Creditreform Bank Rating
Coöperatieve Rabobank U.A. (Group)

Creditreform Rating

Long-Term Issuer Rating: A+
Outlook: stable

Short-Term Rating: L2

Preferred Sen. Unsec. Debt: A+
Non-Preferred Sen. Unsec. Debt: A
Tier 2 Capital: BBB+
AT1 Capital: BBB-

06 November 2019

Rating Action:

Creditreform Rating upgrades Coöperatieve Rabobank U.A. (Group) long-term issuer rating by one notch to 'A+' (Outlook: stable)

Creditreform Rating (CRA) has upgraded Coöperatieve Rabobank U.A. (Group) long-term issuer rating to 'A+' from 'A' and affirmed the short-term rating at 'L2'. The rating outlook is stable.

At the same time, we upgraded the rating of the Tier 2 capital of Rabobank to 'BBB+' and the rating of Additional Tier 1 to 'BBB-'. In addition, adjustments in our rating methodology for bank capital and debt instruments occurred because of legislative alterations in the European Union. As a result, CRA reclassifies its rating of senior unsecured debt to preferred senior unsecured debt and upgraded it to 'A+'. Moreover, CRA assigns the non-preferred senior unsecured debt, which ranks junior to preferred senior unsecured debt, the following rating: 'A'.

Please find a complete list of rating actions regarding the bank at the end of this rating update. In addition, we refer to the more detailed report of the Group from 17.05.2017 on our homepage.

Key Rating Drivers

CRA has revised the rating of Rabobank and its bank capital and debt instruments as a result of its periodic updating process for the following reasons:

- Strong improvements in its income ratios due to reduction of personnel costs
- Continuously above-average capital ratios in comparison to the peer group average
- High quality credit portfolio in non-cyclical sectors
- Slight improvement of NPL ratios despite regulatory adjustments

Rating Rationale

Rabobank's credit rating upgrade was primarily driven by its higher profitability, the considerable cost reductions combined with accelerated investments in digitalization. The economic strength of the Netherlands also had a positive impact on the rating.

Profitability

Rabobank increased its net profit continuously since 2016. Especially with consistently reducing its personnel costs, the high level of investments in digitalization and automation will enable further staff reductions. However, the ambitious target of cost income ratio of 53-54% by the end of 2020 will not be reached under current market conditions.

As a result of the higher net profit, Rabobank's income ratios are above average in the peer group comparison. ROA and RORWA also benefit from a reduction in the bank securities business and lower total assets. Ongoing restructuring efforts will stabilize the net profit in the next years.

Analysts
Tobias Stroetges
t.stroetges@creditreform-rating.de
Lead-Analyst

Philipp J. Beckmann
p.beckmann@creditreform-rating.de
Senior Analyst

Neuss, Germany

Asset Situation and Asset Quality

The assets are dominated by loans to customers, mainly in the mortgage sector or in the food and agricultural sectors. Due to regulatory adjustments of mortgage loans under IFRS 9, the asset quality figures of Rabobank partially deteriorated. This is reflected by an increase in RWA (FY2018). The peer group comparison confirms this assessment. Based on the half-year figures for 2019, the impairment charges remain at this level despite the strong Dutch economy.

Refinancing and Capital Quality

The capital ratios have improved continuously in recent years as a result of the retained earnings. All key capital ratios are above the peer group average as well as Rabobank's targeted level. In addition, the total debt is well diversified in terms of maturities, currencies and seniority.

The ratings of Rabobank's bank capital and debt instruments are affected due to our rating mechanism as a result of the upgraded issuer rating.

Liquidity

In our opinion, the overall liquidity situation of Rabobank is satisfactory.

Outlook

We consider the outlook of Rabobank's long-term issuer rating and its bank capital and debt instruments as stable. This reflects our view that Rabobank is likely to keep being profitable in the upcoming years while still having to manage its stock of non-performing exposures. However, we will observe if Rabobank is able to meet its operating cost reduction targets according to its digitalization and centralization strategy.

In addition, we assume a stable political and economic environment in Rabobank's markets of operations.

