



Rabobank



# Annual Report 2010

*Rabobank Group*

# Annual Report 2010

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# Chairman's foreword

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2010 saw a fragile economic recovery. Following the deep recession of 2009, the Dutch economy started to grow again in 2010, albeit very slowly. Many of our corporate clients managed to restore their financial positions, but this unfortunately did not extend to late-cycle sectors such as construction and the durable consumer goods sector. Cautious consumer spending patterns in the Netherlands also held back the economic recovery.

The slight economic recovery and higher levels of revenue at many of our corporate clients were reflected in trends in bad debt costs. Rabobank did not have to account for nearly as many value adjustments. The local Rabobanks performed well, and Rabobank International was a major contributor to profit, as were many of our subsidiaries. These results, combined with improved margins and strict cost control, made 2010 a good year for Rabobank from a financial perspective. Net profit rose by 26% to EUR 2,772 million. Much of this profit was used to strengthen equity so that we can carry on guaranteeing the continuity of our services.

Rabobank pays a great deal of attention to customer care, providing sound, dependable services, creating simpler, more transparent products, being close to clients and building up trust in relations with clients. In 2010, these aspects of responsible banking continued to be implemented in our core activities. At retail banking, special attention was paid to making products more transparent, preventing financial problems at clients, and providing services to vulnerable groups. In addition, Rabobank drew up policy for responsible lending through which we can help make various sectors more sustainable.

The financial crisis that reared its head by mid-2007 stirred up a deep public debate about the actions of financial institutions, and lessons have been learned since then. What is important at this point is that we show the public that these lessons have led to the necessary changes in the sector. This will help rebuild the reputation of banking. For this reason, the Banking Code was drafted, which endeavours to make banking practices better and more transparent. Rabobank wholeheartedly supports the Banking Code and implemented it vigorously in 2010.

The economic recovery that began in 2010 is expected to level off somewhat during 2011. The slowdown in economic growth is due to a number of factors. First, the global recovery is weakening. This will have a direct impact on the Netherlands, with its open economy. In addition, the Dutch government will implement drastic spending cuts over the next few years, and there is still uncertainty regarding a number of matters, such as employment, purchasing power, house prices and pensions, which will continue to have an adverse effect on consumer confidence, and hence private consumption, in 2011.

As far as the global economy is concerned, some of the problems that led to the credit crunch have still not been addressed properly. The US current account deficit remains substantial, while China is keeping the yuan exchange rate at a low level. Within Europe, major differences



Piet Moerland, Chairman of the Executive Board of Rabobank Nederland.

in economic growth can still be seen. Resolving economic imbalances is in fact something that every country needs to take responsibility for. What this essentially means is that countries that have a savings deficit need to take steps to reduce it, while countries with a savings surplus should consume and invest more. Simply hoping that we will return to the old, familiar growth paths is not realistic. Within the context of these expectations, the banking industry as a sector needs to resume a more serving role towards its clients and the economy, and it needs to do everything in its power to improve bonds of trust with clients.

The economic recovery is expected to level off during 2011, making it another challenging year for Rabobank. Government cutbacks and uncertainty regarding house prices and pensions, as well as employment and purchasing power to a lesser extent, will affect consumer and producer confidence. Moreover, solvency and liquidity requirements will become tighter under the new Basel regulations.

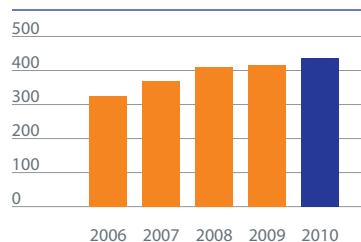
Despite these challenges, Rabobank Group has started the new year full of confidence. Rabobank has a very strong image, and 2011 will present the bank with opportunities to continue to set itself apart from the competition in a positive way. Owing to the limited economic recovery, lending is expected to show moderate growth. We want our liquidity position to remain resolutely robust, and for this reason the emphasis will be on attracting savings deposits both in the Netherlands and in other countries. We will continue to serve clients by providing the right products and services, which requires our group entities to work together effectively. By serving clients well, continuing to focus on achieving healthy margins and being responsible when it comes to costs, Rabobank Group's profitability, and therefore our capital position, is expected to remain at an appropriate level, ensuring that we can continue to serve our clients going forward.

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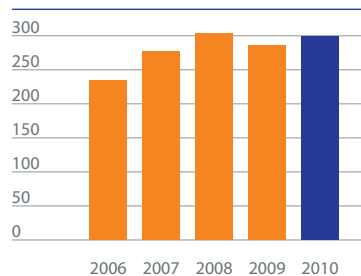
Piet Moerland, Chairman of the Executive Board of Rabobank Nederland

# Key figures

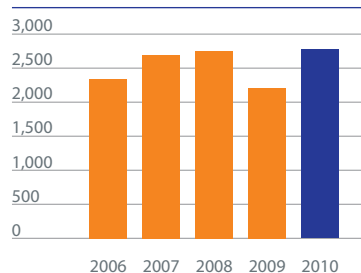
## Loan portfolio in billions of euros



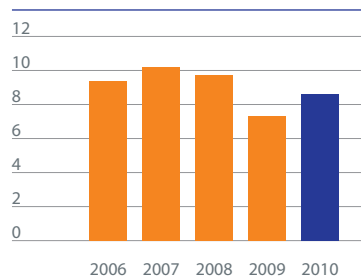
## Amounts due to customers in billions of euros



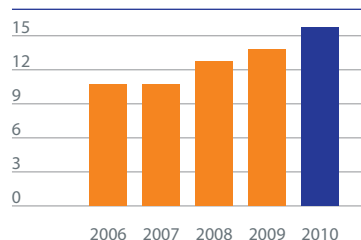
## Net profit in millions of euros



## Return on equity in %



## Tier I ratio in %



## Amounts in millions of euros

	2010	2009	2008 <sup>1</sup>	2007	2006
<b>Volume of services</b>					
Total assets	652,536	607,483	612,120	570,491	556,455
Private sector loan portfolio	436,292	415,235	408,620	368,709	324,110
Amounts due to customers	298,761	286,338	304,214	276,610	234,917
Assets under management and held in custody for clients	270,400	230,400	183,600	231,800	219,300
<b>Financial position and solvency</b>					
Equity	40,757	37,883	33,459	31,409	29,377
Tier 1 capital	34,461	32,152	30,358	28,518	26,391
Qualifying capital	35,734	32,973	30,912	29,190	27,114
Risk-weighted assets	219,568	233,221	238,080	266,573	247,458
<b>Profit and loss account</b>					
Income	12,716	12,434	11,652	11,022	10,049
Operating expenses	8,196	8,038	7,611	7,663	6,887
Value adjustments	1,234	1,959	1,189	266	450
Taxation	514	229	98	397	367
Net profit	2,772	2,208	2,754	2,696	2,345
<b>Ratios</b>					
Tier 1 ratio	15.7%	13.8%	12.7%	10.7%	10.7%
BIS ratio	16.3%	14.1%	13.0%	10.9%	11.0%
Equity capital-ratio	14.2%	12.4%	11.6%	9.5%	9.2%
Net profit growth	26%	-20%	2%	15%	13%
Return on equity	8.6%	7.3%	9.7%	10.2%	9.4%
Efficiency ratio	64.5%	64.6%	65.3%	69.5%	68.5%
<b>Nearby</b>					
Local Rabobanks	141	147	153	174	188
Branches	911	1,010	1,112	1,159	1,214
ATMs	2,963	3,063	3,097	3,107	3,139
Members (x 1,000)	1,801	1,762	1,707	1,638	1,641
Client satisfaction private individuals	7.6	7.6	7.7	7.5	7.5
Foreign places of business	682	624	569	349	330
<b>Market shares (in the Netherlands)</b>					
Mortgages	29%	30%	30%	28%	26%
Savings	40%	40%	41%	41%	39%
TIS	43%	41%	39%	38%	38%
Food and agri	84%	84%	84%	84%	84%
<b>Ratings</b>					
Standard & Poor's	AAA	AAA	AAA	AAA	AAA
Moody's Investor Service	Aaa	Aaa	Aaa	Aaa	Aaa
Fitch	AA+	AA+	AA+	AA+	AA+
DBRS	AAA	AAA	AAA	AAA	AAA

<sup>1</sup> Figures for 2008 and previous years have not been restated to reflect the change in accounting policies made in 2010. See the Consolidated Financial Statements, under note 2.1.1 Changes in accounting policies and presentation.

Amounts in millions of euros	2010	2009	2008	2007	2006
<b>Personnel data</b>					
Number of employees (in FTEs)	58,714	59,311	60,568	54,737	50,573
Staff costs	4,919	4,603	4,290	4,400	4,115
Employee satisfaction	86%	88%	86%	85%	87%
Absenteeism	3.8%	3.7%	3.8%	3.8%	3.6%
Females employed	54.3%	54.8%	55.1%	55.4%	55.6%
Females in senior positions (> scale 7)	24.6%	23.2%	22.1%	20.7%	19.9%
WIA-influx	0.19%	0.13%	0.20%	0.15%	0.18%
Training expenses	87.9	86.8	99.9	98.0	76.9
Training expenses in EUR per FTE	1,497	1,464	1,649	1,790	1,518
<b>Sustainable assets under management and held in custody</b>					
Total sustainable assets under management and held in custody for clients	18,885	16,438	11,506	14,024	3,604
Rabo Green Bonds (cumulative)	3,243	3,643	3,622	3,518	3,130
Robeco sustainable assets	6,123	3,992	3,166	5,604	296
Sarasin sustainable assets	8,829	8,345	4,486	4,778	-
Third party sustainable investment products	398	209	168	124	65
<b>Assets subject to engagement</b>					
Robeco sustainable assets	43,738	15,400	9,555	15,125	5,249
Sarasin sustainable assets	7,483	4,571	1,069	-	-
Other sustainable assets	1,247	126	-	-	-
<b>Savings</b>					
Green savings	425	360	125	106	-
<b>Fund management</b>					
Capital Public Fund Management	2,815	2,713	2,700	2,300	2,000
<b>Sustainable financing</b>					
Total sustainable financing	5,678	6,455	6,228	5,188	4,257
Green financing (outstanding)	2,855	3,168	3,373	2,882	2,409
Loans with state guarantee	1,031	1,349	1,222	1,163	1,042
Stimulation loans and Growth & Innovation loans (SGR)	106	489	451	367	267
Sustainable project finance	442	372	313	155	105
Sustainable mortgages and mortgages for starting home owners	654	565	482	227	58
<b>Supporting local communities</b>					
Rabobank Foundation, loans and donations	26.8	24.3	16.8	10.6	15.9
Project Funds, donations	0.9	0.8	3.7	1.1	1.3
Cooperative dividend local Rabobanks (donations)	28.3	25.8	20.4	20.3	-
Donations Rabobank Netherlands, Rabobank International and other Group entities	4.2	3.3	3.8	-	-
<b>Climate footprint</b>					
CO <sub>2</sub> -emissions attributable to business ( x 1,000 ton CO <sub>2</sub> )	171	180	183	176	-
CO <sub>2</sub> -emissions per FTE (tonnes CO <sub>2</sub> )	2.7	2.9	3.1	3.1	-

# Profile of Rabobank Group

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Rabobank Group is an international financial services provider operating on the basis of cooperative principles. It offers banking, asset management, leasing, insurance and real estate services. Focus is on broad financial services provision in the Netherlands and primarily on the food and agribusiness internationally. Rabobank Group is comprised of independent local Rabobanks plus Rabobank Nederland, their umbrella organisation, and a number of specialist subsidiaries. Overall, Rabobank Group has approximately 59,000 employees (in FTEs), who serve about 10 million customers in 48 countries. In terms of tier 1 capital, Rabobank Group is among the world's 25 largest financial institutions. All rating agencies have awarded Rabobank the highest rating possible for banks.

## Who we are

Rabobank was established in the Netherlands by entrepreneurial people whose access to the capital market was virtually blocked. Rabobank's roots lie in the SME sector and in agriculture in particular. By operating as a cooperative, a financial institution has emerged that allows its customers to achieve their financial ambitions. This is Rabobank Group's compass: the bank's objective is to let people and businesses participate in the economy as free and equal agents. Rabobank Group offers all the financial services needed by clients to participate in an economy-driven modern society. In the Netherlands, Rabobank Group has developed into a broad financial services provider whose services are continually adjusted and updated so that they always meet the needs of people and businesses, whether in the Netherlands or elsewhere.

Rabobank believes that sustainable growth in prosperity and well-being requires careful nurturing of natural resources and the environment, and it aims to contribute to such growth with its activities. Rabobank Group respects local culture and customs, and abides by them so long as they are not contrary to its objectives and core values. Maintaining the bank's solvency and liquidity will always be a criterion in deciding whether to undertake or continue activities.

## Mission

Rabobank Group's mission starts from, and is based on, the best interests of the customer. The goal is to create value for the customer by:

- providing those financial services considered best and most appropriate by our customers;
- ensuring continuity in the services with a view to protecting the long-term interests of our customers;
- showing commitment to our customers and their environment, so that we can contribute to them achieving their ambitions.

## Core values

Rabobank Group wants customers to recognise and acknowledge the bank as a champion of:

- integrity: in its dealings, the bank wants to be fair, honest, conscientious and trustworthy;
- respect: the bank's basis for collaboration is respect, appreciation and commitment;
- professionalism: the bank serves its customers by offering high-level knowledge and facilities;
- sustainability: the bank wants to help build a sustainable society by making contributions in economic, social and ecological areas.

## Organisational structure

### Structure in the Netherlands

The 141 local Rabobanks in the Netherlands are Rabobank Group's cooperative core business. Overall, the local Rabobanks employ about 27,000 FTEs. Committed, nearby and leading in their service offering, they serve about 6.8 million retail clients and 800,000 corporate clients in the Netherlands. With 911 branches, which operate 2,963 ATMs, Rabobank forms the densest banking network in the Netherlands. The local Rabobanks seek to offer their clients the best possible services by leveraging different distribution channels, including the branch network, and online and telephone services. Rooted in the bank's cooperative structure, clients can become members of their local Rabobank. The local Rabobanks, for their part, are members and shareholders of Rabobank Nederland, the umbrella cooperative that supports their local service provision. Rabobank Nederland monitors, on behalf of the Dutch Central Bank (DNB), the business practices, outsourcing, solvency and liquidity of the local Rabobanks. It also acts as the holding company of a number of specialist subsidiaries, both in the Netherlands and abroad. Rabobank Nederland has an employee base of about 6,400 FTEs.

### Global structure

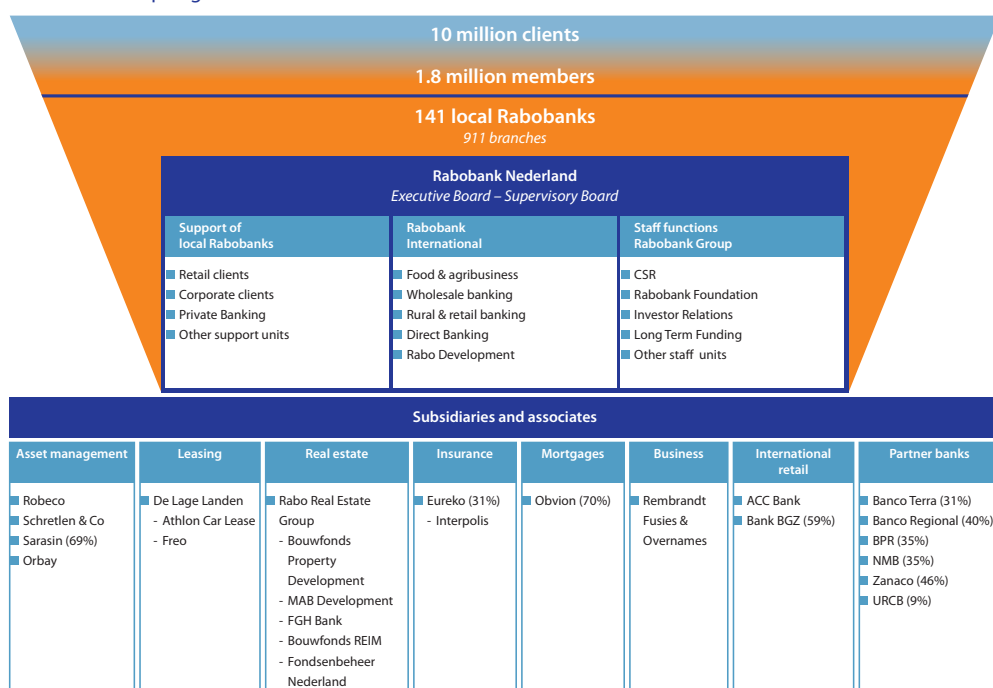
Rabobank International is Rabobank Group's wholesale banking and international retail banking division. It serves wholesale clients in and outside the Netherlands. Outside the Netherlands, Rabobank International focuses on clients in the food and agribusiness, and - via the foreign branch network - on Dutch clients operating internationally. Boasting a network in 29 countries and about 593 business locations, Rabobank International is a well-known player in the world's key markets. Counting the foreign subsidiaries, Rabobank International has an employee base of about 15,200 FTEs. Rabo Development supports the advancement of a banking infrastructure in six developing countries by taking non-controlling interests in rural banks and offering them expertise and human capital. Rabobank Foundation helps vulnerable and underprivileged groups in and outside the Netherlands by contributing funds, human resources and knowledge.

### Subsidiaries and associates

The subsidiaries and associates help to achieve Rabobank Group's objective of offering a comprehensive range of financial services. The group entities are specialists in their fields and seek to forge close ties in the customer's best interest.

Rabobank Group Organisation chart

Situation at 31 December 2010





# Rabobank Group global presence

## Rabobank Group (48 countries)

Argentina	Malaysia
Australia	Mauritius
Austria	Mexico
Bahrain	New Zealand
Belgium	Norway
Brazil	Oman
Canada	Poland
Cayman Island	Portugal
Chile	Qatar
China	Romania
Curaçao	Russia
Czech Republic	Singapore
Denmark	South Africa
Finland	South Korea
France	Spain
Germany	St. Maarten
Guernsey	Sweden
Hungary	Switzerland
India	Taiwan
Indonesia	The Netherlands
Ireland	Turkey
Italy	United Arab Emirates
Japan	United Kingdom
Luxembourg	United States

## Rabobank International (30 countries)

Argentina	Japan
Australia	Luxembourg
Belgium	Malaysia
Brazil	Mauritius
Canada	Mexico
Cayman Islands	New Zealand
Chile	Poland
China	Russia
Curaçao	Singapore
France	Spain
Germany	St. Maarten
India	The Netherlands
Indonesia	Turkey
Ireland	United Kingdom
Italy	United States

## Rabobank Foundation (27 countries)

Albania <sup>1</sup>	Mexico
Bolivia <sup>2</sup>	Mozambique
Brasil	Nicaragua
Cambodia	Paraguay <sup>1</sup>
Colombia <sup>2</sup>	Peru
Ecuador	Phillipines
Ethiopia	Rwanda
Ghana	Senegal
India	Sri Lanka
Indonesia	Tanzania
Ivory Coast	The Netherlands
Kenya	Uganda
Laos	Vietnam
Mali	

## Rabo Development (11 countries)

Brasil <sup>4</sup>	Russia <sup>4</sup>
China <sup>3</sup>	Rwanda <sup>3</sup>
Egypt <sup>4</sup>	Tanzania <sup>3</sup>
Malawi <sup>4</sup>	Vietnam <sup>4</sup>
Mozambique <sup>3</sup>	Zambia <sup>3</sup>
Paraguay <sup>3</sup>	

- 1) In 2011 no longer part of the focus countries of Rabobank Foundation
- 2) Will become focus countries of Rabobank Foundation in 2011
- 3) Partnerbank
- 4) Advisory project

Situation at 31 December 2010



### Global presence Rabobank Group

With Rabobank and its subsidiaries, Rabobank Group operates in 48 countries, including the Netherlands. Rabobank International has a presence in 30 countries, boasting 593 foreign places of business. In addition, Rabo Development has non-controlling interests in six partner banks and several advisory projects. Finally, Rabobank Foundation supports projects in 27 countries. The countries in which Rabobank holds non-controlling interests or is involved in projects have been disregarded in the list of 48 countries of Rabobank Group.

For more information on Rabobank International branches and offices, including address and contact details, please visit [www.rabobank.com](http://www.rabobank.com).

Rabobank Group's objectives and strategy are set out in the Strategic Framework. The updated Strategic Framework for the period 2009-2012 was adopted by the Central Delegates Assembly in 2009. This framework offers Rabobank Group the opportunity to hold a strong market position in the Netherlands and abroad in the long term, and also provides a sound basis for continuing as a going concern and creating customer value. Moreover, Rabobank is taking steps in anticipation of new regulations relating to solvency and liquidity to be introduced by the Basel Committee on Banking Supervision.

## Strategic core objectives and financial targets

The strategic core objectives are as follows:

- become the Dutch all-finance market leader;
- build on Rabobank's position as the world's leading international food and agri bank;
- achieve further growth at, and greater synergy with, subsidiaries.

An adequate tier 1 ratio and stable profit growth are necessary in order to maintain a high creditworthiness. Given this, Rabobank Group has formulated the following long-term financial targets:

- a tier 1 ratio of at least 12.5%<sup>2</sup>;
- a minimum return on equity of 8%;
- 10% net profit growth annually.

## Strategic starting points

Since its foundation in 1898, Rabobank Group has grown from a collection of small rural cooperative banks into the leading provider of all-finance services in the Netherlands and one of the top international food and agri banks. The Strategic Framework positions Rabobank Group as 'the leading food and agri bank with Dutch roots', based on the strategic starting points set out below.

- cooperative identity;
- ambition to become Dutch all-finance market leader;
- status as a leading food and agri bank;
- continued high credit rating;
- sound corporate social responsibility (CSR) policy.

### Cooperative identity

Rabobank is, and will continue to be, a cooperative that puts the client's interests first. Its structure and procedures set it apart from its competitors. Members exercise influence and control, imposing discipline on the cooperative. A sober approach to management and efficiency are integral to the cooperative nature of Rabobank. As part of its commitment to society, Rabobank endeavours to play a connecting role within the communities and markets in which it operates. To actively contribute to improving the quality of society, the bank

<sup>2</sup> The actual target for the tier 1 ratio is in fact higher than the formal target, owing in part to developments relating to Basel III.

provides financial resources, in addition to knowledge, media, networks and the drive and commitment of its employees.

#### **Dutch all-finance service provider**

As an all-finance service provider, Rabobank Group offers a full range of financial products and services. The level of diversification within the group promotes financial stability. The wide range of knowledge and expertise available leads to benefits in the areas of innovation and synergy. Market leadership continues to be important to Rabobank Group. To be able to continue to fulfil the cooperative mission, the bank needs to be mindful of the profitability of its services.

#### **Leading food and agri bank**

Rabobank wants to continue to be an independent player of stature in order to preserve its identity as a cooperative. In order to achieve this, it will need to grow internationally because opportunities on the Dutch home market will gradually level off. Food and agri is a natural basis for further growth because of Rabobank's leading knowledge position in this area that follows on logically from its agricultural origins. Rabobank Group also wants to be a global trend-setter in the fields of renewable energy and cleantech, also in part to facilitate sustainable economic development.

#### **High creditworthiness**

A good creditworthiness is vital given the current state of the economy. Rabobank's high creditworthiness gives it access to finance at a relatively low cost. In order to maintain this special position, solid balance sheet ratios, healthy profitability and a high tier 1 ratio are required.

#### **Sound CSR policy**

Rabobank wants to make an economic, social and ecological contribution to building a sustainable society. It therefore sets high standards in the areas of the environment, society and governance as far as its services and its policy on responsible banking are concerned. Clients must be able to see that the services they receive are responsible and transparent. Moreover, Rabobank Group is committed to creating more sustainability in value chains in all core activities. Sustainability is also an aspect of Rabobank's own operations. As part of our commitment to society, Rabobank Group wants to encourage social cohesion within communities and to make financial services accessible to all.

#### **Guidelines and service provision principles**

The principles of the CSR policy have been formalised in the Rabobank Group Code of Conduct, which defines sustainability as one of the core values. In addition, Rabobank Group subscribes to a range of internal and external codes on general service provision principles, including guidelines issued by the United Nations, the OECD, the International Chamber of Commerce and the International Labour Organisation. For a list of these guidelines and principles, please log on to [www.rabobank.com/csr-guidelines](http://www.rabobank.com/csr-guidelines).

#### **Four central CSR themes**

Pursuing a sound Corporate Social Responsibility policy is a strategic choice for Rabobank Group. Four central CSR themes were defined in 2009:

- Working towards delivering a secure and sustainable food supply. Rabobank Group has defined five Food and Agribusiness Principles to do its share towards creating more sustainable value chains in food and agri: adequate and secure food production, sustainable use of natural resources, a responsible society where public welfare is key, ethical treatment of animals, and awareness of these principles among consumers and citizens. These principles form the basis for building on our service offering of socially responsible loans and achieving a sustainable value chain.
- Innovating production methods and encouraging the efficient use of renewable energy. Rabobank Group's areas of focus include promoting renewable energy and innovation in many products and services relating to savings, corporate finance, project finance, asset management and investment, leasing and real estate.

- Promoting equal opportunity and economic participation. Rabobank Group wants to create equal opportunities and economic participation for all people. This central theme is rooted in Rabobank's cooperative history. We promote participation and diversity, for instance by developing financial services for specific target groups, such as teenagers, the elderly, people with disabilities and business start-ups.
- Encouraging local cohesion and partnerships both within and outside the Netherlands. Rabobank Group wants to foster social cohesion and solidarity in local communities in several ways. The local Rabobanks annually distribute cooperative dividend to civil society groups and projects. Rabobank also has social funds such as Rabobank Foundation. Rabobank undertakes commercial banking activities globally in areas where there are few banks. Employees are encouraged to harness their knowledge and skills by volunteering for Rabo Development or for Rabobank Foundation. The group entities individually also promote community involvement.

### Key performance indicators for CSR

In 2009, Rabobank Group formulated the following four key performance indicators (KPIs) relating to CSR:

- helping clients move towards clean and sustainable business operations (sustainable loans, funding of clean and sustainable technology);
- helping clients make responsible investments (sustainable investment services);
- supporting community partnerships (cooperative dividend/economic development of communities outside the Netherlands);
- providing climate-neutral and energy-efficient services (neutral climate footprint).

In 2010, Rabobank Group's entities fleshed out these KPIs into performance indicators for each core activity or entity. The CSR KPIs will be the subject of internal reporting from 2011 onwards.

### Organisation and management of CSR

The organisation and management of the Rabobank Group's CSR policies and processes did not undergo material changes in the reporting period. For more information, see [www.rabobank.com/csr-organisation](http://www.rabobank.com/csr-organisation). The conclusion of an internal survey of the level of integration of CSR into the core activities was that improvements were possible as far as focus on the CSR performance was concerned. Pertinent action was taken in the year under review by having the management communicate the importance of CSR and developing key performance indicators for CSR linked to the CSR central themes.

## Decisions made when updating strategy

### Greater focus on funding

Given the change in market circumstances and the stricter capital and liquidity requirements to be introduced under the Basel III bank requirements, Rabobank Group has decided to place even greater emphasis on sound balance sheet ratios. Any increase in lending is largely dependent on growth in amounts due to customers. It is important that the local Rabobanks, Rabobank International and the subsidiaries arrange a significant portion of their funding themselves.

### Greater emphasis on corporate market

With regard to the Netherlands, Rabobank wants to be the leading bank across the entire spectrum of businesses. A strong position on the corporate market creates added opportunities for providing private banking services to business owners in a private capacity. In addition, Rabobank wants to achieve further growth in the private banking segment by means of differentiation in customer services, partnerships with subsidiaries and providing better advice. Providing a wide range of services will of course remain a priority of the all-finance strategy. On an international level, we want to offer the best possible services to our major Dutch clients through our extensive network.

### **Better customer service, reduced costs**

Rabobank wants to continue to grow and develop as a cooperative. The rationale behind Rabobank is the same as its primary objective: to help customers achieve their ambitions. The service model for clients has been further adapted to enable the local Rabobanks to respond effectively to the specific and changing needs of clients. The number of actions in processes has been reduced and the throughput time of processes has been shortened. As a result, processes have sped up and are now less costly. This streamlining process is part of a programme that a large number of local Rabobanks implemented in 2010 or will be implementing in 2011.

### **International: focus on food and agri**

Rabobank International will focus more on the core activities of Rabobank Group. In the Netherlands, this means supporting the Group's ambition to become the biggest and leading business bank in the country. Elsewhere, Rabobank International will focus more on the food and agri sector. In order to provide top quality products and services, professional, superior product platforms and infrastructures are required. The challenges and opportunities our clients face are becoming more and more complex, and it is therefore vital that we offer a wide range of solutions. The Global Financial Markets department focuses primarily on client-related activities and liquidity management. In its activities outside the Netherlands, Rabobank Foundation will concentrate mostly on countries where Rabobank International and/or Rabo Development already have a presence.

### **Greater focus at subsidiaries**

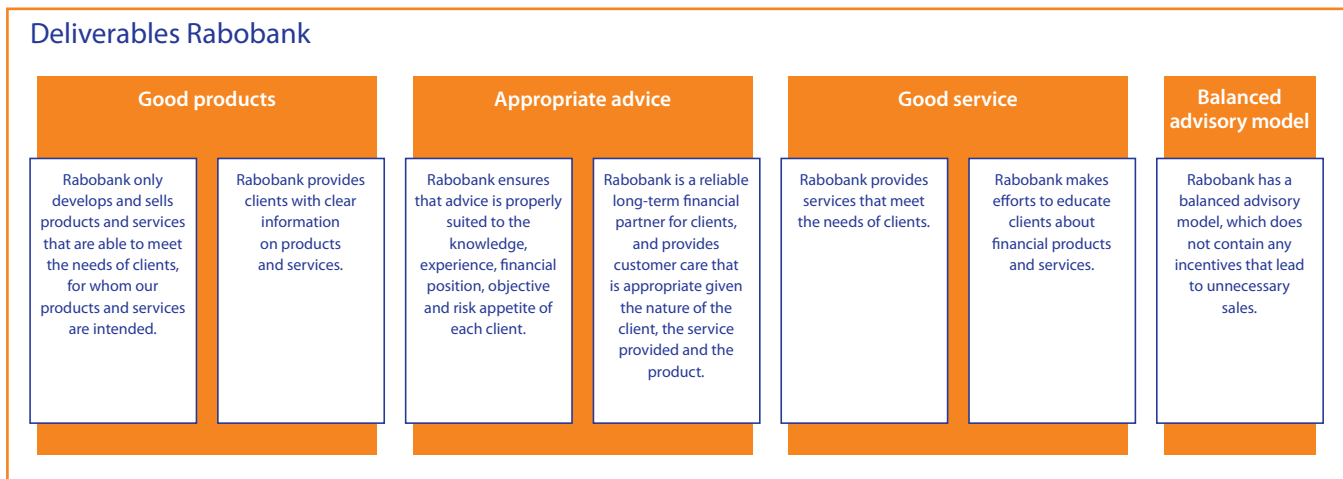
The subsidiaries will also focus increasingly on helping Rabobank Group achieve its core objectives, specifically becoming the Dutch all-finance market leader and developing its profile as the leading food and agri bank. Making full use of specialist areas of expertise and achieving healthy returns are other important roles that will continue to be fulfilled by subsidiaries and associates.

### **Employees make the difference**

In order to achieve its strategic ambitions, Rabobank Group needs talented, healthy and committed employees. Based on the view that the skills and competencies of employees make the difference, Rabobank makes group-wide investments in training and developing its workforce. A Vision of Learning and Development was formulated in 2009. This vision, which helps employees in their dealings with customers, was broadly promoted to different target groups within the organisation in 2010. Furthermore, a special programme was introduced to resolve succession issues at senior and executive level. The purpose is also to facilitate the flow of staff among group entities and to promote internal mobility. Such programmes are currently also being developed for middle management.

# Focusing on the customer

Serving the interests of customers is the guiding principle behind Rabobank's services. In 2008, Rabobank's Customer Care programme was launched in an effort to improve services further, thus helping to serve the interests of clients. In the context of this programme, four key deliverables were formulated in 2010. These deliverables are good products, appropriate advice, good service, and a balanced advisory model. This has led to a number of tangible improvements, including a simpler product range, clearer customer information, better support from client advisors, and adjusted fees for some products.



## Good products

Rabobank strives to only develop and sell products and services that meet the requirements and needs of clients. New products are reviewed by an internal committee, which assesses aspects such as the interests of clients, duty of care, risk relating to the advisory function, and reputation risk. At the moment, the system of standards of this committee is being reviewed and tightened up in order to place even greater emphasis on the interests of clients. For more information, see the chapter Banking Code, under the heading 'Product approval'.

In addition to this, existing products are reassessed and re-evaluated based on the response of clients, with the aim of making the product range as simple and transparent as possible. For example, it was decided that the bonus structure of the two existing internet savings accounts should be discontinued and that a transparent internet savings account should be introduced.

Rabobank wants to provide clients with clear information on our products and services. A number of projects were recently launched with the aim of simplifying product information, such as the information provided in proposals, in general letters and on our website. In 2010, our website was once again voted the best financial website of the year by consumers.

## Appropriate advice

At Rabobank, we want to tailor our services as much as possible to the knowledge, experience, financial position, objective and risk appetite of our clients. For instance, after attending a meeting with an adviser, each client should leave with appropriate advice and a good feeling, even though it will not always be possible to fulfil all of our clients' wishes. This objective is the aim of a project entitled 'Een Goed Gesprek' (A Good Talk), which offers support to employees so that they can provide customers with even better advice on their financial needs and goals. Rabobank wants to enter into long-term relationships with clients, which will last even when times are tough.

### Support for retail clients in difficulties

Rabobank believes it is important to provide proper support to customers in financial difficulties. The bank contacts clients with payment arrears immediately, and works with each client to find a suitable solution, such as a repayment arrangement. The employees working in the non-performing accounts department provide tailor-made support, which often results in a repayment arrangement being made. In 95% of the cases involving mortgage clients in financial difficulties that were handled by the non-performing accounts department, arrangements were made under which the client could avoid selling their home. With a view to providing proper, fair services to clients in financial difficulties, an internal evaluation committee was established at the end of 2009. This committee checks if every option has been explored to prevent a customer from going bankrupt.

### Support for corporate clients in difficulties

Rabobank continues to stand by its clients when times are tough. Within Bijzonder Beheer Rabobankgroep (BBR, Special Asset Management), clients facing problems with their business receive intensive support from expert account managers. Working closely with the client and the local Rabobank, the BBR account manager draws up a plan to improve the performance of the business, which also takes account of the interests of the bank. For 2011, Rabobank expects that the number of new non-performing loans will fall and the quality of the non-performing loan portfolio will gradually improve.

## Good service

Rabobank does its best to provide good services that meet the needs of clients. Consumers are using new media and virtual contacts to an increasing extent, and banks cannot ignore these digital phenomena. Today, dialogue with clients is no longer restricted to contact at the counter or on the telephone. Facebook, Hyves, Twitter and LinkedIn are becoming increasingly important communication channels. Rabobank has a special team that deals with questions asked by clients on Twitter, among other things, to which clients have responded favourably. We intend to continue to expand our social media activities.

### Customer satisfaction

In the 2010 customer satisfaction survey, Rabobank scored 7.6 for customer satisfaction among retail clients, which was unchanged on the previous year. We intend to continue to improve our services in 2011 as well, using the interests of customers as a starting point.

### Complaints procedure

It goes without saying that Rabobank does receive some complaints. We are very keen on working with clients on finding a solution. It should also be noted that complaints are a source of valuable information that we can use to make further improvements to services. A clear explanation of the complaints procedure can be found on the website and in a special client brochure. A large proportion of the complaints received relate to disputed ATM and POS transactions. In addition to these disputed transactions involving bank cards, there has also been an increase in disputed credit card transactions, particularly online credit card payments. In addition, the credit crunch has had a very detrimental impact on stock market prices, which has led to clients expressing their disappointment at the performance of the investments made through Rabobank.



### **Advertising Code Committee**

Private individuals and corporations can submit complaints about advertisements to the Dutch Advertising Code Committee. During 2010, a total of six complaints were submitted in connection with statements made by Rabobank, Robeco, De Lage Landen, Obvion and Rabobank International. In three instances, the Committee ruled in favour of the client. The other complaints were rejected.

### **Netherlands Authority for the Financial Markets**

In 2009, as part of a sector-wide survey, the Netherlands Authority for the Financial Markets (AFM) reviewed how Rabobank has interpreted the rules for mortgage advice. AFM went on to raise a penalty of EUR 150,000 against Rabobank in 2010.

AFM concluded that Rabobank would grant well-educated, young first-time buyers slightly higher mortgages because of their jobs and education, and their promising perspectives on the labour market. AFM felt that Rabobank did not have enough regard for the customer's individual circumstances. AFM also established that, when advising clients about life insurance and incapacity insurance policies, Rabobank does not go into sufficient detail, and that arrangements made with clients should be documented better.

In Rabobank's opinion, well-educated first-time buyers who have a good job were not automatically offered a higher mortgage. Loan applications were consistently followed by a broad and in-depth consultation with the client, and decisions on potential increases in a client's income were always taken in dialogue with them. The basis for this process was data published by Statistics Netherlands and the bank's empirical knowledge. In Rabobank's experience, this group of first-time buyers is particularly well equipped to bear higher mortgage costs. AFM's decision forced Rabobank to revise its policies, which have now been amended. With a view to expected legislation, Rabobank has chosen not to appeal the penalty imposed by AFM.

AFM claims that Rabobank did not document clearly enough, in advising clients on their life insurance and incapacity insurance policies, what the exact considerations were that led up to the insured amount. Rabobank feels that it has provided its clients with appropriate advice on these insurance policies. Any arrangements made with clients were documented in their files. The products were transparent and offered value for money. Rabobank has also adjusted its procedures in this respect.

### **Balanced advisory model**

With regard to charges and fees for services provided to clients, Rabobank aims to charge amounts that are appropriate to the service provided. In 2011, the relevant subjects will be identified in further detail.

### **Secure banking**

#### **Safety, security and privacy**

Rabobank gives high priority to the safety, security and privacy of clients and employees. In connection with this, a number of long-term ICT and other programmes have been introduced to improve the quality of logical access control and the security of virtual channels. Employees are given specific training on security risks and desirable behaviour. During 2010, Rabobank updated the ICT Code of Conduct. New additions to the code include rules governing the use of online media for communication. In this way, we are preparing our employees to work and communicate securely in an increasingly digital society.

