

Rating Action: Moody's affirms Rabobank's deposit and senior unsecured debt ratings of Aa2, outlook is stable

24 Sep 2021

BCA of a3 also affirmed

Paris, September 24, 2021 -- Moody's Investors Service ("Moody's") today affirmed the Aa2 long-term deposit and senior unsecured debt ratings of Rabobank with a stable outlook. Moreover, Moody's affirmed Rabobank's Baseline Credit Assessment (BCA) and Adjusted BCA at a3. The rating agency also affirmed Rabobank's subordinated debt rating at Baa1, its long-term senior non-preferred unsecured debt rating at A3, and its Additional Tier 1 (AT1) securities at Baa3(hyb).

A list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

AFFIRMATION REFLECTS THE BANK'S SOUND AND STABLE FUNDAMENTALS

The affirmation of Rabobank's BCA of a3 reflects Moody's expectation that the bank's well-entrenched and low risk profile, as well as its strong financial fundamentals, will continue to support its strong solvency profile. The bank's leading position, both in the retail and wholesale markets, and strong franchise in the agribusiness sector globally are the primary drivers of its relatively stable, although modest, underlying earnings generation capacity. Rabobank's profitability has been constrained in recent years by the low interest rate environment in the Eurozone and subdued lending activities, stemming from Rabobank's decision to optimize risk-weighted assets in anticipation of Basel III finalization. Profitability was also negatively affected by high covid-related provision costs in 2020, but rebounded strongly in the first half of 2021, with a net income of €2.2 billion, at par with full-year 2019 profit. The surge in net profit was supported by a rebound in equity markets and a €274 million loan loss provision release, but core revenues were also sound, with fees up 15% year-on-year and net interest income stable year-on-year. Moody's considers that despite low interest rates, elevated bank taxes and other regulatory levies and high operating expenses, the resilience of the bank's core earnings streams and structural cost savings from the ongoing efficiency programme will allow Rabobank to reach its profitability target of a cost-to-income ratio in the low 60% and 6-7% return on equity by 2024 (66% and 2.7%, respectively, in 2020).

The affirmation of the a3 BCA is also underpinned by the bank's good and stable capitalization (Common Equity Tier 1 ratio was 17.2% at end-June 2021), which provides a strong loss-absorption capacity, and low asset risk. Moody's views Rabobank's asset quality as sound, because of (1) its relatively conservative underwriting policy, and (2) strong track record of low credit losses. The bank has a high share (46% of the private sector loan portfolio as of end-June 2021) of low-risk domestic mortgages in its loan book, while its exposure to vulnerable sectors most affected by the Covid-related lockdown restrictions is moderate, at 3% of the loan book. Problem loans had declined in recent years, partly as a result of proactive non-performing loan management (down to 2.8% as of end June 2021 from 3.6% at YE 2019, Moody's calculations). Although Moody's expects problem loans to increase as Covid-related government support measures subside, the build-up of problem loans should remain contained in a context of a strong economic recovery in the Netherlands.

Finally, the rating agency's affirmation of the BCA reflects Rabobank's robust funding structure. Similar to other Dutch banks, Rabobank relies on wholesale funding, but this reliance has been markedly reduced over the last few years (market funding decreased to 29.5% of tangible banking assets as of end-June 2021, from 39.5% in 2014) and is mitigated by sizeable liquidity buffers and the long duration of its funding.

Moody's affirmation of Rabobank's deposit and senior unsecured debt ratings of Aa2 reflects the affirmation of (1) Rabobank's BCA of a3; (2) three notches of uplift from Moody's Advanced Loss Given Failure (LGF) analysis; and (3) one notch of uplift stemming from a moderate probability of government support.

The bank's dated subordinated debt instruments are rated one notch below the bank's BCA to reflect their high loss-given-failure. The AT1 securities are rated three notches below the bank's BCA to reflect the high loss-given-failure, the optional coupon-skip mechanism and the non-cumulative nature of its coupons.

OUTLOOK

The outlook on Rabobank's deposit and senior unsecured debt ratings is stable, reflecting Moody's expectation that Rabobank's strong capitalization, modest but stable profitability and contained asset quality deterioration will remain consistent with a BCA of a3.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's could upgrade the BCA, and consequently the long-term deposit and senior unsecured debt ratings, if (1) Rabobank improved its structural profitability beyond its current plans, and (2) the increase in non-performing loans were contained.

