

THE HISTORY OF THE RABOBANK

The Rabobank Group is the largest financial services provider in the Netherlands and has an extensive network of international branch offices. This diverse and leading financial group began in the late nineteenth century as a collection of small agricultural co-operative banks. The co-operative structure and local involvement have been the cornerstones of the Rabobank Group for more than a century.

The history of the co-operative Rabobank is characterized by working together: people who work together, banks that join forces and specialized business divisions that combine their knowledge. The distinctive significance of the co-operative structure is that the group sees it as its first and foremost task to serve the interests of its customers.

The idea of Raiffeisen

Friedrich Wilhelm Raiffeisen founded the first agricultural co-operative bank in Germany in 1864. As a rural mayor he witnessed firsthand the poverty some suffered within the farming community. He set up a charitable foundation in order to provide relief. However, he gradually came to the conclusion that self-help was more beneficial than charity in order to bring about lasting improvements. This led him to transform his charity into an agricultural co-operative bank in 1864. This "Heddesdorfer Darlehnskassen-Verein" collected the savings from the rural citizens to create a fund for providing loans.

The Netherlands follows the example of Raiffeisen

From the late 1890s on there were many followers of the German co-operative movement in the Netherlands. One of the first to imitate the initiative of Raiffeisen, was the priest Gerlacus van den Elsen. He initiated a number of local agricultural co-operative banks in the southern part of the Netherlands. His mission was both exalted and down-to-earth. In his own words: "To ward off the shylocks, stand by the farmer in his hour of need, as well as promote frugality, charity, industriousness and temperance."

Both idealistic and practical

The first co-operative banks were founded on the initiative of clerics and local notables, such as mayors, entrepreneurs and educators. Sometimes the initiators were also wealthy farmers who took action for the benefit of their less successful colleagues. While the driving force was idealistic, the working method was based on pragmatic business principles.

This is reflected in the guiding principles of the first co-operative banks:

- unlimited liability of the members
- an unpaid management
- reserving profits for further growth
- a field of operation limited to the local area
- association with a co-operative central bank, while retaining local independence

These business elements behind the idealistic philosophy were primarily responsible for the successful development of the agricultural co-operative banks.

Two central banks

The two most important locations of Rabobank Nederland are still situated in Utrecht and Eindhoven. This dates back to the existence of two central co-operative banks, which were both founded in 1898 and existed alongside each other for three-quarters of a century. The cooperative banks in the northern part of the Netherlands worked together in the Coöperatieve Centrale Raiffeisen-Bank in Utrecht. The co-operative banks in the south founded the Coöperatieve Centrale Boerenleenbank in Eindhoven.

The difference between Utrecht and Eindhoven

Back in 1898 a combination of legal and personal differences of opinion was the main reason for the division in the co-operative banking world. Even though they had very similar structures, the two umbrella organizations followed separate paths. In practice the organization in Eindhoven had a Catholic character and while the organization in Utrecht was formally neutral, in reality it had a protestant perspective. Another difference was that there was a more stringent, centralized management in Eindhoven than in Utrecht, where the tendency was to emphasize the local autonomy.

Partnership between Utrecht and Eindhoven

The first forms of partnership between the two co-operative organizations arose in the 1940s. Three developments caused this overture to lead to a merger in 1972:

- the increase in the number of offices, which raised the level of competition at the local level
- the fading of the denominational dividing lines in the Netherlands, which also diminished the importance of the ideological differences that divided Utrecht and Eindhoven
- the widespread merger trend in the Netherlands, which created a greater demand for capital in the business community, which in turn promoted consolidation in the banking sector.

Rabobank results from the merger

In 1972 the Centrale Coöperatieve Raiffeisen-Bank and the Coöperatieve Centrale Boerenleenbank merged to create the Coöperatieve Centrale Raiffeisen-Boerenleenbank. It became generally known as the Rabobank due to the first two letters of both banks. The neutral city of Amsterdam became the legal domicile. The new centralized bank was given the name Rabobank Nederland in 1980.