Clients can go to [www.rabobank.nl](http://www.rabobank.nl) for advice on security aspects of online banking and mobile banking. In addition, Rabobank has actively contributed to the launch of a new 'secure banking' campaign by the Dutch banks.

#### **Cyber crime**

Rabobank pays constant attention to cyber crime, a form of fraud that primarily targets online banking. We invest heavily every year in maintaining the security of virtual channels. In 2010, the quality of monitoring improved sharply. This has put Rabobank in a better position to detect and stop fraudulent transactions.

During the first half of 2010, a number of clients were the victims of a phishing attack in which criminals used hoax e-mails to collect log-in codes before contacting affected clients by telephone to ask for their signing codes. They were successful in a small number of cases. Also in 2010, the computers of several clients were infected by a banking Trojan, a virus that tries to insert itself between the client's computer and the bank during online banking sessions. The improvements in monitoring have paid off in this area too.

### **Skimming**

Skimming involves copying the magnetic data on a bank card or credit card and obtaining the user's PIN in one way or another. Bank cards are then forged, which criminals use to withdraw cash, often abroad. Various steps have been taken to protect Rabobank's ATMs, as a result of which our ATMs have not been affected by skimming for over a year. Intensive sector-wide talks are being held on skimming that involves POS terminals in shops, unstaffed petrol stations and ticket dispensers in car parks, and action is being taken to combat this particular form of crime. At the same time, there are effective methods for detecting skimming, and if a skimming attack is detected, the relevant bank cards are blocked as a preventative measure, after which the affected clients are notified and compensated if necessary. Within the foreseeable future, payments will be made using the chips found in bank cards, and the magnetic stripe will no longer be used for payments in the Netherlands or any other SEPA countries. This will lead to a substantial reduction in the problem of skimming for Dutch clients and banks.

### **Blowing open ATMs**

For the past two years, Rabobank has suffered a great deal as a consequence of ATMs being blown open by criminals. As this form of crime can have serious consequences in terms of both structural damage and concerns within the community, Rabobank purchased a system to prevent attacks. We have developed this system further, and it has proved to be highly effective against all attacks on ATMs fitted with an anti-explosive solution. This system is now being rapidly installed. In addition to this main measure, supplementary measures are also being taken to prevent such attacks.

# Financial developments

## Recovery of earnings leads to further improvement in capital ratios

Thanks to the moderate upturn in the economy, our clients fared better in 2010. For Rabobank Group, this resulted in lower value adjustments, which saw a 37% drop to EUR 1,234 million. Bad debt costs stood at 29 basis points of average lending. The recovery was tentative, however, and uncertainty continued to reign among consumers and manufacturers, leading to a limited need for retail and wholesale loans. As a result, private sector lending at group level was up 5% only, rising to EUR 436.3 billion. Amounts due to customers rose by 4% to EUR 298.8 billion, EUR 192.8 billion of which had been placed with the local Rabobanks. Net profit saw a 26% increase, rising to EUR 2,772 million, thanks in particular to lower bad debt costs and - to a lesser extent - a recovery of margins on savings deposits and strict cost control. Rabobank Group's tier 1 ratio was up 1.9 percentage points to 15.7%, due mainly to retained earnings. Return on equity stood at 8.6%. At 64.5%, the efficiency ratio was more or less stable. RAROC was up 2.2 percentage points to 12.5%.

### Group financial targets achieved

Rabobank Group has three financial targets: a tier 1 ratio of 12.5% or more, an increase in net profit by 10%, and a return on equity of at least 8%. The tier 1 ratio is the ratio of tier 1 capital to risk-weighted assets. The tier 1 capital increased by EUR 2.3 billion to EUR 34.5 (32.2<sup>3</sup>) billion thanks mainly to retained earnings. Due in part to the further roll-out of Basel II, portfolio developments and stricter control of solvency requirements, risk-weighted assets dropped to EUR 219.6 (233.2) billion. As a result, the tier 1 ratio rose by 1.9 percentage points to 15.7% (13.8%) during the reporting period. Rabobank Group's net profit grew by 26% to reach EUR 2,772 (2,208) million. Return on equity was up 1.3 percentage points to 8.6% (7.3%).

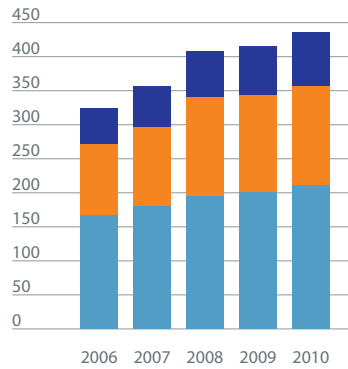
### Increase in lending at local Rabobanks in particular

Rabobank Group's private sector loan portfolio saw a moderate 5% increase, rising to EUR 436.3 (415.2) billion in 2010 as a result of the moderate economic recovery. Private sector lending is recognised within 'loans to customers', which item rose by 5% at group level in 2010 to EUR 455.9 (433.4) billion. In addition to private sector lending, the 'loans to customers' item comprises 'public sector lending', which accounted for EUR 5.6 (3.9) billion, 'securities transactions due from private sector lending', which stood at EUR 7.8 (8.4) billion, and 'interest rate hedges', which amounted to EUR 6.2 (5.8) billion at year-end 2010. On a percentage basis, Rabobank International posted the highest increase in lending. This increase was mainly attributable to the devaluation of the euro, for instance against the US dollar and the Australian dollar. Lending also continued to grow at the local Rabobanks, Obvion, De Lage Landen and FGH Bank.

<sup>3</sup> For page 18 to 105, the amounts in brackets ( ) are the comparative figures. Where results are concerned, these are the figures for 2009; where the statement of financial position is concerned, these are the figures at year-end 2009. The comparative figures have been restated to reflect the insights gained since their preparation.

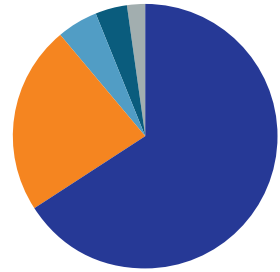
Loan portfolio by sector  
in billions of euros

- Food and agri
- TIS
- Private individuals



Loan portfolio  
by group entity  
at year-end 2010

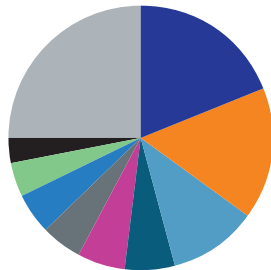
- Domestic retail banking 66%
- Wholesale banking and international retail banking 23%
- Leasing 5%
- Real estate 4%
- Other 2%



Of the private sector lending, 48% was made up of loans to private individuals, 34% of loans to the trade, industry and services (TIS) sector, and 18% of loans to the food and agri sector. Loans to private individuals increased by 5% to EUR 208.0 (200.1) billion because of growth in the mortgage portfolio. The TIS portfolio grew by 3%, rising to EUR 147.7 (143.7) billion, which was chiefly attributable to Rabobank International. Loans to the food and agri sector increased by 13% to EUR 80.6 (71.5) billion, EUR 55.6 (49.7) billion of which was issued to the primary agricultural sector. The growth showed through mostly in loans to the horticultural sector and the meat-processing industry. Of private sector lending, 73% of loans were issued in the Netherlands. The other loans are spread over America (12%), European countries other than the Netherlands (9%), Australia and New Zealand (4%), and other countries (2%).

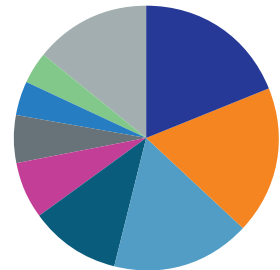
Loan portfolio TIS  
by industry at year-end 2010

- Lessors of real estate 19%
- Finance and insurance (except banks) 16%
- Wholesale 11%
- Construction 6%
- Manufacturing 6%
- Transportation and warehousing 5%
- Activities related to real estate 5%
- Health care and social assistance 4%
- Professional, scientific and technical services 3%
- Other TIS 25%



Loan portfolio food and agri  
by industry at year-end 2010

- Dairy 19%
- Grain and oilseeds 18%
- Animal protein 17%
- Fruit and vegetables 11%
- Farm inputs 7%
- Food retail and food service 6%
- Flowers 4%
- Beverages 4%
- Other food and agri 14%



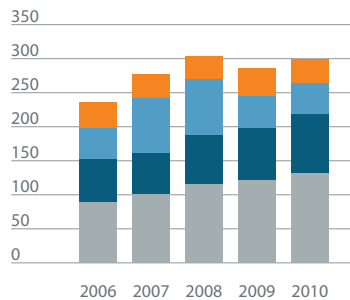
### Increase in amounts due to customers

Amounts due to customers saw a 4% increase at Rabobank Group in 2010, rising to EUR 298.8 (286.3) billion. Amounts due to customers were up by EUR 7.6 billion to EUR 192.8 billion at domestic retail banking, by EUR 2.6 billion to EUR 88.3 billion at wholesale banking and international retail banking, and by EUR 2.0 billion to EUR 16.7 billion at asset management.

Savings deposits accounted for 44% of amounts due to customers, making them the key component. Of savings deposits, 86% were generated by domestic retail banking, 10% by wholesale banking and international retail banking, and 4% by asset management. Savings deposits generated by the direct banking activities in Belgium, Ireland, Australia and New Zealand saw a substantial 60% increase in 2010, rising to EUR 11.6 (7.3) billion.

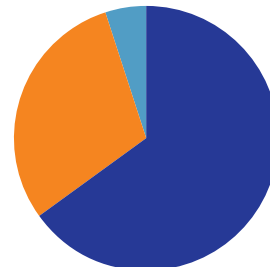
**Breakdown of amounts due to customers in billions of euros**

- Other
- Corporate time deposits
- Current accounts/ settlement accounts
- Savings



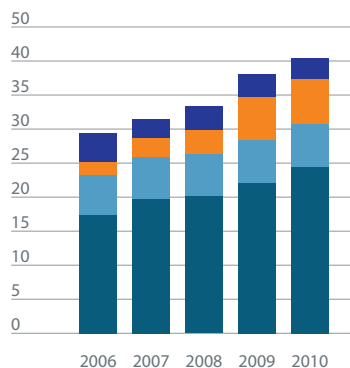
**Amounts due to customers by group entity at year-end 2010**

- Domestic retail banking 64%
- Wholesale banking and international retail banking 30%
- Asset management 6%



**Equity in billions of euros**

- Other non-controlling interests
- Hybrid capital
- Rabo Member Certificates
- Reserves and retained earnings



**Increase in equity due to retained earnings**

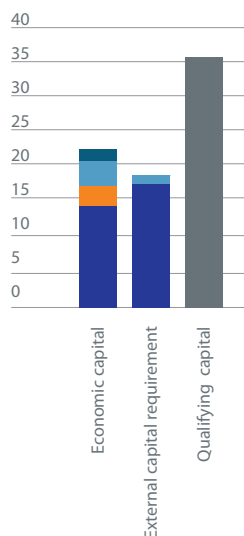
Rabobank Group's equity was up 8% in 2010, rising to EUR 40.8 (37.9) billion. This was due in particular to retained earnings for 2010. Rabo Member Certificates increased by EUR 0.2 billion following the conversion of Rabo Extra Member Bonds into Member Certificates. Equity is comprised mostly of reserves and retained earnings (61%) and of Rabobank Member Certificates (16%), hybrid capital (15%) and other non-controlling interests (8%).

**Rabobank and Eureko strengthen ties**

The commercial alliance between Rabobank and Eureko, insurer Achmea's parent company, has been strengthened. The new arrangements were formalised in a collaboration agreement that took effect on 31 December 2010 and supersedes the existing agreement of 2005. The obsolete agreement mentioned the two parties' intent to merge. It has now become clear that there is no need for a merger to achieve strategic targets in a shared effort. A merger is no longer being pursued due to the changes in the financial landscape. Among other reasons, the pending capital requirements for banks prompted a reduction in the equity interest in Eureko from 39% to 31% at year-end 2010. With this equity interest, Rabobank will still be able to provide input into any important decisions that are taken at Eureko.

**Capital requirements in billions of euros at year-end 2010**

- Other risks
- Operational and business risk
- Interest rate and market risk
- Credit and transfer risk



**External capital requirement**

Rabobank Group's external capital requirement amounted to EUR 17.6 (18.7) billion at year-end 2010.

The drop in the external capital requirement was caused by the further roll-out of Basel II, portfolio developments and stricter control of risk-weighted assets. Of the total capital requirement, 92% relates to credit and transfer risk, 7% to operational risk and 1% to market risk.

Rabobank Group uses the Advanced Internal Rating Approach, which has been approved by the Dutch Central Bank, to calculate the external capital requirement for credit risk for virtually the entire lending portfolio. The standard approach is still being applied to a number of smaller foreign portfolios pending the introduction of the Advanced Internal Rating Approach. Operational risk

is determined using the regulator-approved internal model based on the Advanced Measurement Approach, and the CAD II Approach is used for market risk.

## Economic capital as an internal capital requirement

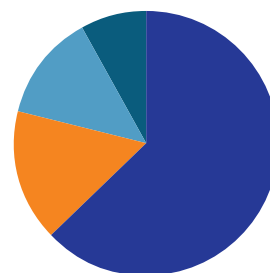
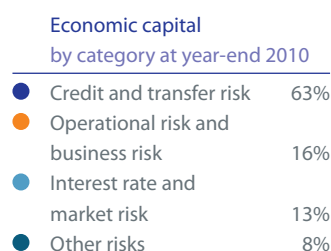
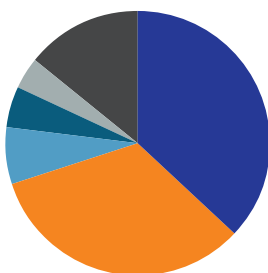
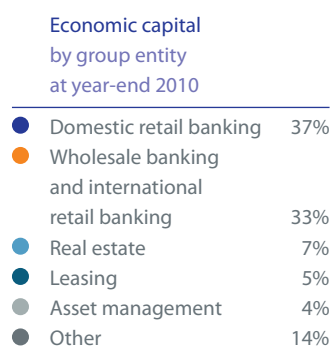
	RAROC <sup>4</sup>		Economic capital (in billions of euros)	
	2010	2009	31-Dec-10	31-Dec-09
Domestic retail banking	23.8%	15.2%	8.1	7.6
Wholesale banking and international retail banking	10.1%	8.8%	7.4	7.6
Asset management			0.8	0.8
Leasing	18.3%	10.4%	1.1	1.1
Real estate			1.6	1.5
Other			3.2	3.4
<b>Rabobank Group</b>	<b>12.5%</b>	<b>10.3%</b>	<b>22.3</b>	<b>22.0</b>

4 The RAROC ratio was calculated by linking up net profit to the average economic capital for the year.

Over and above the external capital requirement, Rabobank Group uses an internal capital requirement based on an economic capital framework. The key difference with the external capital requirement is that an allowance is made for all material risks and for Rabobank's creditworthiness. The latter is reflected in the economic capital framework that starts from a higher confidence level (99.99%) than that used for the external capital requirement (99.90%).

A broad spectrum of risks is measured consistently to gain a more complete understanding of risks and to allow a more rational weighing of risk and return. A series of models has been developed to weigh the risks incurred by Rabobank Group. These risks are credit, transfer, operational, business, interest rate and market risk. Market risk breaks down into trading book, private equity, currency, property and residual value risk. A separate risk model is used for the participation in Eureko.

Economic capital saw a 3% rise to EUR 22.3 (22.0) billion in 2010 due primarily to an increase in economic capital for interest rate risk and credit risk. The interest rate risk grew due to an increase in net interest positions and a levelling-off of the yield curve. The rise for credit risk was attributable to an increase in receivables from counterparties. Total economic capital is ample below the available qualifying capital of EUR 35.7 (33.0) billion. This sizeable buffer underscores the solidity of Rabobank Group.



# Financial results of Rabobank Group

## Results (in millions of euros)

	2010	2009	Change
Interest	8,614	8,075	7%
Commission	2,831	2,575	10%
Other results	1,271	1,784	-29%
Total income	12,716	12,434	2%
Staff costs	4,919	4,603	7%
Other administrative expenses	2,706	2,908	-7%
Depreciation and amortisation	571	527	8%
Operating expenses	8,196	8,038	2%
Gross result	4,520	4,396	3%
Value adjustments	1,234	1,959	-37%
Operating profit before taxation	3,286	2,437	35%
Taxation	514	229	
Net profit	2,772	2,208	26%
Bad debt costs (in basis points)	29	48	-40%
<b>Ratios</b>			
Efficiency ratio	64.5%	64.6%	
Return on equity	8.6%	7.3%	
RAROC	12.5%	10.3%	
<b>Balance sheet (in billions of euros)</b>			
	31-Dec-10	31-Dec-09	
Total assets	652.5	607.5	7%
Private sector loan portfolio	436.3	415.2	5%
Amounts due to customers	298.8	286.3	4%
<b>Capital requirements (in billions of euros)</b>			
Capital requirement	17.6	18.7	-6%
Economic capital	22.3	22.0	1%
<b>Capital ratios</b>			
BIS ratio	16.3%	14.1%	
Tier 1 ratio	15.7%	13.8%	
Equity capital ratio	14.2%	12.4%	
Number of employees (in FTEs)	58,714	59,311	-1%

## Income up 2%

In 2010, 61% (59%) of Rabobank Group's total income was generated in the Netherlands. Total income was up 2% in 2010, rising to EUR 12,716 (12,434) million, thanks in particular to recovered margins on savings deposits and an increase in lending. Interest income was up 7% to EUR 8,614 (8,075) million. Commission saw a 10% increase to EUR 2,831 (2,575) million. Asset management fees rose because more assets were managed for clients. Other income fell sharply to EUR 1,271 (1,784) million. Other results had been relatively high in 2009 due mainly to the amortisation of actuarial gains and the repurchase of debt securities.

## Operating expenses up 2%

Rabobank Group's operating expenses rose by 2% in 2010 to EUR 8,196 (8,038) million. Staff costs increased by 7% to EUR 4,919 (4,603) million. Staff costs were up particularly at Rabobank International and - to a lesser extent - at De Lage Landen because of the devaluation of the euro. Higher pension costs also contributed to the rise in staff costs. Other administrative

expenses dropped by 7% to EUR 2,706 (2,908) million thanks to group-wide cost control and lower costs incurred for the deposit guarantee system. Depreciation and amortisation charges were up 8% to EUR 571 (527) million.

### **Bad debt costs at 29 basis points**

2010 was a year of moderate economic recovery. Although producer confidence improved slightly, consumer confidence remained low. The economic recovery was fuelled mainly by a recovery of world trade. Many of our wholesale clients were able to improve their financial position. As a result, it was safe for Rabobank to make considerably fewer allocations on balance to the provisions. Bad debt costs were down mainly at the local Rabobanks, Rabobank International and De Lage Landen. At group level, value adjustments dropped by 37%, falling to EUR 1,234 (1,959) million. At 29 (48) basis points of average lending, bad debt costs are still slightly above the long-term average of 23 basis points.

### **Net profit at EUR 2,772 million**

Net profit increased by 26% to EUR 2,772 (2,208) million thanks primarily to lower bad debt costs, but also because of higher interest income and a moderate rise in expenses. The recognised tax expense was EUR 514 (229) million, which corresponds to an effective tax rate of 15.6% (9.4%). An amount of EUR 1,846 (1,395) million remains net of non-controlling interests and payments on Rabo Member Certificates and hybrid equity instruments. This amount was used to bolster Rabobank's capital position. In order to uphold our client service level in the future, Rabobank needs to maintain its robust capital position. To be able to do this, enough earnings should be retained annually to be added to equity.

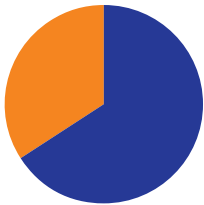
### **RAROC**

Risk Adjusted Return On Capital (RAROC) is used as a measure whereby profitability is consistently weighed against risk. The RAROC ratio is used also for pricing at transaction level and in the loan approval process. In 2010, Rabobank Group achieved a RAROC after taxation of 12.5% (10.3%), a 2.2-percentage point rise on 2009.



# Domestic retail banking

[www.rabobank.nl](http://www.rabobank.nl), [www.obvion.nl](http://www.obvion.nl), [www.interpolis.nl](http://www.interpolis.nl), [www.eureko.com](http://www.eureko.com)



Share in Rabobank Group's net profit for 2010

● Domestic retail banking 66%

## Drop in bad debt costs and a more efficient organisation

The Dutch economy recovered in 2010, bringing about an improvement in outlook for our clients. Nevertheless, businesses in specific sectors were still suffering. Value adjustments at domestic retail banking were down 50%, dropping to EUR 358 million. This corresponds to bad debt costs of 13 basis points of average lending. Amounts due to customers increased by 4% to EUR 192.8 billion. Apart from lower bad debt costs, recovered margins on savings deposits and a decline in staff costs also contributed to higher earnings. Net profit was up 52% at domestic retail banking, rising to EUR 1,843 million. The efficiency ratio improved by 4.7 percentage points to 58.9% and RAROC rose to 23.8%. Consumers remained hesitant about borrowing money due to the still tentative economic recovery and government spending cuts. As a result, lending increased less sharply at the local Rabobanks and Obvion. Private sector lending stood at EUR 286.9 billion with market shares being virtually stable. More focus was placed on the wholesale market from 2010 onwards because of its growth potential. In the agricultural sector, Rabobank undertook networking efforts to play a role in key ethical issues. Rabobank's service offering is about delivering value to the customer. Independent surveys show that Rabobank proudly ranks among the top three European banks that deliver the most value to their customers.

## Strategy for domestic retail banking

Rabobank Group's ambition is to achieve financial market leadership in all segments of the Dutch market. Domestic retail banking contributes fully to this ambition by offering a comprehensive range of financial products and services. Rabobank occupies a strong position in the corporate market; there is particular growth potential in the wholesale market. Rabobank endeavours to maintain sound balance sheet ratios, meaning that the growth in lending is mostly funded using savings deposits. The Rabobank 2010 internal project was launched to help Rabobank make it even easier for customers to achieve their ambitions. In addition, Rabobank Group plans to build on its position as a leading international food and agri bank.

### Rabobank Group strategy

All-finance market leader in the Netherlands

### Contribution to group strategy

- Strengthening the market leadership position in all-finance market segments
- Building on the position in the corporate market
- Offering Interpolis non-life, health and life insurance via local Rabobanks

International food and agri bank

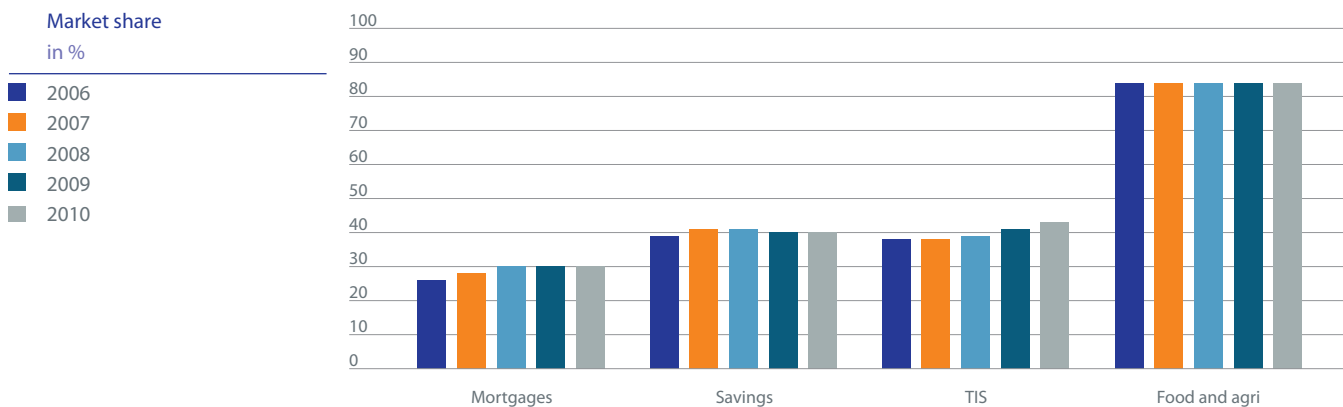
- Maintaining a leading position in the Dutch agricultural sector
- Maintaining a leading position in the insurance market for the Dutch food and agri sector via Interpolis, the market leader

Rabobank Group has a non-controlling interest in Eureko, an insurer. Eureko is the leader in all insurance markets in the Netherlands and operates under various labels. As Rabobank's primary supplier, Interpolis, a Eureko subsidiary, offers a comprehensive range of insurance products and services for the retail mass market and SMEs. The close collaboration between the local Rabobanks and Interpolis underpins the financial market leadership in the Netherlands. The local Rabobanks are the largest insurance broker in the Netherlands.

### Moderate economic recovery

The year 2010 was characterised by moderate economic recovery. Although producer confidence partly recovered, consumer confidence remained low. The impact for our clients varies by sector. Some sectors, such as the industrial sector and the wholesale trade, were able to benefit from the upswing in world trade. Other sectors, such as construction industry and the durable consumer goods sector, still suffered the consequences of the financial crisis. Consumers were hesitant to purchase luxury goods and many producers struggled with over-capacity, which resulted in little need for investments among businesses. Rabobank stood by its customers as long as possible. The use of special, government-introduced credit instruments offered additional opportunities. Of all banks, Rabobank issued the most loans as part of the BBMKB scheme, a guarantee scheme for loans to the SME sector. Government-guaranteed business loans were issued as well. These are loans to profitable businesses that are issued with a view to stimulating the economy. Provided that they are a member of Rabobank, businesses can also apply to the Rabobank Guarantee Fund for a loan.

### Near stability in corporate and mortgage markets



Rabobank Group occupies a leading position in several segments of the Dutch market, i.e. the mortgage market, the savings market, the trade, industry and services (TIS) market, and the agricultural sector. The volume of the mortgage market grew slightly in 2010, after a sharp decline in 2009. Rabobank managed to more or less consolidate its position in this market. Rabobank Group's share of the mortgage market saw a limited drop to 29.3% (29.9%). There was an underlying slight decline in market share of the local Rabobanks by 0.4 percentage points to 25.7%; Obvion's market share fell by 0.2 percentage points to 3.6%.

The savings market in the Netherlands grew by 2% to EUR 291.1 billion at year-end 2010. Rabobank Group's share of the savings market was more or less the same at 39.7% (39.5%)<sup>5</sup>. Of this share, 38.2% (37.9%) was realised by the local Rabobanks and 1.5% (1.6%) by Robeco Direct.

Rabobank Group has a strong position in the corporate market, which it continued to develop in 2010. There is room for further growth of market share at the top end of the corporate market, i.e. the wholesale market. This is exactly where the competition is the fiercest. The share of the TIS market rose to 43% (41%) in 2010. We maintained our market leadership in the agricultural sector and our share of that market was stable at 84% (84%).

<sup>5</sup> In 2010, the share of the savings market was calculated to align better with the definitions provided by the Dutch Central Bank (DNB). The comparative figure has been adjusted accordingly.

### Putting customers' interests first

Rabobank's service offering is about delivering value for the customer. A 2010 survey by Forrester Research shows that Rabobank proudly ranks among the top three European banks that deliver the most value to their customers. The research company asked customers to respond to the following statement: 'my bank does not operate on a profit motive, but rather puts customers' interests first.' Of the Dutch respondents, 48% agreed that this statement applies to Rabobank, ranking Rabobank 12 percentage points higher than average. The main reason that customers choose Rabobank is our local presence and knowledge of the regional market. They also appreciate Rabobank's reliability, which is reflected in our robust financial position and our cooperative basis.

### Margin on mortgages

The Dutch Competition Authority (NMa) published a report in November 2010, in which it argues that margins on mortgages are high from a historical perspective. Rabobank acknowledges that margins on new mortgage loans have improved since the second half of 2009, but points out that the financing costs of mortgages went up accordingly. What remains is a sound, but necessary, margin that is required to be able to continue to issue mortgages under the Basel III rules. The margin is used to cover operating expenses and a risk mark-up. And profit is required to build up capital.

### Broader and personal services via direct channels

Direct channels form the basis for our retail services. Rabobank wants to excel as a multi-channel bank, offering customers services via the channel that best suits them irrespective of the time or place. The ideal platform is an appealing online self-service environment, whether mobile or land-based. Consumers once again voted [www.rabobank.nl](http://www.rabobank.nl) best financial website of the year in 2010. The next few years will see rapid developments in the area of mobile phone technology. The mobile bank is set to become a fully fledged dimension of the multi-channel bank. More than 10% of our 20 million monthly online banking log-ins now take place via the mobile web. The existing M-banking pack is continually updated in order to make mobile banking accessible to even more customers. In November 2010, we launched the Rabo Banking app for the iPad. In addition to mobile banking, sales via the telephone channel will also increase over the next few years.

### A knowledge-driven bank

Half of the Dutch corporate sector has Rabobank as its company bank. Businesses choose Rabobank because of its financial services, but also because we serve as a knowledge bank for our clients. In 'Cijfers & Trends', a quarterly update on figures and trends, Rabobank shares sector knowledge and benchmark opportunities with businesses and their auditors. In addition, Rabobank tries to remove as much of its customers' administrative burden as possible, so that they can focus on what they are good at: doing business. An example would be Rabobank's role in Standard Business Reporting (SBR). SBR allows businesses and their auditors to submit financial reports in a digital format. This means that a business can save time on keeping its accounts. The standardised information that is submitted makes it easier for us to perform a risk assessment. Interim reports can be delivered to the customer sooner, allowing them to change course as needed.

### Best Dutch merchant bank

The annual survey conducted by Management Team magazine ranks Rabobank as the best Dutch financial institution in the categories asset management, cash management, finance, investment banking, private equity and risk management. Managers of large enterprises decide annually what is the best financial institution in the Netherlands. Rabobank ranked highest on six of the 12 aspects. Rabobank also scored well in the customer satisfaction survey of the Incompany business magazine; it received the highest rating on the aspect of business finance, and it has never ranked lower than the top three on the aspect of corporate finance since 2003.

### Successful new Rabobank products

Money View is an independent research agency for banks, insurers and advisers. In a Money View survey of savings-linked mortgages, the RaboOpbouwHypotheek (build-up) mortgage received the highest rating for pricing and flexibility. Obvion's SpaarGerusthypotheek (safe savings) mortgage was also awarded five stars for flexibility. Consumers increasingly opt for bank savings products such as the RaboOpbouwHypotheek and SpaarGerusthypotheek mortgages to accumulate assets.

2010 saw the introduction of Rabo Stimuleringskapitaal (incentive loan), which is intended for small and medium-sized agricultural and other businesses. Under this scheme, customers who need a long-term capital injection are granted a subordinated loan. Because the loan is subordinated, it strengthens the business's capital base. No repayments are due on the loan during the first five years, which allows enterprises to apply it fully towards their business.

### Obvion named mortgage lender of the year

Obvion was named the mortgage lender of the year at the second edition of the Dutch Insurance Awards, where it received the Golden Shield award in acknowledgement of the transparency and quality of its financial products as well as its efforts to provide clients with excellent services and the best possible quality over the years.

### Rabobank: a bank for the agricultural sector

Rabobank has a unique connection with the agricultural sector, serving this sector as a financier, sparring partner and centre of expertise. Rabobank sees agriculture as an innovative sector with great potential for bringing about further sustainability improvements. After a number of difficult years, the sector now seems to be recovering slowly. But 2010 was still a challenging year for some segments. Many goat farmers lost their livestock, which had to be destroyed because of Q fever. Goat farmers made plans in 2010 to rebuild their businesses. Rabobank helped them by offering advice and knowledge, and keeping farmers informed about the business outlook for goat farming. The horticulture sector became an area of concern in 2008 and 2009 due to the economic crisis and the required increases in scale. Prices did recover somewhat in 2010. In addition, 2010 was the year of the public debate about expansion of intensive farming and about the ecological infrastructure to maintain and increase biodiversity in the Netherlands. Rabobank made an effort to table these types of issues in relevant networks.

A report entitled 'Sustainability and security of the global food supply chain' was presented at the Duisenberg lecture 2010. This report addresses the challenge of raising the sustainability of the world's food chain.

### Food and agribusiness, and value chain policy at Rabobank

Rabobank further fleshed out the implementation of the Food and Agribusiness Principles and value chain policy in the financing process, for instance by teaching 'Finance in Balance' workshops to persons involved in the financing process, such as account managers, risk managers and credit committees. These workshops take a practical approach to weighing commercial and socially responsible aspects in order to arrive at ethical financing decisions. Via sector promotion days, sector specialists were informed about specific ethical risks in their respective sectors.

### Vision and strategy in the food and agribusiness

Rabobank makes investments for its clients in vision and knowledge development in the food and agribusiness. The initiatives that Rabobank undertook included a survey of the arable farming agenda of 2020, which was commissioned by the Arable Farming Marketing Board, and the publication of reports outlining the bank's vision of the outlook for arboriculture, bulb growing, glasshouse horticulture and floriculture. Rabobank organised online seminars for the glasshouse horticulture and floriculture sectors, allowing entrepreneurs in these sectors to participate from behind their computer.

Rabobank held workshops in the year under review for dairy farmers and pig farmers to help them plot out a strategy. In the workshops for pig farmers, Rabobank encourages dialogue between the pig farmers and invites them to talk with the bank about sustainable pig farming that is broadly supported in society. Rabobank was actively involved in discussions about the use of antibiotics on farms.

Rabobank supported the establishment of BioBRUG, a chair that studies bio production and processes in relation to the bio-based economy. Readers of *Boerderij*, a farming journal, named Rabobank the number one leading agribusiness in the Netherlands. Rabobank came second on sustainability.

### Project Fund supports renewable energy projects

The Rabobank Project Fund helped promote several innovative applications of renewable energy in the food and agribusiness, including the development of a solar/wind greenhouse, energy-efficient housing for broilers, the application of hydrogen to improve combined heat and power outputs, and the application of geothermal heat in electricity production. Three projects are now up and running to harness geothermal heat for electricity production. Finally, Rabobank issued a publication on co-digestion as a source of renewable energy.

### Interpolis, main supplier of insurance policies to Rabobank

Interpolis is Rabobank's main supplier of insurance policies. At the local Rabobanks, about 20% of retail clients have an *Alles in één Polis* insurance policy and 23% of corporate clients have a *Bedrijven Compact Polis* insurance policy. The number of *Alles in één Polis* insurance policies increased by 4,000 in 2010, rising to 1,321,000 (1,317,000). The percentage of clients who have taken out three or more types of cover under this policy was up also, reaching 57.0% (55.7%). There is a shift from the *Bedrijven Compact Polis* insurance policy to the *ZekerVanJeZaak Polis* insurance policy, a policy for businesses with revenues under EUR 1 million that was introduced in 2008. The number of sectors eligible for *ZekerVanJeZaak* insurance increased sharply in 2010; at year-end 2010, the policy was open to 98% of sectors in which our clients are active. The number of *Bedrijven Compact Polis* insurance policies dropped to 181,000 (191,000) in 2010, with the number of *ZekerVanJeZaak Polis* insurance policies growing further to reach 31,000 (15,000). The *ZorgActief* health insurance policy is popular among students. The number of *ZorgActief* health insurance policies sold was up 15% in 2010, rising to 179,000 (155,000). Interpolis introduced a new life insurance policy in 2010; this policy caters better to the needs and requirements of clients.

### Interpolis awarded Customer Focus Quality Mark for Insurers

Interpolis was awarded the Customer Focus Quality Mark for Insurers in 2010. This is a new quality mark established by the Dutch Association of Insurers. The quality mark dictates standards for customer education, service provision, availability, customer satisfaction and quality assurance. The judges ruled that Interpolis attaches great value to customer focus in its insurance business. Interpolis received the maximum score on providing clear information about its products and about its investment and quality policies.

### Responsible banking at Rabobank

In its retail services, Rabobank has identified four themes in relation to responsible, sustainable banking, and these continued to form the starting point for the ongoing development of services in 2010. These themes are:

- transparency: offering fair, straight-forward products, and clearly communicating the costs, returns and potential risks;
- accessibility for vulnerable groups: everyone should be able to handle banking matters independently;
- prevention of financial problems and guidance for consumers in financial difficulties;
- sustainable services: encouraging clients to be more aware of their consumption of energy and natural resources, and to use them more efficiently.

These themes are an extension of Rabobank Group's strategic policy and our central themes with respect to corporate social responsibility.

### **Transparent products**

Customer surveys show that 76% (78%) of adult customers feel that Rabobank provides clear and understandable information about banking. Steps were taken in 2010 to further improve our products and communication about our products.

Late in 2009, four new payment platforms were introduced that are better aligned to the needs of our customers. The new payment platforms give customers more choice in pricing, speed and convenience. Since the second half of 2010, about 4.5 million customers have been asked to switch to a new platform. The RaboOpbouwHypotheek mortgage is a bank-savings product whose costs are transparent. A study has shown that the wording of the conditions could be improved. The rewritten conditions will be introduced in 2011.

Obvion launched research in 2010 into an e-learning tool that will help clients gain basic knowledge of how mortgages work.

### **Service provision to vulnerable groups**

Rabobank wants to help customers in vulnerable groups to be able to do their banking independently. Such vulnerable groups include the visually impaired or people with literacy problems, but also teenagers and the elderly. Where its services to the elderly are concerned, Rabobank evaluates continually whether they meet the needs of this group. A customer survey held in the year under review showed that 79% (84%) of elderly customers feel that banking at Rabobank does not cause them too much trouble.

In addition, a number of other service innovations were implemented in the first half of 2010. With regard to accessible services, Rabobank feels that it has made significant pronunciation improvements to the read-aloud function of [www.rabobank.nl](http://www.rabobank.nl).

### **Preventing financial difficulties**

A key element in Rabobank's service provision is that customers are sold the right products, which helps to prevent financial problems. The RaboOpbouwHypotheek mortgage, for instance, has the option to build assets that can be used later to repay the mortgage partially or in full. Mortgage lender Obvion also offers solutions when clients face financial difficulties. In connection with this, Obvion launched the TijdelijkeVerhuur, temporary letting service, the RenteParkeren service, under which interest payments can be stopped temporarily, and the BudgetPlanner.

Baas Over Eigen Geld (B.O.E.G), an online teen platform that teaches teenagers to become money-wise, to save their money and to make plans, has now been operational for one year. A customer survey held in 2010 showed that 36% (33%) of surveyed teens between the ages of 15 and 18 felt that Rabobank helps them to improve their financial literacy skills. Mortgage lender Obvion supports LEF, a financial literacy project of Stichting Excellent Hypotheekadviseur. The objective of this project is to help young people do their own finances and to keep them out of financial difficulty.

