

ISSUER COMMENT

Rabobank's New Governance Structure Is Credit Positive

From [Credit Outlook](#)

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On 3 December, Dutch bank [Rabobank Nederland](#) (Rabobank, Aa2/Aa2 stable, a2¹) announced that the members of its cooperative network gave unanimous support to merging the local Rabobanks and the central body Rabobank Nederland into a single legal entity with only one banking license, creating a new governance structure. If approved in Rabobank's combined General Assembly and Central Delegates Assembly on 9 December, the 106 members of the cooperative network (the local Rabobanks) will become branch-like entities of the new Rabobank group and the new structure will come into effect 1 January 2016.

The new structure is credit positive because it allows the bank to reduce costs and inefficiencies linked to the cooperative group's complex governance structure. Under the proposed structure, the 106 local Rabobanks will operate under a single banking license, rather than 106 separate licenses. As a result, a single set of financial statements would be published, relieving each local Rabobank from this legal duty. Furthermore, the local Rabobanks will require less legal and compliance staffing.

The local Rabobanks' influence will remain strong because they will have direct representation in the highest echelon of the group, the General Members' Council, and the streamlined group can respond more efficiently and swiftly to regulatory changes. The change will make it easier for the group to significantly decrease its structural cost base.

Capital will also move more easily within the group, avoiding expensive excesses of capital locally. This comes at a time when revenues are under pressure against the backdrop of a prolonged low interest rates. We have no doubt that the change in governance structure is a step toward cost reductions and efficiencies that will become a major driver of the bank's profitability, which has long been a weakness relative to peers.

The change in governance structure also occurs amid increasing regulatory pressure. Among other factors, the prospect of the Basel IV capital regulations led the bank to contemplate a new [strategic framework for 2016-20](#). The framework, which still has to be approved by the Central Delegates Assembly on 9 December, includes reducing total assets by €100-€150 billion, or 15%-22% of Rabobank's current total assets, which can be done more efficiently within the new governance structure. In addition, we believe that supervisors and resolution authorities support a simplified structure because capital dispersed among 106 local banks would complicate a resolution. This change may therefore also pressure other cooperative groups throughout the region to revisit their sometimes complex governance structures.

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

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