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Rabobank

Rabobank's \$369 million settlement with US for illegal conduct is credit negative

From [Credit Outlook](#)

Last Wednesday, Netherlands-based [Rabobank](#) (Aa2/Aa2 negative, a2 ¹) announced that its California-based US subsidiary, Rabobank, National Association (Rabobank NA), had agreed to pay \$369 million in forfeiture, civil money penalties and fines that will negatively affect 2017 results, a credit negative. The settlement with US authorities relates to previously disclosed investigations of Rabobank NA by the Department of Justice (DOJ), the Office of the Comptroller of the Currency (OCC) and the Financial Crimes Enforcement Network (FinCEN). We estimate that Rabobank's after-tax net income will decline by approximately 8%.

The investigations date back to 2013. Rabobank, which had considered the litigation a contingent liability until this year, eventually agreed to settle the investigations for an amount close to the [€310 million provision](#) announced on 2 January. Rabobank NA will pay the settlement amount because illicit funds were channelled through the bank and the bank failed to detect and report such transactions, in violation of the US Bank Secrecy Act (BSA) and anti-money laundering regulations (AML). The settlement amount equals the amount of funds (\$369 million) that so-called high-risk customers moved through the US payment system without being subject to Rabobank's scrutiny.

The settlement agreement also includes a guilty plea by Rabobank NA for conspiring to obstruct a regulatory examination by the OCC by concealing deficiencies in its AML programme. The settlement addresses the investigations of the DOJ and the OCC. The FinCEN declined to bring an action against Rabobank NA and impose a penalty in light of the overlapping nature of the investigations. Importantly, Rabobank will retain its US banking license as part of the settlement.

Rabobank NA does not have material customer relationships with federal, state or local authorities, which are typically barred by law from doing business with convicted felons. However, it is still possible that some of Rabobank NA institutional clients will refrain from doing business with a bank that pleaded guilty on felony charges, resulting in a loss of revenue for the bank.

The BSA/AML case follows other conduct costs that have affected Rabobank's results in the recent past. Rabobank paid €774 million to settle a Libor investigation in 2013. It also set aside €664 million to compensate small and midsize enterprises for alleged mis-selling of interest rate derivatives in a Dutch industry-wide scheme in 2015-16.

Endnotes

¹ The bank ratings shown in this report are Rabobank's deposit rating, senior unsecured debt rating and Baseline Credit Assessment.

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