CORPORATE SOCIAL RESPONSIBILITY AND THE FINANCIAL REGULATORY REFORM: THE CASE STUDY OF COBANK, ACB

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INDEX

INDEX OF FIGURES

INDEX OF TABLES

1. SUMMARY

The world economic framework has been punished during the last years by an economic crisis which has affected all economy segments in the society. One of the main raisons for this crisis has been the difficult situation in the financial markets. The lack of transparency in financial markets and poor management in many companies in this sector has led to retention of economic growth and the lack of liquidity in the financial sector. Government intervention in terms of regulation and financial support has been crucial regarding the stabilization of the economic situation.

As a leader in the global economy, the financial crisis in the United States was a strong blow to the economic environment. The American government intervention was necessary to prevent the collapse of some major financial companies and avoid a major problem in the global economy.

During the second semester of the 2009-2010 school year I had the opportunity to participate in the Exchange program, Promoe, funded by the UPV, at Missouri State University. During this period the proposed amendments to the financial system have been a major point of debate in the United States. The study of the structure of the American financial system, as well as the various proposals for its reconstruction are some of the main objectives in my work.

In search of a solution for this financial crisis, despite the continuous regulatory proposals by governments, the very attitude of the banks towards a new economic framework emerges as one of the most important points. This attitude is summed up in the term Corporate Social Responsibility of the company. In the current economic framework where multinationals exert a dominant control in the financial markets, his own self, transparency and responsible handling of all aspects of the business environment (stakeholders) are the way to create a sustainable economy.

Within the study of Corporate Social Responsibility will take place in this project, there will be special emphasis on the study of CSR in financial institutions. In addition to the socially responsible government of any company, financial institutions have the ability to decide the fate of their investments, as well as

analyze the different policies of potential consumers when establishing a business relationship.

The project will firstly position the company in its framework and after this will follow the study of Corporate Social Responsibility in the company, with special emphasis on the study of CSR in financial institutions. In addition, it will be also explained the American Financial System (The Fed) and the Farm Credit System, as CoBank, ACB is one of the Banks system. Once this section, we will analyze the financial reform proposal submitted by the President of the USA Barack Obama in 2009, and the impact this may have in relation to corporate social responsibility.

Once all the theoretical concepts explained, will follow the practical and research work which examines the corporate policies of the cooperative bank CoBank, ACB. The study of CoBank ACB, which belongs to the Farm Credit System, is because CoBank is one of the most reputable worldwide in terms of corporate social responsibility. In addition a sustainability report of CoBank ACB will be prepared, based on the guidance G3.1 Global Reporting Initiative (GRI), one of the most globally recognized initiatives on corporate social responsibility. The preparation of the sustainability report will be based on public information disclosed by the bank.

Once achieved everything that has been proposed, series of conclusions and recommendations will be proposed, as well as some future lines of action that could be followed to improve both the study of sustainability or corporate social responsibility of CoBank, ACB as institution of the Farm Credit System.

2. OBJECT AND JUSTIFICATION FOR THE COURSES RELATED

The purpose of this study was to determine the application of corporate social responsibility within a financial institution in the cooperative bank CoBank, ACB in the financial American system; through the identification, measurement and analysis of policies and their indicators. Also the study of their company policies in terms of corporate social responsibility.

Throughout all the chapters of this study, various modules and courses which composes the bachelor of “Administració i Direcció d’Empreses (ADE)” have been used. Below there is a list of all the subjects that have been used to conduct this final project classified by chapters:

Chapter 4: The American Financial System: The Federal Reserve System

- *Economia espanyola i mundial:* This course examines the various economic systems and the main features of these.

- *Macroeconomia:* This course explains the functioning of a financial system of a country, as well as the different monetary policies and its operation.

- *Sistemes i mercats financers:* This focuses on general features of financial systems (markets, intermediaries, participants, etc.).

- *Direcció financera:* also discusses some of the features of the financial system, therefore is also related to this chapter.

- *Dret de l’empresa:* This course is partially related, as explains different types and characteristics of financial institutions and different relationships that can be established between institutions.

Chapter 5: The Farm Credit System

- *Introducció als sectors empresarials:* is related, as in this course explains the different business sectors and their respective needs.

- *Direcció financera:* also discusses some of the features of the financial system, therefore is also related to this chapter.

- *Dret de l'empresa:* This course is partially related, as explains different types and characteristics of financial institutions and different relationships that can be established between institutions.

- *Economia espanyola i mundial:* This course examines the various economic systems and the main features of these.

Chapter 6: CSR and Particularities on the Banking Industry

- *Direcció estratègica i política d'empresa:* This course emphasizes the importance of all elements related to the company. Corporate social responsibility is one of the issues to consider in making decisions.

- *Direcció de recursos humans:* One of the most important CSR is the treatment with the human capital of the company, and all plans and proposals for improving their living conditions.

- *Legislació laboral i de l'empresa:* This course explains concepts like the type of training, types of contracts, as well as reciprocal obligations between the company and the employee.

- *Comptabilitat general i analítica:* all the concepts explained in this course are essential to analyze the corporate governance of a company, as well as to understand the various policies adopted by the management team.

- Ètica en les empreses: This course examines the different values of the company and the different effects they can have this action.

Chapter 7: The Department of Treasury Financial Regulatory Reform

- *Direcció estratègica i política d'empresa:* This course emphasizes the importance of all elements related to the company. Corporate social responsibility is one of the issues to consider in making decisions.

- *Economia espanyola i mundial:* This course examines the various economic systems and the main features of these.

- *Macroeconomia:* This course explains the functioning of a financial system of a country, as well as the different monetary policies and its operation.

Chapter 8: Analysis of the Company's Framework and Policies: CoBank, ACB

- *Legislació laboral i de l'empresa:* This course explains concepts like the type of training, types of contracts, as well as reciprocal obligations between the company and the employee.

- *Direcció estratègica i política d'empresa:* This course emphasizes the importance of all elements related to the company. Corporate social responsibility is one of the issues to consider in making decisions.

- *Economia de la informació:* This subject is related to the chapter, as this talk of new technologies and new electronic banking services by CoBank, ACB.

- *Introducció a la informàtica:* This subject is related to the chapter, as it is spoken in various computing concepts such as Internet, Intranet, web, etc.

Capítol 9: Corporate Social Responsibility in CoBank, ACB

- *Direcció estratègica i política d'empresa:* this is related with the chapter as in this course it is explained the concept of corporate social responsibility, it is explained in different parts as corporate governance, human resources, environment, relationship with direction,..etc.

- *Comptabilitat general i analítica:* This course uses the methodology of calculation of ratios, which are used for the analysis and measurement of corporate governance CoBank, ACB.

- *Direcció de recursos humans:* One of the most important points on the CSR is the treatment of the human capital in the company as well as all plans and purposes to improve their life work condition.

- *Legislació laboral i de l'empresa:* This course explains concepts like the type of training, types of contracts, as well as reciprocal obligations between the company and the employee.

- Ètica en les empreses: This course will analyze the influence that the company can have at all levels of society, and the impact of their decisions.

Finally these two subjects are related to each chapter:

- *Anglès I i Anglès II:* This course has served to know the rules of spelling and grammatical English, since all chapters have English literature and have been based on English bibliography.

- *Ofimàtica per a ADE:* This subject is related to all the chapters because the tools used to develop the project were explained in this course such as Microsoft Office package (Word, Excel, PowerPoint, etc.), Internet, etc.

3. OBJECTIVES

Every study has different objectives which need to be achieved or at least try to be achieved. So this final bachelor study has also its own objectives and these are listed below:

- To study how the cooperative banking sector is affected under the new emergent trends of corporate social responsibility.
- To improve the understanding of the role of intangible assets in the real value of an organization.
- To provide real knowledge and most updated possible structure, organization and functioning of markets, intermediaries and financial instruments.
- To study the world of credit unions and their operation.
- To study the U.S. Financial System and its System of credit unions and the functioning of the same, as well as their Organization.
- To study and analyze the different company policies of CoBank, ACB in terms of Corporate Social Responsibility.
- To identify, measure and analyze the corporate social responsibility of CoBank, ACB.

FIRST PART:

EVOLUTION AND CURRENT SITUATION

4. THE AMERICAN FINANCIAL SYSTEM: THE FEDERAL RESERVE SYSTEM

4.1. DEFINITION AND CHARACTERISTICS OF A FINANCIAL SYSTEM.

A financial system encompasses the instruments, institutions, markets, and rules governing the conduct of trade that expedites the routing of funds from buyers to sellers and from savers to lenders. In this system are included the different financial tools, financial markets and financial intermediates, those who buy and sell assets in the financial markets.

Consequently with the above definition the financial system is focused in the redistribution of the different financial assets among the different buyers and sellers. The financial sector facilities the creation of financial securities adapted to the different customers in terms of liquidity, risk and profitability, through the financial intermediaries.

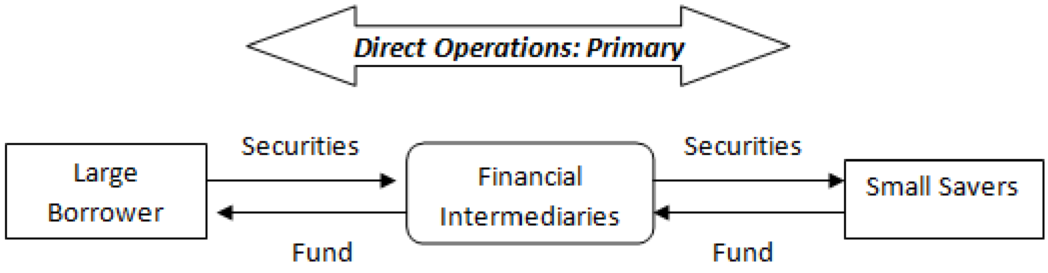
A financial system can be more or less complicated depending of the number of financial institutions and the different financial products that they offer. The way to measure this is the level of interaction among the different spending units. According to that we can find (Kaufman, 1992):

- *Deficit Spending Units (DSU) or Borrowers*. These units spend more than their current income or consumption and investment. They have additional needs of financing.
- *Surplus Spending Units (SSU) or Savers*. These units spend less than their current income or consumption and investment. They have more financial assets than they really need.

The interaction between the deficit spending unit and the surplus spending units can be made with intermediaries or without. But most intermediation is done indirectly, where intermediaries understand and reconcile the different needs of lenders and borrowers, because most of the times they have different conceptions about risk, liquidity or profitability. We can difference between:

- *Direct operations*. In this case lenders and borrowers make agreements and channel funds directly among them without any other intervention.

Figure 4.1. Direct Operations

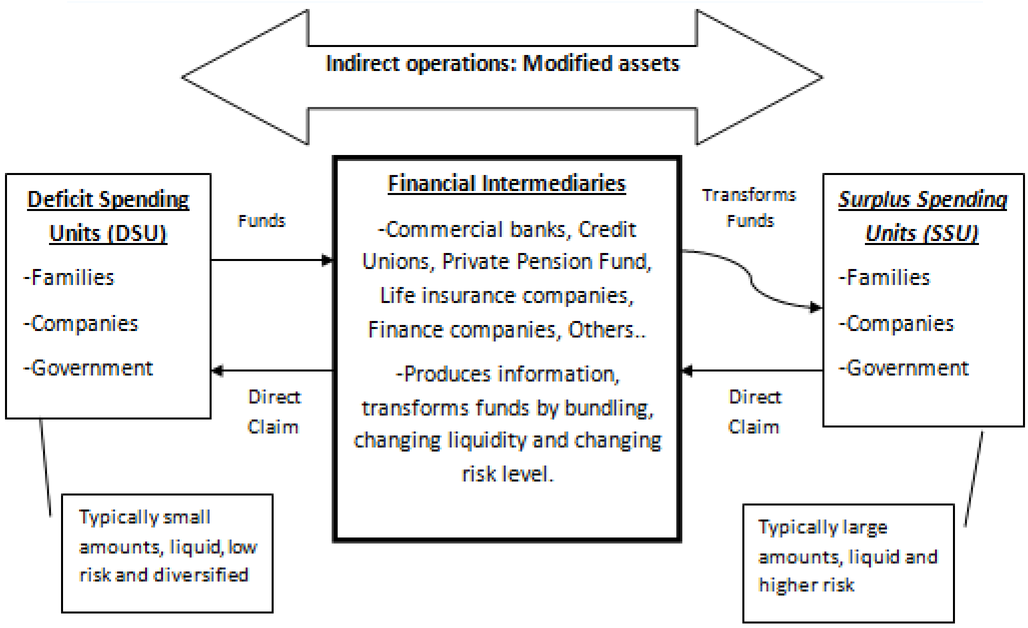


Source: Self creation from Kolb (1996) and Kaufman (1992)

In the Figure 4.1. we can observe the direct operation procedures. In these operations the deal is between a DSU (Borrower) and SSU (Saver). Most of the times they have some commissioners intermediating with the bureaucracy and searching buyers or sellers, but they don´t modify at all the essence of the asset. They exchange securities and funds without any modification from the initial state.

- *Indirect Operations.* In this case funds are channeled by financial institutions (intermediaries). In the indirect operations the savers (SSU) deposit their savings in the financial intermediaries, who redefine the input making a new output (financial assets) with different characteristics feeding with the needs of the buyers (DSU).

Figure 4.2. Indirect Operations



Source: Self creation from Kolb (1996) and Kaufman (1992)

The financial assets are the securities issues by the DSU trying to get finance. These securities transfer fund among the different financial agents, creating profitability for the SSU and liabilities for those who issue, DSU. At the same time these financial assets transfer risk.

Each financial asset has determinate characteristics always identified by risk, liquidity and profitability (Kolb, 1996).

- *Risk.* The probability of getting the value once the asset is expired.
- *Liquidity.* Measures how easily the asset can become in money without ant fee.
- *Profitability.* The potential benefits achievable by the investment in a financial asset: interests, plus values, definitely money.

There is a universal rule established among these concepts. A financial asset is more profitable as much risk as it has and less liquidity in the short term (Kaufman, 1992).

The last point to specify in the Figures 4.1 and 4.2 is the financial intermediaries. A distinction can be made between financial banking intermediaries and non-financial banking intermediaries. The banking intermediaries are commercial banks, credit unions, private pension fund and others. These institutions own financial assets and their mission are to make operation with the private sector and other institutions.

In the other hand there are other non-banking financial institutions, they do not have monetary passives and here can be included many different kinds of organization with many different goals in each country as benefit organizations or governmental support associations.

One of the most important points in this analysis is the level of efficiency brought by a determinate financial system. In a large economy all the interactions between the different spending units implies a large number of financial securities outstanding. The most efficient financial systems are those able to transfer the funds from savers to borrowers at the correct prices to finance the investment. In this analysis are mentioned two kinds of efficiency (Kaufman, 1992):

- *Allocative Efficiency.* It considers the distribution of resources according to the ability of market participants to use them most productively. In this case is supposed we achieve all the true information about the securities, what means that the price cannot be modified without a change in the value of the output.
- *Operational Efficiency.* This is referred to the value of output produced per unit of input, when the operational efficiency is achieved, the value of output per unit cannot be increased.

According to Kaufman (1992), market mechanisms, institutions and regulations have to work in order to achieve the efficiency, because this is the way to maximize the outputs with a determinate number of inputs in the financial system

4.2. FINANCIAL SYSTEM: DEVELOPMENT AND EVOLUTION

The different institutions and their procedures are very important to analyze the financial system of a specific country. Because of that in the lines bellow is described the evolution and development of the current organisms in the financial system of United States of America (Kaufman, 1992).

The first national regulation was established in 1863 by National Bank Act. The period before of this regulation is called the Free Banking Era, starting on 1837 to end in 1863. In this time many states decided to issue their own regulations about banking. These banks were allowed to issue bank notes against gold or silver coins; it means each state bank issued their own paper money.

The National Bank Act from 1863 established the Office of the Comptroller of the Currency (OCC) and charged it with the general supervision of all national banks. The OCC granted federal charters and at the same time the different states issue their own charter, different from the federal charter. The banks could work just following one charter, but just those who operated under federal charter were national banks and were allowed to introduce the word national in their name (i.e. First National Bank, or Citibank N.A.). Commercial banks were allowed to operate in the business by holding a bank charter, but did not pertain to the National Bank Act.

The act imposed new requirements to make banks safer, to avoid bankruptcies and to increase public confidence in the banking system. To achieve these goals the first changes were about the capital in the national banks. Measures as higher reserves, restrictive some kinds of loans, and the prohibition of loan more than 10% of the bank’s capital stock to any single person were taken to enhance the procedure and the security of the financial system.

This option for banks of choosing between the state charters or federal charter is still available in the United States today. The name given for this situation is dual banking system. While State Banks are just under their State charters regulations, the national banks are under their state regulations and under the OCC charter as well. Therefore when the OCC regulation is more restrictive than the State charter, the national banks are in disadvantage (Kolb, 1996).

In order of this situation and trying to issue a common regulation for all the bank, in 1913 was established the Federal Reserve System by the Federal Reserve Act. The new reserve requirements imposed by the Federal Reserve Act were applicable to all the banks without any distinction between State

Banks or National Banks. For first time the state banks were brought under of federal regulation (Kolb, 1996).

The Federal Reserve or FED was founded to serve as a banker to banks and plays an important role regulating the supply of money in the economy. Further, the Federal Reserve controls the level of bank capital demanded by its imposition of capital requirements. “The Federal Reserve must work within the framework of the overall objectives of economic and financial policy established by the government” therefore, the description of the System as “independent within the government” is more accurate (The FED Board of Governors, 2012).

After 1913, even with the FED, the dual system remains and the national banks have important disadvantages. In order of that the Pepper-Mc Fadden Act (1927) gave to the national banks the opportunity to open branches in different cities, because until this moment it was not possible for the national banks to open any branch, while the state banks had no problems in this aspect.

In 1916 Congress established the Farm Credit System by Federal Farm Loan Act in the aim to provide a reliable source of credit for the nation's farmers and ranchers.

The Great Crash of 1929 initiated the Great Depression which continued even more intense during early 1930s. The Great Crash brought the stock market collapse, vast unemployment, the failure of many banks, the loss of saving in bankrupt in financial institutions and the impossibility to ensure credit. Many people lost the savings of their whole life.

The response to face the catastrophe was the Banking Act of 1933, by Senator Glass and Representative Steagall. In this act was proposed the restriction of many activities of the commercial banks like acting as investment bank or brokers.

These restrictions were implied in the FED by the Regulation Q, where the FED restricted the interests that banks could pay to the deposits. But the most important of this act was the establishment of the Federal Deposit Insurance Corporation (FDIC) which remains in place today. The FDIC is the first time that deposits are guaranteed by a government agency. Member banks pay a deposit of a small portion of their assets to the FDIC to insure the deposits.

National banks were required to participate in the FDCI while State Banks were required to obtain FDIC insurance by state law or they could voluntarily join it in an attempt to show their appearance of solvency.

Many other laws were issued from the Great depression until 1970 in order to regulate the financial system and protect the investors. The Home Owners' Loan Act of 1933 and the National Housing Act of 1934 created a system of depository institutions with federal guaranties for deposits and control of deposits by the FED. The Bank Holding Company Act of 1956 recognizes the multibank holding companies and brings their activity under the federal regulation (The FED Board of Governors, 2012).

In 1934 was signed as well the Federal Credit Union Act into law authorizing the credit unions formation with federal charter. The purpose of this organism is to charter and supervise federal credit unions throughout the United States and its territories

By 1980 regulators and legislators realized that the laws and restrictions established after the Great Crash as can be the Regulation Q or other restrictions for the financial market were guiding the system towards disintermediation. Through the Depository Institutions Deregulation and Monetary Control Act of 1980 (DIDMCA), the FED decided to deregulate the financial system in many point, because most of them supposed barriers for the county financial development.

In 1989 was established the Federal Deposit Insurance Corporation Improvement Act of 1989 (FDICIA). The main point of this act was that commercial banks that accepted deposits were required to obtain FDIC insurance and to be under a primary federal regulator.

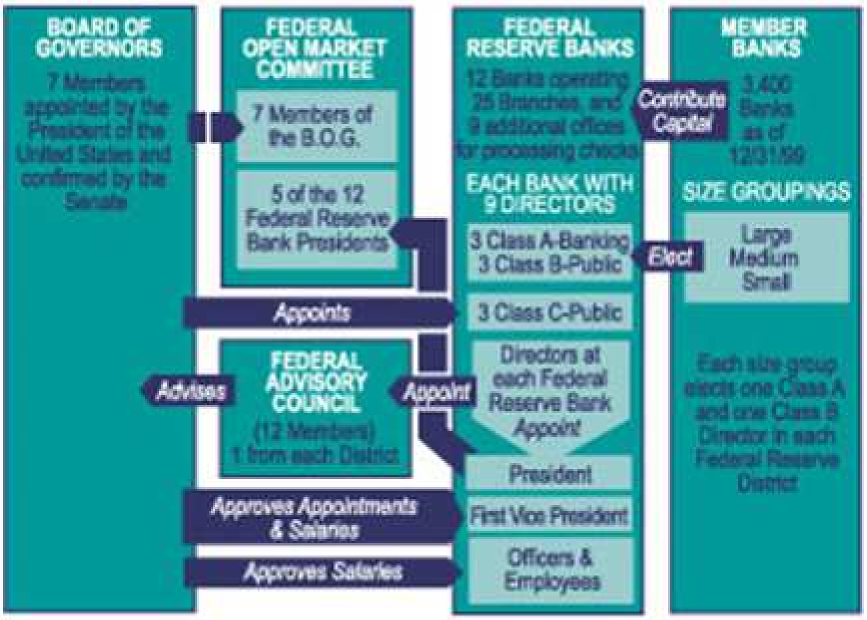
Between 2007 and 2009 U.S. faced the most severe financial crisis since the Great Depression in 1929. The lack of transparency and standards in markets for securitized loans helped to weaken underwriting standards. Because of this crisis, in 2009 was issued by the Department of Treasury a reform of the financial system (Taylor, 2009). The document issued was the Financial Regulatory Reform: A New Foundation and tries to rebuild and supervise the financial system (US Department of Treasury, 2012).

4.3. STRUCTURE OF THE FEDERAL SYSTEM

The Federal Reserve System is considered independent from the government and the senate because its decisions do not have to be ratified by these organs. However the system is subjected to the oversight by the U.S. Congress. The Federal Reserve must work according to the framework of the overall objectives of economic and financial policy established by the government (The FED Board of Governors, 2012).

The system is managed through the Board of Governors, FOMC (Federal Open Market Committee), Advisory Committees and the 12 Federal Reserve District Banks.

Figure 4.3. Organization of the Federal Reserve System



Source: Board of Governors of the Federal Reserve System (2012)

4.3.1. The Board of Governors

The board of governors is a federal agency. It is composed for 7 members appointed by the President of the government and ratified by the Senate. The longest period that anyone appointed can remain in this position is 14 years and cannot be reappointed. The President and Vice-President of the board is also appointed by the President of the government and ratified by the Senate.

The functions of this Board are to analyze the domestics and international financial and economic developments. The Board of Governors also supervises and regulates the operations of the Federal Reserve Banks, has a huge responsibility in payments system and administers the law regarding consumer credit protection.

The Board supervises and regulates the U.S. banking system, supervising the state chartered banks that are members of the FED system, bank holding companies, the foreign activities of the member banks and the U.S activities of foreign banks.

4.3.2. Federal Open Market Committee (FOMC)

The Federal Open Market Committee consists of twelve members. All seven members of the board of governors are permanent members, while the other five are presidents of the Federal Reserve Banks. The President of the New York reserve bank is a permanent member and the other 4 places are occupied by a rotating turn for the other Regional Banks presidents. The chairman of the board of governors exercises as a chairman in the FOMC too (The Fed Board of Governors, 2012).

The FOMC is responsible for domestic open-market operations to affect money supply and interest rates and for transactions in foreign currency to affect exchange rates. The FOMC meets once a month in Washington D.C.

4.3.3. Federal Reserve District Banks

There are twelve Federal Reserve District Banks represented on the Figure 4.4. and twenty five Branches around the states (Annex 1). The regional reserve banks are technically owned by the member commercial banks. As is commented above there are three kinds of commercial banks, depending of the charters they are under:

- *National Banks.* Chartered by the FED. They are members of the Federal Reserve System. As Member banks subscribe the stock of their district Fed in a fixed portion of their capital.

- *State Member Banks.* Chartered by each state regulations and members of the Federal Reserve System. As Member banks subscribe the stock of their FED district in a fixed portion of their capital.
- *State Nonmember Banks.* Chartered by the states regulations but they are no members of the Federal Reserve System.

Figure 4.4. Organization of the Federal Reserve System

Source: The FED Board of Governors (2012)

Each Federal Bank carries out a variety of System functions, including operating a nation payments system, distributing the nation's currency and coin, supervising and regulating member banks and bank holding companies, and serving as banker for the U.S. Treasury. The twelve Reserve Banks are each responsible for a particular geographic area or district of the United States.

The boards of these banks are formed by nine directors. Three of them are bankers selected by the district member banks, other three are non-bankers elected by the member banks and the last three are appointed by the Board of Governors.

The regional banks and branches perform a large number of functions:

- Operate as clearing mechanism for paper checks and electronic funds
- Examine member banks
- Provide loans to depository institutions through the discount window
- Provide currency and other services for depository institutions
- Provide information to district member banks and the general public on monetary policy, the state of the economy, developments in the financial sector, and many other information required by system units.

4.3.4. Advisory Committees

There are three committees to advise the Board of Governors. The Board of Governors is helped in their decisions by the information and experience brought by these different committees.

- *Federal Advisory Council.* Created in 1913 in the Federal Reserve Act, this council consists of 12 members, usually influential bankers, from each Fed´s district.
- *Consumer Advisory Council.* Established in order to advise the Board in relation to its duties under the consumer credit protection and other areas in consumer concern. It has 30 members including representatives from financial industry, consumers, academics and legal experts in the consumer matters.
- *Thrift Institutions Advisory Council.* This council consists of representatives from saving banks, credit unions, and saving and loans associations.

4.4. DEPOSITORY INSTITUTIONS IN THE U.S. FINANCIAL SYSTEM

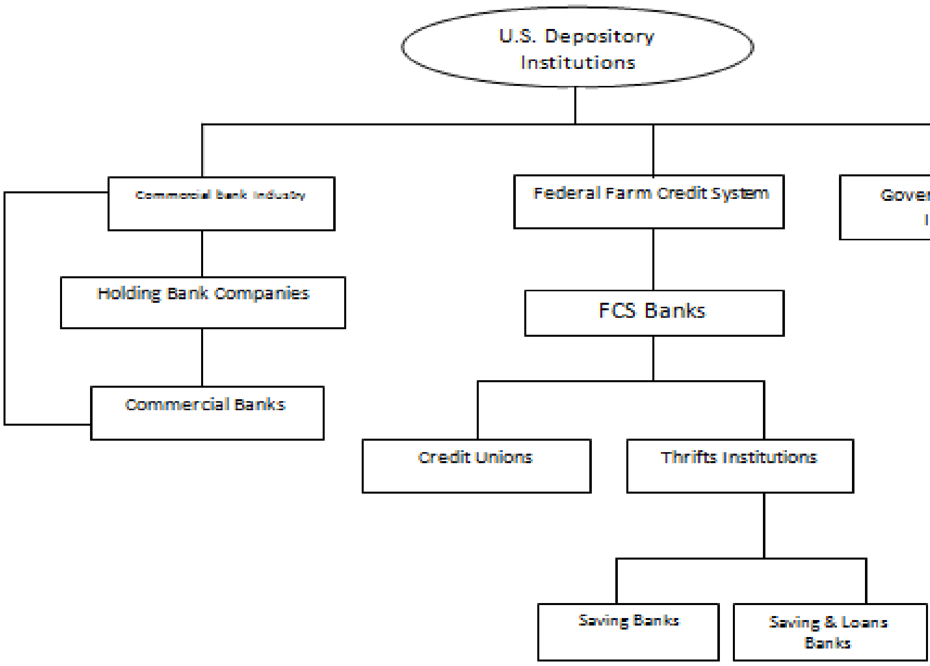
The power of these institutions is their ability to accept deposits from the public. In return, the institution must stand ready to return those funds to depositors upon demand for certain types of accounts, or after a specified period for other types of accounts. The Federal Deposit Insurance Corporation (FDIC) is the organ required to control the operations and the level of deposits.

Some of the most important activities for depository institutions in the financial system are the following (Kolb, 1996):

- Get funds by checking accounts, saving accounts, mutual funds, pension plans and life insurances.
- Provide their customers by financial loans. The different kinds of loans are mortgages, factoring, leasing and loans for other kind of business.
- Payment services and other financial procedures in order to help the customers and avoid them bureaucracy.
- Issue means of payment as credit cards, debit cards, checks, talons and others.
- Intermediation in the financial markets

The Figure 4.5. shows all different kind of depository institutions and the different levels in the U.S. financial system. In the American banking sector the commercial banks have the majority in the market, because the cooperative banking is used just for the Farm System. In the FCS the different associations and credit unions participate together in the different cooperative financial institutions like cooperative banks, which at the end have to be associated to one of the Farm Credit System Banks. Besides of these two main financial ways, the U.S. Government offer finance resources to their citizens with less repayment capacity through the Government Financial Institution is much lower.

Figure 4.5. U.S. Depository Institutions



Source: Self creation from Kolb (1996) and Escalante, Brooks and Epperson (2006)

4.4.1. Commercial Banks Industry

Two different structures are present on the commercial banks market;

- *Commercial Banks.* They acquire funds from one group of surplus spending units and make these funds available to other deficits units. Robert Kolb (1996) thinks the powers available to commercial banks by seeing the sources and uses of funds available to the typical bank. Banks raise funds by accepting deposits, borrowing funds, and issuing equity in the banking firm. The bank uses these funds to buy securities and make loans.

  Depending of the charters, banks can be defined as National Banks, State Member Banks and Nonmember Banks. Those who are chartered by the Fed follow the FED regulation and the state regulation. In other part we have other banks that just follow the state regulation.

- *Holding Bank Companies.* The Holding Banks companies are owners of different commercial banks at the same time. The main point of these holding is to get advantage in the market combining lower cost, product differentiation and diversifying the location. Through this strategy, whit different banks, the Holding company can reach all available in the States and around the world. The Bank Holding Company Act of 1956 recognizes the multibank holding companies and issued regulation for this kind of companies in the Federal system.

4.4.2. Federal Farm Credit Banks

The Farm Credit System is a nationwide network of borrower-owned lending institutions and specialized service organizations. Farm Credit associations and five System Banks each have their own boards of directors and are owned cooperatively by those who borrow from them, most of them other cooperative banks, saving banks, S&L Associations and credit unions.

- *Cooperative Banks*. A co-operative bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. Co-operative banks are often created by persons belonging to the same local or professional community or sharing a common interest. Co-operative banks can provide their members with the same range of banking and financial services than the commercial banks, but they have to face just the shares interests.

  Nowadays the five Farm Credit System cooperative banks are CoBank ACB, AgFirst FCB, AgriBank FBC, FBC of Texas and U.S. AgBank FCB.

  In the U.S. the cooperative banks are regulated by the Credit Farm System (FCS). The importance of cooperative banks in U.S. is very high, because the American agri-food sector in the most important in the world and keeps on growing up (Beierlin, Kenneth and Donald, 2008). This sector is financed by FCS, which has in the cooperative banks the tools to run the situation.

The different institutions which belong to the FCS Banks are credit unions and thrift institutions. These institutions have a cooperative organization, the affiliated are the owners and each member has one right.

- *Saving Banks:* They originally provided a means for small depositors to save and earn a return on their deposits. It channels the savings of individuals who wish to consume less than their incomes to borrowers who wish to spend more.
- *Saving and Loan Associations (S&L):* Began with the purpose of finance home ownership. The main activity is to accept savings from private investors and to provide home mortgage services for the public.
- *Credit Unions:* Credit unions are cooperative financial institutions specializing in the basic financial needs of certain groups of consumers. Credit unions offer the same financial services as banks. These are depository institution where all the members have a common bond. The advantage from the other depository institutions (S&L Associations, Saving Banks and Commercial Banks) is that Credit Unions do not have the same taxation than the other institutions; it turns the credit unions in one of the best options to get finance.

4.4.3. Government Financial Institutions

Besides of the regular commercial banks and the Farm Credit System entities, the government of U.S.A. offers other possibilities for those who are refused by the private banking sector. One example of these finance institutions is the Farm Service Agency supported by the United States Department of Agriculture (Farm Service Agency, 2011).

The Farm Credit System institutions and Commercial banks provide products adapted to its customers. These products face the problems and characteristics of each sector, but the organizations are still private and look for returns. The search for higher returns means that not everybody looking for a loan gets the finance. It depends of their financial situation and characteristics. In the moment anybody is rejected about getting finance by the FCS institutions or Commercial banks, this person has the possibility to ask for finance on the Government Finance institutions (Escalante, Brooks and Epperson, 2006).

As an example we have the Farm Service Agency, what is the government option to get a rural credit. The first requirement of this organization is that a farmer has to be rejected in FCS and commercial banks before they ask for credit to the FSA. The FSA is the last option and offer much more facilities than the others. The conditions of FCA products are very good and do not require high interests. At the same times these good conditions are enhanced by the monitoring that FSA does with its customers. As a government company the FSA tries to achieve better results for the consumers and does not look for the returns as much as the other options do. This means that the offer loans in higher risk situations and sometimes they are not sure about the repayment.

5. THE FARM CREDIT SYSTEM

The cooperative banking in the U.S. lays on The Farm Credit System. The Farm Credit System is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. Cooperatives are organizations that are owned and controlled by their members who use the cooperatives' products or services.

The cooperative banking in the U.S.A is important because of the Farm sector importance. The U.S. agribusiness is the largest in the world, the U.S. agribusiness sector produce the 12% of the total agricultural output in the world. The Farm credit system as the system that finances this sector activity regulates all the financial institutions as thrift institutions, cooperative banks or credit unions (Bishoff, 2008).

Its mission is to provide a permanent, reliable source of credit to American farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and farm-related businesses. It does this by making appropriately structured loans to qualified individuals and businesses at competitive rates and providing financial services and advice to those persons and companies (Barry, Ellinger and Hopkin, 2000).

5.1. COOPERATIVE CREDIT ORIGIN: LEGAL AND INSTITUTIONAL DEVELOPMENT

5.1.1. Origins

The cooperation as a way to get better economic results in business among different stockholders started centuries ago. In the middle age were common determinate systems to cooperate working the fields regarding to obtain better results and in the 15th century were made some loans by corn, what represents a clearly antecedent about our current credit cooperatives.

During the 19th century the United Kingdom was born the modern cooperative activity. In 1810 Robert Owen started introducing cooperative ideas in his business New Lanark. The Rochdale Society of Equitable Pioneers, founded in 1844, is usually considered the first successful co-operative enterprise, used as a model for modern cooperatives. A group of 28 weavers and other artisans set up the society to open their own store selling food items. Without this kind of organizations their business would not be possible (Farm Credit Administration, 2012).

5.1.2. The Early Years (1913-1971)

In the U.S. a farm credit system and farmer cooperatives were introduced by President Theodore Roosevelt in 1908. Regarding to these ideas, in 1913 two delegations was shipped to Europe in order to study the European farm system institutions. In Germany they found a very successful one: the Landschaft. The Landschaft had operated since 1769 and the main characteristics were (Brodnitz, 1915):

- Landholders' cooperative association controlled by the Prussian government with the purpose of getting mortgage credit or money.
- Avoid high interest for the loans caused by the shortage of reliable money. The banks loans supposed unaffordable interests.
- A borrower got 66% of the value of his land in bonds. The Landschaft sold this bond to other institutions like banks, which got interest in the refund of the bonds.
- The borrower paid 4% interest, while the investor receives 3, 5% return. The Landschaft institution does not lose money and fix lower interests for his consumers.

The credit delivery method established by the 1916 Federal Farm Loan Act was based largely on Germany's landschafts. In this Act were created the federal Land Banks (FLBs) and established the Federal Farm Loan Board.

In the Federal farm Loan of 1916 lawmakers chose a cooperative credit structure based on 12 Federal Land Banks (FLBs), owned by their farmer-borrowers, partly capitalized by the government and financed through the private purchase of tax-exempt bonds. Advocates maintained this cooperative structure would guarantee low rates.

Creation of the Farm Credit System coincided with World War I, a very prosperous time for American farmers with the demand for food in Europe. But prices collapsed after the war, and among the resulting economic problems were severe shortages of short-term credit for farmers. Congress responded with the Agricultural Credits Act of 1923, adding 12 Federal Intermediate Credit Banks (FICBs) to the Farm Credit System (Farm Credit Administration, 2012).

