MOODY'S INVESTORS SERVICE

ISSUER COMMENT

Rabobank Launches Capital Increase, a Credit Positive

From Credit Outlook

Analyst Contacts:

PARIS +33.1.5330.1020

Guillaume Lucien-Baugas +33.1.5330.3350
Vice President - Senior Analyst
guillaume.lucien-baugas@moodys.com

Last Wednesday, Netherland-based Rabobank (Aa2/Aa2 negative, a2[1]) announced that it will issue Rabobank Certificates to retail and institutional investors in an effort to raise a minimum of €1 billion of capital. The capital increase is credit positive because it will strengthen Rabobank's capitalisation ahead of expected increases in capital requirements.

The €1 billion issuance is a 17% increase of the current €5.9 billion of outstanding Rabobank Certificates. We estimate that the issuance will increase Rabobank's CET1 capital ratio by a minimum of 48 basis points, based on the bank's risk-weighted assets as of the end of June 2016. This is a low-end estimate because the final amount of new Rabobank Certificates may well be above €1 billion.

The Rabobank Certificates are perpetual and deeply subordinated. They are Rabobank's most subordinated capital instruments and they qualify as common equity Tier 1 (CET1) capital. Although coupons are fully discretionary, which is a requisite for qualifying as CET1 capital, Rabobank currently intends to pay a distribution of 150 basis points on top of the Dutch government 10-year yield, with a minimum of 6.5% per year on the €25 nominal value of each certificate.

Rabobank's transitional CET1 ratio was 13.4% at the end of June 2016, compared with the Supervisory Review and Evaluation Process' minimum CET1 capital requirement of 9% for 2017, which was announced in December last year. The 9% CET1 requirement is the sum of the Pillar 1 requirement of 4.5%, a Pillar 2 requirement of 1.75%, the phase in of a capital conservation buffer of 1.25% and a systemic risk buffer of 1.5% that the Dutch Central Bank imposed in 2017.

Notwithstanding the large CET1 capital buffer above the minimum requirement, Rabobank is increasing its capital base for several reasons. The fully loaded CET1 ratio was only 12.4% at the end of June 2016, rather than 13.4% under transitional rules that will be phased out by 2019. The CET1 requirement will also increase with the phase in of the capital conservation buffer to 2.5% and the systemic risk buffer to 3.0%, which will bring Rabobank's CET1 requirement to 11.75% in 2019, other things being equal (for example, assuming that Pillar 2 requirement will not increase). Additionally, upcoming changes related to the so-called Basel IV proposals for the calculation of risk-weighted assets may significantly affect Rabobank's CET1 ratio if the bank becomes subject to higher capital charges on its portfolio of low-risk-weighted residential mortgages, which comprised a high 43% of the bank's balance sheet as of the end of June 2016.

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 Rabobank's deposit rating, senior unsecured debt rating and baseline credit assessment.

Therefore, the certificate issuance proceeds will help the bank achieve its target of at least a 14% CET1 ratio and a 25% total capital ratio by 2020. The issuance gives Rabobank more flexibility to execute its Strategic Framework 2016-20, including focussing on a more flexible and reduced balance sheet. Rabobank's total capital ratio, which includes Additional Tier 1 securities and Tier 2 debt, was 23.5% as of the end of June 2016. Because the bank plans to increase its CET1 capital by issuing certificates, it has adjusted its target for Additional Tier 1 to approximately 2% of risk-weighted assets from the 3.5% it initially contemplated. Overall, the quality of capital in Rabobank's Tier 1 ratio and total capital ratio will improve.

Report Number: 194044

Author
Guillaume Lucien-Baugas

Production Specialist
Shubhra Bhatnagar

MOODY'S
INVESTORS SERVICE