Moody's could downgrade the BCA if (1) the bank's profitability were to significantly decrease or become more volatile, or (2) its asset quality were to deteriorate materially. Rabobank's long-term deposit and senior unsecured debt ratings would be downgraded as a consequence of a downgrade of the bank's BCA.

Rabobank's deposit and senior unsecured debt ratings could also be downgraded as a result of a higher loss-given-failure because of lower volumes of these instruments or lower amounts of subordinated debt, or both.

LIST OF AFFECTED RATINGS

Issuer: Rabobank

..Affirmations:

-Long-term Counterparty Risk Ratings, affirmed Aa2
-Short-term Counterparty Risk Ratings, affirmed P-1
-Long-term Bank Deposits, affirmed Aa2, outlook remains Stable
-Short-term Bank Deposits, affirmed P-1
-Long-term Deposit Note/CD Program, affirmed (P)Aa2
-Short-term Deposit Note/CD Program, affirmed P-1
-Short-term Deposit Note/CD Program, affirmed (P)P-1
-Long-term Counterparty Risk Assessment, affirmed Aa2(cr)
-Short-term Counterparty Risk Assessment, affirmed P-1(cr)
-Long-term Issuer Rating, affirmed Aa2, outlook remains Stable
-Baseline Credit Assessment, affirmed a3
-Adjusted Baseline Credit Assessment, affirmed a3
-Senior Unsecured Regular Bond/Debenture, affirmed Aa2, outlook remains Stable
-Backed Senior Unsecured Regular Bond/Debenture, affirmed Aa2, outlook remains Stable
-Senior Unsecured Medium-Term Note Program, affirmed (P)Aa2
-Backed Senior Unsecured Medium-Term Note Program, affirmed (P)Aa2
-Junior Senior Unsecured Regular Bond/Debenture, affirmed A3
-Junior Senior Unsecured Medium-Term Note Program, affirmed (P)A3
-Subordinate Regular Bond/Debenture, affirmed Baa1
-Backed Subordinate Regular Bond/Debenture, affirmed Baa1

...Subordinate Medium-Term Note Program, affirmed (P)Baa1

...Preferred Stock Non-cumulative, affirmed Baa3 (hyb)

...Commercial Paper, affirmed P-1

...Other Short Term, affirmed (P)P-1

...Backed Other Short Term, affirmed (P)P-1

..Outlook Action:

...Outlook remains Stable

Issuer: Rabo Capital Securities Limited

..Affirmation:

...Preferred Stock Non-cumulative, affirmed Baa3 (hyb)

..No Outlook assigned

Issuer: Rabobank Australia Limited

..Affirmations:

...Backed Long-term Bank Deposits, affirmed Aa2, outlook remains Stable

...Backed Short-term Bank Deposits, affirmed P-1

..Outlook Action:

...Outlook remains Stable

Issuer: Rabobank Capital Funding Trust IV

..Affirmation:

...Preferred Stock Non-cumulative, affirmed Baa3 (hyb)

..No Outlook assigned

Issuer: Rabobank Ireland plc

..Affirmation:

...Backed Commercial Paper, affirmed P-1

..No Outlook assigned

Issuer: Rabobank London

..Affirmations:

...Long-term Deposit Note/CD Program, affirmed (P)Aa2

...Short-term Deposit Note/CD Program, affirmed (P)P-1

...Commercial Paper, affirmed P-1

..No Outlook assigned

Issuer: Rabobank Polska SA

..Affirmation:

...Backed Commercial Paper, affirmed P-1

..No Outlook assigned

Issuer: Rabobank USA Financial Corporation

..Affirmation:

...Backed Commercial Paper, affirmed P-1

..No Outlook assigned

Issuer: Rabobank, Australia Branch

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed Aa2

...Short-term Counterparty Risk Ratings, affirmed P-1

...Long-term Deposit Note/CD Program, affirmed (P)Aa2

...Short-term Deposit Note/CD Program, affirmed (P)P-1

...Long-term Counterparty Risk Assessment, affirmed Aa2(cr)

