

# Corporate governance

Rabobank Group is comprised of autonomous local member Rabobanks; their central organisation, Rabobank Nederland, and a number of specialised subsidiaries. As a bank that uses its customers' interests as the basis for its day-to-day actions, Rabobank aims to provide the most appropriate financial services for all. Its structure as a cooperative organisation facilitates a long-term approach to customer relationships, with Rabobank looking to invest sustainably in direct involvement with its customers and their environment.

The local Rabobanks are Rabobank's core entity – they are autonomous cooperatives rooted in their local communities, whose aim is to contribute to economic development in their service areas. The local Rabobanks, for their part, are members of and shareholders in the cooperative Rabobank Nederland. They are divided across twelve regions, known as Regional Delegates Assemblies. Each of these Regional Delegates Assemblies has a Board, whose members are also members of the Central Delegates Assembly. The latter is a body of Rabobank Nederland which plays a key role in policymaking. The members of the Central Delegates Assembly consist of the Regional Delegates Assembly Boards, the majority of whom are appointed by members of the local Rabobanks. The local Rabobanks collectively make up the General Meeting of Rabobank Nederland, whose responsibilities include appointing the members of the Rabobank Nederland Supervisory Board.

The policies of Rabobank Group are based on its strategic principles. The interrelationship between risk, return and capital is crucial in the decision-making process. Standards based on regulatory and other provisions have been formulated for Rabobank Group's organisation and control.

## ***Dutch Corporate Governance Code***

Although Rabobank Nederland, due to its cooperative structure, is not required to comply with the Dutch Corporate Governance Code, it does so on a voluntary basis. It departs from the Code in just several minor areas, partly on account of its cooperative structure. For additional information, please refer to the corporate website.

## ***Dutch Banking Code***

The Banking Code for Dutch banks was adopted by the Board of the Dutch Banking Association in 2009, expanding on a report titled 'Naar herstel van vertrouwen' (Restoring trust) authored by the Advisory Committee on the Future of Banks. Rabobank Nederland's governance is in compliance with the Dutch Banking Code. For additional information about Rabobank's compliance with the Code, please refer to the chapter titled 'Dutch Banking Code' in this Annual Report and a separate appendix to this Annual Report on the corporate website.

## ***Rabobank Group Code of Conduct***

The Rabobank Group's values and standards are determined by its four core values: respect, integrity, professionalism and sustainability. These core values are based on its mission statement and Ambition Statement. The Rabobank Group Code of Conduct expands on the core values and contains the basic principles for the behaviour of all Rabobank Group employees.

All group entities use this code or an equivalent based on the code. Employees are regularly reminded of the core values and the Rabobank Group Code of Conduct. In order to enable our people to act on the basis of the Rabobank core values and the applicable theoretical frameworks (the Ambition Statement, the Rabobank Group Code of Conduct and specific codes of ethics), they have access to a number of practical tools and resources, including training courses and the opportunity to discuss business dilemmas. A copy of the Code of Conduct is distributed to new employees, while all employees are encouraged to use the Code as a reference when faced with business dilemmas. Culture and behaviour were a key focus at Rabobank International during the reporting year. The core values and the Rabobank Group Code of Conduct are integrated into HR tools. Part of this ongoing focus on the Rabobank Group Code of Conduct and dealing with dilemmas is the oath for the moral and ethical conduct declaration. This oath was introduced on 1 January 2013 and taken by the members of the Rabobank Nederland Executive Board and Supervisory Board as well as by the members of the Local board of directors and Supervisory Boards of the local Rabobanks and the Dutch subsidiaries of Rabobank Nederland during the reporting year. The Ambition Statement and the Rabobank Group Code of Conduct are available on the corporate website.