### **Sustainable services**

Rabobank wants to reduce the use of paper in payment transactions. As part of the new payment platforms, online banking customers no longer receive paper-based bank statements in principle. This resulted in a 7% reduction in paper used for bank statements in the reporting period.

Owing, in part, to government measures that will limit tax relief for green and cultural investments from 2011 onwards, the development of a new green mortgage product has been halted because the product would no longer be commercially viable.

### **OpMaat compensation scheme**

In the year under review, Rabobank implemented the OpMaat compensation scheme for customers with a running or terminated OpMaat Hypotheek-C mortgage. This scheme came about on the recommendation of the Ombudsman for Financial Services and the agreement with Stichting Woekerpolis Claim, a special-interest group fighting profiteering policies, which was concluded late in 2009. The OpMaat compensation scheme has eight facilities, ranging from an interest payment to conversion of the OpMaat Hypotheek mortgage at no charge. Over 190,000 customers received a written personal offer under the OpMaat compensation scheme. In addition, Rabobank posted additional information on [www.rabobank.nl](http://www.rabobank.nl) and

allowed customers to request more information tailored to their specific situation. More than half of the number of customers qualifying for the OpMaat compensation scheme still have an OpMaat Hypotheek-C mortgage. This group has been invited to a personal consultation. About three-quarters of them accepted this invitation. Based on an extensive customer analysis, and the needs and requirements of the customer, the personal consultation was used to define a suitable solution going forward for each particular customer. Many clients availed themselves of the option to switch to bank savings. In the reporting period, about 140,000 customers returned the reply form taking up the offer under the OpMaat compensation scheme. They received their interest payment. We expect to receive more reply forms in the first quarter of 2011 because the personal consultations have not yet been completed. A special committee has been instituted for extreme cases.

### Compensation scheme for Obvion's Switchhypotheek mortgage

Following up on the Ombudsman's decision on Rabobank's OpMaat Hypotheek-C mortgage, Obvion customers with a Switchhypotheek mortgage (an almost identical product) were offered compensation in the fourth quarter of 2010.

### Microcredits for business start-ups

Together with the Ministry of Economic Affairs, Agriculture and Innovation, among other parties, Rabobank issued a top-up loan of EUR 5 million to Qredits in 2010. This microcredit organisation was established in 2008 with Rabobank's support. It focuses on financing existing businesses and start-ups with a financing requirement of up to EUR 35,000 that have no chance of getting a standard bank loan. This would include entrepreneurs who need more support than the bank can offer, for instance owing to deficient language skills. Rabobank also contributed to funding microbusinesses in 2010 by supporting a pilot undertaken by the Ministry of Social Affairs.

### Integration of Bizner into Rabobank

After the decision was taken to terminate Bizner's service provision, we looked carefully at how this online bank's clients could safely switch over to Rabobank. The integration is running smoothly. We expect that ultimately about 70% of clients will take up the offer to switch over to Rabobank.

### Promoting efficient payment transactions

Rabobank executes corporate payment transactions charging a transaction-based fee, i.e. a fixed fee per type of transaction. The fee is set based on the processing costs incurred by Rabobank. For this reason, the more efficient forms of payment come at the lowest cost. This allows corporate clients to control the cost of their payment transactions. Rabobank does not charge a turnover commission.

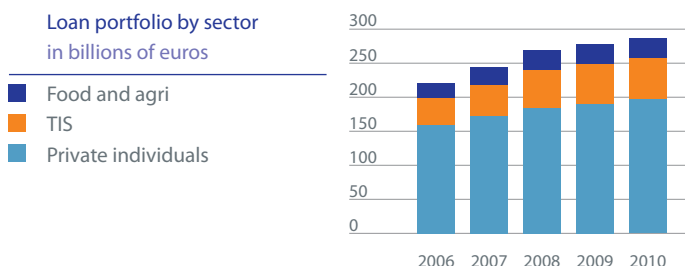
### Serving corporate clients locally

Corporate clients increasingly contact Rabobank via direct channels such as telephone, e-mail and online, rather than meeting with our people face-to-face. Rabobank facilitates this shift by investing in local call centres tailored to businesses. In the year under review, more than 70% of the local Rabobanks had a call centre. Rabobank's ambition is to have a call centre for all local Rabobanks in 2011; even more focus will be placed on efficiency and customer satisfaction. It is up to the client to choose the channel that best suits them, whether this be online, telephone, e-mail or an adviser.

### Lending at domestic retail banking

Despite the modest economic recovery, growth in lending at domestic retail banking was slightly less steep in 2010 than in 2009. Consumer confidence remains low owing in part to government cut-backs, and businesses are still hesitant to invest. Producers are extra careful due to the financial crisis and many of them are still struggling with overcapacity. Private sector lending was up 3% in 2010, rising to EUR 286.9 (278.0) billion; of this

Loan portfolio by sector  
in billions of euros



portfolio, 69% was made up of loans to private individuals, 21% of loans to the trade, industry and services (TIS) sector, and 10% of loans to the food and agri sector. Loans to private individuals, which are comprised almost entirely of mortgage loans, rose by 4% to EUR 196.8 (190.0) billion. Loans to the TIS sector were up 4% to EUR 61.1 (58.8) billion. Loans to the food and agri sector were stable in 2010, landing at EUR 29.1 (29.2) billion. The share of the meat sector in this portfolio increased, with that of the fruit and vegetables sector contracting.

### Increase in amounts due to customers

Domestic retail banking saw its amounts due to customers increase by 4%, rising to EUR 192.8 (185.2) billion in 2010. Corporate deposits accounted for most of the increase. Amounts due to customers are made up chiefly of savings deposits from private individuals. This category increased by 3% to EUR 112.6 (108.9) billion. Within savings deposits, there was a shift from time deposits and fixed-interest savings to variable-interest savings. Domestic retail banking was able to fund nearly all of the increase in lending using client deposits.

## Financial results of domestic retail banking

### Results (in millions of euros)

	2010	2009	Change
Interest	4,894	4,360	12%
Commission	1,321	1,261	5%
Other results	294	505	-42%
Total income	6,509	6,126	6%
Staff costs	2,161	2,196	-2%
Other administrative expenses	1,553	1,569	-1%
Depreciation and amortisation	119	133	-11%
Operating expenses	3,833	3,898	-2%
Gross result	2,676	2,228	20%
Value adjustments	358	721	-50%
Operating profit before taxation	2,318	1,507	54%
Taxation	475	294	62%
Net profit	1,843	1,213	52%
Bad debt costs (in basis points)	13	26	-50%
<b>Ratios</b>			
Efficiency ratio	58.9%	63.6%	
RAROC	23.8%	15.2%	
<b>Balance sheet (in billions of euros)</b>			
	31-Dec-10	31-Dec-09	
Total assets	360.9	328.9	10%
Private sector loan portfolio	286.9	278.0	3%
Amounts due to customers	192.8	185.2	4%
<b>Capital requirements (in billions of euros)</b>			
Capital requirement	6.7	6.7	
Economic capital	8.1	7.6	7%
Number of employees (in FTEs)	27,322	28,529	-4%

### Income up 6%

Domestic retail banking saw its total income increase by 6%, rising to EUR 6,509 (6,126) million in 2010. Interest income was up 12% to EUR 4,894 (4,360) million as a result of recovered margins, particularly on savings deposits. Thanks, in part, to the issue of new products, commission showed a limited 5% rise to EUR 1,321 (1,261) million. Insurance commissions at the local Rabobanks amounted to EUR 329 (353) million. Commissions from non-life insurance



stood at EUR 313 (323) million and commissions from life insurance came to EUR 16 (30) million. Other results were comprised mostly of dividends from Rabobank Nederland; this item amounted to EUR 294 (505) million.

### Operating expenses down 2%

Total operating expenses at domestic retail banking saw a 2% drop in 2010, falling to EUR 3,833 (3,898) million. There was a decline in costs of contract staff and staff costs. The headcount was down 4% to 27,322 (28,529) FTEs. Owing to these developments, staff costs fell by 2% on balance to EUR 2,161 (2,196) million. Landing at EUR 1,553 (1,569) million, other administrative expenses were virtually stable. Depreciation charges on real estate and equipment were lower in 2010, as a result of which the item depreciation and amortisation decreased by 11%, dropping to EUR 119 (133) million.

### Bad debt costs at 13 basis points

The economic recovery of 2010 is reflected in developments in bad debt costs at domestic retail banking, which dropped compared to 2009. But the recovery did not yet benefit every sector. The construction industry, for instance, is at the tail end of the economic cycle and is still suffering the consequences of the recession. Due to low consumer confidence, sectors specialising in durable consumer goods did not yet benefit from the economic upswing either. Value adjustments fell by 50% to EUR 358 (721) million. This corresponds to 13 (26) basis points of average lending, which is moving towards the long-term average of 11 basis points. Of total lending, 69% is comprised of home mortgage loans. Bad debt costs on home mortgage loans were low at 4 basis points.

### Capital requirement and RAROC

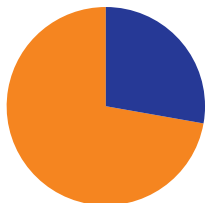
In calculating the capital requirement, risks associated with loans to retail clients are estimated using internal rating and risk models. Allowance is made for any securities or collateral provided. 2010 saw an increase in lending combined with an improvement in client ratings, which resulted in a stable capital requirement for domestic retail banking at EUR 6.7 (6.7) billion. Economic capital, i.e. the internal capital requirement, stood at EUR 8.1 (7.6) billion. Risk Adjusted Return On Capital (RAROC) was up 8.6 percentage points to 23.8% (15.2%) thanks to an increase in earnings.

## Outlook for domestic retail banking

World trade is pulling the Dutch economy away from the recession, but growth remains slow. Economic growth is even expected to weaken again in 2011. Moreover, owing to government spending cuts, consumer purchasing power will hardly increase on balance, and developments for the period after 2011 are uncertain. Consumer spending will more or less stagnate and investment growth at businesses will be limited as a result. For these reasons, we expect only limited growth in lending in 2011. House prices are likely to stabilise, but regional differences will remain large. Although more volatility in the pricing of agricultural commodities is expected in the food and agri sector, the outlook is positive thanks to the steady growth of the world population and a higher standard of living in countries such as India and China. The relatively limited growth in activity levels weighs down on the increase in income. This will prompt domestic retail banking to implement further cost control measures. The deeper collaboration between Rabobank and Eureko will lead to further integration of the processes of the two organisations. Interpolis is also developing innovative and accessible products and services for clients. After the success of the Interpolis ZekerVanJeZaak Polis insurance policy for businesses with revenues under EUR 1 million, we are now also exploring options for offering larger businesses a single product application.

# Wholesale banking and international retail banking

www.rabobank.com



Share in Rabobank Group's net profit for 2010

- Wholesale banking and international retail banking 28%

## Consistent performance thanks to drop in bad debt costs

2010 was the year of economic recovery after a deep recession. Value adjustments were down 36% to EUR 597 million at Rabobank International because of this recovery and good credit management. This corresponds to bad debt costs of 64 basis points of average lending. Lending rose by 6% to EUR 99.1 billion. Currency effects were a decisive factor in this rise. The share of the food and agri sector in the portfolio grew by 5.9 percentage points to 44.5%. The direct banking activities saw a considerable inflow of savings deposits, which rose to EUR 11.6 billion. The increase in other income was attributable in part to the sale of some of the equity interest in Indian-based Yes Bank and higher trading income at Global Financial Markets. Net profit was up 37% to EUR 774 million thanks to an increase in income and a drop in value adjustments. RAROC rose to 10.1% and the internal capital requirement landed at EUR 7.4 billion. Policy was formulated to make value chains more sustainable. A strategic alliance was formed with the Agricultural Bank of China; this alliance will allow Rabobank to strengthen its position in China. The purchase of three relatively small banks in California further boosted the retail activities outside the Netherlands. Rabo Development acquired a 30% equity interest in Sicredi, a Brazilian cooperative. This transaction is currently still subject to local regulatory approval.

## Strategy for Rabobank International

Rabobank International's strategy focuses on maintaining and building on our market leadership position in the Netherlands and on the food and agri sector internationally. Strengthening the share of the wholesale market is the number one priority in achieving market leadership in the Netherlands. Rabobank International collaborates closely with the local Rabobanks to serve the top end of the market. Outside the Netherlands, the scaling-down of non-core activities brought about a further increase in the share of the agricultural sector in the total portfolio in 2010.

### Rabobank Group strategy

All-finance market leader in the Netherlands

### Contribution to group strategy

- Delivering products through local Rabobanks
- Supporting local Rabobanks in their service provision to wholesale clients
- Serving top corporates in the Netherlands
- Providing risk-bearing capital
- Supporting globally operating Dutch clients

International food and agri bank

- Broadening product offering and leveraging knowledge for food and agri clients
- Broadening the retail banking network in key food and agri areas
- Developing renewable energy and cleantech as specialist areas of expertise

The strategy for the rural and retail activities was fine-tuned in 2010. The revised strategic plan focuses on offering tailored financial solutions to key food and agri clients based on long-standing client relations, and on broadening the retail banking network, with priority being given to serving clients in the primary agricultural sector. There was also a shift in focus of the wholesale activities. As part of the strategy, wholesale serves specific food and agri sectors worldwide, the goal being to achieve broader product sales.

In the first half of 2010, policy was formulated to make the value chains in 12 sectors more sustainable. In the second half of the year, we helped clients look for concrete opportunities to contribute to the advancement of sustainability in their business.

### Wholesale banking for Dutch clients

Rabobank's Dutch wholesale banking division seeks to achieve a leading position in the Dutch wholesale market. It is supported in its ambition by the local Rabobanks, among other group entities. The growth in Rabobank's leading position at major corporate transactions in the Dutch market illustrates both the ambition and the steps that are being taken in this area. In order to achieve market leadership, Rabobank acts as a strategic long-term partner to the client. To be able to do so, close relations need to be forged with clients. This created a need for experienced wholesale bankers in 2010. A recruitment campaign by the name of 'Word jij de Rabobank' was launched to market Rabobank as an employer to the target groups that matter to the bank. In a global context, ample investments were made in employees who are able to support clients across the full financial services spectrum. The new colleagues will help us to improve existing client services and to broaden our services to attract new clients. Rabobank Group occupies a special position outside the Netherlands because of our extensive global network.

Rabobank grew substantially in 2010 in the Dutch market for mergers and acquisitions. The Q3 report of OverFusies.nl, a mergers and acquisitions data base, showed that Rabobank International's Mergers & Acquisitions department provided advisory services in most wholesale acquisitions. What is more, these acquisitions had the highest transaction values. A closer partnership with Rothschild and Rembrandt Fusies & Overnames contributed to this success.

The activities of the Trade Services department saw a sharp increase in 2010. Trade Services is responsible for processing international transactions of Dutch enterprises with products such as letters of credit, collections and international bank guarantees. Customers want to reduce the risk of doing cross-border business. The increase in this department's activities was attributable in part to the recovery of world trade.

### International wholesale banking with focus on food and agri

At international wholesale banking, the focus lies on food and agri in the world's key agricultural countries. This focus is a natural extension of Rabobank's roots: it started as an agricultural cooperative. The knowledge that Rabobank has built in the area of food and agri gives the bank a competitive edge in this market. The departments undertaking the international wholesale banking activities are Wholesale Clients International, as well as Global Financial Markets (GFM), Mergers & Acquisitions Trade & Commodity Finance, Corporate Finance and Private Equity.

GFM launched many new products in 2010, also allowing clients to invest in exchange-traded funds. Clients can now invest in an index without having to buy all the underlying shares. The Trade & Commodity Finance department has developed into a prominent player in the market over the past few years.

Rabo Securities USA and Jefferies & Company entered into a strategic alliance in 2010. This gives clients the opportunity to place bonds on the US institutional capital market. A partnership agreement was signed also with the Agricultural Bank of China, with Rabobank acquiring a minor equity interest in this bank. The objective of the collaboration is to strengthen our position in China. The Chinese bank's extensive network allows us to tap new markets. This offers potential, not only for Rabobank International's wholesale clients, but also for Robeco and its investment products, and for De Lage Landen to expand its lease portfolio. Rabobank provides concrete technical support, training and expertise in the areas of trade

finance, lease, rural banking and risk management. Our visible presence in China is perfectly in line with our ambition to be a leading global food and agri bank. The agreement that was signed provides for a framework of bilateral collaboration, which serves as a basis for detailed partnership agreements.

The equity interest in Indian-based Yes Bank was scaled down to less than 5% in 2010, which is required to be able to start our own food and agri bank in India. Launching our own banking operations in India is in keeping with the ambition of being a leading global food and agri bank.

### **International retail banking**

The international retail banking division focuses on offering financial services to corporate food and agri clients and to private individuals around the world. The rural banking operations in Australia, New Zealand, the US (except California), Brazil and Chile concentrate exclusively on food and agri clients. The retail branches in California, Poland, Ireland and Indonesia also serve private individuals and SMEs. In 2010, Rabobank acquired Napa Community Bank as well as specific assets and liabilities of Butte Community Bank, and Pacific State Bank in California. These acquisitions broadened the international retail banking network while further strengthening Rabobank's positions as a food and agri bank. Rabobank views California as an agricultural growth market. Having had a presence in this State since 2002, the local network now comprises about 120 branches. Rabobank is also a majority shareholder in Bank BGZ, a Polish-based bank rooted in the food and agri sector. 61 new branches were opened in 2010, mainly in rural areas. This brings the total to 348 branches. In 2010, Rabobank, the Polish State and Bank BGZ signed an agreement about seeking a stock exchange listing in 2011.

### **Recovery of private equity market**

Rabo Private Equity, Rabobank's investment division, uses specialist labels to invest in private equity based on its sector knowledge. Rabo Capital invests in controlling interests in medium-sized Dutch enterprises. Rabo Ventures focuses on young cleantech businesses in Europe and North America. The Dutch Greentech Fund invests in talented Dutch techno start-ups with innovative technologies or processes that introduce more sustainability to the chain from raw materials to end products. The Fund, which focuses on agriculture, food production, water, air and bio-energy, applies strict sustainability criteria. Rabo Participations gives capital injections to help local Rabobank clients achieve their growth ambitions, and Phoenix Recovery Capital invests in Rabobank clients that find themselves in financial difficulties. 2010 saw a recovery of the private equity market, which manifested itself in an increase in activity. The challenge for Rabobank was to find the right, strategy-appropriate parties to invest in. In 2010, for instance, Rabo Capital acquired a controlling interest in Maître André, a producer of ready-made meals for the Dutch retail market. Rabo Participations acquired a non-controlling interest in Fletcher, a hotel chain. Rabobank not only offers private equity solutions, but also invests indirectly via investments in several independent funds the world over. Countries in which Rabo Private Equity makes fund investments include the Netherlands, the UK, the US, Poland, Switzerland and India.

### **Rabo Development supports banks in developing countries**

Rabo Development helps existing banks with a rural orientation in developing countries to grow into professional, modern-day financial institutions. This is how Rabobank allows millions of customers in other parts of the world to access appropriate financial services in accordance with its original mission in the Netherlands. Because Rabo Development acquires non-controlling interests, control remains locally based. While keeping their autonomy, these banks benefit from Rabobank's capital, expertise, products, networks and management capacity. To this end, Rabo Development makes use of the knowledge and experience of Rabobank staff from all parts of the organisation. Experts in such areas as credit management, risk management, product development, distribution, ICT and HR are continually on hand to provide support to our partner banks.

## Partner banks serve millions of customers

Bank	Country	Equity interest (in %)	Branches	Employees	Customers (x 1,000)
National Microfinance Bank	Tanzania	35	138	2,613	1,421
United Rural Cooperative Bank of Hangzhou	China	9	137	1,652	1,573
Zambia National Commercial Bank	Zambia	46	58	1,345	473
Banco Terra	Mozambique	31	9	136	16
Banco Regional	Paraguay	40	33	676	61
Banque Populaire du Rwanda	Rwanda	35	191	1,714	1,284
<b>Total</b>			<b>566</b>	<b>8,136</b>	<b>4,829</b>

To broaden access to financial services, new concepts of officeless banking have proved essential for our partner banks. By leveraging Rabobank's knowledge of ATMs and payment terminals, mobile service centres and mobile banking, the partner banks were given an opportunity to approach new client groups. An impressive project in this regard is the development of mobile banking that was launched - with the support of Rabobank - by our partners in Zambia, Tanzania and recently in Rwanda. This new banking channel allows customers to gain access to their bank accounts and make payment transfers using their mobile phone. More than 800,000 customers are active users of this channel.

### Improving sustainability of value chains at Rabo Development

In 2010, Rabo Development was actively involved in making value chains in the food and agri sector more sustainable. In close collaboration with our partner bank BPR, Rabobank Foundation and private parties started projects in the tea and rice sectors in Rwanda. The objective was to professionalise the cooperative organisations that form an essential link in the value chain approach. This is ultimately to result in more efficient value chains and higher income for local farmers. In Zambia, Rabo Development supports the development of a new cluster of high-potential farmers. The Emergent Farmer Program, a partnership between Rabo Development, Rabobank Foundation, Zanaco, IFC and the Zambia National Farmers Union, offers support in the transformation into commercial farmers of this group of farmers who did not previously have access to financial resources. To achieve this, technical support is provided by several private parties; the loans are issued by Zanaco. A pilot project has shown that, thanks to a combination of technical support and funding, the margins on corn increased by more than 100%. Over the next five years, we aim to double the current number of about 500 commercial farmers. In addition, Rabo Development is involved in setting up value chain projects with major cocoa traders in West Africa.

### Sicredi now new partner bank and additional investments in URCB

After the signing of a Memorandum of Understanding in 2009, Rabo Development acquired a 30% equity interest in Banco Cooperativo Sicredi S.A., the umbrella organisation of 128 Brazilian lending cooperatives, in 2010. The interest has yet to be approved by the Brazilian Central Bank. Rabo Development will actively support Sicredi in modernising its cooperative structure and help it to broaden its product range.

In addition, Rabobank injected additional capital into the Chinese-based United Rural Cooperative Bank of Hangzhou. This capital injection is meant to complete URCB's transformation from a rural cooperative to a commercial bank. Apart from contributing to the development of partner banks, Rabo Development also provides support to a number of other financial institutions, including the Principal Bank for Development and Agricultural Credit in Egypt, First Merchant Bank in Malawi, Agrobank in Malaysia and the People's Credit Fund network in Vietnam. In 2010, about 100 man-months worth of banking specialists were sent to foreign postings. At year-end 2010, Rabo Development had 19 managers and long-term consultants working abroad.

### Implementation of sustainability at Rabobank International

During the year under review, sustainability was further integrated into the core activities of the different entities of Rabobank International. The value chain policy was included, for instance, in GAIA, the internal customer assessment system, which is mandatory for all corporate

lending in the wholesale banking division. Since GAIA was rolled out, 65% of all corporate wholesale clients have been assessed. GAIA is also used for retail clients in Australia and Brazil, and in wholesale banking, which brings the total of assessed clients to about 5,500. GAIA allows relationship managers to better gauge opportunities and threats associated with clients' responsible business practices. The assessments, which are updated annually, are reviewed on a random basis. Although the quality is improving, it is crucial for the further implementation of the value chain policy that relationship managers raise their awareness of opportunities and threats, and that the need for dialogue with the customer is brought home to them.

### Engagement in practice

Rabobank chooses an engagement approach in its dialogue with clients. This means that we speak with the client about the opportunities and threats associated with their operations, and address sustainability issues. This dialogue is often motivated by the outcome of the customer assessment system, messages in the media or via direct contact. From a risk perspective, the meetings with clients are meant to gain a better understanding of how clients approach sustainability issues. In addition, Rabobank International often helps clients to make their value chains more sustainable. In the reporting period, for instance, this resulted in support for several projects that Rabobank Foundation and Rabo Development undertook with clients. A number of projects focus on improving the livelihoods of cocoa farmers by enhancing the quality of the cocoa beans, increasing productivity and reducing costs. The support includes training the farmers, facilitating certification and developing cooperatives.

Rabobank International also plays a role in multi-stakeholder initiatives to make various crops more sustainable. For more information we refer to the chapter entitled Dialogue with society. Rabobank International hosted the World Cocoa Foundation Partnership Meeting in May 2010. This two-day meeting in Utrecht, the Netherlands, was attended by more than 200 delegates, representing cocoa and chocolate-processing companies, cocoa-producing countries and NGOs, among other attendees.

### Sustainable Agri Guarantee Fund (Rabo Agri Fund)

The Rabo Agri Fund issues credit guarantees to local banks as security for loans to cooperatives and relatively small commodities producers in the food and agribusiness sector that do not yet qualify for commercial bank loans. Together with Rabobank Foundation and Rabo Development, the Fund works on offering access to loans in emerging economies in Latin America, Africa and Asia. In the reporting period, the Fund bolstered its position in Africa, issuing its first credit guarantee in Tanzania, which was used to fund organic cotton, to Biosustain, one of the largest organic cotton traders. The Fund shared the risk on the guarantee with National Microfinance Bank, one of Rabo Development's partner banks.

In addition, the Fund was asked by the Common Fund of Commodities, a partner of Rabobank Foundation and Rabo Development, and part of the United Nations, to act as a fund manager in a coffee project in Ethiopia and Rwanda meant in part to promote sustainability. This project is carried out in collaboration with Rabo Development. The Fund, which has a presence on three continents, diversifies its activities by not only issuing guarantees for the more traditional commodities such as coffee, cocoa and cotton, but also for other products such as sesame, artichokes, chillies and peppers. At year-end 2010, the Fund had issued guarantees worth about EUR 7.8 (5) million; the portfolio amounted to more than EUR 2.3 million.

### Rabobank finances renewable energy

Renewable Energy and Infrastructure Finance (REIF) is Rabobank International's project finance department; it funds projects that apply proven technology in the renewable energy and infrastructure sector. These loans amount to at least EUR 25 million in principle. Focus is on wind energy, solar energy and biomass applications in OECD countries and, with effect from the year under review, in India and China.

Project finance in excess of USD 10 million is subject to the Equator Principles. This involves an assessment of the social and environmental impact of a project by an independent technical adviser. A risk classification (A, B or C) is then attached to the project based on this assessment. REIF's portfolio does not contain any transactions that have been classified as A

(potentially significant adverse effect). A number of projects have a B classification (potentially limited adverse effect). The other projects have a C classification (potentially minimal to no adverse effect).

Project classification under Equator Principles	2010	2009	2008	2007	2006
A	-	-	-	-	-
B	13	11	9	11	5
C	11	2	7	-	-
<b>Total</b>	<b>24</b>	<b>13</b>	<b>16</b>	<b>11</b>	<b>5</b>

In Europe, REIF was involved, for instance, in two large-scale offshore wind projects, C-Power II and III in Belgium and the Borkum Project in Germany. The project finance for C-Power is the largest ever issued; it shows that Rabobank is willing to support financially and technically sound projects. REIF experienced firm growth in the US and Canada, where both onshore wind energy projects and solar energy projects were funded. In Asia, REIF funded a project in China in collaboration with IFC.

A Profundo survey of banks' involvement in investments in renewable energy, which was commissioned by De Eerlijke Bankwijzer (Fair Bank Guide), showed that Rabobank has made considerably more investments in renewable energy than any other surveyed bank over the past two years.

### Better Cotton Programme

In 2009, Rabobank launched the innovative Fast Track Better Cotton Programme in collaboration with IDH, ICCO, IKEA, Levi's, M&S, H&M, ECOM, Solidaridad and the Worldwide Fund for Nature (WWF). The purpose of this programme is to transform the cotton market and to make organic cotton a commercial, sustainable product, the goal being one million tons of sustainably produced cotton by 2015. This will bring about a major reduction in the climate footprint of cotton production and will greatly improve the standard of living of hundreds of thousands of poor cotton farmers.

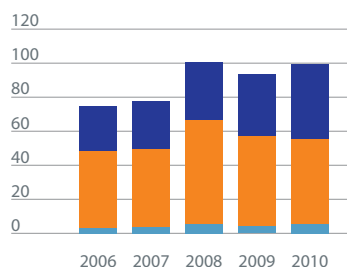
Both public and private partners are investing heavily in the programme, having committed themselves for the next five years. As part of the programme, Rabobank Foundation, IDH and ICCO have set up an innovative Fast Track Fund to match investments by the corporate sector in the production of BCI cotton. The first projects were initiated in India and Pakistan in 2010. More than 20,000 farmers were trained to grow their cotton in accordance with the Better Cotton principles. This has resulted in the first Better Cotton crop and sales of 40,000 tons.

### Growth in Rabobank International's food and agri portfolio

Lending at Rabobank International is aimed at the top end of the corporate market in the Netherlands and at the food and agri sector internationally. Total private sector lending at Rabobank International increased by 6% in 2010, rising to EUR 99.1 (93.4) billion. In the Americas, lending was up 12% to EUR 39.7 (35.3) billion. Most of this increase was attributable to currency effects. Non-core activities in countries other than the Netherlands were further scaled down on account of the international focus on the food and agri sector. The volume of the food and agri sector showed further growth in 2010, increasing to EUR 44.1 (36.1) billion. This brought the food and agri share of the total portfolio to 44.5% (38.6%). Loans to trade, industry and services (TIS) fell by 7% to EUR 49.7 (53.2) billion. Loans to private individuals stood at EUR 5.4 (4.1) billion.

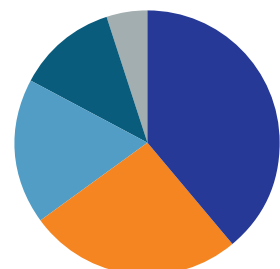
Loan portfolio by sector  
in billions of euros

- Food and agri
- TIS
- Private individuals



Loan portfolio by region  
year-end 2010

- America 39%
- Europe excluding the Netherlands 26%
- Australia and New Zealand 18%
- Netherlands 12%
- Asia 5%



The international retail banking divisions of Bank BGZ and the retail banks in California, among others, issued more loans. Lending increased by 16% to EUR 33.9 (29.3) billion. Retail lending in Australia and New Zealand was up 27% to EUR 13.8 (10.9) billion. This increase was virtually entirely attributable to the appreciation in value of the Australian and New Zealand dollars. The volume of retail loans in the US increased by 24% to EUR 10.3 (8.3) billion. Currency effects accounted for about a quarter of this increase. Retail lending at Bank BGZ was up 12%, rising to EUR 5.0 (4.5) billion. At ACCBank in Ireland, the retail portfolio stood at EUR 4.2 (5.1) billion.

### Direct banking: sharp increase in savings deposits

Savings deposits raised by the direct banking activities in Belgium, Ireland, New Zealand and Australia were used in part to cover loans issued by the international retail banking division. Rabobank International launched its direct banking activities in Belgium in 2002. In the years that followed it opened online banks in Ireland, New Zealand and Australia. Total savings deposits at the foreign online banks increased by 60% in 2010 to EUR 11.6 (7.3) billion. This inflow was realised mainly in Australia and New Zealand, where many customers opened a new account. The appreciation of the Australian and New Zealand dollars was also a factor in the rise. The total number of direct banking customers was up 11% in 2010, rising to 362,000.

## Financial results of wholesale banking and international retail banking

### Results (in millions of euros)

	2010	2009	Change
Interest	2,813	2,955	-5%
Commission	460	488	-6%
Other results	306	-63	
Total income	3,579	3,380	6%
Staff costs	1,020	998	2%
Other administrative expenses	811	691	17%
Depreciation and amortisation	108	94	15%
Operating expenses	1,939	1,783	9%
Gross result	1,640	1,597	3%
Value adjustments	597	940	-36%
Operating profit before taxation	1,043	657	59%
Taxation	269	91	
Net profit	774	566	37%
Bad debt costs (in basis points)	64	105	-39%
<b>Ratios</b>			
Efficiency ratio	54.2%	52.8%	
RAROC	10.1%	8.8%	
<b>Balance sheet (in billions of euros)</b>			
	31-Dec-10	31-Dec-09	
Total assets	440.1	406.9	8%
Private sector loan portfolio	99.1	93.4	6%
<b>Capital requirements (in billions of euros)</b>			
Capital requirement	6.5	7.3	-11%
Economic capital	7.4	7.6	-3%
<b>Number of employees (in FTEs)</b>			
	15,197	14,534	5%



### Income up 6%

Total income at Rabobank International increased to EUR 3,579 (3,380) million in 2010, thanks to a rise in other results in particular. The rise in other results by EUR 369 million to EUR 306 (-63) million was attributable in part to a gain of EUR 152 million on the sale of some of the equity interest in Indian-based Yes Bank and to higher trading income at Global Financial Markets. Interest income fell by 5% to EUR 2,813 (2,955) million. Global Financial Markets benefited from developments in the yield curve in 2009, which boosted interest income in 2009. Commission fell by 6% to EUR 460 (488) million.

### Operating expenses up 9%

Rabobank International saw its total operating expenses increase by 9% to EUR 1,939 (1,783) million in the year under review. The increase was partly attributable to the depreciation of the euro. Owing in part to an increase in headcount, staff costs were up 2% to EUR 1,020 (998) million. This increase related to the acquisition of three banks in California and the broadening of activities at Bank BGZ. Higher consulting and administrative expenses led to a 17% rise in other administrative expenses to EUR 811 (691) million. Due to higher amortisation changes on software, depreciation and amortisation charges rose by 15% to EUR 108 (94) million.

### Bad debt costs at 64 basis points

The upturn in the economy and good credit risk management resulted in a drop in value adjustments at Rabobank International; they were down 36% to EUR 597 (940) million. The improved economy resulted in a sharp drop in bad debt costs at the wholesale banking division in particular. Owing, in part, to the continued recession in Ireland, the decline in value adjustments was more limited at the international retail banking division. Bad debt costs amounted to 64 (105) basis points of average lending, which is higher than the long-term average of 52 basis points.

### Capital requirement and RAROC

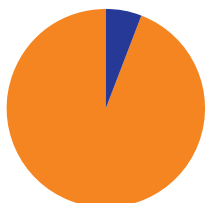
The further roll-out of Basel II, portfolio developments and stricter control of risk-weighted assets contributed to a 11% drop in the capital requirement at Rabobank International to EUR 6.5 (7.3) billion. Economic capital, i.e. the internal capital requirement, was EUR 7.4 (7.6) billion. The Risk Adjusted Return On Capital (RAROC) ratio increased by 1.3 percentage points to 10.1% (8.8%).

## Outlook for wholesale banking and international retail banking

The economic recovery will vary by country and remain fragile in 2011 as well. Rabobank International will continue full steam ahead on the chosen course to fulfil the ambition of becoming the Netherlands' largest bank across the full financial services spectrum, and to be a leading food and agri bank globally. Our relationship with the customer takes centre-stage; we want to be the leading bank for the customer. Non-core activities will be scaled down further and the growth of the direct banking will be given an impulse worldwide. We will continue to build on the strong position we occupy in the US in wholesale, rural and retail, and the Trade & Commodity Finance activities will also see further growth. The activities on the financial markets focus mainly on being able to offer clients products that help them manage risk, including currency hedges. The private equity market is likely to grow and more collaboration with the local Rabobanks is expected. In addition, the first results of the investment in the Agricultural Bank of China will become known in 2011 in the form of closer collaboration and higher sales. Following on from the recently updated strategic plan, Rabo Development is exploring options for forging partnerships with banks in East Africa, South Africa and South East Asia.

# Asset management

[www.robeco.com](http://www.robeco.com), [www.sarasin.com](http://www.sarasin.com), [www.schretlen.com](http://www.schretlen.com)



Share in Rabobank Group's net profit for 2010

- Asset management and investment 6%

## A good year for investments

2010 was a good year for investments on average. Investment returns stood at EUR 15.3 billion. Positive currency effects, the inflow of assets and higher share prices contributed to an increase in assets managed and held in custody by 17% to EUR 270.4 billion. Total inflow of assets into Robeco, Sarasin and Schretlen & Co amounted to EUR 9.7 billion in 2010. Net profit from asset management activities was up EUR 154 million, rising to EUR 167 million, thanks to higher commission, and in part to higher interest income. Of the Robeco funds, 63% outperformed the benchmark in 2010. Robeco subsidiaries Transtrend and Harbor Capital Advisors also achieved handsome returns for their clients. The Sarasin funds also performed well; one-third of them were ranked in the top 25% of their benchmark group. Efforts to increase the sustainability of the investment offering continued, as illustrated by the introduction of new sustainable investment funds. Of the total investment portfolio, 7% is now comprised of sustainable investments.

## Strategy for asset management

Robeco, Sarasin and Schretlen & Co are leading national and international asset managers and private banks. With their broad product range and specialised investment teams, they offer tailored investment and asset management services to investors of every kind. Rabo Direct Beleggen offers independent investors a choice from a range that includes Robeco and Sarasin funds. Rabobank Private Banking and Schretlen & Co offer estate planning and asset management services to high net-worth clients. Robeco and Sarasin provide services to large institutional investors. Internationally, Robeco and Sarasin offer investment services to high net-worth individuals, among other clients, with responsible investing taking pride of place. Factors related to environment, society and good governance were further embedded in the processes.

## Robeco strategy revised

When, early in 2010, Robeco decided on its strategy for the period to 2014, it made a number of clear choices. Robeco wants to strengthen its market leadership in the Netherlands. In the institutional investment market, it intends to double its market share by offering pension

### Rabobank Group strategy

All-finance market leader in the Netherlands

### Contribution to group strategy

- Offering, through various distribution channels, a broad range of investment funds and asset management services to clients of every kind

International food and agri bank

- Offering products in the areas of sustainability and cleantech

solutions. In the retail investment market, Robeco seeks to grow its market share by highlighting the benefits of using investment funds. On an international level, Robeco made choices relating to markets and clients. As regards products, it chose to offer a more compact product range with a number of themes as important elements, the first being responsible investing. In addition, there was greater focus in the year under review on collaboration with Rabobank, particularly in the areas of food and agri as well as CSR. Together with Rabobank International and De Lage Landen, a strategic alliance was formed with the Agricultural Bank of China, for instance. Tight cost control was continued in 2010. The ultimate goal of the revised strategy is to be guided even more by our customers' interests.

### Sarasin expanding in growth markets

Sarasin pursues an international growth strategy. To this end, it expanded its office network into growth markets such as Bahrain and Abu Dhabi in 2010. It also invested in a high-quality team of relationship managers while at the same time strengthening its position in its Swiss heartland. Sarasin also succeeded in growing further in 2010. It increased its emphasis on controlled, qualitative growth in selected markets rather than on quantitative growth. It also focused on cost control.

