

Corporate governance

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corporate governance](http://www.rabobank.com/content/about-us/corporate-governance)

In recent years the corporate governance of organisations has been in the centre of public interest. Rabobank Group has likewise paid a great deal of attention to its corporate governance. To many, the governance of one of the oldest cooperatives in the Netherlands is not as well known as that of a listed enterprise. However, Rabobank Group uses a system of checks and balances at all its levels that make up corporate governance that, in many respects, is even stricter than in listed enterprises. A unique element in Rabobank Group's governance is the Central Delegates Assembly, Rabobank Group's parliament, which meets four times a year and where member influence makes itself heard in virtually all of Rabobank Nederland's strategic decisions. In fact, strict corporate governance is nothing new to Rabobank Group, for the financial sector has always been subject to strict regulation because of its important function in society and the economy. Given its firm roots in Dutch society and its prominence in the international capital markets, Rabobank Group's corporate governance is broadly consistent with the Dutch corporate governance code of a few years ago. Additionally, it will take into account any outcomes from the Frijns committee's review of this code that may be relevant to the bank. The following pages discuss all aspects, thus demonstrating Rabobank Group's balanced corporate governance.

Cross-guarantee system

Rabobank Group consists of the local Rabobanks, their central organisation Rabobank Nederland and its subsidiaries and other affiliated entities. Through their mutual financial association, various legal entities within Rabobank Group together make up a single organisation. An internal liability relationship exists between these legal entities, as referred to in Section 3:111 of the Financial Supervision Act (Wft). This relationship is formalised in an internal 'cross-guarantee' system, which stipulates that if a participating institution has insufficient funds to meet its obligations towards its creditors, the other participants must supplement that institution's funds in order to enable it to fulfil those obligations.

Executive Board

The Executive Board of Rabobank Nederland is responsible for the management of Rabobank Nederland and its affiliated entities. This includes responsibility for the achievement of the objectives of Rabobank Group as a whole, its strategic policy, its results, the synergy within Rabobank Group, compliance with all relevant laws and regulations, the management of business risks and the financing of Rabobank Group. The Executive Board reports on all these aspects to the Supervisory Board, the Central Delegates Assembly (the organisation's 'parliament', which is authorised to take decisions on behalf of the local Rabobanks) and the General Meeting of Rabobank Nederland, which is formed by the members, i.e. the local Rabobanks.

The management of Rabobank Group is based in part on the interrelationship between risk, return and reserves. The Financial Supervision Act and the subordinate legislation based thereon, as well as regulations imposed by the supervisory authorities – i.e. the Dutch Central Bank (DNB) and the Netherlands Authority for the Financial Markets (AFM) – have

formulated standards for financial institutions. The supervision on the bank's solvency and stability – i.e. prudential supervision – is performed by DNB, while the AFM has the supervision of the bank's conduct. Obviously, these regulations form the framework for the organisation and control of Rabobank Group's activities.

The members of the Executive Board are appointed by the Supervisory Board for a five-year period, but their contracts of employment are for an indefinite period. They may be dismissed and suspended by the Supervisory Board. The Supervisory Board determines the remuneration of the members of the Executive Board and reports on this to the Confidentiality Committee of the Central Delegates Assembly. The principles of the remuneration policy for the Executive Board, as recommended by the Supervisory Board, are established by the Central Delegates Assembly. Finally, the Supervisory Board periodically assesses and follows up on the Executive Board's performance.

Supervisory Board

The Supervisory Board performs the supervisory role within Rabobank Nederland. This means that the Supervisory Board supervises the policy pursued by the Executive Board and the general conduct of affairs of Rabobank Nederland and its affiliated entities. As part of this task, the achievement of the Group's objectives, the strategy, business risks, the design and operation of the internal risk management and control systems, the financial reporting process and compliance with laws and regulations are discussed at length and tested regularly. In addition, the Supervisory Board has an advisory role in respect of the Executive Board.

In the performance of their duties, the members of the Supervisory Board act in the interests of all stakeholders of Rabobank Nederland and its affiliated entities. Certain key Executive Board decisions are subject to Supervisory Board approval. Examples include decisions on strategic collaboration with third parties, major investments and acquisitions, as well as the annual adoption of policy plans and the budget.

The members of the Supervisory Board are appointed by the General Meeting on the recommendation of the Supervisory Board. The independence of the individual members is an important consideration in this respect. The Confidentiality Committee of the Central Delegates Assembly determines the remuneration of the members of the Supervisory Board and has a say in the profile of the members of the Supervisory Board.