### ***Cross-guarantee system within Rabobank Group***

Through their mutual financial association, various legal entities within Rabobank Group make up a single organisation, including the local Rabobanks, Rabobank Nederland and a number of group entities. These legal entities have a mutual relationship of liability as referred to in Section 3:111 of the Dutch Financial Supervision Act. This relationship is formalised in an internal cross-guarantee system. This cross-guarantee system stipulates that, if a qualifying institution should have a shortage of funds to meet its obligations towards creditors, the other qualifying institutions are required to supplement that institution's funds in order to allow it to fulfil these obligations.

### **Local Rabobanks**

The local Rabobanks have a cooperative structure and their members are locally based clients. These local Rabobanks, their members and their clients make up Rabobank Group's cooperative core business. Being at the heart of society, they are involved, nearby and leading in their service offering.

Using various bodies (Regional Delegates Assemblies, Central Delegates Assembly, General Meeting and different committees) as a platform, the local Rabobanks conduct an intensive dialogue with each other and with Rabobank Nederland about group strategy. The local Rabobanks and Rabobank Nederland have carefully defined rights and obligations with respect to each other.

In addition to decisive management and independent supervision, the governance model also guarantees effective member influence. The members of local Rabobanks have important powers under the Articles of Association through their banks' Members council and General Meeting, for instance. An active and open dialogue with customers and members via the Members council and several panels helps to stay attuned to the members' needs and keep a connection with the local service areas.

### ***Local board of directors***

Every local Rabobank has a multi-person Local board of directors consisting of banking professionals, who collectively conduct the bank's management. The Local board of directors is appointed by the local Supervisory Board, subject to the approval of Rabobank Nederland.

The Local board of directors operates under the supervision of the local Supervisory Board. The Local board of directors has a balanced composition in order to make its management more effective based on complementarity.

### ***Supervisory Board***

The members of the local Supervisory Board are nominated by the local Supervisory Board and appointed by the Members council, subject to the approval of Rabobank Nederland. One of the duties of the local Supervisory Board is to supervise the local Rabobank. This includes the Local board of directors's policies and the general conduct of business at the cooperative and its operations. Key management decisions are subject to the approval of the local Supervisory Board. The local Supervisory Board also monitors compliance with internal and external rules and regulations. The local Supervisory Board is responsible for appointing, evaluating, suspending and removing the members of the Local board of directors. Finally, the local Supervisory Board and Local board of directors of the local Rabobank jointly represent the local Rabobank as member of Rabobank Nederland in the Regional Delegates Assembly.

The local Supervisory Board is comprised of people with a variety of experience, competencies and backgrounds. This ensures that checks and balances are maintained and creates a sound balance between banking professionals and professionals from other backgrounds. Rabobank Nederland offers local supervisory directors a continuous professional education programme that allows them to improve their knowledge of the organisation, maintain their professionalism and share their experiences.

Local Supervisory Boards are accountable to the Members Council for their supervision of the Local board of directors's management.

### ***Members Council***

Clients can become involved in their local Rabobank by becoming a member. This gives them influence and control over the future of their local Rabobank. The members represent the clients. They are familiar with the members' and clients' wishes and considerations, and know all about the local service area and (local) public opinion.

Each local Rabobank has a Members council, which is meant to provide a firm and structural footing for member control and member influence. A Members council is a delegation of 30 to 50 members elected by the members from their ranks. As such it is a cross-section of the local service area. The Local board of directors asks the Members council to assess its policies in order to tailor its service offering as much as possible. The Members council influences and monitors the direction of the local Rabobank and forms the link towards the bank's broad member base.

The Members council typically adopts the financial statements and appoints the members of the local Supervisory Board. Members councils also tend to be involved in selecting local projects qualifying for cooperative dividend. Cooperative dividend comprises all investments in, and expenditures on, improving the local economic, social and cultural environment, including sustainability initiatives.

### ***General Meeting***

The General Meeting of a local Rabobank decides on major issues that impact the local Rabobank's continuity. The Members council exercises all other powers.

### ***Works Council***

Based on the Dutch Works Council Act, each local Rabobank has its own Works Council to discuss representation issues affecting that particular bank. The Local board of directors is responsible for calling in the local Works Council adequately and promptly, both formally and informally, when the situation or developments within the bank so warrant. The rights of the local Works Council include the right to be informed, the right to be consulted, the right of consent and the right of initiative.