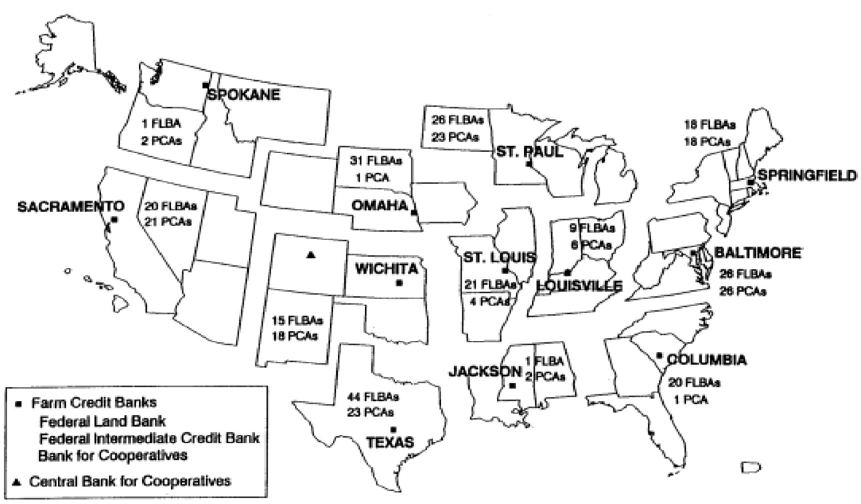
Things went from bad to worse with the stock market crash of 1929, touching off the Great Depression, throwing thousands of farmers into foreclosure and virtually shutting down the System's ability to finance agriculture.

Three major agricultural laws followed that would lead to a sweeping reorganization of the Farm Credit System:

- *Agricultural Marketing Act of 1929:* enacted to help stabilize farm prices and finance the development of agricultural.
- *Emergency Farm Mortgage Act:* passed by Congress in 1933, the act recapitalized the land banks with $189 million and cut interest rates to deal with the Depression.
- *Farm Credit Act:* This Act rounded out the FCS by establishing Production Credit Associations (PCAs) and the 13 Banks for Cooperatives (BCs).

The FCA was placed under the Department of Agriculture in 1939 until 1953 when it became an independent agency within the Executive Branch (Farm Credit Administration, 2012).

Figure 5.1. U.S. Farm Credit System Structure, January 1988



Source: Farm Credit Administration, 2012

5.1.3. The Farm Credit Act and Its repercussions (1971-1987)

The FCS structure was developed in 1933 and remained essentially unchanged for over half a century. The Farm Credit Act of 1971 converted the FCS from a mixed government corporation to a private, cooperatively owned system of institutions. The 1971 legislation broadened the range of services of the FCS including rural home mortgages, leasing, financing international marketing and lending to rural utilities.

From 1971 to 1985, many changes in relationships and structure decision making occurred, including differential supervision of banks and associations and were created organization such as Farm Bank Services and the Farm Credit Council.

FSC farm loan volume (market share) rose from less than $12 billion (23%) to peak of nearly $65 billion (33%) in 1984.

In the early 1980s, the Farm Credit System was comprised of 37 banks and more than 1,000 local lending associations. Today, there are only five Farm Credit System banks and approximately 90 local lending associations.

As American agriculture plummeted into recession in the early and mid-1980s, Farm Credit predictably suffered severe financial stress. During a three-year period from 1985-1987, Congress passed several laws to deal with recessionary economic and agricultural conditions (Farm Credit Administration, 2012).

The 1987 Act established different ways to enhance the FCS and consolidate its performance, some of the measures issued are:

- Created the FCS Financial Assistance Board to help the system institutions.
- Created the Farm Credit System Insurance Corporation (FCSIC) to protect holders of system debt obligations.
- The FLB and FICB in each district were required to merge into a Farm Credit Bank. The 12 Farm Credit districts were merged in no less than 6 districts.

Table 5.1. Farm Credit System Structure, January 1988

Region	FLBAs	PCAs	Total Associations	Banks FLBA/FICB/BC	Total
Springfield	18	18	36	3	39
Baltimore	26	26	52	3	55
Columbia	20	1	21	3	24
Louisville	9	6	15	3	18
Jackson	1	2	3	3	6
St. Louis	21	4	25	3	28
St. Paul	26	23	49	3	52
Omaha	31	1	32	3	35
Wichita	15	18	33	3	36
Texas	44	23	67	3	70
Sacramento	20	21	41	3	44
Spokane	1	2	3	3	6
Total	232	145	377	37[a]	414

Source: Farm Credit Administration, 2012

In the Table 5.2. can be observed how the 13 districts were merged in 8 different Farm Credit Banks in the following months after the 1987 Act. During this period many mergers were done among different credit institutions. This produced the decrease of the institutions number, but at the same time most of them became stronger and got more financial services.

Table 5.2. Farm Credit System Structure, January 1996

Bank	PCAs	FLBAs	ACAs	FLCAs	ACBs	FCBs	BCs	Total
CoBank ACB[a]	0	0	5	0	1	0	0	6
AgFirst FCB	1	0	39	0	0	1	0	41
AgriBank FCB	19	0	11	19	0	1	0	50
FCB of Wichita	17	22	0	0	0	1	0	40
FCB of Texas	17	48	0	0	0	1	0	66
Western FCB	11	0	4	12	0	1	0	28
AgAmerica FCB	1	0	1	1	0	1	0	4
St. Paul BC[b]	0	0	0	0	0	0	1	1
Total	66	70	60	32	1	6	1	236

Source: Farm Credit Administration, 2012

5.1.4. The Consolidation of the Farm Credit System

The 1990s also saw a continued trend of consolidation in Farm Credit, as the first Agricultural Credit Bank was formed by the merger of a Farm Credit Bank and two Banks for Cooperatives (AgFirst, 2014).

In 1999 CoBank, ACB completed the merger with St. Paul Bank for Cooperatives and its acquisition of majority interest in Farm Credit Leasing Services Corp. During the next years the Western FCB and the FCB of Texas merged with AgriBank, FCB and AgFirst, FCB reducing the number of districts to the current number, five.

By 2000 the agricultural sector realized that the different credit unions should merge or join by strategic unions others in order to achieve higher capital and opportunity to offer more financial possibilities. The trend last years is focused in the concentration of the sector.

Today, through approximately 78 local Farm Credit associations and four Farm Credit banks, the Farm Credit System provides more than $201 billion in credit and related services to farmers, ranchers, rural home owners, aquatic producers, timber harvesters, agribusinesses, and agricultural and rural utility cooperatives (Farm Credit Administration, 2014).

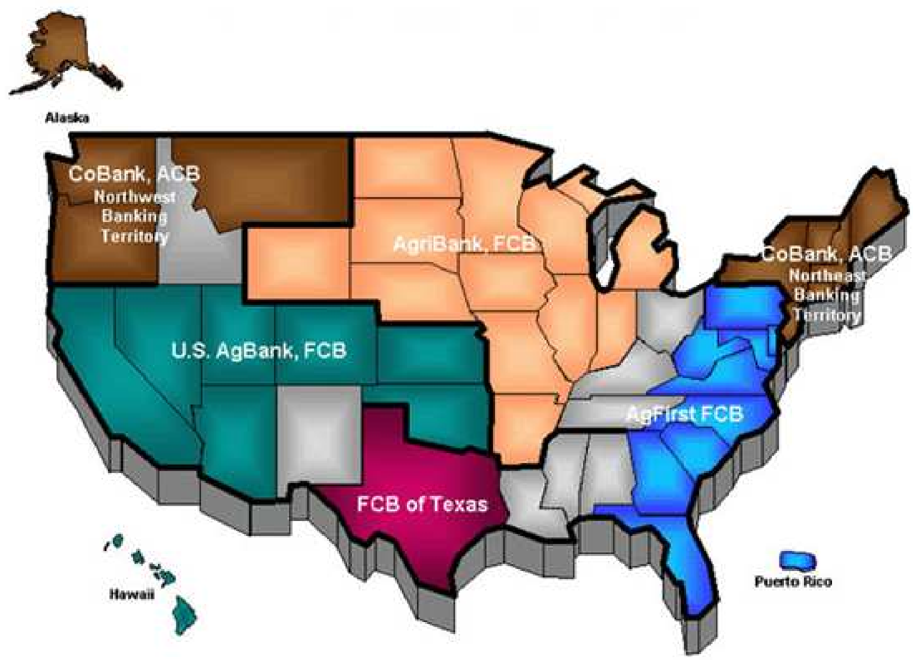
Table 5.3. Farm Credit System Banks and Associations, January 2010

Bank Affiliation	ACA Parents	FLCAs	ACB	FCBs	Total
CoBank, ACB[2]	4	0	1	0	5
AgFirst FCB	22	0	0	1	23
AgriBank, FCB	17	0	0	1	18
U.S. AgBank, FCB	24	2	0	1	27
FCB of Texas	18	1	0	1	20
January 4, 2010	85	3	1	4	93
January 4, 2009	83	7	1	4	95
Increase/Decrease	2	(4)	0	0	(2)

Source: Farm Credit Administration, 2012

Nowadays the districts distribution is the one in the chart below. This distribution is made among 4 system banks, which identify the different 4 districts. AgFirst, AgriBank and FBC of Texas are Farm Credit Banks; however CoBank is an Agricultural Bank.

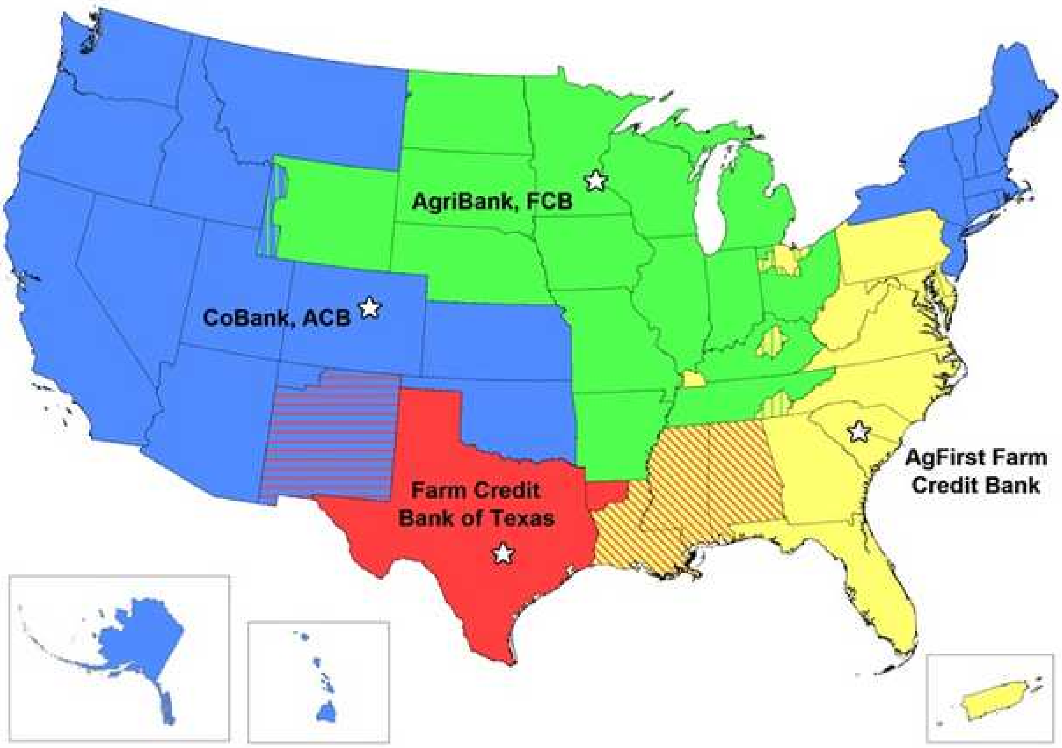
Figure 5.2. Territory distribution of FCS Banks, January 2010



Source: Farm Credit Administration, 2012

In December of 2010 was executed a Letter of Intent to merge between CoBank and U.S. AgBank. The merged bank continued to do business under the CoBank name’s and kept the headquartered in Colorado but will maintain U.S. AgBank's existing presence and operations in Wichita, Kansas, and Sacramento, California. It will also continue to be organized and operate as a cooperative, with eligible borrowers earning cash and equity patronage based on the amount of business they do with the organization. The merged was executed during 2012 and the 2013 was the first year where both companies act as one (Stebbins, 2011).

Figure 5.3. Territory distribution of FCS Banks, January 2014



Source: Farm Credit Administration, 2014

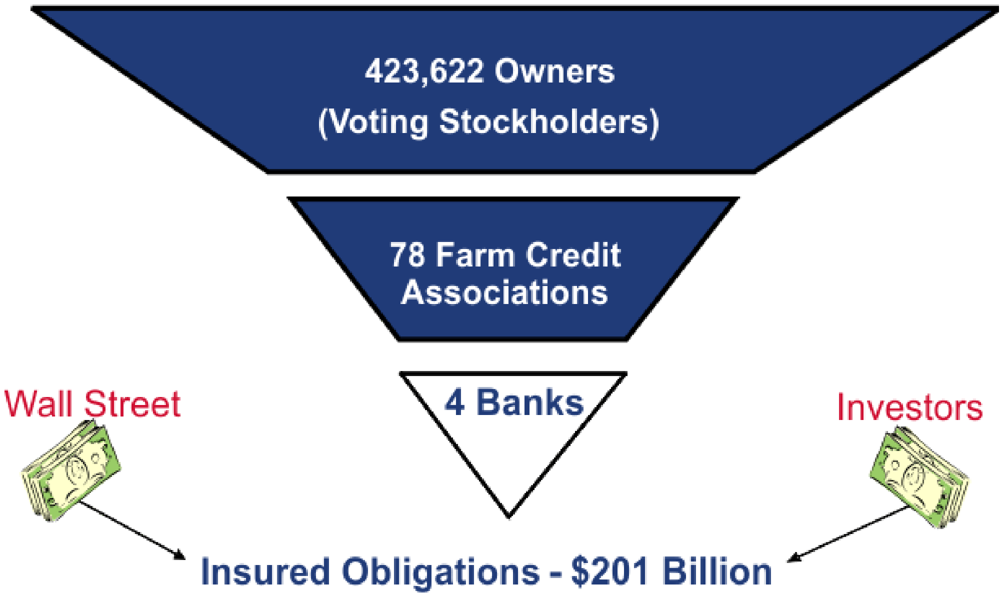
As of January 1, 2014, CoBank funds 27 associations in the indicated areas and serves cooperatives nationwide; Farm Credit Bank of Texas funds 15 associations; AgriBank, FCB, funds 17 associations; and AgFirst Farm Credit Bank funds 19 associations. The Farm Credit System contains a total of 82 banks and associations (Farm Credit Administration,2014).

5.2. THE FARM CREDIT SYSTEM STRUCTURE

5.2.1. Farm Credit System Overview

The Farm Credit system is nationwide financial cooperative lending money to agriculture and rural America. The Congress established the Farm Credit System structure as independent federal regulator and Government Sponsored Enterprise to examine and regulate cooperative institutions, including their safety and soundness. The Associations are cooperatives owned by their borrowers and the Farm System Banks (AgFirst, AgriBank and FCB of Texas) are cooperative principally owned by their affiliated associations. The Agricultural Credit Bank, CoBank, is a cooperative principally owned by, cooperatives, other eligible borrowers and its affiliated Associations. Each Bank and Association manages and controls its own business activities, operations and financial performance (Farm Credit Administration, 2012).

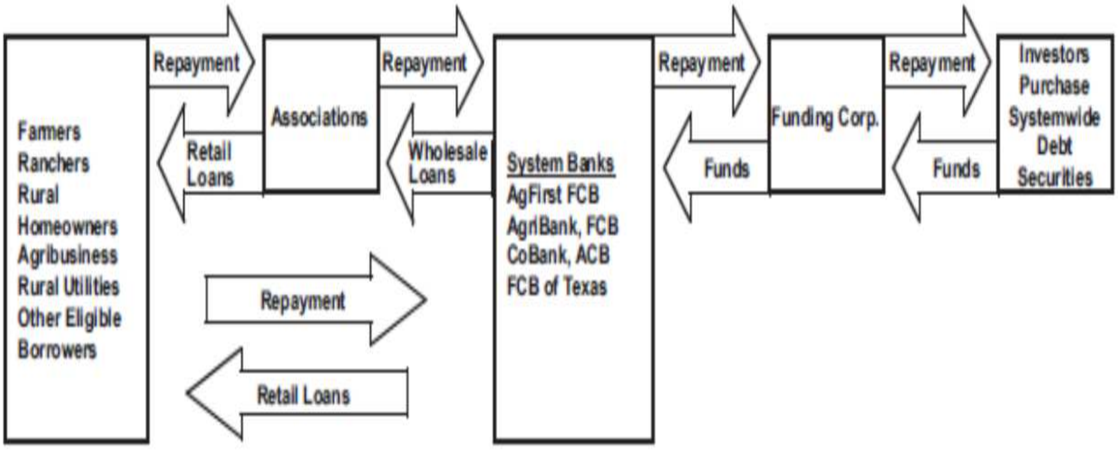
Figure 5.4. Farm Credit System Pyramid on May 2014



Source: Farm Credit System Insurance Corporation, 2014

The System Banks jointly own the Federal Farm Credit Banks Funding Corporation, which issues, markets and processes System wide debt securities, using a network of investment dealers and dealer banks. Loanable funds are raised through the sale of system wide bonds and notes. These funds are delivered from Wall Street to the four System Banks located throughout the United States. The 4 System Banks loan these funds to the different local cooperative association and individual borrowers.

Figure 5.5. Farm Credit System Flow



Source: Farm Credit System Insurance Corporation, 2014

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The system is regulated by the Farm Credit Administration and implements his policies with the previous analysis of The Farm Credit Council. Moreover the System has an insurance fund to insure the timely payment of principal of and interest on Farm Credit Debt Securities, to the extent funds are available. The Farm Credit System Insurance Corporation administers provides insurance services to System organizations and is owned by the system banks as well.

5.2.2 Regulatory Institutions

5.2.2.1. *Farm Credit Administration*

The Farm Credit System is subjected to congressional legislation and oversight by the Farm Credit Administration (FCA). The FCA is an independent federal regulatory agency and has jurisdiction over the FCS agencies. The Farm Credit Administration examines each System institution in terms of risk, credit quality, capitalization, earnings and interest rates.

The Board of directors is composed by three members appointed by the President of U.S. Under their control the FCA is authorized to take specified enforcement actions to ensure the safe of System institution operations. These powers include:

- Issue cease and desist orders,
- Suspend or remove a director or an officer of a system institution,
- Impose specified civil money penalties for certain violations of the Farm Credit Act or Farm Credit Administration regulations.

5.2.2.2. *Farm Credit System Insurance Corporation*

The Insurance Corporation is an independent corporation and it is not under the control of any System institution. The Insurance Corporation's primary purpose is to ensure the timely payment of principal and interest of debt securities. The Insurance Corporation is required to expend funds in the Insurance Fund. The funds are collected from the different banks which have to deposit a percentage of their loans depending of its charters. These funds can be used in the system for (Farm Credit Administration, 2013):

- Insure the timely payment of principal and interest on System wide Debt Securities.
- Ensure the retirement of protected borrower stock at the par value.
- Afford its own expenses
- Borrow the fund to any company which has not liquidity to afford the liabilities.

5.2.2.3. *Farm Credit Council*

The Farm Credit Council is a full-service, federated association representing the System before Congress, the Executive Branch of the United States Government, and others. The Council provides the mechanism for "grassroots" involvement in the development of System positions and policies with respect to Federal legislation and governmental actions that impact the System.

As a full-service trade association, the Council also provides support services to its members on a fee basis in areas such as training, marketing, insurance, and purchasing.

5.2.3. The Agent for the System Banks: Federal Farm Credit Banks Funding Corporation

The Funding Corporation is the fiscal agent for the System Banks. As agent for the system Banks, the Founding Corporation issues, markets and handles System wide debt securities. The Funding Corporation utilizes selling groups of investors and bank dealers to sell securities around the world. The customers of these securities are commercial banks, states, municipalities, pension and money market funds, insurance companies, investment companies, corporations and foreign banks and governments (Farm Credit Administration, 2012).

At the same time the Funding Corporation supports the systems banks in different funding activities and managing different assets/liabilities activities. The Funding Corporation also provides the System Banks with certain consulting, accounting, and financial reporting services, including the preparation of the annual reports and financial information statements.

The Farm Credit Administration is the institution responsible of control and regulation of Funding Corporation.

5.2.4. Farm Credit System Banks

The Farm Credit system had 4 banks at 31 December 2013, four Credit Banks and one Agricultural Credit Bank. The banks and their associations are referred to the different districts mentioned above in the Figure 5.3. This structure was different before 2013 when the U.S. AgBank merged with CoBank and continues working in its area under the name of CoBank.

The banks are structured in a cooperative way, the different loan associations, credit unions and individuals own the company as affiliates. The different associations are the owners of the banks and the different banks have to work in order to help and retribution the affiliate institutions.

The Banks' lending operations include wholesale loans to their affiliated associations and loan participations in eligible loans purchased from associations, other banks and non-system lenders.

The Banks obtain the majority of their funds by issuing debt securities and by lending operations. But at the same time obtain some of their funds from internally generated earnings, from the issuance of common and preferred equities and from the issuance of subordinated debt.

5.2.4.1. *Farm Credit Banks*

The 3 credit banks are:

- *AgriBank, FCB.* This is the largest of four banks within the national Farm Credit System. It oversees agricultural lending in a district that stretches from Ohio to Wyoming and Minnesota to Arkansas. AgriBank has over $80 billion in assets and a loan quality (AgriBank, 2014).

- *FCB of Texas.* Farm Credit Bank of Texas is chartered to serve the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. FCB of Texas has over $20 billion in assets and loan quality (Farm Credit Administration, 2011).

- *AgFirst, FCB.* The AgFirst is chartered to serve the states of Pennsylvania, Delaware, Maryland, Virginia, North Carolina, South Carolina, Florida, Mississippi, the Commonwealth of Puerto Rico and portions of Ohio, Tennessee, Kentucky and Louisiana. Ag Credit Bank and its associations, provide real estate and production financing to more than 80,000 farmers, agribusinesses, and rural homeowners. AgFirst reported assets of $33.4 billion as of December 31, 2011 (AgFirst, 2014).

5.2.4.2 *Agricultural Credit Bank*

With these characteristics the bank has only one Agricultural Bank:

- *CoBank, ACB.* CoBank, ACB provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states. CoBank was created in 1989 through the merger of 11 Banks for Cooperatives. Moreover to the activities of the farm credit banks, CoBank has additional nationwide authority to make retail loans directly to cooperatives and other eligible entities (CoBank, 2013).

  In 2011 was signed an agreement to merge between CoBank and U.S. AgBank, during the 2012 will take part the ensamblation of this operation and then in 2013 AgBank will operate under CoBank’s name. This merge will suppose a change on the CoBank's structures and organization, but the bases and goals of the Agricultural Credit Bank will keep being the same.

5.2.5. Credit Unions and Thrift Institutions

The Credit Unions and other thrift institutions are the owners and affiliates of the Farm Credit Banks. There are different kinds of associations with retail lending locations with direct borrower-owner relationship. They offer loans, leases and a variety of related financial services to rural America. Each of them is ready to fulfill the special needs of their affiliates, which are also characterized due to a sector, type of business or region. Each borrower that looks for finance can chose between saving banks, saving and loan associations and credit unions.

5.2.5.1. *Saving banks*

They originally provided a means for small depositors to save and earn a return on their deposits. It channels the savings of individuals who wish to consume less than their incomes to borrowers who wish to spend more. Nowadays these activities can be done by other institutions as Saving & Loan Associations or

Credit Unions. Unlike commercial banks, savings bank does not accept demand deposits.

By law, saving banks must have at least 65 percent of their lending in mortgages and other consumer loans (Farm Credit Administration, 2013).

5.2.5.2. *Saving and Loan Associations (S&L)*

The S&L Associations began with the purpose of finance home ownership. The main activity is to accept savings from private investors and to provide home mortgage services for the public. The depositors and borrowers are members with voting rights, and have the ability to direct the financial and managerial goals of the organization, similar to the policyholders of a mutual insurance company.

The deregulatory measures of 1980's allowed saving and loan associations to enter the business of commercial lending, trust services, and nonmortgage consumer lending. These associations are regulated by Federal Home Loan Bank Board (FHLBB).

Nowadays as we mentioned before thrifts must have at least 65 percent of their lending in mortgages and other consumer loans. This measure can lead these S&L associations to the bankruptcy if there is a house downturn (Farm Credit Administration, 2013).

5.2.5.3. *Credit Unions*

Credit unions are cooperative financial institutions specializing in the basic financial needs of certain groups of consumers. Credit unions offer the same financial services as banks. These are depository institution where all the members have a common bond. This common bond may be based on similarity of occupation, religion, affiliation or geography according to the Credit Union Act of 1934.

The Credit Unions around the U.S. are chartered by The National Credit Union Administration (NCUA). The NCUA is an independent federal agency .

Like banks and thrift institutions, credit unions accept demand depository and time deposits. A time deposit at a credit union is known as a share account. Each member gets returns from his account as dividends. In other hand providing loans to members is the most important point for the credit unions. Most of credit unions assets are shared with the members in loans and mortgages.

The differences between credit unions and commercial banks are those mentioned on the Table 5.4.

Table 5.4. Main Differences Between Credit Unions and Other Thrift Institutions

Credit Unions	Commercial Banks and other thrift institutions
Not-for-profit cooperatives	For profit banks.
Owned by members	Owned by outside stockholders
Operated by mostly volunteer boards	Controlled by paid boards

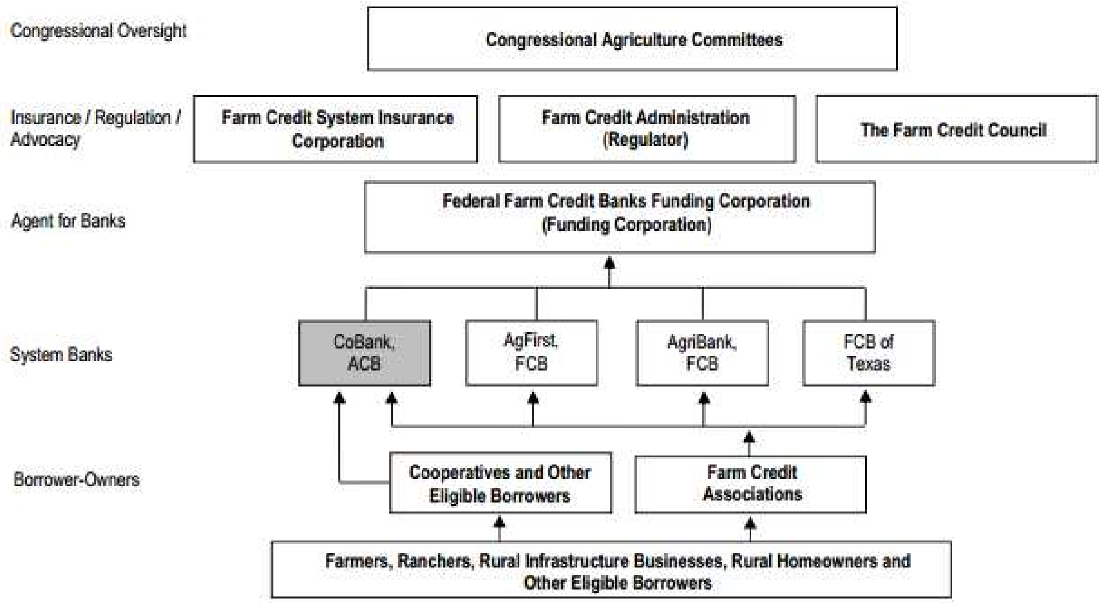
Source: Self creation from Bishoff (2008)

In 2009 twenty eight credit unions merged with commercial banks in order to achieve other kind of operations and higher benefits (National Credit Union Administration, 2010). All of them changed their legal form, moved from their non-profit activity to look for the highest possible return and let paid boards run their business.

5.3. FARM CREDIT SYSTEM STRUCTURE

The structure of the Farm Credit System is pyramidal regarding to the number of associations in relation to their business volume and responsibility in the system. In the lowest level the number of customer-members is much higher than in the second level, where the primary customers are grouped in the different System Associations. At the same time these associations are affiliated to one of the different four System Banks, all of them work together to get the best finance products with the best possible conditions.

Figure 5.6. Farm Credit System Structure



Source: Farm Credit System Administration, 2014

5.3.1. First Level: Primary Customers and their demands

The lowest level in the Farm Credit System lays on farmers, ranchers, producer s, agricultural cooperatives, eligible rural communications, energy and water companies, rural homeowners and other eligible borrowers. Each of these groups has different needs and has required characteristics to feed in the parameters for the credit.

5.3.1.1. Ranchers and Farmers

The System serves a wide spectrum of agriculture including: part-time farmers, small, traditional producers, multi-family commercial operations and large, vertically integrated operations (Birhoff, 2008). The products and services they require from the different Farm Credit Associations are:

- Real Estate Financing
- Finance Operating
- Leasing
- Crop Insurance

5.3.1.2. Rural Home Owners

The system provides financing for people who live in rural communities with than 2,500 people (Birhoff, 2008). The finance products required from the different system associations for this group are:

- Lots and home construction
- Modular, log and other unique homes
- Refinancing existing homes

5.3.1.3. Agribusinesses

The system serves a broad range of customers from local and regional agricultural cooperatives to large individual producers and multi-national corporate enterprises involved in the food chain. The financial products for this group are provided by system banks and associations.

- Real estate finance
- Operations finance
- Leasing and Equipment finance

5.3.1.4. Rural and Agricultural Cooperatives

Agricultural cooperatives supply farmers and ranchers with feed, fuel and fertilizer, normally they are created in the Credit Union format. They also play an important role in the processing, marketing and distribution of agricultural products. The rural cooperatives provide with energy, water and communications all system units. Both banks and associations in the system offer the cooperatives the following products:

- Operating finance
- Facility finance
- Leasing
- Equipment finance

Table 5.5. Farm Credit System lenders and Customers

Customers	System Banks (CoBank, AgFirst, AgriBank and FCB of Texas)	System Associations (Credit Unions and S&L Associations)
Farmers	x	x
Ranchers	x	x
Rural Homeowners	x	x
Agribusiness	x	
Rural Cooperatives	x	

Source: Self creation form Bishoff (2008)

The Farm system competes with other lenders, including commercial banks, insurance companies and other finance companies. This is a complicated situation because even the associations affiliated to the system can turn to these commercial banks.

In 2010 according to the Farm credit System Annual Report, the Farm Credit System served nearly 408.088 customers-owners identified with different kinds of customers as cooperatives, agribusiness, farmers and many more. These 408.088 members were affiliated to the 90 Farm Credit associations existing in this moment. The volume of loans provided by the Farm Credit System reached $175 billion in 2010.

Since 2006 until the 2010 the levels of loans and profit of the Farm Credit System growth in relation to the confidence of his affiliates and the low interest rates offered in the financial products for the different institutions. In 2006 the gross of loans was $123 billion while in 2010 this amount was $175 billion, increasing the activity about 42% in only 4 years (Federal Farm Credit Bank Funding Corporation, 2012).

The farmers or associations coming to the system associations in order to get finance, find there very low interests, facilities and support in the managing. At the same time the members get returns at the end of the year, what is a motivation for the members, because as much as they operate with the association better results will be achieved.

Table 5.6. Farm Credit System Gross Loans, 2006-2010

Dollars in Millions

	2006	2007	2008	2009	2010	Percent change from 2006
Production agriculture						
Long-term real estate mortgage loans	56,489	63,458	71,892	75,352	78,021	38.1
Short- and intermediate-term loans	28,731	32,267	37,468	39,610	40,584	41.3
Agribusiness loans*	21,141	28,091	26,901	23,626	29,581	39.9
Rural utility loans	9,569	10,846	13,931	14,562	15,091	57.7
Rural residential loans	3,408	3,965	4,611	4,977	5,475	60.7
International loans	2,183	2,135	4,077	3,956	4,036	84.9
Lease receivables	1,489	1,708	1,952	2,160	2,021	35.7
Loans to other financing institutions	426	436	591	587	542	27.2
Total	**123,436**	**142,906**	**161,423**	**164,830**	**175,351**	**42.1**

Source: Federal Farm Credit Bank Funding Corporation Annual Information Statements (2012)

5.3.2. Second Level: The System Associations

The Credit Unions and other thrift institutions are basically the System Associations. There are different kinds of associations with retail lending locations with direct borrower-owner relationship. They offer loans, leases and a variety of related financial services to rural America. Each of them is ready to fulfill the special needs of their affiliates, which are also characterized due to a sector, type of business or region.

The financial securities issued by the associations to the members-customers in the first level are provided, most of them, by the System Banks. The System Banks provide the associations with the loans they require. These amounts represent for the company liabilities and financial assets at the same time. The loan offered by the Bank System has to be repaid in the expiration date by the association, but this association uses this amount of money to issue debt securities, which offer those as financial products to the retail local customers.

Associations transform the loans from the system banks in different financial products adapted to the customers, because their customers-members need financial assets focused strictly in their needs. Products and services provided by the System associations are:

- Credit and mortgage.
- Crop insurances covering specific risks (hail, fire or lightning).
- Livestock risk protection.
- Leasing services.

Making a loan the associations consider many factors about the borrowers and require some standards to minimize the risk. The factors considered include borrower integrity, credit history, cash flows and other management analysis.

Moreover to reduce the credit risk, each association establishes lending limits. These limits represent the maximum amount of money can be lend to a customer.

5.3.3. Third Level: System Banks

As the system associations, the banks are in an intermediary position as well. Above of the banks we can find the Funding Corporate, which sells the securities from the System Banks to a worldwide group of investors, provides by funds the Banks for their needs. The System Banks combine their own fund and funds obtained from the Funding Corporation to offer different financial products to the associations and retailers.

The System Banks make a differentiation when they offer financing to associations and retailers. With the retailers the Banks use the same system than associations, they value the different risk factors before the lending.

However in case of wholesale loans to associations, the Banks and their respective affiliated associations have an agreement about the lending terms. These agreements typically include:

- Measurable, risk-based covenants,
- Collateralization of the loan by substantially all association assets,
- A defined borrowing base calculation or maximum loan amount,
- A prohibition against other borrowings without the approval of Bank,
- Loan rates tied to financial performance.

6. CORPORATE SOCIAL RESPONSIBILITY AND PARTICULARITIES ON THE BANKING INDUSTRY

6.1. DIFFERENT TERMS AND PERCEPTIONS OF CSR

The concept of Corporate Social Responsibility is named with many different terms and not all of them have the same perception. Nowadays the terminology is going to a common definition which refers to the way in which companies treat their stakeholders. But the lack of a widely agreed definition contributes to the debate of the CSR meaning and the different policies in order to be social responsible.

6.1.1. Corporate social performance and responsiveness

In 1975, Preston and Post suggested and approach to establish the legitimacy of the corporate responsibility field. During the 70's business had been assumed as an independent force which interacted with other social forces, but was not influenced by them.

Preston and post pointed that business affect social forces, but at the same time they are mutually affected by these social forces. Preston and Post replaced the word responsibility instead of performance to create the term corporate social performance. They focused their interest on a firm's ability to respond to social issues.

In 1978 William named the corporate social performance as corporate social responsiveness. This term was defined by William as "the capacity of the corporation to respond to the social issues". William observed Preston and Post models and proposed his responsiveness model because he considered the other one just conceptual. His new model measure the level of response to the business issues in three levels: reactive, defensive or responsive.

In 1994 Donna Wood sought a model which included the outcomes of social responsiveness as actual indicators of social corporate performance. She defined Corporate Social Responsibility as "a business organization's configuration of: principles of social responsibility, process of social responsiveness and observable outcomes as they relate to the firm's societal relationships".

6.1.2. Corporate Sustainability

Corporate sustainability emerged in 1987 from the World Commission on Environment and Development. Sustainable development meets the needs of the present without compromising the ability of future generations to meet their own needs.

This term is used by many companies which does not like the implications of the term corporate social responsibility. An example of this is the definition of corporate sustainability provided by PriceWaterhouseCoopers in 2006: "Corporate sustainability can be defined as meeting society's expectation that companies add social, environmental and economic value from their operations products and services".

6.1.3. Corporate Social Responsibility (CSR)

Michael Hopkins (2007) defines CRS in his book "CSR and international Development" as "treat the stakeholders of the firm ethically or in a responsible manner". For Hopkins ethically means treating stakeholders in an acceptable manner, according to the civilized societies. For him CSR includes economic and environmental responsibility.

