

Rabobank Group statement on the armaments industry

Rabobank has focussed attention on the method of financing and investing in the armaments industry and armaments trade for a number of years. Rabobank acknowledges the right of democratic countries to defend themselves. Our Armaments Industry Policy is consequently based on the principle of 'no, unless'. This principle is worded as follows: Rabobank should, based on moral convictions, refrain from facilitating the armaments industry, unless a company is involved that supplies non-controversial or armaments-related products.

A client must meet a number of criteria in order to be considered for credit lending concerning non controversial armaments.

These assessment criteria are:

- The client must stringently comply with all laws and regulations.
- If the client exports goods for military purposes, the exporter must possess an export permit.
- The client must respect the human rights criterion; the bank must ascertain that human rights are not violated.
- The client must not pursue business relationships with intermediaries, because this quickly obscures the actual purpose of the financing and the ultimate use of the armaments-related product.
- The client must respect the tension and stability criterion: the bank must ascertain that the possible use of the armaments will not contribute to provoking conflicts or increasing tensions which would have a negative implication for peace, safety and stability in the region.

Rabobank does not wish to be involved in financing or investing with its own funds in any activity that is related to 'controversial' armaments. The following armaments are currently considered controversial: cluster bombs, landmines, nuclear armaments and biological or chemical armaments. Finance may not be provided to controversial companies and/or for controversial purposes. It is important to note, however, that 'controversial' is a dynamic term that is subject to change (as part of the Group, Robeco has developed its own specific policy on this point, which comes into force on 1 February 2010. Further information can be found at www.robeco.com).



We will make our critical standpoint about controversial armaments clear to customers who are involved with controversial armaments in some way; we will express our concerns and request that they adapt their own policies in this domain accordingly. These companies will be added to a 'red list'. If any such customer fails to respond in an appropriate manner, the bank will eventually terminate its relationship with that customer.

Rabobank devotes extra attention to the correct conduct of clients and prospective clients and ethical behaviour in projects within this sector in view of the delicate practical issues. They are assessed according to factors including corporate governance, policy intentions and business activities and participations.

Rabobank shall not invest for its own account in companies that are directly involved in controversial armaments. This ban does not apply to investments that we make on behalf of our clients. In this case we, in consultation with our investment clients, enter into a dialogue and discussion with the companies in which we invest on behalf of our clients. If the related company fails to implement a policy change within a specified period of time, we will advise our clients and investors to no longer invest in these companies.

Rabobank promotes sustainable investment among its clients. Both Rabobank and group divisions, including Robeco and Sarasin offer special products for this purpose. Robeco has, for example, acquired a majority interest in Sustainable Asset Management (SAM), a leading Swiss organisation in the field of sustainable investment. Rabobank has had a CSR department since 1998. This department is responsible for initiating the production and distribution of products in the field of Corporate Social Responsibility by the Rabobank Group.

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Explanatory notes to the Rabobank Group's statement on the armaments industry

Definitions used

Armaments industry

The generally accepted and practically applicable definition is: the armaments industry is an industry in which armaments and derivative products are manufactured for and purchased by: the ministry of defence, private security organisations or the police of a country.

Armaments

Part of the definition of the armaments industry is the concept of armaments.

Armaments are taken to mean: all that which is generally referred to as arms, weapons and weapon systems, including product-specific components, partial systems, spare parts, maintenance, operation, intermediation and advice that can be used in armed conflicts and represent a substantial contribution to that end.

Armaments can be divided into two types: controversial and non-controversial armaments.

Controversial armaments

Controversial armaments are types of weapons that have become controversial because of their humanitarian impact and/or the large numbers of civilian casualties they give cause, often many years after the conflicts in which they were deployed have ended.

Rabobank distinguishes five types of controversial armaments: cluster munitions, anti-personnel mines, biological and chemical weapons, and nuclear arms.