Local banks formula proves successful

From the first day of operation the co-operative banks fully succeeded in fulfilling the core tasks of the banking business: bringing together surpluses and deficits of financial resources for one's own account and risk. These local banks operated at the heart of the local community and consequently knew their customers personally. In contrast to lenders from the city, they were fully capable of selecting creditworthy farmers and keeping a close eye on their loans. As a result, the agricultural co-operative banks were able to provide the agricultural community loans with better interest rates.

Members manage their own bank

Just as in the early years of their existence, today the local Rabobanks are still independent co-operatives with their own management, own balance sheet responsibility and own

administration. And today at the general members' meeting the members still select the board of directors and the supervisory board. The fact that the bank was managed by its own members was a major advantage of the co-operative banks, particularly in the early years. It meant they did not have to incur high costs for the management and the bank's supervisory board. This is because the banks operated on the principle of "voluntary management". Only the cashier received a small stipend. The broad regional coverage, the access to relevant information and the low costs enabled the local co-operative banks to be distinctive by offering better rates on the markets for lending and saving.

From cashier to managing director

Today the Managing Director is responsible for the professional management of the bank. In the early years of the bank, up until the 1960s, the local bank only performed the role of cashier. At first the cashier was responsible for the bank's administration in addition to his full-time job. The front room of his home often served as the "bank office", which in the early years was only open a couple of hours a week. Much later, in the 1960s, most of the local banks had new modern, offices built in a professional architectural style. At that time the banks also gained multiple offices and board members. The title "cashier" was also replaced by the title "managing director". After all, through the years the cashier had actually assumed responsibility for managing the bank. Since 1998 as a professional banker the appointed managing director forms part of the remainder of the board of directors that is selected by the members, so that he is also directly accountable to the members.

Mergers between local banks

While local presence and local independence became increasingly important characteristics of co-operative banking, and have always remained so, the most recent history of the Rabobank shows a few merger movements. In the 1970s a number of local Raiffeisenbanks and agricultural co-operative banks merged to form Rabobanks. Merging the activities was a logical step, particularly in the working areas where these banks competed with each other. There was another wave of mergers in the 1980s and 1990s. The reason for this was the computerization of payment services, the rapid growth of automatic teller machines and the rise of electronic banking. These developments decreased the need for customers to visit the bank. Going to the bank was increasingly limited to those moments in life when there are important financial decisions to be made, such as a marriage, taking out a mortgage, entering into a loan or taking out insurance. Particularly at these moments customers demand professionalism, service and comprehensive information from their bank. In order to be able to meet these stringent demands, banks had to increase their scale of operations. In addition to organic growth, the necessary scale was achieved through mergers between co-operative neighbour banks.

In 1995 the standpoint regarding the size of the local Rabobank was: "As large as necessary, as small as possible." At that time a bank with fifty employees seemed to be about the right size. Since then the process of merging local Rabobanks has continued unabated. Companies and private individuals continue to place increasingly higher demands and in order to provide tailor-made solutions the local banks must have experts at their disposal.

This does not take away from the fact that the Rabobank continues to have the densest geographical spread of all the Dutch banks. In addition to the physical Rabobank, in the second half of the 1990s the virtual Rabobank was created, which offers private and business customers almost the entire range of products and services via the telephone and Internet.

Number of Rabobanks and number of locations (offices and board members) in successive decades

1971	1202	3005
1981	970	3071
1991	789	3105
2001	369	2103

Present figures

2006	218	1229
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Local autonomy versus centralized management

In 1898 six co-operative banks established the Centrale Coöperatieve Raiffeisen-Bank in Utrecht and 22 banks laid the foundation for the Coöperatieve Centrale Boerenleenbank in Eindhoven. Since then numerous local co-operative banks have been established with the support and encouragement of the central banks. Formally, the local Rabobanks together form the mother of their centralized organization Rabobank Nederland. The local banks serve their customers with the support of Rabobank Nederland and not vice versa. So within the Rabobank Group people rarely refer to the head office, but above all to Rabobank Nederland. This is the subsidiary of the local banks, that are consequently at the head of an inverted pyramid.