Hopkins believes that the aim of social responsibility is "to create higher and higher standards of living, while preserving the profitability of the corporation, for peoples within and outside the corporation".

Hopkins focus his analysis in the increasingly importance of the companies in the society. The volume of business in many multinational enterprises is higher than many governments or nongovernmental organizations. Because of this Hopkins thinks that large corporations need to take more responsibility for development than ever. The governments and nongovernmental organizations cannot keep on developing the society without the business help.

For Hopkins companies may engage fully with its stakeholders and explores options for following development efforts while ensuring the value of the company. Companies must think longer, because poor development with lower standards does not ensure the sustainability of their operations. Otherwise a society with higher living standards assures better opportunities and viability.

William Werther and David Chandler have a similar approach than Michael Hopkins in their book Strategic Corporate Social Responsibility: Stakeholders in a Global Environment (2006). For them business is a broad concept which means more than just for-profit seeking entities and, therefore, also have an obligation to benefit the society.

6.1.4. Company Stakeholder Responsibility

Edward and Ramakrishna (2005) defined the Corporate Social Responsibility as the challenge to promote a different way of doing business that integrates considerations of business, ethics, and society. But for them corporate social responsibility separates business and ethics or society. In this point corporate social responsibility becomes “an add-on to ameliorate the supposedly harsh consequences of this view of capitalism”.

Edward and Ramakrishna supports that capitalism is a system of social cooperation, a system of how we work together to create value for each other. But for them the term CSR can lead to dangerous social policies, where companies try to lift hundreds of millions of more people out of poverty around the world. For them this kind of actions must involve governments and NGOs, but no companies which must be focused in their own microenvironment.

Edward and Ramakrishna propose to replace corporate social responsibility with an idea they call “company stakeholder responsibility”. They propose this term because CSR refers to the follow issues, which for them are more relation with company stakeholder responsibility.

- Analyze its stakeholders, with names and faces, and their interests.
- Seek solutions which satisfy multiple stakeholders.
- Communication and voluntarism in the stakeholders’ relationships.
- Company negotiates with primary and secondary stakeholders.

- Monitoring and redesigning processes to serve better our stakeholders.

Edward and Ramakrishna proposed a new term for the Corporate Social Responsibility, understanding this term more like Company Stakeholder Responsibility as a new capability for organizations to develop. They propose this term because for them the actual Corporate Social Responsibility refers to how companies treat their stakeholders.

6.1.5. The UK definition of Corporate Social Responsibility

Nigel Griffins and Tim Clement-Jones defined their vision of CSR in the 2004 edition of John Hancock's "Investing in CSR. A Guide to Best Practice, Business Planning and the UK's Leading companies."

For the ex UK´s economy minister Nigel Griffins, CSR must be Corporate Responsibility. This term refers the way businesses take account of their economic, social and environmental impacts in the way they operate; maximizing the benefits and minimizing the downsides.

In the same book Tim Clement Jones, responsible of the government's Department of Trade and Industry, defined CSR as "The management of an organization's total impact upon its immediate stakeholders and upon the society within which it operates. CSR is not simply about whatever funds and expertise companies choose to invest in communities to help resolve social problems, it is about the integrity with which a company governs itself, fulfills its mission, live by its values, engages with its shareholders, and measures its impacts and report on its activities".

6.1.6. European Union vision of Corporate Social Responsibility

The EU published the following definition of Corporate Social Responsibility in the EU's Green Paper published in July 2001. The EU considers CSR as "a concept whereby companies integrate social and environmental concerns in their business operations and their interaction with their stakeholders on a voluntary basis".

For the UE, CSR cannot substitute the regulation or legislation concerning social rights and environment standards. For the UE, in countries where do not exist these regulations the effort should focus on issuing the proper regulatory or legislative framework where social responsible practices can be developed.

For the UE the most important in the social responsible field is the regulatory framework instead of the companies' initiatives. The UE's government considers that must be a legal framework to guide the different steps companies need to follow in order to be social responsible.

This conception of CSR is different than contemporary authors as Michael Hopkins, David Chandler and William B. Werther. These authors insist on the responsibility of business running the world and improving their environment. Opposite to the UE, they think companies must improve their CSR practices in order to ensure the viability of their business.

6.2. DEFINITION AND TREND OF CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility covers the relationship between corporations and the societies which they interact. CSR also includes the responsibilities that are inherent to both sides of these relationships. CSR include all the stakeholders and groups that maintain an ongoing interest in the organization's activity.

Stakeholders groups range from clearly defined consumers, employees, suppliers, creditors, and regulating authorities to others such as local communities and even the environment. Each firm needs to identify their stakeholders and their importance regarding to the company performance. Increasingly, firms need to incorporate the stakeholders' interests to the strategic outlook or risk losing societal legitimacy. CSR helps firms to adjust their strategic planning process in order to maximize the long term viability of the organization.

According to the Carroll's Pyramid of CSR (1991), corporate social responsibility embraces economic, legal, ethical and discretionary action that affects the economic performance of the firm.

Figure 6.1. The Pyramid of Corporate Social Responsibility

Source: Carroll (1991)

The most important goal in a firm is to achieve benefits for its shareholders. The activity of business is approached to achieve benefits, but companies cannot forget their interaction with the society.

Another significant part of a firm's CSR is complying with the legal or regulatory requirements, because break these rules is not social responsible. Clearly the law is important, but is merely a minimum condition of CSR. But Strategic CSR is focused more on the ethical and discretionary concerns that are less precisely defined and for which there is often no clear consensus.

CSR is not about saving the whales or ending the poverty. Instead, CSR is about the economic, legal and discretionary issues stakeholders' view as affecting the firm's plans and actions. Corporate Social responsibility is concerned with the ends of economic viability and the means of being socially responsible.

CSR adds value because it allows companies to reflect the needs and the concerns of their various stakeholder groups. By these activities a company retains its societal legitimity and maximizes its financial viability over the long time. Firms by CSR try to develop the quality of their environment (Economic, organizational and social stakeholders), what assure them viability and prosperity in their markets. Consumers want to buy products from companies they trust, employees want to work for companies they respect, suppliers want to operate with companies they rely on and potential investors want to support firms socially responsible.

CSR is becoming more relevant for business today because of four identifiable trends (Werther, 2006):

- *Increasing Affluence:* Societies with higher life standards pay more attention to the CSR practices, instead of poorer societies where the need of food or work is more important than the ethical issues.
- *Changing Social Expectations:* Consumers in developed societies expect more the companies. Corporate scandals do not benefit firms in front of their consumers and can produce some changes in the consumers' perception of the brand.
- *Globalization and the Free Flow of Information:* The growing influence of global media makes sure that any responsible action or scandal is brought rapidly to the attention of the public.
- *Ecological Sustainability:* Nowadays the society already realized that the Earth has ecological limits. This means that firms have to be responsible with the environment, because it can penalize a company by court-imposed fines, negative publicity or confrontation with activist groups.

6.3. CORPORATE SOCIAL RESPONSIBILITY POLICIES AND INITIATIVES

Obviously the definition of corporate social responsibility refers to behave ethically and responsible with all the stakeholders in a company in order to achieve the viability and better results. But when a CSR policy needs to be introduced in the company strategy the different initiatives which cover all different fields in the company are human resources, supply chain, marketing, environment, corporate governance and development.

6.3.1. Human Resources Initiatives

These initiatives are directed toward raising the economic, social, and political opportunities for employees, contract workers, and potential employees in the workplace. They could seek to enhance employee voice, improve employee benefits, wages, working conditions, and so on. They could focus on a specific group of employees or specific issues such as women representation, diversity, stigma, and ethnic or linguistic capabilities.

Labor Corporate Responsibility initiatives often appeal to pools of potential employees and broader actors via the media affecting corporate reputation.

The employment relationship confers rights and duties to the employer and to the employee. Some of the responsibilities are legal or contractual; others are social or ethical in nature. The most of human resources initiatives pursue better conditions in the following rights or opportunities:

- Right to organize and bargain.
- Right to a safe and healthy workplace.
- Right to privacy
- Right to equal employment opportunity
- Right to be treated with respect for fundamental human rights
- Formation and capabilities development
- Additional advantages in other companies of the group.
- Right of wage according to the level of development.

At the same time labor Corporate Responsibility initiatives need facing the employees' duties. Employees have a duty to behave in acceptable ways. Some of the duties as no drugs or alcohol abuses and no actions that would endanger others are issued in the employee regulations. But others will be achieved creating an adequate working environment. The labor Corporate Responsibility initiatives pursue to achieve these goals trying to provide better conditions to the employees. These goals are:

- Treat others with respect and without harassment of any kind.
- Honesty; appropriate disclosure.
- Loyalty and commitment.

- Respect for employer's property and intellectual capital.
- Hard work and the wish to achieve the company goals.

6.3.2. Marketing Initiatives

CSR initiatives oriented to consumer include product and process innovations as less carbon, water and energy content; as well as promotion, advertising, and distribution strategies. Green marketing improved product functionality as miniaturization, and new products as carbon offsets are often the earliest evidence of consumer-oriented CSR.

The main goal of these marketing initiatives regarding to product innovations is to find out the consumers' needs and wants. The majority of income in a company comes from the sales. This is the main reason to focus the marketing initiatives in the consumer preferences. The effort of a company analyzing its customers' behavior and preferences will report higher benefits and viability in the future. If a company is able to cover the consumer future needs, it will report in the future a possibility to reach higher market share.

The promotion and advertising must follow ethical principles. One of the first requirements is the respect to the competitors, otherwise the customers could feel that the company does not respect the rules and has no principles. The explosion of information technology supposes that companies must increase their ethical responsibility in the advertising and promotion fields.

The increasing environment responsibility in the developed countries is another factor very important when companies face the distribution and production. Companies need to be involved in the green marketing and work ethically with the environment trying to ensure their viability and the consumers' loyalty.

6.3.3. Supply Chain Initiatives

These initiatives are directed at securing the acquisition or accumulation of needed inputs. Needed inputs include access to capital, raw materials and technology.

Supply chain CSR initiatives may focus on:

- Monitoring and enforcing codes of conduct.

- Investigate the environmental management practices of suppliers and the environment friendliness of materials to be purchased, thereby promoting green purchasing efforts.
- Developing supplier innovations or securing sustainable supplies (e.g., minimizing packaging, reforestation). This includes securing permits to operate (e.g., mine site licenses, fishing permits), socially responsible funding, human rights/labor/workplace issues within the supply chain or access to nonrenewable resources.
- Close collaboration with quality-oriented suppliers allows companies to develop the products that customers need, and to ensure that these products are up to high standards for customer satisfaction.
- Payment policies. An accurate payment policy can help suppliers to enhance their performance. The payment term with a supplier can show how the company treats this supplier. Too long periods do not help the small suppliers and do not contribute to achieve the goals of the company.

6.3.4. Development Initiatives

These initiatives are directed at building social capital, creating infrastructure and capabilities in communities to build commerce, stabilize households, and improve public health, education, or general welfare. These may be directed at the local community or at the underprivileged sections of the society.

The objectives are divided in:

- Enhance the human capital supporting schools, supporting arts, cultural activities, internships and scholarships.
- Improve the physical infrastructure for the underprivileged supporting local health care programs and contributing to public safety.
- Enhance the social capital of a given community supporting parks and recreation; assisting less advantaged people and participating in economic development.

6.3.5. Environment Initiatives

These initiatives seek to generate positive environmental externalities or reduce the production of negative environmental externalities associated with producing the organization's goods and services. These activities can be directed at sustainable development. The societies need to remain growing, but consuming less resources than they do now. These have to reduce the pollution or industrialize more cleanly.

The overuse of resources in the actual societies causes the quickly extinguish of nonrenewable resources, such us fossil fuels, that once used are gone forever. Water is another good example about how society is polluting and wasting resources.

New technologies as solar panels, several controls in the standards of consume or reduce the gas emissions are some initiatives that companies can take in order to preserve the environment.

6.3.6. Corporate governance

These initiatives seek to improve corporate governance and voluntarily create new rules regulating the generation and/or the disbursement of the residual or profit. According to the Griffin and Prakash (2010) these activities can be approached to:

- *Discipline:* Companies issue their discipline rules furthermore than the universally recognized good behavior. Companies must underline their most important points in the decision making in order to achieve good governance.
- *Transparency:* This is a measure of how good management is at making necessary information available in a candid, accurate and timely manner, even general reports and press releases These initiatives help investors and no investors obtain a true picture about what is going on inside of the company.

- *Independence:* This term refers to which mechanisms company uses in order to minimize or avoid potential conflicts of interests that may exist, such a dominance of a strong executive or large shareowner.
- *Accountability:* Decision makers need reliable information, Accounting provides this information in a company, but the company must establish some standards and procedures in order to get reliable information. Companies may follow international accountancy rules with transparency.
- *Responsibility:* Each level in a company has determinate responsibilities and managers must take decisions in order to set the company in the right path.
- *Fairness:* The system that exist within the company must take into account all those that have interests in the company and its future. Even the rights of small groups must be knowledge and respected. For example minority shareholders may be treating equal than dominant shareholders.

6.4. THE EMERGENCE OF CSR STANDARDS

CSR activities may be thought of as affecting different stakeholders. The broad range of stakeholders that might be impacted by a company's activities makes the task of developing CSR standards fairly daunting. Despite this the corporate world has seen a proliferation of initiatives on responsible practices ranging from specific managerial practices and systems to standards for reporting activities.

During 1990´s emerged many different initiatives from directors, managers or owners in order to report the perception of environmental issues as opportunities and management attitudes about pollution prevention. Hart and Ahuja (1996) analyzed the financial rations and compared those with the toxic inventory trying to establish a link among them. Waddock and Graves (1997) used the same procedure, trying to find a correlation between the financial variables and the social performance, suggesting that prior good financial performance provided the flexibility to improve social performance.

Many others of these methods regarded to the pollution, toxicity and contamination issues. But the final goal of all is to measure the corporate responsibility performance.

The reporting of environmental and social performance is not mandatory, it means that there is not a predefined standard report model and companies can use their own in order to show their stakeholders the social performance.

In 1996 a joint effort of the UK consultancy Sustainability and the United Nations Environment Program (UNEP) developed a scoring system based on 50 topics and applied it to the reports of 40 companies in 1996. In 1999 The Deloitte Touche Tohmatsu scoring system is derived from the Sustainability UNEP system and is largely a version of it (Morhardt, Baird and Freeman, 2002).

In addition to these scoring systems, which are designed to evaluate environmental reports after the fact, there is also a series of guidelines intended to influence the content of environmental reports. The first one was published in 1989, from the Coalition for Environmentally Responsible Economies (CERES), a group of America's largest socially responsible institutional investors. Other frequently cited guidelines are those from the Federation des Experts Comptables Europeens, Fondazione Eni Enrico Mattei and Public Environmental Reporting Initiative (Morhardt, Baird and Freeman, 2002).

In late 1997, the Global Reporting Initiative (GRI) was established with the aim of developing globally applicable guidelines for reporting on economic, environmental, and social performance. Few years later, in June 2000 was promulgated the most prominent current reporting "Sustainability Reporting Guidelines on Economic, Environmental and Social Performance" (GRI, 2000). It was promoted by GRI and by CERES and the United Nations Environment Program (UNEP), which jointly convened the GRI in 1998 (Morhardt, Baird and Freeman, 2002). The G3.1 Sustainability Reporting Guidelines is the most used on nowadays and gathers all significant aspects for the corporate social responsibility . It was launched in 2011 to complete the content of the G3 released in 2006. G3.1 features expanded guidance on local community impacts, human rights and gender (GRI, 2011).

According to the mission and vision of the Global Reporting Initiative (GRI) the organization continuous the evolution of its guidelines and launched its fourth generation Sustainability Reporting Guidelines (G4) in May 2013. GRI has set a two year timeline for transition to G4, that means that reports issued after 31st December 2015 must follow G4, but until that date companies can continue using G3.1 (KPMG, 2013). The content of the G4 Guidelines may, at first glance, appear not to be a radical departure from G3, but will in fact have a significant impact on the corporate reporting process. This briefing outlines the key changes and aims to help you understand what G4 means for your organization.

Also in 1997 the SA 8000 norm was approved internationally. The purpose of this norm is to make enterprises certified on it, warranty their clients that products are made under humanitarian work conditions (Ulrich and Rasche, 2007). SA 8000 is the most important initiative in the corporate world when it comes to the institutionalization of business ethics via accountability standards.

The SA 8000 provides an internationally accepted verification system for ethical performance and a comprehensive framework to create decent workplace conditions (Göbbels and Jonker, 2003).

In 1999 appeared for the first time the AA1000 Series, launched by Accountability which is a non-profit organization that works promoting accountability innovation for sustainable development. The AA1000 Series were designed to assist companies, stakeholders, auditors, consultants and standard-setting bodies. The AA series are based in three principal premises: Inclusivity, materiality and responsiveness (Leipziger, 2010).

After the first appearance of the AA1000 Series, these were revised and enhanced in 2003 by the AA1000AS Assurance Standard and by the AA1000SES Stakeholder Engagement Standard published in 2005. During the 2008 were also published the AA1000APS Accountability Principles Standard providing the basis for understanding and achieving sustainability assurance.

There are many additional sources of guidance that focus on the selection of environmental metrics rather than on report writing. The most important are those provided by the International Standard organization, ISO. These are focused on certifying the Corporate Social Responsibility by setting diverse metrics and certifying their accomplishment. Managerial systems such as ISO 9000 or ISO 14000 seek to develop sounds practices in areas of quality, safety, environmental management, and CSR. These include the ISO 14031 environmental performance evaluation guidelines which extend to the ecological commons and to environmental conditions that may have been the result of multiple influences not under the reporting company's control.

In 2010 was launched the ISO 26000 that provides guidance on how businesses and organizations can operate in a socially responsible way. The ISO 26000 provides guidance rather than requirements, so it cannot be certified to unlike some other ISO standards. Instead, it helps clarify what social responsibility is, helping businesses and organizations translate principles into effective actions and sharing best practices of corporate social responsibility (ISO 26000:2010).

Table 6.1. Summarize of the different CSR standardization reports

Name	Institution	Kind of report	Characteristics	First Appearance
CERES report	Coalition for Environmentally Responsible Economies	Writing Report	Guidelines to influence the environmental reports	1989
Internal Analysis	Owners, managers and directors of the companies.	Financial analysis	Compare financial rations with environment performance	First 1990's
Sustainability–UNEP	Consultancy Sustainability and the United Nations	Metric system that Provides certification	Evaluation of 50 topics regarding to the environment performance	1996
ISO 14031 and	International	Metric	Metric analysis for	1999

ISO 9000	Organization for Standardization	System	environmental performance evaluation	
ISO 26000	International Organization for Standardization	Writing Report	Guidelines to influence the environmental reports	2010
Sustainability Report of GRI G1 to G4	Global Reporting Initiative (GRI)	Writing Report	Guidelines to influence the environmental reports	2000
AA 1000 Series	Accountability	Writing Report	Guidelines to influence the environmental reports	1999
SA 8000	Standard Accounting	Writing Report	Guidelines to influence the environmental reports	1997

Source: Self Creation based on Leipziger (2010)

The study provided by Morhardt, Baird and Freeman in 2002 “Scoring Corporate Environmental and Sustainability Reports” reflects how the different Corporate Social Responsibility reports available before than GRI report and ISO 14031 evaluate the different aspects in the companies without a critical approach.

The GRI guidelines and ISO certificates are much more detailed and comprehensive, and resulted much more demanding than the others. Because of that these two corporate responsibility recording methods are the most used nowadays in the business world. The Morhardt, Baird and Freeman (2002) article reflects clearly that the GRI and the ISO certificate combination, ISO

14031and ISO 9000, are the most powerful tools regarding to Corporate Social Responsibility evaluation and report.

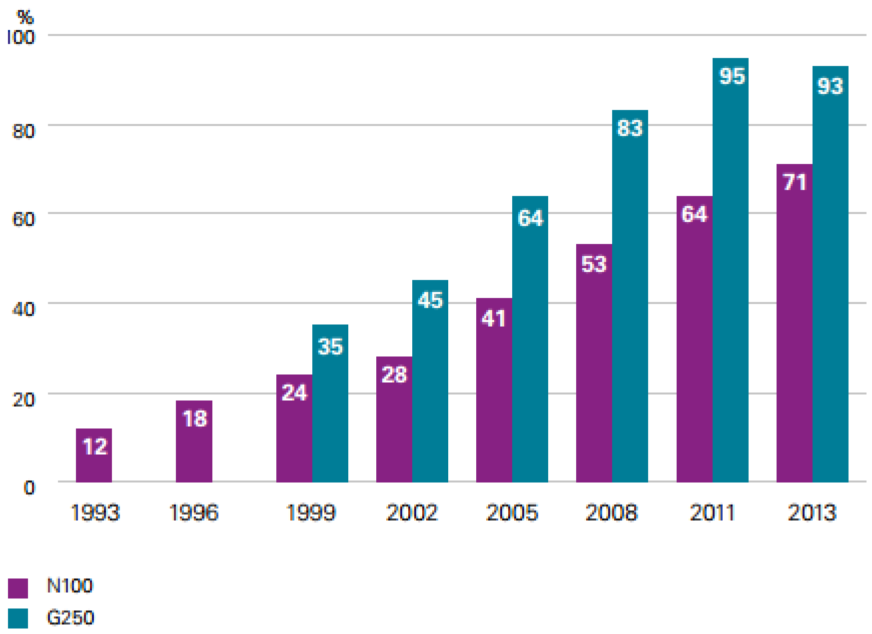
Painter-Morland and Ten Bos (2010) support that the GRI and the ISO certificates are the most powerful tools regarding to CSR and give even more credibility to the last released G.3.1 and ISO 26000.

In 2010 was established The International Integrated Reporting Committee (IIRC) to achieve a globally accepted integrated reporting framework. The committee has representation from the financial and the sustainability sectors. The IIRC tries to develop a framework that brings together financial, environmental, social and governance information in a clear, concise, consistent and comparable format. The aim of the IIRC is to achieve the ultimate 'end state' that would combine financial and CR reporting as part of a comprehensive approach to reflect the company's full business performance for its key value drivers against the company strategy in an integrated way (KPMG, 2013).

6.5. THE SUSTAINABILITY REPORT OF GRI

The GRI is a network-based organization that produces a comprehensive sustainability reporting framework that is widely used around the world. The GRI has undeniably extended its hold on this position, with 93 percent of the G250 and 71 percent of N100 companies now aligning to the GRI reporting standards. The GRI has put significant effort into promoting the guidelines around the globe (KPMG, 2013).

Figure 6.2. The GRI as global standard for reporting CSR



Source: KPMG International Survey of Corporate Responsibility Reporting 2013

6.5.1. Definition and Characteristics

According to the G3.1 guidelines for Sustainability Reports issued by the Global Report Initiative in 2011, their Sustainability Report is "a single, consolidated disclosure that provides a reasonable and balanced presentation of performance over a fixed time period. Stakeholders should be able to directly access all of the report information from a single location, such as a GRI content index". There is no minimum length for a report using the GRI Framework as long as the organization has applied the Guidelines and Framework documents it has chosen to use.

Each Sustainability Report has different characteristics depending the way the preparers treat the information and which channels they choose to issue.

6.5.1.1. Data gathering

Companies need to determine the level of aggregation at which to present information.

- *Data Aggregation.* Companies can issue a general Sustainability Report gathering all the information about the group. Aggregation of information can bring the loss of a significant amount of meaning. A company can be strong or poor performance in specific locations.

- *Data Disaggregation.* The disaggregation of the information usually brings a clearer picture of the company performance in the different locations. Unnecessary disaggregation of data can affect the ease understanding of the information.

6.5.1.2. Medium of Reporting

A company can choose the medium of reporting between electronic or paper-based method. Both are appropriate for reporting and sometimes companies use a combination. For example, an organization can provide a detailed report on their website and provide an executive summary including their strategy and analysis and performance information in paper form. The electronic version can be easily distributed among the stakeholders.

6.5.1.3. Frequency of Reporting

Organizations may choose a periodic cycle to issue their report. Organizations should maintain a predictable cycle in which all of the information that is reported covers a specific time period. If the Sustainability Report acquires the same periodicity than other reports as the financial report, the information interpretation will be easier for the reader.

6.5.1.4. Application levels

The Sustainability Reports can be issued in different levels of knowledge and accuracy. The preparers should declare the level to which they have prepared the GRI Reporting by the framework of “GRI Application Levels”. Application Level communicates clearly which elements of the GRI Reporting Framework have been applied in the preparation of a report. These levels are titled as:

- C for new beginners.
- B for those with some experience.
- A for advanced reporters

The reporting criteria found in each level reflect an increasing application or coverage of the GRI Reporting framework. An organization can self-declare a “plus” (+) at each level (ex., C+, B+, A+) if they have utilized external assurance.

The external assurance should be conducted by competent groups or individuals external to the organization. These may employ professional standards for assurance, or they may involve approaches that follow systematic, documented, and evidence-based processes. They must check the veracity of the data in the report and issue conclusions regarding to the report’s credibility.

These level distinctions make easier and more understandable the GRI for the readers and preparers. The readers get clear information about how far the GRI framework has been applied and show information from the last version in order to improve the next one.

6.5.1.5. Sector Supplements for the G3.1

Sector guidance is provided by GRI’s Sector Supplements, versions of the Sustainability Reporting Guidelines focused on different sectors. These sectors supplements were launched after 2008 as complementation of the G3 guideline and were enhanced at the same time that the guideline was updated to the G3.1. The Financial Services Sector Supplements were developed by multi-stakeholder, geographically diverse working groups, formed by volunteers from financial services companies, investors, labor, non-governmental organizations and research organizations.

Many sectors face unique sustainability issues that should be captured in sustainability reports. These issues may not be covered in the original Reporting Guidelines. Examples of the issues covered in sector guidance include noise measurement for airports, the resettlement of people for mining and metals companies, animal welfare for the food processing industry, and program effectiveness for non-governmental organizations.

Sector guidance is developed with the expertise of international multi-stakeholder working groups. The development follows GRI's due process, including public comment, and is based on a consensus-seeking approach (GRI, 2011).

Sector Supplements are available for the following sectors:

- Airport Operators
- Construction and Real Estate
- Electric Utilities
- Event Organizers
- Financial Services
- Food Processing
- Media
- Mining and Metals
- NGO
- Oil and Gas

6.5.2. Sustainability Report Expansion

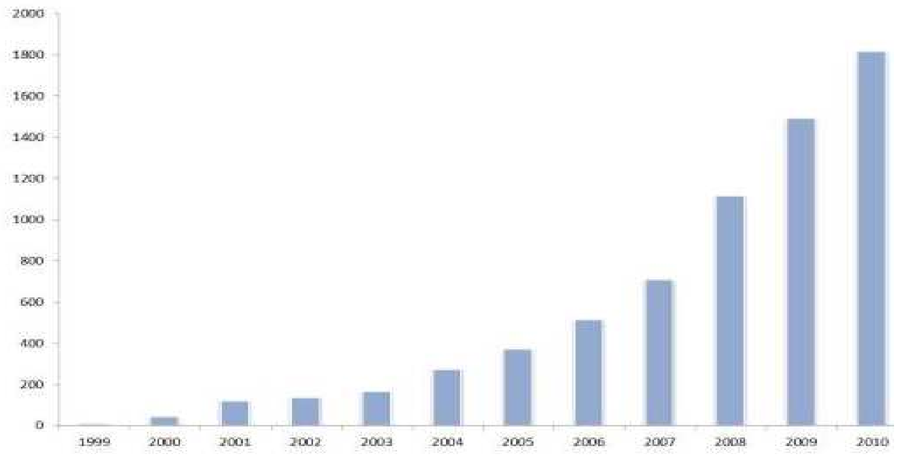
Nowadays, the most prominent report in the Corporate Social Responsibility field is the Sustainability Report, which is provided and evaluated by the Global Responsible Initiative. Most of these using the GRI guideline are leaders in their respective sectors in the world: financial services, construction, chemical, agriculture, technology and many others. Financial companies as Bank Santander, Bank of America, Bank of Canada, Citibank or many others represent the financial sector leaders using this report. In other sectors Bayern, Wal-Mart, Volkswagen, Vodafone, Toshiba or LEGO represent the leadership of this report in the present business world (KPMG, 2013).

The following figures reflect the growing of Sustainability Reports issued during last 10 years. From 1999 when The Global Report Initiative launched their first guideline (Model G1) until 2009 the number of reports grown exponentially.

When in 2002 the GRI launched its Sustainability Report guideline in the current format was even higher.

The grown reflects how the companies trust the Sustainability Report as a guideline to issue their Corporate Social Responsibility reports.

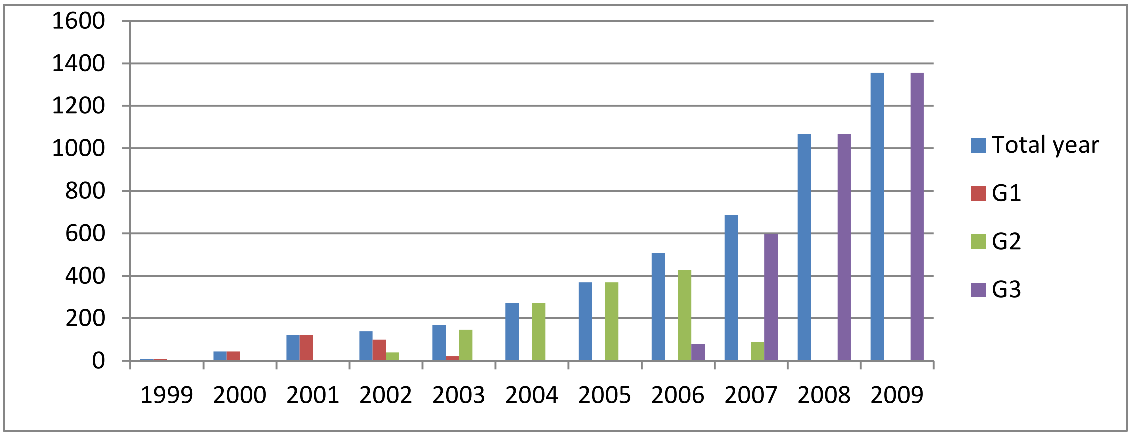
Figure 6.3 Evolution of Sustainability Reports



Source: Global Reporting Initiative 2011

The Global Report Initiative has been improving its Sustainability Report Guideline since the first one was launched. After the G1 model; the G2 was issued, which is the last version of the present G3. The continuous improving and the quality of this guideline suppose the loyalty of many companies. The Figure 6.4 shows how the introduction of the new models gain loyalty respect the last versions and increase the number of Sustainability Reports issued.

Figure 6.4. Evolution of the different Sustainability Report Models during the first decade.



Source: Global Reporting Initiative 2011

Attending to stakeholders' information demands about Corporate Responsibility, the GRI issued in 2002 the Sustainability Report Guidelines, which has been improved until the G3.1 and will be released during 2013 with the G4 (GRI, 2011). The goal of this guideline is to establish a common framework with a common terminology and parameters in order to evaluate the different sustainability reports accurately.

The Sustainability Report can be used by the company, stakeholders or other companies to:

- Benchmarking and evaluation of sustainability performance respect to laws, norms, codes, standards, and voluntary initiatives.
- Demonstrating how an organization can influence in the sustainability development.
- Comparing the performance of different organizations over time.

6.5.3 The Sustainability Report's Structure

Once the firm has decided the approach of its report, the orientation and the information level; the next step is to gather the information and organize this information. According to the G3.1 guideline (2011) the sustainability report must focus 4 essential fields. These fields are the Strategy and Profile of the company, the Economic Indicators, Environmental indicators and Social Development Indicators. In the Annex 2 we can find the G3.1 guideline index, in this document we can check the organization of each point and also the sequence to be followed in order to report according to the GRI.

6.5.3.1. Strategy and Profile

6.5.3.1.1 Strategy and Analysis

This section is intended to provide a high level of information regarding on strategic topics in order to establish the strategic context in which the company operates. This point must be divided in two relevant parts: a statement from the most senior decision-maker (e.g. CEO) of the organization and a description of the key impacts, risks and opportunities.

The CEO statement should include:

- Strategic priorities and key topics for short and medium term with regard to sustainability.
- Analysis of political and economic environment with regard to sustainability.
- Key events, achievements and failures during the reporting period.
- Organization’s main challenges and targets for the next years.
- Analysis of Performance vs. targets.

The description of the key impacts, risks and opportunities should include:

- Description of the most important impacts that the organization has in its stakeholders.
- Priorities in challenges, opportunities and risks. How to face these regarding of sustainability trends.
- Concise description of governance mechanisms.
- Targets’ table summarizing the different targets in the different time periods.

6.5.3.1.2. Organizational Profile

This section must be a picture of the company. The most important data of its economic activity must be gathered in this section. This section should provide the reader a general vision of the company’s activity.

The organizational profile point should include:

- Name of the company.

- Main brands, products and services.
- Operational structure of the organization.
- Location of organization’s headquarters.
- Different locations of the company.
- Nature of ownership and legal form.
- Market served.
- Economic information as number of employees, net sales, capitalization terms and quantity of product served.
- Furthermore the company can add other financial information to enforce its position.

6.5.3.1.3. Governance, Commitments and Engagement

This section describes the governance structure of the organization. Shows the mandate and composition of such committees and indicate any direct responsibility for economic, social, and environmental performance. At the same time this section should summarize the mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body

The report must summarize as well the processes for evaluating the highest governance body’s own performance, particularly with respect to economic, environmental, and social performance. At the same time the report must evaluate the governance implementation regard of statements of mission or values, codes of conduct and principles.

The final goal of this section is the analysis of the corporate governance in terms of sustainability; because of that every single process, commissions, decision and simple change in the corporation government must be gathered and analyzed.

The stakeholders’ engagement identifies a list of all the groups engaged by the organization. By surveys, focus groups, community panels, corporate advisory panels, written communication, management/union structures, and other vehicles the organization tries to identify how the different decisions, opportunities or risks affect the stakeholders.

6.5.3.2. Economic Indicators

The Economic Indicators illustrate the flow of capital among different stakeholders and the main economic impacts of the organization throughout society. Financial performance is fundamental to understanding an organization and its own sustainability.

Some of the most important economic indicators that report should analyze are:

- Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.
- Significant financial assistance received from government.
- Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.
- Procedures for local hiring and proportion of senior management hired from the local community.
- Development and impact of infrastructure investments and services provided for public benefit through commercial activities.

6.5.3.3. Environmental Indicators

The environmental dimension of sustainability concerns an organization's impacts on living and non-living natural systems, including ecosystems, land, air, and water. Environmental Indicators cover performance related to inputs (e.g., material, energy, water) and outputs (e.g., emissions, effluents, waste).

In this section the report gathers information about materials, energy, water, biodiversity, emissions and waste. Some core indicators are:

- Volume of material used.
- Volume of recycled material used.
- Energy consumption.
- Initiatives to provide energy-efficient and renewable energy.
- Total volume of water used and recycled.
- Impacts of activities, products, and services on environment.

- Strategies and future plans to manage impacts on biodiversity.
- Total direct and indirect greenhouse gas emissions.
- Emissions of ozone-depleting substances.
- Plans and strategies to control and reduce the emissions.
- Environmental impacts of transporting goods, materials or workforce.

6.5.3.4. Social Indicators

First question that a company needs to ensure in this section is that follows the current regulation in terms of human rights, as the Declaration of Human rights or others. Then this section evaluates farer than the current labor laws and analyzes how the company treats, support and help its own employees. The social indicators are addressed toward:

- Employment practices and decent work.
- Human Rights and manager relations.
- Occupational health and Safety.
- Training and education.
- Diversity and equal opportunity.
- Product Responsibility.
- Public policy.
- Corruption treatment.
- Customer health and safety.

6.5.4. The key changes for the new G4

According to the mission and vision of the Global Reporting Initiative (GRI) the organization continuous the evolution of its guidelines and launched its fourth generation Sustainability Reporting Guidelines (G4) in May 2013. GRI has set a two year timeline for transition to G4, that means that reports issued after 31st December 2015 must follow G4, but until that date companies can continue using G3.1 (KPMG, 2013).

The recently launched G4 focus on the materiality of the reports. The updated guideline encourages reporters to focus content on the issues that matter most to their business, rather than reporting on everything. According the guideline issued in 2011 and the article written by the KPMG in the same year the main changes are:

- Reports should begin with a focus on the material issues, to focus on the points that have been materially accomplished.
- Reports should contain detailed discussion of how the organization manages material aspects only.
- Reports must detail where the impacts of each material aspect affects.
- Organizations must explain the process they go through to define their Material Aspects, risks and opportunities, and describe how stakeholders are involved in this process

Comparing with the current G3.1, materiality is not a new concept and the principle remains the same as in G3. However, G4 makes more specific links between materiality and the management and performance information organizations should disclose in their report. G4 also contains new requirements for organizations to explain the process they use to identify their Material Aspects.