### Rabobank Private Banking and Schretlen & Co: shift from products to advice

The strategy of Rabobank Private Banking is aimed at deepening its services further and at expanding its natural market share in the top end of the market. To improve their client services, Rabobank Private Banking and Schretlen & Co have started a programme of advising clients more proactively on the basis of their needs. Essential aspects are monitoring clients' objectives and alerting clients.

### Handsome returns at Robeco and Sarasin investment funds

Stock exchanges worldwide showed a positive development. In 2010, the AEX index, including dividend reinvestment, was 9% higher. The MSCI World index for developed countries rose by 20% and MSCI Emerging Markets by 27%. Robeco and Sarasin investment funds generally achieved handsome returns in 2010. Overall, 63%<sup>6</sup> of Robeco's investment funds outperformed the benchmark in the year under review, against 70% in the previous three years. One-third of the Sarasin funds were ranked in the top 25% of their benchmark group. The table below shows the returns delivered by Robeco and Sarasin's main funds in 2010 and compares them with the benchmark.

Fund	Return (%)	Benchmark (%)	Managed assets (in billions)
Harbor International	12.9	7.7	32.6 USD
Harbor Capital Appreciation	12.4	16.7	10.8 USD
Harbor Bond	8.6	6.5	7.5 USD
Transtrend Enhanced Risk USD	14.9	-	5.8 USD
Robeco	21.0	20.1	4.4 EUR
Rolinco	23.4	19.9	0.8 EUR
Robeco Emerging Markets Equities	25.5	27.1	3.6 EUR
Rorento	7.9	5.0	1.8 EUR
Robeco Lux-o-rente	4.7	4.3	2.6 EUR
Robeco High Yield Bonds	16.0	12.9	2.2 EUR
Sarasin EmergingSar - Global A	20.4	18.9	0.5 USD
Sarasin EquiSar - Global F	21.8	19.5	0.4 EUR
Sarasin EquiSar - IIID (EUR) B	11.0	3.8	0.2 EUR
Sarasin Sustainable Water Fund A	28.1	19.5	0.2 EUR
SaraSelect	36.0	20.1	0.7 CHF

<sup>6</sup> Percentages are based on weighted assets; with the exception of alternatives (Transtrend), performance figures include asset management fees.

### **Sarasin's service offering expanded**

Sarasin expanded its services to private clients in 2010 to include illiquid assets in its investment advice and solutions. Examples are real estate, intellectual property and works of art. An internal study showed that a relatively large proportion of the possessions of high net-worth private clients is comprised of such illiquid assets. Services include improving the returns on these assets, minimising the risks their ownership involves and converting the assets into cash. By expanding these services, a single party can now offer clients a full service package.

### **Sarasin - a tradition of sustainability in asset management**

Sarasin has pioneered sustainable investments and asset management. This is reflected in a systematic approach to assessing businesses and countries, combined with environmental and social criteria. Since 2009, Sarasin has used sustainability as an investment decision criterion for all portfolio management mandates from private banking clients in Switzerland. Sarasin is always on the lookout for services it may align with the United Nations' Principles for Responsible Investments. Over the past twenty years, Sarasin has developed solutions of its own. A salient feature in Sarasin's approach is the fact that the eligibility threshold for sustainable investments is linked to both the environmental and social impact of the sector in which an enterprise operates. The more critical to sustainable development a sector's impact is, the further an enterprise's Environmental, Social and Governance (ESG) score must exceed that of its benchmark group. At year-end 2010, Sarasin's sustainable assets under management and held in custody stood at EUR 10.7 billion (+34%), which accounts for about 30% of total assets under management for which Sarasin has a discretionary mandate (including the Sarasin investment funds).

### **Sarasin: leading private bank for socially responsible investing**

Sarasin received the 'Best private bank for socially responsible investing' award from The Banker and Professional Wealth Management, two premier industry magazines published by the Financial Times Group. Also, Sarasin came first as the best sustainable asset manager, according to the recent report entitled 'Wealth management on test - Who is sustainable?' by the Fuchs financial research company. Sarasin-Alpen won the Mohammed Bin Rashid Al Maktoum Business Award, which spotlights enterprises that have contributed to the economic development of the United Arab Emirates.

### **Intensified collaboration between Schretlen & Co and Rabobank Private Banking**

In 2010, Schretlen & Co and Rabobank Private Banking intensified their collaboration, with a single investment policy and plans for a physical merger of their back offices. The strength of the collaboration between the two parties lies in the opportunity to serve clients through the network of local Rabobanks, supported by the knowledge and expertise of a specialised party. Many high net-worth investors are clients at the local Rabobanks. For complex asset issues, such as advice on Dutch tax-exempt investment institutions, but also for asset management, clients can be served, through their nearby local Rabobank, by specialists from Schretlen & Co. In company 100's latest survey shows that both parties' services are highly appreciated. Rabobank Private Banking has been the only party to rank among the top three for the past six consecutive years and Schretlen & Co has ranked first three times since 2005.

### **Revised investment framework for Rabobank Private Banking and Schretlen & Co**

The investment framework for Rabobank Private Banking and Schretlen & Co was adjusted based on the lessons learned from the financial crisis. More attention will be paid to a more transparent product range, with greater emphasis on the long term and on asset allocation than in the past. This is also the basis for the investment service concepts to be introduced as from 2011.

## Responsible Investing implemented at Rabobank Private Bank and Schretlen & Co

In the year under review, Rabobank Private Banking and Schretlen & Co paid a great deal of attention to sustainable and socially responsible investing. Investor clients must be certain that their investments satisfy generally accepted criteria for man, the environment and good governance. Equities of enterprises involved in controversial arms are no longer advised to clients. In addition, suppliers of investment products (investment funds, structured products, etc.) have been asked in writing how their investment process has been set up and how that process takes account of man, the environment and good governance. Alternatively, a tailored, responsible portfolio can be composed on the basis of a client's personal criteria.

## Robeco responsible investments

Robeco stands for responsible investing. In 1999, Robeco was the first large Dutch asset manager to introduce a sustainable equity fund. To Robeco, embedding environmental, social and good governance factors in the investment analysis and investment decision process is a key element in responsible investing. Since 2010, Robeco has focused even more on strengthening its leadership in this area. This is achieved mainly by (i) including environmental, social and governance factors in the investment processes, (ii) increasingly entering into active dialogues and casting its vote at shareholders' meetings, and (iii) classifying Robeco's funds and a number of third-party funds by their degree of responsible investment. In addition, Robeco has pursued an exclusion policy since 1 February 2010 aimed at enterprises involved in the production of, or the trade in, such controversial weapons as cluster ammunition and anti-personnel mines.

## Assets managed, by instruments for responsible investing (in billions of euros)

	2010
Assets managed by Robeco Group	150
Assets invested in sustainable theme funds	4
Assets to which ESG factor integration is applied	60
Assets managed on which dialogues with enterprises are ongoing <sup>7</sup>	44
Assets managed for which votes are cast <sup>8</sup>	26
Assets managed to which the exclusion policy can be applied <sup>9</sup>	90

## Enhanced engagement for active ownership

At the end of 2009, Robeco announced its desire to add 'enhanced engagement' to its active ownership strategies. Enhanced engagement means that Robeco enters into an active dialogue with enterprises acting in violation of the principles of the UN Global Compact, and that Robeco has the option to exclude such enterprises from its investment portfolios should the dialogue not yield the desired outcome. Enhanced engagement is a formal part of Robeco's exclusion policy. Dialogues were started with 21 enterprises, with more to follow in 2011.

With the inclusion, in 2010, of emerging markets in Robeco's umbrella engagement programme, the engagement themes cover enterprises in both mature and emerging markets. In addition, Robeco focuses on specific themes for emerging markets, such as sustainability reports from enterprises in South Korea, South Africa and Brazil.

Robeco started engagement activities for investments in fixed-income securities in 2010. By the end of 2010, approximately 30% of all engagement activities concerned the credit portfolios of both Robeco and its clients.

Robeco has developed a classification system for investment funds in collaboration with Sustainalytics, an independent research company. This classification shows the extent to which an investment fund makes responsible investments. For the outcome of the classification, please log on to [www.robeco.com](http://www.robeco.com).

<sup>7</sup> In 2010, a total of 365 (188) dialogues were conducted. Robeco has increased the number of dialogues over recent years, classifying them into 21 themes.

<sup>8</sup> In 2010, Robeco voted at 2,188 shareholders' meetings.

<sup>9</sup> Assets managed to which the exclusion policy can be applied amounted to about 60% of total assets managed by Robeco Group (not including Roparco and third-party funds).

## New sustainable investments launched by Robeco and Sarasin

On 18 May 2010, Robeco introduced its first sustainable fixed-income product: Robeco Euro Sustainable Credits, which focuses on the selection of leading enterprises in the area of sustainability and follows the main sector trends in environment, society and good governance.

In June 2010, SAM Private Equity closed the first subscription for the third-generation Clean Tech Private Equity Fund, at USD 200 million. Robeco SAM Clean Tech Private Equity III is a hybrid private equity fund that invests in leading global cleantech funds.

In the year under review, Sarasin added several products to its sustainable services: the Sarasin Sustainable Equity - Global Emerging Markets Fund and the Sarasin Sustainable Equity - USA Fund.

## SAM wins Sustainable Investment Manager Award

In the year under review, SAM won the SRI/Sustainable Investment Manager of the Year Award at the annual presentation of the Awards for Excellence in Institutional Asset Management - Europe 2010.

## Charity Desk

The Charity Desk, which was introduced in 2008, is proving to be highly successful among high net-worth clients. The Charity Desk helps these clients achieve their social ambitions. It advises on the fiscal and financial aspects of donating to good causes. It also makes expertise available from Rabobank's network, such as the Rabobank Foundation, the Bank's own social fund, that has been engaged in providing micro credits for many years.

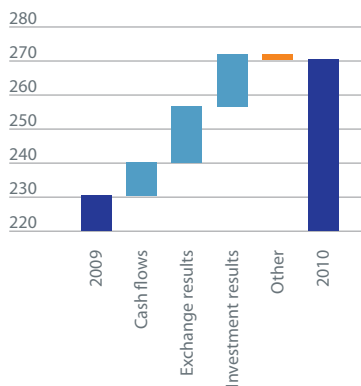
## Growth in assets managed due to currency effects and positive cash flows

Assets managed and held in custody for clients grew to EUR 270.4 (230.4) billion in 2010 as a result of currency effects, the inflow of assets at Sarasin and an upward stock exchange trend. Due in part to anticipated low returns on bonds, more clients opted for investments in equities with expected higher returns. Assets managed and held in custody can be broken down as follows among Rabobank Group's subsidiaries:

- Robeco: EUR 149.6 (134.9) billion;
- Sarasin: EUR 82.5 (63.1) billion;
- Schretlen & Co: EUR 8.4 (7.3) billion;
- Rabo Real Estate Group: EUR 7.2 (7.0) billion.

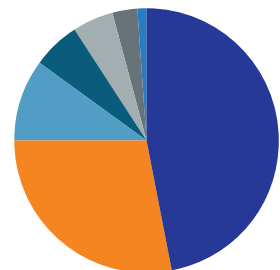
The remainder of clients' assets is held by local Rabobanks. Total inflow of assets amounted to EUR 9.7 billion, which was entirely attributable to Sarasin. As a result of its strategic choices in 2010, Robeco saw an outflow of EUR 3.4 billion, which mainly involved institutional assets under management. After their global recovery in 2009, the stock markets continued their upward trend in 2010, although on a more moderate scale. The lower interest rates had a beneficial effect on returns on investments in fixed-income funds. These trends resulted in an increase in investment returns to EUR 15.3 (34.0) billion. The appreciation against the euro of the US dollar and the Swiss franc resulted in a EUR 16.5 billion increase in managed assets.

Changes in assets under management and held in custody for clients in billions of euros



Assets under management and held in custody for clients by asset category at year-end 2010

Equities	47%
Fixed income	28%
Mixed	10%
Money market	6%
Alternatives	5%
Real estate	3%
Other	1%



## Financial results of asset management

### Results (in millions of euros)

	2010	2009	Change
Interest	166	104	60%
Commission	995	757	31%
Other results	47	123	-61%
Total income	1,208	984	23%
Staff costs	564	553	2%
Other administrative expenses	287	288	0%
Depreciation and amortisation	117	109	7%
Operating expenses	968	950	2%
Gross result	240	34	
Value adjustments	2	4	-25%
Operating profit before taxation	238	30	
Taxation	71	17	
Net profit	167	13	
<b>Assets (in billions of euros)</b>	<b>31-Dec-10</b>	<b>31-Dec-09</b>	
Assets under management and held in custody for clients	270.4	230.4	17%
Number of employees (in FTEs)	3,160	3,191	-1%

### Income up 23%

On the back of higher commissions and higher interest income, total income from asset management was 23% higher in 2010, at EUR 1,208 (984) million. Asset management fees were higher than in 2009 for both Robeco's core business and its subsidiaries Transtrend and Harbor. The increase in asset management fees is a direct result of the average growth in managed assets and Transtrend's higher performance-related income. Total interest income was higher, due in particular to growth of Robeco's interest income. Sarasin generated less income from trading activities in 2010 and contributed to the EUR 76 million drop in other results to EUR 47 (123) million.

### Operating expenses up 2%

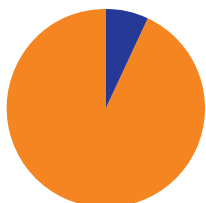
Sarasin's operating expenses were up as a result of the appreciation of the Swiss franc. Thanks in part to Robeco's sharp cost focus, however, total operating expenses at group level were a mere 2% higher, rising to EUR 968 (950) million. Staff costs and other administrative expenses were virtually unchanged. Due to higher amortisation of intangible assets, depreciation and amortisation charges rose by 7% higher to EUR 117 (109) million.

## Outlook for asset management

The outlook for 2011 for the asset management business is relatively favourable, with managed assets expected to grow further, thanks to positive cash flows and favourable investment returns on average. For Robeco, the theme for the year 2010 was the new strategic plan for the period 2010 to 2014, while focusing on capital increases, product clarity and sound investment returns. Sarasin will continue its strategy of selective growth, investing in such markets as Singapore and Hong Kong, where it sees opportunities to offer innovative products and services to clients. Rabobank Private Banking and Schretlen & Co are to continue their development towards a proactive, advice-oriented customer approach, which they initiated in 2010. The investment framework they developed will be implemented further, in preparation for 2012. The service provision to clients at the local Rabobanks through Schretlen & Co's specialists will be given further shape in 2011. Focus will be on customer satisfaction and on growing the number of high net-worth clients by providing support to corporate clients seeking to sell their enterprise.

# Leasing

www.delagelanden.com



Share in Rabobank Group's net profit for 2010

● Leasing 7%

## Recovery of earnings thanks to higher residual value gains and improved margins

Lower bad debt costs, an increase in interest income and higher residual value gains on second-hand cars caused net profit at De Lage Landen to recover by 79% to EUR 201 million in 2010. Bad debt costs were down 32% and stood at 90 basis points of average lending. Lending rose by 7% to EUR 25.7 billion. The share of food and agri in the portfolio rose by 2.5 percentage points to 26.8%. At De Lage Landen, the reporting period was characterised by active risk management and control, which was facilitated by the tentative economic recovery. De Lage Landen received the Green Lessor of the Year Award for funding green technology while simultaneously limiting the environmental impact of its operations. The efficiency ratio improved by 0.7 percentage points to 59.3% and RAROC stood at 18.3%.

### Strategy for De Lage Landen

De Lage Landen helps Rabobank achieve market leadership in the Netherlands by offering leasing and factoring products as well as consumer loans. On a global level, De Lage Landen endeavours to increase the share of food and agri in its leasing portfolio.

Boasting an extensive global vendor finance and car-leasing network, De Lage Landen provides an excellent platform for synergies with other divisions of Rabobank Group, for instance where globally operating corporate clients are concerned.

### De Lage Landen: partnership in offering a group-wide customer proposition

De Lage Landen reviewed its strategy in 2010, culminating in the strategic plan 2011-2013 whose implementation was launched on 1 January 2011. The plan is aimed at capitalising on investments made in the global network, the product offering and the systems within the existing business model. The outcome should be that:

#### Rabobank Group strategy

All-finance market leader in the Netherlands

#### Contribution to group strategy

- Supporting Rabobank by aspiring to market leadership in equipment, vendor and car leasing, and in factoring
- Increasing share of consumer loans market

International food and agri bank

- Offering asset-based finance solutions in support of Rabobank International's global retail and wholesale activities
- Tracking, and providing guidance and support to food and agri-related manufacturers, vendors and distributors of capital goods
- Broadening the share of food and agri in the portfolio



- De Lage Landen contributes significantly to achieving Rabobank Group's targets; partnerships with other group entities will see further improvements;
- focus is on the customer, with De Lage Landen continuing to concentrate on long-term partnerships;
- the customer perceives De Lage Landen as a single business;
- the business is quick to respond and cost-efficient;
- the product offering is combined into a broad customer proposition.

As the behaviour of employees - both towards colleagues and towards clients - is essential in this regard, a programme is being developed that addresses this issue at all levels in the organisation.

### Partnership with Agricultural Bank of China

In 2010, Rabobank acquired a minor interest in the Agricultural Bank of China (ABC). In light of this participation, De Lage Landen China and ABC Financial Leasing signed a letter of intent to form a partnership. This partnership, which focuses mainly on food and agri, cleantech and SMEs, will allow De Lage Landen to strengthen its position in China. Both parties are exploring options for developing products and distributing them through ABC's vast network; they are convinced that, together, they can help develop the leasing market in China. De Lage Landen and Rabobank International have already forged close partnerships in Poland (with Bank BGZ), Australia, New Zealand and the US.

### De Lage Landen's service offering rated

Forum, an independent research company, conducted a customer satisfaction survey among De Lage Landen's factoring clients. The survey showed that 65% of factoring clients were happy or very happy with the services offered by De Lage Landen. Another remarkable aspect was the rating that clients gave to their contact person at De Lage Landen; no less than 92% of clients said that they were happy or very happy with their contact person.

Independer.nl, a Dutch service for online comparison of financial products, named Freo, De Lage Landen's online consumer credit label in the Netherlands, the most valuable provider of consumer loans for the second consecutive year. Freo scored higher than average in 2010 on aspects such as 'client accessibility', 'delivering on promises' and 'quality of accounts and information'.

### Corporate social responsibility in leasing

De Lage Landen's CSR strategy has four spearheads: sustainable and innovative leasing solutions, ethical and responsible procedures, eco-efficiency, and community involvement. These priorities are reflected in the day-to-day service provision and in developing partnerships with vendors. De Lage Landen's efforts received external recognition by being awarded Leasing Life Magazine's Green Lessor of the Year Award.

### Sustainable and innovative leasing solutions

De Lage Landen develops sustainable and innovative solutions as a commercial proposition, for instance in the areas of solar energy (US), combined heat and power (the Netherlands) and sustainable lighting (US and the Netherlands). De Lage Landen expects these activities to grow in 2011; both cleantech markets (e.g. wind energy) and different geographical markets will be developed further in the coming year.

A partnership has been forged with Rabobank Renewable Energy Infrastructure Finance and De Lage Landen has decided to establish a specialist Clean Technology business unit.

The Green Car initiative that Athlon Car Lease launched in 2009 for its own employees is successful, in terms of both reduced carbon emissions and the number of participants. The scheme allows employees to trade in their own cars against a more environmentally friendly lease car at a good price. The commercial five-step sustainable mobility plan is also being applied on a broader scale and will be offered to clients by several European offices shortly.

In addition, De Lage Landen explored global trends in refurbishment and remanufacturing in 2010. In 2011, options will be studied for introducing more sustainability to the full life cycle of leased capital goods.

## Ethical and responsible procedures at De Lage Landen

De Lage Landen developed new policy for the business ethics of its activities. It gained experience, for instance, assessing sustainability risks of clients and transactions, and developed standards for the sale of leased items to third parties. De Lage Landen also took steps to increase the sustainability awareness of its employees. The Business Principles Committee advised De Lage Landen management on how to deal with sustainability issues cropping up within the global organisation.

## Eco-efficiency at De Lage Landen

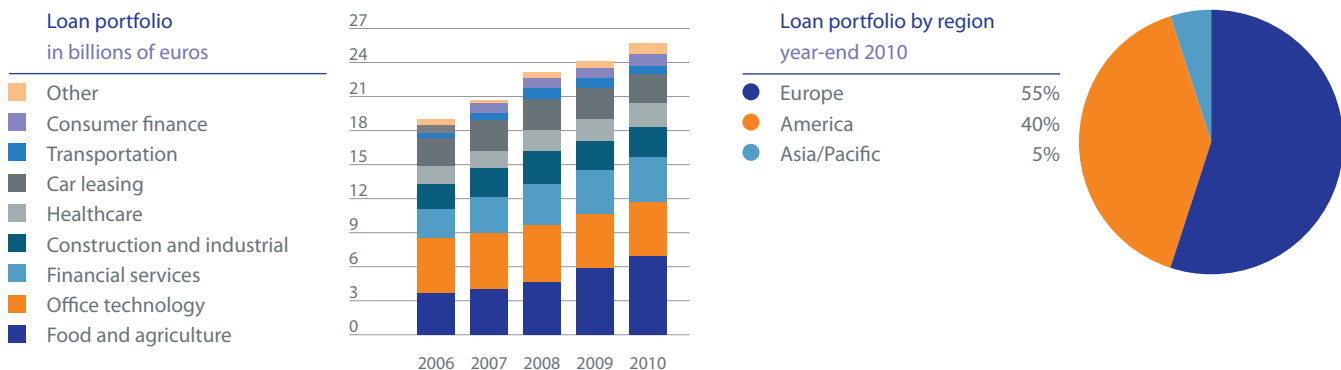
De Lage Landen made sustainable investments in 2010 in its two largest office buildings in Wayne (US) and Eindhoven (the Netherlands), one of the objectives being to qualify for LEED and BREEAM certification for green buildings, building operation and building management. Since 2010, De Lage Landen has improved its CSR information collection from all its country organisations. As a result, De Lage Landen will be able to better focus its global effort to reduce its climate footprint, which is in keeping with Rabobank's group-wide energy efficiency targets.

Owing to a lack of demand and because the Dutch government is expected to abolish subsidies for energy savings in 2011, De Lage Landen will phase out the Freo Eco Loan and the Green Energy Plan for employees in the Netherlands.

## Community involvement at De Lage Landen

De Lage Landen endeavours to link up its community involvement with its business operations. To bring this about, it is exploring options for pilot projects in the area of microleasing in collaboration with vendor partners and existing development organisations. De Lage Landen wants to use these projects to play a role in society by leveraging its core competencies in emerging economies.

## Increase in lease portfolio, with share of food and agri on the rise



Lending at De Lage Landen was up 7% in 2010, rising to EUR 25.7 (24.1) billion, which was chiefly attributable to currency effects. Producers were more hesitant to invest in 2010 than expected. The shares of car leasing and transportation in the portfolio contracted, whereas agriculture and healthcare did manage to benefit from an increase in exports and limited economic growth. The focus on growth in the food and agri sector is reflected in the figures. The share of food and agri in the portfolio rose by 17% to EUR 6.9 (5.9) billion, which accounted for 26.8% (24.3%) of the total portfolio. The share of lending in Asia continued to increase too. De Lage Landen's consumer loans portfolio rose to EUR 1.0 (0.9) billion.

Athlon Car Lease Nederland is a division of De Lage Landen; it is market leader in car leasing in the Netherlands. On an international level, Athlon Car Lease has a presence in nine European countries, boasting a lease portfolio of 206,000 (216,000) contracts.

## Financial results of leasing

### Results (in millions of euros)

	2010	2009	Change
Interest	658	590	12%
Commission	83	59	41%
Other results	440	377	17%
Total income	1,181	1,026	15%
Staff costs	416	375	11%
Other administrative expenses	244	206	18%
Depreciation and amortisation	40	35	14%
Operating expenses	700	616	14%
Gross result	481	410	17%
Value adjustments	214	300	-29%
Operating profit before taxation	267	110	
Taxation	66	-2	
Net profit	201	112	79%
Bad debt costs (in basis points)	90	132	-32%
<b>Ratios</b>			
Efficiency ratio	59.3%	60.0%	
RAROC	18.3%	10.4%	
<b>Balance sheet (in billions of euros)</b>			
Loan portfolio	25.7	24.1	7%
<b>Capital requirements (in billions of euros)</b>			
Capital requirement	1.2	1.2	
Economic capital	1.1	1.1	
Number of employees (in FTEs)	4,835	4,734	2%

### Income up 15%

De Lage Landen saw its total income increase by 15%, rising to EUR 1,181 (1,026) million in 2010. About one-third of the increase was due to currency effects. Active portfolio management led to a higher interest margin on new contracts. This, combined with growth in the portfolio, raised De Lage Landen's interest income by 12% to EUR 658 (590) million. Contract renewals caused commission to rise by 41% to EUR 83 (59) million. The increase in other results was attributable to higher residual value gains on the second-hand car market. Other results increased by 17% to EUR 440 (377) million as a result.

### Operating expenses up 14%

Total operating expenses at De Lage Landen rose by 14% to EUR 700 (616) million. Currency effects accounted for about one-third of this rise. After adjustment, a moderate increase in operating expenses remains. Apart from currency effects, the 2% increase in headcount to 4,835 (4,734) contributed to the rise in staff costs by 11% to EUR 416 (375) million. Other administrative expenses were up 18% to EUR 244 (206) million. The depreciation and amortisation item increased by 14% to EUR 40 (35) million due to higher amortisation charges of software.

### Bad debt costs at 90 basis points

Value adjustments were down EUR 86 million to EUR 214 (300) million at De Lage Landen in 2010 thanks to a tight risk management policy and supported by the tentative economic recovery. Expressed in basis points of average lending, bad debt costs stood at 90 (132) basis points, which is still above the long-term average of 63 basis points.

### Capital requirement and RAROC

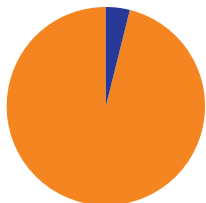
De Lage Landen's capital requirement was stable at EUR 1.2 (1.2) billion in the year under review. The required economic capital, i.e. the internal capital requirement, stood at EUR 1.1 (1.1) billion. The Risk Adjusted Return On Capital (RAROC) ratio increased by 7.9 percentage points to 18.3% (10.4%).

## Outlook for leasing

In 2011, De Lage Landen will concentrate on further growth of the portfolio in line with the strategic plan. As in 2010, focus will be on the Netherlands and on food and agri internationally. De Lage Landen expects the market to improve slightly over the coming year. Competition will likely become fiercer, weighing down margins on new contracts.

# Real estate

[www.raborealestategroup.com](http://www.raborealestategroup.com)



Share in Rabobank Group's net profit for 2010

● Real estate 4%

## Increase in earnings at Real Estate Group despite late market recovery

The real estate market is at the tail end of the economic cycle, therefore Rabo Real Estate Group was still suffering the consequences of the credit crisis in 2010. Bouwfonds Property Development sold 8,982 homes, a 22% rise on 2009. MAB Development saw the construction of new commercial real estate increase by 17% to EUR 288 million. In addition, MAB Development sold 296 homes as part of multifunctional developments. Lending at FGH Bank rose by 3% to EUR 17.8 billion. Managed assets were up 3% at Bouwfonds REIM, rising to EUR 7.2 billion. Thanks in part to lower administrative expenses, Rabo Real Estate Group's net profit was up 18% to EUR 106 million. Bad debt costs stood at 36 basis points of average lending. In 2010, Rabo Real Estate Group signed another contract to stay on as the main sponsor of Open Monumentendag (Heritage Day), one of the largest cultural events in the Netherlands, for the next three years. Rabo Real Estate Group has revised its foreign strategy, shifting its focus to controlled growth in France and Germany.

### Strategy for Rabo Real Estate Group

Rabo Real Estate Group is Rabobank Group's centre of expertise in real estate; it is active in the areas of property development, property finance and investment management. Outside the Netherlands, Rabo Real Estate Group operates mainly in France and Germany. Rabo Real Estate Group manages the labels Bouwfonds Property Development, MAB Development, FGH Bank and Bouwfonds REIM. The international strategy was revised in 2010, with focus being shifted to controlled growth in France and Germany.

#### Rabobank Group strategy

All-finance market leader in the Netherlands

#### Contribution to group strategy

- Maintaining and strengthening the leading position in the markets for owner-occupied homes and commercial real estate
- Increasing sales of Rabobank mortgages for new build developments
- Maintaining the market lead in property finance
- Increasing knowledge of real estate
- Offering various real estate-related funds to Rabobank customers
- Being Rabobank's centre of expertise in real estate

International food and agri bank

- Setting up and expanding agricultural real estate funds through Rabo FARM

### Settlements in real estate fraud case

The investigation into the Klim-op real estate fraud conducted by FIOD-ECD, the Dutch national fiscal and economic investigation service, again demanded a lot of attention from management in 2010. The enquiry into the real estate fraud continued in 2010, focusing increasingly on building our case for recourse against the suspects. As in 2009, Rabo Real Estate Group again took legal action in 2010 against the parties involved in the fraud, ranging from severing ties, and freezing and scaling down services, to reporting them to the police and seizing their cash and goods. An additional enquiry was conducted as part of the customer due diligence process ('Ken-uw-klant'). The enquiries were performed with the help of external forensic investigators. We have spent some EUR 25 million on forensic investigations and external legal assistance since 2007. Pre-trial reviews were held in June and December 2010. The criminal court sessions relating to the case will be held in the spring of 2011. Prior to the pre-trial review of June 2010, a Public Prosecutor-approved settlement was reached between Philips Pensioenfondsen and Rabo Real Estate Group, two injured parties, and one of the prime suspects in the Klim-op case. Settlements have also been reached with a number of other suspects.

### Tentative recovery of the property market

Rabo Real Estate Group was still suffering the consequences of the credit crunch in 2010. Demand for homes, property finance and property investment funds was significantly lower in 2009 and 2010 than before the recession. Throughput times for property developments became longer. Moreover, risk policy dictated that building activities could not start until most of a development had been leased or sold. It was essential that we continued to focus on non-performing loans in the finance portfolio, on reducing the number of unsold completed homes, and on managing properties. The first signs of a tentative recovery manifested themselves by mid-2010. More new builds were sold than in 2009 in France and Germany in particular, and although there was a slight increase in the construction of commercial real estate, there are signs that the true recovery will take longer than anticipated.

### Partnership between Rabo Real Estate Group and Rabobank

Rabo Real Estate Group and various other divisions of Rabobank Group worked in close collaboration in 2010. The regional offices of Bouwfonds Property Development are increasingly working in tandem with Rabobank Nederland and the local Rabobanks, for instance when it comes to selling new builds, area rejuvenation or campaigns to give an impulse to local housing markets. Bouwfonds Property Development and Rabobank Nederland also joined forces to facilitate higher mortgages for customers wanting to buy an energy-efficient home. Customers who buy such a home lower their utility bill, i.e. their housing costs, so that Rabobank can issue a higher mortgage. MAB Development collaborates increasingly with the local Rabobanks in property issues, for instance in respect of small-scale commercial real estate and redevelopment of real estate for their clients. The partnership between FGH Bank and the local Rabobanks became closer as FGH Bank provided more support on issues concerning property finance. FGH Bank performed portfolio analyses and provided advisory services to the local Rabobanks with regard to location and market research, and portfolio and housing analysis. Bouwfonds REIM works with Robeco Germany in selling and distributing the Bouwfonds European Residential Fund. The placement of this fund with investors is a success. Fondsenbeheer Nederland collaborated with Rabobank Group on several social property projects.

### Corporate social responsibility at Rabo Real Estate Group

For Rabo Real Estate Group, the pillars of corporate social responsibility are taking active ownership of green building, ethical business practices, responsible business practices and community involvement, all this while keeping the business financially sound. Rabo Real Estate Group aspires to a leading position in sustainability in the property sector.

### Active ownership of sustainable real estate

All divisions of Rabo Real Estate Group seek to contribute to sustainable property and area development. In 2010, Bouwfonds Property Development and MAB Development structured their business processes such that, with effect from 1 January 2011, they will be 25% more energy-efficient than the requirements of the Buildings Decree 2010. FGH Bank evaluated in 2010 how one of its products, i.e. green finance, could be tailored better to the needs of the

market. In order to make lending more sustainable, green finance will be integrated further into the standard lending process. FGH Bank will also adjust the valuation process accordingly. Bouwfonds REIM reviewed a representative portion of its office and residential portfolios in 2010 and set standards for the level of sustainability of existing and newly to be purchased real estate. Bouwfonds REIM has opted to improve the existing stock of properties and make them more sustainable in the process.

### Some sustainable property developments

Bouwfonds Property Development completed the first apartments of the Lyon Islands redevelopment in France. This development has been integrated fully into the unique landscape and meets the highest sustainability requirements (HQE®). In Germany, initiatives were taken to improve the living environment and increase the community spirit in urban areas (Adams-Lehmannstrasse, Munich), for which Bouwfonds Immobilienentwicklung won the Deutscher Bauherrenpreis 2010, a German customer satisfaction award.

MAB Development and OVG Projectontwikkeling developed De Rotterdam, a multi-functional building. De Rotterdam CV and Eneco signed a contract in the year under review for the supply of a full-scope renewable energy solution. In France, MAB Development is working with Neinver to build the Honfleur outlet centre in Normandy. This development was awarded the 'NF Bâtiments Tertiaires - Démarche HQE' sustainability certificate. Honfleur received the Magdus Award 2010 for Best Building Development in Europe.

Bouwfonds REIM reviewed part of its portfolio, gauging the need for sustainable investments. This has been discussed with the lessees in question, as well as with the fund investors.

### Ethical business practices

Rabo Real Estate Group has its own employee code of conduct for integrity and ethics. This code is aligned to Rabobank Group's code of conduct as much as possible and incorporates a whistleblower regulation. Copying our Dutch branches, the locations abroad also placed strong emphasis on the implementation of this code in 2010. Further embedding in the local organisations will take place in 2011. The Dutch organisation was again subjected to an integrity review in 2010. The review showed that the integrity and compliance climate has improved on 2009. In addition, the international divisions also paid attention to the harmonised new customer due diligence policy for accepting, identifying, verifying, monitoring and reviewing clients and transactions. Customer due diligence is here to stay as a key aspect of the service provision.

### Responsible business practices

Rabo Real Estate Group has agreed with the trade unions to introduce some new terms of employment in the Collective Bargaining Agreement (CBA) 2010-2011 that will advance staff employability in the long term. Owing in part to the public debate about bonuses, the Banking Code, the requirements of the Dutch Central Bank (DNB) and the Netherlands Authority for the Financial Markets (AFM), Rabo Real Estate Group started to re-evaluate its pay policies in the year under review.

### Community involvement

In 2010, Rabo Real Estate Group signed another contract to stay on as the main sponsor of Open Monumentendag (Heritage Day), one of the largest cultural events in the Netherlands, for the next three years. In 2010, about 900,000 people visited the three to four thousand historical buildings and sites that were open to the public.

Bouwfonds Property Development signed a covenant to support The Borneo Initiative in the reporting period. This initiative endorses the responsible management of forests in Indonesia by promoting and supporting the use of FSC-certified timber.

Rabo Real Estate Group also expresses its commitment to society through the activities of Fondsenbeheer Nederland. This organisation facilitates the growth of funds in the areas of listed buildings (Nationaal Restauratiefonds), public housing (Stimuleringsfonds Volkshuisvesting Nederland-SVn), nature and landscape conservation (Nationaal Groenfonds), industrial heritage (BOEi), agricultural heritage (Boerderij en Landschap) and climate landscape

(Stichting Klimaatlandschap Nederland). Growth was facilitated despite changes in green incentive schemes and uncertainties surrounding listed buildings. Stichting Klimaatlandschap Nederland was set up under the umbrella of Fondsenbeheer Nederland in 2010. The objective of this foundation is to help develop green spaces by using renewable energy sources, such as wind and biomass energy. These energy sources generate cash for sustainable management and can be used also for agricultural landscapes or for crossings from urban into rural areas, for instance. At year-end 2010, the funds' assets totalled EUR 2,815 (2,713) million.

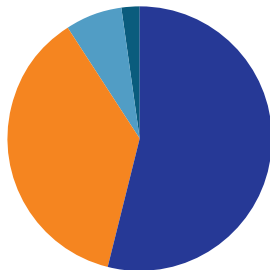
### Number of homes sold up 26%

Bouwfonds Property Development builds housing developments and small-scale multi-functional developments. At year-end 2010, Bouwfonds Property Development had a development portfolio of about 98,000 homes; this forms a solid basis for construction activity over the next decade. The market for new builds in the Netherlands remained difficult.

Homes took a long time to sell and - as in 2009 - the prices of homes sold in 2010 were lower than before the crisis. Prices continued to be weighed down, particularly in the expensive segment of the market. The German housing market saw strong growth in 2010 and the market for new builds in France was consistently favourable. Under these conditions, Bouwfonds Property Development sold 8,982 (7,341) homes. In addition, MAB Development sold 296 homes as part of multi-functional developments. In the Netherlands, 5,087 (4,101) homes were sold in total.

Number of homes sold in 2010 by country

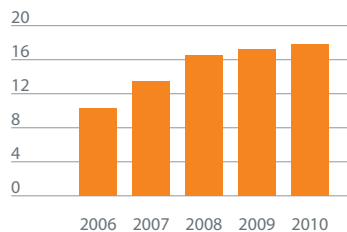
● The Netherlands	54%
● France	37%
● Germany	7%
● Other	2%



### Commercial real estate: from expansion to redevelopment

MAB Development develops commercial real estate in Europe and has branches in the Netherlands, Germany and France. As demand for new office space was low and the vacancy rate in the Dutch office space market was high, more priority was given to transformation of, and sustainability improvements to, the existing stock of office buildings. The retail market was stable in 2010. Although the Dutch industrial premises market saw growth, there still continues to be overcapacity. MAB Development focused on redevelopment opportunities in highly urbanised areas in the Netherlands, France and Germany. New commercial real estate was constructed for an amount of EUR 288 (254) million. At year-end 2010, MAB Development had 10 (11) developments under construction.