In order to achieve the best possible employee representation, the local Works Council consults with the chairman of the Local board of directors during Consultative Meetings. The general state of affairs should be discussed in a Consultative Meeting on at least two occasions every year. The local Supervisory Board or a delegation of this Committee is also represented in these Meetings. The local Supervisory Board is also present during Consultative Meetings addressing important consultative issues, or a planned appointment or removal of the chairman of the Local board of directors.

### ***Group Works Council of local Member Banks***

The Group Works Council of Member Banks operates within the scope of the Dutch Works Council Act as the central employee representative body of all the local Rabobanks that looks after the interests of the local Rabobank's employees.

The Group Works Council of Member Banks has a say in the development of policies that affect the local Rabobanks. With regard to issues requiring consultation or consent that impact most or all Member Banks and are decided at central level, the Group Works Council of Member Banks exercises the right to be consulted and the right of consent. In addition, the Group Works Council of Member Banks supports the local Works Councils in their continuing development and professionalisation, and educates, informs and advises them on current issues and developments. The Group Works Council of Member Banks deliberates with the Executive Board of Rabobank Nederland prior to the Central Delegates Assembly.

### **Rabobank Nederland**

Rabobank Nederland was established to support the local Rabobanks' banking business. It initiates and develops policies and products in many different areas, such as lending, payments, securities services, customer service, marketing, distribution and human resource policy. These policies are developed in close dialogue with representatives of local Rabobanks.

Besides a supporting role to the local Rabobanks, Rabobank Nederland also fulfils several other roles. For example, it is a shareholder in several specialised companies, including De Lage Landen and Rabo Real Estate Group. Rabobank Nederland also maintains its own banking business, Rabobank International, operates in the international financial markets and is responsible for managing the money market transactions and capital market transactions of Rabobank Group.

Rabobank Nederland supervises the local Rabobanks pursuant to the Dutch Financial Supervision Act – this power is provided for in the Articles of Association of Rabobank Nederland and the local Rabobanks. For example, Rabobank Nederland supervises the local Rabobanks in the areas of prudent and ethical business operations, outsourcing, solvency and liquidity.

Additionally, under the Dutch Financial Supervision Act Rabobank Nederland has been designated by the Ministry of Finance as the holder of a collective licence with respect to business conduct supervision. This means that the Netherlands Authority for the Financial Markets (AFM) is responsible for supervising the business conduct of local Rabobanks through Rabobank Nederland.

The cooperative local Rabobanks are also members of the cooperative Rabobank Nederland, which gives them an important role in ensuring the proper governance of Rabobank Nederland. A key element in this respect is the open and transparent culture, with clear accountability in terms of management, supervision, and the assessment of both. The influence and say of the local Rabobanks is embodied in Rabobank Nederland's two bodies: the Central Delegates Assembly and the General Meeting.

### ***Executive Board***

The Executive Board of Rabobank Nederland is responsible for managing Rabobank Nederland. This includes responsibility for defining and achieving the targets of Rabobank Nederland, for determining its strategic policy and associated risk profile, for its financial results, and for the corporate social responsibility aspects that are relevant to the business. The Executive Board is also in charge of Rabobank Group's compliance with all relevant laws and regulations, for managing business risks, and for the financing of Rabobank Group.

In performing its duties, the Executive Board acts in accordance with the interests of Rabobank Nederland and its affiliated entities, also taking into account the interests of groups of stakeholders, such as customers and employees. The Executive Board is accountable to the Supervisory Board, the Central Delegates Assembly and the General Meeting of Rabobank Nederland.

The Supervisory Board appoints the members of the Executive Board for a four-year term of service. Re-appointments are also for a term of four years. The Supervisory Board is also competent to suspend or remove Executive Board members.