For those responsible on the writing of the reports, the G4 Guidelines could lead to shorter reports as organizations disclose information on a more focused list of Material Aspects. However organizations will need to formalize and document their materiality process including stakeholder analysis, detail the methods used and disclose this in their reports.

6.6. CSR IN THE BANKING SECTOR

6.6.1. Evolution of the different rules

During several decades the Banking sector had been considered as a neutral sector with limited environmental and social impact comparing with other sectors as industrial or chemical (Elkington, 1994). This sector had been considered like this because his activity focuses the intermediation between borrowers and savers.

In 1994 Spong cited the importance of Community Reinvesting Act Rating as a measure to ensure that commercial banks cover the needs of credit in the most disadvantaged groups of population, supporting the economic development.

The Global Compact announced by the Ex-General Secretary of United Nations Kofi Annan in the World Economic Forum in Davos (Switzerland, 1999), their intention that the finance companies adopt some universal principles in relation to human rights, working rules and environment. The program was a voluntary option for the companies.

Two years later in 2001, the European Union Commission issued in its Green Book the “European Framework for Social Responsibility”, with a special point for the financial institutions.

In 2002 the Global Report Initiative issued its specific indicators for the finance industry in terms of CSR (SPI-Finance). In the same year, the GRI issued its guideline for sustainability reports, one of the most important reports regarding on CSR nowadays.

All the recent initiatives understand that the integration of CSR in the banking sector has increased taking two different ways: the search of social and environmental responsibility in banking operations and the integration of CSR and sustainability in the analysis of business operations in the sector.

Some alternatives are just addressed to one of these ways, for example Environmental Performance Indicators (EPI) and Social Performance Indicators (SPI) were issued in 2000 and 2002 by a group of companies from Germany, Holland, Switzerland and United Kingdom. These initiatives were more focus in the internal performance of the bank, but still giving some indications about their products.

In the other hand the Equator Principles (2006), which were agreed in to by 10 major banks and promoted by Citigroup in June of 2003, settled some principles for the CSR in the banking sector. In March of 2010 the Equator Principles launched their updated Governance Rules. The Equator Principles are a set of principles committing the signatory banks to finance projects that meet social responsible criteria.

However, the Statement of United Nations Environment Program about environment and sustainable development meet both CSR ways in the financial sector. This Statement was established in Brazil, Rio on 1993 by more than 260 financial institutions, but was developed in 2003. The Statement promotes recycling practices and renewable energies use in the internal activity, but at the same time incentive financial products and services that protect and develop the environment.

6.6.2. CSR within financial institutions performance

As any other company a financial institution must take care of its relations with the different stakeholders. The performance of bank is similar to other service business, it implies to manage adequately the treatment that all different groups involved in the company's activity receive.

A financial institution must ensure to its employees occupational health and safety, must teach them new techniques and other human resources initiatives. At the same time must provide customers with adequate products for their needs and offer them many facilities regarding to credit access or location. The marketing initiatives are probably the most fundamental in the financial sector, because the customer gives most of the capital to operate.

The corporate governance initiatives are very important regarding on shareholders' commitment. The transparency in the accountancy and decision making, and the issuing of accurate reports in the right moments are very appreciated by the investors.

Environmental initiatives have not too much importance in the financial institutions. As far as financial institution is not an industry, the level of emissions and wastes in its own operations are not relevant. But the level of paper that the sector uses increases daily, it means that the companies must follow recycling and saving paper policies.

However, for Muñoz, Fernandez and Gonzalez (2004) the CSR in a financial institution focuses in the social and environmental responsible initiatives is very important in three areas. The three areas with highest social and environmental impact in a financial institution are good practices, social banking and operations with developing countries.

- *Good Practices:* Incorporation and application of new ethic criterions in the evaluation and award of loans or investment policies. In this area are included different procedures which manage delicate elements as deposits coming from laundered capitals. These practices prevent and avoid the finance of business which would be included in the universal rejected practices.

- *Social Banking:* Refers to be involved in the community in which the bank works. A financial institution helps its community when makes credits easer and offers financial services to regions or communities socially excluded. The participation in community activities and charitable donations are welcome as well. Some examples to represent the fight against the financial exclusion are the specific financial products for customers with low rents and small companies. In the US the Farm Credit Banks are a good example of social banking, because these banks offer concrete products for small farms.

- *Operations with Developing Countries:* Banks in developed countries have special influence in the South development and that is why they must pay attention to the countries they finance instead of contributing to their debt growth. Banks in developed countries must redesign the debt or reduce this by participating in the equity of local financial institutions according to Rio Resolution in 1993. At the same time banks may follow the Human Rights principles for companies settled by Amnesty International in 1998 to avoid financing conflictive governments or weapon trades.

6.6.3. Environmental and Sustainable Banking

Banks are vulnerable to charges of socially inappropriate behavior through the actions of their clients, for which the banks are sometimes held responsible on the grounds that without their knowledge and financial support these actions would never occur.

For this reason sustainability approach runs toward the integration of the CSR and Sustainability in the financial intermediation and market investments. The sustainability banking requires incorporating social and environmental considerations in the financial products design or investing and lending policies. The risk assumption and the general business strategy are influenced as well.

In spite of most of the banks do not like the sustainable banking adducing that they are not a regulatory institutions, this kind of banking is expanding. The pressure of external forces as governments, customers, competitors, NGOs and the society in general demanding this kind of behavior in the financial intermediaries supposes that banks are much more focused on these issues.

The Equator Principles issued in 2003 by a group of 10 banks and leaded by Citigrop were focused on solving these issues. The number of banks added to this initiative grown very fast and only in 2010 the Equators Principles reached the number of 67 important subscribing the principles. Since 2010 until December of 2012 the number of financial institutions has continued growing and has reached 76 members. As can be observed on the Annex 3, most of the biggest financial institutions belong to these 76 members.

In the Equator principles first of all the projects are categorized in high (A), medium (B) or low (C) environmental or social risk by the banks using same technology. For the A and B projects, the borrower will complete an Environmental Assessment addressing the environmental and social issues identified in the categorization process. Obviously the most dangerous projects (C) will be rejected.

According to the Equator Principles, the Environmental Assessment will address such issues as:

- Sustainable development and use of renewable natural resources.

- Protection of human health, cultural properties, and biodiversity, including endangered species and sensitive ecosystems.
- Use of dangerous substances.
- Major hazards.
- Occupational health and safety.
- Fire prevention and life safety.
- Socioeconomic impacts.
- Land acquisition and land use.
- Involuntary resettlement.
- Impacts on indigenous peoples and communities.
- Cumulative impacts of existing projects, the proposed project and anticipated future projects.
- Participation of affected parties in the design, review and implementation of the project.
- Consideration of environmentally and socially preferable alternatives.
- Efficient production, delivery and use of energy.
- Pollution prevention and waste minimization, pollution controls (liquid effluents and air emissions) and solid and chemical waste management.

The borrower is required to demonstrate to the bank that the project complies with host country laws and the World Bank and IFC Pollution Prevention Guidelines. The aim of Equator Principles is to ensure that the most loans by banks are made to customers who meet CSR criteria. This prevents banks from being held responsible for antisocial use of their funds and it also makes good business sense for the banks. They avoid lending to controversial projects which use to have difficult repaying.

6.6.4. Model of Social Responsible Bank

The Social Responsible Banking does not look for the highest financial returns, looks for the highest viability in the future in terms of sustainability. This is why the CSR in the banking sector suggests supporting the finance of sustainability products and social responsible practices.

Summarizing the different approaches of corporate social responsibility in the banking sector and following the criteria for sustainability banking issued by Torres, Fernandez and Gonzalez a criteria for Corporate Social Responsible banking can be established.

A financial institution must follow most of the following indicators in order to be considered as a Sustainable Bank or Social Responsible Bank.

- Application of the guidelines and UNEP principles, Statement by Financial Institutions on the environmental and sustainable development.
- Establishing standards as ISO 14031, ISO 9000, AA1000 or SA 8000.
- Issue a Sustainability Report following most of the points of GRI guidelines. The report must gather information about social accounting and environmental issues. Has to be verified by an independent agency.
- Evaluation the clients projects and their environmental performance. The Equator Principles will be the references to evaluate these points. The clients or project which supposes a problem to the environment and society must be rejected.
- Support the community through products adapted to the special needs and demands of the community. Diversify the loan offer.
- Credit policies favorable to the developing countries trying to reduce their debt. The bank must be transparent in these operations in order to be sustainable.
- Redesign the social policies to enhance the access of discriminate social groups to the finance services.

6.6.5. Financial Services Sector Supplement on the G3.1

After 2008 the GRI launched the sectors supplements as complementation of the G3 guideline. In terms of the banking sector was launched the Financial Services Sector Supplement. It was developed by multi-stakeholder, geographically diverse working groups, formed by volunteers from financial services companies, investors, labor, non-governmental organizations and research organizations (GRI, 2011).

The Financial Services Sector Supplement (FSSS) provides organizations in the sector with a tailored version of GRI's Sustainability Reporting Guidelines. It includes the original Guidelines, which set out the Reporting Principles, Disclosures on Management Approach and Performance Indicators for economic, environmental and social issues. The Supplement's additional commentaries and Performance Indicators, developed especially for the sector, capture the issues that matter most for companies in the financial services sector.

The Financial Services Supplement covers key sector-specific issues, including:

- Product portfolio.
- Audit to assess the implementation of environmental and social policies.
- Active ownership.
- Community investment strategies and programs
- Performance related to inputs as material, energy or water and outputs as emissions, effluents or wastes.
- Policies and practices on accessibility to financial services
- Fair design and sale of financial products

The GRI encourages the use of the supplement for all organizations in the sector regardless of their size, location or activities, as this will help to ensure that reports from the sector are relevant, meaningful and comparable.

6.6.6. Specific Sustainable Finance products

The main goal in a sustainable bank is to satisfy and help the stakeholders. The Corporate Social Responsibility must be introduced in all issues in the financial organization. The different business operations must be analyzed through the economical and sustainable point of view. Moreover a financial institution can offer different products oriented to achieve higher sustainable standards. Some of those are the following products:

- *Investment funds:* There are different sustainable investment that focuses on a specific area, such as environmental funds, social funds and innovation funds. Innovation funds are funds that are established to finance pioneering technologies, such as solar, wind, and biomass energy projects.

- *Micro credit:* Provision of micro credit has grown the last few years. Micro credit is described by Jeuken as a small loans made to low-income individuals to sustain self-employment or to start up very small businesses. The amounts of these loans use to be small. The goal of those is to help discriminated and poor people to come out of poverty.

- *Credit cards:* Additionally some banks offer credit cards with a green touch, such as the World Nature Card from Swedbank in Sweden and the WWF Visa Affinity Card of Royal Bank of Canada or the Environmental Defense Platinum MasterCard of Citigroup. These credit cards function as normal credit cards, only a percentage of the interest they have to pay will be donated to a charity organization.

- *Own charity organizations:* Many banks create their own charity organization. These organizations use to help the local community. Examples of such charity organization are; the Social Initiatives Group of ICICI, the Maybank Group Welfare Fund, BNP Paribas Foundation or Commerz Bank Foundation.

7. THE DEPARTMENT OF TREASURY FINANCIAL REGULATORY REFORM

7.1. THE FRAMEWORK OF THE REFORM

It was in 2008 when the Department of Treasury and The Federal Reserve had to intervene to save the American financial system in the worst crisis after 80 years. Many Americans were affected with unemployment across the nation, many businesses had a lot of difficulties, the home prices fell down and the saves declined. Due to all these problems the government was forced to take different measures to reactive the financial system. The goal was that people can access loans to buy houses or cars, pay children's education and finance business (Uku, 2009).

This crisis was born during many decades back. During many years an economic recession was bred among investors and financial intermediaries. Financial challenges such as the near-failure of Long-Term Capital Management and the Asian Financial Crisis had minimal impact on economic growth in the U.S., which bred exaggerated expectations about the resilience of our financial markets and firms. Rising asset prices, particularly in housing, hid weak credit underwriting standards and masked the growing leverage throughout the system (Department of Tresury, 2012).

In many firms the new financial products, more complex than others, were not well managed. The lack of transparency and control in the markets were some of the main reasons for this crisis. Compensation practices within the financial services industry rewarded short-term profits at the expense of long term value.

New kind of mortgages increased fast offering advantage conditions for the customers in the first terms and giving many consumers a chance to get a new house. But this growth was not real, because many of these loans ended up in failures. These new kind of mortgages had different conditions, which were difficult to understand for the customers. Many of them were not able to repay their loans, what accelerated the lack of liquidity at the beginning of the crisis.

This big crisis was not caused just due one factor, but experienced economists as David Brooks or Frank Rich, in the NY Times, cited that the government and the FED could have done more to prevent many problems before the crisis. Gaps and weaknesses in the supervision and regulation of financial firms were big problems in this time.

The different banks, as commercial banks or investment banks were and still are allowed to decide which kind of regime they are under. The different states have different charters for the finance industry and at the same time The Fed charter its own regulation. Banks must follow their own state regulations, but it is optional for them to join The Fed regulations, which are usually more restrictive. This makes difference which creates lacks in the control. Other firms, such as AIG, owned by no-banks depository institutions escaped the strictures of serious holding company regulation.

At the same time the cooperative sector was affected in terms of finance. The Farm Credit System obtains its funds through selling bonds in the long term, and then these funds are distributed among the system banks which at the same time redistributed those among the different cooperative associations and organizations. The lack of liquidity in the economy and the low customers' confidence in the system caused a problem to obtain funds for the FCS. In a very volatile sector, as the agricultural, the lack of liquidity and the risk of the funds based in the FCS caused that many customers reject to invest in these bonds and prefer other investments or just keeping their money.

The financial crisis and the need of new regulation to reinforce the financial system in front of the customer encouraged the government leaded by Obama and the Department of Treasury to issue a new regulation in terms of finance. However this new regulation leads the country to higher standards in terms of regulation, what is not good from the point of view of the financial firms. The reform was approved by the Congress on May, 2010.

7.2. MAIN POINTS OF THE FINANCIAL REGULATORY REFORM

7.2.1. The Fed Reinforcement

The Fed has the mission to regulate and supervise the performance of financial firms annexed to The Fed and follow its charters. But at the same time The Fed must supervise firm big enough to put the customers and the financial system at risk. The intervention of The Fed in the possible failure of AIG aims to control firms big enough to risk the stability of the U.S. financial system. The reform wants to encourage The Fed to control the equity requirements in the different financial firms and aims the companies to ensure their financial situation in front of possible problematic situations in the future. The Fed requires different accountancy reports to analyze the different firms in terms of assets, liability, equity and investments.

At the same time the Fed wants to reinforce the control of systematic risks in the finance markets. The Fed will have capacity to supervise the different branches and filial entities, including those which work in other no regulated markets. The Fed tries to eliminate those flows of capital between companies owned by the same group which are just made in order to achieve the minimum requirements in terms of equity. These operations offer a different perspective of the company situation and suppose a high risk for the market and the consumers.

7.2.2 Measures for Finance Firms and Markets

The reform establishes the creation of a Financial Services Oversight Council of financial regulators to identify emerging systemic risks and improve interagency cooperation. This organ will coordinate the activity of the different regulators, which will establish different rules for the high managers' bonus. These bones may response to the value created by the manager for the shareholders.

A new National Bank Supervisor is proposed in order to control all federally chartered banks. At the same time the Financial Regulatory Reform invite those financial institutions which are no banks and those banks which just follow their own state regulations to join the Federal System and become a Federal Bank being under The Fed charters.

After the intervention of the government in the crisis to safe the dangerous situation of the economy, the regulatory reform proposes a new mechanism for situations where a company goes to bankruptcy. In an emergency situation of a company (those which would suppose a problem for the financial system e.g. AIG), the Government will assume the management of the company. This measure will be taken by the suggestion of The FDCI, The Department of Treasury or The Fed.

Due to the inconsistence of the market in the crisis the Treasury Department proposed to establish a legal framework for the markets over the counter, as derivate (e.g. Call, Puts...). These markets will move under the regulation of The Fed, creating a new independent organ to regulate each one.

New regulation includes new requirements for market transparency, stronger regulation of credit rating agencies, and a requirement that issuers and originators retain a financial interest or a participation in securitized loans. The penalties for the consumers which use derivate products in inappropriate ways supposing a risk for the stability of the market will be higher.

7.2.3. Consumers and Investors Protection

After the financial fall in 2008, the confidence of customers in the financial system went down to very low levels. The Finance Regulatory Reform pursues to rebuild the customers' trust the American Financial Markets.

The Department of Treasury avoids abstracts models, in order to get the consumers' confidence, and promotes transparency, simplicity, fairness, accountability, and access.

A new Consumer Financial Protection Agency to protect consumers is the first measure. This organ will protect consumers of financial sector from unfair and abusive practices. The Agency will focus its interests in domestic products as mortgages, credit cards or small loans, because these are distributed across the weakest consumers.

At the same time the reform proposes a board of experts to control practices in the emergent industries.

7.3. FINANCIAL REGULATORY REFORM INFLUENCY ON THE BANKING INDUSTRY CSR

The new regulation in the finance system proposes some changes in the banking sector and its relationship with determinate stakeholders. The New Finance Regulatory Reform issued in 2009 by the Department of Treasury of U.S. requires higher standards especially in terms of Corporate Governance, Customer and Society in general.

7.3.1. Society and the Financial Regulatory Reform

The relationship between the society and the financial system is very close. The failure of a financial system would suppose the failure of the society. In the modern societies, financial systems support the structure of the economy supplying money, issuing monetary policies, facilitating transactions, accumulating saving or redistributing capital. This is the reason why financial system is the base in the structure of a country (Uku, 2009).

The Regulatory Reform is a proposal to encourage the position of the society in front of the big financial firms. The aim of the reform is to offer a stronger financial system in front of the consumers and show them that they can rely on the efficiency of the system.

The reinforcement of The Fed in terms of control involves avoiding critical situations which can mean dire circumstances for the most disadvantage sections of the society. A failure of a big financial firm would mean a mess in the society leaving people without their savings, companies without their investments and many other situations.

The supervision of the Banks and their filial entities is a step ahead in order to get back the trust of the customers. By bringing the Derivate market under the regulation of The Fed the Regulatory Reform tries to regulate a market which without control would cause a failure. This measure can attract new customers to this market motivated by the security of the Fed´s control.

At the same time, The Financial System guarantees the stability of the economy for society by a new measure which allows the Government to take the control of a company if the company represents a risk for the market, customers or society in general.

7.3.2. Financial Regulatory Reform and Corporate Governance

The recent financial crisis was mainly caused by irresponsible management and risky decisions. The lack of transparency, the issue of high risk mortgages and the bursting of the housing market bubble involved that some financial firms as AIG, Fannie Mae or Freddie Mac needed financial support from the government. Due to these reasons the Financial Reform focuses especially on corporate governance and establishes higher standards for companies' management.

The first point in the reform which affects the corporate governance in a company will be at the request of The Fed after their periodical reports. The Fed is encouraged about minimizing risks and the accounting control in companies is the best way. Companies must achieve higher standards in corporate governance to comply The Fed requirements. Transparency and clear accountancy are the most important requirements in these reports. The Fed also wants to eliminate the transactions between firms and their filial firms which blur the real situation of a company and involve a risk for consumers.

The Financial Services Oversight Council will be established as a kind of supervisor for the different regulator organs. At the same time these regulators will issue charters regarding to managers' bonus. The bonus will depend of the future value created by the manager for the shareholders.

In terms of corporate governance is obvious that managers will be more controlled by the new and the old regulators. The Fed expects from managers transparency in firms' accountancy and risk control. The Fed wants to prevent the issue of too risky products as happened before with the high risk mortgages. Moreover The National Bank Supervisor will control the performance of all National Banks, being an organ of control outside of The Fed.

Other measure proposed in the Regulatory Reform is the participation of managers and CEO's in the different products that a company issues. The participation in products supposes that in case of bankruptcy the managers are damaged and affected with their own assets. This option is supported by James Bennet, founder and senior associate editor of the Journal of Labor Research Publication. Mr. Bennet, in the Public Affair Conferences 2010 in the Missouri State University, explained that a good way to keep the risk in considerable parameters in the banking industry would be the participation of the CEO's in their own products. He supported that the participation in the products by the CEO's and managers, responding with their own assets for the failure decisions, would fix the problem of high risk operations in the banking sector. This measure will imply that decision makers keep on thinking about the profitability, but focus more in the viability.

In few words the reform expects higher standards about corporate governance and more responsible management of their assets and products.

7.3.3. Financial Regulatory Reform and consumers' protection

The consumers of the financial system are the most affected by the inconsistence of a financial system. They deposit their saving in the banks, finance their investments by the banks, make their transactions through the bank and use many other services. The financial firms must treat them in a better way, but this not always happen and customers use to suffer unfair and abusive practices in this sector.

The ignorance of many customers about banking bureaucracy, financial terminology and characteristics of the financial products cause the unfair and abusive practices. The Consumer Financial Protection Agency is created in order to control these abusive practices. This agency will push companies to treat better their customers and offer better conditions to them. The control of common finance products as credit cards, mortgages or small loans will focus the activity of the consumer agency. It will support the small customers, those who are not able to deal with the finance firms by themselves.

At the same time trying to bring the no regulated markets under The Fed regulations, enhancing the transparency and controlling the risk in these markets, the reform pursues to offer products with not too much risk and guaranty the viability of these markets. These improvements represent better conditions for consumers and investors, which prefer to buy finance products from a regulated market.

The Finance Regulatory Reform also tries to help consumers and investors in terms of data protection. This helps customers in terms of keep their privacy.

The reform tries to achieve better conditions and treatment for customers in the markets. At the same time these measures help customers to rely on the system and keep on interacting within it. This drives the financial sector to a win-win situation, where a great treatment of the customers means higher results in the financial market.

7.4. FINANCIAL REGULATORY REFORM INFLUENCE ON THE FARM CREDIT SYSTEM

The Financial Regulatory Reform focuses mainly the commercial bank sector regulation and problems. The Reform tries to regulate the capitalist financial sector in the U.S. especially commercial banks, national and federal banks, and secondary markets as derivate market.

The different points in the regulatory text lead to socialize the system. The current regulations are based on the capitalism principles and the changes introduced in the reform pursue more control in the system. The different reports requirement, the managers' responsibilities, the new regulations in the markets and the risk control means a step back from the capitalism culture, because the government tries to bring the financial market under its regulations.

The Farm Credit System is the nationwide financial cooperative structure established in the U.S. to finance the cooperatives, credit unions and individuals in the agricultural communities. The FCS is a Government Sponsored Enterprise, what means that although is an independent organization, is more regulated and follows different rules than the commercial banking. The FCS was created to help rural communities and as an initiative of the government to help a determinate sector has different characteristics of socialist control.

The volatility and high risk in the agricultural sector and rural communities require stricter regulation in the FSC. The Farm Credit Administration as the regulator of the FCS controls and evaluates the situation of the different cooperatives and credit unions which participate in the system.

The new Financial Regulatory Reform does not really affect the FCS, because this structure has already higher standards about risk and control. The most important financial products for the FCS chartered institutions are the small loans and mortgages in the rural communities, but the analysis of risk is higher than in the commercial banks. The FCS institutions offer lower interest rates than any other financial firms, but at the same time requires reporting complete information about cash flows, assets and repayment capacity. The FCS institutions have the aim to help their rural customers, because of that firms control the evolution of the farm in terms of efficiency, productivity and liquidity. When anything is wrong running the business and can affect the repayment of the loan, the financial firm intervenes offering help to the customer.

In terms of control the Financial Regulatory Reform focus the regulation in The Fed structure. The reform regards The Fed because the FCS is already strictly regulated. The conditions of the FCS and the characteristic of the services provided by this require more control and risk evaluation than the commercial banks.

The Reform tries to protect the consumers in front of abusive practices from the financial firms, but in the FCS the customers does not suffer these abuses. The FCS was created to provide rural customers with better financial conditions and facilities. The different characteristics of FCS consumers (rural individuals or organizations) required the creation of the FCS to help them. The aim of FCS institutions is to help its customers with credit and development, because of that the new Consumer Protecting Agency would not have excessive importance in the operations of the FCS.

The Corporate Governance in the FCS institutions is regulated by the Farm Credit Administration. The main requirement of the FCA to the different firms is the viability of their operations and the risk control. The governance control was implied when the FCS was created. The importance of the agriculture sector and its volatility requires high standards in the governance of FCS institutions. The new Regulatory Reform reinforces the corporate governance in the FCS institutions, but does not mean an important change in the governance of these firms, as can suppose in the commercial banks.

SECOND PART:

COBANK ANALYSIS AND CSR POLICIES

8. ANALYSIS OF THE COMPANY'S FRAMEWORK AND POLICIES: COBANK, ACB

This point focuses the policies and products of the studied company, CoBank, regarding to the corporate social responsibility elements and policies used in the normal activity. First of all the text focuses the history, origins and main numeric data of the organization in order to known the current situation and the framework where CoBank works.

8.1. ORIGINS AND HISTORY

CoBank is an Agricultural Credit Bank and is one of the four banks of the Farm Credit System. The mission of CoBank, as a cooperatively owned bank with a mission to serve the rural sector, remains committed to deliver value to its borrowers today while preserving the bank health and capacity for future generations.

CoBank has been delivering financial services to rural American businesses since 1916, but CoBank as a FCS system bank was created in 1989 through the merger of 11 Banks for Cooperatives. The bank began operations with $12 billion in assets and has reached earnings of $ 706 million in 2011 (CoBank, 2011).

In 1995, after the mergers of the Farm Credit Bank of Springfield (Mass.) and the Springfield Bank for Cooperatives, CoBank ACB began its operations as the first agricultural bank for cooperatives. The acquisitions were part of the plan issued in *The act of 1987*, where the FCS administration encouraged Federal Land Banks and Banks for cooperatives to merger in 6 or less System Banks.

In 1999 CoBank completed the merger with St. Paul Bank for Cooperatives and acquired the majority interest in Farm Credit Leasing Services Corp. This operation reduced the total number of System Banks to 5, being CoBank the only Agricultural Cooperative Bank (ACB). In 2012 was negotiated the acquisition on US AGBank by CoBank in order to increase the portfolio, but CoBank published its first official reports on the first quarter of 2013.

CoBank is a cooperative owned by customers and leaded by a board of directors primarily elected by these customers. The customers-owners of CoBank receive return earnings each year just participating in the cooperative with any kind of product.

The funds to finance CoBank’s loans come primarily from the sale of Farm Credit System securities to investors in the national and international money markets. These securities are widely accepted and highly attractive, so CoBank is able to offer competitive interest rates to customers.

CoBank redesigns the funds obtained through Wall Street in different securities adapted to its customers and associates. As a System Bank, cooperatives and associations owners of CoBank demand these products and CoBank is formed by very powerful agricultural cooperatives as Missouri Institute of Cooperatives, Oklahoma Agricultural Cooperative Council, Oklahoma Agricultural Cooperative Council, Agricultural Council of California, etc.…and energy and communication associations and cooperatives, for example National Rural Telecommunications Cooperative (NRTC), U.S. Telecom Association (USTA), National Rural Electric Cooperative Association (NRECA) or National Rural Water Association (NRWA).

8.2. IMPORTANT NUMERIC DATA IN COBANK, ACB

The Table 8.1. shows the most important CoBank’s numeric data ($ thousand). This information provides a view of CoBank regarding to its activity and evolution.

Table 8.1. Financial Highlight of CoBank during 2013

For the Year ($ IN MILLIONS)	2013	2012	2011
Net Interest Income	$ 1,163	$ 1,238	$ 1,071
Provision for Loan Losses	—	70	58
Net Income	856	854	707
Patronage Distribution	415	425	341
At Year End ($ IN MILLIONS)	**2013**	**2012**	**2011**
Agribusiness	$ 21,182	$21,394	$ 18,869
Strategic Relationships	37,897	36,707	15,236
Rural Infrastructure	14,524	13,879	12,180
Total Loans	73,603	71,980	46,285
Allowance for Credit Losses	615	595	542
Total Assets	97,644	92,478	63,290
Total Shareholders' Equity	6,705	6,441	4,896
Financial Ratios (FOR THE YEAR)	**2013**	**2012**	**2011**
Return on Average Common Equity	14.40%	15.16%	16.05%
Return on Average Assets	0.91	0.94	1.07
Return on Active Patron Investment	17.53	18.41	22.65
Net Interest Margin	1.26	1.41	1.69
Permanent Capital Ratio	16.72	16.14	16.37

Source: CoBank's Annual Report (2013)

CoBank's average loan and lease volume increased approximately 2 percent in 2013, to $74 billion and about 37% from the 2011, to explain the exponential growth in this 2 years period we have to pay look back to the merge with U.S. AgBank in 2012. Growth in 2013 was driven by higher levels of borrowing from affiliated Farm Credit associations and rural electric cooperatives.

Another important factor impacting all segments of our portfolio was intensified competition across the banking industry for the rural business, the commercial Banks have recently started to offer better conditions to our traditional customers in other to take part in the rural America financial market.

CoBank obtains funds for lending activities and operations primarily from the sale of debt securities issued through the Funding Corporation. These debt securities are composed of bonds, medium-term notes and discount notes. The positive evolution of issued bonds and notes has a close relationship with the loans and leases increase. The financial products offered by CoBank are based in the finance obtained by the System debt in Wall Street. An increase of finance demand represents the need to obtain more funds by issuing more debt by the Funding Corporation.

CoBank provides these association customers with wholesale financing as well as other value-added products and services. In turn, the associations provide the bank with added lending capacity by serving as participation partners on large credit transactions. The average loan volume in the Strategic Relationships portfolio was $36.6 billion in 2013. Since CoBank merged with U.S. AgBank this portfolio growth more than 100%.

CoBank also serves as a partner of choice for a number of nonaffiliated

Farm Credit associations throughout the country on loan participations and

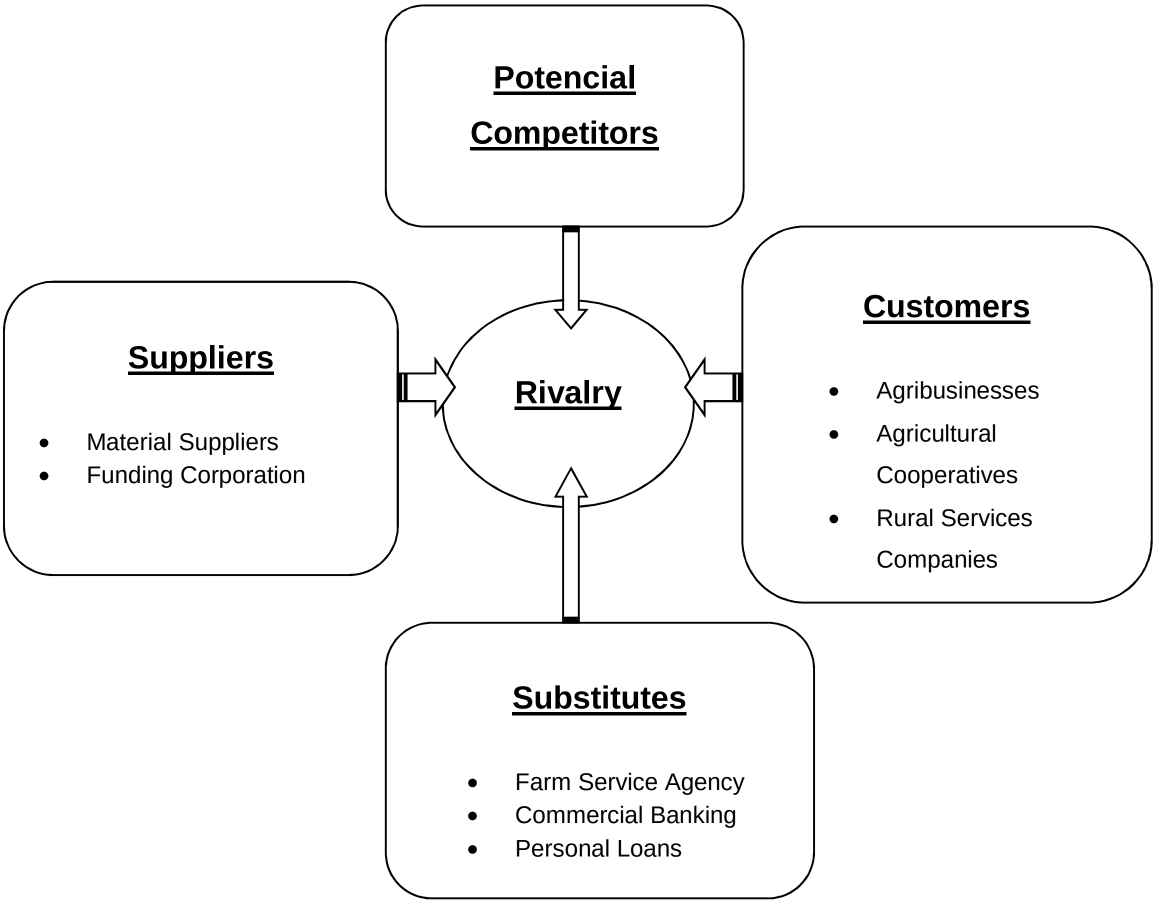
syndications, leasing, and other non-credit services.

8.3. COBANK'S STRATEGY: MISSION, VISION AND VALUES.

8.3.1. Strategic position

Before the analysis of CoBank's mission, vision, values and objectives is essential to analyze the industry where CoBank works, understanding industry as a group of firms producing the same kind of products or services. Porter's five forces framework is a way of assessing the attractiveness and potential of industries. This economic tool provides an overview of the industry structure and opportunities analyzing suppliers, customers, substitutes, potential entrants and competitors.

Figure 8.1. The Five Forces Framework of CoBank.



Source: Adaptation from Techniques for Analyzing Industries and Competitors (Porter, 1980)

The points below analyze the power of customers in front CoBank, who are the suppliers and what conditions they offer, the substitutes for finance that customers can find instead of banking finance and the competitors and their power. However, the potential entrants are not analyzed because the very high barriers of entry that this sector has; only new commercial banks especially focused on the rural market products would suppose a thread for Farm Credit System Banks. However, the extremely high capital needs make very difficult to find new companies in the sector.

8.3.1.1. The power of consumers

As a Farm Credit System bank, CoBank is cooperatively owned by customers, who consist of rural business, agricultural cooperatives, rural energy, communications and water companies and Agricultural Credit Associations in rural America.

The particularity of CoBank is that when a customer receives a loan or any other product by CoBank, according to the Farm Credit Act, is required to become in an equity owner of the bank. The acquisition of equity is a condition to get any finance service from the bank. The benefit of obtaining this equity is that each year CoBank returns a substantial portion of its earnings through patronage payments.

CoBank organizes its customers in three different groups with different characteristics. Each one of this group has different requirement in terms of equity investment and at the same time different needs of consume.

- *Agribusinesses and Agricultural Cooperatives.* Agribusiness and agribusiness cooperatives are involved in any form of agribusinesses: processing, marketing, transporting or exporting farm products. Agribusinesses range from small local and large regional agricultural cooperatives to multinational food companies.
  The minimum initial borrower investment for rural business or cooperatives is equal to the lesser of one thousand dollars or two percent of the amount of the loan. The initial investment is generally received in cash at the same time that the borrower receives the loan approval.

- *Rural Energy, Communications and Water Companies.* CoBank provides services to rural energy, communications and water cooperatives and companies. With these funds CoBank finance the extension of electric service to residential and business customers, the installation of new transmission lines, the build of renewable energy generation facilities and the improvement of rural water systems and the diversification of wireless technology and satellite TV. The investment requirement for this cooperatives and companies is the same than the agribusiness and cooperatives. The finance operations with these companies are often high amounts of money, what means that this group is required to invest two percent of their loans in CoBank's equity.

- *Agricultural Credit Associations (ACAs):* CoBank provides funds to four Agricultural Credit Associations. These organizations provide loans for equipment, working capital and other agricultural production purposes. CoBank ACA partners are Farm Credit of Maine, Farm Credit East, Northwest Farm Credit Services and Yankee Farm Credit.

  Associations and CoBank operate under a debtor-creditor relationship evidenced by a specific General Financing Agreement for each Association. The GFA sets the business relationship between both organizations.

  Agricultural Credit Association customers are required to invest in common stock as well. The Associations and CoBank have an agreement about the required investment, which establishes that Associations shall invest in CoBank's equity four percent of their average borrowing during the last year.

