Financial Institutions Ratings Coöperatieve Rabobank U.A. – AT1 rating report

Security ratings

Outlook	Stable
5.5% EUR 1.5bn perpetual AT1 contingent temporary write down capital securities	BBB-
6.625% EUR 1.25bn perpetual AT1 contingent temporary write down capital securities	BBB-

The ratings were not solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope assigns a rating of BBB-, with Stable Outlook, to the above referenced contingent temporary write down AT1 securities issued by Rabobank. The ratings are based on the following:

- Senior unsecured debt: A+, Stable Outlook
- Minimum notches down from the senior unsecured debt rating: 4
- Additional notches: 1

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating. The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going-concern loss-absorbing features and investors' exposure to coupon-cancellation risks.

The additional notch for these securities reflects the following:

- The existence of two write-down triggers based on CET1 transitional ratios: one to be met on a consolidated basis (Rabobank Group) at 7% and one on an unconsolidated basis at 5.125%.
- Two sets of minimum capital requirements relevant for distribution restrictions, on a consolidated and unconsolidated basis. Upon (any) breach of the Combined Buffer Requirement (CBR), the Maximum Distributable Amount (MDA) may have to be calculated at both levels, and uncertainty remains as to which amount would be the relevant one.
- The presence of requirements and a trigger at the issuer level reduces the benefits deriving from the diversification of activities and links the risk of these securities to Rabobank's earnings capacity in its domestic market.

Please also refer to Scope's Bank Capital Instruments Rating Methodology published in May 2018 for more details.

The release of this rating report does not constitute a rating action. Last rating action was assigned on 15.06.2017. For further information on the last rating action and regulatory information please click here.

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Issuer credit profile

The Issuer Rating of AA- for Rabobank reflects the group's position in the Netherlands as a leading and relatively low-risk cooperative bank as well as its prime positioning in the global food and agricultural business. The group enjoys a reputation for being prudently managed, and this is reflected in its robust capital position and resilient performance throughout the financial crisis. Scope has a positive view of management's efforts to adapt the group and its business to a changing operating and regulatory environment as demonstrated by the good progress made in balance sheet optimisation and the continuous focus on cost reduction.

Summary terms

Issuer	Coöperatieve Rabobank U.A.
Issue Date	**January 2015**
Amount	EUR 1.5bn
Coupon	• 5.50% fixed until first call date, reset every five years thereafter • After first call date, rate equal to 5Y mid-market EUR swap rate plus 5.25% • Payable semi-annually
Format	• Perpetual Additional Tier 1 contingent temporary write-down capital securities, callable on 20 June 2020 and every interest payment date thereafter
ISIN	XS1171914515

Issue Date	April 2016
Amount	EUR 1.25bn
Coupon	• 6.625% fixed until first call date, reset every five years thereafter • After first call date, rate equal to 5Y mid-market EUR swap rate plus 6.697% • Payable semi-annually
Format	• Perpetual Additional Tier 1 contingent temporary write-down capital securities, callable on 29 June 2021 and every interest payment date thereafter
ISIN	XS1400626690

Main Risks	
Coupon Cancellation	• Fully discretionary • Mandatory if coupon payments on all own funds instruments a) would exceed the Distributable Items of the issuer; or b) would cause the Maximum Distributable Amount (MDA) then applicable to the issuer to be exceeded. Cancellation is also subject to the competent supervisory authority's decision.
Principal Loss Absorption	• If Rabobank's CET1 ratio (on a consolidated basis) falls below the trigger level (7%) and/or the CET1 calculated on an unconsolidated basis falls below 5.125%, the issuer must reduce the current principal amount of each note by the relevant write-down amount, in a sufficient proportion to bring the CET1 ratios above the triggers or to reduce the principal amount to one cent • The issuer may, at its full discretion and subject to the MDA, increase the current principal amount of each note up to a maximum of the original principal amount on a pro-rata basis with the other notes • Resolution authorities may reduce the principal amount of the notes to zero on a permanent basis or convert the notes into CET1 capital at the point of non-viability (PONV) or in any case in the context of regulatory bail-in.
Trigger for Principal Loss Absorption	Rabobank Group CET1 ratio < 7% and/or Local Rabobank Group CET1 ratio < 5.125% on a transitional basis

Source: Prospectuses, Scope Ratings

Key risks

A. Coupon cancellation

Key risk: Coupon cancellation

Coupon payments on the securities are fully discretionary and are subject to distribution restrictions.

Furthermore, coupons are mandatorily cancelled if there are insufficient distributable items (based on issuer accounts on an unconsolidated basis) or if payments exceed the MDA. The MDA is calculated if the issuer does not meet its CBR.

Available Distributable Items

Coupons are mandatorily cancelled if available distributable items are insufficient. On 31 December 2017 Rabobank's ADIs stood at EUR 25.4bn.