Scenario Analysis

In a scenario analysis, Rabobank's rating developed marginally better in the "best case" scenario and significantly worse in the "worst case" scenario. The ratings of bank capital and senior unsecured debt would behave similarly based on our rating mechanism. These ratings are especially sensitive to changes in total equity and to the bank capital and debt structure in general.

We could upgrade Rabobank's long-term issuer credit rating and its bank capital and debt instruments if we see a substantial improvement of the asset quality. In addition, a continuous improvement of the bank's cost income ratio and improved capital figures in the next years might lead to an upgrade as well.

By contrast, a downgrade of Rabobank's long-term issuer credit rating and its bank capital and debt instruments is likely if we see that Rabobank is not able to reach its targets according to its cost reduction strategy. In addition, a declining or not sustainable profitability or worse capital ratios might lead to a downgrade of the Rabobank's long-term issuer rating and its bank capital and debt instruments.

CRA's rating actions at a glance

Coöperatieve Rabobank U.A. (Group):

- Long-Term Issuer Rating upgraded to 'A+' from 'A', stable outlook
- Short-term rating affirmed at 'L2'
- Senior unsecured debt reclassified to preferred senior unsecured debt and upgraded to 'A+' from 'A'
- Non-preferred senior unsecured debt rated at 'A'
- Tier 2 capital upgraded to 'BBB+' from 'BBB-'
- AT1 capital upgraded to 'BBB-' from 'BB+'

Ratings Detail

Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Outlook / Short-Term **A+ / stable / L2**

Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the bank.

Preferred senior unsecured debt (PSU):	**A+**
Non-preferred senior unsecured debt (NPS):	**A**
Tier 2 (T2):	**BBB+**
Additional Tier 1 (AT1):	**BBB-**

Ratings Detail and History

Please consult our website www.creditreform-rating.de for additional information regarding the dates of publication.

Figure 1: Ratings Detail and History

Bank Issuer Rating	Rating Date	Publication Date	Result
Initialrating	17.05.2017	06.06.2017	A / stabil / L2
Monitoring	06.11.2019	08.11.2019	A+ / stabil / L2
Bank Capital and Debt Instruments	**Rating Date**	**Publication Date**	**Result**
Senior Unsecured / T2 / AT1 (Initial)	01.02.2018	08.02.2018	A- / BBB- / BB+
PSU / NPS / T2 / AT1	06.11.2019	08.11.2019	A+ / A / BBB+ / BBB-

Appendix

Figure 2: Group income statement | Source: eValueRate / CRA

Income Statement	2015	%	2016	%	2017	%	2018
Income (€000)							
Net Interest Income	9.139.000	-3,3	8.835.000	+0,1	8.843.000	-3,2	8.559.000
Net Fee & Commission Income	1.892.000	-3,5	1.826.000	+4,9	1.915.000	+0,8	1.931.000
Net Insurance Income	-	-	-	-	-	-	-
Net Trading Income	751.000	-15,6	634.000	-58,5	263.000	+34,6	354.000
Equity Accounted Results	351.000	-69,8	106.000	> +100	245.000	-0,8	243.000
Dividends from Equity Instruments	-	-	-	-	-	-	-
Other Income	3.133.000	+18,2	3.703.000	-30,3	2.581.000	+12,2	2.897.000
Operating Income	**15.266.000**	**-1,1**	**15.104.000**	**-8,3**	**13.847.000**	**+1,0**	**13.984.000**
Expenses (€000)							
Depreciation and Amortisation	1.141.000	+8,2	1.234.000	-57,5	525.000	-13,5	454.000
Personnel Expense	4.786.000	-2,2	4.680.000	-4,4	4.472.000	-4,3	4.278.000
Tech & Communications Expense	634.000	+10,9	703.000	+6,8	751.000	+7,7	809.000
Marketing and Promotion Expense	-	-	-	-	152.000	-0,7	151.000
Other Provisions	506.000	> +100	1.063.000	-32,2	721.000	-63,7	262.000
Other Expense	3.301.000	+33,2	4.396.000	-14,4	3.763.000	+4,5	3.934.000
Operating Expense	**10.368.000**	**+16,5**	**12.076.000**	**-14,0**	**10.384.000**	**-4,8**	**9.888.000**
Operating Profit & Impairment (€000)							
Pre-impairment Operating Profit	**4.898.000**	**-38,2**	**3.028.000**	**+14,4**	**3.463.000**	**+18,3**	**4.096.000**
Asset Writedowns	2.044.000	-84,8	310.000	< -100	-169.000	< -100	190.000
Net Income (€000)							
Non-Recurring Income	15.000	-	-	-	-	-	-
Non-Recurring Expense	-	-	-	-	-	-	-
Pre-tax Profit	**2.869.000**	**-5,3**	**2.718.000**	**+33,6**	**3.632.000**	**+7,5**	**3.906.000**
Income Tax Expense	655.000	+6,0	694.000	+38,0	958.000	-5,8	902.000
Discontinued Operations	-	-	-	-	-	-	-
Net Profit (€000)	**2.214.000**	**-8,6**	**2.024.000**	**+32,1**	**2.674.000**	**+12,3**	**3.004.000**
Attributable to minority interest (non-controlling interest)	75.000	-14,7	64.000	-9,4	58.000	+3,4	60.000
Attributable to owners of the parent	2.139.000	-8,4	1.960.000	+33,5	2.616.000	+12,5	2.944.000