The Supervisory Board annually assesses its own performance, in terms of the collective body's performance and that of its individual members. Initiatives are developed regularly in order to keep the members of the Supervisory Board up-to-date on developments in the institutional and legal environment in which the bank operates and on risk management systems. The Supervisory Board has five committees: the Cooperative Issues Committee, the Audit & Compliance Committee, the Appointment Committee, the Remuneration Committee and the Appeals Committee.

Member influence

An important precondition for good corporate governance at Rabobank Group is an open culture with clear accountability for the management and supervision. Without transparency, Rabobank Nederland cannot render account to the local Rabobanks on its management and supervision, nor can this be assessed. The local Rabobanks are members of the Rabobank Nederland cooperative. This membership entails rights and obligations. The influence and control of the local Rabobanks are manifested through their representation in two bodies: the Central Delegates Assembly and the General Meeting. In addition, the local Rabobanks are Rabobank Nederland's shareholders.

Central Delegates Assembly

As from 1 January 2007, the local Rabobanks are organised geographically in 12 regions. The Boards of the Regional Delegates Assemblies form the Central Delegates Assembly (CKV). Through the representation of the local management and supervisory bodies in the Regional Delegates Assemblies, the members/clients of the local Rabobanks are represented in the CKV, which meets in Utrecht four times a year.

The CKV's powers include the establishment of rules that all local Rabobanks must comply with and the establishment of the Strategic Framework. The outcome directly influences Rabobank Group's policy. The CKV also approves the annual plan and the budget of the local Rabobanks. The CKV has substantive discussions, which mainly concern the local Rabobanks. These discussions are held not only as part of the CKV's specific duties and powers, but also with the aim of encouraging commitment in the local Rabobanks and consensus between the local Rabobanks and Rabobank Nederland.

Consequently, the manner in which Rabobank Nederland accounts for its policy to its members is more extensive than the account rendered by a typical listed public company to its shareholders. Because of the special relationship between Rabobank Nederland and its members, the CKV enjoys very high attendance. In order to operate effectively, the CKV has appointed committees, which are charged with special duties. They are: the Committee on Confidential Matters (advises on appointments in the Supervisory Board, fixes the Supervisory Board's remuneration and assesses the Supervisory Board's application of the remuneration policy), the Coordinating Committee (draws up the agenda of the Central Delegates Assembly and subjects items for the agenda to formality compliance tests) and the Speed Circuit Committee (advises the Executive Board on behalf of the CKV in urgent and confidential cases concerning major investments or divestments).

In order to maintain maximum effectiveness of the Central Delegates Assembly, an internal committee was established in 2006 whose task was to advise on the CKV's desired future size and composition. The committee's recommendations included the following: to reduce the CKV membership from 120 to 72, to introduce observers in the CKV and to confirm the CKV's composition according to the ratio of '2 elected members to 1 appointed member'. These recommendations have been implemented.

General Meeting

The General Meeting is the body through which all local Rabobanks, as members of Rabobank Nederland, can exercise direct control. The General Meeting deals with important issues, such as the adoption of the financial statements, approval and endorsement of management en supervision, amendments to the Articles of Association and regulations, and the appointment of members of the Supervisory Board. The Central Delegates Assembly issues advice prior to the General Meeting on all the items on the agenda. This procedure ensures that, prior to the General Meeting, these subjects have been discussed in detail on a local, regional and central level. The local Rabobanks have voting rights in the General Meeting in proportion to their size. Because of the special relationship between Rabobank Nederland and its members, the General Meeting enjoys almost full attendance.

Employee influence

A few years ago, the Group Works Council of Member Banks (GOR AB) was created as an employee representative body. It acts as a discussion partner to the manager on issues that concern the social policy of all local Rabobanks. The creation of the GOR AB does not affect the position of Rabobank Nederland's Works Council or the existing Works Councils of the local Rabobanks. As a result, they continue to act in full as employee representative bodies within the meaning of the Works Councils Act.

Corporate governance at the local Rabobanks

Only banks that have a cooperative structure and whose Articles of Association have been approved by Rabobank Nederland can be members of Rabobank Nederland. In turn, the local Rabobanks have members as well, who are local clients. The local Rabobanks have strictly defined rights and obligations towards Rabobank Nederland and each other.

Pursuant to the prudential supervision part of the Financial Supervision Act and under Rabobank Nederland's Articles of Association and the Articles of Association of the local Rabobanks, Rabobank Nederland supervises the local Rabobanks on (the integrity of) their operations, solvency and liquidity. In addition, under the conduct supervision part of the Financial Supervision Act, Rabobank Nederland has been appointed by the Dutch Finance Ministry as the holder of a collective license that also includes the local Rabobanks. Thus, the supervision of conduct by the AFM is exercised through Rabobank Nederland.

