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ISSUER COMMENT

Rabobank's Sale of Stake in Van Lanschot Kempen Is Credit Positive

From Credit Outlook

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Last Tuesday, Rabobank (Aa2/Aa2 negative, a2[1]) announced that it had sold its 9.74% stake in Van Lanschot Kempen (unrated), a Dutch private banking specialist, to institutional investors for a total consideration of approximately €101 million. The transaction, which was realised at a discount of 4.6% to the closing share price on 11 September, is credit positive because it shows that Rabobank is deleveraging its balance sheet, in part through the sale of non-core assets.

The sale follows Rabobank's sale of a 2.3% stake in Van Lanschot Kempen in October 2016, which had allowed Rabobank to get more favourable regulatory capital treatment.[2] After last week's sale, Rabobank has no remaining stake in Van Lanschot Kempen, which had come into Rabobank's possession through the acquisition of Friesland Bank N.V. (Aa2/Aa2 negative) in 2012. The effect of the sale on Rabobank's common equity Tier 1 (CET1) ratio is insignificant, although positive.

Since the October 2015 announcement of a strategic plan taking the bank to 2020, Rabobank has sold non-core assets and shed low-risk-weighted mortgage loans. During the period, Rabobank sold Athlon Car Lease (unrated) for a balance-sheet reduction of approximately €4 billion, mortgage portfolios totalling €1.8 billion, and real estate financing subsidiary RNHB (unrated) with a loan portfolio of around €1.7 billion. The bank also sold its remaining stake in Robeco (unrated) for a €200 million decrease in assets and transferred the risk on part of the corporate loan portfolio to a third party for a €1 billion decrease in risk-weighted assets.

Since year-end 2015, Rabobank has reduced its private-sector loan portfolio by 3.7% to €418 billion and its risk-weighted assets by 2.6% to €208 billion. As a result, Rabobank managed to reduce wholesale funding to €171 billion as of 30 June 2017 from €203 billion at year-end 2015, with the aim of reaching a level below €150 billion by 2020.

These deleveraging efforts are credit positive because of their positive effect on regulatory capital ratios and leverage. Rabobank's fully loaded CET1 ratio increased to 14.7% at 30 June 2017 from 12.0% at year-end 2015, while its leverage ratio improved to 5.8% from 5.1%.

What is Moody's Credit Outlook?

Published every Monday and Thursday morning, Moody's Credit Outlook informs our research clients of the credit implications of current events.

1 The bank ratings shown in this report are the bank's deposit rating, senior unsecured debt rating and baseline credit assessment where available.

2 Equity holdings of financial institutions accounted for under available-for-sale bear a risk weight of 250% if they remain below 10% of the bank's common equity Tier 1 ratio. Above this level, the holdings are fully deducted from CET1.

The issuance of €1.5 billion of so-called Rabobank Certificates in January 2017 also added 80 basis points to the bank's CET1 ratio. Rabobank is particularly active ahead of the potential introduction of so-called Basel IV regulations, because, as with other European banks with large retail franchises, Rabobank has a high proportion of low-risk-weighted residential mortgage loans (47% of its private-sector loan portfolio as of 30 June 2017, with an average risk weight of 13.4%[3]). Basel IV may impose higher risk weights on certain assets through the introduction of output floors to internal models.

[3] Internal rating-based (IRB) exposure risk weight for retail exposure secured by real estate.

Report Number: 197382

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