...Short-term Counterparty Risk Assessment, affirmed P-1(cr)

...Senior Unsecured Regular Bond/Debenture, affirmed Aa2, outlook remains Stable

...Senior Unsecured Medium-Term Note Program, affirmed (P)Aa2

...Subordinate Medium-Term Note Program, affirmed (P)Baa1

...Commercial Paper, affirmed P-1

...Other Short Term, affirmed (P)P-1

..Outlook Action:

...Outlook remains Stable

Issuer: Rabobank, Hong Kong Branch

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed Aa2

...Short-term Counterparty Risk Ratings, affirmed P-1

...Long-term Deposit Note/CD Program, affirmed (P)Aa2

...Short-term Deposit Note/CD Program, affirmed (P)P-1

...Long-term Counterparty Risk Assessment, affirmed Aa2(cr)

...Short-term Counterparty Risk Assessment, affirmed P-1(cr)

..No Outlook assigned

Issuer: Rabobank, New York Branch

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed Aa2

...Short-term Counterparty Risk Ratings, affirmed P-1

...Long-term Bank Deposits, affirmed Aa2, outlook remains Stable
...Long-term Deposit Note/CD Program, affirmed (P)Aa2
...Short-term Deposit Note/CD Program, affirmed (P)P-1
...Long-term Counterparty Risk Assessment, affirmed Aa2(cr)
...Short-term Counterparty Risk Assessment, affirmed P-1(cr)
...Senior Unsecured Regular Bond/Debenture, affirmed Aa2, outlook remains Stable
...Senior Unsecured Medium-Term Note Program, affirmed (P)Aa2
...Commercial Paper, affirmed P-1
...Other Short Term, affirmed (P)P-1
..Outlook Action:

....Outlook remains Stable

Issuer: Rabobank, New Zealand Branch

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed Aa2
...Short-term Counterparty Risk Ratings, affirmed P-1
...Long-term Deposit Note/CD Program, affirmed (P)Aa2
...Short-term Deposit Note/CD Program, affirmed (P)P-1
...Long-term Counterparty Risk Assessment, affirmed Aa2(cr)
...Short-term Counterparty Risk Assessment, affirmed P-1(cr)
...Senior Unsecured Regular Bond/Debenture, affirmed Aa2, outlook remains Stable
...Senior Unsecured Medium-Term Note Program, affirmed (P)Aa2
...Subordinate Medium-Term Note Program, affirmed (P)Baa1
...Commercial Paper, affirmed P-1
...Other Short Term, affirmed (P)P-1

..Outlook Action:

....Outlook remains Stable

Issuer: Rabobank, Paris Branch

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed Aa2
...Short-term Counterparty Risk Ratings, affirmed P-1
...Short-term Deposit Note/CD Program, affirmed P-1
...Long-term Counterparty Risk Assessment, affirmed Aa2(cr)
...Short-term Counterparty Risk Assessment, affirmed P-1(cr)

..No Outlook assigned

Issuer: Rabobank, Singapore Branch

..Affirmations:

- ...Long-term Counterparty Risk Ratings, affirmed Aa2
- ...Short-term Counterparty Risk Ratings, affirmed P-1
- ...Long-term Counterparty Risk Assessment, affirmed Aa2(cr)
- ...Short-term Counterparty Risk Assessment, affirmed P-1(cr)
- ...Commercial Paper, affirmed P-1
- ..No Outlook assigned

Issuer: Rabobank, The Netherlands Branch

..Affirmations:

- ...Long-term Counterparty Risk Ratings, affirmed Aa2
- ...Short-term Counterparty Risk Ratings, affirmed P-1
- ...Long-term Counterparty Risk Assessment, affirmed Aa2(cr)
- ...Short-term Counterparty Risk Assessment, affirmed P-1(cr)
- ..No Outlook assigned

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1269625 . Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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Roland Auquier
Vice President - Senior Analyst
Financial Institutions Group
Moody's France SAS
96 Boulevard Haussmann
Paris 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Olivier Paris
Senior Vice President
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's France SAS
96 Boulevard Haussmann
Paris 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454



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