Figure 3: Group key earnings figures | Source: eValueRate / CRA

Income Ratios (%)	2015	%	2016	%	2017	%	2018
Cost Income Ratio (CIR)	67,92	+12,04	79,95	-4,96	74,99	-4,28	70,71
Cost Income Ratio ex. Trading (CIRex)	71,43	+12,03	83,46	-7,01	76,44	-3,90	72,55
Return on Assets (ROA)	0,33	-0,02	0,31	+0,14	0,44	+0,07	0,51
Return on Equity (ROE)	5,37	-0,38	4,99	+1,76	6,75	+0,36	7,11
Return on Assets before Taxes (ROAbT)	0,42	-0,01	0,41	+0,19	0,60	+0,06	0,66
Return on Equity before Taxes (ROEbT)	6,96	-0,26	6,71	+2,46	9,17	+0,08	9,25
Return on Risk-Weighted Assets (RORWA)	1,04	-0,08	0,96	+0,39	1,35	+0,15	1,50
Return on Risk-Weighted Assets before Taxes (RORWAbT)	1,35	-0,06	1,29	+0,55	1,83	+0,12	1,95
Net Interest Margin (NIM)	1,51	-0,04	1,47	+0,09	1,56	-0,15	1,41
Pre-Impairment Operating Profit / Assets	0,72	-0,26	0,46	+0,12	0,57	+0,12	0,69
Cost of Funds (COF)	1,35	-0,09	1,26	+0,03	1,29	+0,14	1,43
Change in %Points							

Figure 4: Development of assets | Source: eValueRate / CRA

Assets (€000)	2015	%	2016	%	2017	%	2018
Cash and Balances with Central Banks	64.943.000	+30,0	84.405.000	-20,8	66.861.000	+9,7	73.335.000
Net Loans to Banks	32.434.000	-21,6	25.444.000	+7,1	27.254.000	-34,5	17.859.000
Net Loans to Customers	465.993.000	-2,8	452.807.000	-4,5	432.564.000	+1,4	438.627.000
Total Securities	43.441.000	-11,4	38.486.000	-17,8	31.643.000	-30,9	21.861.000
Total Derivative Assets	48.113.000	-11,9	42.372.000	-39,8	25.505.000	-11,2	22.660.000
Other Financial Assets	-	-	-	-	-	-	-
Financial Assets	**654.924.000**	**-1,7**	**643.514.000**	**-9,3**	**583.827.000**	**-1,6**	**574.342.000**
Equity Accounted Investments	3.672.000	-34,2	2.417.000	+4,3	2.521.000	-5,8	2.374.000
Other Investments	381.000	-23,1	293.000	-34,1	193.000	+0,0	193.000
Insurance Assets	-	-	-	-	-	-	-
Non-current Assets & Discontinued Ops	155.000	+81,3	281.000	> +100	992.000	-73,0	268.000
Tangible and Intangible Assets	9.258.000	-38,7	5.679.000	-1,6	5.589.000	-3,0	5.421.000
Tax Assets	2.583.000	-2,0	2.531.000	-24,6	1.908.000	-26,2	1.408.000
Total Other Assets	7.854.000	+0,3	7.878.000	+1,1	7.961.000	-19,2	6.431.000
Total Assets	**678.827.000**	**-2,4**	**662.593.000**	**-9,0**	**602.991.000**	**-2,1**	**590.437.000**