Management and supervision of the local Rabobanks

Two governance models are possible for the local Rabobanks. The introduction of a second governance model – the executive model – besides the existing partnership model was prompted at the time by the wish to respond to internal and external changes, for example, the ongoing scaling up process, a changing market, and increasing legislation and regulations. Both governance models focus on ensuring effective management as well as professional and independent supervision. The effectiveness of both models will be reviewed in 2008.

Since both governance models provide assurance of effective member influence and control, the governance of the local Rabobanks will continue to be carried out both adequately and professionally in the future, but also in a way that befits their cooperative character. The members of all the local Rabobanks have important powers, for instance to adopt the financial statements, to amend the Articles of Association, to appoint members of the Supervisory Board and to approve and endorse management and supervision. In addition, account is rendered to the members in respect of the bank's management and supervision.

Partnership model

In the Partnership model, the Board of each local Rabobank consists of persons elected by the members from their ranks, plus a managing director who is appointed by the Supervisory Board. The managing director is primarily concerned with the day-to-day management of the bank's operations. The Supervisory Board supervises the Board.

Executive model

In the Executive model, each local Rabobank has a Board of Directors comprising several persons appointed by the Supervisory Board, which operates under the supervision of the Supervisory Board. In this model, no Board members are elected by the members from their ranks, as is the case in the Partnership model.

Member council

Local Rabobanks using the executive model must institute a member council in order to firmly and permanently embed member influence and control in the structure. An increasing number of banks using the partnership model have established a member council as well. The member council is a delegation of all members elected by the members from their ranks. The member council assumes the bulk of the powers of the General Meeting and promotes and structures member control and engagement. The General Meeting continues to exist, but decides only on major issues that impact the local Rabobank's continued existence.

Communication with local Rabobanks

A closed Internet connection created specifically for the local Rabobanks gives them swift access to useful information and fosters a high level of commitment to Rabobank Nederland.

Corporate governance information on the Internet

Rabobank Group has placed information on its corporate governance and activities on its public Internet site, including a full explanation of the areas in which Rabobank Group deviates from the Dutch Corporate Governance Code. While Rabobank Group endorses the Code's principles and implements the majority of its elements, it does not implement a number of principles and best practice provisions on account of its cooperative structure.

Controls over financial reporting

Rabobank Group constantly seeks to improve its corporate governance and overall internal controls, for example, by endorsing the principles of the Dutch Corporate Governance Code. Rabobank Group seeks an open culture and transparent accountability in respect of policies and supervision, and to remain in line with the leading risk management practices in the world. The market demands heightened awareness of world-wide best practices in governance and control, and Rabobank Group proudly embraces ethical business practices, transparency and accountability.

In this spirit, Rabobank Group voluntarily assessed the internal controls over financial reporting in a manner similar to what US-registered companies have done pursuant to Section 404 of the United States Sarbanes-Oxley Act of 2002 (SOX 404), even though Rabobank Group is not a registrant with the United States Securities and Exchange Commission and, thus, is not subject to the Sarbanes-Oxley Act or related regulations and oversight.

Rabobank Group believes that the review of its internal controls over financial reporting has increased the effectiveness of those controls, including our ability to identify and to remediate any deficiencies at an earlier stage. This results in greater transparency for all stakeholders in the quality of Rabobank Group's financial reporting process. As a result of our review, Rabobank Group has identified areas to improve, simplify and standardise specific business processes.

Rabobank Group has established and maintains a comprehensive system of internal control measures designed to ensure transactions are executed as authorised, financial reporting is accurate and reliable, and assets are safeguarded.

Rabobank Group has implemented a process whereby finance and business executives throughout the Group assess and attest to the accuracy of financial information as well as the adequacy and effectiveness of internal control over financial reporting. Rabobank Group has adopted policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect transactions and dispositions of assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and that receipts and expenditures are made only in accordance with authorizations of management;
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

The internal control framework for the organisation and control of Rabobank Group's activities is based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As set out in the report included in the financial statements, the Executive Board concluded that Rabobank Group's internal control over financial reporting is adequate and effective, consistent with the criteria established by COSO.

Risk management

The management of Rabobank Group is based on its strategic principles and, by extension, on the interrelationship between risk, return and reserves. Both the DNB and the bank itself have formulated standards concerning Rabobank's organisation and control.

Rabobank's organisation and control are subject to the Dutch Financial Supervision Act, including subordinate legislation based thereon, and regulations imposed by both the DNB and the AFM as supervisory authorities. These legal requirements and supervisors' regulations form Rabobank Group's framework for the organisation and control of its activities. For further information, please refer to the relevant sections in this Annual Report, and in particular to the section above on 'Control over financial reporting', which addresses risks relating to financial reporting, and the 'Risk management' chapter, which includes a description of control systems relating to the most important other risks identified by Rabobank Group.