Loan portfolio in billions of euros



### Moderate growth in lending at FGH Bank

FGH Bank specialises in financing commercial real estate. Boasting a nation-wide network of branch offices, it offers all manner of property finance. FGH Bank focused mainly on the Dutch market in 2010. Only a limited number of new loans were issued in the year under review. Gross lending rose by 3% to EUR 17.8 (17.2) billion on balance. Investment financing accounted for the majority of the portfolio.

### Stability in assets managed by Bouwfonds REIM

Bouwfonds REIM's new activities were still at a low level in 2010 because the property markets did not recover very well. Assets under management were up 3%, rising to EUR 7.2 (7.0) billion. There was also an increase in capital commitments by investors. Growth was achieved because of this increase, and thanks to Bouwfonds REIM's concrete plans to develop and market new fund and other initiatives. In the existing funds, Bouwfonds REIM continued to concentrate on active fund and asset management, focusing in particular on reducing vacancy rates and on cost control.



## Financial results of real estate

### Results (in millions of euros)

	2010	2009	Change
Interest	246	174	41%
Commission	27	46	-41%
Other results	210	231	-9%
Total income	483	451	7%
Staff costs	193	209	-8%
Other administrative expenses	79	106	-25%
Depreciation and amortisation	8	8	
Operating expenses	280	323	-13%
Gross result	203	128	59%
Value adjustments	57	22	
Operating profit before taxation	146	106	38%
Taxation	42	27	56%
Profit Rabo Real Estate Group <sup>10</sup>	104	79	32%
Minority interest	-2	-11	-82%
Net profit Rabo Real Estate Group <sup>10</sup>	106	90	18%
Other	-64	-22	
Net profit Real estate	42	68	-38%
Bad debt costs (in basis points)	36	14	
Number of houses sold	9,278	7,341	26%
<b>Other information (in billions of euros)</b>			
	31-Dec-10	31-Dec-09	
Loan portfolio	17.8	17.2	3%
Assets under management	7.2	7.0	3%
Number of employees (in FTEs)	1,559	1,549	1%

### Income up 7%

Rabo Real Estate Group saw its total income increase by 7%, rising to EUR 483 (451) million in 2010. Interest income was up 41% tot EUR 246 (174) million thanks to higher margins on new loans and contract renewals, favourable developments in interest rates and volume growth. Commission fell by 41% to EUR 27 (46) million. Commissions were high in 2009 because of a one-off payment to FGH Bank as a result of the repurchase of debt securities. Owing in particular to the fact that Bouwfonds Property Development completed lower priced homes on average, other results dropped to EUR 210 (231) million.

### Operating expenses down 13%

Rabo Real Estate Group's total operating expenses declined by 13% in 2010, falling to EUR 280 (323) million. The headcount was more or less stable at 1,559 (1,549) FTEs. Staff costs fell by 8% to EUR 193 (209) million. The drop in other administrative expenses was the main factor in the lower operating expenses. Other administrative expenses were down 25% to EUR 79 (106) million thanks to the cost-cutting programme that had been initiated in 2009. Depreciation and amortisation was stable at EUR 8 (8) million.

### Bad debt costs at 36 basis points

Despite the tentative recovery that started in mid-2010, the Dutch property market was still suffering the consequences of the credit crunch in 2010. Bad debt costs were up at Rabo Real Estate Group because of the late-cycle character of the business. Value adjustments stood at EUR 57 (22) million at Rabo Real Estate Group, which corresponds to 36 (14) basis points of average lending.

<sup>10</sup> The items 'profit for the year Rabo Real Estate Group' and 'net profit Rabo Real Estate Group' correspond to the financial results published by Rabo Real Estate Group itself. The item 'net profit real estate division' is inclusive of the amortisation and financing charges that were incurred due to the acquisition of Bouwfonds divisions and differences in accounting policies.

## Outlook for real estate

Although Rabo Real Estate Group is expected to feel the pinch of the harsh economic climate in 2011 as well, the major uncertainties in the markets are likely to fade. There are signs that a true recovery of the property market will take longer than expected. The Dutch housing market will probably remain uncertain, with a continued lack of consumer confidence due to announced government cutbacks, among other reasons. The French property market would seem to continue to develop well, with ongoing demand and robust returns. In Germany, demand for homes looks set to grow further. Rabo Real Estate Group's mission is to help clients achieve their ambitions. That is why Rabo Real Estate Group will continue to give priority over the next few years to its strategy of 'focusing on the customer', while endeavouring to improve the quality and sustainability of properties in the process. To achieve this, partnerships have been forged with Rabobank International, Rabobank Nederland and the local Rabobanks, and their extensive networks, to maintain and strengthen market positions, and to deliver on the promise of being a centre of expertise.

# Risk management

[www.rabobank.com/ir](http://www.rabobank.com/ir)

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## Prudent risk policy and moderate risk profile

Rabobank Group pursues a prudent risk policy with an emphasis on a moderate risk profile. Allocations to the allowance for loan losses were down in 2010 compared with one year earlier owing to the economic upturn. This resulted in a significant drop in bad debt costs. In line with its risk profile, Rabobank has a very limited exposure to European government bonds that are currently perceived by the market as less creditworthy. The capital position was strengthened further and the liquidity position remained resolutely robust. Over EUR 40 billion of long-term funding was raised, which was more than anticipated in the annual budget. The impact of the credit crisis on profit amounted to EUR 67 million after taxation.

### Risk management

Both Rabobank itself and the Dutch Central Bank (DNB) have formulated standards concerning Rabobank's organisation and control. Rabobank's organisation and control are subject to the Dutch Financial Supervision Act, including derived legislation based thereon, and regulations imposed by both DNB and the Netherlands Authority for the Financial Markets (AFM) in their capacity as regulators. These legal and regulatory requirements form Rabobank Group's framework for the design of the organisation and control of its activities.

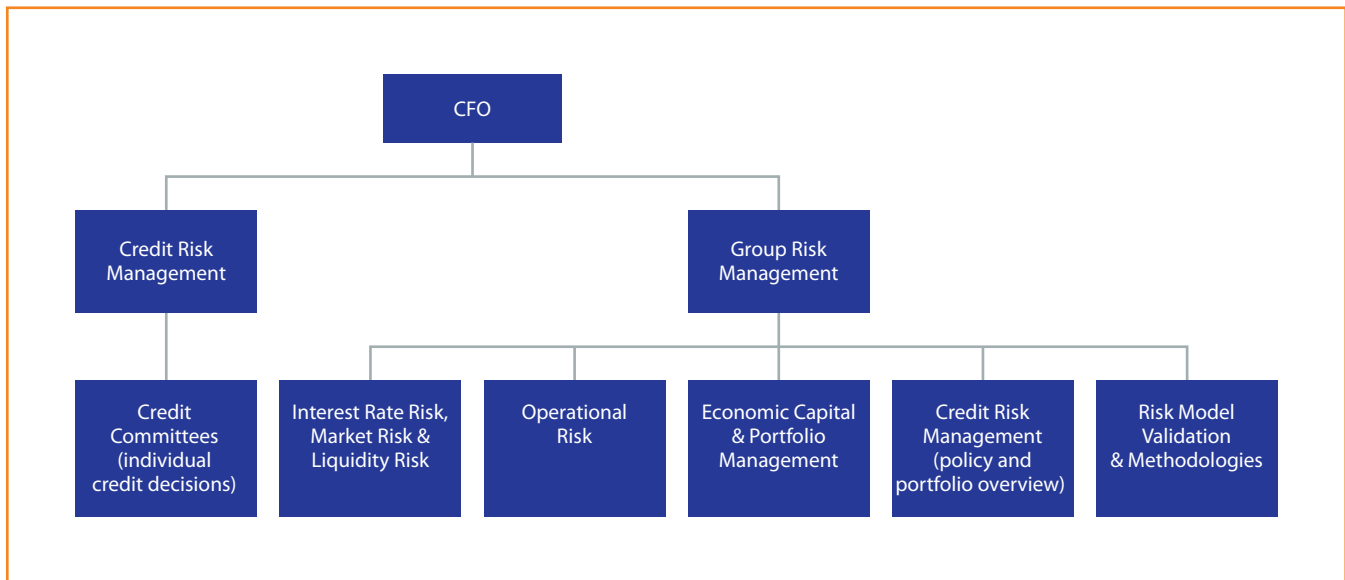
Rabobank will continue to be faced with the significant risks described in this section during 2011. In addition, it is exposed to other risks and its profit and equity depend on the banking environment, general economic conditions, government policies and regulations.

### Risk management organisation

Risk management is performed at various levels within Rabobank Group. At the highest level, the Executive Board determines the risk strategy, policy principles and limits under the supervision of the Supervisory Board and is advised by the Rabobank Group Balance Sheet and Risk Management Committee (BRMC-RG) as well as by the Rabobank Group Policy Credit Committee. The Supervisory Board regularly reviews the risk exposure of Rabobank Group's activities and portfolio. The CFO is responsible for the implementation of the risk policy at Rabobank Group. Two directorates share responsibility for the risk policy. Group Risk Management is responsible for the policy regarding interest rate, market, liquidity, currency and operational risks, as well as for the credit risk policy at portfolio level. Credit Risk Management is responsible for the policy for accepting new clients in terms of credit risk at individual customer level. Moreover, within each group entity, risk management is the responsibility of independent risk management departments.

### Risk management principles

Within Rabobank Group, an extensive system of limits and controls has been put in place to manage risk. The primary objective of risk management is to protect Rabobank Group's reputation and financial soundness. Risk management is based on the following principles:



- protecting Rabobank's financial soundness: risks need to be controlled in order to limit the impact of potential adverse events on equity and financial results. Risk appetite must be proportional to available capital. An economic capital framework has been developed to quantify this;
- protecting Rabobank's reputation: reputation is of paramount importance in banking, and it needs to be managed prudently;
- risk transparency: identifying all risks is essential in order to obtain proper insight into Rabobank Group's positions. Risks must be weighed as accurately as possible to enable sound commercial decisions to be made;
- management accountability: each division of Rabobank Group is individually accountable for its results as well as for the risks associated with its operations. A balance must be struck between risk and return, and this must of course comply with the relevant risk limits;
- independent risk control: this is the structured process of identifying, measuring, monitoring and reporting risk. In order to ensure integrity, the risk management departments operate independently of the commercial activities.

These principles are embedded in the risk policy throughout Rabobank Group.

### Risk appetite

Rabobank has formulated a bank-wide risk appetite. This describes the overall risk that Rabobank believes is acceptable for its operations. As part of this, Rabobank follows a risk strategy that is designed to ensure its continuity as a going concern and is aimed at protecting profits and profit growth, maintaining sound balance sheet ratios and protecting its identity and reputation. This risk appetite has been defined in detail by setting limits, among other things.

### Stress tests

Stress tests are an essential part of the risk management framework. They are used to determine the impact that extreme but plausible events could have on Rabobank. In 2010, various internal scenarios and several external scenarios, provided by regulators such as the European Banking Authority and DNB, were developed for Rabobank Group. This set of scenarios was transposed first into macro-economic consequences and subsequently into the impact on the bank. The impact that each scenario has on the bank's statement of income, equity and solvency was considered separately. The results of the scenario testing were subsequently reported to, and discussed with, the Executive Board and the Supervisory Board. In addition to the stress testing activities for the Group, stress scenarios have also been developed for the bank's portfolios and sub-portfolios.

## Credit risk

### Prudent credit policy, embedding credit risk management

Credit risk is defined as the risk that the bank will suffer economic losses because a counterparty cannot fulfil its financial or other contractual obligations arising from a credit contract. Credit is any legal relationship on the basis of which Rabobank, in its capacity as a bank, has or could have a claim against a debtor as a result of providing a product. In addition to loans and facilities (committed or uncommitted), credit as a generic term also includes guarantees, letters of credit, derivatives and the like. Rabobank Group has a robust framework of policies and processes in place to measure, manage and mitigate credit risks.

Rabobank Group's prudent policy for accepting new clients is characterised by careful assessment of clients and their ability to repay any credit that is granted. As a result, the loan portfolio has a relatively low risk profile. Rabobank Group aims to have long-term relationships with clients that are beneficial for both the client and the bank. Approval of larger credit applications is decided on by committees. A structure consisting of various committee levels has been established, with the competent committee being determined by the amount of the credit application. The Executive Board itself decides on the largest credit applications. Rabobank Group has three Policy Credit Committees (PCCs): the Rabobank Group PCC, the Rabobank International PCC and the Member Banks PCC. The Rabobank Group PCC establishes the credit policy at group level. Within this framework, the group entities define and establish their own credit policies. In this context, the Member Banks PCC is responsible for domestic retail banking, and the Rabobank International PCC for wholesale banking and international retail banking. In the Rabobank Group PCC, the Executive Board is represented by three members. This committee is chaired by the CFO, as are the Rabobank International PCC and the Member Banks PCC. For the rest, the PCCs are composed of representatives of Rabobank Group's most senior management levels.

With regard to corporate loans, a key concept in Rabobank Group's policy for accepting new clients is the 'know your customer' principle, which means that loans are only granted to corporate clients whose management, including their integrity and expertise, is known and considered acceptable by Rabobank Group. In addition, Rabobank Group is thoroughly familiar with the industry in which its clients operate enabling it to adequately assess the financial performance of its clients.

Corporate social responsibility (CSR) implies responsible financing, and, accordingly, corporate responsibility guidelines also apply to the lending process.

### Bad debt costs

<u>in basis points of average private sector lending</u>	<u>2010</u>	<u>2009</u>
Domestic retail banking	13	26
Wholesale banking and international retail banking	64	105
Leasing	90	132
Real estate	36	14
Rabobank Group	29	48

### Value adjustments

<u>in millions of euros</u>	<u>2010</u>	<u>2009</u>
Domestic retail banking	358	721
Wholesale banking and international retail banking	597	940
Leasing	214	300
Real estate	63	22
Other	2	-24
Rabobank Group	1,234	1,959

## Credit risk and Basel II

Rabobank Group uses the Advanced Internal Rating Based (Advanced IRB) approach for credit risk. This is the most risk-sensitive of the Basel II Credit Risk approaches. Rabobank Group has enhanced its risk management further by combining Basel II compliance activities with the implementation of a best-practice framework for economic capital. The main Basel II parameters as far as credit risk is concerned are EAD (Exposure At Default), PD (Probability of Default) and LGD (Loss Given Default). The economic capital and Risk Adjusted Return On Capital (RAROC) are partly determined by these Basel II parameters and form an important element of management information. A significant advantage associated with the use of economic capital is a streamlined and efficient approval process. Using the Basel II parameters and RAROC helps credit analysts and credit committees in making well-considered decisions. Every group entity has established a RAROC target at customer level for corporate clients. Next to credit quality, this is an important factor in taking decisions on specific credit applications.

The EAD is the expected exposure to the client in the event of, and at the time of, a counterparty's default. At year-end 2010, the EAD of Rabobank Group's total Advanced IRB loan portfolio amounted to EUR 546 (501) billion. This EAD includes the expected future usage of unused credit lines.

As part of its approval process, Rabobank Group uses the Rabobank Risk Rating system, which indicates the counterparty's PD over a one-year period. The counterparties are categorised in 25 rating classes, which include four default ratings. These default ratings are assigned if the client defaults, the form of which varies from payment arrears of 90 days to bankruptcy.

At year-end 2010, the average exposure-weighted PD of Rabobank Group's total performing Advanced IRB loan portfolio was 1.21% (1.34%). The improvement in PD was caused by a change in the PD of existing debtors as well as by changes in the composition of the portfolio (inflow and outflow of clients), the implementation of new models and policy changes.

It should be noted that this PD only reflects the extent to which the bank expects clients to be able to fulfil their contractual obligations. The PD says nothing about the potential loss, as in many cases Rabobank Group has obtained additional collateral. This is reflected in the LGD, which also takes the possibility of restructuring into consideration. The LGD is the estimated economic loss that will result if the debtor defaults, expressed as a percentage of the EAD. At year-end 2010, the LGD percentage of the total Advanced IRB portfolio was 22.0% (22.6%).

## Impaired loans and allowance for loan losses

Once a loan has been granted, ongoing credit management takes place, as part of which new information, both financial and non-financial, is assessed. The bank monitors whether the client is fulfilling all its obligations and whether it can be expected the client will continue to do so. If not, credit management is intensified, monitoring becomes more frequent, and a closer eye is kept on credit terms. Guidance is provided by a special unit within Rabobank Group, particularly in the case of larger and more complex loans granted to businesses whose continuity is at stake. If it is probable that the debtor will be unable to fulfil all its contractual obligations, this is a matter of impairment and an allowance is made which is charged to income. The allowance for loan loss consists of three components, as described below.

- The specific allowance is determined on an individual basis for impaired loans of significant amounts. This allowance is equal to the exposure to the customer less the discounted value of future cash inflows;
- The collective allowance is determined for impaired loans which individually are not significant, i.e. primarily loans to private individuals and small businesses. The allowance is set at portfolio level, using IFRS-adjusted Basel II parameters.
- The general allowance is determined for loans that are actually impaired at the balance sheet date but have not yet been identified as such (IBNR: 'Incurred But Not Reported'). In this case, too, IFRS-adjusted Basel II parameters are used to determine the amount of the allowance.

The loans for which an allowance has been formed are referred to as impaired loans. At year-end 2010, these loans amounted to EUR 9,284 (9,294) million. The allowance for loan losses stood at EUR 4,014 (4,569) million, which corresponds to a 43% (49%) coverage. It should be noted

that Rabobank Group takes allowances at an early stage and applies the one-obligor principle, which means that the exposure to all counterparties belonging to the same group is taken into account. In addition, the full exposure to the client is qualified as impaired, even if adequate coverage is available for part of the exposure in the form of security or collateral. At year-end 2010, impaired loans corresponded to 2.1% (2.3%) of the private sector loan portfolio.

### Impaired loans and allowance for loan losses (in millions of euros)

	31-Dec-10		31-Dec-09	
	Impaired loans	Allowances	Impaired loans	Allowances
Domestic retail banking	4,462	2,261	4,305	2,030
Wholesale banking and international				
retail banking	2,999	1,130	3,559	2,029
Leasing	960	464	1,066	407
Real estate	793	95	295	45
Other	70	64	69	58
<b>Rabobank Group</b>	<b>9,284</b>	<b>4,014</b>	<b>9,294</b>	<b>4,569</b>

## Country risk

With respect to country risk, a distinction is made between transfer risk and collective debtor risk. Transfer risk relates to the possibility of foreign governments placing restrictions on funds transfers from debtors in that country to creditors abroad. Collective debtor risk relates to the situation in which a large number of debtors in a particular country cannot meet their commitments for the same reason (e.g. war, political or social unrest, natural disasters, or government policy that fails to create macro-economic and financial stability). Rabobank Group uses a country limit system to manage transfer risk and collective debtor risk. After careful review, relevant countries are given an internal country risk rating, after which transfer limits and general limits are set.

Transfer limits are introduced based on the net transfer risk, which is defined as total loans granted less loans granted in local currency, guarantees, other coverage obtained to cover transfer risk and a deduction related to the reduced weighting of specific products. The limits are allocated to the offices, which are themselves responsible for day-to-day monitoring of loans granted by them and for reporting on this to Group Risk Management.

At Rabobank Group level, the country risk outstanding, including the additional capital requirements for transfer risk, is reported every quarter to the Balance Sheet and Risk Management Committee Rabobank Nederland and the Country Limit Committee. Since concerns about the euro are raised, the outstanding country risk, including the debtor risk regarding the governments of relevant countries, has been reported on a monthly basis. Special Basel II parameters, specifically EATE (Exposure At Transfer Event), PTE (Probability of Transfer Event) and LGTE (Loss Given Transfer Event), are used to calculate the additional capital requirements for transfer risk. These calculations are made in accordance with internal guidelines and cover all countries where a transfer risk is relevant. At year-end 2010, the net transfer risk before allowances for non-OECD countries was 1.4% (1.3%) of total assets.

11 Total assets, plus guarantees issued and surety bonds and unused committed credit facilities.

### Risk in non-OECD countries (in millions of euros)

Regions	In Europe	In Africa	In Latin America	In Asia / Pacific	Total	31-Dec-10
						In % of balance sheet total
Economic country risk (excluding derivatives) <sup>11</sup>	696	353	10,714	12,019	23,783	3.6%
Risk mitigating components:						
- local currency exposure	82	83	5,335	3,847	9,347	
- third party coverage of country risk	102	117	915	2,219	3,352	
- deduction for transactions with lower risk	53	3	805	927	1,788	
Net country risk before provisions	460	150	3,659	5,026	9,295	1.4%
						In % of total provisions
Total provisions for economic country risk	-	-	173	93	266	6.6%

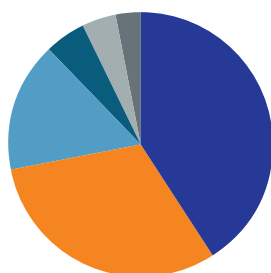
## Structured credit, monoline insurers and governments

Owing to the cautious economic recovery and conditions on the financial markets, limited additional provisions were formed, which had a negative impact on earnings of EUR 67 million after taxation.

Rabobank Group has a limited exposure to more structured investments in its trading and investment portfolios. At year-end 2010, this exposure amounted to EUR 5.8 billion.

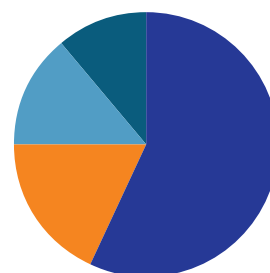
Structured credit exposure in billions of euros at year-end 2010

● Non-subprime RMBS	2.5
● CDO/CLO and other corporate exposures	1.8
● Commercial real estate	0.9
● Other ABS	0.3
● US subprime	0.2
● ABS CDO	0.1



Structured credit exposure rating distribution at year-end 2010

● AAA	57%
● AA	18%
● A	14%
● Below A	11%



At year-end 2010, Rabobank Group had a very limited exposure to government bonds issued by the following European countries, which are currently perceived by the market as less creditworthy.

### Exposure (in millions of euros)

Country	31-Dec-2010
Italy	388
Greece	373
Spain	137
Portugal	80
Ireland	50

Monoline insurers are counterparties in some credit default swaps used to hedge the credit risk of certain investments. The creditworthiness of a number of monoline insurers is under pressure, which was reflected in the further downgrading of the ratings of these institutions. Counterparty risk arises in relation to these monoline insurers if the value of credit default swaps with these counterparties increases due to a decrease in the fair value of the underlying investments, or if other insured investments could lead to claims for payment being filed with the insurers. When calculating economic counterparty risk, timing aspects and the credit quality of the relevant investments are taken into consideration. At year-end 2010 this total counterparty risk before value adjustments amounted to EUR 1,330 million. The total provision stood at EUR 1,114 million, and therefore the remaining counterparty risk amounted to EUR 216 million. As the bulk of the counterparty risk has been provided for, further downgrades will have only a limited impact.

## Interest rate risk

Interest rate risk is the risk that the bank's financial results and/or economic value - given the structure of its statement of financial position - may be adversely affected by developments on the money and capital markets. Rabobank Group's interest rate exposure results mainly from differences between interest rate maturities of loans granted and funds entrusted. If interest rates fluctuate, it is possible to adjust the rate for certain liabilities, such as deposits, immediately. By contrast, many assets, such as mortgages, have longer fixed-interest periods, and the interest rates for these loans cannot be adjusted until the next interest reset date. In addition, the interest rate risk position is also affected by client behaviour. For example, clients may repay loans ahead of schedule, or withdraw savings earlier than expected. A key component in the management of interest rate risk is the treatment of variable savings. For these funds, the behaviour differs from the characteristics described in the contract, which makes additional modelling necessary.



The interest rate risk position is adjusted by means of hedge transactions. The extent and timing of any hedging is dependent on the view on future interest rates and the expected movements in the statement of the financial position, among other things.

### Indicators

Rabobank Group uses three indicators when managing, controlling and limiting interest rate risk: Basis Point Value (BPV), Equity at Risk (EatR) and Income at Risk (IatR). These indicators measure the loss that might result from changes in interest rates. The BPV is the absolute loss of market value of equity in the event of a parallel increase of one basis point across the yield curve. The BPV did not exceed EUR 28 million during 2010. The EatR indicates the percentage decrease in the market value of equity in the event that there is a parallel increase in the yield curve of one percentage point. The EatR did not exceed 5.6% during the year under review. The IatR represents, at a defined confidence level, the maximum loss of interest income over the next twelve months in the event of a sharp rise or fall in money market rates and capital market rates. The IatR did not exceed EUR 118 million during 2010. The maximum values of these indicators were therefore well within their set limits during the year under review. Due to the low interest rate environment, the lower limit for the EatR has been temporarily reduced. In addition, economic capital is calculated and maintained for interest rate risk.

Rabobank Group performs complementary scenario analyses each month to assess, among other things, its sensitivity to sharp increases and decreases in interest rates.

## Liquidity risk and funding

Liquidity risk is the risk that a bank will not be able to fulfil all its payment and repayment obligations on time, as well as the risk that it will at some time be unable to fund increases in assets at a reasonable price, if at all. This situation might arise if clients or professional counterparties suddenly withdraw more funds than expected while, at the same time, expiring funding arrangements are not refinanced, the bank does not have sufficient cash resources, and no solution can be found in the form of selling or lending assets to or borrowing money from third parties. Increasing our cash resources and retaining the confidence of both professional market parties and retail clients have proved to be crucial in this respect.

### Management liquidity risk

Rabobank Group has always recognised that liquidity risk is an important risk type. In keeping with the Basel principles, the policy is that long-term lending is financed by means of stable funding, being funds entrusted by customers and long-term funding from the professional markets. Liquidity risk management is based on three pillars. The first pillar sets strict limits on the maximum outgoing cash flows of the wholesale banking division. This ensures that excessive dependence on the professional market is avoided. To this end, among other things the incoming and outgoing cash flows expected over the next 12 months are calculated and reported on a daily basis. In addition, limits have been set on such outgoing cash flows for each currency and location. Detailed contingency plans have been drawn up in order to ensure the bank is prepared for potential crises.

Under the second pillar, a large buffer of liquid assets is held. If necessary, these assets can be used to generate liquidity immediately by being sold directly on the market, by being used in repo transactions or by means of lending securities to central banks. Pending further regulatory tightening of the liquidity requirements, Rabobank Group built a liquidity portfolio with high-quality government paper. The buffer of liquid assets calculated on the basis of guidelines issued by the regulator stood at over EUR 138 billion at year-end 2010.

The third pillar concerns limiting liquidity risk by pursuing a prudent funding policy that is designed to ensure the financing requirements of group entities are met at an acceptable cost. The diversification of funding sources, funding instruments and currencies plays an important role in this context. As part of this, bonds were issued in 15 different currencies in 2010. This prevents Rabobank Group from becoming overly dependent on a single source of funding. The active investor relations function also has an important role to play in this regard.

## Measuring liquidity risk

Several methods have been developed to measure and manage liquidity risk. Methods used include the CA/CL (core assets/core liabilities) method. This analysis is based on the cash flow schedule of all assets and liabilities. Using various time periods, a calculation is made of the assets, unused facilities and liabilities that are likely to appear on the balance sheet after running implied, carefully defined stress scenarios. These remaining assets and liabilities are defined as core assets and liabilities. The ratio of core assets to core liabilities is the liquidity ratio. Given the highly conservative weightings used, a ratio of less than 1.2 is considered adequate. In 2010, this was once again the case in the scenarios used. The Dutch regulator also provides extensive guidelines for measuring and reporting the liquidity position of Rabobank Group. According to these guidelines, the liquidity is more than adequate, with available liquidity exceeding the requirement by 40% on average.

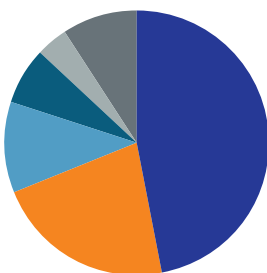
## Rating and funding

For many years, Rabobank has been awarded the highest possible ratings by leading rating agencies such as Standard & Poor's and Moody's. These ratings did not change in 2010. Fitch also ranks Rabobank among the banks with the highest ratings. Although 2010 was a very tense year on the capital markets, Rabobank Group once again managed to raise a record amount of long-term funding. Long-term bonds worth over EUR 40 billion were issued during 2010.

An amount of EUR 1.25 billion was raised by issuing innovative Senior Contingent Notes; in addition, Rabo Extra Member Bonds were issued for an amount of EUR 900 million. The maturity profile of short-term funding was also lengthened at the wholesale banking division. Outstanding asset-backed commercial paper amounted to EUR 14.0 (15.3) billion at year-end 2010.

Senior unsecured funding by currency in 2010

● Euro	47%
● US dollar	22%
● Pound Sterling	11%
● Australian dollar	7%
● Japanese yen	4%
● Other	9%



## Providing information to investors and financiers

Rabobank attaches great importance to high-quality, transparent communication with institutional investors and other financiers and providers of capital. The Investor Relations department is responsible for supplying and explaining all relevant information requested by investors. On a global level, presentations are used to inform institutional investors, other financiers and providers of capital of financial developments at Rabobank Group. In addition, the department provides information on developments at Rabobank Group to institutional investors and providers of capital through a website set up specifically for this target group as well as through an electronic newsletter. Activities in this area were stepped up following the onset of the credit crunch because today, more than ever before, investors want to be certain that Rabobank continues to have a low risk profile.

## Market risk

Market risk concerns changes in the value of the trading portfolio as a result of movements in market prices relating to interest rates, equities, credit spreads, currencies and certain commodities, among other things. Within Rabobank Group, most of the exposure to this risk is to be found at Rabobank International and Robeco. There are therefore specific market risk departments in place within these group entities that calculate and report market risk exposure on a daily basis. An appropriate system of limits has been developed to manage this risk. At a consolidated level, market risk is measured using Value at Risk (VaR). This measure, which is based on historical market developments for one year, indicates the maximum loss that Rabobank Group can suffer, subject to a specific confidence level, under 'normal' market conditions.

In order to weigh the risk of 'abnormal' market conditions as well, the effects of certain extreme events are calculated (event risk). To this end, both historical scenarios and hypothetical scenarios are analysed. Sensitivity analyses are also used. In the year under review, the outcome of these sensitivity analyses and stress tests did not exceed their set limit of EUR 150 million.

In 2010, the Value at Risk fluctuated between EUR 9 million and EUR 18 million, the average being EUR 14 million. This means that a maximum loss of EUR 18 million can be expected on a single day under normal circumstances, subject to a confidence level of 97.5%. Under this calculation method, the Value at Risk is based on both historical market trends and the positions taken. The fall in the Value at Risk compared with 2009 was due in part to improvements in the calculation methods and changes in positions, books and activities.

#### Value at Risk in millions of euros in 2010



Value at Risk can be broken down into a number of components, the most important of which are changes in interest rates and credit spreads. Opposite positions in different books offset each other to a certain degree, resulting in a diversification benefit and reducing the total risk. At year-end 2010, the consolidated Value at Risk was EUR 16.0 million.

Breakdown of Value at Risk (in millions of euros)	31-Dec-10
Credit spread	4.5
Currency	0.5
Equities	1.3
Interest rate	16.5
Commodities	0.6
Diversification	-7.4
<b>Total</b>	<b>16.0</b>

Besides Value at Risk, other risk indicators are also important for measuring market risk. For example, the BPV indicates the change in the value of positions if there is a parallel increase in the yield curve of one basis point. The table below shows these positions for each key currency.

Basis point value (in millions of euros)	31-Dec-10
Euro	-0.5
US dollar	-0.2
Pound sterling	-0.2
Australian dollar	-0.2
Japanese yen	-0.1
Other	-0.2

#### Operational risk

Rabobank follows the Basel II definition of operational risk, which is the risk of losses caused by inadequate or failing internal processes, people or systems or by external events. It includes legal and reputation risks, but not strategic business risks. Rabobank Group operates within the frameworks of the Basel II Advanced Measurement Approach as regards measuring and managing operational risk.

Group-wide responsibility for the operational risk management function is held by Group Risk Management. This directorate sets the policy and frameworks for all group entities. The responsibility for managing specific operational risks rests with the senior management of the individual group entities, because the risks differ considerably from one entity to the next and need to be managed as close to the source as possible. Group Risk Management ensures that the frameworks are adhered to operational risk policy and that the risks and the control mechanisms are transparent throughout Rabobank Group. In addition, Group Risk Management ensures that risks associated with more than one group entity are managed.

The Operational Risk Capital Model is based on the Loss Distribution Approach, a model that uses internal and external loss data and scenario analyses, among other things. It also includes a bonus/penalty system used to steer the group entities within the set frameworks.

Within the group entities, risk management committees have been established to identify, manage and monitor, among other things, the operational risks, including business continuity and fraud risks, of the relevant entity. Furthermore, product approval committees have been established for Rabobank Group and at various levels within the Group. These committees provide an additional safeguard as these committees regard the quality of new product and process launches, and changes in existing products and processes.

### Currency risk

Currency risk is the risk of changes in income or equity as a result of currency exchange movements. In currency risk management, a distinction is made between positions in trading books and positions in banking books. In the trading books, currency risk is part of market risk and is controlled using Value at Risk and other limits, as are other market risks. In the banking books, the only risk is translation risk related to non-euro net investments in foreign entities and hybrid capital instruments that are not denominated in euros.

To monitor and manage the translation risk, Rabobank Group uses a dual-track approach to protect its capital position. The hedge strategy is to cover the risk associated with non-euro net investments in foreign entities while protecting the capital ratios against the effects of exchange rate movements wherever possible.

### 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 of keeping pace with leading international standards.

In this context, Rabobank Group voluntarily implemented internal financial reporting controls in a manner that is similar to the way in which 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 related regulations and oversight.

Rabobank Group believes that internal financial reporting controls increase the effectiveness of such reporting and offer opportunities to identify and rectify any deficiencies at an earlier stage. This improves the quality of Rabobank Group's 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 adopted by the European Union, and that receipts 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 report included in the financial statements, 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.

## Executive Board Responsibility Statement

The Executive Board of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland) declares that, to the best of its knowledge:

- the financial statements give a true and fair view of the assets, liabilities, financial position and profit of Rabobank Nederland and the companies included in the consolidation;
- the management report gives a true and fair view of the state of affairs as at the reporting date, and of the course of affairs during the financial year at Rabobank Nederland and its affiliated entities whose information is included in its financial statements;
- the management report describes the material risks that Rabobank Nederland faces.

Piet Moerland, *Chairman*

Bert Bruggink, *CFO*

Berry Marttin, *member*

Sipko Schat, *member*

Piet van Schijndel, *member*

Gerlinde Silvis, *member*

# Commitment to society

Rabobank Group aims to be a driver and an innovator that contributes to a sustainable increase in prosperity and welfare, as expressed in our mission statement. We put a great deal of money and effort into achieving this ambition every year. One of the ways in which Rabobank seeks to achieve this aim is by distributing cooperative dividend to the community, both on a local level and a national scale, through community funds, donations and sponsorship of community initiatives. In 2010, some EUR 121 million was distributed in cooperative dividend, of which EUR 61 million was distributed in the form of donations and community funds and EUR 60 million through sponsorship of community initiatives.

## Cooperative dividend (in millions of euros)

	2010	2009	2008
<b>Total community funds and donations, comprising</b>	<b>61.0</b>	<b>54.6</b>	<b>44.9</b>
Cooperative funds (local Rabobanks)	28.3	25.8	20.4
Rabobank Nederland and other group entities	4.2	3.3	3.8
Rabobank Foundation	26.8	24.8	16.8
Project Fund	0.9	0.8	3.7
Herman Wijffels Innovation Award prize money	0.1	0.1	0.1
Share4More	0.7	0.3	0.3
<b>Total sponsorship of community initiatives, comprising</b>	<b>60.0</b>	<b>58.0</b>	<b>65.8</b>
Rabobank Nederland	24.1	22.6	21.4
Rabobank International and other group entities	11.8	10.9	16.4
Local Rabobanks	24.1	24.5	28.0
<b>Total cooperative dividend (funds, donations and sponsorship)</b>	<b>121.0</b>	<b>112.6</b>	<b>110.7</b>

## Local cooperative dividend

In 2010, the local Rabobanks spent EUR 28.3 million from their cooperative funds on supporting social projects. Rabobank members play a key role in considering and determining how the available money is spent. They are able to exercise influence via virtual channels.

## Rabobank Foundation

Rabobank Foundation was established in 1973 to help disadvantaged people, both in the Netherlands and elsewhere. This community investment fund developed from an initiative by local Rabobanks into a group-wide organisation that provides structural, sustainable support. Rabobank Foundation has 0.5% of group profit as its annual budget. It aims to spend approximately 25% of the available funds on projects in the Netherlands and approximately 75% on projects abroad.

In the Netherlands, Rabobank Foundation supports a range of groups within the community, such as homeless people, teenagers with problems, people with a mental or physical disability, and people who are unable to read or write, with the aim of helping them to participate in society and the economy. During the year under review, Rabobank Foundation focused on the themes of people and society, work and education, and sport and leisure. Some 29 projects in the Netherlands were given support totalling EUR 2.9 million in 2010.

Elsewhere, Rabobank Foundation provides support to savings and credit organisations and farmers' organisations in rural districts, focusing on microfinance, sustainable development and supply chain development. Support mainly takes the form of providing financial tools in 25 selected developing countries, but technical assistance is also hired in, preferably locally or from Rabobank Group. In the year under review, Rabobank Foundation approved 170 applications received from abroad, and provided support worth EUR 23.9 million. The tools used outside the Netherlands by Rabobank Foundation were trade finance (23%), microfinance (17%), guarantees and commitments (15%), and donations and technical assistance (45%). During 2010, there was a sharp drop in microfinance compared with 2009 (down 43%). There was also a greater focus in the year under review on supporting agricultural cooperatives by providing trade finance, donations and technical assistance, particularly in Asia. Cooperation with partner banks in Africa and Asia led to a sharp increase in guarantees (including commitments) in 2010 compared with 2009 (up 342%).

Rabobank Foundation increased the number of adoption projects for local Rabobanks during 2010. Adoption involves linking local banks up with Rabobank Foundation projects in developing countries. There is a great deal of willingness at local Rabobanks to set aside part of the annual donation for a specific foreign project of Rabobank Foundation. At year-end 2010, some 60 local Rabobanks were involved in a total of 40 projects in Asia, Latin America and Africa. Local Rabobanks believe that adoption projects offer them benefits. These projects provide a visible representation of their annual donations to Rabobank Foundation, and are also an innovative way of implementing CSR and cooperative policy.

