

# Dutch Banking Code

## **Background**

The financial crisis that began in mid-2007 led to a profound social debate on the performance of financial institutions. In the Netherlands, the 'Adviescommissie Toekomst Banken' (Advisory Committee on the Future of Banks) took the lead in this debate by publishing a report entitled 'Naar herstel van vertrouwen' (Restoring trust) on 1 April 2009. The banking industry held various talks on this matter, in which Rabobank also participated. These talks led to the publication of the Dutch Banking Code, which was adopted by the Dutch Banking Association (NVB) on 9 September 2009 and came into effect on 1 January 2010. The Banking Code is enshrined in law and forms part of a set of national, European and international laws and regulations, case law and codes, parts of which are still being developed. Banks have to take this entire set into account when applying the Banking Code.

The Banking Code contains provisions on the structure of a bank's governance, risk management, audit function and remuneration policy. At the same time, it provides third parties with a tool they can use to ascertain whether banks have taken the right steps in response to the financial crisis. The Banking Code is intended to help restore trust in the financial sector. The second report of the Banking Code Monitoring Committee was published at the end of 2012. The Committee's principal conclusion was that banks generally act in compliance with the Banking Code, but that compliance is not yet promoted enough by the banking sector. Over four years after it was introduced, it was therefore time to revise the Code. This update took account of the recommendations of the Banking Code Monitoring Committee, the report of the Commission on the Structure of Dutch Banks and the government's vision on the Dutch banking sector. The principles in the 'old' Code that have already been enshrined in legislation and regulations are no longer included in the new Code. Rabobank will naturally continue to comply with these national and international regulations. Rabobank will endeavour in 2014 to raise public awareness of the new Banking Code and to engage in dialogue with society.

This chapter looks at the context in which the provisions of the current Banking Code are applied, and briefly describes how the provisions have been implemented. Compliance by Rabobank with the provisions of the Banking Code is based on the 'comply or explain' principle. Rabobank values transparency and clear accountability. Further information concerning the particulars of each provision can be found in a separate appendix to this Annual Report that is available on the corporate website. Rabobank will report on its compliance with the new Banking Code as of 2014.

## **Scope of Dutch Banking Code**

### ***Local Member Rabobanks***

Rabobank Group applies a policy for the group-wide application of the Dutch Banking Code in all group entities established in the Netherlands, including the local Member Rabobanks. This policy covers such aspects as risk management, audit and remuneration. Given the structure of Rabobank Group, in instances where the Banking Code mentions the Executive Board and the Supervisory Board, this refers to the bodies of Rabobank Nederland rather than to the local board of directors and local Supervisory Board. The Banking Code therefore does not apply to the individual local Member Rabobanks.

### ***Subsidiaries and other group entities***

At Rabobank Group, Rabo Real Estate Group reports separately on the application of the Banking Code. As De Lage Landen does not publish an annual report of its own, reporting on the application of the Banking Code at De Lage Landen has been consolidated in this Annual Report. Considering the group policy on risk management, audit and remuneration, De Lage Landen complies in full with the relevant provisions of the Banking Code. The composition and modus operandi of the Supervisory Board of De Lage Landen reflect the fact that De Lage Landen is a wholly owned Subsidiary of Rabobank Nederland. Friesland Bank merged with Rabobank in 2012. It will be some years before Friesland Bank has been fully integrated into the organisation. Because of the integration process, Friesland Bank is unable to apply all the principles of the Banking Code. It does not comply with sections: 2.1.5, 2.1.8, 2.1.9, 2.1.10, 2.2.1, 3.1.3, 3.1.4, 3.1.6, 3.2.2, 4.1 and 4.2 (see the separate appendix to this Annual Report that is available on the corporate website).

## **Rabobank: customer interests and risk management as guiding principles**

Rabobank naturally endorses the Banking Code and it believes the Code is an important guideline for the sector to improve the organisation and operation of internal functions.

### ***Governance: Executive Board***

The main subjects covered in this section of the Banking Code are the duty of care (Treating Customers Fairly (TCF)) and the moral and ethical conduct declaration.

### ***Treating customers fairly***

As a cooperative, Rabobank places customer interests at the heart of its service provision. It is Rabobank's ambition to provide customers with the best possible service, while exercising due care and treating them fairly. This has been enshrined in the Rabobank Group Code of Conduct and the Rabobank Ambition Statement. Rabobank has a cooperative structure with autonomous banks whose conduct in respect of their customers is based on the three pillars: involved, nearby and leading. As every local member Rabobank has established a Members Council, customers have influence and a voice regarding the course of the Local Member Rabobank. In addition, the local Supervisory Boards oversee the actions of the local Rabobanks, to ensure that they are in the customers' best interests. These are the essential aspects of the local governance at local Rabobanks that guarantee customer focus.

The central policy that is proposed and implemented by Rabobank Nederland is only implemented after being approved by the permanent representatives of the local Supervisory Boards and the Local board of directors. As a result, the voice of the customer is heard in group-level decisions as well. Rabobank's unique cooperative governance is described in greater detail in the chapter on Corporate Governance.