1. *Cluster munitions*: these are large munitions that open while still in the air to disperse various submunitions, usually counted in hundreds. These sub munitions are themselves small bombs or grenades. In some cases, the submunitions can also be landmines. This type of armament is controversial because the submunitions from cluster bombs have a high level of non-detonation. Leaving large numbers of undetonated submunitions effectively creates minefields that cover large areas. The launchers also fall within the definition, as in most cases they can be used to fire both conventional and cluster munitions. In December 2008 over a hundred countries, including the Netherlands, signed the Oslo Convention; in doing so, they undertook to bring an end to the use, development, production,

acquisition and storage of cluster munitions. The Convention should come into force by mid 2009. However, the major producers and possessors of this type of fragmentation munitions (including the USA, Russia, China, Pakistan, Brazil, India, Israel and several Arabic states) have never signed the Convention. As far as the definition of cluster munitions is concerned, Rabobank follows the definition formulated in the Oslo Convention. But Rabobank's policy on this subject goes further, or is more specific than the Convention, at least in terms of involvement via group entities or joint ventures and also, for instance, as far as launchers and component parts for cluster munitions are concerned.

2. *Anti-personnel mine (a type of landmine):* a mine is a weapon that is placed under, on or in the vicinity of the ground or some other surface. Anti-personnel mines are designed to explode when a person or a vehicle is close to the mine or actually touches it. Such mines are controversial because they make no distinction between the footstep of a soldier and that of a civilian or child. World-wide, around 26,000 civilians are killed or wounded by landmines every year. It is estimated that 8,000 to 10,000 of these victims are children. (N.B.: antitank mines, also landmines, are not by definition controversial.)
The Ottawa Treaty, which prohibits the manufacture and possession of anti-personnel mines, has been ratified by 154 countries. Notably, China, Russia and the USA have not signed up to the Treaty and these countries are the largest producers in the world.
3. *and 4. Biological and chemical weapons:* the manufacture, trade and use of these weapons has been denounced in international treaties, such as the Biological and Toxic Weapons Convention (BTWC) and the Chemical Weapons Convention (CWC). Both these Conventions prohibit the use of either type of weapon for the purpose of inflicting physical injury through their inherent biological or chemical properties. The Conventions do not, however, prohibit the use of chemical substances in the manufacture of smoke or light producing munitions.
5. *Nuclear arms:* these are weapons whose effect is derived from nuclear fission (commonly known as atomic bombs) as in the case when uranium atoms are split, releasing a vast amount of energy, or in the case of weapons in which the nuclei of lighter elements, usually hydrogen, are fused together to form helium. The destruction of nuclear particles releases energy. Nuclear arms are controversial because the effects of an explosion are so enormous; they are not, however, prohibited.

The possession of such weapons is "regulated" in the Non-Proliferation Treaty (NPT). This Treaty allows countries such as the USA, Russia, the UK, China and France to develop and possess nuclear weapons. India and Pakistan have not signed up to the NPT, but do possess nuclear weapons; Iran is an NPT signatory and denies having nuclear weapons; North Korea has withdrawn from the Treaty and, until recently, was actively developing nuclear weapons although they say they have now ceased such activities. North Korea is not, however, a signatory.

In some cases, the manufacture, sale and maintenance of the controversial weapons described above is prohibited by national legislation and/or international treaties such as the Ottawa Treaty, the NPT or the Convention on Chemical Weapons.

It is possible that the list will be extended to include other types of armaments and munitions in the future.

Examples include: depleted uranium munitions, laser blinding weapons and certain types of phosphorus-based weapons.

Non-controversial armaments

Non-controversial armaments are those that are listed in the Dutch Ministry of Economic Affairs "Manual on Strategic Goods" and for which an export licence is necessary.

Treaties

The Netherlands is signatory to the Ottawa Treaty. Having signed this Treaty, the Netherlands will never allow itself to become involved in the design, the manufacture or the sale of anti-personnel mines. Moreover, the Netherlands is a signatory to the Oslo Convention for cluster munitions.

In the same vein, the Netherlands will not cooperate in the distribution of nuclear or chemical weapons, because it is also a signatory to the Non-Proliferation Treaty. The NPT is a treaty that limits the possession of nuclear weapons. It was drawn up by the Republic of Ireland on 1 June 1968 and has since been signed and ratified by 189 countries. The NPT is based on three principles: non-proliferation, disarmament, and the right to use nuclear energy for peaceful purposes.