### Countries targeted by Rabobank Foundation

<b>Europe</b>	<b>Latin America</b>
Albania <sup>12</sup>	Bolivia <sup>13</sup>
The Netherlands	Brazil
	Colombia <sup>13</sup>
<b>Asia</b>	Ecuador
Cambodia	Mexico
India	Nicaragua
Indonesia	Paraguay <sup>12</sup>
Laos	Peru
Philippines	
Sri Lanka	<b>Africa</b>
Vietnam	Côte d'Ivoire
	Ethiopia
	Ghana
	Kenya
	Mali
	Mozambique
	Rwanda
	Senegal
	Tanzania
	Uganda



### Rabobank Project Fund

The Rabobank Project Fund supports innovative, sustainable projects in the Netherlands that bring economic and social benefits to large groups of members. In 2010, 17 applications were successful. These projects included a feasibility study into the use of direct current for assimilation lighting in greenhouses, the development of an innovative procedure for creating new product/market combinations for the recreation and tourism sector, and the development of a strategic-level masterclass for business people in the food retail sector.

### Herman Wijffels Innovation Award

The Herman Wijffels Innovation Award, which is presented once a year by the Herman Wijffels Fund, is aimed at promoting innovative and socially responsible business practices. The award was presented for the ninth time in 2010. A total of 443 entries were assessed, with the first prize of EUR 50,000 going to Corné Ooms for his asparagus harvesting machine. This machine harvests ripe asparagus entirely automatically, and can operate independently day and night. The second prize of EUR 37,500 was awarded to Sebastiaan Broers for his flexible mould that can be used to manufacture single units or small series of products using a digital design,

12 No longer on the list of countries that Rabobank Foundation targets in 2011.

13 Added to the list of countries that Rabobank Foundation targets in 2011.

while the third prize went to Pharmafilter for a waste water treatment system for hospitals. The incentive award for young entrepreneurs was presented to Katrien Ploegmakers for her deep pressure vest for children who have an autism spectrum disorder (ASD).

### Share4More

Current and retired Rabobank employees can opt to make a monthly donation to the employee fund, Share4More. The Executive Board of Rabobank doubles all donations made. The fund uses the donations to help improve the position of women, children and disabled people in developing countries. Every year, the fund supports many small-scale projects aimed at bringing about improvements in healthcare, education and welfare, and reducing child mortality. In 2010, Share4More received 180 applications, of which 98 were successful. Donations were up in 2010 compared to previous years owing to the earthquake in Haïti and the floods in Pakistan. At year-end 2010, Share4More had a total of 4,161 donors, including 1,376 new donors who registered during the year. Share4More wants to increase the number of its donors to 10,000 over the coming years.

### Rabobank and volunteering

Another form of cooperative dividend concerns the various kinds of support provided to voluntary activities that lead to social improvements. Many local Rabobanks sponsor or give donations to associations and foundations, and, on top of this, employees serve on boards, facilities are made available, knowledge is shared, and parties are brought together. In 2010, employees of local Rabobanks spent 75,800 (58,700) hours volunteering, employees of Rabobank International employees spent 26,500 (21,000) hours on such activities, while employees of other group entities spent 6,100 (6,600) hours on voluntary work. Rabobank works with a number of parties that encourage and support volunteering. In addition, an increasing number of management trainees and directors of local Rabobanks have decided to devote some of their time and expertise to Rabobank Foundation projects in the Netherlands and elsewhere.

### Community sponsoring

Rabobank's sponsorship policy is aimed at building sustainable partnerships that promote a vibrant, caring society, focusing on culture and sport, in particular cycling, field hockey and equestrian sport. The long-standing ties between local Rabobanks and many local sports clubs have provided the clubs with a solid foundation. In 2010, Rabobank Group spent EUR 60 million on community sponsorship, with 1% of the sport sponsorship budget being made available for disability sports. Rabobank supported the Van Gogh Museum.

### Social ambitions of clients

Interest in contributing to social initiatives is growing among high net-worth individuals. Rabobank provides the following services to help such clients:

- The Rabo Charity Desk - In 2010, charity managers helped 91 clients achieve their social ambitions. These included 85 clients who were provided with a charity plan. Some hundreds of projects have been launched using donations or legacies (including future legacies) from clients, with the Rabo Charity Desk acting as an intermediary;
- Rabobank Foundation Client Fund - Through this fund, Rabobank clients can either make donations or set up a fund in their own name to support Rabobank Foundation's projects. At year-end 2010, some EUR 2.6 million had been committed to the fund by its four clients. Of this sum, more than EUR 2.3 million was granted to 23 Rabobank Foundation projects.



# Dialogue with society

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Rabobank is a socially responsible bank that actively enters into dialogues with stakeholders on social trends and issues. These dialogues lead to outcomes that are incorporated into the sustainability policy and communicated to employees, enabling them to deal responsibly and professionally with the dilemmas they face when providing services. Rabobank takes the view that engaging with stakeholders is an ongoing process in which it gains experience from which it can learn.

## Dialogue about issues that matter

The materiality principle forms the starting point for our dialogue with stakeholders. What this means is that Rabobank wants to enter into a dialogue concerning issues that have a major impact on the bank, its stakeholders and society at large. Rabobank's aims in this area are based on the issues that stakeholders believe are important as well as the Group's own expectations for the future. The groups of stakeholders that have been identified for this purpose are clients, employees, client interest groups, government agencies and civil society organisations.

In some cases, departments responsible for commercial matters conduct dialogues with stakeholders made up of clients and interest groups representing clients. In addition, Rabobank has entered into dialogue with a number of civil society organisations to discuss various social issues and the Group's social policy.

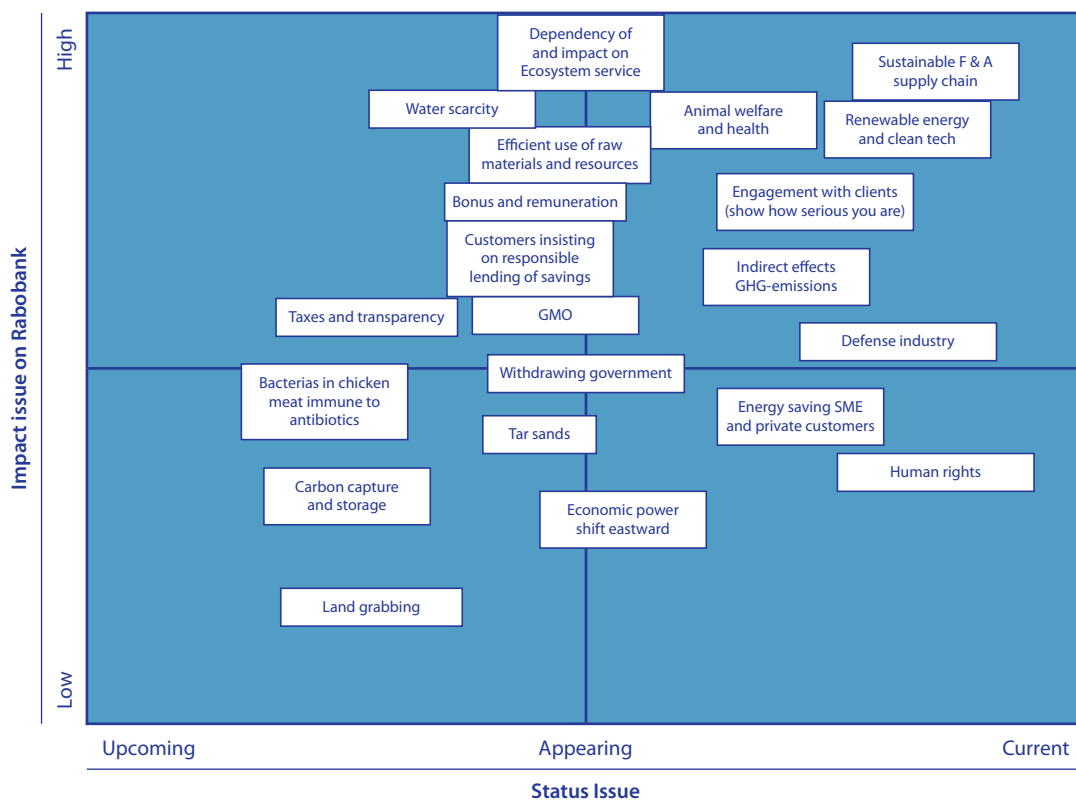
## Active involvement in services

Stakeholders such as member councils and youth councils of local Rabobanks are actively involved in the bank's policy-making and provision of services. In addition, CSR policy is discussed with employee representative bodies, and civil society organisations are involved in the development of policy in areas such as human rights and biodiversity. Rabobank is also actively involved in international, multilateral stakeholder dialogues on creating more sustainable value chains in the food and agri sector. Examples include the UN Global Compact, the UN Environmental Programme Finance Initiative, the Dutch Sustainable Trade Initiative (IDH), and the various Round Tables on sustainable production chains in the food and agri sector, such as RSPO (palm oil), the RTRS (soy), Bonsucro (sugar) and BCI (cotton).

## Dialogue, issues and policy development

When developing policy and conducting dialogues with stakeholders, extra attention is paid to topical social issues that are of the greatest relevance for Rabobank.

The issues shown in the chart on the next page were selected on the basis of a review of relevant literature and an analysis of social trends and issues in recent years, as part of which a dialogue was conducted with stakeholders. In 2010, issues including socio-economic, political and financial issues unrelated to CSR were identified and defined, and the way in which such issues are monitored and coordinated within Rabobank was analysed. Efforts will be made in 2011 to enhance synergy in issue and stakeholder management in the areas that have been identified.



Some of the issues shown in the figure on page 74 that Rabobank discusses with its stakeholders in the context of sustainable developments are looked at in more detail below.

### Dialogue on introducing sustainability in value chains

In 2010, Rabobank gave further concrete form to its sustainability policy through its involvement with the Schokland Fund and the Corporate Leadership Coalition for Smallholder Farmer Livelihoods. The Schokland Fund is a Solidaridad initiative in which WWF and three round tables (RTRS, Bonsucro and RSPO) are also involved. The purpose of the fund is to help small farmers meet the sustainability standards set by the round tables. The Corporate Leadership Coalition is a coalition of companies that supply pesticides, fertilisers, seeds, finance, and communications and water technology to small farmers with the aim of raising living standards in a sustainable manner.

The 2007-2008 food crisis put long-term food security on the global political agenda, raising the question of whether it will be possible to feed the world in 2050. In its report, 'Sustainability and security of the global food supply chain', Rabobank called on the food industry to take responsibility for creating a sustainable global food supply.

In 2010, Rabobank also held extensive consultations with civil society organisations that drew attention to social issues, such as renewable energy, the arms industry, palm oil production and animal welfare. In addition to this bilateral dialogue, Rabobank was actively involved in the multilateral dialogue between producers, transporters, the animal processing industry, retailers, and civil society organisations in sector-wide round table consultations on improving sustainability in the palm-oil, soy, sugar and cotton chains. Concrete initiatives aimed at making food and agribusiness chains more sustainable are encouraged by Rabobank.

### Updating of human rights policy

During the year under review, Rabobank participated in the Business and Human Rights Initiative of Global Compact Network Netherlands. This initiative was the Dutch business community's contribution to the work of Professor John Ruggie, the UN Special Representative on business and human rights. Based on the conclusions of the study, Rabobank Group updated its human rights policy to bring it into line with the international framework for businesses drawn up by Professor Ruggie. At the end of 2010, the draft version of the updated human rights policy was ready to be used in internal and external consultations.

Social stakeholder	Issue discussed	Outcome
FMO	Rabobank's Food and Agribusiness Principles (in an FMO round table)	Better understanding of Rabobank's procedures
Oxfam Novib	Explanation of CSR performance management at Rabobank	Oxfam gained insight into how Rabobank establishes and applies policy in practice
United Nations, Global Compact Network Netherlands, Amnesty International	Rabobank's updated policy on human rights	Draft of updated human rights policy
F&C Investments	Rabobank's policy on defence industry	F&C Investments is now aware of Rabobank's policy regarding the arms industry
Animal protection	Rabobank's animal welfare policy and possible forms of collaboration	Insight into opportunities for collaboration
Friends of the circus	Rabobank's animal welfare policy regarding circuses and events	Agreement reached on approach to sponsorship of circuses from an animal welfare perspective
WWF	Memorandum of understanding (MoU) on partnership with Rabobank Biodiversity and ecosystem services policy	In the MoU, Rabobank and the Dutch arm of WWF expressed their ambition to enter into a partnership in 2011. In connection with this, WWF commented on Rabobank's policy on biodiversity and ecosystem services.
Dutch Sustainable Trade Initiative (IDH)	Programme of collaboration	Identification of production chains to be made more sustainable by working in partnership
Dutch Soy Task Force	Support for Round Table on Responsible Soy (RTRS) standard for sustainable soy, and organisation of related demand	Position paper explaining strategy in 2011
Round Table on Sustainable Palm Oil (RSPO)	Communication-related matters concerning RSPO	Review of quality and applicability of strategic communication plans received from communication agencies
Greenpeace	Illegal deforestation activities in palm oil sector	It was explained to Greenpeace that Rabobank advocates the stricter enforcement of the RSPO code of conduct when members fail to comply
First Global Conference on Sustainable Beef	Sustainable meat production	An international round table on sustainable beef was established in which Rabobank is involved
Bonsucro	Introduction of standards for sustainable sugar production	The standard for sustainable sugar was approved by members at the General Meeting
Schokland Fund	Projects to support small farmers growing palm oil, soy and sugarcane	The steering group in which Rabobank serves approved a series of projects to support small soy, palm oil and sugar farmers
Corporate Leadership Coalition for Smallholder Farmer Livelihoods	Support for poor farmers to bring about a sustainable increase in living standards	Rabobank is one of the founding members of this new coalition
Dutch Fair Bank Guide	Investments in renewable energy Clothing industry	The initiators of the Fair Bank Guide issued a report on both themes in which Dutch banks were compared
BankTrack	Oil extraction from tar sands	Rabobank's position on this issue was explained to BankTrack
Pew Charitable Trust	Aquaculture in Canada	Rabobank's position on this issue was explained
Stichting Natuur & Milieu	Construction of new coal-fired power stations in the Netherlands	Rabobank contributed to a debate on the relevance of new coal-fired power stations

External consultations were held at Amnesty International. The policy is now in line with the international framework on business and human rights and will be discussed with group entities and a number of relevant stakeholders in 2011.

### New policy on biodiversity and ecosystem services

Rabobank Group believes it is important that clients know which ecosystem services constitute an opportunity or a business risk, and which factors can have an adverse impact on these services, including factors resulting from changes to, or dependence on, biodiversity and ecosystem services. To this end, Rabobank formulated a new draft policy on biodiversity and ecosystem services during the year under review. This policy was discussed with WWF in 2010, and will be discussed with the group entities and a number of other relevant stakeholders early in 2011.

### Signing of memorandum of understanding with WWF

During the year under review, Rabobank Group signed a memorandum of understanding with WWF on a global partnership to make production chains more sustainable, in order to protect nature and biodiversity. This memorandum will be transposed into a definitive contract in March 2011.

### Dialogue with external stakeholders

Robeco has stepped up its dialogue with interest groups that call asset managers to account with regard to social issues. In connection with this, it spoke to the Dutch Fair Bank Guide and to Amnesty International about human rights in general, and working conditions in the textile industry in particular. Finally, Robeco made a substantial contribution to the public debate on 'sustainable pay' by advocating a remuneration structure that attaches great importance to responsible business practices.

Rabobank and Greenpeace discussed the illegal deforestation activities of a palm oil producer that is a member of RSPO. Under rules governing privacy and the bank's duty of care, Rabobank was unable to state whether the company in question is a client of the bank. In its capacity as a member of the Executive Board of RSPO, Rabobank promised to stress in the round table that companies that are RSPO members definitely have to comply with the RSPO code of conduct and sustainability standard.

BankTrack sent Rabobank a letter about a company that extracts oil from Canadian tar sands. The bank stated that the company in question is no longer a client and that the bank had clearly stated in its supply chain management policy on oil and gas that it would refrain from directly financing oil extraction from tar sands.

F&C Investments asked Rabobank about its position on providing finance for the manufacturing of cluster munitions. The bank stated that financing the production of cluster munitions was not permitted under its defence industry policy.

### Dilemmas and ethical issues

At Rabobank Group, dilemmas and ethical issues that arise when providing services can be submitted to the Ethics Committee. This is a group-wide committee, led by the Chairman of the Executive Board, in which the executive management of Rabobank Group is broadly represented. It can issue non-binding recommendations on how to deal with dilemmas, which together constitute a body of standards. All employees can ask the Ethics Desk (the committee's secretariat) for advice based on existing standards, and put forward dilemmas that are new to the organisation. During the year under review, the Ethics Desk dealt with 200 inquiries. The Ethics Committee issued recommendations in 17 cases.

Besides case histories and human rights policy, the Ethics Committee discussed the arms industry, climate change facts and myths and their implications for the bank, Rabobank's position on Q fever and the wider debate on the intensive livestock industry in the Netherlands, tax planning and biodiversity. The Ethics Committee stated that the organisation needs to be made more aware of the Ethics Committee and the Ethics Desk. The topic of ethics has now been included in internal training courses for employees, management and members of the Executive Board.

## Looking ahead to 2030

During 2010 Rabobank drew up future scenarios regarding the Dutch economy and related social issues. These issues include population aging, the associated shortage of people in the labour market, the affordability of pensions and mortgages, commodity shortages and prices, food security and safety, and stricter environmental requirements.

These scenarios are used by Rabobank as a basis for examining trends in six sectors of industry in the Netherlands. The questions asked as part of this include which sectors will experience strong growth in 2030, can Dutch manufacturing cope with the increasing amount of competition from Asian countries, and what will be the impact of the demographic shift on the collective sector. By considering these questions, Rabobank is taking into account anticipated future policy and client needs.

# Environment and operations

In the course of its operations, Rabobank Group takes steps to benefit the environment and limit climate change. That is why, during 2010, the focus was primarily on reducing carbon emissions, in other words our carbon footprint. Our aim is to cut greenhouse gas emissions per FTE by at least 20% between 2009 and 2013. In order to achieve this aim, efforts are being made primarily in the areas of energy saving and sustainable mobility.

## Offsetting carbon emissions

Rabobank Group's operations have been climate-neutral since 2007. In 2010, the Group's entire carbon footprint was offset by purchasing carbon credits. These carbon credits were connected to a number of projects that include the Jiangsu Quidong Dongyuan Wind Power Project, which is a large wind energy park in China.

## Reduced carbon footprint

Our carbon footprint for 2010 corresponded to 171,400 tonnes of CO<sub>2</sub>, representing a fall to 2.7 tonnes of CO<sub>2</sub> per FTE (2009: 2.9 tonnes). This fall was chiefly caused by a decrease in electricity consumption at Rabobank Nederland and Rabobank International, an increase in the proportion of green energy used at De Lage Landen in the Netherlands, and a drop in the carbon emissions of lease cars at Rabobank Nederland and local Rabobanks. Rabobank Group is therefore currently on course to achieve its objectives in the area of CO<sub>2</sub> reduction. For further information on our carbon footprint and associated consumption and emissions, please log on to [www.rabobank.com/csr-factfigures](http://www.rabobank.com/csr-factfigures). It should be noted that the reporting period has changed, affecting the comparability of figures for previous years.

## Greenhouse gas emissions and carbon footprint in tonnes of CO<sub>2</sub>

	2010	2009 <sup>14</sup>	2008	2007
Carbon footprint: total CO <sub>2</sub>	171,400	179,600	182,800	175,500
Carbon footprint per FTE: CO <sub>2</sub> emissions per FTE	2.7	2.9	3.1	3.1

## Saving energy

An internal energy programme supports local Rabobanks and other group entities in their efforts to be more energy-efficient. In connection with this, energy studies were conducted, and recommendations for future savings made, at local Rabobanks at 65 locations during the year under review. A major energy study was also conducted at the Polish subsidiary, Bank BGZ, which could lead to energy savings of some 16% over the next few years.

## Energy Award

Rabobank Venray received the 2010 Rabo Energy Award for the lowest relative energy consumption at Rabobank Group in 2009. In addition, Rabobank Nederland and all local Rabobanks received energy certificates displaying the source of the energy they consumed. In 2010, 96% of the electricity consumed by Rabobank Group in the Netherlands came from wind energy, while 46% of the gas consumed was green gas.

<sup>14</sup> The data on CO<sub>2</sub> emissions for 2009 have been restated based on the conversion factors for 2010.

## Sustainable mobility

Rabobank promotes sustainable mobility. The 'Unplugged' concept encourages employees to choose the workplace that is most appropriate for them, which could be their office, their home, or another location. This enables employees to avoid 'pointless' travel. In accordance with its sustainability policy, Rabobank encourages the use of public transport. Season tickets for commuters are reimbursed in full, and drivers of lease cars are provided with an NS Business Card so that they can also travel by train.

In order to minimise emissions from lease cars, Rabobank Nederland and a number of local Rabobanks have decided to adopt a new lease car policy. Under this policy, employees who qualify for a lease car must choose a fuel-efficient lease car with low carbon emissions. There was no separate target for reducing air travel in 2010<sup>15</sup>. Much of the carbon footprint is generated by air travel, and the existing target of cutting carbon emissions per FTE by 20% therefore includes emissions related to air travel.

## ICT

The uses to which computers can be put keeps on increasing, and this has led to an increased demand for ICT resources, as well as higher energy consumption, in our operations. The challenge is to make more efficient use of equipment in order to avoid increasing energy consumption wherever possible. One important step taken in this area in 2010 was the completion of the new data centre in Boxtel.

## Sustainable purchasing

In 2010, socially responsible purchasing efforts focused on updating and expanding sustainable purchasing criteria and sustainable chain management. The number of purchasing categories with CSR specifications was increased, and existing CSR specifications were adjusted. At year-end 2010, CSR specifications for purchasing categories that are relevant to CSR were available from Rabobank Group Purchasing. Furthermore, Rabobank was one of the founding partners of FIRA, a new, independent rating system that compares how suppliers perform in the area of sustainability. Thanks to FIRA, sustainable purchasing is becoming a great deal easier at Rabobank Nederland. In 2011, Rabobank Nederland will continue to devote attention to its dialogue with new and existing suppliers on the importance of sustainability.

## Paper consumption<sup>16</sup>

Rabobank Group aims to cut paper consumption by employees and reduce the amount of paperwork that clients have to deal with. In addition, the paper we use has to be FSC-certified, which guarantees that the raw materials from which it is made come from sustainably managed forests. In the Netherlands, A4 paper consumption amounted to 27.4 kilograms per FTE (2009: 33.7 kilograms). Paper consumption in the Netherlands in the form of bank statements, bills, giro transfer slips and envelopes totalled 3.3 million kilograms in 2010 (2009: 3.2 million kilograms).

## Organic catering

In 2010, organic products accounted for 64% of the range of catering products at Rabobank Nederland, up from 53% in 2009.

## Waste<sup>16</sup>

At Rabobank Group in the Netherlands (excluding local Rabobanks), residual waste corresponded to 49 kilograms per FTE in 2010 (2009: 45 kilograms), while paper and cardboard waste amounted to 59 kilograms per FTE (2009: 68 kilograms).

15 Given the impact of the financial crisis and the rate at which the economy is recovering, setting targets for cutting air travel would not be worthwhile.

16 Data relating to paper and waste are partially based on estimates.

# Employees

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Employees have a crucial role to play when it comes to achieving Rabobank Group's ambitions. There is a need for employees with expertise who focus on results and are enterprising and committed. These qualities call for continuing education, particularly at this juncture. HR policy therefore pays attention to training and ensuring optimum employability. During 2010 a start was made on updating the HR vision. This updated vision will provide employees and managers with a view of the direction that the bank will take in HR in the next few years. Sound labour relations provide the starting point for employer-employee interaction, while employees are the bearers of the internal culture.

## Vision of learning and development

Rabobank's aim is to offer its employees a flexible, rich learning environment with an extensive range of training opportunities. To achieve that aim, a Vision of Learning and Development was written in 2009. In 2010, this vision was brought extensively to the attention of various target groups across the organisation. The vision is based specifically on the bank's core values. Learning also takes place at the employee's own desk and together with colleagues. Given this, the current curriculum and systems are to be overhauled in the next few years, making it easier for employees and managers to keep track of the training opportunities available at the bank. Training materials are supplied in digital form to an increasing extent (this is done partly with a view to enhancing sustainability) and we are experimenting with other forms of virtual learning and e-coaching (remote coaching using digital tools).

## Management and talent development

One of the four preconditions for achieving Rabobank's ambitions, as set out in the Strategic Framework, is talent development. The Management and Talent Development (MTD) unit started to introduce this programme in early 2007. Talent programmes exist for various levels of employees, ranging from middle management to executive staff, and the focus of these programmes has now been expanded to include lateral career development as well as opportunities for promotion.

During 2010 a start was made on the revised management curriculum. Programmes are offered that tie in with day-to-day activities and make use of new tools for learning, such as learning portals, in order to provide a proper framework for management development. Rabobank's Core Profile serves as a guide for all training courses and HR tools.

There were a number of internal appointments at Rabo Real Estate Group in 2010, which were in part the result of efforts in recent years to assess potential at the group entity. The assessments of potential and succession-related issues focused on the management teams and divisions of Rabo Real Estate Group.

## Expert employees

The legislature lays down strict requirements concerning the expertise of bank employees. Following a focus on continuing education in order to achieve the required standards of expertise in 2009, the focus in 2010 was on quality. The bank believes that having competent employees means more than obtaining the certification required by law. The ultimate indication of an employee's expertise is not a certificate but the ability to provide expert advice to clients.



Within the possibilities permitted by legislation and regulations, the option of revising the policy on expertise is being considered, as part of which the ability to demonstrate expertise other than by passing a traditional test is being investigated specifically. This is in keeping with the move within society to value competencies acquired elsewhere.

### The local Rabobank in 2010

2010 saw a variety of developments in the market owing to disappointing growth in the mortgage market combined with major efforts in the area of customer care. In the corporate market some sectors are still experiencing great difficulties while other sectors seem to have bottomed out. A more rigorous attitude to risk and the wish to increase or maintain market shares provide employees with challenges in their work. Employees receive support in the form of training and education, and attend workshops to acquire new skills and learn to deal with the great pressure of work that all the changes entail. One such workshop, 'Banking in turbulent times', was developed by the Occupational Health and Safety Service.

The major challenge for local Rabobanks is to provide a better service to clients at a substantially lower cost. For example, many banks have set up retail and corporate counters, making significant progress towards achieving the aim of providing clients with services through the channel of their choice. Although there are a number of programmes to help employees with this major move, it should also be recognised that there is a limit to the amount of change that employees are able to handle.

### The New World of Work

Rabobank has been developing a new style of working based on Rabo Unplugged since 2005. Employees decide for themselves where, when and how they can achieve the best results. The new style of working is based on six principles: personal responsibility, entrepreneurship, fewer rules, teamwork, activity-related work, and flexible working arrangements. It gives employees more scope to make their own decisions so that they can make better use of their talents, the organisation can become more flexible, and services and working methods can be better geared to the needs of clients. Following the new style of working for several years has led to visible results in the form of a significant fall in paper consumption, an increase in mobile working, and more particularly in reports of employees abandoning fixed patterns, experiencing greater control over their work/life balance and approaching clients in a different way. A new balance is being sought with regard to several matters, such as social contact within departments, new forms of interaction that are appropriate when e-mails are sent and replies are expected, and the temptation to keep on working now that employees are always able to work wherever they are.

Interest in The New World of Work is growing within society. In November 2010, a 'New World of Work' week (an initiative of Stichting Natuur en Milieu, the Netherlands Society for Nature and Environment) was organised in the Netherlands. Numerous organisations are exploring possible new ways of working, and each year Rabobank Nederland gives some 200 tours of its offices. De Lage Landen and Athlon Car Lease are introducing new working concepts, and increasing numbers of local Rabobanks are switching to the new ways of working.

### Diversity in the workplace

Rabobank Group wants to promote diversity in its workforce. Diversity encourages enterprise. Several studies have shown that teams made up of people from varied backgrounds enhance performance and boost creativity. In 2010, Rabobank continued to position itself assertively as an attractive employer for all target groups by attending networking events and career fairs, and by carrying out other activities aimed at encouraging new people from different backgrounds to join us. Rabobank also supports multicultural networks, such as Tannet ([www.tannet.nl](http://www.tannet.nl)), and similar networks for students and professionals. Targets regarding the diversity of participants have been set for the different entry programmes, such as the programme for corporate management trainees. In 2010, Rabo Real Estate Group made arrangements to cooperate with employment agencies in the deployment of young people with disabilities who receive benefits under the Dutch Individual Insurance (Young Disabled Persons) Act.

## Women at the top

Encouraging more women to reach senior ranks remains an important issue. There is one woman on the Executive Board, and the Supervisory Board has had two female members since 2009. The target for 2010 was for 15% of senior management to be women. Regrettably, this target was not reached. The proportion of women in senior management positions stood at 12% in 2010, which was slightly up on 2009 (11%). Specific attention is given to the proportion of female participants in the talent development programmes, such as the talent cooperative. As a result of this, 24% of the senior managers included in the talent pool in 2010 were women.

## A good employer

The popularity of working in the financial sector continued to decline in 2010. Despite this, Rabobank remained the top employer of choice in Intelligence Group's Barometer of Favourite Employers throughout the year. In 2010, Rabobank was once again the winner of the Internal Reputation Award presented by Incompany business magazine, gaining the highest scores for reliability, transparency, soundness, modesty and pleasantness. In the autumn of 2010, Rabobank conducted a marketing campaign to position itself as an employer, as part of which it sought a dialogue with potential employees based on the notion that more can be achieved by working together than by working alone. The revamped recruitment website [www.rabobank.jobs](http://www.rabobank.jobs) was also launched in 2010.

## A new collective bargaining agreement

Rabobank concluded a new collective bargaining agreement (CBA) in July 2010, which is valid for 15 months. Rabobank's starting point for the CBA negotiations was that the organisation needs to be able to achieve its ambitions and at the same time remain an attractive employer. Based on this, arrangements concerning employability, flexible working hours and age-related leave were made. To increase employability, it was agreed that the possibility of following a procedure for obtaining accreditation of prior learning would be continued, among other things. In addition, a clearer, simpler arrangement was introduced for cases where employees take a step backwards in order to increase their employability. It was agreed in the CBA that salaries would increase by 1.25% with effect from 1 August 2010 and that the personal budget would also be increased to compensate for matters such as the changes to leave arrangements. In 2010, De Lage Landen concluded its own CBA in which it agreed to a pay rise of 1% with effect from 1 April 2010, among other things.

Rabo Real Estate Group concluded a new CBA which came into effect on 1 April and is valid for one year. The theme of this CBA is ensuring a healthy future, which in essence means that Rabo Real Estate Group wants to be an organisation with healthy finances where working relations are sound. In connection with this, a number of tools were introduced to help employees remain permanently employable. These include a budget containing options that provide individual employees with the financial scope to make choices about their work/life balance during a particular stage of their career.

## Vision on remuneration

The credit crunch has led to a critical social and political debate on remuneration policy within the financial sector. As a consequence, a number of parties have issued guidelines and codes of conduct, which include the Dutch Banking Code and the guidelines issued by the Dutch Central Bank (DNB) and the Netherlands Authority for the Financial Markets (AFM). Regulators are now focusing more specifically on the remuneration policies of financial institutions, and this greater focus is expected to continue in future.

Rabobank has set out the principles of its remuneration policy in its group-wide 'Vision on Remuneration'. This vision sets out the context within which the remuneration policies of group entities are to be defined, using the organisation's cooperative identity and associated values as the point of reference.

## Employability

An organisation that changes as much as Rabobank needs to pay constant attention to the employability of its employees. The bank acts as a facilitator, creates conditions and invests, while employees are responsible for taking initiatives for ensuring they remain employable.

Employees and their managers agree on personal development plans (PDPs) on a regular basis. These plans set out agreements on development goals and activities, such as attending courses, going on work placements, participating in specific projects or obtaining accreditation for prior learning. Arrangements concerning such accreditation were continued in the new CBA (see above). Rabo Real Estate Group also made arrangements concerning accreditation for prior learning in its CBA.

A Virtual Career Portal was launched in 2010. The portal is an accessible, convenient tool that helps employees think about their careers. It therefore focuses on the issues of what employees want from their careers and what they are able to do. The website contains dozens of tests, and career questions can be submitted to an e-coach. Employees who want a detailed career assessment can choose, in consultation with their manager, to undergo a career check at a firm of career consultants. During 2010, over 250 employees of Rabobank Nederland took advantage of this opportunity. Several years ago, Rabobank Seniorship was introduced for employees aged 45 and over who have held the same position for some years. During 2010, 76 employees participated in this programme and had the chance to take a fresh look at their career path, with the aim of taking charge of the rest of their career.

During economic downturns, just like all businesses, Rabobank is forced to take a critical look at staffing levels in relation to levels of activity. Organisational changes are unavoidable and in some situations will lead to employees becoming redundant. When such situations arise, the Social Charter provides proper guidance, based on an individual approach aimed at finding the best possible solution for each employee.

In its CBA, Rabo Real Estate Group agreed to an employability arrangement, under which employees can transfer down to a position to ensure they remain employable in future. A study of employability was also launched at Rabo Real Estate Group in 2010.

### Absenteeism due to illness

At 3.8%, the rate of absenteeism in 2010 was fractionally higher than in 2009 (3.7%). Absenteeism is monitored and analysed by the Rabobank Group Occupational Health and Safety Service. We try to help incapacitated employees return to work on a full-time or part-time basis as soon as possible by providing them with support during their absence and as part of their re-integration. Employees and managers have given the level of support a score of 7.6.

### Healthy banking in turbulent times

The Rabobank Group Occupational Health and Safety Service continued to focus on promoting the health of our organisation in 2010. The policy is aimed at reducing absenteeism due to illness, ensuring healthy, safe working conditions, and promoting health. Current market conditions and budgetary measures are putting employees and managers under extra pressure, increasing the risk of stress-related illnesses. To combat this, the 'Healthy banking in turbulent times' action plan was launched. This plan consists of an awareness campaign, workshops for managers, and theme discussions in various consultation forums.

### Employee satisfaction

A total of 86% of employees of Rabobank Nederland and the local Rabobanks who took part in the periodic satisfaction survey in 2010 said that they were satisfied. Employees of Rabo Real Estate Group participated in an employee and integrity survey in 2010. The response rate was 80%, which is very high compared to the national average of 67%. Rabo Real Estate Group received a score of 7.7 for employee satisfaction. In 2010, De Lage Landen conducted a global engagement survey among its employees.

### Health at work

The new 'Unplugged' style of working means that mobile equipment is used by employees to an increasing extent. Not enough use is made of ergonomic tools, even though plenty are available. Complaints related to musculoskeletal disorders<sup>17</sup> are increasing as a result. For this reason, in 2010 the Health and Safety Service launched its 'Looking at work' campaign, which focuses on healthy mobile working.

<sup>17</sup> Musculoskeletal disorders (MSDs) typically affect the neck, shoulder and/or upper limbs.

De Lage Landen conducted a survey among its employees in the Netherlands that looked at risks and limitations resulting from working with computers. This survey, in which 57% of employees participated, revealed that De Lage Landen achieved better scores than the norm for healthy organisations when it came to ability to work, duties, the workplace and attitude to work. The scores for pressure of work and working hours were slightly lower than the norm.

### Pension funds

Pension provisions for employees of the local Rabobanks, Rabobank Nederland, De Lage Landen, Obvion, Orbay and the Rabo Real Estate Group are administered by the Rabobank pension fund. Robeco has its own pension fund. The coverage ratio at year-end 2010 is likely to be 119% (2009: 121.8%). This is slightly higher than the coverage ratio of 111% that had to be achieved by year-end 2010. Since the autumn of 2007, derivatives contracts have been used to provide a significant level of protection against falling prices. There was a slight rise in share prices and corporate bond prices (credits) in 2010, while long-term interest rates fell on balance. The value of the strategic hedge remained more or less constant. In comparison with many other pension funds, the Rabobank pension fund is in good shape.

### Employment Disputes Committee

The number of cases handled by the Employment Disputes Committee, which had been rising for years, finally stabilised in 2010, remaining unchanged at 238. Only a small number (4%) of the disputes involved requests for a binding decision from the Employment Disputes Committee. Of these eleven cases, seven eventually resulted in a decision. A total of 20% of disputes were handled by mediation, either in face-to-face meetings or over the telephone, and demand for mediation increased from 10% of cases in 2009 to 24% of cases in 2010. Advice was provided in the remaining 76% of disputes, allowing contact to be limited to contact between the disputes regulation adviser and the relevant employee. The disputes related primarily to insecurity about retaining a position, guaranteed work at Rabobank and the employee's performance. A total of five disputes were reported at De Lage Landen Nederland, one of which was admissible and subsequently handled. No disputes were reported at the other subsidiaries.

### Whistleblower regulation

Rabobank Nederland and the local Rabobanks have a Regulation on the Internal Reporting of Malpractice (whistleblower regulation). Under this regulation, an external confidential contact person has been appointed to whom employees can report malpractices. In 2010, seven cases were reported to the confidential contact person, which was three fewer than in 2009. Of these cases, four were passed on to the Whistleblower Regulation Confidential Committee. In one case, follow-up meetings resulted in a solution and no further measures were necessary. In the three other cases reported, it was decided, after the confidential contact person had consulted the employee, that the matter did not need to be dealt with formally by the Confidential Committee.

# Corporate governance

[www.rabobank.com/corporategovernance](http://www.rabobank.com/corporategovernance)

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Owing to its cooperative organisation, Rabobank's corporate governance is characterised by a unique system of checks and balances, and a high level of transparency. The members of the independent, cooperative local Rabobanks exercise influence at local level. As members of Rabobank Nederland, the local Rabobanks, for their part, play a key role in Rabobank's policy-making. A unique feature, for instance, is the Central Delegates Assembly, which meets four times a year and where the influence of the members, i.e. the local Rabobanks, is made to be heard in virtually all strategic decisions. Rabobank Group aims to be a driving and innovating force that contributes to the sustainable development of prosperity and well-being. One way for Rabobank to put this into practice is by distributing cooperative dividend to community projects. For more information see the chapter 'Commitment to society'.

In 2010, Rabobank Nederland tailored its governance structure to the Dutch Corporate Governance Code as amended by the Frijns Committee, the Banking Code that was adopted by the Dutch Banking Association in 2009, the Principles for Controlled Remuneration Policy issued by the Dutch Central Bank (DNB) and the Netherlands Authority for the Financial Markets (AFM), and the best practices propagated by NBA, the Netherlands Institute of Chartered Accountants.