Every member of the Executive Board is thoroughly familiar with the financial sector in general and with banking in particular, with Rabobank's role in society, and with stakeholder interests. In addition, every Executive Board member has the in-depth knowledge that is required to be able to lay down and understand the main aspects of Rabobank Nederland's overall policy and to independently form a balanced opinion of the associated risk exposures. Each year, the members of the Executive Board take part in a continuing professional education programme that is specifically tailored to their needs. The Supervisory Board periodically assesses the performance of the Executive Board, which may in some cases result in appropriate measures being taken.

On the recommendation of the Supervisory Board, the Central Delegates Assembly defines the principles underlying the executive compensation policy. The Supervisory Board then determines the remuneration of the individual members of the Executive Board and is accountable for its decisions in this regard to the Committee on Confidential Matters of the Central Delegates Assembly.

### ***Supervisory Board***

The Supervisory Board of Rabobank Nederland supervises the policies pursued by the Executive Board and the general conduct of business at Rabobank Nederland and its affiliated entities. The Supervisory Board also monitors compliance with the law, the Articles of Association and other relevant rules and regulations. The Supervisory Board discharges its duties from the broad perspective of the continuity of Rabobank Nederland and its affiliated entities. The Supervisory Board evaluates whether enough consideration is given to the interests of all stakeholders (including customers and employees) of Rabobank Nederland and its affiliated entities.

Key decisions of the Executive Board are subject to the approval of the Supervisory Board, including strategic decisions that should result in the achievement of targets and the preconditions that apply with respect to these targets, for example with regard to financial risks and the relevant aspects of sustainable business, along with decisions regarding the annual adoption of the policy plans, the budget, and the operational and financial targets. As well as playing a key role in the supervision of risk management, the Supervisory Board also has an important responsibility in supervising the Group Remuneration Policy.

Candidates for the position of Supervisory Board members can be nominated by the Executive Board, the Rabobank Nederland Works Council and the General Meeting. The General Meeting of Rabobank Nederland appoints the members of the Supervisory Board on the nomination of same and after obtaining permission from the Dutch Central Bank. Key considerations in nominating and appointing Supervisory Board members are their expertise and independence as individuals. The profile describes the integrity, and the expertise and level of availability that the Supervisory Board feels are needed. The members of the Supervisory Board take part in a customised continuing professional education programme. The Committee on Confidential Matters of the Central Delegates Assembly sets the remuneration of the Supervisory Board members.

The Supervisory Board incorporates six committees which perform preparatory and advisory duties on behalf of the Supervisory Board itself, namely the Audit Committee, the Risk Committee, the Cooperative Issues Committee, the Appointments Committee, the Remuneration Committee and the Appeals Committee.

### ***Central Delegates Assembly***

The local Rabobanks are organised geographically in twelve Regional Delegates Assemblies, each with their own Board. Together, the Boards of the Regional Delegates Assemblies form the Central Delegates Assembly, which meets four times a year. The majority of the members of the Central Delegates Assembly are appointed – through the Regional Delegates Assembly Boards – by members of the local Rabobanks as their representatives at the local and collective levels. The Regional Delegates Assemblies discuss the agenda items prior to the Central Delegates Assembly. They can also table agenda items for their own meetings. The Regional and Central Delegates Assemblies have an important say in the policymaking process of the Rabobank organisation.

Other issues besides policymaking are discussed in the Assemblies too. The powers of the Central Delegates Assembly include the adoption of:

- binding rules governing all local Rabobanks;
- the Strategic Framework, thereby determining the Group's strategy going forward; and
- the budget for the support that Rabobank Nederland will provide to the local Rabobanks.

The Central Delegates Assembly advises the local Rabobanks, the Executive Board or the General Meeting. If, under the Articles of Association, decisions on specific issues require a resolution of the General Meeting of Rabobank Nederland, the Central Delegates Assembly advises on such issues beforehand.

The delegates to the Central Delegates Assembly have in-depth discussions, which are held not only as part of its specific duties and responsibilities, but also with the aim of serving as a sparring partner to the Executive Board. The discussions in the Central Delegates Assembly are also held to create consensus between the local Rabobanks and Rabobank Nederland.

