metrics.

Negative rating implications could arise if (i) the Group is unable to improve its profitability and efficiency metrics despite ongoing initiatives, or (ii) there is a material deterioration in the Group's asset quality, or (iii) Rabobank is not able to adapt to the outcome of tougher regulatory requirements for capital.

RATING RATIONALE

Rabobank is a leading Dutch bank with a very strong domestic position in retail and business banking, which is complemented by a strong international franchise in the Food & Agri sector. The Group continues to execute towards its Ambitions 2020, as set out under the Strategic Framework 2016-2020 which entails capital, profitability and funding targets. Additionally, further progress has been achieved with regards to balance sheet optimisation and the disposal of non-core assets. DBRS Morningstar notes that in September 2019 the Group completed the sale of its non-Food & Agri businesses in the U.S.

DBRS Morningstar views that Rabobank has demonstrated good earnings in recent years, although at lower levels than peers due to the Group's lower risk profile. In 1H19, Rabobank posted net profit of EUR 1.2 billion, or 29% lower than the EUR 1.7 billion net profit reported in 1H18. The decrease was mainly driven by higher impairment charges and lower operating income, as the 1H18 results were positively impacted by the sale of non-core CRE assets. Net interest income (NII), which at 73% of total income in 1H19 remains a key revenue driver for Rabobank, continues to be impacted by the low interest rate environment. Nonetheless, net interest income was resilient, down 1% as reported by the Group.

The Group made progress in improving its efficiency levels albeit below plan. Rabobank's efficiency level remains modest with the Group's reported cost-income ratio (including regulatory levies) standing at 64.4% in 1H19, down from 64.6% in 1H18. This compares unfavorably with similarly rated peers. At the same time, DBRS Morningstar notes, that, excluding exceptional items, the Group's reported cost-to-income ratio was 62.3% in 1H19. However, the 53-54% cost-to-income ratio objective set in the 2016-2020 framework is challenging despite the initiatives under way. The Group remains committed to reaching this target, but timing might differ from the original target for 2020 given the pressure on revenues from low interest rates as well as the acceleration in investments in compliance and digitalisation.

Rabobank's risk profile remains sound, supported by a benign credit environment in the Netherlands. At end-June 2019, the Group's NPL ratio, under the EBA definition, was 3.2% down from 3.5% at end-2018. The Bank's domestic residential mortgage lending, which accounts for approximately half of the private sector loan book, maintained a very low NPL ratio of 0.97% at June 2019 compared to 1.2% at June 2018. DBRS Morningstar notes that the Dutch property market has shown signs of overheating in certain segments. However, DBRS Morningstar views that house price increase seems to be driven by strong demand for housing and limited housing supply while growth in net mortgage lending is subdued, partly reflecting voluntary repayments. DBRS Morningstar considers this house price increase as manageable given stricter regulatory requirements on mortgage lending since 2013, less favorable tax treatment of interest paid on mortgages, as well as a declining average loan-to-value (LTV) ratio of Rabobank's Dutch residential mortgages portfolio, down to 61% at end-June 2019 from 64% at end-2018, and 69% at end-2017. The share of residential mortgages having an LTV of over 100%, furthermore, reduced to 4.7% at end-June 2019 down from 11% at end-2017.

Rabobank maintains a solid funding profile, underpinned by its diversified funding sources as well as a large liquidity buffer. Rabobank's loan-to-deposit ratio was 120% at end-June 2019 (from 126% at end-2015). In line with the Group's Strategic Framework 2016-2020 targets, wholesale funding usage continued to reduce, reaching EUR 152 billion at end-June 2019, only marginally above the target of EUR 150 billion set for 2020. The Group's liquidity position was robust at EUR 114 billion while the liquidity coverage ratio (LCR) stood at 124% and the net stable funding ratio (NSFR) at 118% at end-June 2019.

DBRS Morningstar considers Rabobank's capital position to be strong, although tougher regulatory requirements will likely impact current capital ratios. The Group's fully loaded CET1 ratio strengthened to 15.8% at end-June 2019, mainly driven by retained profits. This provides a large cushion of 405 bps over the 11.75% minimum CET1 SREP requirement as of March 1, 2019. DBRS Morningstar anticipates the Group to continue its balance-sheet optimisation and to be able through internal capital generation to mitigate the negative impact of the potential increase in risk weighting on mortgages from autumn 2020, as recently proposed by the Dutch Central Bank, as well as the future impact of the final implementation of Basel III requirements.

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

Notes:

All figures are in Euros unless otherwise noted.

The principal applicable methodology is the Global Methodology for Rating Banks and Banking Organisations (June 2019). This can be found can be found at: <http://www.dbrs.com/about/methodologies>

The sources of information used for this rating include Company Documents, 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 twelve 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>.

Ratings assigned by DBRS Ratings Limited are subject to EU and US regulations only.

Lead Analyst: Vitaline Yeterian, Vice President, Global FIG

Rating Committee Chair: Elisabeth Rudman, Managing Director, Head of European FIG, Global FIG

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DBRS Ratings Limited









20 Fenchurch Street, 31st Floor, London EC3M 3BY United Kingdom

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Ratings

Coöperatieve Rabobank U.A.

Date Issued	Debt Rated	Action	Rating	Trend	Issued
30-Oct-19	Long-Term Issuer Rating	Confirmed	AA	Stb	
30-Oct-19	Short-Term Issuer Rating	Confirmed	R-1 (high)	Stb	
30-Oct-19	Long-Term Senior Debt	Confirmed	AA	Stb	
30-Oct-19	Short-Term Debt	Confirmed	R-1 (high)	Stb	
30-Oct-19	Short-Term Deposits	Confirmed	R-1 (high)	Stb	
30-Oct-19	Long Term Critical Obligations Rating	Confirmed	AAA	Stb	
30-Oct-19	Short Term Critical Obligations Rating	Confirmed	R-1 (high)	Stb	
30-Oct-19	Long-Term Deposits	Confirmed	AA	Stb	

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Contacts

Vitaline Yeterian

Vice President - Global FIG

+44 20 7855 6623

vyeterian@dbrs.com

Elisabeth Rudman

Managing Director, Head of European FIG - Global FIG

+44 20 7855 6655

erudman@dbrs.com

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