In 2008, Rabobank launched the Customer Care programme to underscore its ambition to provide clients with the best possible service. The programme has been included in the line organisation since 2010. A steering committee monitors whether clients' interests are continually well served. Monitoring is done by reference to a number of key principles. The key principles for treating customers fairly were reviewed in 2013, which resulted in refocused principles and tighter monitoring.

The revised principles are:

- appropriate advice
- good service
- good products
- accessible, involved and sustainable banking

Periodic management information is drawn up on the basis of these principles. This management information (consisting of information including customer surveys, complaints, product reviews and feedback from the Netherlands Authority for the Financial Markets (AFM)) is used as input for ceaselessly managing for improvements. As in 2012, these reports were discussed at the level of the Executive Board and the Supervisory Board.

The individual local Rabobanks themselves also have management information available on the quality of the advice provided and on customer satisfaction and other matters. This information is based, for instance, on internal audits, customer satisfaction surveys and complaints handling. In addition, the local Compliance Officer reviews whether or customers are treated with due care. The local Supervisory Board monitors the local Local board of directorsBoard of directors based, in part, on this information.

The product approval committee, which has now been operational for ten years, monitors the quality of the products, their benefits for the customer, as well as their safety and the quality of the information provided with respect to these products. Products offered by Rabobank are not added to the product range until they meet the criteria applied by this committee.

The bank's founding principles provide guidance in the day-to-day activities for everyone who works at Rabobank. The employees of the local member Rabobanks and Rabobank Nederland aim to provide top-quality, conscientious services. The performance targets agreed with them are balanced. Variable remuneration was discontinued with effect from 2013 for all employees covered by the Collective Labour Agreement. A performance management system is used for employee evaluations and setting their fixed remuneration. The system is designed to foster performance and competencies. In 2013 and 2014, customer focus and teamwork will continue to be compulsory elements in the performance management system. A balanced set of performance targets is agreed with each employee. Employees who have direct or indirect contact with clients always have an explicit target geared to treating customers fairly. A sufficient focus on the customers' interests is a precondition for a favourable evaluation for employees. Rabobank uses management and compliance reports to monitor the quality of customer service and customer care on an ongoing basis.

### ***Moral and ethical conduct declaration***

On 17 April 2013 the members of the Executive Board and Supervisory Board then in office took the oath for the moral and ethical conduct declaration before Mr Koopmans, Chairman of the Supervisory Board. Mr Koopmans, on his part, took the oath on that date before the Deputy Chairman of the Supervisory Board, Mr Vermeer. Mr Dagle was unable to be present on 17 April 2013. He took the oath for the moral and ethical conduct declaration on 23 May 2013.

Mr Van Dalen and Mr Teerlink did so on 3 October 2013 before the present Chairman of the Supervisory Board, Mr W. Dekker. On 1 November 2013, Mr Nagel and Mr R. Dekker took the oath for the moral and ethical conduct declaration before the Chairman of the Executive Board, Mr Minderhoud.

### ***Continuing professional education***

The members of the Executive Board take a number of half-day continuing professional education (PE) courses every year. The continuing professional education curriculum includes relevant developments at Rabobank and in the financial sector, corporate governance in general and that of the financial sector in particular, the duty of care towards customers, integrity, risk management, financial reporting and audits. Depending on the topic, the continuing professional education courses are taught by internal or external experts. In 2013, the Executive Board received information on such topics as risk management and virtualisation and changing customer behaviour. In addition, various members of the Executive Board took up the invitation to attend sessions for the continuing professional education of the Supervisory Board: on relevant (future) European regulations, their expected impact on Rabobank and how to represent Rabobank's interests in that context, the recovery plan that Rabobank drew up on the request of the Dutch Central Bank, megatrends in the food and agri sector and the new food and agri strategy of Rabobank Group (Banking4Food). In addition to the continuing professional education curriculum, newly appointed Executive Board members are offered a customised induction programme, as part of which they talk to several internal and external experts, and make working visits.

### ***Supervisory Board***

The Supervisory Board of Rabobank Nederland has a diverse composition. New members of the Supervisory Board follow an induction programme to prepare them for their role as Supervisory Board members at Rabobank. A training programme is set up for Supervisory Board members annually. The selection of topics takes account of current developments and the expertise required within the Supervisory Board.

The Supervisory Board received extensive information in 2013 on relevant (future) European regulations, their expected impact on Rabobank and how to represent Rabobank's interests in that context, the recovery plan that Rabobank drew up on the request of the Dutch Central Bank, megatrends in the food and agri sector and the new food and agri strategy of Rabobank Group (Banking4Food) and governance and the performance of the Supervisory Board in the various roles performed by the Supervisory Board. In addition, various members of the Supervisory Board took up the invitation to attend a session for the continuing professional education of the Executive Board about virtualisation and changing customer behaviour. The members of the Audit, Compliance & Risk Committee received information on hedge accounting in the spring of 2013, as part of their continuing professional education. In the autumn, the Risk Committee (in the presence of several members of the Audit Committee and the Executive Board) received information on the quality of Rabobank's mortgage portfolio and the principal risks according to the Rabobank and the Dutch Central Bank's risk analysis.