Figure 5: Development of asset quality | Source: eValueRate / CRA

Asset Ratios (%)	2015	%	2016	%	2017	%	2018
Net Loans/ Assets	68,65	-0,31	68,34	+3,40	71,74	+2,55	74,29
Risk-weighted Assets/ Assets	31,39	+0,49	31,88	+1,00	32,88	+1,08	33,96
NPLs*/ Net Loans to Customers	2,46	-0,11	2,35	+0,57	2,92	+0,73	3,65
NPLs*/ Risk-weighted Assets	5,38	-0,35	5,04	+1,33	6,36	+1,61	7,98
Potential Problem Loans/ NPLs*	67,04	+10,03	77,07	-12,72	64,35	+35,36	99,71
Reserves/ NPLs*	73,13	-2,78	70,35	-27,20	43,16	-19,80	23,35
Reserves/ Net Loans	1,80	-0,15	1,65	-0,39	1,26	-0,41	0,85
Net Write-offs/ Net Loans	0,44	-0,37	0,07	-0,11	-0,04	+0,08	0,04
Net Write-offs/ risk-weighted Assets	0,96	-0,81	0,15	-0,23	-0,09	+0,18	0,09
Level 3 Assets / Total Assets	0,39	-0,09	0,30	+0,11	0,40	+0,04	0,44

Change in %Points
* NPLs are represented from 2018 onwards by Stage 3 Loans.
** Potential Problem Loans are represented from 2018 onwards by Stage 2 Loans.

Figure 6: Development of refinancing and capital adequacy | Source: eValueRate / CRA

Liabilities (€000)	2015	%	2016	%	2017	%	2018
Total Deposits from Banks	19.038.000	+15,6	22.006.000	-14,0	18.922.000	+2,5	19.397.000
Total Deposits from Customers	345.884.000	+0,5	347.712.000	-2,0	340.682.000	+0,5	342.410.000
Total Debt	204.477.000	-7,3	189.588.000	-15,1	160.977.000	-4,1	154.318.000
Derivative Liabilities	54.556.000	-12,0	48.024.000	-41,5	28.103.000	-14,9	23.927.000
Securities Sold, not yet Purchased	-	-	-	-	-	-	-
Other Financial Liabilities	3.581.000	+8,2	3.874.000	+3,0	3.989.000	-100,0	0
Total Financial Liabilities	**627.536.000**	**-2,6**	**611.204.000**	**-9,6**	**552.673.000**	**-2,3**	**540.052.000**
Insurance Liabilities	-	-	-	-	-	-	-
Non-current Liabilities & Discontinued Ops	-	-	-	-	256.000	-	-
Tax Liabilities	778.000	+18,6	923.000	-30,2	644.000	+5,7	681.000
Provisions	993.000	+52,1	1.510.000	+1,8	1.537.000	-26,7	1.126.000
Total Other Liabilities	8.323.000	+1,3	8.432.000	-1,9	8.271.000	-23,3	6.342.000
Total Liabilities	**637.630.000**	**-2,4**	**622.069.000**	**-9,4**	**563.381.000**	**-2,7**	**548.201.000**
Total Equity	**41.197.000**	**-1,6**	**40.524.000**	**-2,3**	**39.610.000**	**+6,6**	**42.236.000**
Total Liabilities and Equity	**678.827.000**	**-2,4**	**662.593.000**	**-9,0**	**602.991.000**	**-2,1**	**590.437.000**