## Dutch Corporate Governance Code

Rabobank Nederland has decided to pursue voluntary compliance with the Dutch Corporate Governance Code, although, as a cooperative, it is under no obligation to do so. Due in part to its cooperative structure, Rabobank Nederland does not comply with the Dutch Corporate Governance Code in a number of respects. For more information on this topic, please log on to [www.rabobank.com/corporategovernance](http://www.rabobank.com/corporategovernance).

## Banking Code

The Board of the Dutch Banking Association adopted the Banking Code for Dutch banks as a binding instrument on 9 September 2009 in response to a report entitled 'Restoring Trust' (Naar herstel van vertrouwen) published by the Advisory Committee on the Future of Banks. Rabobank Nederland modelled its governance structure on the Banking Code in 2010, after having made the necessary preparations in 2009. Rabobank Nederland departs from the Code in very few instances only, as justified according to the 'comply or explain' principle. For more detailed information, see the chapter 'Banking Code'.

## Rabobank Group Code of Conduct

Our core values and the Rabobank Group Code of Conduct have regularly been brought to our employees' attention over the past few years. Several practical tools were developed and offered in 2010 to allow our people to act in accordance with the Rabobank values and philosophy (ambition statement, Rabobank Group Code of Conduct and specific codes of ethics) and to help them recognise and, more importantly, discuss dilemmas with the aim of arriving at

responsible decisions. The core values and the Rabobank Group Code of Conduct were already embedded in HR instruments earlier. Our ongoing focus on the Rabobank Group Code of Conduct and on how to tackle dilemmas is also reflected in the moral and ethical declaration that was prepared in 2009 and was signed by the members of the Executive Board in 2010.

## Executive Board of Rabobank Nederland

The Executive Board of Rabobank Nederland is responsible for managing Rabobank Nederland and its affiliated entities. Rabobank Group is managed based on its strategic principles and, by extension, on the interrelationship between risk, return and capital. This includes responsibility for achieving the targets of Rabobank Group as a whole, for its strategic policy and associated risk profile, for its financial results, for the relevant corporate social responsibility aspects of the business, for synergies within Rabobank Group, for compliance with all relevant laws and regulations, for managing business risks, and for the financing of Rabobank Group. Subject to the risk appetite defined by the Supervisory Board, the Executive Board is responsible in particular for the balanced weighing of commercial interest and risk exposures. The Executive Board is accountable for all these aspects to the Supervisory Board, the Central Delegates Assembly and the General Meeting of Rabobank Nederland, which is formed by the members, i.e. the local Rabobanks.

### Regulatory oversight

Financial institutions are subject to the Dutch Financial Supervision Act, including any related subordinate legislation, and requirements imposed by regulators. The Dutch Central Bank (DNB) oversees Rabobank's solvency and stability, i.e. it exercises prudential supervision, while the Netherlands Authority for the Financial Markets (AFM) supervises orderly and transparent market processes, arm's length relationships between market players and customer due diligence, i.e. it exercises conduct-of-business supervision. These regulatory requirements obviously form the framework for the organisation and control of Rabobank Group's activities.

### Appointment and remuneration

Although the Supervisory Board appoints the members of the Executive Board for a four-year term of service, the executive directors have employment contracts of indefinite duration. Re-appointments are also for a term of four years. The Supervisory Board is also competent to suspend or remove executive directors. The Supervisory Board determines the remuneration of the executive directors and is accountable for its decisions in this regard to the Confidential Committee of the Central Delegates Assembly. On the recommendation of the Supervisory Board, the Central Delegates Assembly defines the principles underlying the executive compensation policy.

### Performance appraisal

The Supervisory Board periodically evaluates the performance of the Executive Board and follows up on the outcome. Every member of the Executive Board is thoroughly familiar with the financial sector in general and with banking in particular, of Rabobank's role in society, and of stakeholder interests. In addition, every executive director has the in-depth knowledge that is required to be able to understand the main aspects of Rabobank Nederland's overall policy and to independently form a balanced opinion of the associated risk exposures. The members of the Executive Board take part in a continuing education programme that was developed especially for them.

## Supervisory Board of Rabobank Nederland

### Supervision

The Supervisory Board supervises the policies pursued by the Executive Board and the general conduct of affairs at Rabobank Nederland and its affiliated entities. In this context, the Supervisory Board also monitors compliance with the law, the Articles of Association and other relevant rules and regulations. In practice, this means that the progress on group targets, as well as the strategy, the 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 its supervisory duties, the Supervisory Board places special focus on risk management.

### Remuneration policy and advisory input

The Supervisory Board also determines the remuneration of the members of the Executive Board, and has supervisory duties in respect of rewarding senior management and the principles underlying the general employee remuneration policy. In addition, the Supervisory Board provides advisory input to the Executive Board.

The Supervisory Board has five committees: the Audit, Compliance & Risk Committee, the Cooperative Affairs Committee, the Appointment Committee, the Remuneration Committee and the Appeals Committee. These committees help prepare the Supervisory Board for its decision-making and provide advisory input. In executing their duties, the supervisory directors are mindful of the interests of all stakeholders of Rabobank Nederland and its affiliated companies, taking account of any corporate social responsibility (CSR) issues that may be relevant to the different group entities.

### Approval

Key decisions by the Executive Board are subject to Supervisory Board approval. Such decisions would include decisions on the strategy that is to lead to targets being achieved and on the parameters of that strategy, e.g. in relation to financial risks and relevant CSR aspects, on the annual adoption of the policy plans and the budget, on operating and financial targets, and on strategic partnerships with third parties, and major investments and acquisitions.

### Appointments

The members of the Supervisory Board are appointed by the General Meeting of Rabobank Nederland, on the nomination of the Supervisory Board. In this process, the Executive Board, the Works Council of Rabobank Nederland and the General Meeting each have the right to recommend individuals for consideration by the Supervisory Board. One of the key considerations in nominating and appointing Supervisory Board members is the independence of the individual members. Even the slightest semblance of a conflict of interest should be avoided. The profile for the Supervisory Board sets standards for its size and composition, taking into account the nature of the business carried on by Rabobank Nederland and its activities, the expertise and backgrounds of the Supervisory Board members, and the diversity in the Supervisory Board. The profile for the Supervisory Board is drawn up in dialogue with the Confidential Committee of the Central Delegates Assembly and is adopted by the General Meeting. When nominating candidates for appointment or re-appointment, allowance is made - within the boundaries of the profile - for the Supervisory Board's ideal composition and the competencies represented on the Supervisory Board. A separate profile is written for each vacancy on the Supervisory Board.

The Confidential Committee of the Central Delegates Assembly sets the remuneration of the supervisory directors and also has a say in the Supervisory Board profile.

### Performance

The Supervisory Board, headed by its Chairman, evaluates its own performance as a collective body and that of the separate committees and supervisory directors on an ongoing basis. The members of the Supervisory Board have in-depth knowledge of Rabobank's role in society and of all of Rabobank's stakeholders. Initiatives are developed regularly to keep the supervisory directors informed of developments in different areas and to build their knowledge. The members of the Supervisory Board take part in a continuing education programme that was developed especially for them.

### Member influence

As a cooperative, Rabobank has members rather than shareholders as listed or unlisted companies do. The local cooperative Rabobanks are members of the Rabobank Nederland cooperative, which is why they play an important role in Rabobank Nederland's governance

structure. In that context, a key element is the open and transparent culture, with clear accountability for management and supervision, and their evaluation. The influence and control of the local Rabobanks are reflected in their representation in two bodies: the Central Delegates Assembly and the General Meeting. The local Rabobanks have voting rights at the General Meeting based on an apportionment key that is updated periodically by the Executive Board. They also have staggered representation on the Central Delegates Assembly.

## Central Delegates Assembly

### Structure

The local Rabobanks are organised geographically in twelve Regional Delegates Assemblies, each with a Board of six. Together, the Boards of the Regional Delegates Assemblies form the Central Delegates Assembly (CDA), which meets four times a year in the city of Utrecht. Prior to each CDA, the banks belonging to a particular Regional Delegates Assembly discuss the agenda items in their respective assemblies. The members of the local Rabobanks are thus also represented in the CDA via the delegation of their local executive and supervisory bodies to the Regional Delegates Assemblies, although the delegates are independent and not bound by instructions. Most of the Boards of the Regional Delegates Assemblies, and hence of the CDA, are made up of individuals elected by the local members, who are driven by their commitment to the Rabobank organisation.

### Duties and responsibilities of CDA

The CDA's powers include the adoption of rules that are binding on all local Rabobanks. The CDA also adopts Rabobank Group's strategic framework, which describes the principles underlying the Executive Board's policies, thereby steering Rabobank Group's course. In addition, the CDA approves the budget for the services that Rabobank Nederland provides for the local Rabobanks.

The delegates to the CDA have in-depth discussions, which are held not only as part of its specific duties and responsibilities, but also with the aim of encouraging commitment in the local Rabobanks and consensus between the local Rabobanks and Rabobank Nederland. Finally, the CDA advises the local Rabobanks on all agenda items for the General Meeting before this Meeting takes place.

The Executive Board gives a detailed account of its actions and policies in the CDA. Because of the special relationship between Rabobank Nederland and its members, the member turnout at CDAs is virtually one hundred percent all of the time.

In order to operate effectively, the CDA has appointed three committees from among its members, which are charged with specific duties. The Confidential Committee advises on appointments to the Supervisory Board, determines the remuneration of the supervisory directors, and reviews whether the Supervisory Board has properly applied the remuneration policy. The CDA's Coordinating Committee adopts the agenda for the Assembly and performs formality checks of the agenda items. The Emergency Affairs Committee represents the CDA in advising the Executive Board on urgent, price-sensitive and/or confidential issues, mainly involving major capital expenditures, acquisitions or disposals.

## 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 addresses important issues, such as 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. As the CDA advises on all agenda items for the General Meeting before the Meeting takes place, any such items have been discussed in detail at local, regional and central level beforehand. The member turnout at General Meetings is virtually one hundred percent all of the time as well.



## Relation between Rabobank Nederland and local Rabobanks

### Rabobank Nederland cooperative and its members

Rabobank Nederland was established to support the local Rabobanks' banking business; in this capacity, it acts as a bankers' bank. In addition, Rabobank Nederland oversees the local Rabobanks, partly on behalf of the Dutch regulators. Membership of Rabobank Nederland is open only to banks that have a cooperative structure and whose Articles of Association have been approved by Rabobank Nederland. The local Rabobanks also hold shares in the capital of Rabobank Nederland. The local Rabobanks, for their part, also have members, i.e. a number of their locally based clients. The local Rabobanks have strictly defined rights and obligations towards Rabobank Nederland and each other. These are reflected in the governance structure.

### Oversight of local Rabobanks

Where prudential supervision under the Dutch Financial Supervision Act is concerned, Rabobank Nederland oversees the local Rabobanks in accordance with its Articles of Association and by monitoring their control and the integrity of their business processes, outsourcing, solvency and liquidity. In addition, with respect to conduct-of-business supervision, the Dutch Ministry of Finance has designated Rabobank Nederland as a holder of a collective licence under the Dutch Financial Supervision Act. As a result, conduct-of-business supervision by the AFM is exercised through Rabobank Nederland.

### Cross-guarantee system within Rabobank Group

Rabobank Group is comprised of the independent local Rabobanks, Rabobank Nederland, their umbrella organisation, and its group companies. Through their mutual financial association, various legal entities within Rabobank Group make up a single organisation. 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 what is known as an internal cross-guarantee system, which stipulates that if a qualifying institution should not have enough 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

### Corporate governance at local Rabobanks

In mid-2010, the General Meeting of Rabobank Nederland decided to replace the different governance models that were optional for the local Rabobanks (Partnership Model and Executive Model) by a single new governance model: the Rabo Model. Every local Rabobank will amend its Articles of Association to be able to switch to this model in 2011. Similar to the former governance models, the Rabo Model also safeguards effective member influence and control, and governance of the local Rabobanks will be carried out not only adequately and professionally, but also in a way that befits their cooperative culture. The members of all local Rabobanks have important powers under the Articles of Association (e.g. via the Member Council), including the power to adopt the financial statements, amend the Articles of Association, appoint supervisory directors, and grant discharge to the executive and supervisory directors, who are accountable to the members for their management and supervision respectively. Apart from the members' powers under the Articles of Association, the Rabo Model further enhances the bank's external orientation, for instance by encouraging and facilitating special-interest groups. Rather than originating from a structure, these groups have their own themes, dynamics and pace. The advantage of these groups is that they are flexible in structure, so that members can exercise influence on a broad spectrum of issues appropriate to the local context, and tailor their input as much as possible.

### Management Team

A local Rabobank with the Rabo Model as its governance model has a multi-person Management Team made up of banking professionals, which has been appointed by the local Supervisory Committee subject to the approval of Rabobank Nederland. The Management Team, which is responsible for running the local Rabobank, is supervised by a local Supervisory Committee.

## Supervisory Committee

A local Rabobank with the Rabo Model as its governance model has a Supervisory Committee whose members are appointed by the Member Council on the recommendation of the Supervisory Committee. The Supervisory Committee supervises the Management Team's policies and the general conduct of business at the cooperative and its operations. The Supervisory Committee expresses its opinion on general policies and advises the Management Team. Key management decisions are subject to Supervisory Committee approval.

The growing size and complexity of local Rabobanks place high demands on the individual members of the Supervisory Committees. In practice, these Supervisory Committees are made up of individuals with varying experience, competencies and backgrounds. This not only enhances the quality of the checks and balances system within the local Rabobanks, but it also provides the right balance between professional bankers and professionals from other disciplines. To help the members of Supervisory Committees perform their duties, Rabobank Nederland offers a broad range of educational programmes to local Supervisory Committee members. Supervisory Committee members are remunerated for their duties.

## Member Council

Under the Rabo Model, every local Rabobank has a Member Council, which is meant to provide a firm and structural footing for member control and member influence. A Member Council is a delegation of all members elected by the members from their ranks. As such it is a cross-section of the members. A Member Council has between 30 and 50 members, and typically adopts the financial statements and appoints the members of the Supervisory Committee. In addition to exercising control as stipulated under the Articles of Association, the Member Council also acts as a discussion partner to the Management Team. Member 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 economic, social and cultural environment, including sustainability initiatives.

## General Meeting

Under the Rabo Model, the General Meeting of a local Rabobank decides on major issues that impact the continuity of the local Rabobank, e.g. decisions on dissolving the cooperative or terminating its membership of Rabobank Nederland.

## Employee participation at Rabobank Group

Rabobank attaches great value to consultations with the various employee representative bodies. Employee participation has been enabled at different levels within Rabobank Group. Issues concerning Rabobank Nederland's business are addressed by Rabobank Nederland's Works Council. Subsidiaries such as Robeco, De Lage Landen, Orbay and Rabo Real Estate Group each have their own Works Councils, which have consultative powers on matters concerning these companies. In addition, each local Rabobank has its own Works Council to discuss issues affecting that particular local Rabobank. The Group Works Council of Member Banks (GWC-MB) is a cooperative-type employee representative body that looks after the interests of the employees of the local Rabobanks at central level with regard to issues concerning all or most of the local Rabobanks. The GWC-MB is involved in policy and other developments in issues of a general, financial and economic, organisational or social nature. Any proposed decision that affects the majority of the local Rabobanks, as defined in the Dutch Works Councils Act, should be submitted for consent or consultation to the GWC-MB rather than to the Works Councils of the local Rabobanks. Rabobank Group also has an employee representative body at European level, i.e. the European Working Group (EWG), in which employees of Rabobank branches in EU Member States are represented. The EWG enters into a dialogue with the Executive Board about developments within Rabobank Group at least twice a year. This does not affect the role of the national employee representative bodies.

# Banking Code

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## 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 Advisory Committee on the Future of Banks took the lead in this debate by publishing a report entitled 'Restoring Trust' (Naar herstel van vertrouwen) on 1 April 2009. The banking industry held follow-up talks on this matter, in which Rabobank actively participated. These talks led to the publication of the Dutch Banking Code, which was adopted by the Dutch Banking Association on 9 September 2009 and came into effect on 1 January 2010. The Banking Code is enshrined in law.

The Banking Code forms part of a set of national, European and international laws and regulations, case law and codes, which is still being developed. Banks have to take this entire framework into account when applying the Banking Code.

The purpose of the Banking Code is to provide banks in the Netherlands with points of reference to be used for the organisation of their 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 proper steps in response to the financial crisis. The Banking Code is intended to help restore confidence in the financial sector.

Rabobank naturally endorses the Banking Code and believes it is important that the sector improves the organisation and operation of internal functions. Improvements are required in terms of both culture and structure. Rabobank values transparency, and while it weathered the financial crisis entirely on its own, without any state support, it believes that more information needs to be provided to the public.

Rabobank will apply the Banking Code in its entirety. This section looks at the context in which the provisions of the Banking Code are being applied, and briefly describes how the provisions are being implemented. The provisions of the Banking Code are implemented on the basis of the 'comply or explain' principle. Detailed information on each provision can be found on our website at [www.rabobank.com/annualreports](http://www.rabobank.com/annualreports).

## Scope Banking Code

### Local Rabobanks

A policy is in place at Rabobank Group to ensure the group-wide application of the Banking Code for all group entities established in the Netherlands, including the local Rabobanks. This policy covers, among other things, risk management, audits and remuneration. Given the governance structure of the consolidated Rabobank Group, in instances where the Banking Code refers to the Executive Board and the Supervisory Board this refers to the bodies of Rabobank Nederland, not the Management Teams and Supervisory Committees of the individual local Rabobanks. The Banking Code therefore does not apply by law to the local Rabobanks.

### Subsidiaries

At Rabobank Group, Robeco and Rabo Real Estate Group report 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, audits and remuneration, De Lage Landen complies in full with the relevant provisions of the Banking

Code. The composition and performance of the supervisory board of De Lage Landen reflects the fact that De Lage Landen is a wholly owned subsidiary of Rabobank Nederland and has been incorporated into the group-wide management structure referred to above.

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

The way in which Rabobank generally deals with the subject matter covered in the Banking Code is described below, after which consideration is given to the specific steps taken by Rabobank in relation to the Banking Code in 2009 and 2010.

### Focusing on the customer

The Rabobank Group Code of Conduct and Rabobank's ambition statement enshrine the principle of focusing on customers and treating them with due care. This principle is expressed in the products and services that Rabobank offers. Focusing on the interests of customers is nothing new for Rabobank. This objective has its roots in Rabobank's cooperative structure, in which clients can become members of the cooperative and influence the way in which the bank functions. Serving the interests of members, i.e. the bank's clients, was in fact the main guiding principle at the time Rabobank was founded, more than 110 years ago.

Rabobank has had a Product Approval Committee for some time. This committee checks the quality of products and assesses whether the information provided to customers is easy-to-understand, balanced and complete. Moreover, products and services must reflect the needs of customers. The existing product offering is periodically examined to determine whether it still fulfils current requirements.

The quality of services provided is reported on frequently in management reports and compliance reports. The employees of the local Rabobanks and Rabobank Nederland aim to provide top-quality, well-considered services. The performance targets agreed with these employees are balanced, and the performance management system used means that variable pay is relatively moderated. Focusing on the customer is a core competency that employees need, and this is reflected in the policy for hiring new employees in aspects such as communication with the labour market and the posting of vacancies. The induction programmes for new employees also pay plenty of attention to Rabobank's core values of respect, integrity, professionalism and sustainability.

Clearly, good processes and expert employees are important. Ensuring the interests of customers really are paramount also requires an appropriate business culture. Rabobank pays a great deal of attention to this matter, for example through its successful Customer Care programme, which ran from 2008 to 2010. The aim of this programme was to make management and employees aware of the Duty of Care policy framework, which was established in 2007. Following the completion of this programme, the embedding of this theme within the organisation has been monitored and supported by a coordination group.

Thanks to the culture and procedures described above, Rabobank invariably scores highly when it comes to customer satisfaction, as reflected in the outcomes of periodic internal and external surveys.

### Risk management

Another central theme of the Banking Code is risk management. Rabobank Group's conservative risk profile stems from the sound objectives of stability and solidity that Rabobank has pursued for many years. Moreover, Rabobank was also found to have controlled risks effectively during the recent period of economic and financial turmoil, and it is considered to set a good example for the sector. A separate section on risk management can be found elsewhere in this annual report.

### Governance

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. Furthermore, every year the Supervisory Board evaluates its own performance and that of its individual members. Further information on the activities of the Supervisory Board in 2010 can be found in the report of the Supervisory Board contained elsewhere in this Annual Report.

## Audit

The Executive Board has audits carried out by Rabobank Group Audit, which holds an independent position within the organisation. Every year, this department carries out audit procedures, based on an extensive risk assessment and an audit plan derived from this assessment, in order to check whether the internal control systems and risk management are in order. The director of the department reports directly to the Chairman of the Executive Board and has a direct reporting line to the Audit, Compliance & Risk Committee of the Supervisory Board. Tripartite talks between the independent external auditor, Internal Audit and regulators from the Dutch Central Bank (DNB) 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 from the Executive Board to the effect that the internal risk management and control systems are set up in such a way that financial reporting can be considered to be reliable.

## Remuneration policy

Rabobank pursues a prudent, restrained and sustainable remuneration policy, which is in line with Rabobank's strategy, chosen risk profile, cooperative identity and core values. The remuneration policy is in keeping with a client-oriented approach and takes account of Rabobank's long-term interests, the international context of the markets in which Rabobank operates, and acceptance by society. The pay outcomes are balanced and the performance criteria do not encourage employees to take irresponsible risks.

## Implementation Banking Code in 2010

Rabobank already complied in material respects with most of the provisions of the Banking Code, and it worked hard to implement the Banking Code in its entirety during 2010.

### Governance: Executive Board

The main subjects covered in this section of the Banking Code include the duty of care ('Focusing on the customer') and the moral and ethical declaration.

### Focusing on the customer

In view of the provision of the Banking Code regarding the focus on clients, Rabobank simplified and reduced its range of savings products during 2010. As part of this, it promoted bank savings products for mortgages and for building up pensions. These products are more transparent and more inexpensive for clients. It also simplified the payment platforms. In addition, the number of insurers with which Rabobank does business was reduced in a move to ensure top-quality advice. The guidelines on the application of performance management were amended in 2010. Focusing on the customer is now explicitly included as a key guiding principle. Responsibility for ensuring clients are treated with due care was also included in the job profiles of directors of local Rabobanks. In this way, serving the interests of the client has been enshrined in the agreements made with employees.

### Moral and ethical declaration

The wording of the moral and ethical declaration was drafted in 2009. The declaration, which was signed by all of Rabobank's Executive Board in 2010, is available online. The principles set out in the moral and ethical declaration are continuously brought to the attention of Rabobank Group's employees, with emphasis being placed on the Rabobank Group Code of Conduct and dealing with dilemmas. The Code of Conduct encompasses all of the principles contained in the moral and ethical declaration. The document pack given to new employees on joining Rabobank refers to the Code of Conduct, and a section of the employment contract is devoted to the Code of Conduct. Further information on the Code of Conduct can be found in the corporate governance section of this Annual Report.

Notwithstanding the moral and ethical declaration and the Code of Conduct, Rabobank must demonstrate in its day-to-day operations that it acts in accordance with the spirit of these principles. This is therefore monitored on an ongoing basis.

## Governance: Supervisory Board

### Continuing education

To supplement the existing focus on refresher courses for members of the Supervisory Board, a new continuing education programme specifically designed for this group was launched in 2010. A training programme was set up for this purpose in close consultation with the Supervisory Board. The selection of topics takes account of current developments and the expertise required within the Supervisory Board. Sessions on ICT policy and developments, developments in the food and agri sector, and the future of the international financial sector were held in 2010. Knowledge sessions on developments related to Basel III and risk management are planned for 2011. As part of the continuing education programme, the members of the Supervisory Board pay working visits. In the spring of 2011, the Supervisory Board will pay a working visit to a number of Rabobank offices in the United States to review operations and the current state of affairs.

### Individual job profiles

Starting in 2010, individual job profiles will be drawn up for all vacancies on the Supervisory Board, including openings for the position of Chairman. The profiles describe the integrity, expertise and availability required of the relevant Supervisory Board member. In addition, the rules of procedure for the Supervisory Board and its committees were brought into line with the Banking Code in 2010.

The Supervisory Board decided to broaden the responsibilities of the existing Audit & Compliance Committee, which has had the effect of further increasing the committee's focus on risk-related matters. In line with this, in 2010 the name of the committee was changed to the Audit, Compliance & Risk Committee. The committee also changed its procedures so that all risk-related matters are dealt with in a more systematic manner. As a consequence, both the Audit, Compliance & Risk Committee and the Supervisory Board will pay more attention to risk management in future. The performance of the Supervisory Board and all of its committees is reviewed once a year.

### Risk management

In 2010, several procedures were tightened up and a number of internal rules on risk management were amended in order to ensure full compliance with the risk management provisions of the Banking Code.

The Executive Board of Rabobank Nederland receives periodic reports, enabling members to keep a close eye on developments related to risk. These reports cover the group-wide risk profile and pay attention to credit risk, market risk, interest rate risk, operational risk and the funding profile. This ensures that the Executive Board is made aware in good time of the material risks incurred by the bank. In 2010, Rabobank's policy on operational risk management was revised and improved. This policy covers both the management of frequently occurring incidents that result in small losses per incident (high-frequency/low-impact incidents) and the prevention of unspecified or rarely occurring incidents that have a major impact and lead to substantial losses per incident (low-frequency/high-impact incidents).

### Risk appetite

Risk management takes place within the boundaries of risk that Rabobank is prepared to accept. Rabobank has formulated a specific policy on this risk appetite at group level. In 2010, a risk appetite document was drawn up that complies with the Banking Code. This document was adopted by the Executive Board and approved by the Supervisory Board. Rabobank's strategy was taken as a starting point when preparing the risk appetite document. Rabobank's risk appetite, which is linked to its core values is submitted to the Supervisory Board for approval once a year and also whenever any material changes occur. No such changes occurred during 2010.

### Product approval

The product approval process was tightened up in 2010 to comply with the Banking Code. This involved establishing a product approval process at group level, replacing the old system under which the various group entities handled such matters independently. At the end of

2010, a group framework came into effect that describes Rabobank Group's policy on the product approval process and focuses on safeguarding product quality. Standards also apply to product approval procedures and their organisation, as well as to individual product testing by group entities. In this way, Rabobank is taking responsibility for its relationship with its customers and for the level of quality it offers. Rabobank Group Audit checks whether the product approval has been designed properly, is present and is working effectively.

### Audit

Rabobank complies with all of the provisions of the Banking Code relating to audits.

### Remuneration

The 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 on the avoidance of unwanted incentives with regard to risk. Rabobank endorses these guiding principles. In 2010, a number of procedures were revised and tightened to improve safeguards in this area further.

Taking its cooperative identity as a starting point, Rabobank drew up a Vision on Remuneration to ensure that the guiding principles that have been adopted are meticulously applied by group entities. The Vision on Remuneration therefore also covers the remuneration of the directors of local Rabobanks. In addition, existing regulations and procedures were tightened where necessary.

Each year, the remuneration paid to the members of Rabobank Nederland's Executive Board is subject to an independent benchmark. Previous benchmarks, including the one performed in January 2010, showed that their remuneration is below the median of the peer group. The executive directors' variable pay is relatively low, both compared to their fixed income and to the market. The variable pay is based on a set of quantitative and qualitative targets, and includes both long-term and short-term elements, each of which is up to 15% of their fixed salary.

Parts of the rules of procedure for the Supervisory Board and the Remuneration Committee (which is responsible for drawing up remuneration policy) were amended in early 2010 to ensure compliance with the Banking Code. This means, among other things, that the Supervisory Board approves the remuneration policy for senior management and monitors its implementation by the Executive Board.

Material retention, exit and welcome packages are not permitted in principle. Any exceptions are subject to Executive Board approval. The Supervisory Board discusses the highest earners based on a group-wide remuneration report.

Members of the Executive Board appointed prior to 1 January 2010 receive severance pay based on the subdistrict court formula in the event of their removal. This entitlement to severance pay was laid down in agreements made previously with the relevant members of the Executive Board and therefore constitutes a departure from the relevant provision of the Banking Code. The Banking Code principle on severance pay will be complied with in the case of new members of the Executive Board.

### Overview provisions Banking Code

The guiding principles of the Banking Code are self-evident to Rabobank. It welcomes the Banking Code and put a great deal of energy into its implementation in 2010. Further information concerning the particulars of each provision can be found in a separate appendix to this Annual Report that is available on [www.rabobank.com/annualreports](http://www.rabobank.com/annualreports).

# Management

## Members of the Executive Board of Rabobank Nederland

Members of the Executive Board and their areas of responsibility

**Piet Moerland (P.W.)**

*Chairman*

- Group Audit
- Compliance
- Legal and Tax
- Knowledge and Economic Research
- Communications
- Corporate Social Responsibility
- Company Secretariat



**Bert Bruggink (A.)**

*CFO*

- Group Control
- Group Risk Management
- Credit Risk Management
- Central Treasury
- Group Treasury
- Special Asset Management



**Piet van Schijndel (P.J.A.)**

- Private Clients
- Private Banking
- Group ICT



**Sipko Schat (S.N.)**

- Rabobank International Wholesale
- Corporate Clients
- Wholesale Banking
- Corporate Finance
- Trade & Commodity Finance
- Global Financial Markets
- Private Equity
- Real Estate



**Berry Marttin (B.J.)**

- Rabobank International Rural and Retail Banking
- Regional International Operations
- International Risk Management
- Rabo Development



**Gerlinde Silvis (A.G.)**

- Corporates
- Operations Management
- Member Banks Support
- Cooperatives and Management of Local Rabobanks
- Human Resources Rabobank



**Company Secretary**

Rens Dinkhuijsen (L.A.M.)



# Supervisory Board of Rabobank Nederland

## Members of the Supervisory Board

18 Year of first appointment to the Board of Supervisors of Rabobank Nederland. In the process of changing the corporate governance structure of Rabobank Nederland in 2002, the Board of Supervisors was renamed Supervisory Board.

19 Mr Overmars, Mr Eisma, Mr Scheffer and Mr Veenman sat on the Supervisory Board until 17 June 2010. They retired as of that date. Mr Dekker and Mr Van de Merwe have been members of the Supervisory Board since 17 June 2010, and Mr Graafsma joined the Supervisory Board on 29 September 2010.

20 Mr Minderhoud, Mr Veerman and Mr Walravens are scheduled to retire in 2011. They will be eligible for re-appointment.

Name	Position	First appointed in	Term of service scheduled to expire in
Lense Koopmans (L.)	Chairman	2002	2013
Antoon Vermeer (A.J.A.M.)	Deputy Chairman	2002	2014
Martin Tielen (M.J.M.)	Secretary	2002	2013
Irene Asscher-Vonk (I.P.)	Deputy Secretary	2009	2013
Bernard Bijvoet (B.)	member	2002	2012
Tom de Bruijn (A.)	member	2009	2013
Wout Dekker (W.)	member	2010 <sup>19</sup>	2012
Sjoerd Eisma (S.E.)	member	2002 (1998 <sup>18</sup> )	2010 <sup>19</sup>
Leo Graafsma (S.L.J.)	member	2010 <sup>19</sup>	2014
Louise Fresco (L.O.)	member	2006	2014
Erik van de Merwe (E.A.J.)	member	2010 <sup>19</sup>	2012
Rinus Minderhoud (M.)	member	2002	2011 <sup>20</sup>
Paul Overmars (P.F.M.)	member	2005	2010 <sup>19</sup>
Herman Scheffer (H.C.)	member	2002 (1998 <sup>18</sup> )	2010 <sup>19</sup>
Aad Veenman (A.W.)	member	2002 (1998 <sup>18</sup> )	2010 <sup>19</sup>
Cees Veerman (C.P.)	member	2007	2011 <sup>20</sup>
Arnold Walravens (A.H.C.M.)	member	2004	2011 <sup>20</sup>

The members of the committees of the Supervisory Board are listed in the Report of the Supervisory Board of Rabobank Nederland.

## Directors and CEOs

### Directors of Rabobank Nederland

Arjo Blok (A.J.)	Rabobank International
Jan Bos (J.J.)	Group Control
Ralf Dekker (R.J.)	Rabobank International
Paul Dirken (P.H.J.M.)	Corporates
Pieter Emmen (P.C.A.M.)	Group Risk Management
Ab Gillhaus (A.J.)	Credit Risk Management
Rob Kemna (R.A.C.)	Operations Management
Lex Kloosterman (A.M.)	Rabobank International
Harold Knebel (H.A.J.M.)	Rabo Cycling Team
Jos van Lange (J.H.P.M.)	Rabo Real Estate Group
Hans van der Linden (J.A.M.)	Rabo Real Estate Group
Bert Mertens (H.H.J.)	Cooperatives and Management of Local Banks
Pim Mol (P.W.)	Private Banking
Jan van Nieuwenhuizen (J.L.)	Rabobank International
Rik Op den Brouw (H.)	Private Clients
Sander Pruijs (J.A.)	Rabobank International
Harry de Roo (J.H.)	Rabobank International
René Steenvoorden (R.A.)	Group ICT
Rinus van der Struis (M.)	Group Audit
Jan van Veenendaal (J.)	Legal and Tax

## Management Teams at Rabobank International

### Wholesale Management Team

Sipko Schat (S.N.), *Chairman*

Lex Kloosterman (A.M.)

Jan van Nieuwenhuizen (J.L.)

Arjo Blok (A.J.)

Fred Weenig (F.)

Harry de Roo (J.H.)

Ralf Dekker (R.J.)

### Rural and Retail Banking Management Team

Berry Marttin (B.J.), *Chairman*

Sander Pruijs (J.A.)

Harry de Roo (J.H.)

Ralf Dekker (R.J.)

### CEOs of key subsidiaries

Jacek Bartkiewicz (J.)

Bank BGZ

Roy van Diem (R.)

Obvion

Hans van der Linden (J.A.M.)

Rabo Real Estate Group

Roderick Munsters (R.M.S.M.)

Robeco

Gerbert Mos (G.A.)

Schretlen & Co

Sander Pruijs (J.A.)

ACCBank

Ronald Slaats (R.A.M.)

De Lage Landen

Joachim Straehle (J.H.)

Sarasin

# Report of the Supervisory Board of Rabobank Nederland

[www.rabobank.com/management](http://www.rabobank.com/management)

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In 2010, Rabobank managed to bring about a substantial increase in its net profit compared to 2009 and bolster its already robust financial position despite global economic turmoil. We again had Rabobank's unique governance structure, with its tried and tested cooperative checks and balances system, to thank for this.

## Proposal to the General Meeting

In accordance with the relevant provisions of the Articles of Association of Rabobank Nederland, the Supervisory Board has reviewed the annual report and the financial statements for 2010 of Rabobank Nederland and of Rabobank Group, and any annexed information. The Supervisory Board discussed these documents with the Executive Board, the internal auditors and Ernst & Young Accountants LLP, the independent external auditors, and took note of the independent auditor's report that Ernst & Young Accountants LLP issued on the financial statements 2010. The Supervisory Board proposes that the General Meeting of Rabobank Nederland adopt the financial statements 2010.

## Corporate governance

The three pillars of governance at Rabobank Nederland are decisive management, effective member influence, and strong and independent supervision. The chapter 'Corporate governance' describes the corporate governance structure at Rabobank Nederland and the bank's compliance with the Dutch Corporate Governance Code. An extensive account of how the provisions of the Dutch Banking Code have been and are being applied is given in the chapter 'Banking Code'. This manifests Rabobank's compliance with these provisions for good governance in the financial sector. The Supervisory Board agrees with what has been described in these two chapters.

## Supervisory Board of Rabobank Nederland

The members of the Supervisory Board have been listed in the chapter 'Management' above. The profile for the Supervisory Board has been posted on the corporate website. The chapter 'Corporate governance' describes the duties and responsibilities of the Supervisory Board and its role in Rabobank Nederland's governance structure. In performing its duties, the Supervisory Board focuses on the interests of Rabobank Nederland and its affiliated entities, also making allowance for the interests of Rabobank Nederland's stakeholders and CSR aspects that are relevant to Rabobank.

The practices and rules of procedures for the Supervisory Board, the Audit, Compliance & Risk Committee, the Appointment Committee and the Remuneration Committee were scrutinized in 2010 under the influence of the Banking Code, among other regulations. In addition to existing focus on refresher courses for supervisory directors, a new continuing education programme was launched targeting them in particular. A separate profile is written for each vacancy on the Supervisory Board; in 2010, new profiles were drawn up as part of the procedure for new appointments. It was decided to assign full responsibility for helping

the Supervisory Board prepare for its decision-making on risk management to the Audit & Compliance Committee, and to change this committee's name to Audit, Compliance & Risk Committee. The Supervisory Board preferred not to form a separate committee for risk management because of the many overlaps with the duties and responsibilities of the existing committee. In addition, the Supervisory Board's duties with respect to overseeing the remuneration policy for senior management were broadened as stipulated by the provisions of the Banking Code.

#### **Remuneration of the Supervisory Board**

In 2010, the remuneration of the members and former members of the Supervisory Board of Rabobank Nederland amounted to EUR 1.5 (1.6) million in total.

#### **Appointments and re-appointments**

Appointments and re-appointments to the Supervisory Board are made by the General Meeting on the recommendation of the Supervisory Board and subject to consultation with the Central Delegates Assembly. Ms Fresco and Mr Vermeer were due for retirement by rotation in 2010; both were eligible for re-appointment. Mr Eisma, Mr Scheffer and Mr Veenman were also scheduled to retire; they were not eligible for re-appointment on account of having served the maximum number of terms. Mr Overmars decided to retire from the Supervisory Board because of his appointment as Chairman of the Board of Vereniging Achmea. The Supervisory Board thanks these four gentlemen for their valued input into the Supervisory Board over the past years. Three separate profiles were drawn up for the vacancies left by them. These profiles were based on the profile of the Supervisory Board as well as on the Supervisory Board's composition, and its duties and responsibilities in the near and more distant future. On 17 June 2010, the General Meeting of Rabobank Nederland resolved to re-appoint Ms Fresco and Mr Vermeer to the Supervisory Board. The General Meeting appointed Mr W. Dekker and Mr E.A.J. van de Merwe on that same date. Mr S.L.J. Graafsma was appointed as a supervisory director on 29 September 2010. The Supervisory Board still had one vacancy at year-end 2010. The aim is to fill this vacancy shortly.