However, there are a number of situations in which the centralized organization is clearly the leading party. For example, in accordance with the Credit System Supervision Act, Rabobank Nederland is responsible for supervising the financial health and professionalism of the local banks. The issue is not which party prevails; in reality the centralized and local organizations must work together within the Rabobank. As a result the relationship between the centralized organization and the local banks has historically always been rather ambivalent. It continues to be a recurring theme within the organization to this very day.

The management of Rabobank Nederland

Just as the Coöperatieve Centrale Boerenleenbank (one of the two central banks that merged), in 1972 Rabobank Nederland also had five bodies. First of all the general meeting at which the boards of all the local banks were represented. Local representation was also key to the second organ, the Central Delegates Assembly. This body, which includes representatives of the local banks, had an important advisory function. The Executive Board, which consisted of banking professionals, received the authority from De Nederlandsche Bank to engage in banking activities.

While the Executive Board was an independent management body, it was expected to carry out its activities "in continuous consultation" with the Board of Directors. Many topics that were addressed by the Executive Board, were later also discussed by the Board of Directors. The chairman of the Board of Directors attended the meetings of the Executive Board and had the right to join in discussions on all topics. The fifth body was the Supervisory Board.

Streamlined management structure

In 2002 the fairly complex management system of Rabobank Nederland was simplified somewhat. The influence of members - the control of the local banks - was strengthened by giving the Central Delegates Assembly greater authorities. The Board of Directors was

abolished. The executive management was made responsible for the integral managing and is now called the Executive Board. So this board now not only has the task of managing the banking business, but is also responsible for serving the interests of the local member banks. The independent, supervisory role of the Supervisory Board was strengthened. The chairman of this board now leads the Central Delegates Assembly. The Central Delegates Assembly is particularly what makes the management structure of Rabobank Nederland distinctive from other large Dutch banks.

The Rabobank: market leader in the Netherlands

Today the Rabobank is market leader in the Netherlands in almost all areas of financial services. The most striking is of course the considerable market share in the agricultural sector. From a historical perspective, agricultural financing is the Rabobank's forte. The market share in the agricultural sector still fluctuates around 80 percent.

The non-agricultural small- and medium-sized enterprise sector has gradually become an important target group of the co-operative banks. In the mid-1970s the Rabobank already had a thirty percent share of this market and since then it has risen to around forty percent. In 1987 of all the loans issued to the business community, for the first time the number of loans to non-agricultural companies was greater than to agricultural companies.

Bank for private and business customers

Today the Rabobank is not only market leader in both the agricultural sector and the small- and medium-sized enterprise sector, but also in the private market. Since the introduction of the current account in the 1960s, the number of private customers has grown enormously and this is one reason why the Rabobank is now also market leader in the savings and mortgage market. While the co-operative banks initially concentrated on lending, they soon also took on the character of a savings bank. Even in the early days of their existence, many co-operative banks attracted more funds than they could loan out. In the 1920s they surpassed the Rijkspostspaarbank and the savings banks for the first time in terms of the total amount of savings. The forty percent share in the savings market, which was attained in the early 1960s, has stabilized since then. Home mortgage loans are one of the main products the Rabobank provides for private customers. The Rabobank is market leader in the mortgages market with a market share of more than twenty percent. The Rabobank has also been highly successful in developing other services for the large number of private customers it gained in the 1960s; these include providing securities management and serving as an intermediary for travel and insurance.