The Executive Board of Rabobank Nederland discusses the policies conducted with the Central Delegates Assembly and provides further details. In order to operate effectively, the Central Delegates Assembly has appointed committees from among its members, which are charged with specific duties. The Committee on Confidential Matters advises on appointments to the Supervisory Board, determines the remuneration of the Supervisory Board members, and reviews whether the Supervisory Board has properly applied the remuneration policy. The Central Delegates Assembly's Coordinating Committee adopts the agenda for the Assembly and performs formality checks of the agenda items. The Emergency Affairs Committee advises the Executive Board on behalf of the Central Delegates Assembly on urgent, price sensitive or confidential cases – primarily on major capital expenditures, acquisitions or divestments.

### ***General Meeting***

The General Meeting is the body through which all local Rabobanks, being members of Rabobank Nederland, are able to exercise direct control. The General Meeting is responsible for the adoption of the financial statements, the discharge of the Executive and Supervisory Boards for their management and supervision respectively, amendments to the Articles of Association, and the appointment of the members of the Supervisory Board.

The Central Delegates Assembly advises on all agenda items for the General Meeting before the Meeting takes place. This procedure ensures that any such items have been discussed in detail at local, regional and central level beforehand.

### ***Works Council***

Rabobank Nederland's Works Council is based on the Dutch Works Council Act and is the bank's employee representation body. One of the duties of this Works Council is to monitor compliance with the Collective Labour Agreement, the Dutch Working Conditions Act and the Working Hours Decree.

In order to achieve the best possible employee representation, the Works Council deliberates with the Chairman of the Executive Board during Consultative Meetings. These Consultative Meetings are held six times a year on average and cover issues affecting Rabobank Nederland or its employees, including cost cuts, reorganisations and social policy. In Works Council Meetings the members of the Works Council prepare for the upcoming discussions in the Consultative Meetings. These preparatory meetings serve to exchange ideas and viewpoints in order to form a final opinion that will be expressed in the Consultative Meeting.

The Works Council has several rights under the Dutch Works Council Act. The Executive Board has the obligation, for instance, to duly provide any details and information that the Works Council should reasonably require to be able to fulfil its duties. In addition to the right to be informed, the Works Council's rights include the right to be consulted, the right of consent and the right of initiative.

### ***European Works Council***

Rabobank has instituted a European Works Council, which represents the employees of Rabobank International and of Rabobank Group subsidiaries in the European Union. The European Works Council is informed of, and consulted on, employee representation issues impacting employees of Rabobank Group as a whole or issues involving at least two EU Member States.

### ***Financial reporting controls***

Rabobank Group constantly seeks to improve its corporate governance and overall internal controls, with the aims of achieving an open, transparent culture of accountability in respect of policies and supervision, and keeping pace with leading international standards.

In this context, Rabobank Group has voluntarily implemented internal financial reporting controls in a manner that is similar to how US-registered companies tend to apply Sarbanes-Oxley 404. Rabobank Group is under no obligation to do this, since it is not registered with the US Securities and Exchange Commission (SEC) and is therefore not subject to the related regulations and supervision.

Rabobank Group believes that internal financial reporting controls increase the effectiveness of such reporting and offer opportunities to identify and rectify any weaknesses at an earlier stage. This ensures Rabobank Group's high-quality financial reporting.

### ***Internal controls***

Rabobank Group uses internal controls to provide reasonable assurance that:

- transactions are recorded as necessary to permit the preparation of financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union, and that income and expenditures are recognised only if approved by the management;
- any unauthorised acquisition, use or disposal of assets that could have a material effect on the financial statements is prevented or detected.

Rabobank Group's internal control framework is based on the framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As set out in the Executive Board Responsibility Statement, the Executive Board has concluded that the internal risk management and control systems are adequate and effective, and provide reasonable assurance that the financial reporting is free of material misstatement.