#### **The Supervisory Board are keeping track of developments**

The Chairman of the Supervisory Board is in close contact with the Chairman of the Executive Board and consults monthly with the internal auditor and the Group Compliance Officer. In addition, the Chairman of the Supervisory Board, the Chairman of the Audit, Compliance & Risk Committee, the independent external auditor and the internal auditor meet at least four times a year. During the year under review, the members of the Supervisory Board regularly attended, as observers, meetings of Rabobank Nederland's Works Council and of the Group Works Council of Member Banks, as well as of the Regional and Central Delegates Assemblies. By doing so, the Supervisory Board stays in touch with developments at the key stakeholders of Rabobank Nederland, i.e. the local Rabobanks. As part of their continuing education programme, the supervisory directors learnt about developments in ICT, focusing on its relevance to Rabobank's operations, and about increasing regulatory requirements. In addition, the supervisory directors followed a workshop taught by an external expert about global food patterns and a workshop about strategic developments in the international financial sector; they also participated in a session on the impact of new rules and regulations on Rabobank Group.

#### **Meeting frequency Supervisory Board**

The Supervisory Board met nine times in 2010. Not one member was repeatedly absent from these meetings. The Supervisory Board has five committees. The Audit, Compliance & Risk Committee met eleven times in 2010, the Cooperative Affairs Committee met five times, the Appointment Committee met five times and Remuneration Committee met four times. There was no need for the Appeals Committee to meet in 2010.

## Members

M. Minderhoud, *Chairman*

L. Koopmans

B. Bijvoet

S.L.J. Graafsma

*(from 29 September 2010)*

E.A.J. van de Merwe

*(from 17 June 2010)*

A.W. Veenman *(to 17 June 2010)*

C.P. Veerman

A.J.A.M. Vermeer

## Supervisory Board committees

### Audit, Compliance & Risk Committee

The Audit, Compliance & Risk Committee (ACRC) helps the Supervisory Board prepare for its decision-making in relation to its supervision of the Executive Board's actions involving financial affairs, compliance-related issues, risk management and ICT.

In the year under review, the ACRC helped the Supervisory Board prepare for its decision-making on the Annual Report 2009, the Interim Report 2010 and the budget for 2011.

Particular focus was placed on issues such as developments in earnings at Rabobank Group, solvency and liquidity developments at Rabobank Group, accounting for impairments, the effectiveness of the internal risk management and control systems, concentration risk and systemic risk, country risk, developments in credit rating, debit and credit interest rate policy, and funding options. The ACRC devoted special attention to the requirements for capital adequacy and liquidity announced by the Basel Committee (Basel III) and their ramifications for Rabobank Group's strategy. The ACRC educated itself extensively about developments in financial markets and in the euro zone, their financial and economic impact, and the economic outlook. The Committee also thoroughly addressed the lessons learned from the financial crisis, which, at Rabobank, resulted in such measures as tightening governance in crisis situations and strengthening the risk management cycle and the stress-testing options. The ACRC also considered a number of developments connected with the situation on the financial markets, such as changes in the financial sector and oversight of this sector. Other issues discussed by the ACRC included the monthly figures and quarterly reports on financial developments at Rabobank Group, the management letter for 2009, the budget for 2011, the funding mandate for 2010 and 2011, capital adequacy at Rabobank International and at subsidiaries, and the reports on the quality of financial reporting controls, the Long-term Policy Agenda for Local Banks 2011-2012, as well as the Annual Plan and the Rabobank Nederland Budget for Supporting Member Banks 2011.

The ACRC helped prepare the Supervisory Board in the process of approving the Risk Appetite Document, the Risk Charter, the Lending Policy Framework and the Product Approval Process. In addition, the ACRC discussed the interim report of Group Compliance and the Rabobank Group Integrity and Safety Report. As part of the duty of care towards retail clients, particular focus was placed on the further transposition of the principles of the Customer Care programme into formula, product, risk and HR policy. The ACRC also considered the compliance function at local Rabobanks, subsidiaries and offices abroad, the prevention of external fraud as part of Customer Due Diligence, and management of compliance risks. The ACRC discusses the management information about credit risk on a quarterly basis. The ACRC talked about the outcome of the AFM mortgage survey, the annual risk assessment of the Dutch Central Bank (DNB) of strategic, credit, operational and compliance risk, as well as the outcome of the stress tests of European banks conducted by the CEBS.

The ACRC approved the Audit Plan Rabobank Group 2011 and discussed the quarterly reports by Rabobank Group Audit, and met with the independent external auditor and Group Audit as part of the annual procedure.

In accordance with its duties and responsibilities, the ACRC addressed the status of ICT at Rabobank Group, developments in ICT and the increasing relevance of the quality of Rabobank's ICT landscape to its strategic ambitions and excellence in client services. The ACRC also considered the lessons learned from a not so successful IT project.

The ACRC was briefed on internal securitisation transactions and the policy for foreign currency funding, as well as about the impact of accounting for pensions and a possible change in accounting for leases on Rabobank Group.

The Chairman of the Supervisory Board and the Chairman of the ACRC on the one hand and DNB on the other were in close contact about how the Supervisory Board interprets its supervisory function. In a meeting about risk management with the Senior Supervisors Group (a group of international governmental supervisors who represent central banks) in the autumn of 2010, the Chairman of the Supervisory Board and the Chairman of the ACRC explained how Rabobank weathered the financial crisis.

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## Members

A.J.A.M. Vermeer, *Chairman*  
I.P. Asscher-Vonk  
A. de Bruijn  
W. Dekker (*from 17 June 2010*)  
S.E. Eisma (*to 17 June 2010*)  
L.O. Fresco  
P.F.M. Overmars (*to 17 June 2010*)  
H.C. Scheffer (*to 17 June 2010*)  
L. Koopmans  
M.J.M. Tielen  
A.H.C.M. Walravens

## Cooperative Affairs Committee

The Cooperative Affairs Committee (CAC) helps the Supervisory Board prepare for its decision-making in relation to its supervision of the Executive Board's policy plans for the cooperative structure of the local Rabobanks and Rabobank Nederland. This Committee also makes preparations for the Supervisory Board's decision-making on corporate social responsibility (CSR). In 2010, the issues discussed by the CAC included the switch-over by the local Rabobanks to the Rabo Model for governance. The CAC also considered progress on the implementation of the 'Rabobank 2010' programme for excellence in client services by the local Rabobanks, the required support of that programme by Rabobank Nederland, and the tailoring of Rabobank Nederland's own organisation to that programme via the 'Rabobank in the Netherlands in 2011' project. With respect to client services, the CAC considered the new client service model for insurance. The CAC talked about the final report of the internal Committee for the Evaluation of Internal Financial Relations and considered the need for education among the members of the Supervisory Board of Rabobank Nederland and the Supervisory Committees of the local Rabobanks. The CAC also addressed the CSR section of the Annual Report 2009 and exchanged ideas with the Executive Board about the further implementation of CSR targets in the bank's operations. Furthermore, the CAC considered Rabobank International's rural and retail strategy, and the restructuring of Rabo Development. Together with the Executive Board, the CAC extensively explored Rabobank's focus on the food and agri sector, and considered ways in which Rabobank can put its expertise to the benefit of this sector.

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## Members

L. Koopmans, *Chairman*  
I.P. Asscher-Vonk  
W. Dekker (*from 17 June 2010*)  
L.O. Fresco  
H.C. Scheffer (*to 17 June 2010*)  
A.W. Veenman (*to 17 June 2010*)  
A.J.A.M. Vermeer  
A.H.C.M. Walravens

## Appointment Committee

The Appointment Committee helps the Supervisory Board prepare for its decision-making in relation to the composition of, and appointments and re-appointments to, the Supervisory Board and the Executive Board. The Committee also advises the Supervisory Board on senior management appointments at Rabobank and its affiliated entities, and addresses the full spectrum of management and talent issues. The Appointment Committee discussed appointments and re-appointments to the Supervisory Board. In addition, the Appointment Committee advised the Supervisory Board on the profile for the Executive Board, which has been changed to correspond with the provisions of the Banking Code.

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## Members

A.H.C.M. Walravens, *Chairman*  
I.P. Asscher-Vonk  
W. Dekker (*from 17 June 2010*)  
L.O. Fresco  
L. Koopmans  
H.C. Scheffer (*to 17 June 2010*)  
A.W. Veenman (*to 17 June 2010*)  
A.J.A.M. Vermeer

## Remuneration Committee

The Remuneration Committee helps the Supervisory Board prepare for its decision-making in relation to the remuneration of the members of the Executive Board and the remuneration policy for members of senior management. It also keeps close track of remuneration policies pursued in the external market and advises the Supervisory Board on how to apply the guidelines for remuneration policy in the banking sector. In 2010, operating within the framework of the remuneration policy established by the Central Delegates Assembly, and based on the evaluation of the performance of the Executive Board and its individual members, the Remuneration Committee extensively reviewed the remuneration proposals (including those for variable pay) for the individual members of the Executive Board. The Committee also studied the pay overviews for lower-echelon employees and other pay-related aspects that emerge from the Banking Code and from Rabobank's Vision on Remuneration.

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## Members

S.E. Eisma, *Chairman*  
(*to 17 June 2010*)  
M.J.M. Tielen, *Chairman*  
(*from 17 June 2010*)  
I.P. Asscher-Vonk  
S.L.J. Graafsma  
(*from 29 September 2010*)  
P.F.M. Overmars (*to 17 June 2010*)

## Appeals Committee

The Appeals Committee acts as an advisory appellate body in disputes between local Rabobanks or between one or more local Rabobanks and Rabobank Nederland. No disputes were submitted to the Appeals Committee in 2010.

## Activities of the Supervisory Board in 2010

In accordance with its formal duties and responsibilities, the Supervisory Board supervised the policies pursued by the Executive Board and the general conduct of affairs at Rabobank Nederland and its affiliated entities. In addition, it served as a sparring partner to the Executive Board. Regular topics for discussion and approval were the annual and the interim figures, operational and financial targets, strategy, corporate social responsibility, and the risks

associated with the business. Where risk was concerned, discussions centred on the outcome of the Executive Board's assessment of the design and effectiveness of the internal risk management and control systems, and any significant changes in those systems. Other issues that were considered included the effectiveness of the compliance function in place at Rabobank Group, compliance with laws and regulations, the relationship with the local Rabobanks, and ICT.

In the context of the Banking Code, the Supervisory Board - on the recommendation of the Audit, Compliance & Risk Committee - approved the Risk Appetite Document, the Risk Charter, the Lending Policy Framework and the Product Approval Process at group level.

Following up on the outcome of a study of balanced internal financial relations, which was completed in 2007, Rabobank Nederland increased its equity capital from EUR 4 billion to EUR 6 billion in 2010 by issuing shares to the local Rabobanks. This share issue does not affect group equity.

The Supervisory Board devoted a meeting to sponsorship policy, addressed the risk assessment by DNB and took note of the outcome of the CEBS stress test, the annual report of the Confidential Committee under the Regulation on the Internal Reporting of Malpractice and the report on credit facilities issued to individual executive directors or other senior officers.

In addition, the members of the Supervisory Board and the members of the Executive Board exchanged thoughts about the settlement of, and lessons learned from, a number of fraud cases that surfaced after Rabobank's acquisition of Bouwfonds (now operating under the name Rabo Real Estate Group), the progress on the OpMaatHypotheek file, and the fine that the Netherlands Authority for the Financial Markets (AFM) imposed in relation to mortgage advice.

## Areas of special attention for the Supervisory Board in 2010

### Financial statements 2009, interim report 2010 and budget for 2011

The Supervisory Board discussed at length the Annual Report 2009 of Rabobank Nederland and Rabobank Group, including the management report, the accompanying independent auditor's report, the financial statements and the proposed profit appropriation. The management letter, including the management response, was also talked about in detail in the presence of both the internal auditor and the independent external auditor. In addition, the Supervisory Board extensively reviewed the interim report 2010 of Rabobank Group. Furthermore, the Supervisory Board discussed the budget for 2011, approving it in outline, and approved the Long-term Policy Agenda for Local Banks 2011-2012, as well as the Annual Plan and the Rabobank Nederland Budget for Supporting Member Banks 2011. The Supervisory Board also consented to the increase in the funding mandate 2010 and approved the funding mandate 2011. In reviewing the financial statements and the budget, the Supervisory Board considered the capital adequacy and liquidity requirements announced by the Basel Committee (Basel III), addressing specifically the importance of client deposits as a source of funding as well as the need for the balanced and varied composition of funding sources. The Audit, Compliance & Risk Committee prepared extensively for the discussions on these issues.

### Re-appointment of independent external auditor

On the recommendation of the Supervisory Board, the General Meeting re-appointed Ernst & Young Accountants LLP, the independent external auditor, for a period of three years, i.e. for the audits relating to the financial years 2010 to 2012. A number of procedural changes were agreed with the independent external auditor in the process. The recommendation by the Supervisory Board came on the advice of the Audit, Compliance & Risk Committee based on the periodic evaluation of the performance of the independent external auditor. In addition, the Supervisory Board approved the independent external auditor's budget for the audit 2010.

### Strategic developments

In 2010, the Central Delegates Assembly adopted the updated version of the Rabobank Group Strategic Framework for 2009-2012. Already in 2010, however, the Executive Board decided to explore the options for strategic repositioning in dialogue with the Supervisory Board and the Central Delegates Assembly: the reasons being the drastic changes in the world of finance due to the financial crisis, which are reflected in Basel III, the changed structure and design of

the banking landscape, and developments in the restructuring of banking activities. In addition, issues of social relevance are the public debate on a banking tax, a level playing field for financial institutions, pressure on mortgage and savings margins, and the debate about the deposit guarantee scheme.

The Supervisory Board keeps close track of the execution of the strategy, and any envisaged changes are discussed with the Executive Board. Monitoring of the consistency of decision-making concerning planned equity investments, acquisitions or disposals and their potential impact on financial ratios have the Supervisory Board's full attention.

Within the boundaries of the strategic repositioning mentioned above, the Supervisory Board approved, in 2010, Rabobank International's wholesale strategy 2010-2014 and its rural and retail strategy abroad.

New arrangements were made with Eureko about continuing the successful partnership. In light of these arrangements and given the provisions of Basel III concerning insurance affiliates, Rabobank scaled down its interest in Eureko from 39% to 31%.

### **Changes to internal governance**

In 2010, Rabobank aligned its internal governance to the provisions of new regulations under the Dutch Corporate Governance Code, the Banking Code, the Principles for Controlled Remuneration Policy issued by DNB and AFM, and the best practices propagated by NBA, the Dutch Institute of Chartered Accountants. The Supervisory Board was directly involved in this process.

### **Acquisitions and disposals**

Rabobank acquired an equity interest in the Agricultural Bank of China in 2010 with a view to furthering its strategic and commercial ambitions in China. As part of the growth strategy in California, Napa Community Bank was acquired, and all deposits and specific assets and liabilities of Butte Community Bank and Pacific State Bank were acquired from the Federal Deposit Insurance Corporation (FDIC). In June 2010, Rabo Development and shareholders of Banco Cooperativo Sicredi (Brazil) reached agreement about Rabo Development acquiring a non-controlling interest in this bank. This transaction is currently still subject to local regulatory approval. Via Rabo Development, Rabobank plans to further this bank's strategic and commercial development. The equity interest in Indian-based Yes Bank was reduced from 15.9% to 4.9% because of the new India strategy. The activities of Bizner, an online bank for businesses, were integrated into Rabobank.

### **Local Rabobanks**

In 2010, the General Meeting approved the introduction of the Rabo Model as the governance model for the local Rabobanks. The Executive Model and the Partnership Model have been phased out since mid-2010 to be replaced by the Rabo Model. The Rabo Model starts from professional collective management, robust and independent supervision by the local Supervisory Committee on a cooperative basis and effective member influence, whilst emphasising the connection between local and central governance. The Rabo Model fully harnesses the influence, advisory and sparring partner roles of the member councils. Member influence is further put into practice by establishing communities that are relevant to the members. The Supervisory Board approved the amendment of the Articles of Association of Rabobank Nederland to tailor them to the new governance model of the local Rabobanks. The Cooperative Affairs Committee helped the Supervisory Board prepare for its decision-making on this issue.

The local Rabobanks continued to streamline their client services in 2010 based on the 'Rabobank 2010' programme. Rabobank Nederland assists the local Rabobanks in this drastic operation and explores, in close dialogue with the local Rabobanks, how it can better gear its organisation to the local Rabobanks' need for support. This is part of the 'Rabobank in the Netherlands in 2011' project.

Following an evaluation of changes made as proposed by the Committee for the Evaluation of Internal Financial Relations, it was concluded that the internal financial relations between Rabobank Nederland and the local Rabobanks are adequate and require updating in a limited number of respects only.



## Corporate social responsibility

The Supervisory Board is pleased to note that Rabobank went on in 2010 to further embed corporate social responsibility in its service offering. The sustainability report and the financial report have been integrated since the financial year 2009. The Cooperative Affairs Committee took an advisory role in the reporting period in reviewing several CSR-related issues and exchanging ideas about these issues with the Executive Board.

## Remuneration policy

Rabobank pursues a prudent, restrained and sustainable remuneration policy, which is in line with Rabobank's strategy, chosen risk profile, cooperative identity and core values. The remuneration policy is in keeping with a client-oriented approach and takes account of Rabobank's long-term interests, the international context of the markets in which Rabobank operates, and acceptance by society. Based on its cooperative identity, Rabobank wrote the Vision on Remuneration in 2010, which further underpins the prudent application of these principles by every group entity. In addition, existing regulations and procedures were tweaked where necessary with a view to establishing a prudent structure of authorities.

The remuneration of the members of the Executive Board is benchmarked every year. Previous benchmarks, including the one performed in January 2010, proved that their remuneration is below the median of the peer group. The executive directors' variable pay is relatively low, both compared to their fixed income and to the market. The variable pay is based on a series of quantitative, qualitative, individual and collective targets to be achieved in the long and short term. The Supervisory Board approves the remuneration policy for senior management and supervises its execution by the Executive Board. Material retention, exit and welcome packages are not permitted in principle. Any exceptions are subject to Executive Board approval. The Supervisory Board discusses the highest earners every year via a group-wide remuneration report.

Rabobank offers no variable pay in the form of option or shareholding rights that are awarded to executive directors or senior management. This means the members of the Executive Board of Rabobank receive a modest amount in variable pay. They are entitled to a short-term bonus of up to 15% of their fixed salary, which is paid out annually, and to a long-term bonus, also of up to 15%, which does not become payable until after three years. Rabobank's remuneration structure has never been such that it might encourage employees to take irresponsible risks.

## Evaluation of performance and remuneration of members of Executive Board

In 2010, the remuneration of the members and former members of the Executive Board of Rabobank Nederland amounted to EUR 10.3 million in total. This amount can be broken down as follows:

In millions of euros	2010	2009
Salaries	6.8	6.6
Pension costs	1.6	1.3
Performance-related pay	1.7	1.8
Other emoluments	0.2	0.2
<b>Total</b>	<b>10.3</b>	<b>9.9</b>

Rabobank's cooperative identity and structure are embedded in its remuneration policy for the members of the Executive Board. As part of the remuneration policy for the Executive Board formulated by the Central Delegates Assembly, which is in keeping with the Vision on Remuneration, the Supervisory Board determined the performance-related payment to each member of the Executive Board on the basis of the evaluation of their performance in 2009. After having been reviewed by the Supervisory Board, the full remuneration report 2009 was discussed with the Confidential Committee of the Central Delegates Assembly, which shared its comments on the report with the Central Delegates Assembly representing the members of Rabobank Nederland. The total income of each member of the Executive Board is in line with the standards formulated in the Dutch Corporate Governance Code, the Banking Code and the Principles for Controlled Remuneration Policy issued by DNB and AFM.

### Self-assessment

The Supervisory Board reviews its own performance and that of the separate committees on an ongoing basis. The Supervisory Board also performed a full-scope evaluation in regarding its performance in 2010. In addition, the Chairman has one-on-one meetings with each of the members of the Supervisory Board annually to assess their individual performance. This process of self-assessment is used to bring about improvements in the performance of the Supervisory Board and that of the individual supervisory directors, and to undertake individual or collective efforts to improve the members' knowledge where necessary. Key issues in the performance evaluation are the supervisory directors' attendance of Supervisory Board meetings and their input into these meetings, the extent to which the Supervisory Board, its committees and its members comply with the chosen profile, the composition and the required competencies of the Supervisory Board and of the separate committees. The range of competencies represented is broadened through new appointments as appropriate. The Audit, Compliance & Risk Committee reviewed its composition and performance in 2010, following which some improvements were introduced in its procedures.

In the Supervisory Board's opinion, its committees executed their duties promptly and efficiently in the year under review, thereby contributing significantly to the effectiveness of the supervisory role of the Supervisory Board.

### Strong performance

The Supervisory Board is pleased with the general conduct of business and the way in which the Executive Board managed to counter the ramifications of the challenging financial and economic conditions during the year under review. The members of the Supervisory Board note that the strength of the cooperative structure once again proved its worth in 2010 and would like to take this opportunity to thank management and all employees for their efforts and commitment in the year under review.

Utrecht, the Netherlands, 28 February 2011

The Supervisory Board



In millions of euros	At 31 December 2010	At 31 December 2009
<b>Liabilities</b>		
Due to other banks	23,476	22,429
Due to customers	298,761	286,338
Debt securities in issue	196,819	171,752
Derivative financial instruments and other trade liabilities	49,640	48,765
Other debts	8,199	8,083
Other financial liabilities at fair value through profit or loss	29,867	27,319
Provisions	979	1,095
Current tax liabilities	359	468
Deferred tax liabilities	731	489
Employee benefits	466	500
Subordinated debt	2,482	2,362
<b>Total liabilities</b>	<b>611,779</b>	<b>569,600</b>
<b>Equity</b>		
Equity of Rabobank Nederland and local Rabobanks	24,749	21,963
Rabobank Member Certificates issued by a group company	6,583	6,315
	31,332	28,278
Capital Securities and Trust Preferred Securities III to VI	6,306	6,182
Non-controlling interests	3,119	3,423
<b>Total equity</b>	<b>40,757</b>	<b>37,883</b>
<b>Total equity and liabilities</b>	<b>652,536</b>	<b>607,483</b>

# Consolidated statement of income

In millions of euros	For the year ended 31 December	
	2010	2009
Interest income	19,928	19,795
Interest expense	11,314	11,720
<b>Interest</b>	<b>8,614</b>	<b>8,075</b>
Commission income	3,469	3,015
Commission expense	638	440
<b>Commission</b>	<b>2,831</b>	<b>2,575</b>
Income from associates	292	592
Net income from financial assets and liabilities at fair value through profit or loss	231	(422)
Gains on available-for-sale financial assets	105	138
Other income	643	1,476
<b>Income</b>	<b>12,716</b>	<b>12,434</b>
Staff costs	4,919	4,603
Other administrative expenses	2,706	2,908
Depreciation and amortisation	571	527
<b>Operating expenses</b>	<b>8,196</b>	<b>8,038</b>
Value adjustments	1,234	1,959
<b>Operating profit before taxation</b>	<b>3,286</b>	<b>2,437</b>
Income tax expense	514	229
<b>Net profit</b>	<b>2,772</b>	<b>2,208</b>
Of which attributable to Rabobank Nederland and local Rabobanks	1,846	1,395
Of which attributable to holders of Rabobank Member Certificates	303	318
Of which attributable to Capital Securities	460	308
Of which attributable to Trust Preferred Securities III to VI	73	78
Of which attributable to non-controlling interests	90	109
<b>Net profit for the year</b>	<b>2,772</b>	<b>2,208</b>

# Consolidated statement of comprehensive income

In millions of euros	For the year ended 31 December	
	2010	2009
Net profit	2,772	2,208
Arising in the period (after taxation):		
<i>Foreign currency translation reserves</i>		
Currency translation differences	413	45
<i>Revaluation reserve - Available-for-sale financial assets</i>		
Currency translation differences	(48)	22
Changes in associates	45	(359)
Fair value changes	390	468
Amortisation of reclassified assets	143	210
Transferred to profit or loss	(114)	78
<i>Revaluation reserve - Associates</i>		
Fair value changes	(30)	(29)
<i>Revaluation reserve - Cash flow hedges</i>		
Fair value changes	18	(6)
Transferred to profit or loss	1	-
<i>Non-controlling interests</i>		
Currency translation differences	266	(37)
Changes in AFS revaluation reserve	(9)	12
<b>Total other comprehensive income</b>	<b>1,075</b>	<b>404</b>
<b>Total comprehensive income</b>	<b>3,847</b>	<b>2,612</b>
Of which attributable to Rabobank Nederland and local Rabobanks	2,664	1,824
Of which attributable to holders of Rabobank Member Certificates	303	318
Of which attributable to Capital Securities	460	308
Of which attributable to Trust Preferred Securities III to VI	73	78
Of which attributable to non-controlling interests	347	84
<b>Total comprehensive income</b>	<b>3,847</b>	<b>2,612</b>

# Consolidated statement of changes in equity

In millions of euros	Equity of Rabobank Nederland and local Rabobanks	Rabobank Member Certificates	Capital Securities and TPS	Non- controlling interests	Total
<b>At 1 January 2010</b>	21,963	6,315	6,182	3,423	37,883
Net profit	1,846	303	533	90	2,772
Total other comprehensive income:					
Foreign currency translation reserve	413	-	-	266	679
Revaluation reserve - Available-for-sale financial assets	416	-	-	(9)	407
Revaluation reserve - Associates	(30)	-	-	-	(30)
Revaluation reserve - Cash flow hedges	19	-	-	-	19
<b>Total comprehensive income</b>	<b>2,664</b>	<b>303</b>	<b>533</b>	<b>347</b>	<b>3,847</b>
Payment on Rabobank Member Certificates, Trust Preferred Securities III to VI (TPS) and Capital Securities	-	(303)	(533)	-	(836)
Issue of Member Certificates	-	257	-	-	257
Other	122	11	124	(651)	(394)
<b>At 31 December 2010</b>	<b>24,749</b>	<b>6,583</b>	<b>6,306</b>	<b>3,119</b>	<b>40,757</b>
<b>At 1 January 2009</b>	<b>20,050</b>	<b>6,236</b>	<b>3,510</b>	<b>3,639</b>	<b>33,435</b>
Net profit	1,395	318	386	109	2,208
Total other comprehensive income:					
Foreign currency translation reserve	45	-	-	(37)	8
Revaluation reserve - Available-for-sale financial assets	419	-	-	12	431
Revaluation reserve - Associates	(29)	-	-	-	(29)
Revaluation reserve - Cash flow hedges	(6)	-	-	-	(6)
<b>Total comprehensive income</b>	<b>1,824</b>	<b>318</b>	<b>386</b>	<b>84</b>	<b>2,612</b>
Payment on Rabobank Member Certificates, Trust Preferred Securities III to VI (TPS) and Capital Securities	-	(318)	(386)	-	(704)
Issue of Member Certificates and Capital Securities	-	79	3,160	-	3,239
Purchase of Trust Preferred Securities III	-	-	(527)	-	(527)
Costs of Capital Securities issue	(13)	-	-	-	(13)
Other	102	-	39	(300)	(159)
<b>At 31 December 2009</b>	<b>21,963</b>	<b>6,315</b>	<b>6,182</b>	<b>3,423</b>	<b>37,883</b>

# Consolidated statement of cash flows

For the year ended 31 December

In millions of euros	2010	2009
<b>Cash flows from operating activities</b>		
Operating profit before taxation	3,286	2,437
Adjusted for:		
<i>Non-cash items recognised in profit or loss</i>		
Depreciation and amortisation	571	527
Value adjustments	1,234	1,959
Result on sale of property and equipment	(7)	(14)
Share of (profit) of associates	(292)	(592)
Fair value results on financial assets and liabilities at fair value through profit or loss	(231)	422
Gains on available-for-sale financial assets	(105)	(138)
<i>Net change in operating assets:</i>		
Due from and due to other banks	3,181	(3,346)
Trading financial assets	131	(2,613)
Derivative financial instruments	(4,856)	27,668
Net change in non-trading financial assets at fair value through profit or loss	1,955	2,949
Loans to customers	(24,536)	(8,856)
Dividends received from associates and financial assets	464	54
<i>Net change in liabilities relating to operating activities:</i>		
Derivative financial instruments and other trade liabilities	874	(28,464)
Due to customers	12,423	(17,875)
Debt securities in issue	23,149	35,973
Other liabilities	116	(562)
Income tax paid	(772)	(216)
Other changes	(1,157)	903
<b>Net cash flow from operating activities</b>	<b>15,428</b>	<b>10,216</b>
<b>Cash flows from investing activities</b>		
Acquisition of associates net of cash and cash equivalents acquired	(19)	(425)
Disposal of associates net of cash and cash equivalents	722	3
Acquisition of property and equipment and investment properties	(1,636)	(2,020)
Proceeds from sale of property and equipment	983	531
Acquisition of available-for-sale financial assets and held-to-maturity financial assets	(64,554)	(25,652)
Proceeds from sale and repayment of available-for-sale financial assets and held-to-maturity financial assets	44,632	24,521
<b>Net cash flow from investing activities</b>	<b>(19,872)</b>	<b>(3,042)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of Capital Securities and Rabobank Member Certificates	36	3,239
Proceeds from issue of subordinated debt	1,000	1,000
Proceeds from issue of Senior Contingent Notes and Rabo Extra Member Bonds	2,150	-
Payment on Rabobank Member Certificates, Trust Preferred Securities III to VI and Capital Securities	(836)	(704)
Purchase of Trust Preferred Securities	-	(1,249)
Repayment of and proceeds from issue of subordinated debt	(1,000)	-
<b>Net cash flow from financing activities</b>	<b>1,350</b>	<b>2,286</b>
<b>Net change in cash and cash equivalents</b>	<b>(3,094)</b>	<b>9,460</b>
Cash and cash equivalents at beginning of year	16,565	7,105
<b>Cash and cash equivalents at end of year</b>	<b>13,471</b>	<b>16,565</b>
<b>The cash flows from interest are included in the net cash flow from operating activities</b>		
Interest income	19,332	20,503
Interest expense	11,651	12,289



## Condensed business segments

In millions of euros	Domestic retail banking	Wholesale banking and international retail banking	Asset management	Leasing	Real estate	Other segments	Consolidation effects/hedge accounting	Total
<b>For the year ended</b>								
<b>31 December 2010</b>								
Interest	4,894	2,813	166	658	253	(171)	1	8,614
Commission	1,321	460	995	83	26	(22)	(32)	2,831
Other results	294	306	47	440	214	347	(377)	1,271
<b>Total income</b>	<b>6,509</b>	<b>3,579</b>	<b>1,208</b>	<b>1,181</b>	<b>493</b>	<b>154</b>	<b>(408)</b>	<b>12,716</b>
Segment expense	4,191	2,536	970	914	430	(56)	445	9,430
<b>Operating profit before tax</b>	<b>2,318</b>	<b>1,043</b>	<b>238</b>	<b>267</b>	<b>63</b>	<b>210</b>	<b>(853)</b>	<b>3,286</b>
Income tax expense	475	269	71	66	21	(175)	(213)	514
<b>Net profit for the year</b>	<b>1,843</b>	<b>774</b>	<b>167</b>	<b>201</b>	<b>42</b>	<b>385</b>	<b>(640)</b>	<b>2,772</b>
<b>Business unit assets</b>								
Business unit assets	360,881	439,646	25,166	29,768	26,473	86,789	(319,726)	648,997
Investments in associates	20	434	38	28	62	2,957	-	3,539
<b>Total assets</b>	<b>360,901</b>	<b>440,080</b>	<b>25,204</b>	<b>29,796</b>	<b>26,535</b>	<b>89,746</b>	<b>(319,726)</b>	<b>652,536</b>
<b>Business unit liabilities</b>								
Business unit liabilities	338,681	440,202	22,355	26,862	25,331	73,563	(315,215)	611,779
<b>Total liabilities</b>	<b>338,681</b>	<b>440,202</b>	<b>22,355</b>	<b>26,862</b>	<b>25,331</b>	<b>73,563</b>	<b>(315,215)</b>	<b>611,779</b>
<b>Additions to property and equipment</b>								
Additions to property and equipment	128	51	22	1,101	11	287	-	1,600
<b>Depreciation and amortisation</b>								
Depreciation and amortisation including amortisation of software	120	108	116	40	29	158	-	571
Value adjustments	358	597	2	214	63	-	-	1,234
Goodwill	1	733	805	460	322	6	-	2,327
<b>For the year ended</b>								
<b>31 December 2009</b>								
Interest	4,360	2,955	104	590	182	(119)	3	8,075
Commission	1,261	488	757	59	44	(20)	(14)	2,575
Other results	505	(63)	123	377	283	642	(83)	1,784
<b>Total income</b>	<b>6,126</b>	<b>3,380</b>	<b>984</b>	<b>1,026</b>	<b>509</b>	<b>503</b>	<b>(94)</b>	<b>12,434</b>
Segment expense	4,619	2,723	954	916	419	44	322	9,997
<b>Operating profit before tax</b>	<b>1,507</b>	<b>657</b>	<b>30</b>	<b>110</b>	<b>90</b>	<b>459</b>	<b>(416)</b>	<b>2,437</b>
Income tax expense	294	91	17	(2)	22	(87)	(106)	229
<b>Net profit for the year</b>	<b>1,213</b>	<b>566</b>	<b>13</b>	<b>112</b>	<b>68</b>	<b>546</b>	<b>(310)</b>	<b>2,208</b>
<b>Business unit assets</b>								
Business unit assets	328,907	406,609	22,079	28,712	26,291	39,049	(248,220)	603,427
Investments in associates	21	331	72	27	78	3,527	-	4,056
<b>Total assets</b>	<b>328,928</b>	<b>406,940</b>	<b>22,151</b>	<b>28,739</b>	<b>26,369</b>	<b>42,576</b>	<b>(248,220)</b>	<b>607,483</b>
<b>Business unit liabilities</b>								
Business unit liabilities	308,255	452,593	19,695	26,013	25,249	28,441	(290,646)	569,600
<b>Total liabilities</b>	<b>308,255</b>	<b>452,593</b>	<b>19,695</b>	<b>26,013</b>	<b>25,249</b>	<b>28,441</b>	<b>(290,646)</b>	<b>569,600</b>
<b>Additions to property and equipment</b>								
Additions to property and equipment	180	23	10	1,394	90	243	-	1,940
<b>Depreciation and amortisation</b>								
Depreciation and amortisation including amortisation of software	133	94	109	35	37	119	-	527
Value adjustments	721	940	4	300	22	(28)	-	1,959
Goodwill	2	852	728	452	323	6	-	2,363

# Independent auditor's report on the financial information

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To the executive board and supervisory board of Rabobank Nederland

## Introduction

We have audited whether the consolidated statement of financial position as at December 31, 2010, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and condensed business segments for the year then ended, as set out on pages 106 to 112 of this annual report - hereafter 'financial information' - of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland), Amsterdam, has been derived consistently from the audited consolidated financial statements 2010 of Rabobank Nederland. In our auditor's report dated February 28, 2011 we expressed an unqualified opinion on these consolidated financial statements. The executive board of Rabobank Nederland is responsible for the preparation of the financial information in accordance with the accounting policies as applied in the consolidated financial statements 2010 of Rabobank Nederland. Our responsibility is to express an opinion on the financial information.

## Scope

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial information is derived consistently from the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion with respect to the financial information

In our opinion, the financial information has been derived consistently, in all material respects, from the consolidated financial statements.

## Emphasis of matter

For a better understanding of Rabobank Group's financial position and results and the scope of our audit, we emphasize that the financial information should be read in conjunction with the consolidated financial statements, from which the financial information has been derived and our unqualified auditor's report thereon dated February 28, 2011. Our opinion is not qualified in respect of this matter.

Utrecht, February 28, 2011

Ernst & Young Accountants LLP

/s/ G.H.C. de Meris

# Colophon

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## Published by

Rabobank Nederland Communications Departments

## Disclaimer

This Annual Report is a translation of the Dutch Annual Reports. In the event of any conflict in interpretation, the Dutch original takes precedence.

## About the Annual Report

The Rabobank has integrated financial and CSR-related information in the Annual Report 2010 Rabobank Group. This Report is based on the Financial Statements, the Annual Report and other information of Rabobank Nederland, as referred to in Book 2, Part 9 of the Dutch Civil Code, among other documents. As required by law, these reports have been/will be filed at the offices of the Trade Registry under number 30.046.259 after the adoption of the Financial Statements of Rabobank Nederland by the Annual General Meeting. The Annual General Meeting is scheduled for 16 June 2011.

An independent auditor's report as referred to in Section 393, paragraph 5 of Book 2 the Dutch Civil Code has been issued on the Financial Statements of Rabobank Nederland. This report has been issued in the form of an unqualified opinion. In its report, the external auditor has not emphasised any specific matters. The chapter 'Report of the Supervisory Board of Rabobank Nederland' does not form part of the statutory Annual Report.

This Report has been prepared in accordance with the G3 Guidelines of the Global Reporting Initiative. The CSR sections of this Report are based on the document entitled 'Corporate Social Responsibility 2010 Rabobank Group'. An independent external auditor has issued an assurance report on this document, including the CSR facts and figures.

## Annual Reports

In 2011 Rabobank Group publishes the following annual reporting documents, both in English and in Dutch:

- Annual Summary 2010 Rabobank Group - Jaarbericht 2010 Rabobank Groep
- Annual Report 2010 Rabobank Group - Jaarverslag 2010 Rabobank Groep
- Consolidated Financial Statements 2010 Rabobank Group - Geconsolideerde jaarrekening 2010 Rabobank Groep
- Financial Statements 2010 Rabobank Nederland - Jaarrekening 2010 Rabobank Nederland
- Interim Report 2011 Rabobank Group - Halfjaarverslag 2011 Rabobank Groep

Rabobank Group's annual reporting is online available on [www.rabobank.com/annualreports](http://www.rabobank.com/annualreports) and [www.rabobank.com/jaarverslagen](http://www.rabobank.com/jaarverslagen). The keyfigures are also available for the mobile phone on:



<http://m.keyfiguresrabobank.com>



<http://m.kerngegevensrabobank.nl>

## Materials used

The Rabobank Group uses environmentally friendly materials printing this document. Others who download the PDF from the internet and print this document, are kindly requested to do the same.

## Contact

[jaarverslagen@rn.rabobank.nl](mailto:jaarverslagen@rn.rabobank.nl)  
Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland)  
Croeselaan 18, P.O. Box 17100, 3500 HG Utrecht, The Netherlands  
+31 30 216 0000

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**Rabobank**