  At the end of 2011, the percentage of equity holders which had a current loan or finance service running in CoBank was 23% (CoBank, 2011). Most of the customers-owners keep their participation in CoBank once their loan is over, because the bank returns in terms of dividends or patronage motivate the owners to keep on being part of CoBank. In case there are any Retirements of common stock and participation certificates, the Board of Directors determines the equity level.

8.3.1.2. The power of suppliers

CoBank as a financial institution gets supplies in two different ways: funds supplies and material supplies. Obviously the most important are the funds suppliers allowing CoBank to continue its operations giving finance and liquidity to customers.

8.3.1.2.1. The Suppliers of funds

CoBank finances its activity through the System wide debt securities issued by the Funding Corporation. The Funding Corporation provides highly liquid and low cost debt, but the relationship between CoBank and the Funding

Corporation is regulated by the Contractual Interbank Performance Agreement (CIPA). The CIPA establishes an agreed-upon standard of financial condition and performance for the System banks and their affiliated Associations. This agreement regulates in terms of Capital, Asset quality, Earnings, Interest rate risk and Liquidity.

CoBank must follow the conditions established in the agreement in order to continue receiving funds for its operations. At the same time the accomplishment of this agreement ensures the Funding Corporation viability in its operations.

Because of the Farm Credit System structure and organization, CoBank obtains fund only from one front, the Funding Corporation. This means that the suppliers' folder is extremely concentrated and this would cause a complicated situation for the bank in case the Funding Corporation could not place the system debt securities properly.

8.3.1.2.2. Material Supplies

Material supplies in CoBank affect the leasing activities and offices supplies. Leases include all kind of transportation vehicles, agricultural equipment, facilities and production equipment. However office supplies refer to all activities needed to set an office. Supplying activities involve electronic system, building maintenance, technologic devices, furniture and others.

All supplies are not provided by the same company and there are many supplier which offer similar products. CoBank has developed a supplier selection culture in order to identify the best suppliers and keep good relationship with them. The supply decisions are based on the following criteria:

- No one in the bank is allowed to accept any commission or gift from the suppliers, decisions are strictly professionals and do not need to be compensate from the suppliers.
- CoBank chooses its suppliers based in a quality product analysis and services offered by each one. Main aspects analyzed are:
- Relationship quality and price.

- Earlier operations with CoBank and the quality of these.
- Suppliers' social responsibility in terms of environment preservation, social activities and legal responsibilities situation.
- Priority to companies involved in rural America.
- Ask to its different leasing partners and analyze their different proposals.
- Fulfill all agreement from both parts regarding due dates, prices, quality, and payment conditions.

8.3.1.3.The Power of Substitutes

Substitutes for any industry are products or services that offer a similar benefit to an industry's products or services, but by a different way. In the banking sector is difficult to think in substitutes for the product offered. The banking sector, private and cooperative, offer its customers different kinds of finance products, but overall finance.

When someone looks for finance to run a new business, to invest in his current business or for any other matter the range of finance solutions different than a bank is not so broad.

There are some alternatives which can substitute the finance service offered by a bank, but most of them have high standards requirement or many objections. For example a person in rural America who looks for finance in an alternative way than a bank can opt for a personal loan from a friend or family, government subvention or an increase of share capital for companies.

The personal loan is a good option for small amounts of money, but the problem lays on the terms and credibility. A personal loan requires a high level of confidence between borrower and lender, usually the lender need to know the borrower long time and his background in finance operations. At the same time these finance operations between friends or family often finish causing problem in the borrower-lender relationship because of unpaid, delays or other issues.

Other option in terms of finance for companies could be an increase in share capital. This option provides a capital investment in the company, but affects the owners directly forcing them to choose between investing more capital and losing decision power in the company. When a company increases its share capital the investment comes from the launch of new stock which can be acquired by owners and potential owners. If owners do not reinvest in the company they lose power in corporate management, because their percentage in the company's equity goes down.

The last option for a farmer or rural business to avoid the banking finance is the U.S. Government. The Farm Service Agency is the government option to get a rural credit. The first requirement of this organization is that a farmer credit has to be rejected in two FCS institutions and commercial banks before he is allowed to ask for credit in the FSA. The Farm Service Agency offers credit to those who cannot obtain finance in the FCS or in the private banking. The FSA is the last option and offer much more facilities than the others. The conditions of FCA products are very good and do not require high interests. At the same times these good conditions are enhanced by the monitoring that FSA does with its customers. As a government company the FSA tries to achieve better results for the consumers and does not look for the returns as much as the other options do. This means that the offer loans in higher risk situations and sometimes they are not sure about the repayment.

8.3.1.4 The Competitive rivalry

Farmers, ranchers and rural communities in general have different options to get finance. Farm Credit System institutions and commercial banks are the private options for rural communities Commercial banks accept deposits, make business loans, and offer related services. These institutions are run to make a profit as the FCS institutions; however commercial banks are owned by a group of individuals. Keeping the Farm Credit System affiliates away from the rivalry of CoBank, the rivals left in the finance sector are commercial banks.

The difference between the FCS and the commercial bank is that financial products in the FCS institutions are design for farmers or ranchers while commercial bank products do not provide any facility for rural customers. Rural owners or farmers find problems when they look for finance in the commercial banks, because of the volatility of the sector, higher interests and short term interest. These reasons involve farmers cannot afford the repayment of their loans in the commercial banks, because the agricultural sector provides cash flows after several years. The FCS provides products adapted to its customers.

CoBank as a FCS bank cannot consider other institutions of the FCS as competitors. The structure of the system predefines the area of performance for the system banks, what means that they do not compete among them because the customers are affiliated to the bank working in their own region. Moreover, the different associations and credit unions cannot be considered as competitors for CoBank. These associations, credit unions and rural companies are regulated by the Farm Credit Act, subordinated to the Farm Credit Administration and affiliated to the system bank in their own zone. According to the system structure, the lowest institutions ask for credit the system banks which provide them with funds obtained by selling system wide bonds. Summarizing, when a customer obtains credit by a FCS institution in CoBank's area of performance, the system bank is involved in the operation providing funds to the institution which supplies the final customer.

8.3.2. Mission, Vision and Values

According to the strategic analysis based on Porter's theory, the next step is to analyze the mission, vision and values of CoBank and check if these are in consonance with the different forces which affect the company.

CoBank, as a system bank of the Farm Credit System, provides domestic and international financial solutions to rural industries, including farmer cooperatives and energy, communications and water companies, Farm Credit Associations, and other similar businesses. The mission of CoBank is to strengthen the financial condition of the bank, enhance its public policy purpose, and improve the quality of life in rural America.

Regarding to the business vision, CoBank is committed to be a professional, financially strong, socially responsible financial institution dedicated to fulfilling its mission and meeting the needs of its customers.

CoBank’s objectives regard to provide capital and financial solutions to businesses that operate and serve rural America’s vital industries. CoBank is committed to achieve and deliver superior customer service and competitively priced products in innovative and efficient ways to its customers in rural America. CoBank acts as consultant for its customers and provide a consistent return on their investment in order to lead rural America achieving higher life standards.

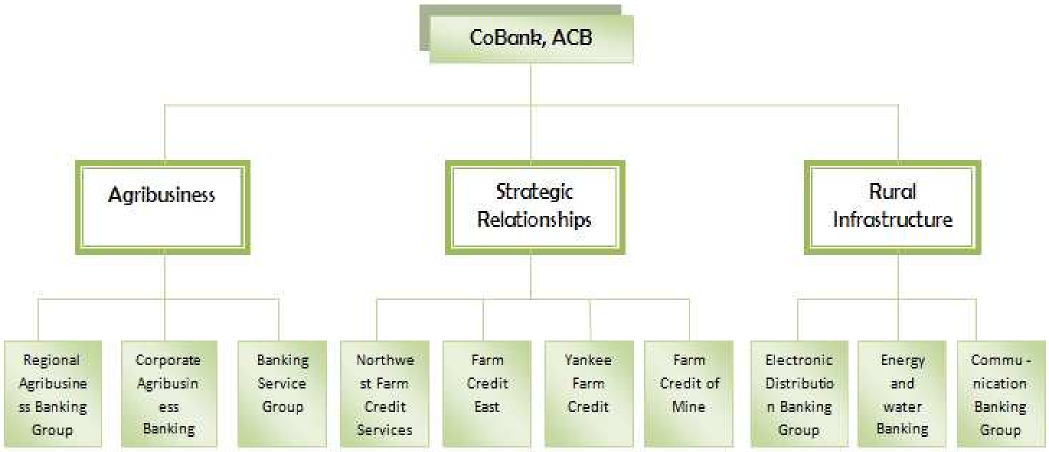
Obviously CoBank’s mission, vision and values are in a perfect concordance with its customers and their needs. CoBank focuses its activity in the rural sector and provides them with the best solutions trying to achieve higher life standard for rural America.

8.4. COBANK’S ORGANIZATION

Growing businesses need capital and CoBank provides finance to be successful. CoBank focuses itself in cooperatives, agribusiness, rural energy and communications systems, Farm Credit Associations and agricultural export. The Bank offers competitively priced, flexible loan programs, leasing services and other financial services as cash management, online services and specialized financial services. CoBank also provides international banking services for U.S. agribusinesses.

CoBank ended the year 2013 with total loan volume of $74 billion, this volume has been increased due to the merge with the U.S.AgBank (CoBank, 2013). The bank is aligned all his products into three operating segments Agribusiness, Strategic Relationships and Rural Infrastructures.

Figure 8.2. CoBank's Industry Portfolio



Source: Self creation based on CoBank's Annual report 2012

The $74 billion of loans and leases are distributed among these 3 activity segments. During the last 4 years, the levels of activity from the Agribusiness have been lowered in benefit of the Rural Infrastructure industry, what shows a new development on the rural America. Also the variation on the strategic relationship segment has been increased in a high level due to the mentioned merge with U.S. AgBank. This variation on the strategic segment influences also the total of loans which has been increased due to the merge.

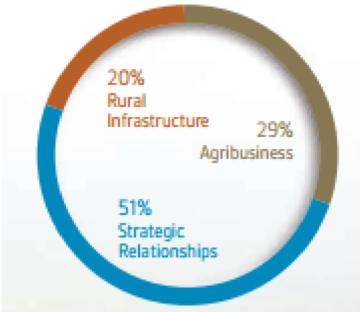
Table 8.2. CoBank's Segments Activity on 2013

At the end of the Year	2013	2013 (%)	2011	2011 (%)	2007	2007 (%)
Agribusiness	$ 21182	28,77%	$ 18.498	41,02%	$ 19.582	48,36%
Strategic Relationships	$ 37897	51,48%	$ 15.026	33,03%	$ 12.211	30,16%
Rural Infrastructure	$ 14524	19.73%	$ 11.026	25,95%	$ 8.698	21,48%
Totals	$ 73603	100%	$ 44550	100%	$ 40491	100%

Source: Self creation from CoBank's Financial Report (2011-2013)

The figure 8.3. shows the specific weight each segment has in the CoBank activity. The main sector is the Agribusiness followed by the Strategic Relationships, being the Rural Infrastructure segment the one with a lowest activity.

Figure 8.3. CoBank´s Loan Portfolio

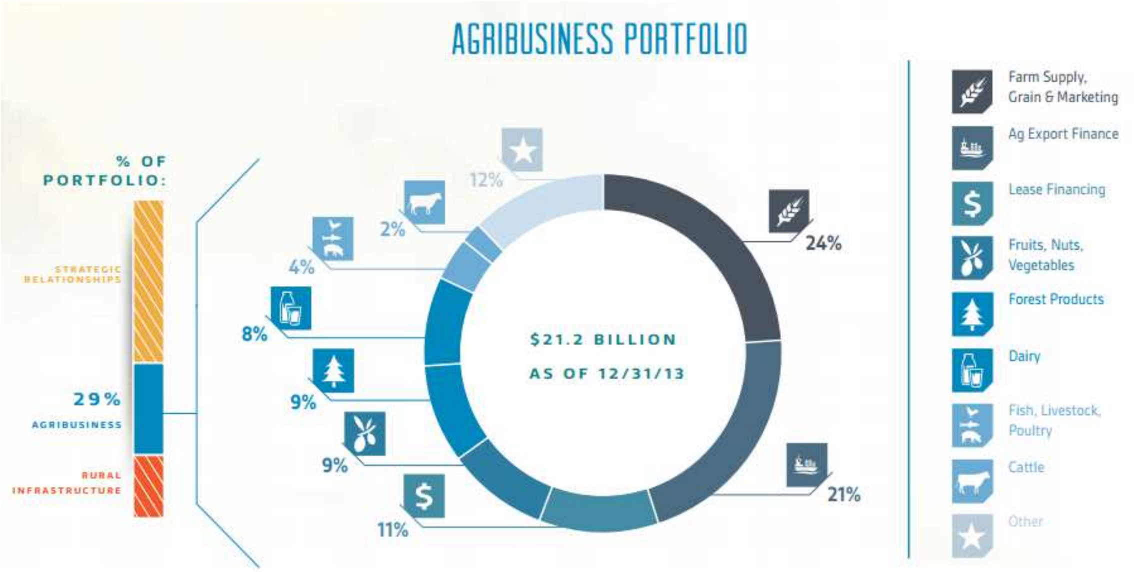


Source: Self creation based on CoBank's Annual Report 2011

8.4.1. Agribusiness Segment

The Agribusiness segment includes the Regional Agribusiness banking Group, Corporate Agribusiness Banking Group and Banking services Group. This segment serves cooperatives and farmers involved in a wide variety of industries, including grain handling and marketing, farm supply, food processing, livestock, fruits, nuts , vegetables cotton and forest products. Primary products and services offered include traditional commercial and industrial loan programs, leasing, tax-exempt bond issuances, capital markets solutions and cash management and investment products.

Figure 8.4. Distribution of Loan by industry in Agribusiness Segment



Source: CoBank's Annual Report (2013)

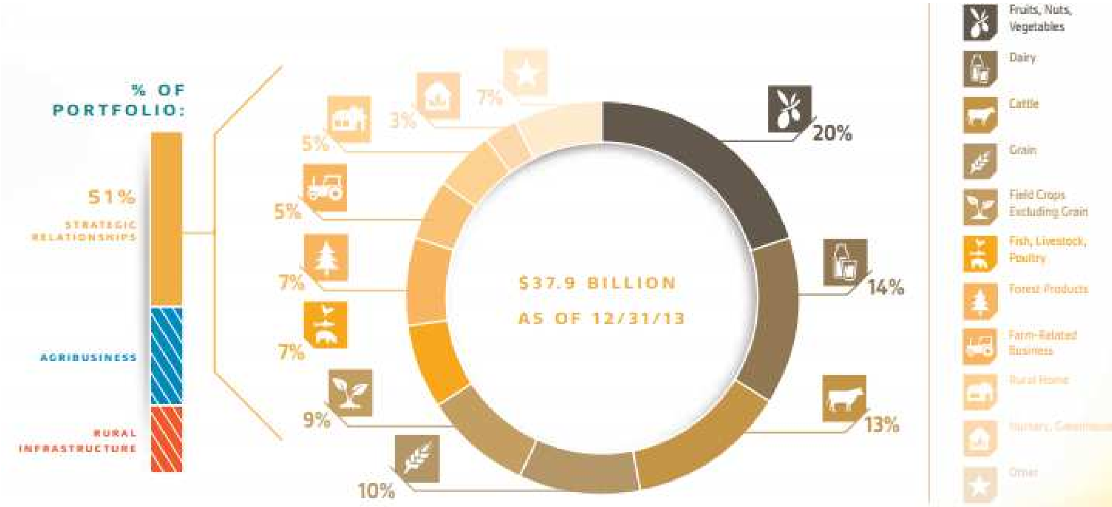
8.4.2. Strategic Relationships Segment

The Strategic Relationships segment works as a wholesale supplier of funds to CoBank's affiliated associations and funds relationships with other System institutions.

These affiliated associations are Northwest Farm Credit Services, Farm Credit East, Yankee farm Credit and Farm Credit of Maine, but at the same time CoBank serves other Farm Credit bank and associations, via loan participations and syndications and providing cash management, treasury product and other non-credit services. The affiliated Associations serve more than 70,000 associates (CoBank, 2013).

The Figure 8.5. provides information about how CoBank distributes credit among its financial partners, being Northwest Farm Credit Services the main business partner of CoBank in this segment. Associations primarily make long-term real estate loans and short- and intermediate-term loans to their farmer-owners for equipment, working capital, agricultural production and operating purposes.

Figure 8.5. Distribution of Loan by industry in Strategic Relationships Segment



Source: CoBank's Annual Report (2013)

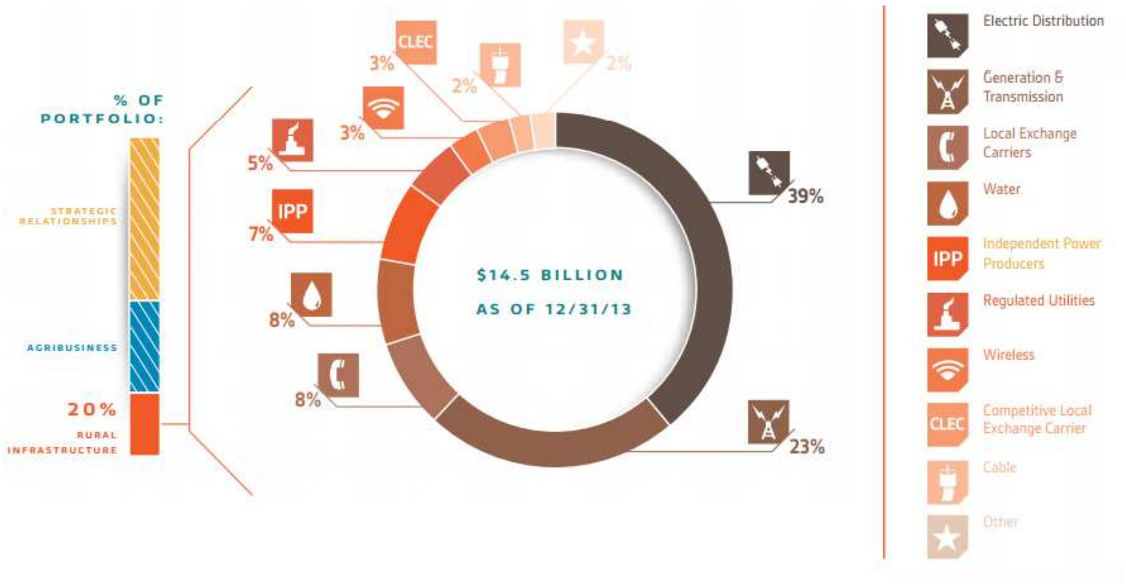
8.3.3. Rural Infrastructure Segment

The Electric Distribution Banking Group, Energy &Water Banking Group and Communication Banking Group form the Rural Infrastructure Segment. It provides financial solutions to companies in the energy, communications and water industries. Customers include rural electric generation and transmission cooperatives, electric distribution cooperatives, independent power producers, rural local exchange carriers, wireless providers, cable television systems, and water and waste water companies.

CoBank provides traditional loan programs, lines of credit, project financing and additional products and services to many associations and cooperatives which build out facilities to meet long-term planning requirements and to comply with environmental regulations.

As the Figure 8.6. shows the most of loans in this segment are directed to electricity installations and development, but new technologies as renewable energy products growth in the portfolio. Obviously the increase of rural infrastructure segment loans means development for the rural America.

Figure 8.6. Distribution of Loan by industry in Rural Infrastructure



Source: CoBank’s Annual Report (2013)

8.5 COBANK’S STRUCTURE OF GOVERNMENT

As it is commented above, CoBank is a cooperative bank which offers financial products to rural America, but at the same times acts as System Bank being part of the Farm Credit System.

Inside of CoBank’s structure, there are two different kinds of organs which have the responsibility of running the firm operations. CoBank is leaded by two teams the Board of Directors that sets the overall strategic direction for the bank and the Management team that implements the strategy.

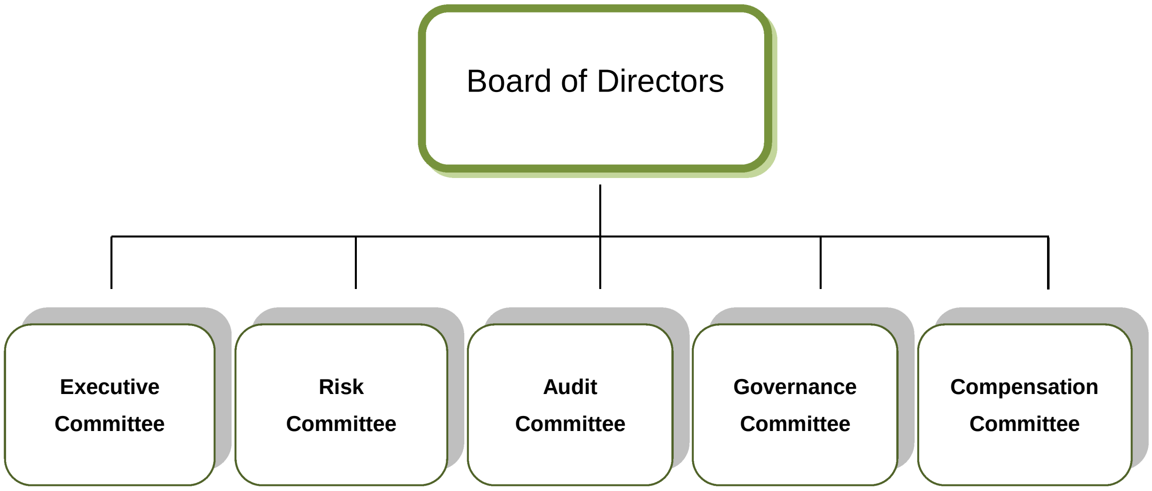
8.5.1. Board of Directors

CoBank, by laws, authorizes a Board of Directors consisting of 15 to 17 members. In December 31of 2011, the Board consisted of 16 directors. The majority of members are elected by the customer-owners. As a result of CoBank's merger with U.S. AgBank, the bank’s board temporarily expanded to 32 members on January 1, 2012. The size of the board was reduced to 24 elected directors on January 1, 2013.

The board has five committees to assist its decisions and fulfill its responsibilities: Executive, Compensation, Audit, Risk and Governance.

The different committees are composed by different Board of Director members and each one is specialized in a different mission. All Board committees report on their meetings at the regular meeting of the full Board, even to those which are not part of any committee.

Figure 8.7. CoBank, ACB's Government Structure



Source: CoBank's Annual Report (2013)

8.5.2. The Management Team

The management team is a combination of financial, business, agricultural, energy, communications and water industry expertise. Its main function is to manage and run the bank's activities. The team is composed by 24 professionals (CoBank, 2013) who represent all major divisions within the bank and are responsible for delivering on CoBank's value proposition. The members are the presidents and vice-presidents of the different business units in CoBank's business segments.

8.5.3. Hierarchy Levels

In CoBank there are three different hierarchy levels in CoBank reflect the different responsibilities regarding long term planning, strategic decision and daily activity.

Figure 8.8. Hierarchy levels in CoBank

Source: Self creation based on CoBank's Annual Report (2011)

- *Board of Directors.* CoBank's Board of directors in the maximum responsible in the bank operations. The Board of directors, supported by the different committees, sets the overall strategic direction for the bank.
- *Management Teams.* This level is composed by Presidents and Vice-Presidents of each business unit. As it is commented above, CoBank is organized in 3 business segments (Agribusiness, Strategic relationships and Rural Infrastructure) which at the same time are divided in different business units. These business units are governed by President and Vice-presidents who have the responsibility of implement the strategy issued before by the Board of Directors.
- *Office employees.* This level is composed by all employees who do not have any responsibility as a directors or managers. Within this group there are employees with different levels of knowledge, experience and motivation.

8.6. COBANK'S PRODUCTS AND SERVICES ANALYSIS

CoBank provides finance to agricultural individuals and collectives when they need to buy new equipment, entering a new market, launching a new product line, or partnering to take advantage of a new business opportunity.

CoBank is specialized in cooperative, agribusiness, rural energy and communications systems, Farm Credit Association and agricultural export financing. The CoBank's aim is to offer competitive prices, flexible loans, leasing services, cash management, online services and specialized financial services. CoBank also provides banking services for U.S. agribusinesses when they are involved in exportation trades.

In the following points CoBank's products are identified and analyzed by the marketing mix theory studding the four P's of a product. In order to understand perfectly the product that CoBank´s offers in the market is necessary analyze product, place, promotion and price. A product has particular differences which make it different than other products offered in the same sector, it is necessary to find out which are the most important for customers. Talking about price the most important is the way in which the product has been priced, could be a high price trying to differentiate the product or low looking for higher sells. The place refers where the product is offered; obviously a rural loan would not be welcome in New York City. Finally promotion regard to how the product is promoted among customers and how a firm get their attention.

8.6.1. Loans

CoBank offers loans differentiated by the term:

- *Short-Term Financing.* The Short-Term financing offered by CoBank focuses the problems of individuals and small organization in the agribusiness sector. Many times CoBank monitories its customers in order to help them with better results, which is good for both parts. CoBank offers loans to finance: current or seasonal assets as new tools or employees' wages, inventories as feed, fertilizer, chemicals, tires and lubricants, accounts receivable as bills of exchange or promissory notes, and other short-term needs.

- *Intermediate and Long-Term Financing:* CoBank also offers loans to meet long-term business objectives, including: construction of new facilities, remodeling or expanding existing facilities, land or equipment purchases, finance mergers and acquisitions and long-term assets and working capital.

Table 8.3. Strengths of CoBank Loans

Price	**Product**
Reduced interest. Long payment terms	Finance rural needs. Develop farmers' capabilities
Place	**Promotion**
Offices placed in rural communities	Farm Credit System loans Government Sponsored Enterprise

Source: Self creation based on CoBank Annual Report (2013)

The loans offered by CoBank have as special characteristic that feed all requirement needed by farmers and agribusiness, giving them late repayment terms and reduced interests. These loans are distributed in rural America, where customers require these characteristic. An essential point for customers lays in the FCS institution condition of CoBank, guaranteeing them with very good conditions in the rural environment. The rates and loan maturities vary by industry according to their different financing needs.

8.6.2. Leases

CoBank offers lease solutions to its customers as an alternative to purchasing equipment, vehicles and facilities. CoBank delivers all kind of rural solutions that a customer need:

- Transportation vehicles.
- Agricultural vehicles like tractors, harvesters and sprayers.

- Other agricultural equipment like grain dryers, storage bins, irrigation systems, milk tanks and wine barrels
- Production equipment processing, dairy production and packaging.

CoBank offers flexible terms correlated with the life of the equipment, usually between 36 and 60 months. At the same time, CoBank offers the opportunity to choose a payment schedule adapted to each consumer. CoBank's guarantees easy paper work and quick delivery, faster than a purchase.

Table 8.4. Strengths of CoBank Leases

Price	Product
Reduced interest. Flexible terms.	Finance rural needs. Easy paper work. Quick delivery.
Place	**Promotion**
Offices placed in rural communities. Equipment available in the office.	Farm Credit System leases. CoBank Online management.

Source: Self creation based on CoBank's Annual Report (2013)

In many offices the small equipment is already available when the customer comes to an office. This, besides than quick and easy paper work makes CoBank leases very interesting for customers who need a quick response from the bank when they require machinery.

8.6.3. International products

CoBank promotes exportation in rural America with more than 500 banking relationships in nearly 85 countries we can provide your organization with a variety of financing services. The majority of CoBank export loans are guaranteed by the U.S. Department of Agriculture's Commodity Credit Corporation. CoBank is a major lender under USDA's GSM-102 export credit guarantee program, which is administered by the CCC.

Table 8.5. Strengths of CoBank International Services

Price	Product
Reduced taxes.	Guaranteed by the U.S Government.
Place	**Promotion**
Offices placed in rural communities.	Farm Credit System has a relationship with more than 500 banks. Promoted in Credit Unions

Source: Self creation based on CoBank's Annual Report (2011)

8.6.4. Specialized Services

Through many good business relationships and partnerships CoBank offers its customers different ways to obtain the best performance for their funds.

- *Syndicated Finance:* CoBank can act as an agent to arrange loans with a variety of institutional investors including commercial banks, finance companies, insurance companies, institutional loan funds and Farm Credit System lenders.
- *Private Placements:* Provides placements with private investors through a partnership with SPP Capital Partners, LLC, and an investment bank that specializes in taking growing companies to private investors.
- *Tax-exempt Bonds:* Through W.R. Taylor, CoBank offers tax-exempt bond financing for facilities and equipment related to industrial development. These bonds provide tax advantages to the investor lower interest rates to the borrower.

- *Asset Securitization:* Certain assets are separated from the balance sheet and used as collateral for the issuance of securities
- *Interest Rate Risk Management Products:* Products include interest rate swaps, caps and collars, and forward rate fixing alternatives.
- *Investments:* CoBank offers investment options through an alliance with AIM Institutional Funds.

Table 8.6. Analysis of CoBank Specialized Services

Price	Product
Reduced taxes. Low prices customers.	Services for customers. Increase their profits. Insurances for assets.
Place	**Promotion**
Offices placed in rural communities.	CoBank Offices. CoBank website.

Source: Self creation based on CoBank's Annual Report (2011)

8.6.5. CoLink and Cash Management

CoLink offers a possibility to take advantage of fast-breaking opportunities for the customers. CoLink is an online service is designed to help better manage business. Through CoLink a customer can view loan and investment balances, initiate transactions, and access a suite of cash management tools as CoBank Cash Manager.

CoBank's Cash Manager is pack of tools that takes idle cash and puts it to work efficiently and profitably. Delivered through CoLink, that is CoBank's online delivery channel. CoBank Cash Manager offers services that concentrate on settlement, disbursement, collection and investments. This integrated cash management solution fully automates loan, investment and transaction needs through CoLink, so activities are seamless and integrated.

CoBank's Cash Manager must be settled with consumer positioning rules and consumer can redefine those. Transactions are automatically settled base on your pre-defined rule sets. This automatic application of funds keeps you in control and saves you time.

Table 8.7. Analysis of CoLink and Cash Management.

Price	Product
Free service for customers.	Automatic transactions. Online service. Efficient and profitable money management.
Place	**Promotion**
Offices placed in rural communities.	CoBank website. Letters addressed to customers promoting and explaining the services.

Source: Self creation based on CoBank (2012)

8.6.6. Strategic directions for CoBank's products

Not all products in CoBank have the same importance, attractiveness for customers or profit. In order to improve the quality of service and the results is important to study the strategic positions where CoBank's products are situated. The Ansoff product/market growth matrix provides a simple way of generating four basic alternatives directions for strategic development: consolidation, market development, product development and diversification.

Table 8.8. CoBank's Ansoff Matrix

	Existing Products	**New Products**
Existing Markets	Short Term Loans Long Term Loans Leases	Specialized Services
New Markets	International Services	CoLink and Cash Management

Source: Self creation from CoBank Annual Report (2013)

CoBank understands its loans and leases as products and services in a consolidation strategic position. Loans and leases are current products on CoBank's current markets, what means that CoBank needs to consolidate its position in front of the rivalry. CoBank is already established in rural America and these products have maximized customers' need. It means that CoBank is consolidating this products focusing defensively on their current markets with current products.

However, in the same rural environment CoBank offers specialized products very different than the classic loans or leases. These products are currently gaining market share. In a rural environment where most customers only understand a hard work culture, these new services which can develop customers' opportunities and profits are difficult to introduce. In order to change customers' mind, CoBank is enhancing products characteristics and functionality.

Using their relationships with more than 500 banks around the world, CoBank is opening new markets for itself and for its customers. By opening new rural markets around the world the bank offers its customers an opportunity to export their products and find new business opportunities. At the same time establishing CoBank in other rural communities, the bank has a chance to offer its services in other countries. In conclusion, CoBank tries to sell existing products in new markets.

Diversification is the last strategic position left to analyze in CoBank and the bank is trying to achieve this with its new e-management tools: Cash Manager and CoLink. The new e-tools provide new services to customers giving them a chance to use a CoBank office anytime they need it. The Cash Management tool manages customers' money according to some requirement previously set by customers in the best way to achieve higher profits. These new tools have been launched in rural America as well, but the difference between other classical products in CoBank is that these new tools focus new farmer generations, with higher standard of education and capable to manage these tools in their own benefit. The new rural generations with higher educational standard, many of them with agribusiness studies and their comfort with new technologies offer CoBank a new market inside of rural America.

9- CORPORATE SOCIAL RESPONSIBILITY IN COBANK, ACB

This chapter focuses on the analysis of the corporate social responsibility policies and initiatives in CoBank, ACB. The goal of this chapter is to analyze how the CoBank, ACB's activities and how this initiatives affect its stakeholders. The model chosen to study the CSR in CoBank, ACB is the G3.1 guideline for sustainability reports issued by the Global Report Initiative, as we have seen on the chapters before the new G4 is still being adapted and will be mandatory after December 2015. This guideline is nowadays the most used, famous and efficient in the business framework nowadays.

In order to analyze in a better way the CSR policies of CoBank, together with the G.3 guideline from the GRI we will use also the Financial Services Sector Supplement. With this extra indications issued by the GRI to complete the original report we will face unique sustainability issues that should be captured in sustainability reports and can have additional importance depending of the sector analyzed. Following the index of the G3.1 on the Annex 2, we start jumping over the first three points of the guideline which have been already described on the chapter eight "Analysis of Company's Framework and Policies: CoBank, ACB", including company profile, framework and also the approach of the strategy and analysis of the company stakeholders. On this chapter we will focus on specifically CSR policies and we will try to analyze with the highest possible level of materiality as it is the new requirement of the GRI.

The Corporate Social Responsibility analysis of CoBank, ACB will be based on the public spread information issued by the company and also in the first Corporate Social Responsibility report issued by CoBank at the beginning of 2014. The analysis will be based in the available information issued by the bank and by the Farm Credit, certain points from the GRI guideline will not be possible to be analyzed as there is certain confidential information regarding to environment risk and consume which is not issued and not required by law as confirmed by CoBank Financial Report 2013.

In order to obtain an accurate idea about the CSR in CoBank, ACB; this chapter analyzes in a first part the different policies and activities affecting customers, owners, employees, board of directors, governments and other communities. To better understand and analyze the CSR in CoBank we will refer and compare with the other Farm Credit Banks which are the unique banks involved in the Farm Credit Systems and are regulated under the same terms.

The data issued on the different reports of the Farm Credit Banks and the different CSR initiatives of these banks published by the Farm Credit System institutions will bring an idea of the strengths and weakness of CoBank in terms of CSR and will give us the opportunity to later on present different conclusions and options to improve the current policy.

To reinforce the ideas obtained after the analysis of the reports issued by the different banks and institutions we will analyze also some articles appeared in different media and we will try to find the link between the CoBank policies and the different projects started by the company.

Once this first part is finished, the analysis will try to summarize the information and obtain conclusions about the social responsible behavior of CoBank, ACB. At the same time, always keeping in mind the market of CoBank, we will try to issue different recommendations which could help the company to obtain better results and consolidate its brand vision from customers in terms of CSR.

9.1 GOVERNANCE, COMMITMENTS AND ENGAGEMENT (4 ON THE G3.1)

This point is linked to the fourth point on the G3.1 and will focus on different points related to the Governance. The number of members on the board and the percentage of gender or age on the board can influence in the direction of the company and also on the independency of its decisions. Also the mechanisms and shareholders to provide with suggestions or directions to the direction of the company and the level of attention on the same from the directors it is also important. Furthermore the processes to access to the governance bodies to avoid conflicts of interest and also the mechanism to establish the company's governance body compensations are necessary to be studied.

9.1.1 The Structure of the Board of Directors (4.1, 4.2 and 4.3 on the G3.1)

CoBank, had in 2012 a Board of Directors consisting on 32 members. In December 31of 2008, the Board consisted of 16 directors, that means that CoBank has increased the maximum number of members accepted in their Board as in 2008 was permitted a number between 15 and17. This increase was allowed due to the merge with U.S.AgBank in order to provide the new regions with a representation on CoBank's Board of Directors. During the 2013 the number of directors was lowered down to 27 directors and the aim of the company is to reach the 24 directors as standard for its board.

The majority of members are elected by the customer-owners, but additional directors are appointed as well to complement the expertise of the elected board members by the Nominating Committee. The board in 2008 consisted in 12 elected directors representing three geographical regions, and four appointed or outside directors, right now the numbers had increased to 20 directors elected by the customer-owners and the rest pointed by the nominating committee. Director terms run for four years. The percentage of directors elected by the committee is similar to the FBC of Texas, where Five of the directors are farmers or ranchers who were elected by the local financing cooperatives that own the bank. Two directors have banking backgrounds and were appointed by the elected board members.