A broad financial services provider

The gradual expansion and broadening of the Rabobank's activities was given new impetus in 1990. In that year the Dutch government made it possible for banks and insurers to operate within one organization by liberalizing the so-called structure policy. Prior to 1990 it was already clear that banks, insurance companies and investment institutions were increasingly entering each other's field with new mixed products. Based on the increasingly broader needs of its customers and thanks to the new government policy, at the end of the twentieth century the Rabobank developed into an *Allfinanz* group, that offers banking, investment and insurance products. Herman Wijffels, the former chairman of the Executive Board, said that Rabobank wanted to become a financial department store. "And just like in every better department store, in addition to the standard range, our customers can also turn to us for more specialized products that demand a high degree of professional advice and tailor-made work."

Expansion in the Netherlands

The paramount mission of the Rabobank is to optimally serve its customers with all the financial products and services they need. The nature and scope of these needs have grown extensively in recent decades. The size and constitution of the Rabobank organization has grown in tandem. In order to enable the local Rabobanks to offer their customers the complete spectrum of products and services, a number of specialized subsidiaries were added to the group.

Development into the Rabobank Group

- 1965 The Coöperatieve Centrale Boerenleenbank acquires the securities office Schretlen & Co in Amsterdam**
- 1969 The Agricultural Credit Insurance "Eindhoven", a subsidiary of the central bank in Eindhoven, and insurer Interpolis establish financing company De Lage Landen**
- 1972 Merger of the Centrale Coöperatieve Raiffeisen-Bank and the Coöperatieve Centrale Boerenleenbank**
- 1978 Property developer Rabo Vastgoed is founded**
- 1990 The Rabobank and insurer Interpolis decide to merge**
- 1990 The Rabobank enters into a strategic alliance with the Robeco Group, the largest assets manager in the Netherlands**
- 1996 The Rabobank acquires the venture capital company Gilde Investment Management**
- 1996 Het Centrale Bankbedrijf, a division of Rabobank Nederland, continues its activities under the name Rabobank International and focuses specifically on larger Dutch companies and on the international food & agri business.**
- 1997 The Rabobank acquires half of the shares of the Robeco Group, with the right to eventually expand its shareholding to 100%**
- 2000 The Rabobank acquires Effectenbank Stroeve**
- 2001 Robeco becomes a 100% subsidiary of the Rabobank Group**
- 2002 Obvion, a joint venture of the Rabobank Group and ABP is established, with the aim of selling mortgages via intermediaries**
- 2003 Rabobank acquires internet broker Alex**
- 2003 Rabobank acquires FGH Bank, specialized in commercial real-estate financing**
- 2004 Co-operation between Rabobank and Eureko Group (which includes Achmea in the Netherlands). Rabobank will acquire a 5% stake in Eureko.**
- 2005 Rabobank acquires 37% shareholding in Eureko (merger of Interpolis and Achmea)**
- 2006 Rabobank acquires Bouwfonds, the Netherlands largest real estate company**

In the past there have obviously been failed attempts to make acquisitions or to merge with other parties. For example, this happened repeatedly with the financial conglomerate Achmea and its predecessors. The opposite also occurred: the Rabobank has also sold its acquired interests at a later stage, such as its interests in F. van Lanschot Bankiers and the Nedship Bank.

Internationalization

While the name Rabobank International only dates back to 1996, the Rabobank's international activities actually began much earlier. In the course of the 1970s particularly the business customers of the Rabobank had an increasingly greater demand for services abroad. Via

various routes the Rabobank has sought to ensure that it could also serve its customers abroad:

- by opening branch offices in Europe, North America, Asia and South America, primarily to serve larger business customers
- by entering into strategic alliances with allied European partners. These parties were often fellow members of the Unico Banking Group, an alliance of European cooperative banks, of which the Rabobank was one of the founders in 1977. Attempts to enter into an important strategic alliance with the DG Bank in Germany failed in 2000. The aim was to attain a European network of local banks and to combine specialized subsidiaries through affiliating co-operative central banks from other countries.
- by purchasing existing banks abroad. The most well-known examples are ADCA in Germany and PIBA in Australia. In 2002 the Rabobank Group acquired the ACC Bank in Ireland and the Valley Independence Bank in the United States and Poland. These acquisitions fit in with the strategy of exporting expertise in the field of consumer banking and the agricultural sector to promising markets abroad. Each branch office of Rabobank International in the key trading countries within Europe now has a Dutch Desk to serve the Dutch SME customers.