Appointments and re-appointments to the Supervisory Board are made by the General Meeting on the recommendation of the Supervisory Board and after receiving advice from the Central Delegates Assembly. In 2013 the Supervisory Board drew up a succession plan for the Board. This plan describes the policy line the Supervisory Board intends to pursue for the purposes of the present and future composition of the Supervisory Board. Taking into account the core competencies of each Supervisory Board member in office in combination with the schedule of rotation, the profile that members to be selected in the next round(s) of appointment should

have been considered. Succession planning is evidently an ongoing and adaptable process. Upon each appointment or re-appointment, the areas of knowledge and experience and other qualities and competencies deemed necessary at the time concerned to be able to perform optimally as a collective Supervisory Board are reviewed. Furthermore, every year the Supervisory Board evaluates the performance of the Supervisory Board as a whole and that of its individual members. Further information on the activities of the Supervisory Board in 2013 can be found in the report of the Supervisory Board contained elsewhere in this Annual Report.

### ***Risk management***

Risk management is a central theme of the Dutch Banking Code. Rabobank Group's conservative risk appetite stems from the sound objectives of stability and solidity that Rabobank has pursued for many years. Moreover, Rabobank was also found to have controlled most of the risks effectively during the recent years of economic and financial turmoil. Rabobank is continuing its efforts to improve the quality of risk management practices and the risk culture within the organisation. In further strengthening risk management in 2013, top-down and bottom-up risk assessments and various stress tests were performed that included a more integrated analysis of the different risk categories. A separate chapter on risk management can be found elsewhere in this Annual Report.

### ***Risk appetite***

Rabobank has a tradition and a culture of prudent risk policy, as part of which it acts with a keen awareness of risks and uses its scarce resources with caution and due consideration. This prudence is applied in taking as well as in implementing strategic decisions. Rabobank applies a risk strategy that is aimed at continuity.

### ***Product approval***

The product approval process is carried out at a group entity level. Since 2010, a group-wide policy framework is in place to safeguard standardised working procedures and required quality levels for the product range in all Rabobank Group entities. Products are not just tested before introduction, modification or withdrawal, the full current product offering is also periodically tested against current standards. Key criteria are whether the products still meet the needs of customers and whether they are in their best interests. In this way, Rabobank is taking responsibility for its relationship with customers and for the level of quality it offers. Audit Rabobank Group periodically verifies whether the product approval process has been designed properly, is in place and is working effectively.

### ***Audit***

The Executive Board has audits carried out by Audit Rabobank Group (ARG), which holds an independent position within the organisation, to ascertain whether internal risk controls (governance, risk management and control) meet the applicable requirements. Every year, ARG performs audit procedures, based on an extensive risk assessment and an audit plan based on this assessment, in order to establish whether the internal control and risk management systems operate effectively. The director reports directly to the Chairman of the Executive Board and has a direct reporting line to the Audit Committee of the Supervisory Board and/or its Chairman. Tripartite talks between the external auditor, the Dutch Central Bank (DNB) and Rabobank (including ARG) are held at least once a year. The matters that come up for discussion at these meetings include risk assessments, the audit plan and audit findings. The Annual Report includes a statement by the Executive Board to the effect that the internal risk management and control systems are designed such that the financial reporting can be considered to be reliable.

### ***Remuneration policy***

The Dutch Banking Code contains principles for a prudent, restrained and sustainable remuneration policy that incorporates non-financial performance criteria. The rules governing remuneration policy focus on the long term and managing risks entailed by variable remuneration systems. Rabobank endorses these guiding principles and accordingly pursues a prudent, restrained and sustainable remuneration policy, which is in line with its strategy, chosen risk profile, cooperative identity and core values. The remuneration policy is in keeping with a customer-oriented approach and takes account of Rabobank's long-term interests, the international context of the markets in which Rabobank operates, and acceptance of the remuneration system by society. The pay outcomes are balanced and the performance criteria do not encourage employees to take irresponsible risks.

### **Group Remuneration Policy**

The prudent and restrained risk policy pursued by Rabobank in 2013 is reflected in the bank's remuneration policy. In view of the current developments in society, the members of the Executive Board will no longer receive variable remuneration with effect from 2013; in addition, variable pay has been discontinued for all employees covered by the Collective Labour Agreement. Variable remuneration for specialist positions and international positions is being increasingly restricted. All Rabobank Group entities are obliged to comply with the Group Remuneration Policy. To find out more about the Group Remuneration Policy, please consult the chapter on Employees elsewhere in this Annual Report.

### **Severance pay**

In accordance with the Dutch Banking Code, the maximum severance payment for members of the Executive Board has been set at one annual salary. For members of the Executive Board appointed prior to 1 January 2010, a (subdistrict) court could decide, in line with the provisions of the Dutch Civil Code, to grant a higher severance pay than the maximum under the Dutch Banking Code.