The number of directors of CoBank, ACB has increased during the last years at the same time that the company has growth and covers now longer territory due to the merge. This increase seems appropriated as far as they represent all regions in which CoBank's work. The new merge with AgBank has brought new region to supervise and that has been reflected on an increase on the number of Directors. If we compare CoBank with other Farm Credit System Banks, CoBank had 16 members in its board of directors in 2008 being the lowest compared to the other Fam Credit Banks. The average of the Farm Credit Banks is between 18 to 20 directors, nowadays CoBank has more directors due to the recent merge with U.S. AgBank, as the bank is situated in new territories due to the customers and branches brought by AgBank, it has been necessary to introduce new members on the board to have representation from all areas.

Apparently CoBank's number of directors is appropriate to avoid the centralization of power in the board and at the same time does not lead the company to the lack of responsibility caused with a too high number of directors where no one wants to carry the responsibility of a proposal.

Table 9.1. Directors on the Board of Directors in the FCS Banks in 2013

Bank	CoBank	AgFirst	AgriBank	FCB Texas
Nº of Directors	27	20	18	7
Nº of females	3	2	1	1
Nº of Directors under 45 year	3	2	3	0

Source: Independent Annual Report from each company (2013)

The exception is the FBC of Texas with only 7 directors, this is due to the smaller size of the organization and also the area they cover is the smallest between all Farm Credit Banks.

On the election bases for the members of the Board of Directors CoBank follows the same procedure than the rest of the Farm Credit Banks as it is a requirement on from the Farm Credit System to have majority of the members appointed by the customers-owners and the rest are experts selected by the other members of the board, but appointed by the election committee.

However, where it seems to be a good distribution of the numbers of members according to the regions covered by CoBank, the majority of the members in the board has same gender and belongs to the same age group. As we can see on the Table 9.1 this characteristic is common in all boards of the farm credit banks, but this does not mean that the board has male perspective in all cases. This is also an indication that the rural America is a very traditional male sector and this characteristic even influences the board of CoBank. The board of most of its members is composed generally by men, so as the election of the bank board is made by the customers' boards is quite normal that the male predominance continues. This will not change besides CoBank governance includes any regulation on its own chart to regulate this and include a female perspective in its board.

The board uses all committees to assist fulfilling its oversight responsibilities. CoBank's board has five committees: Executive, Compensation, Audit, Risk and Governance. Other cooperative banks have one more committee organized to manage Human Resources initiatives and their retribution systems.

The different committees are composed by different Board of Director members and each one is specialized in a different mission. All Board committees report on their meetings at the regular meeting of the full Board, even to those which are not part of any committee. Not all Farm Credit Banks have exactly the same number of committees as not all of them have same size and same needs.

Table 9.2. Committees in the FCS Banks in 2013

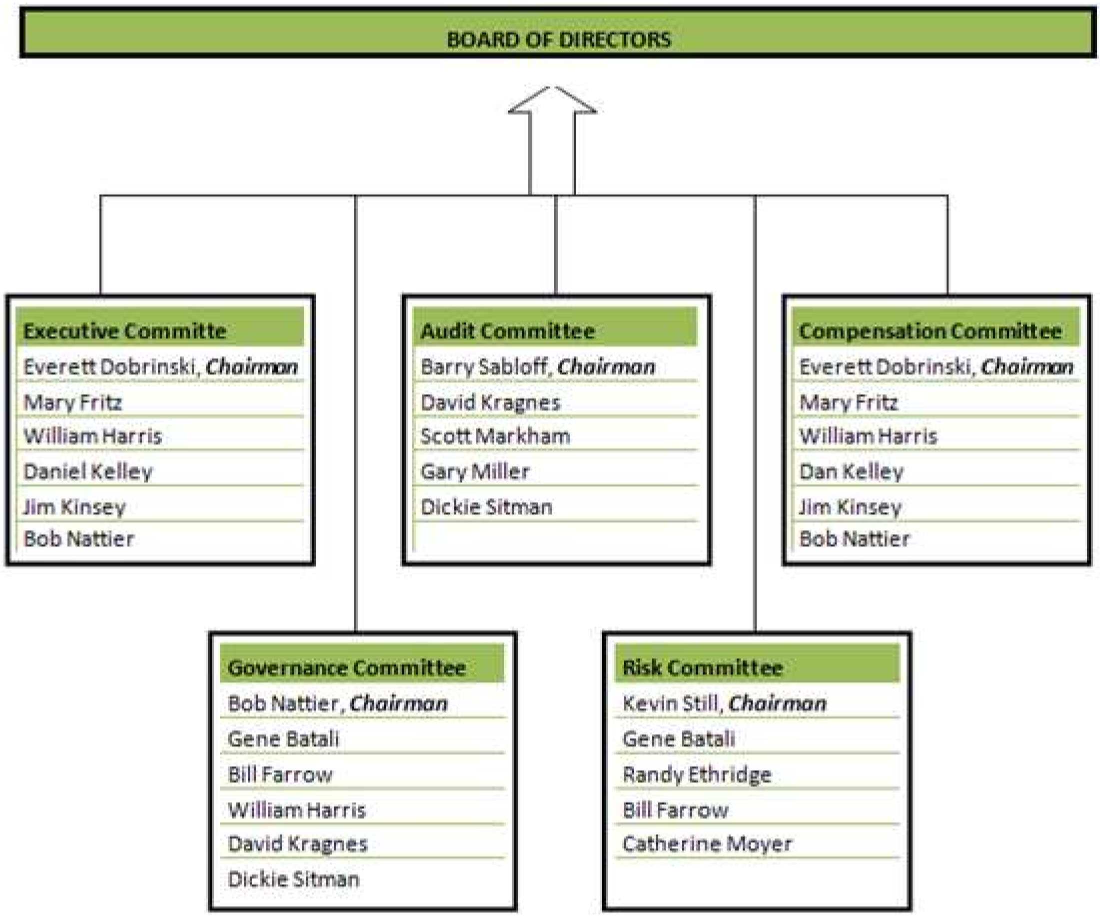
Committee	CoBank	AgriBank	AgFirst	FCB of Texas
Executive	x	x	x	
Compensation	x	x	x	x
Audit	x	x	x	x
Risk	x	x	x	
Governance	x	x	x	

Source: Independent Annual Report from each company (2013)

For example AgriBank and AgFirst has exactly the same number of committees than CoBank and even with different names, they have the same responsibilities distribution. For example the Compensation Committee is named as Human Resource Committee, but the task is exactly the same. The smaller size of the FCB of Texas makes them to have shorter number of persons on the board and only two committees. This makes that the tasks done by the other committees are reassigned to other committees or directly to the Board of Directors.

The Figure 9.2 shows the components of each committee on 2013 and how all these members belong to the Board of Directors.

Figure 9.1. Board of Directors and Committees members



Source: Own creation based on CoBank, ACB Annual report 2013

As an important point on the independence of the Board of Directors we might underline that as a unitary board structure, the totality of members of the highest governance body are non-executive members and over the 75% have to be independent. To be considered as independent the elected person needs to certify that has not worked in a Farm Credit Institution during the year before and also not having any relationship with any of these institutions in the moment of the election.

Only those elected as experts but without any participation in CoBank or any of its owners can be considered independent. In this case CoBank has 7 of its 27 directors considered as independents, what still make higher percentage of non-independent director. However it is the highest number of independent directors in relation with the rest of the Farm Credit Banks.

Moreover employees of Farm Credit System institutions, including CoBank, cannot serve on CoBank's Board of Directors if they have not been at least one year unemployed. This policy tries to avoid situations where only one director compromises a high percentage of the total loans and leases of CoBank.

9.1.1.1. Executive Committee

The primary purpose of the Executive Committee is to develop recommendations about bank's strategy plan, monitoring the bank's business and financial performance, address other matters as necessary and intervene in board meetings when is necessary.

This committee consists in at least three members of the Board of Directors and must meet regularly, not less than four times a year. As the most important committee in CoBank, the Chair in the board of directors is the Chair in the Executive Committee as well. The Executive Committee shall have the following responsibilities and authorities:

- To be the link between board and management on the development and implementation of the strategic plan.
- Review proposed business, financial plans and repots, and provide recommendations to the board.
- Provide advice and counsel about portfolio strategy, capital plan and patronage distribution
- Assist in promoting and communicating understanding of bank policies to the customer-owners.
- Act as liaison with the bank's regulator, the Farm Credit Administration (FCA).
- Make recommendations about the bank's position on public policy or regulatory issues.

This committee also exists in AgriBank and AgFirst as nexus between the Board of Directors and the Senior Officers, however the FCB of Texas does not see any need of having such a similar committee as they have a small Board of Directors.

9.1.1.2. Compensation Committee

Its main purpose is to represent the board in matters related to compensation programs for the bank, including salary, incentive and benefits programs. The committee shall be composed by at least 3 members of the Board of Directors and they shall not meet less than two times per year. The Compensation Committee shall have the following authorities and responsibilities.

- Establish and review CoBank's compensation philosophy for officers and employees.
- Develop and monitor incentive plans.
- Approve changes to the bank's salary ranges .
- Review and recommend all President and Chief Executive Officer's compensation actions.
- Review CoBank's funding and benefit programs.

This Committee is present in all FCS Banks, as it is absolutely necessary to define all compensation plans and the different levels of salaries received by employees, senior officers and directors. However as all members included in the Committees are part of the Board of Directors, this does not provide a high level of independence in their decision, as all of them are affected by their decision. It would be also important for the performance of this committee to receive the help from an independent experts, this would bring much more credibility to the Corporate Governance of the Bank. However the amount of the compensations is published on the finance reports, what brings credibility and transparency to CoBank.

9.1.1.3. Audit Committee

The Audit Committee shall consist of at least three board members and they must meet at least 4 times annually. The primary purpose of the Audit Committee is to assist the board in fulfilling its oversight responsibilities. The responsibilities are:

- Analyze and provide recommendations about management's conduct of the company's financial reporting process and systems of internal accounting and financial controls.
- Monitor the independence and performance of the company's Internal Audit
- Monitor compliance of legal and regulatory requirements.
- Provide an avenue of communication among the independent auditor, management and the board.

This Committee is present in all FCS Banks and also in the Commercial Banks, as it is absolutely necessary to control and evaluate all numeric data and its interpretation. In all Banks this Committee works in a close collaboration with an independent audit company, actually all Farm Credit Banks with PricewaterhouseCoopers (PwC) which is the strongest independent audit service company in the world with 29,2 mil millions of USD in 2011 (PricewaterhouseCoopers, 2012). In this case the participation and verification on the audit by an external company as PwC gives credibility to the financial results presented by the company at the end of the year and already confirms a good performance and high level of transparency.

9.1.1.4 Risk Committee

The committee primarily analyzes and monitor risk practices in the firm, including management's ability to access and manage the Bank's credit, market, interest rate, liquidity, legal and compliance, reputational, technology and operational risks. As other committees the Risk Committee shall be composed by 3 board members at least and meet at least 4 times per year. Among its responsibilities are:

- Review internal controls.
- Review the Annual Report on insurance coverages.
- Approve all major changes to risk policies,
- Evaluate significant risks in new products and warn the bank about emerging risks.

9.1.1.5. Governance Committee

The primary purpose of the Governance Committee is to monitor and recommend for board consideration corporate governance processes and structures that are consistent with leading practices. The committee shall be composed by at least 3 members of the board, but no director looking for re-election can be in this committee the year before of this election. The responsibilities of this committee are:

- Establish board's collective and member's needs, skills, expertise and knowledge necessary to govern the bank.
- In consultation with the board chairman, develop a list of individuals to be submitted to stockholders for approval for service on the Nominating Committee.
- Recommend to the board regarding corporate governance issues and leading practices.
- Review and recommend changes in board compensation.
- Resolve possible conflicts of interests of board members, in consultation with the board chairman.
- Review director reports and loans affiliated with directors.

9.1.2. The Code of Ethics and Standards of Conduct of a Director (4.6 on the G3.1)

The activity of each director in the Board is regulated by the Director Standards of Conduct issued by CoBank. This director standard of conduct pursues integrity in the decision-making process with respect to board actions involving organizations with which individual board members maintain a business relationship. In case there is any conflict happen the director shall report the matter to the Board and excuses him from certain decisions.

There is a code of conduct in every single financial company. Some companies make a difference between the codes of conduct for employees and for directors. CoBank makes this different and issues a general code of ethics for all the people who work in CoBank and then issues another one for the Directors. The general code of ethics promotes aspects as ethical and honest conduct, avoiding conflicts of interests, protecting confidentiality, producing full, fair, accurate and timely information, and complies with applicable laws and rules.

The Standards of Conduct of a Director in CoBank is a reinforcement of the Code of Ethics, which is more general. CoBank is the only Farm Credit Bank which has a specific code of conduct for its directors, as the other institutions only have the general Code of Ethics, applying the same for all departments and statements of the company. The other Farm Credit Banks does not focus on the directors standards of conduct as much as CoBank.

Table 9.3. Standards of Conduct used by Farm Credit Banks

Bank	CoBank	AgFirst	AgriBank	FCB Texas
Code of Ethics	x	x	x	x
Equator Principles				
Directors Standards of Conducts	x			

Source: Self Creation based on the different FCS Banks Information Provided

The responsibilities of director established in the Directors Standards of Conduct in CoBank, ACB are:

- Produce full, fair, accurate, timely and understandable disclosure in CoBank's and related financial reports required by the Funding Corporation and the Farm Credit administration.

- Produce full, fair, accurate, timely and understandable accountancy information, offering transparency about the company activities.
- Directors may not participate in deliberations that would affect their financial interests, any business partner of the director or any entity controlled by the director.
- Directors may not use bank's information for matters not related with their duties in the bank.
- Directors cannot use their position to obtain special advantages and cannot accept any kind of gift from the customer or owners.
- Directors mat not start business relationships with bank directors, associates or customers.
- Directors must follow the bank's standards of conduct policies and directives.
- Directors shall not take personal political positions which can affect the company.
- Directors may avoid personal conflicts with their homologues, but in case there is a conflict, the chairman of the board may seek to resolve conflicts of interest.

CoBank through the Director Standards of Conduct gives a lot of importance to comply with the FCS rules and to comply fairly, timely and accurately with the Farm Credit Administration requirements. This is an essential point for the directors because CoBank is one of the 4 system banks. Many small cooperative and institutions depend on CoBank and a trusty system is essential for its customers. CoBank as one of the 4 system banks carries the responsibility to redistribute the funds obtained by the bonds sold. The finance of the system depends of the accurate performance in the system banks, which must be properly controlled by the Farm Credit Administration and adequately ensured by the FCS Insurance Corporation in order to avoid future financial problems.

CoBank does not belong to the Equator principles initiative and does not accept other current initiatives as the United Nations Environment Program (Rio,1993). For the directors of CoBank, the firm is a system bank in a rural financial structure, what means that the Board sees CoBank strictly as a firm dedicated to agribusiness, energy and water companies and other rural issues. CoBank as a rural cooperative bank should not be worried about money laundering operations, terrorism finance or anything like that.

The Director Election Process followed by CoBank also helps to avoid any kind of conflict of interest due to the way in what it is done and the participation on all organizations with equal vote and having stronger part of the decision from those who own higher level of shares.

9.1.3 Director Election Process and Compensation System for Directors (4.5, 4.6 and 4.7 on the G3.1)

The election of a director is made by organizations which hold voting stock in the bank and have had an active loan in CoBank in the past two years. However the candidates must be proposed by the nominating committee, which consists in seven customer representatives elected by the Bank's stockholders. An especial requirement is that no member of the board or management can serve in the Nominating Committee.

The tasks of this committee are basically to identify qualified candidates for Board membership and to review director nominations, helping to ensure a highly qualified and diverse Board. The Nominating Committee must recommend at least two candidates for each position up for election. A nominee cannot be associated with a party to an adversely classified loan in the FCS. A nominee must have not reached age 70 and must meet all the requirements established by Bank charters and federal regulations.

Once a nominee is elected by the stockholders and becomes a director in the Board must face its responsibilities and follow the Standards of Conduct for Directors issued by CoBank. Directors are compensated in cash at the rate of $50,205 per year in quarterly payments according to the FCA regulations. Compensation is for attendance at Board and Committees meetings and it is reduced in $2,500 for unexcused absence at any regular Board meeting. FCA regulations also allowed extra compensation for the Board chairman, Audit Committee chairman and other directors in exceptional circumstances where extraordinary time and effort are involved. Furthermore than the established compensation, Board members shall be reimbursement for travel, subsistence and other expenses related for the meetings.

Directors of the bank are compensated in cash for service on the bank's board. An annual compensation amount is considered as a retainer for all services performed by the director in an official capacity during the year except for extraordinary services for which additional compensation may be paid.

Table 9.4. Directors' activity and Compensation during 2011

Name of Director	Nº of Meetings Attended	Nº of Days Served in Official CoBank Activities	Total Compensation Paid During 2011
Gene Batali	20	22	52,705
D. Sheldon Brown	20	14	56,705
Rita M. Brown	20	6	50,705
Everett Dobrinski	25	55	65,267
Randal J. Ethridge	20	21	52,705
William M. Farrow II	16	7	50,205
Mary E. Fritz	24	30	52,705
William H. Harris	20	15	50,205
Daniel T. Kelley	24	24	52,705
James A. Kindsay	24	19	52,705
Gary A. Miller	20	34	52,705
Robert D. Nattier	24	30	52,705
Barry M. Sabloff	20	15	65,267
D. Wayne Seaman	24	29	52,705
Richard W. Sitman	20	33	52,705
Kevin A. Still	20	17	50,205
Total	**341**	**371**	**$ 862,404**

Source: CoBank ACB, Financial Report 2011

According to the compensation system of CoBank, in the Table 9.4, Everett Dobrinski as the Board chairman and Barry M. Sabloff as the Audit Committee chairman receives the highest compensation. It is clear that these two chairmen carry a big responsibility in the company and this is the reason why they are higher compensated than other directors. the board is paid according to number of meetings assisted and also to the days dedicated to CoBank's activity. The Board members receive an annual retainer which is paid quarterly for attendance at meetings and other official activities. Also Directors are also reimbursed for reasonable expenses incurred. This System of compensation is also spread around in the other Farm Credit Banks, this ensures that directors are motivated for the company mission and vision and not only for the results, this would happen if the compensation of the directors would depend on the results, where the financial data could be redirected in order to have higher revenue from their side.

In the other hand, any director missed a Board meeting during 2011. This shows the implication of the Board members in their mission and the feeling of responsibility they have with the customers of CoBank. Moreover many of them perceived an extra compensation because of their assistance to different official CoBank activities contributing to consolidate the firm and the customers' confidence.

Apparently the nominating system to decide the members of the Board in CoBank leads the company to the transparency and avoids influences and pressures on the board men. The fact that every single nominee to be part of the Boar needs to have no relationship with a FCS institution ensures that a Director will not intervene in the control activity provided by the FCA and helps the transparency in the operations. Even a corporation with a high number of participation in the stock cannot impose its own directors, because the filter for potential directors is the Nominating Committee.

9.1.4 Internally Developed Statements for CSR (4.8 on the G3.1)

This point refers to the internally developed statements and internationally agreed statements for mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.

Table 9.5. Codes of Conducts and Annual reports on FCS Banks

Bank	CoBank	AgFirst	AgriBank	FCB Texas
Code of Ethics	x	x	x	x
Directors Standards of Conducts	x			
Financial Annual Report	x	x	x	x
CSR Annual Report	x			

Source: Self creation from FCS Banks information

As discussed before CoBank is the only FCS Bank which has a special code of Ethics for the directors besides of the general one for employees and executive management. The Directors Standards of Conducts is reinforcement in terms of responsible direction of the Company.

The Code of Ethics of CoBank applies the President and Executive Officers, and all other senior financial professionals. CoBank's directors run the company in concordance with the Standards of Conduct of Directors, which is in concordance with CoBank's Code of Ethics. This Code of Ethics focuses more the activities of executive officers and normal officers. The main points of this conduct guideline are:

- Employees must act with professional ethic. All directors, officers and employees are required to act with adequate conduct business according to CoBank's code of ethics. CoBank promotes honest, transparency and ethical conduct.
- CoBank employees must accept continue education. The firm offers tuition assistance on an individual basis to full-time or part time through

leadership and management development program for managers and supervisors.

- All employees are required to follow the company's rules and take decisions according company's culture.
- Take all reasonable measures to protect the confidentiality of non-public information about CoBank, unless are required by a regulatory process.
- Employees, officers and managers are required to work in full capacity and exercise their responsibilities in CoBank.
- Professional behavior in their job. During the journey employees are not allowed to consume alcoholic drinks and any other psychotropic substance.
- Employees must keep an impartial position in their job, do not showing anyone their politic or religion ideas. Customers can be easily influenced by this.

The code of ethics for employees and executive officers is a common practice in finance. Most of these codes refer to transparency, ethical behavior and independency as the most important values in an employee. All institutions in the financial sector issue their own code of ethics, and the Farm Credit Banks are not an exception. Once review the Code of Ethics for CoBank, the firm should think about developing an extra dossier to explain determinate situations as it is common the new generations of code of conduct, instead of just generalize rules and requirement which are not applied to work situations.

All Banks from of the Farm Credit System issues its respective Financial Annual Report and all of them are reported based on accounting principles generally accepted in the United States of America (GAAP) and all of them are also audit by an independent Audit, all of them cooperate with PricewaterhouseCoopers (PwC). Also these reports are examined by the Farm Credit System institutions to ensure their compliance with the Farm Credit Act of 1971, FCA regulations, and safe and sound banking practices

CoBank is the only bank of the FCS who issues a separate Corporate Social Responsibility annual report while the others include these information on their financial statement, place it as additional information on their website or basically they do not report it. The 2013 has been the first year when CoBank has issued a separated report for the CSR, what makes its position to develop rural America even stronger.

On the report CoBank states detailed information about their "Growing Rural America" corporate social responsibility initiative. According to its mission and vision CoBank bases its report on six core initiatives on the territories covered by the bank:

-Support for agriculture and local food systems

- Corporate giving and philanthropy

- Cooperative advocacy and industry support

- Research and higher education

- Rural community development

- Environmental sustainability

However, the CSR Annual Report of CoBank does not follow any international guideline and it is not audited by any initiative. As stated on CoBank 2013 Annual Report, the company does not belong to any corporate responsibility initiative. From our point of view the enrollment of CoBank in the Global Report Initiative would help the company to reports its CSR in a standardized way and also will make a step forward on its reputation. The company has all information and accomplishes with all necessary requirements to report its CSR policies and initiatives according to the G3.1 or to the new G4 as a new organization enrolled on the GRI.

9.2. PRODUCT AND SERVICE IMPACT DISCLOSURE

The following point provide a concise disclosure on the Management Approach items with reference to the Products and Service Impact Aspects. Policies with specific environmental and social components applied to business lines. Procedures for assessing and screening environmental and social risks in business lines. All the information gathered in this point is the complementary information required on the guideline and it is structured by the Financial Services Sector Supplement.

9.2.1 Product Portfolio Disclosure on Management Approach (FS1, FS2, FS3, FS4 AND FS5)

Credit risk exists in lending, leasing, investing and derivatives activities. Credit risk in these activities arises from changes in a borrower's or counterparty's ability or willingness to repay funds borrowed or to meet agreed-upon obligations.

CoBank manages credit risk through a well-defined, Board-approved loan portfolio strategy, a structured and centralized credit approval process, a disciplined risk management process, and a sound credit administration program. The bank has established a comprehensive credit guidelines and procedures to ensure consistency and integrity of information related to the credit risk in the loan, lease, investment and derivatives portfolios.

Various groups and committees within CoBank, including the Board of directors, have a role in managing credit risk, as described below. The Board of Directors establishes overall lending, investment, derivatives and reserve policies. It also approves the portfolio strategy and reviews loan volume, loan quality trends, troubled loans, and the credit quality for investment and derivatives portfolios.

The CoBank Loan Committee (CLC), which is appointed by the CEO, and includes the President, Chief Banking Officer, Chief Credit Officer and senior management of the Credit Group and the lending groups, holds ultimate credit authority as authorized by Board policy. The CLC also approves certain limits for investment obligors and derivative counterparties. It acts on individual credit actions or administrative matters and approves exceptions to exposure limits if conditions warrant.

The most critical element in managing and controlling risk in the extension of credit is the initial decision to make a loan and the resulting structure and terms of the relationship with the borrower.

CoBank places significant emphasis on the evaluation and understanding of a borrower's business and management in the initial credit analysis and the approval process. The bank emphasizes cash flow and repayment capacity as primary sources for repayment of loans, including cash generated from the sale of commodities as it relates to seasonal lending.

Collateral is normally considered a secondary source of repayment. In circumstances where the credit decision places substantial reliance on collateral to repay the loans, independent appraisals may be used to assist in the collateral valuation. Such appraisals are conducted in accordance with FCA regulations and professional appraisal standards.

Management assigns a risk rating to each borrower based on a rating system which uses a 14-point scale of 1 as highest quality to 14 as lowest quality. The rating is primarily determined by the financial characteristics of the borrower and reflects the probability of default driven by several factors, including business risk, industry risk, management capability and financial condition. After rating the different operations, those are classifies in 5 different groups:

- Acceptable . The assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM). The assets are currently collectible but exhibit some potential weakness.
- Substandard. The assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful. Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- Loss. The assets are considered uncollectible.

The risk evaluations are conducted in accordance with FCA regulations and professional appraisal standards. So the different FCS Banks evaluate their loan risk in the same way in order to continue with the commitment of Farm Credit System of development of the rural America.

Table 9.6. Percentage of Total Loans credit quality on FCS Banks in 2013

Bank	CoBank	AgFirst	AgriBank	FCB Texas
Acceptable	96.77%	89%	99.7%	97.9%
OAEM	1.76%	6.89%	0.1%	0.3%
Adverse*	1.47%	4.11%	0.2%	1.8%

Source: Self creation from FCS Banks annual report information

The credit quality for CoBank is considered strong and higher than the average of the rest of the FCS Banks. Only AgriBank shows lower level of adverse loans, which includes Substandard loans, Doubtful loans and Loss. The strong position of CoBank in terms of the quality of loans, together with the results of the other FCS Banks shows the general strength rural industries sector in America.

To reinforce the CoBank position in front of its customers, it is important to underline that CoBank has been named to Global Finance magazine's list of the world's safest banks for a third consecutive year.

Global Finance, which covers the financial services industry, publishes the "World's 50 Safest Banks" list annually. Banks are ranked using a methodology that includes total assets and an evaluation of long-term ratings from major rating agencies. CoBank was first named to the list in 2011 (Global Finance, 2013).

9.2.2 Product and Service Impact Performance Indicators (FS6, FS7, FS8 AND FS9)

This specific point refers to the percentage of the portfolio of CoBank for business lines by specific region, size and by sector. In the CoBank case each of its divisions is affected by different risks and situations which can affect the activity of bank and also its products in different ways.

Table 9.7. Total Loans by Portfolio CoBank

At Year End ($ IN MILLIONS)	2013	2012	2011
Agribusiness	$ 21,182	$21,394	$ 18,869
Strategic Relationships	37,897	36,707	15,236
Rural Infrastructure	14,524	13,879	12,180
Total Loans	73,603	71,980	46,285

Source: CoBank 2013 Annual Financial Report

As it was already commented before, the Agribusiness portfolio was the most important in CoBank 2 years ago before the merge with the U.S.AgBank. From this moment the importance of the Strategic Relationships portfolio has increased due to integration of the U.S. AgBank customers' folder.

9.2.2.1. Performance Indicators on Agribusiness

The Agribusiness portfolio serves cooperatives and other customers involved in a wide variety of industries, including grain handling and marketing, farm supply, food processing, dairy, livestock, fruits, vegetables, cotton, biofuels and forest products.

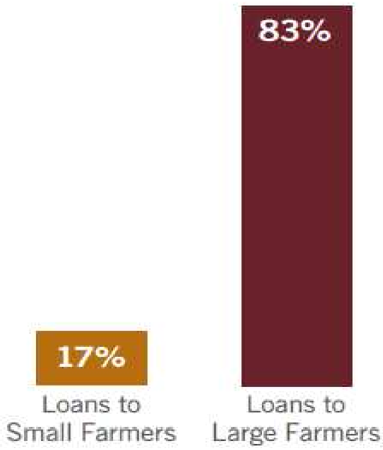
The relationship of demand for and supply of U.S. agricultural products in a global marketplace can significantly impact the volume, earnings and loan quality of CoBank's Agribusiness portfolio. Changes in the prices and supplies of agricultural commodities can impact also the profitability and loan quality of the agribusiness customers. Many other factors can influence the product quality of the loans and credit products on this division:

- Volatility in prices and supplies of agricultural commodities result from, among other factors, seasonal and cyclical weather conditions
- Global production levels changes and changing export markets. Market prices for food products also have a significant effect on a number of customers within our Agribusiness portfolio.
- Major international events, including military conflicts; terrorism; political, geopolitical, currency and global economic disruptions.

As an examples of the political events that can suppose a change on this division is The Agricultural Act of 2014, which established the U.S. government's agricultural, rural development and nutrition policy for the next five years, was signed into law in February 2014 and eliminated direct payments while expanding certain forms of crop insurance. The elimination of these aids can suppose that certain loans which were considered sure about their repayment change on future their condition to adverse.

On the study of the Financial Education and Advocacy Initiative from 2012, the organization shows that Nearly 83 percent of FCS loans in 2012 went to large borrowers. The remaining 17 percent went to small farmers. The organization considered as "small farmer" those who has annual sales of $250,000 or less according to the regulations of the Farm Credit Administration. According to the FCA, the system's mission focus on farmers and ranchers, beginning and young farmers, however today FCS serves larger, wealthier and older farmers and ranchers.

Figure 9.2. Percentage of Loans to Farmers on the FCS



Source: Financial Education and Advocacy Initiative, 2012

Com a crítica al FCS i per conseqüencia als bancs del sistema, la missió del sistema es treballar per als joves que comencen i els petits agricultors. Els crític segueixen amb el volum dels clients, que en la majoria dels casos són els grans clients que no hauran de fer front als interesos d'un banc comercial per aconseguir crèdit i que s'aprofiten de les condicions de crèdit proporcionades per CoBank.

9.2.2.2. Performance Indicators on Strategic Relationships

In addition to providing loans to retail customers and cooperatives in all 50 states, CoBank serves as a funding bank for 27 affiliated Farm Credit associations across the country. Those associations provide loans and financial services to approximately 70,000 farmers, ranchers and other rural borrowers in 23 states. They serve diverse industries, from fruits, nuts and vegetables to grains and other row crops to dairy, beef, poultry and forest products.

CoBank provides these association customers with wholesale financing as well as other value-added products and services. The risk factors previously discussed in the above section can also affect loan quality at Associations. However, the impact of such factors on farmers and other producers served by Associations may not be the same as the impact on cooperatives and other customers served by our Agribusiness operating segment.

9.2.2.3. Performance Indicators on Rural Infrastructure

CoBank's Rural Infrastructure operating segment includes the following banking divisions:

- Electric Distribution and Water Services
- Power, Energy and Utilities
- Communications

Some examples of these industries can be the electric generation, transmission and distribution cooperatives, water and wastewater companies or cable and wireless communications services providers.

The significant factors affecting credit conditions in rural infrastructure sector can be:

- Weakness in the general economy, and the rural economy in particular, can reduce industrial and residential demand for services and negatively affect customers in our Rural Infrastructure portfolio.

- Fluctuating weather conditions, energy efficiency initiatives and protracted low levels of electricity demand can adversely affect our customers in the energy industry.
- Further, constraints on carbon emissions and other environmental standards could adversely impact energy customers.

The communications industry is affected by significant competition. Regulatory, legislative and technological changes may impact the future competitive position and markets for the communications industry. An example of the variation is the water industry, which faces high capital expenditure requirements due to environmental regulation and then the residential water usage is declining due to conservation measures and increased use of water efficient appliances.

The analysis of the Rural Infrastructure portfolio shows that today the Farm Credit Institutions are venturing far from the farm and providing financing for other non-agricultural purposes. CoBank, the largest FCS institution, recently made a $725 million loan to Verizon to finance the purchase of a European cell phone company. Other recent projects receiving tax-subsidized financing include golf courses and luxury residential developments. FCS institutions often lend to “faux farmers,” such as those buying land for recreational purposes like fishing and hunting (Financial Education and Advocacy Initiative, 2012).

9.3 ECONOMIC PERFORMANCE INDICATORS ON THE MANAGEMENT APPROACH (EC1, EC2, EC3 AND EC4 ON THE G3.1)

According to the GRI the economic dimension of sustainability concerns the organization’s impacts on the economic conditions of its stakeholders and on economic systems at local, national, and global levels. The Economic Indicators included on the G3.1 are focus on illustrating flow of capital among the different stakeholders and main economic impacts of the organization throughout society.

The financial performance is fundamental to understand an organization and its own sustainability. However, this information is already reported in CoBank’s

Financial Report, so often this information is less reported and only includes the organization's contribution to the sustainability of a larger economic system.

The EC1 indicator refers to the direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.

Table 9.8. Consolidated Statements of CoBank, ACB on 2013

Consolidated Statements of Income

CoBank, ACB

($ in Thousands)

Year Ended December 31,	2013	2012
Interest Income		
Loans	$ 1,651,245	$ 1,703,877
Investment Securities	311,943	321,730
Total Interest Income	1,963,188	2,025,607
Interest Expense	799,755	787,437
Net Interest Income	1,163,433	1,238,170
Provision for Loan Losses	-	70,000
Net Interest Income After Provision for Loan Losses	1,163,433	1,168,170
Noninterest Income/Expense		
Net Fee Income	118,737	116,801
Prepayment Income	78,217	49,379
Losses on Early Extinguishment of Debt	(96,839)	(86,718)
Loss on Tender Offer for Subordinated Debt	-	(28,460)
Total Other-Than-Temporary Impairment Losses	(1,852)	(972)
Portion Recognized in Other Comprehensive Income/Loss	(648)	(16,028)
Net Other-Than-Temporary Impairment Losses Included in Earnings	(2,500)	(17,000)
Other, Net	34,470	79,319
Total Noninterest Income	132,085	113,321
Operating Expenses		
Employee Compensation	148,024	145,999
General and Administrative	21,517	32,228
Information Technology	27,020	22,227
Insurance Fund Premium	36,974	18,349
Travel and Entertainment	16,019	15,767
Farm Credit System Related	12,817	13,279
Occupancy and Equipment	8,330	9,012
Purchased Services	9,393	7,022
Total Operating Expenses	280,094	263,883
Income Before Income Taxes	1,015,424	1,017,608
Provision for Income Taxes	158,969	163,691
Net Income	$ 856,455	$ 853,917

Source: CoBank Annual Report 2013

According to the financial data published on CoBank's 2013 Annual Report, average loan and lease volume increased approximately 2 percent in 2013, to $71.9 billion. The specialists of CoBank mention that the growth was driven by higher levels of borrowing from affiliated Farm Credit associations and rural electric cooperatives, which more than offset a significant decline in seasonal lending to agribusiness co-ops. In this part the merge with U.S. AgBank has supposed the re-launch on the Strategic Relationship segment.

Net interest income declined by 6 percent in 2013, to $1.2 billion. The decrease was driven primarily by the low interest rate environment engineered by the U.S. Federal Reserve, which impacted the bank's returns on invested capital, its balance sheet positioning and its portfolio of liquidity investment according to the CoBank finance experts.

The provision for loans were reduced to nothing on 2013, this is due to consolidated position of the rural America in front of the world's financial situation. This fact represents the strong position of CoBank in front of its customer and associates.

In terms of operating expenses the Employment compensation program supposes the highest level, on this chapter we will analyze this program and also the rest of Corporate Social Responsibility initiatives in terms of investment and goals to be reached.

The indicator EC4 on the G3.1 refers to significant financial assistance received from government, in this case CoBank does not receive any financial aid from the government as none of the other FCS Banks receive anything. The only advantage from CoBank's side from the government is the fact of being a GSE with all the advantages that it has for the FCS institutions who work together with CoBank to develop the rural America. FCS institutions have an aid from the US Government as they are exempt of the income tax on their operations (Financial Education and Advocacy Initiative, 2013).

9.4 ENVIRONMENTAL PERFORMANCE INDICATORS

The environmental dimension of sustainability concerns an organization's impacts on living and non-living natural systems, including ecosystems, land, air, and water. Environmental Indicators cover performance related to inputs material, energy or water and outputs like emissions, effluents or wastes. In addition, they cover performance related to biodiversity, environmental compliance, and other relevant information such as environmental expenditure and the impacts of products and services. The operational responsibility for Environmental Aspects is responsibility of the senior level management.