International branch offices of the Rabobank Group

1981 2

1991 46

2001 143

2006 289

Highest credit rating

In the early days of the co-operative, the unlimited liability of the members was vital. Because the Rabobank always conducted a solid financial policy and through the years the profit was added to the general reserves (in order to be able to finance further growth), the liability of the members could be gradually reduced. After all, other financial assurances were also built in, such as the mutual guarantee scheme, which means that Rabobank Nederland and the local banks are mutually responsible for each other's obligations.

Set against this background, in 1980 it was decided to limit the liability of the members to a maximum of five thousands guilders. At the same time another basic principle was eliminated: private individuals who lent money from the bank were no longer required to be a member of the bank and were consequently not held liable.

Nonetheless, the various rating agencies have deemed the Rabobank by far the world's most solid and creditworthy private bank. This gives the Rabobank a greater position of eminence and moreover enables it to lend money at a lower rate on the international capital market.

The reconfirmation of the co-operation

On the eve of its one hundredth anniversary, the Rabobank initiated an internal debate on the future of the co-operative. At issue was whether the co-operative organizational form still has meaning in the 21st century. After all, the co-operative bank was founded in incomplete financial markets, while at the end of the 1990s financial services were available to everyone via numerous channels. Another point was that the co-operative organization could achieve stronger growth if it were able to increase its equity rather than through profit retention alone. In other words: by becoming a listed company.

This discussion lasted three years. During that period the boards of the local banks were

expressly involved in multiple rounds of discussions. The outcome of these conferences in 1998 was crystal clear: the Rabobank is committed to remaining a co-operative financial services provider in the future. People expressly wanted to retain the social character, which has always characterized the co-operative bank.

From credit co-operative to customer co-operative

The Rabobank was founded as a co-operative of borrowers. Mandatory membership and mutual liability were cornerstones of the co-operative structure. During the co-operative debate in the late 1990s it became clear that the Rabobank could no longer be viewed as a cooperative of borrowers in light of its 140,000 business customers and 7 million private customers, which all purchase a wide range of services. The co-operative must serve the interests of all its customers equally and all its customers must also be given the opportunity to become a member of the co-operative. Customer value for all customers has become the primary aim. The outcome of the discussion in 1998 produced twelve decisions. These decisions included the following:

- businesses with a loan at the Rabobank were no longer required to be members
- the financial liability (of five thousand guilders per member) was abolished
- every customer can in principle become a member and exercise influence.

More and more involved members

Once the co-operative decisions had been made, the local Rabobank actively launched member programmes. They not only aimed to gain more members, but also more involved members. The aim was to achieve greater member involvement:

- through encouraging member influence (at member meetings and management bodies, but also in feedback groups and member panels)
- through a member programme and member magazine *U* featuring specific special offers and discounts
- through specific member products, such as the member certificates (subordinated bonds), which give customers favourable interest and help enable the bank to raise equity.

The millionth member of the Rabobank was registered in October 2002. This meant that the number of members had more than doubled in a little more than two years. In practice it is generally the loyal customers, those who purchase multiple services, who choose to become members. However, the aim is to gain even more members, even though it is an exaggeration to say that all the customers of the Rabobank should become members. The Rabobank Group nonetheless realizes that the close involvement of the members determines the distinctive social character of the bank.

Number of members

1999 510,000
2000 550,000
2001 825,000
2002 1,108,000
2003 1,241,000
2004 1,456,000
2005 1,551,000
2006 1,609,000

Company History Department
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