Combined Buffer Requirement

Article 141 of CRD IV imposes certain restrictions on discretionary distributions (dividends, variable remuneration and payments on AT1 securities) if the CBR is not met. The CBR is composed of the capital conservation buffer, the countercyclical buffer and systemic risk buffers as applicable. The MDA needs to be calculated, if banks supervised by the ECB do not meet both Pillar 1 and Pillar 2 capital requirements as well as the CBR.

Rabobank is subject to a double requirement: at Rabobank Group level, including subsidiaries, and on an unconsolidated basis, hence excluding subsidiaries (the Local Rabobank Group).

Rabobank Group

By 2019 we estimate that Rabobank Group will need to maintain a CET1 ratio (relevant for distribution restrictions) of at least 11.75%, a Tier 1 capital ratio of 13.25% and a total capital ratio of 15.25%. This assumes an unchanged Pillar 2 requirement, the phasing in of the capital conservation and systemic risk buffer and no countercyclical buffer will be imposed.

As of YE2017 Rabobank Group's CET1 ratio stood at 15.8% on a transitional basis, 540 bps above the 2018 requirement, and 15.5% on a fully loaded basis (510 bps). The management has targeted a minimum CET1 ratio of above 14% by 2020 and a total capital ratio of above 25%.

To date, the distance to these requirements is at the top end of our rated banks, in particular the total capital ratio. This is consistent with Rabobank's success in building a sizeable buffer, at present mostly comprising CET1 capital and capital instruments, in order to protect senior unsecured bondholders.

Table 1: Distance to Combined Buffer Requirement

	2017	2018	2019
Required CET1 associated with distribution restrictions:	**9.0%**	**10.4%**	**11.8%**
Combined buffer (CBR)			
- Capital conservation	1.25%	1.88%	2.50%
- Systemic	1.50%	2.25%	3.00%
- Countercyclical	0.00%	0.00%	0.00%
Pillar 2 CET1 requirement	1.75%	1.75%	1.75%
Pillar 1 CET1 requirement	4.50%	4.50%	4.50%
Rabobank Group CET1, transitional (%)	15.8%	Target >14% by 2020	
Distance to CET1 requirement incl. CBR (%)	**6.8%**		
Distance to CET1 requirement incl. CBR (EUR bn)	**13.4**		
Rabobank Group Tier 1, transitional (%)	18.8%		
Required Tier 1 incl. CBR (%)	10.5%	11.9%	13.3%
Distance to Tier 1 requirement incl. CBR (%)	**8.3%**		
Rabobank Group total capital, transitional (%)	26.2%	Target >25% by 2020	
Required total capital, incl. CBR (%)	12.5%	13.9%	15.3%
Distance to total capital requirement incl. CBR (%)	**13.7%**		
RWAs (EUR bn)	198		

Source: Company data, Scope Ratings

Rabobank: unconsolidated basis

The Local Rabobank Group is subject to a minimum CET1 requirement, relevant for distribution restrictions, of 8.125% in 2018. This comprises a minimum Pillar 1 requirement of 4.5%, a Pillar 2 of 1.75% and a Capital Conservation Buffer (CCB) of 1.875%. Rabobank is not subject to a systemic buffer at the unconsolidated level. We estimate that, assuming Pillar 1 and Pillar 2 requirements stay the same, the phasing-in of the CCB will result in a 2019 fully loaded requirement of 8.75%.

In 2018, the minimum requirement for Tier 1 and total capital, including the CCB, is 9.625% and 11.625% respectively; ceteris paribus and with the phasing-in of the CCB, these requirements will increase to 10.25% and 12.25% in 2019.

As of year-end 2017 the issuer reported a transitional CET1 ratio of 15.5%, which allows Rabobank to also meet its ‘unconsolidated’ requirement. Uncertainties remain regarding the consequences of a breach of any of these requirements, especially which MDA (based on consolidated or unconsolidated accounts) should be considered.

B. Principal loss absorption

Key risk: Principal loss absorption

The mechanism for loss absorption is temporary write-down

The rated securities have two triggers:

- Rabobank Group CET1 ratio < 7% and/or Local Rabobank Group CET1 ratio < 5.125% on a transitional basis

At its discretion, the group may write-up the principal amount out of net profits, subject to the constraint of the MDA.

Distance to trigger

Both Rabobank Group’s CET1 ratio and the CET1 ratio based on unconsolidated accounts were comfortably above the trigger as of YE 2017.

Table 2: Distance to trigger

	2017	2018	2019
Trigger level	7.0%	7.0%	7.0%
Rabobank Group CET1, transitional (%)	15.8%	FL Target >14% by 2020	
Distance to trigger (%)	**8.8%**		
Distance to trigger (EUR bn)	**18.5**		

Based on EUR 198bn of RWAs at YE2017.

	2017	2018	2019
Trigger level	5.125%	5.125%	5.125%
Rabobank (unconsolidated) CET1, transitional (%)	15.5%		
Distance to trigger (%)	**10.4%**		
Distance to trigger (EUR bn)	**NA**		

Source: Company data, Scope Ratings

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