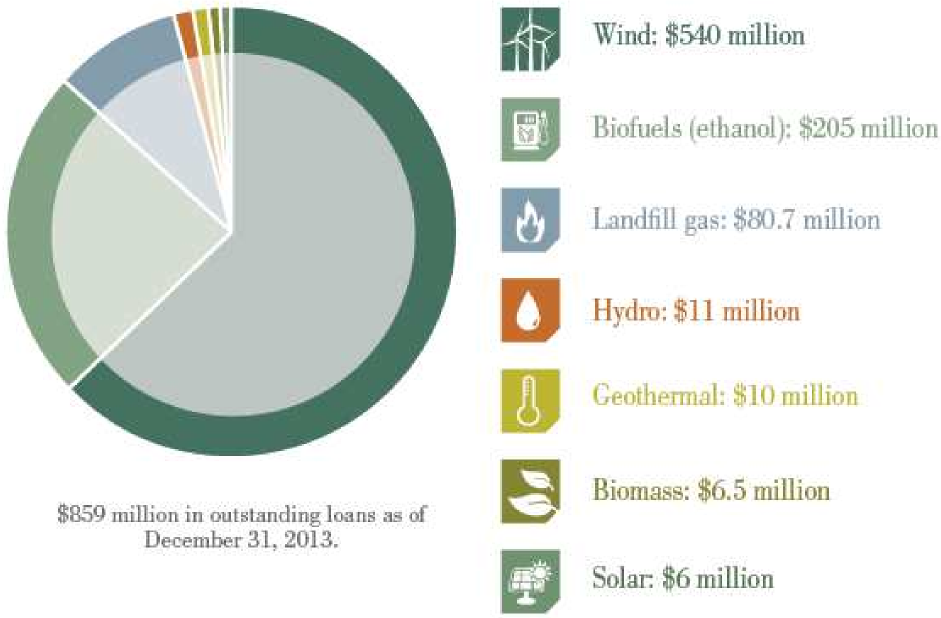
The G3.1 requires for this chapter numeric data referring to all aspects mentioned above to quantify the impact of the company on the environment; as CoBank does not offer this information in any of its reports, we will focus on the policies of the bank in terms of environmental and also all project supported by the bank which have real influence on the rural America environment.

9.4.1 Energy (EN5, EN6 and EN7)

CoBank customer-owners include hundreds of rural electric generation, transmission and distribution cooperatives that deliver power to millions of people in rural communities around the country. In this segment CoBank provides financing to independent power producers that are developing and building power facilities. The rural electric cooperative customers financed by CoBank are owned by their members and dedicated to a long-term mission: providing affordable, reliable power to people. At the same time, many of these customers are investing in next generation renewable energy projects, and helping to create a cleaner, more sustainable world.

CoBank's energy portfolio includes more than $859 million in outstanding loans for renewable projects. Many of these progressive organizations are making forward looking investments in renewable energy generation systems, including wind, solar, hydro, and geothermal and landfill gas.

Figure 9.3. Outstanding loans for renewable energy projects in CoBank, ACB



Source: CoBank CSR Report 2013

The wind energy projects represent more than 50%of the renewables energy projects portfolio, this is reasonable as the rural America has large extensions of land where turbines can be easily placed in order to obtain green energy from the wind.

As example of these projects, the 2013 has brought $81 million loan needed to complete the Eva Creek project. The program was signed by the Golden Valley Cooperative, but with CoBank as its financial partner. The project will bring enough electricity to power more than 12,000 average homes according to Cory Borgeson, interim president and chief executive officer in Golden Valley Electric Association. Under his opinion, there is the opportunity to deliver clean, green power, and perhaps more importantly, more affordable power (CoBank, 2013).

As another big loan on the rural energy portfolio, CoBank closed in 2009 a US $43 million transaction with Iowa Lakes Electric Cooperative to provide permanent financing for a major wind energy project during 5 years. The bond issuance arranged by CoBank financed 14 new wind turbines that, together, generate more than 71 million kilowatt-hours of renewable energy annually. The project includes two seven-turbine wind farms that provide power to adjoining ethanol plants. One site is adjacent to an ethanol plant near Superior, Iowa, and the other sits next to a plant near Lakota, Iowa. The Iowa Lakes community-based wind farms are first-in-the-nation designs that utilize wind energy to serve another renewable energy source (RenewableEnergyWorld, 2009).

During the 2014 CoBank signed an agreement to finance an important project for solar energy with the Illinois Rural Electric Cooperative. At full capacity, the 500-kilowatt solar plant will provide enough electricity to power about 170 homes on the hottest day.

The solar field, which ultimately will consist of 2,200 solar panels, is able to produce 840,000 kilowatt hours of energy per year. Including additional power generated for the cooperative by wind turbines, more than 14 percent of the energy Illinois Rural distributes will come from renewable sources.

The project will cost $1.8 million in total. A large portion of the costs were covered by grants from the Illinois Department of Commerce and Economic Opportunity and the U.S. Department of Agriculture. CoBank is providing financing for just under a third of the project (CoBank, 2013).

9.4.2 Water (EN8 and EN9)

CoBank has also many projects in collaboration with customers in the business of providing clean, safe drinking water to rural areas, and also others involved on the process wastewater and deliver other services.

9.4.2.1 CoBank Streamlined Refinance Program

CoBank works with water and wastewater not-for-profit associations, municipalities, and investor-owned utility companies to provide the funding required meeting their needs. A large part of this country's water delivery system dates back to the years shortly after World War II when the federal government was building out the nation's infrastructure. But during the past couple of decades federal money for those systems has been reduced and each year, according to the Environmental Protection Agency, the estimated price tag for patching up the infrastructure rises. It's been estimated that more than $335 billion would need to be spent over the next 20 years to upgrade the U.S. water infrastructure (RenewableEnergyWorld, 2009).

Due to the situation just explained above, CoBank's new Streamlined Refinance Program gives U.S. rural water and wastewater providers an opportunity to refinance their existing U.S. Department of Agriculture Rural Development loans with maturities of approximately 20 years or less (CoBank, 2013).

The two options to redefine the debt on the Refinance Program are:

- To match the maturity and reduce the payment, the will be set at 5.3% and the payments will have same level of maturity.

- To match the payment and shortening the term, in this case you reduce the repayment maturity you can access to a lower rate, 5.0%.

9.4.2.2 Water Projects with Associates

At the end of 2013, CoBank loan money to 100 water and wastewater utilities in the United States. CoBank provides assistance to water and wastewater systems in unincorporated areas or systems in incorporated towns with fewer than 20.000 people. Loans can be used for a variety of activities including new construction improvements to an existing system, system acquisitions, water rights purchases and others. The minimum loan size is $1 million and the term will normally not exceed 20 years (Environmental Protection Agency U.S., 2002).

9.5 LABOR PRACTICES AND DECENT WORK PERFORMANCE INDICATORS

CoBank relies on well trained, experienced and pleased employees to achieve higher goals. Under this idea CoBank established rules, issued a Code of Ethics, offers benefit programs for its employees and use a compensation system to motivate employees and keep them pleased. A good job from the employees can reduce broadly the operational risk in a bank, this means that right decisions from employees support the bank' sustainability.

9.5.1 Employment (LA1 and LA2)

CoBank is an Equal Opportunity Employer which does not discriminate on the basis of race, color, religion, sex, age, marital status, national origin, disability, military veteran status, or any other status protected by federal, state or local law. A little prove of this equal opportunity policy is that 57% of CoBank employees are men and the 43% left are women. Other info regarding to religion or age are not provided by the Bank. The position of CoBank as Equal Opportunity Employer is an imposition from the Farm Credit System as being a Government Sponsored Enterprise the due to subscribe this Act is mandatory, as we can see on the following figure all banks and Farm Credit Administration included subscribe this regulation.

Table 9.9. Different Employee Benefits on FC Banks and FC Administration

Bank	CoBank	AgFirst	AgriBank	FCB Texas	Farm Credit Administration
Nº of Employees	843	340	-	-	-
Percentage of Women	43%	-	-	-	-
Under Equal Employment Opportunity Act	Yes	Yes	Yes	Yes	Yes
Paid Vacations per year	22 days	-	-	-	13-26
Sick days per year	10 days	-	-	-	13
Holidays per year	10 days	10 days	10 days	10 days	10 days

Source: Self creation from FCS Banks annual report information and site information

The 843 employees of CoBank have the right of 22 days of paid vacation per year, 10 Holidays per year and 10 sick day accruals per year. An employee can use a sick day if someone in his family needs assistance. On this side there is a small difference between the vacation policies on the Farm Credit Administration where the vacations can vary depending of the ages of the employee on the company, so an employee with a long career on the company has access to larger period of vacation. The sick days per year are also in a normal level according to the Farm Credit Administration employees and the holidays are based on the Federal Holidays approved by the U.S. Government.

CoBank staff is composed the management team and the office employees. All the employees in CoBank are high qualified, with a deep knowledge of finance activities and experience in the sector. The bank offers to these employees and managers comprehensive, affordable and competitive benefit options, focused on health and wellness, financial security and achieving a life-work balance and other unique benefits for its workers.

Nowadays most of the companies in the financial sector are Equal Opportunity employers. As CoBank, the other Farm Credit Banks are firms considered Equal Opportunity Employers and do not discriminate anybody in their employ policy. This statement about equal employee opportunities is very important in a country as U.S, where the differences in race, religion, culture and ideology are very important in all communities. A wrong management of this equal opportunity policy could suppose a problem for the firm image and losses in terms of customers.

Furthermore than the Equal Employee Position, CoBank offers a lot benefits to its employees. The benefits provided to workers are wider than just the salary, offering them possibilities to enjoy many health programs, sign for retirement programs or just learning programs to improve their professional skills. All the noninterest expenses related with employees plans and activities are summarized in the Table 9.9.

Table 9.10. Expenses Related with Employees' Comfort and Compensation ($ in Thousands)

Year Ended December 31,	2013	2012
Employee Compensation	$ 148.024	$ 145.999
Occupancy and Equipment	$ 8.330	$ 9.012
Travel and Entertainment	$ 16.019	$ 15,767

Source: CoBank's Annual Report 2013

Employee compensation expenses, which includes salaries, incentive compensation and employee programs, increased million mainly because of the higher incentives and more investment in employee programs. With a stable number of employees of 853 the last 2 years, the increase in about 2 million in employee compensation means a strong motivation for employees trying to achieve economic incentives, but at the same time feel more comfortable in their position with different health programs at their disposal for any problem.
However, while the travel and entertainment expenses kept a normal evolution according to past years, occupancy and equipment expenses decreased. This drop was due to certain strategic office reorganizations and relocations which were finished as CoBank invested more than its average during the past years in order to redesign some of its offices trying to make the work easier for its employees and to offer easier accesses for its customers.
The investment in employee compensation programs is the 12,6% of the Net interest income, what means that CoBank redirects an important part of its income to fulfil the compensation and benefit programs for its employees.

9.5.2 Incentive Plans for employees (LA3)

This point of the G3.1 guideline refers to benefits provided to full-time employees that are not provided to temporary or part-time employees.

In terms of motivation incentive plans are an important tool to achieve a high motivation level in employees. CoBank has a broad incentive compensation plan covering all employees, awarding those at the end of the year if they achieve the company’s goals. The criteria used to determinate the amounts payable is approved annually by the Compensation Committee of the Board of Directors. Compensations include the achievement of specified financial measures and strategic business objectives, but individual performance is considered as well.

CoBank has two different incentive strategies for its employees. The first one refers to all employees from the lowest officers to the highest director. This is considered as a short-time incentive plan. However focused in all senior officers and determinate senior managers, CoBank has another incentive plan for the long term targets and awards those who clearly have the ability to drive the success of strategies to long term value creation.

9.5.2.1 Annual Short Term Incentive Plan

The short term incentive plan in CoBank gives a possibility to all employees to increase their earnings in the company if their performance and the firm performance are great. Each employee has a determinate percentage of possible increase according to position and responsibilities. The Annual Short Term Incentive Targets are set up for all employees and in 2013 the range of incentives was between 65% of the salary for the President and CEO to 25% of the salary for the lowest employee. These Annual incentive Targets depend of the performance obtained in the Corporate Performance Factor and in the Individual Performance Factor.

The 2013 Short Term Incentive award for employees is determinate as illustrated on the Figure 9.4:

Figure 9.4. Short-Term Incentive Award Calculation

Salary * Short Term Incentive Target *Corporate Performance Factor

+

Salary * Individual Performance Factor

Source: Own creation based on CoBank Annual Report 2013.

To evaluate the Corporate Performance Factor and targets achieved during a year CoBank utilizes a balanced scorecard. This scorecard establishes certain key performance indicators or factors which are specified in the Table 9.10. Each scorecard indicator is weighted separately and compared to the target established at the beginning of the year by the Board of Directors. In case the factor meets the goal expected at the beginning of the year, the result is a 100%

performance in this factor. In case it was lower, it would be a lower percentage; but it can be higher than 100% as well.

Table 9.11. Short-Term Corporate Performance Scorecard in 2013

Performance Measure	Weight
Net Income	30%
Return on Common Equity	20%
Strategic Business Objectives	20%
Asset Quality	15%
Operating Expense Ratio	15%

Source: Own creation based on CoBank’s Annual Report 2013

This final performance result is essential to determinate incentives received by employees, but it is not the only one and the Individual performance factor counts as well. At the beginning of each year all CoBank´s employees establish individual goals they seek to achieve that year in support to the business. Directors are responsible to review the goals of employees and senior directors who have lower level of responsibilities. The Individual Performance Factor has ranges from 0% to 100% using the same system than the Corporate Performance Factor.

In other FCS Bank as it is AgriBank, the incentive strategy in the short term is based in the same system than CoBank, but there are some differences in the criteria to obtain the Corporate Performance Factor. In AgriBank furthermore than the factors utilized in CoBank, they evaluate employee measures of employee learning, engagement and satisfaction; and customer measures of customer satisfaction.

Including a measure of employee learning and customers’ satisfaction in the incentive corporate scorecard, AgriBank sets up that the customer treatment from the officers and the treatment among the employees in the company must be kind, polite and helpful. Awarding people for good behavior with customers and lower employees is a good way to enhance the brand reputation and to obtain the loyalty from customers. Not everything in the scorecard must refer to financial data, because customer satisfaction and adequate working environment offer a company the possibility to achieve higher goals and benefits. CoBank's scorecard shows employees that apparently the economic indicators are the only important point in the company.

9.5.2.2 Annual Long Term Incentive Plan

The purpose of the long term initiative plan is to promote the creation of shareholder value and to enhance the sustainability of CoBank to serve its customers. This long term incentive plan focuses on those senior officers and managers with the ability to drive successfully critical strategies in the long term in order to obtain shareholder value. CoBank tries to keep satisfied those who are the responsible to run the bank and imply long term strategies.

Oppositely to the Short Term Incentive Target, in the Long Term the individual performance has not importance and this one is based just on key financial metrics and strategic business objectives established at the beginning of three years periods by the Board of Directors. The 2012 long-term initiative award is determined as:

Figure 9.5. Long-Term Incentive Award Calculation

Salary * Long Term Incentive Target *Corporate

Source: CoBank Annual Report 2013

The procedure to obtain the Corporate Performance Factor is the same than in the Short Term Incentive Plan, but using a different scorecard which distributes the weights as in the Table 9.11.

Table 9.12. Long-Term Corporate Performance Scorecard

Performance Measure	Weight
Net Income	20%
Permanent Capital Ratio	20%
Return on Common Equity	20%
Strategic Business Objectives	20%
Asset Quality	10%
Fee Income	10%

Source: Own creation based on CoBank's Annual Report 2013

The main difference between the Long Term and the Short Term Corporate Performance Scorecard lays on the net income weight. This factor decreases in importance and appears the permanent capital ratio as a new factor. The change walks accordingly to other CoBank's policies where the firm prefers to keep high liquidity and financial stability instead of higher risk. The long-term incentive plan awards senior directors and executive managers for keeping the firm in a sustainable situation, because awarding for higher net income would imply that directors and managers use risky practices and risky products. Summarizing the Board of Directors prefers a healthy situation with higher permanent capital, than higher returns which imply higher risks.

For employees with high responsibilities, as senior executive officers, both incentive plans (Short and Long Term) represent almost three parts of their salary, because CoBank's intention through these incentive plans is to keep paying high salaries to its managers, but at the same time ensures a great performance by them.

The table 9.12 summarizes the compensation obtained by the senior officers and the CEO during the last three years. The numeric data represented in the table shows clearly that senior officers' compensation comes mostly from incentive plans.

The weight of these incentives in CoBank's President and CEO is even higher than in the senior executives perceiving as incentives the eighty percent of his compensation. The President and CEO carries more responsibilities than any other director in the company, this implies higher incentive targets what at the same time means that if the company has a successful year his incentives are much higher.

Table 9.13. Compensation Table for the Senior Officers and CEO in 2013

		Annual		
Name of Individual or Number in Group(2)	Year	Salary	Short-Term Incentive Compensation(3)	Long-Term Incentive Compensation(3)
CEO:				
Robert B. Engel	2013	$ **859**	$ **1,435**	$ **1,843**
Robert B. Engel	2012	775	1,256	1,596
Robert B. Engel	2011	662	1,676	1,301
Aggregate Number of Senior Officers (excluding the CEO):				
9	2013	$ **2,828**	$ **3,123**	$ **2,012**
9	2012	2,827	2,867	1,855
7	2011	2,078	3,208	1,428

Source: CoBank's Annual Report 2013

The incentive strategy seems a good way to maintain the balance between profitability for the company and high salaries for executive directors and employees. Through this incentive policy the firm ensures that when the results are great officers and employees perceive great compensation, but in case the year does not run as it was expected they perceive lower compensations. At the same time it is not an abusive practice, because all employees perceive at least their wages and the incentive plans are just a way to increase earnings. Executive Officers have double incentive plan, what allow them to increase their salaries in higher percentages than normal employees who just enjoy the Short Term Incentive Plan.

9.5.2.3 Employees Pensions

CoBank two different pension plans, differentiating between senior officers and higher employees as senior managers and executive senior officers. Both plans have the special requirement that do not allow participating in the pension plans employees with less than 2 year as CoBank employees.

- The Executive Retirement Plan (ERP) is a noncontributory pension plan and covers employees hired prior January, 2007.
- The Supplemental Executive Retirement Plan (SERP) is a noncontributory plan as well and covers a limited number of executive and senior managers hired before than January, 2007.

Pension expense in CoBank is determined by actuarial valuations based on assumptions which are evaluated annually. The most significant are the long term expected rate of returns on the plans' assets and the discount rate used to determine the present value of pension obligations.

Table 9.14. Assumptions to determine pensions

Assumptions/Year	2013	2012
Rate of Return on the plans' assets	7.25%	7.25%
Discount Rate	4.05%	4.80%

Source: Own creation based on CoBank's Annual Report 2013

The rate of return on the plans' assets does not change between 2012 and 2013 because it is a long term assessments of return expectations and do not anticipate changing these assumptions annually unless there are significant changes in economic conditions which can affect the returns over the long term. To determinate the value of assets needed to establish the return of assets, CoBank uses the value of assets and investments losses and gains over last five years.

The discount rate in was calculated using a spot yield curve method developed by an independent actuary, which is based on the economic conditions, bank's liabilities durations and cash flows. Due to the turmoil in the financial markets and the current credit environment the rate probably will increase next years, this would suppose a decrease in the pension expenses.

A special characteristic in this pension system is that the amount dedicated to employee pension plans depends on the annual net interest income. CoBank dedicates more or less money depending of the net income at the end of the year. Then once the results are clear the process just use the rate of return on plan's assets to obtain the exact amount sent to pension plans. This seems to be a big difference between other companies and links the employee benefit and future economic situation to the good functionality of CoBank.

Besides the SERP and the ERP CoBank has an employee savings plan which gives certain percentage of employees a possibility to make additional contributions to their pension plan. Employees matching the pension plan requirements, two years as CoBank employee, can receive a fixed percentage of their wages in their retirement account. The employee saving plan contributions recorded $3.4 million in 2008, $2.3 million in 2007and $2.1 million in 2007. Apparently the recession in the economy led employees to increase their contribution in the saving plans. Facing the insecurity of capitals in the American financial system many employees decided on this time to rely on their own bank and safe their wages for the future, in case the situation turns worst. The growth in the saving plan feeds with the crisis and the uncertain economic situation consolidates CoBank's position in the market. In front of a complicated situation, CoBank's employees decided to deposit their money in their own bank, because they know CoBank is a reliable institution with very strong liquidity and credit risk policies.

9.5.2.4 Occupational Health and Safety (L6, L7, L8 and L9)

CoBank offers many different programs for its employees which are an integral part of CoBank's total compensation package. The firm offers comprehensive, affordable and competitive benefit options that are focused on health and wellness, financial security and achieving a work-life balance. Some of these initiatives are:

- *Health benefits:* CoBank thinks that an employee who feels sure about his personal and health situation is more productivity, creativity and focused in the workplace. CoBank provides employees access to a competitive, flexible benefit package focusing on health. Most important options include medical insurance, health savings accounts, dental and vision care and insurance
- *Work-Life Balance:* CoBank benefit programs and services offer eligible employees a possibility to participate in journeys about balancing the responsibilities of their personal lives and work. They also promote an atmosphere of shared responsibility for balancing work and life concerns.
- Employee Assistance Program: CoBank sponsors this confidential service that provides professional assessment, referral and access to counseling services to help you and your eligible dependents with family or relationship concerns, drug or alcohol abuse, and stress, depression, or other problems that can affect your work/life balance.
- *Other benefit programs:* CoBank offers free covered parking for its employees in all center locations and in some offices private room is available for nursing mothers. These measures enhance wok quality of employees who do not need to pay attention to daily situations as a parking search or babysitting.
- CoBank provides relocation assistance to eligible new hires. The level of assistance varies by position and relocation needs.

Table 9.15. Different Employee Benefits on FC Banks and FC Administration

Bank	CoBank	AgFirst	AgriBank	FCB Texas
Medical Insurance	x	x	x	x
Health Saving Account	x	x	x	x
Dental Insurance	x	x	x	x
Vision Care Insurance	x	x	x	x
Work-Life Balance	x		x	x
Employee Assistance Program	x		x	x
Babysitting	x		x	
Relocation Assistance	x			
Life Insurance		x	x	x
Exercise Program			x	x
Flex Time	x	x	x	x

Source: Self creation from FCS Banks annual report information and site information

The American System, based on capitalist theories, offers companies a possibility to develop their companies without a high taxation. One important point in this system is that the country does not have a public health care system; this is why the government does not force companies or employees to contribute with high taxation. In America each one is responsible about its health care insurance having the opportunity to choose between spending money in it or not. The fact that in U.S. there is no public health care system causes that most of companies offer to employees different health programs as extra compensation for their salary. At the same time health services as psychology counsels for drug or alcohol addictions, depressions or other problems are offered by companies too in order to avoid worries to their employees.

AgriBank, the FCB of Texas and AgFirst offer to its employees mainly the same benefit programs than CoBank in terms of health care, retirement programs or assistance programs. However, the other system banks go further trying to ensure prosperity to employees' families by offering life insurances to its employees in case anything happen to them. With these life insurances and its employee programs tries to ensure the employees family future in case anything happen to them.

Also as additional benefits not offered by CoBank we can find the exercise program which can be a great contribution on the employees' health and avoids extra expenses in terms of health due to the improvement through the exercise.

9.5.3 Training and Education (L10, L11, and L12)

This part of the guideline refers to the different programs for skills management and development of new future managers in the organization.

For those employees and management that are already involved in the company, CoBank offers Learning Programs. These programs cover technical skills, business management and ongoing credit training. Programs are offered at Denver headquarters office through qualified educational partners. The Company established the training system to support research and instruction in fields of direct interest to our customers, including commodities and agricultural economics.

CoBank has also a great number of opportunities for college students and recent college graduates, including an innovative Credit Advancement Program, internships and scholarships. All these new training programs have been recently developed with the goal to develop rural America and also train new qualified employees for the Farm Credit System.

Table 9.16. Different Training and Education Policies on the FCS Banks

Bank	CoBank	AgFirst	AgriBank	FCB Texas
Internal Training programs for employees	x	x	x	x
Degree/Licensee/Certification programs				x
Scholarships	x			
Credit Advancement program for recently graduates	x			
Summer internships	x			
Financial Support to Universities on Rural America	x			

Source: Self creation from FCS Banks annual report information and site information

The recent investment in 31 Universities in the rural America reinforces the strong position of CoBank in front of the development of these communities. CoBank offers many different possibilities in terms of formation for the Young people and at the same time offer them different training programs or scholarships to start their career in CoBank and acquire a background on finance and agribusiness. According to the Table 9.15, CoBank is the leader on the Farm Credit System Banks in terms of training and educational programs for young people and recently graduates without experience; however the FCB of Texas offers to its employees a very valuable Degree/Licensee/Certification programs which allows employees to enrich their skills, knowledge and expertise is essential not only for the success of the bank and the retention of key employees, but for the realization of employees' personal growth and achievement.

This program is directed to employees at all levels and includes formal orientation of new hires, a continuing education and degree program and a licensing and certification program. The degree program reimbursement is open to full time employees who have been with the bank at least six months. This program covers tuition, lab fees, books and registration fees if the employee receives a grade of C or better in undergraduate courses and B or better in graduate level courses and expenses are in excess of those reimbursable by a scholarship or other sources. Tuition reimbursement will not normally exceed the cost per semester hour charged at state-supported universities. Expenses incurred above the state-supported university baseline are the responsibility of the employee. With this program the FCB of Texas reinforce the position of their key positions in the Company, instead of looking for a qualified person outside of the bank, they prefer to enhance the skill of one of their employees to cover a required position.

9.5.3.1 Credit Advancement Program

CoBank's Credit Advancement Program is designed for recent college graduates and was created to grow the next generation of CoBank credit professionals. Those accepted into this two-year program rotate through various bank departments and take a series of structured classes. The pay-off is a career path in credit analysis, credit management or as a relationship manager.

The Company looks for a determinate profile, a highly motivated graduate with a degree business, economics, finance, accounting or economics with agricultural emphasis.

9.5.3.2 Summer Internships

CoBank interns learn real life business skills and tackle projects that have a meaningful impact on the bank's operations. These are paid positions for undergraduate and graduate students who are working toward degrees in finance, accounting, agribusiness, economics, agricultural economics, human resources and marketing. The internships are located in Denver, headquarters' offer, as well as in other banking centers across the country.

9.5.3.3 Scholarships

CoBank has relationships with 13 universities for our scholarship program, each with a strong commitment to agribusiness, cooperative education and research.

Nominees must be in their sophomore year or later, and the selection criteria established by the bank together with the university is based on academic excellence. The universities include:

- California Polytechnic State University
- Colorado State University - Fort Collins
- Cornell University
- Kansas State University
- Metropolitan State College of Denver
- Purdue University
- Texas A&M University
- Texas Tech University
- University of California-Davis
- University of Colorado, Boulder
- University of Minnesota
- University of Missouri
- University of Nebraska

9.5.3.4 Financial support for Universities

Beyond these core initiatives, CoBank also makes major one time grants to universities and research institutions in support of programs that benefit rural America. In 2013 the bank began distributing over $5 million as part of a multiyear gift to 31 universities around the country focused on research and education. The money is being used to support a broad range of programs in the agribusiness land, including academic research, scholarships for students, cooperative education and leadership development. Recipient institutions were selected based on a wide range of criteria, including the nature and extent of their agricultural programs as well as existing relationships with CoBank, its customers and Farm Credit association partners across the country.

9.6 SOCIAL PERFORMANCE INDICATORS

Society Performance Indicators into the G3.1 focus attention on the impacts organizations have on the communities in which they operate, and disclosing how the risks that may arise from interactions with other social institutions are managed and mediated.

9.6.1 Community (S01, F13 and F14)

9.6.1.1 Support for Agricultural and Local food in Rural America

Beyond traditional financial services, CoBank supports agriculture in other ways as well. Through the corporate social responsibility initiative, the bank makes significant investments in the development of local food systems, urban agriculture, cooperative development and in young, beginning and small farming programs. Examples of agricultural programs receiving significant support from CoBank which have been reported in the bank annual CSR report in 2013 are:

- *Future Farmers of America (FFA).*Through an array of leadership initiatives, FFA is helping to develop the next generation of agricultural leaders. CoBank assists FFA through its participation in the Farm Credit System's national giving program, which invests approximately $2 million per year with related charities, programs and industry associations.
- *Co-op Start.* It is a program founded by CoBank that helps emerging and existing small agricultural cooperatives through innovative financing, business mentorship and training. The program is made possible by partnering with cooperative development centers throughout the country.
- *JumpStart.* This is a program started by Northwest Farm Credit Services in 2013 to provide start-up capital to Young, Beginning and Small producers and small co-ops. CoBank will partner in this program by purchasing a percentage of all loans.
- *Homegrown By Heroes.* Developed by the Kentucky Department of agriculture, the program provides certification to farmer veterans and enables them to obtain a market premium for their products. CoBank, along with other Farm Credit institutions, is sponsoring a national rollout of the program in conjunction with the Farmer Veteran Coalition through a $250,000 contribution that will be paid over two years.

- *Our Harvest Cooperative.* It is a newly formed worker-owned co-op based in Cincinnati, Ohio. CoBank, in partnership with Farm Credit Mid-America, made two term loans to the co-op in 2013. Our Harvest, which offers training opportunities for new farmers, is working to develop a food hub that will provide aggregation, distribution and other services for local growers, while also serving as a centralized source of local produce for restaurants and other buyers.
- *D.C. Central Kitchen.* Provides healthy food for underprivileged people in the Washington, D.C., area and job training in the food services industry. CoBank sponsors a program that enables DCCK to source more fresh produce from area farms.
- *Green City Growers Cooperative.* It is a worker-owned cooperative in Cleveland, Ohio, that was formed to help create inner city jobs while providing locally grown, fresh produce to area grocery stores and produce wholesalers.

These initiatives seem small in comparison to the $59 billion agribusiness loan portfolio. But the impact they have in local communities is large and promotes the development of agriculture and local foods, which is considered a central part of our broader mission in rural America.

9.6.1.2 Charities Support around Rural America

CoBank collaborates and participates on the communities where their customers and associates live and work. In 2013, CoBank made a total of $6.3 million in charitable contributions, along with another $1 million in commitments for future years. Corporate giving at CoBank takes many forms, including:

- *Sharing Success program.* In 2013, CoBank again established a $3 million fund to match charitable contributions by its cooperative customers. More than 640 cooperatives across the county took part. For the second year in a row, the bank allocated $3 million to match contributions by its cooperative customers to nonprofit organizations. CoBank began the program in 2012 to coincide with the United Nations' "International Year of Cooperatives." The program was so successful, so it was renewed for 2013.

- *Rural disaster relief.* In conjunction with many Farm Credit association partners, CoBank contributed to disaster relief efforts across the country, including help for victims of wild disasters. As an example, CoBank was committed to being part of the relief effort facing the Oklahoma tornado and the bank created a special fund to match contributions by its customers to nonprofit organizations involved in the humanitarian response. Overall, more than $300,000 was raised to assist victims and support the cleanup effort.
- *Support for United Way.* CoBank has a long-standing workplace giving program that enables its employees to designate a portion of each paycheck for the United Way, which provides funding to a wide variety of member agencies around the country. CoBank also supports United Way with corporate contributions; it has committed more than $3 million to United Way over the past five years.
- *Board and associate directed giving programs.* Every year, each member of the CoBank board of directors is able to direct a $10,000 contribution from the bank to nonprofit organizations he or she selects. The board includes farmers, ranchers, cooperative executives and others from across the country, so it's a great way for the bank to identify and support high-quality organizations doing good work in a wide array of rural communities. CoBank through its board- and associate-directed programs totaled more than $520,000 in 2013 to 420 different organizations.
- *Volunteer Service Award program.* Each year, CoBank honors employees who contribute their own time and money to charitable organizations through its Volunteer Service Award program. Winners of the award are announced in December and are able to direct a $5,000 contribution from the bank to charities they support.

9.6.2 Corruption (S02, S03 and S04)

The Code of Ethics of CoBank and also the Code of Ethics for directors previously explained and discussed are mandatory in CoBank to accomplish with the aim to avoid Corruption. It is interpreted here to include such corrupt practices as bribery, fraud, extortion, collusion, conflict of interest, and money laundering. In this context, it includes an offer or receipt of any gift, loan, fee, reward, or other advantage to or from any person as an inducement to do something that is dishonest, illegal, or a breach of trust in the conduct of the enterprise’s business. This may include gifts other than money, such as free goods and holidays, or special personal services provided for the purpose of, or liable to result in, an improper advantage or that may result in moral pressure to receive such an advantage.

CoBank as a financial institution also follow the Anti-Money Laundering & USA Patriot Act Certification. This Certification provides a brief statement of CoBank’s program for compliance with federal laws and regulations governing anti-money laundering and anti-terrorist financing. This statement is intended for use by financial institutions that may process transactions through CoBank and require a certification in connection with their own compliance programs. CoBank’s Compliance Program includes the following key elements:

- *Compliance Officer.* A designated Compliance Officer is responsible for establishing and directing bank wide anti-money laundering compliance processes and procedures, and reports to executive management on compliance efforts.
- *Internal Controls, Practices and Procedures.* CoBank has implemented risk-based internal controls, practices and procedures to detect and report potential instances of money laundering or terrorist financing, including customer identification, client-focused controls, customer identity verification and ongoing transaction and account monitoring. Clear and timely reporting of suspicious activity might be reported to appropriate regulatory authorities.
- *Independent Review.* CoBank’s Internal Audit group performs periodic independent testing and evaluation of the Compliance Program, and reports its findings directly to the board of directors.

To follow and accomplish with the Anti-Money Laundering Act, all operating records related to banking activities are maintained at this primary location, and are subject to inspection by appropriate U.S. federal agencies.

9.7 PRODUCT RESPONSIBILITY PERFORMANCE INDICATORS

Product Responsibility Performance Indicators address the aspects of a reporting organization's products and services that directly affect customers, namely, health and safety, information and labeling, marketing, and privacy.

9.7.1 Product and Service Labelling (PR3)

For CoBank it is very important that its customers-owners respect and follow a list of rules or requirements in order to keep the business relationship with them. CoBank does not accept to supply some financial services if the company is not sure about the sustainability of a service. CoBank does not accept to make business to any price, supporting financially entities which at the same time they make business, are detrimental for communities and citizens. In order to follow its principles CoBank requires its customers' respectful practices as:

- CoBank expects associates to have a life that is comprised of more than just working with CoBank, requiring them to subscribe some citizenship plans at the same level than CoBank.
- CoBank gathers information about entities and their goals before supplying them with any financial product. CoBank is encouraged no supplying finance services to cooperatives, associations or agricultural business which do not fit with environmental and risk standards.
- CoBank rejects to offer any financial service to organizations who attempt against public health and human rights.

Many financial institutions are enrolled in the equator principles, subscribed to the UNEP (United Nations Environment Program) and other corporate social responsibility practices ensuring their customers that they do not make business with non-environment/society respectful companies.

CoBank is not enrolled in any of these initiatives and prefers to follow its own rules and code of ethics, but the strongest financial institutions follow them trying to show their compromise with customers and society. CoBank's Rural Infrastructure segment mainly finances energy, water and communication companies which supply rural America a higher quality of life. CoBank should join some of these initiatives in order to guarantee that the projects financed by CoBank fulfill the main social responsible requirements.

9.7.2 Customer Privacy (PR8)

CoBank is committed to maintaining the confidentiality of financial and other non-public information about its customers and other users of its web sites. As a matter of corporate policy, the bank has implemented procedures, systems and controls at the bank designed to safeguard private information and prevent its disclosure to unauthorized parties. As a member of the Farm Credit System, CoBank is subject to the regulations of the Farm Credit Administration in terms of information privacy.

9.7.2.1 Security of Personal Information

CoBank maintains strict security standards and procedures to help prevent unauthorized access to confidential information. The bank also incorporates physical and electronic safeguards and make every effort to protect the security of personal information. The website is hosted on secure servers and any information collected by us is stored in private files behind a firewall designed to protect confidential information by denying unauthorized access by unauthorized users.