Figure 7: Development of capital ratios | Source: eValueRate / CRA

Capital Ratios (€000)	2015	%	2016	%	2017	%	2018
Total Equity/ Total Assets	6,07	+0,05	6,12	+0,45	6,57	+0,58	7,15
Leverage Ratio	5,10	+0,40	5,50	+0,50	6,00	+0,40	6,40
Phased-in: Common Equity Tier 1 Ratio (CET1)	13,50	+0,20	13,70	+2,10	15,80	+0,20	16,00
Phased-in: Tier 1 Ratio (CET1 + AT1)	16,40	+0,60	17,00	+1,80	18,80	+0,70	19,50
Phased-in: Total Capital Ratio (CET1 + AT1 + T2)	23,20	+1,30	24,50	+1,70	26,20	+0,40	26,60
Fully Loaded: Common Equity Tier 1 Ratio (CET1)	12,00	+1,50	13,50	+2,00	15,50	+0,50	16,00
SREP Capital Requirements	-	-	11,75	-2,75	9,00	+1,38	10,38
MREL / TLAC Ratio	-	-	25,40	+1,40	26,80	+4,16	30,96
Change in %Points							

Figure 8: Development of liquidity | Source: eValueRate / CRA

Liquidity (%)	2015	%	2016	%	2017	%	2018
Net Loans/ Deposits (LTD)	134,73	-4,50	130,22	-3,25	126,97	-5,74	121,23
Interbank Ratio	170,36	-54,74	115,62	+28,41	144,03	-51,96	92,07
Liquidity Coverage Ratio	135,00	-5,00	130,00	-7,00	123,00	+12,00	135,00
Customer Deposits / Total Funding (excl. Derivates)	59,32	+1,25	60,57	+3,07	63,65	+5,37	69,01
Net Stable Funding Ratio (NSFR)	116,00	+5,00	121,00	-2,00	119,00	+0,00	119,00
Change in %Points							

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third party for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating.

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by eValueRate / CRA. Subject to a peer group analysis were 24 competing institutes.

The information and documents processed met the requirements of the rating system of Creditreform Rating AG as published on the website www.creditreform-rating.de. The rating was carried out on the basis of the rating methodology for bank ratings as well as the methodology for the rating of bank capital and unsecured debt instruments in conjunction with Creditreform`s basic document "Rating Criteria and Definitions".

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document "Rating Criteria and Definitions" is published on the following homepage:

www.creditreform-rating.de/de/regulatory-requirements/.

On 06 November 2019, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to Coöperatieve Rabobank U.A. (Group) and the preliminary rating report was made available to the bank. There was no change in the rating score.

The rating is valid until withdrawal and is subject to monitoring from the rating date (see cover page). The rating will be comprehensively reviewed at least once every year. Within this period, the rating can be updated.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

1. Aggregated data base by eValueRate

2. Annual Report and interim reports

3. Investors relations information and other publications

4. Website of the rated bank

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

The "Basic data" information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In case where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating and indicates how the different methodologies or these other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained in mentioned methodologies and / or in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the "Basic data" card as a "Rating action"; first release is indicated as "initial rating", other updates are indicated as an "update", "upgrade or downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within „Basic data" information card.

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of Creditreform`s default rates are available in the credit rating methodologies disclosed on the website.

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Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. This rating is therefore no statement of fact, but an opinion. For this reason, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings. Neither should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at corporate or investment decisions. Ratings are not meant to be used as substitutes for one's own research, inquiries and assessments.

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Creditreform Rating AG

Contact information

Creditreform Rating AG
Hellersbergstraße 11
D-41460 Neuss

Phone +49 (0) 2131 / 109-626
Fax +49 (0) 2131 / 109-627

E-Mail info@creditreform-rating.de
www.creditreform-rating.de

CEO: Dr. Michael Munsch

Chairman of the Board: Prof. Dr. Helmut Rödl
HR Neuss B 10522