9.7.2.2 Information Collected

CoBank collects and store a variety of information from users of corporate web sites, including:

- The name of the Internet domain from which site visitors access the Internet
- A visitor’s IP address
- The date and time a visitor accessed our site
- The browser version used
- The pages visited on this website

Also, the CoBank web site utilizes cookies to remember visitors when they return to the site. A cookie is a small amount of text sent from a web site to a visitor's computer while visiting the site. The cookie is stored on the visitor's hard drive. CoBank uses discreet information stored in cookies in order to provide a customized user experience. However, visitors, can set their web browsers to prevent cookies from being sent. The bank may retain the content of email messages sent to the bank, along with the sender’s email address and response. The bank provides the same protections for these electronic communications that we employ in the maintenance of information received by mail and telephone.

9.7.2.3 Security and Intrusion Detection

To ensure the security and availability of the CoBank owned and managed web sites, several solutions to monitor network traffic and server loads are used to identify unauthorized attempts to access or damage the site. Unauthorized attempts to access, alter, or damage this site are strictly prohibited, and may be punishable under law.

9.7.2.4 Legal Requirements

Federal regulations may require CoBank to disclose confidential information in certain situations. Such situations include requests from law enforcement agencies or criminal or civil legal proceedings. In addition, as required by federal laws targeting terrorism funding and money laundering activities, CoBank collects information and take actions necessary to verify the identity of individuals and organizations with which we do business. Consequently, the bank reserves the right to disclose any information necessary to comply with any applicable law, regulation, legal process or governmental request, including personally identifiable information.

9.7.2.5 Security Process for Online Banking Access

Extensive measures ensure that CoLink protects customers’ data with triple layer security:

- Access/authentication security with dynamic password technology. You'll receive a Secure ID card that provides a new pass-word every 60 seconds.
- Encryption security
- Authorization security tailored to meet your internal requirements

10. CONCLUSIONS AND RECOMMENDATIONS

The aim of this section is to address the conclusions derived from the application of the Global Report Initiative Corporate Social Responsibility report model, G3.1, for the on the study of the Corporate Social Responsibility policies of CoBank, ACB.

The conclusions are a very important part in this study, as summarized all the information gathered in the elements and indicators of the model applied. At the same time the study of the CSR in the banking sector and the comparison with the other Farm Credit Banks will make easy to conclude regarding to the different policies applied.

It must be said that many problems and difficulties were found on the development of the report, as it is difficult to develop a complete study of CSR according to the G3.1 with all indicators required and all different points to focus. The reason of these difficulties is the non-existing information from CoBank, ACB side regarding to certain aspects and also they have no system for the identification and measurement of intangible permitted to provide information about certain complex variables. However, below are the conclusions reached for the model applied linked with different customers' characteristics and also for the bank policies in terms of CSR.

10.1. THE G3.1 OF GRI AS A REPORTING MODEL

During the study of CoBank CSR Policies and the application of the same several points which can be problematic or difficult to fulfill have been found. The aim of this point is to focus on the weakness of the G3.1, which will even remain on the upcoming G4.

The first point that can suppose difficulty for new companies in the financial services sector and also on the global economy issuing the Global Initiative Report Model can be number of indicators required and the impossibility to collect them in certain situations. The high level of numeric data and performance indicators makes that the core indicators cannot be worked by medium and small companies, as high levels of information are required.

Reporting with the GRI model, the reporter might focus on the guideline and cannot avoid the core performance indicators as these are mandatory to later on get the approval for the report. It is a danger to issue a report with too many omissions in material aspects.

Small and medium companies suppose are a very important part on the global market and these companies might also be motivated by issuing their CSR report and promote their own initiatives. In the way the Global Report Initiative faces the situation, these companies will never join the CSR trend and will never issue a report as the level of core numeric indicators is extremely high and will be never achieved by them. Even with the different levels of applications, which disappear on the G4, this problem was not solved as it is a report thought for big companies and focused on their possibilities.

Another point which needs to be improved on the GRI is the lack of ratings for single-focus advocacy of labor, human rights, anti-corruption or environmental groups. The report does not compare the information with other companies in the same sector and also it does not provide levels of what is acceptable and what not for the indicators, so it is difficult to state the real situation of the Company reported. Further improvements of the reporting standard as making reporting fit to address the real sustainability and setting performance challenges for future applications.

10.2. THE CORPORATE SOCIAL RESPONSIBILITY IN COBANK, ACB

10.2.1 Governance, Commitments and Engagement

Analyzing the corporate governance in CoBank, after analyzing the structure of the Board of Governors of CoBank, it is clear that the number of members and the independence of the same help the decision system on the company. The different procedures for the Board selection, which requires more than 75% of the members posted by the customers-owners, allow the different regions and types of businesses involved in CoBank ownership to have their ideas, proposals and references represented on the main organ of the company. At the independency of the directors is ensured due to the strict requirements that they have to accomplish as not having any employee relationship with a Farm Credit System Institution, what ensures not compromised capital on a director.

The only point which is remarkable on the composition of the Board is that it is composed generally by men, what supposes a confirmation of the man predominance on the rural America economy and also on the CoBank Board of Governors. This is a structural defect on the rural America society and it will take time to make their citizens to understand that the equality in fundamental for the growth of their country, however the introduction of new points of view inside of the Board of Governors will bring a new perception of the sector.

The compensation system established in CoBank also reinforce the healthy governance on the company as the directors are paid according to their level of activity in the bank and also depending on the bank performance. This means that directors are always motivated on taking the right decisions and involved in the bank policies in order to achieve higher goals. This compensation system is the same in all Farm Credit Banks as it is an imposition by the Farm Credit Administration; however in other private financial institutions directors receive fix compensation and they are less motivated.

In terms of reports and accomplishment of regulations, CoBank issues its Financial Annual Report based on accounting principles accepted in the United States of America (GAAP) and all of them are also audit by PricewaterhouseCoopers (PwC). The strong financial position and transparency in CoBank is reinforced with the inclusion on the list of "*50s Safest Banks in 2013"* by Global Finance magazine.

CoBank already issues a separate Corporate Social Responsibility annual report as additional information, even if 2014 has been the first year, this can reinforce its position in front of rural America and show to all customers its collaboration on the different areas. However, the CSR Annual Report of CoBank does not follow any international guideline and it is not audited by any initiative. From our point of view the enrollment of CoBank in the Global Report

Initiative or follow the ISO regulations would help the company to reports its CSR in a standardized way and also will make a step forward on its mission with rural America.

In terms of internal corporate governance standards CoBank has its own Code Of Conduct for Directors, which focus on the directors activities and work situations. It is the only bank on the Farm Credit System which has a different code of conduct focused only on its directors and it is a good help for them as it shows clear examples and situations for their daily activities. In opposition to this upgraded code of conducts focused on directors, CoBank does not belong to the Equator Principles or other initiatives as the United Nations Environment Program. The bank considers that its activity focused on the rural America cannot be affected by terrorism financing, money laundering or criminal practices. In this case, when CoBank grows every day and it is involved in a global economy, the bank should take part on these initiatives and controls that its situation remains safe in terms of the activities mentioned.

10.2.2 Product and Service

In terms of products and services, CoBank provides with adapted financial products to all different customers in rural America to accomplish with its own mission to supply and help all different customer associations and individuals.

The high level of loans repaid in CoBank reinforces the idea of good management and application of the loan risk rating system used in CoBank. The systems analyzes all different points involved in all operations and makes easier for the officers to understand the operations and the different business involved. This high level of accuracy together with the improved financial situation on the last years means the non-issued loan provisions on the last 2013 financial statement.

However, together with the level of risk of each operation CoBank's should analyze the different associations or individuals involved on each operation and also their purposes and project goals. Being CoBank a financial institution owned by its customers and a Farm Credit Bank ruled by the Farm Credit System laws, the bank might also pay attention to the kind of operations it approves and also review its own mission which focus on developing the rural America in all its levels.

Recently the initial mission of the Farm Credit System has changed having much higher number of operations with large association and borrowers than those made with small farmers and young farmers starting their operations. On this point CoBank might focus on giving access to credit to all segments on rural America as it was the initial goal when the system was created. The big association and companies involved in rural America which demand the Farm Credit System found to develop their global activities might be redirected to the private financial institutions, or at least not having same conditions than the small loaners.

At the same time during the last years the bank has approved several operations and loans which are not related on the rural America development. The initial project focused on rural America development, but after receiving the credit the project has not finished with the initial idea, using the Farm Credit founds for non-rural purposes. In these cases the loans have been repaid, but the main issue focuses on the interests paid, where private companies not working on the rural America sector have taken the advantage of the Farm Credit System lower level of interests to finance their operations. In these cases CoBank might study carefully the operations and even when they are designed to develop rural America, the bank must include several points on the loan contract where the borrower gets punished and pays higher loan interest when the initial goal of the project changes.

10.2.3 Economic Performance Indicators

In terms of economic indicators, CoBank has a great situation and keeps growing its strong financial position. As a remarkable situation is the new financial statement which includes higher level of assets, especially on the strategic relationship segment, after its merge with U.S. AgBank.

As a signal of the strong position and the improved financial situation, the provision for loans were reduced to cero at the end of 2013, this is due to consolidated position of the rural America in front of the world financial situation.

In fact this represents the strong position of CoBank in front of its customer and associates.

In terms of operating expenses the employment compensation program supposes the highest level, on this chapter we will analyze this program and also the rest of corporate social responsibility initiatives in terms of investment and goals to be reached.

10.2.4 Environmental Policies Evaluation

As a financial institution the influence of CoBank on the environment comes more from the influence of its financial products offered to the different customers interacting with the environment than with CoBank's interaction with the environment. The wastes and level of pollution issued by the bank means nothing, however the different projects and loans given to different energetic companies are very important for the environment.

CoBank customer-owners include hundreds of rural electric generation, transmission and distribution cooperatives that deliver power to millions of people in rural communities around the country. The different loans approved on the Energetic sector have the aim to supply affordable and reliable power to people. At the same time, many of these customers are investing in next generation renewable energy projects, and helping to create a cleaner, more sustainable world. The energy programs provide CoBank associates access to energy and cleaner energy to keep safe their environment. Also important the investment on renewable energy programs, which suppose a high level of saves for areas with difficult access to traditional energies as petrol and which have higher costs to access to these energies.

CoBank has also many projects in collaboration with customers in the business of providing clean, safe drinking water to rural areas, and also others involved on the process wastewater and deliver other services. The water program launched by CoBank in 2013 with the goal of restructure the water distribution system is a signal of the compromise of CoBank with the environment in rural America. The bank provides better loan conditions to all associated willing to improve the water distribution on their area. This project contributes saving a much appreciated resource as water and at the same time collaborates with the community health avoiding problems due to the water contamination.

10.2.5 Labor Practices and Decent Work

After the analysis of CoBank labor practices the bank provides one of the best employee benefits program along the Farm Credit System Banks. This program is also reinforced due to public health program on the rural America, what makes employers responsible for increasing their employees' quality of life in terms of compensation and health assurance for them and their family.

The position of CoBank as Equal Opportunity Employer provides an equal percentage of employees by gender in the organization, what is totally different from the Board of Directors. The situation with the Board of Directors is the opposite with majority of male along the members of the Board.

A special characteristic in this pension system is that the amount dedicated to employee pension plans depends on the annual net interest income. CoBank dedicates more or less money depending of the net income at the end of the year, but always under legal minimums previously established in order to do not low down the quality of the returns plan.

Together with the pension plans the most important characteristic for the labor practices is the wide range of benefits they have in terms of health and security. The economic system established in the United States which does not enjoys a public social security system in terms of pensions and health makes the companies responsible for their employees' quality of life. In this point CoBank offers is the best employer on its market as provides the best conditions, giving the employees protection on health, economy and others.

CoBank has also a great number of opportunities for college students and recent college graduates, including credit programs, internships and scholarships. The CoBank's with all these lately developed and updated plans is to develop rural America and also train new qualified employees for the Farm Credit System. All these initiatives and programs offered to students during and after their studies provide them different opportunities to get into the labor market.

CoBank knows that its educational plans and projects will help developing rural America because at the end these will bring well prepared professionals for the area and will enhance the performance of the area industry and administration.

10.2.6 Social Performance Evaluation

CoBank participates in different funding programs with associations and organizations with the most disadvantaged communities in rural America. CoBank is aware about their responsibility to their customers' community and neighbors. With this the banks shows that does not care only about making business and show its real aim to develop rural America. Collaboration with different charities and also with associations helping those with problems on the community encourages customers to continue working with a bank that they feel as their bank.

As private bank it is amazing the level of collaboration and donations of the bank when there is natural disaster. CoBank's assumes that a disaster with direct impact on its communities has also direct impact on its activity, this is why the bank tries to help as much as possible and get communities back into daily and quality life as soon as possible.

The young people in rural America is marked as a very important segment for CoBank in terms of collaboration and development, this is also the reason as well for all the university programs and job opportunities. However, CoBank's does not collaborate only with young students, the bank collaborates with the whole young community in rural America including all of them, students or young employees without high academic levels.

The reason for having all these programs to aid the young community is because they understand young people as the future of rural America. CoBank considers very important to educate and teach the young generation for the future as they are the main key for the rural America growth.

If we compare with the other Farm Credit System Banks, CoBank is the leader in this kind of initiatives and collaborations with different associations. This shows that CoBank understand that rural America and it selves are only one and the development of one side will suppose the growth of the other side, so it is clear for the bank that they have to walk together.

CoBank is absolutely against corruption and tries to keep a clean position in front of its own customers and communities. The policy of CoBank against the corruption is based on the transparent and legal administration which is motivated due to the increase of customers and communities confidence on non-corrupted companies.

10.2.7 Product Responsibility and Customer Privacy

The bank finances huge agribusiness and huge energy and water companies, which can seriously damage the environment. It is clear that CoBank's mission is to help financing agribusiness to develop rural America, but this development shall walk together with environment sustainability. CoBank has the opportunity to develop rural America in a sustainable way just selecting the appropriate projects to finance. These huge energy companies or agribusiness are private business as well and pursue benefits too, what means that being companies in the rural sector can damage the environment too. CoBank, just following some environmental initiative, could prevent the development of dangerous projects for the environment. Most people in rural America just care about development and evolution in their area, but do not care too much about the earth. CoBank as rural cooperative bank would be the adequate regulator for these kinds of situations. Applying social responsible policies and following the environmental and economic laws CoBank can ensure the development of rural America in all ways without harming anyone.

At the same time it is also part of CoBank's responsibility to protect the privacy of its customers and do not provide with financial information any other organization or company. In this way CoBank follows all legal rules, but it is important to receive all information from customers and also investigate aside before approving projects which suppose a danger for the community or either does not follow clean and clear operations.

11. FUTURE LINES OF ACTION

In this section we propose future lines of action that CoBank, ACB could take to improve their competitiveness in the market through proper management of their corporate social responsibility . The recommendations proposed are :

- One possible future line of action in CoBank would be the realization of different surveys to find out which are the most necessary point to be improved on CoBank’s communities and then focus different initiatives on them. Customers know their communities better than the bank specialist in social initiatives, so it would be interesting to know what customers consider as the most important to be improved on their communities. Obviously initiatives with high levels of reactivity required, as helps on earthquakes or similar natural disasters, are not necessary to be surveyed.

- Another line of action to reinforce the activity of CoBank and its credibility is the revision of the different products, especially those operations which after being approved following CoBank’s corporate social responsibility guideline, does not accomplish them during the execution of the project financed. To avoid this some penalties or clauses might be introduced on the agreements.

- To increase the quality of information gathered in terms of corporate social responsibility for stakeholders’ analysis. This improved would make easier the realization of the GRI model, which is necessary to be issued in a bank considered as one of the most qualified in terms of CSR in the world.

- Following the above point and to reinforce the position in terms of CRS, it would be necessary to sign up the Equator Principles to confirm the bank’s compromise with the environment, especially when we talk about a bank working on a rural environment.

- To review and focus on CoBank’s mission and vision in order to remind the main goals for which the bank was created and then restart or reinforce policies focused on small farmers and young farmers.

- To continue working and financing different initiatives related with renewable energies or water waste, but always with previous analysis of these initiatives performance on communities activity and environment. Not all of them are social responsible and different points might be analyzed before approval.

- To keep working as clean, non-influenced and non-corrupted organization, this will keep and increase customers' confidence on CoBank and the activity at the same time. The identification of customers of CoBank as a social responsible entity caring about customers will help to consolidate the bank's position.

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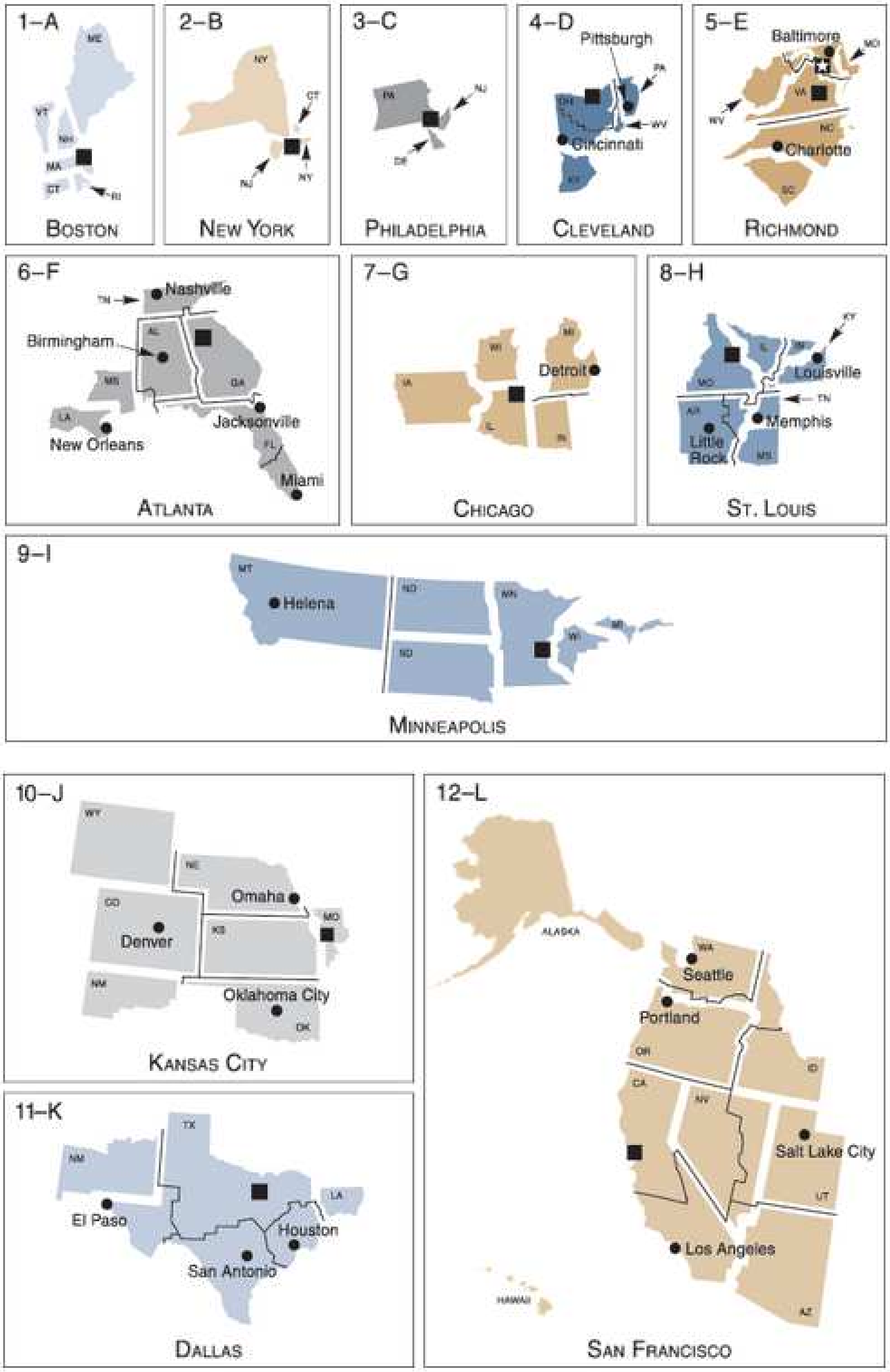
ANNEXES

ANNEX 1: Federal Reserve District Banks Branches



Source: Board of Governors of the Federal Reserve System (2013)

ANNEX 2: G3.1 Guideline from Global Reporting Initiative

Sustainability Reporting Guidelines

Profile

1. Strategy and Analysis

This section is intended to provide a high-level, strategic view of the organization's relationship to sustainability in order to provide context for subsequent and more detailed reporting against other sections of the Guidelines. It may draw on information provided in other parts of the report, but this section is intended to produce insight on strategic topics rather than simply summarize the contents of the report. The strategy and analysis should consist of the statement outlined in 1.1 and a concise narrative outlined in 1.2.

1.1 Statement from the most senior decision-maker of the organization (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and its strategy.

The statement should present the overall vision and strategy for the short-term, medium-term (e.g., 3-5 years), and long-term, particularly with regard to managing the key challenges associated with economic, environmental, and social performance. The statement should include:

- Strategic priorities and key topics for the short/medium-term with regard to sustainability, including respect for internationally agreed standards and how they relate to long-term organizational strategy and success;
- Broader trends (e.g., macroeconomic or political) affecting the organization and influencing sustainability priorities;
- Key events, achievements, and failures during the reporting period;
- Views on performance with respect to targets;
- Outlook on the organization's main challenges and targets for the next year and goals for the coming 3-5 years; and
- Other items pertaining to the organization's strategic approach.

1.2 Description of key impacts, risks, and opportunities.

The reporting organization should provide two concise narrative sections on key impacts, risks, and opportunities.

Section One should focus on the organization's key impacts on sustainability and effects on stakeholders, including rights as defined by national laws and relevant internationally agreed standards. This should take into account the range of reasonable expectations and interests of the organization's stakeholders. This section should include:

- A description of the significant impacts the organization has on sustainability and associated challenges and opportunities. This includes the effect on stakeholders' rights as defined by national laws and the expectations in internationally-agreed standards and norms;
- An explanation of the approach to prioritizing these challenges and opportunities;
- Key conclusions about progress in addressing these topics and related performance in the reporting period. This includes an assessment of reasons for underperformance or over-performance; and
- A description of the main processes in place to address performance and/or relevant changes.

Section Two should focus on the impact of sustainability trends, risks, and opportunities on the long-term prospects and financial performance of the organization. This should concentrate specifically on information relevant to financial stakeholders or that could become so in the future. Section Two should include the following:

- A description of the most important risks and opportunities for the organization arising from sustainability trends;
- Prioritization of key sustainability topics as risks and opportunities according to their relevance for long-term organizational strategy, competitive position, qualitative, and (if possible) quantitative financial value drivers;

- Table(s) summarizing:
  - Targets, performance against targets, and lessons-learned for the current reporting period; and
  - Targets for the next reporting period and mid-term objectives and goals (i.e., 3-5 years) related to key risks and opportunities.
- Concise description of governance mechanisms in place to specifically manage these risks and opportunities, and identification of other related risks and opportunities.

2. Organizational Profile

2.1 Name of the organization.

2.2 Primary brands, products, and/or services.

The reporting organization should indicate the nature of its role in providing these products and services, and the degree to which it utilizes outsourcing.

2.3 Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.

2.4 Location of organization's headquarters.

2.5 Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.

2.6 Nature of ownership and legal form.

2.7 Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).

2.8 Scale of the reporting organization, including:

- Number of employees;
- Number of operations;
- Net sales (for private sector organizations) or net revenues (for public sector organizations);
- Total capitalization broken down in terms of debt and equity (for private sector organizations); and
- Quantity of products or services provided.

In addition to the above, reporting organizations are encouraged to provide additional information, as appropriate, such as:

- *Total assets;*
- *Beneficial ownership (including identity and percentage of ownership of largest shareholders); and*
- *Breakdowns by country/region of the following:*
  - *Sales/revenues by countries/regions that make up 5 percent or more of total revenues;*
  - *Costs by countries/regions that make up 5 percent or more of total revenues; and*
  - *Employees.*

2.9 Significant changes during the reporting period regarding size, structure, or ownership including:

- The location of, or changes in operations, including facility openings, closings, and expansions; and
- Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organizations).

2.10 Awards received in the reporting period.

3. Report Parameters

REPORT PROFILE

3.1 Reporting period (e.g., fiscal/calendar year) for information provided.

3.2 Date of most recent previous report (if any).

3.3 Reporting cycle (annual, biennial, etc.)

3.4 Contact point for questions regarding the report or its contents.

REPORT SCOPE AND BOUNDARY

3.5 Process for defining report content, including:

- Determining materiality;

- Prioritizing topics within the report; and
- Identifying stakeholders the organization expects to use the report.

Include an explanation of how the organization has applied the 'Guidance on Defining Report Content', the associated Principles and the Technical Protocol – Applying the Report Content Principles.

3.6 Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.

3.7 State any specific limitations on the scope or boundary of the report*.

If boundary and scope do not address the full range of material economic, environmental, and social impacts of the organization, state the strategy and projected timeline for providing complete coverage.

3.8 Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.

3.9 Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.

Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols.

3.10 Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).

3.11 Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.

GRI CONTENT INDEX

3.12 Table identifying the location of the Standard Disclosures in the report.

Identify the page numbers or web links where the following can be found:

- Strategy and Analysis 1.1 – 1.2;
- Organizational Profile 2.1 – 2.10;
- Report Parameters 3.1 – 3.13;
- Governance, Commitments, and Engagement 4.1 – 4.17;
- Disclosure of Management Approach, per category;
- Core Performance Indicators;
- Any GRI Additional Indicators that were included; and
- Any GRI Sector Supplement Indicators included in the report.

ASSURANCE

3.13 Policy and current practice with regard to seeking external assurance for the report. If not included in the assurance report accompanying the sustainability report, explain the scope and basis of any external assurance provided. Also explain the relationship between the reporting organization and the assurance provider(s).

4. Governance, Commitments, and Engagement

GOVERNANCE

4.1 Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.

Describe the mandate and composition (including number of independent members and/or non-executive members) of the highest governance body and its committees, and indicate each individual's position and any direct responsibility for economic, social, and environmental performance.

Report the percentage of individuals by gender within the organization's highest governance body and its committees, broken down by age group and minority group membership and other indicators of diversity.

Refer to definitions of age and minority group in the Indicator Protocol for LA13 and note that the information reported under 4.1 can be cross referenced against that reported for LA13.

* See completeness Principle for explanation of scope.

4.2 Indicate whether the Chair of the highest governance body is also an executive officer (and, if so, their function within the organization's management and the reasons for this arrangement).

4.3 For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members.

State how the organization defines 'independent' and 'non-executive'. This element applies only for organizations that have unitary board structures. See the glossary for a definition of 'independent'.

4.4 Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.

Include reference to processes regarding:

- The use of shareholder resolutions or other mechanisms for enabling minority shareholders to express opinions to the highest governance body; and
- Informing and consulting employees about the working relationships with formal representation bodies such as organization level 'work councils', and representation of employees in the highest governance body.

Identify topics related to economic, environmental, and social performance raised through these mechanisms during the reporting period.

4.5 Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance).

4.6 Processes in place for the highest governance body to ensure conflicts of interest are avoided.

4.7 Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity.

4.8 Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.

Explain the degree to which these:

- Are applied across the organization in different regions and department/units; and
- Relate to internationally agreed standards.

4.9 Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.

Include frequency with which the highest governance body assesses sustainability performance.

4.10 Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.

COMMITMENTS TO EXTERNAL INITIATIVES

4.11 Explanation of whether and how the precautionary approach or principle is addressed by the organization.

Article 15 of the Rio Principles introduced the precautionary approach. A response to 4.11 could address the organization's approach to risk management in operational planning or the development and introduction of new products.

4.12 Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.

Include date of adoption, countries/operations where applied, and the range of stakeholders involved in the development and governance of these initiatives (e.g., multi-stakeholder, etc.). Differentiate between non-binding, voluntary initiatives and those with which the organization has an obligation to comply.

4.13 Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization:

- Has positions in governance bodies;
- Participates in projects or committees;
- Provides substantive funding beyond routine membership dues; or
- Views membership as strategic.

This refers primarily to memberships maintained at the organizational level.

STAKEHOLDER ENGAGEMENT

The following Disclosure Items refer to general stakeholder engagement conducted by the organization over the course of the reporting period. These Disclosures are not limited to stakeholder engagement implemented for the purposes of preparing a sustainability report.

4.14 List of stakeholder groups engaged by the organization.

Examples of stakeholder groups are:

- Civil society;
- Customers;
- Employees, other workers, and their trade unions;
- Local communities;
- Shareholders and providers of capital; and
- Suppliers.

4.15 Basis for identification and selection of stakeholders with whom to engage.

This includes the organization's process for defining its stakeholder groups, and for determining the groups with which to engage and not to engage.

4.16 Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.

This could include surveys, focus groups, community panels, corporate advisory panels, written communication, management/union structures, and other vehicles. The organization should indicate whether any of the engagement was undertaken specifically as part of the report preparation process.

4.17 Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.

5. Management Approach and Performance Indicators

The section on sustainability Performance Indicators is organized by economic, environmental, and social categories. Social Indicators are further categorized by Labor, Human Rights, Society, and Product Responsibility. Each category includes a Disclosure on Management Approach ('Management Approach') and a corresponding set of Core and Additional Performance Indicators.

Core Indicators have been developed through GRI's multi-stakeholder processes, which are intended to identify generally applicable Indicators and are assumed to be material for most organizations. An organization should report on Core Indicators unless they are deemed not material on the basis of the GRI Reporting Principles. Additional Indicators represent emerging practice or address topics that may be material for some organizations, but are not material for others. Where final versions of Sector Supplements exist, the Indicators should be treated as Core Indicators. See Guidance on Defining Report Content for further details.

The Disclosure(s) on Management Approach should provide a brief overview of the organization's management approach to the Aspects defined under each Indicator Category in order to set the context for performance information. The organization can structure its Disclosure(s) on Management Approach to cover the full range of Aspects under a given Category or group its responses on the Aspects differently. However, the Disclosure should address all of the Aspects associated with each category regardless of the format or grouping.

Within the overall structure of the Standard Disclosures, Strategy and Profile items 1.1 and 1.2 in 'Strategy and Analysis' are intended to provide a concise overview of the risks and opportunities facing the organization as a whole. The Disclosure(s) on Management Approach is intended to address the next level of detail of the organization's approach to managing the sustainability topics associated with risks and opportunities.

- Major changes in the reporting period to systems or structures to improve performance; and
- Key strategies for implementing policies or achieving performance.

Economic Performance Indicators

ASPECT: ECONOMIC PERFORMANCE

CORE	EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.
CORE	EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.
CORE	EC3	Coverage of the organization's defined benefit plan obligations.
CORE	EC4	Significant financial assistance received from government.

ASPECT: MARKET PRESENCE

ADD	EC5	Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.
CORE	EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.
CORE	EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation.

ASPECT: INDIRECT ECONOMIC IMPACTS

CORE	EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.
ADD	EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.

Environmental Performance Indicators

ASPECT: MATERIALS

- CORE **EN1** Materials used by weight or volume.
- CORE **EN2** Percentage of materials used that are recycled input materials.

ASPECT: ENERGY

- CORE **EN3** Direct energy consumption by primary energy source.
- CORE **EN4** Indirect energy consumption by primary source.
- ADD **EN5** Energy saved due to conservation and efficiency improvements.
- ADD **EN6** Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.
- ADD **EN7** Initiatives to reduce indirect energy consumption and reductions achieved.

ASPECT: WATER

- CORE **EN8** Total water withdrawal by source.
- ADD **EN9** Water sources significantly affected by withdrawal of water.
- ADD **EN10** Percentage and total volume of water recycled and reused.

ASPECT: BIODIVERSITY

- CORE **EN11** Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.
- CORE **EN12** Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.
- ADD **EN13** Habitats protected or restored.
- ADD **EN14** Strategies, current actions, and future plans for managing impacts on biodiversity.
- ADD **EN15** Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.

ASPECT: EMISSIONS, EFFLUENTS, AND WASTE

- CORE **EN16** Total direct and indirect greenhouse gas emissions by weight.
- CORE **EN17** Other relevant indirect greenhouse gas emissions by weight.
- ADD **EN18** Initiatives to reduce greenhouse gas emissions and reductions achieved.
- CORE **EN19** Emissions of ozone-depleting substances by weight.
- CORE **EN20** NO_x, SO_x, and other significant air emissions by type and weight.
- CORE **EN21** Total water discharge by quality and destination.
- CORE **EN22** Total weight of waste by type and disposal method.
- CORE **EN23** Total number and volume of significant spills.
- ADD **EN24** Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.
- ADD **EN25** Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.

ASPECT: PRODUCTS AND SERVICES

CORE **EN26** Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.

CORE **EN27** Percentage of products sold and their packaging materials that are reclaimed by category.

ASPECT: COMPLIANCE

CORE **EN28** Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.

ASPECT: TRANSPORT

ADD **EN29** Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.

ASPECT: OVERALL

ADD **EN30** Total environmental protection expenditures and investments by type.

Social Performance Indicators

The social dimension of sustainability concerns the impacts an organization has on the social systems within which it operates.

The GRI Social Performance Indicators identify key Performance Aspects surrounding labor practices, human rights, society, and product responsibility.

ASPECT: INDIGENOUS RIGHTS

ADD **HR9** Total number of incidents of violations involving rights of indigenous people and actions taken.

ASPECT: ASSESSMENT

CORE **HR10** Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.

ASPECT: REMEDIATION

CORE **HR11** Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.

Labor Practices and Decent Work Performance Indicators

ASPECT: EMPLOYMENT

CORE **LA1** Total workforce by employment type, employment contract, and region, broken down by gender.

CORE **LA2** Total number and rate of new employee hires and employee turnover by age group, gender, and region.

ADD **LA3** Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.

CORE **LA15** Return to work and retention rates after parental leave, by gender.

ASPECT: LABOR/MANAGEMENT RELATIONS

CORE **LA4** Percentage of employees covered by collective bargaining agreements.

CORE **LA5** Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.

ASPECT: OCCUPATIONAL HEALTH AND SAFETY

ADD **LA6** Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs.

CORE **LA7** Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender.

CORE **LA8** Education, training, counselling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.

ADD **LA9** Health and safety topics covered in formal agreements with trade unions.

ASPECT: TRAINING AND EDUCATION

CORE **LA10** Average hours of training per year per employee by gender, and by employee category.

Society Performance Indicators

ASPECT: LOCAL COMMUNITIES

CORE **SO1** Percentage of operations with implemented local community engagement, impact assessments, and development programs.

CORE **SO9** Operations with significant potential or actual negative impacts on local communities.

CORE **SO10** Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.

ASPECT: CORRUPTION

CORE **SO2** Percentage and total number of business units analyzed for risks related to corruption.

CORE **SO3** Percentage of employees trained in organization's anti-corruption policies and procedures.

CORE **SO4** Actions taken in response to incidents of corruption.

ASPECT: PUBLIC POLICY

CORE **SO5** Public policy positions and participation in public policy development and lobbying.

ADD **SO6** Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.

ASPECT: ANTI-COMPETITIVE BEHAVIOR

ADD **SO7** Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.

ASPECT: COMPLIANCE

CORE **SO8** Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.

Product Responsibility Performance Indicators

ASPECT: CUSTOMER HEALTH AND SAFETY

CORE **PR1** Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.

ADD **PR2** Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.

ASPECT: PRODUCT AND SERVICE LABELING

CORE **PR3** Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.

ADD **PR4** Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.

ADD **PR5** Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.

ASPECT: MARKETING COMMUNICATIONS

CORE **PR6** Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.

ADD **PR7** Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.

ASPECT: CUSTOMER PRIVACY

ADD **PR8** Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.

ASPECT: COMPLIANCE

CORE **PR9** Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.

Source: Global Report Initiative (2010)

ANNEX 3: Financial Services Supplement for the G3.1

Product and Service Impact

Disclosure on Management Approach

Provide a concise disclosure on the Management Approach items with reference to the Products and Service Impact Aspects listed below.

- Product Portfolio;
- Audit; and
- Active Ownership.

GOALS AND PERFORMANCE

Organization-wide goals regarding performance relevant to Aspects, including plans to improve implementation of policies/procedures identified in FS1 and FS2 and any relevant audit results.

Use organization-specific indicators (as needed) in addition to the GRI Performance Indicators to demonstrate the results of performance against goals.

POLICY

Brief, organization-wide policy (or policies) that defines the organization's overall commitment related to the Product and Service Impact Aspects listed above, or state where this can be found in the public domain (e.g., web link).

ORGANIZATIONAL RESPONSIBILITY

The most senior position with operational responsibility for Product and Service Impact Aspects or explain how operational responsibility is divided at the senior level for these Aspects. This differs from Disclosure 4.1, which focuses on structures at the governance level.

TRAINING AND AWARENESS

Procedures related to training and raising awareness in relation to the Product and Service Impact Aspects.

MONITORING AND FOLLOW-UP

Procedures related to monitoring and corrective and preventive actions. List of certifications or other approaches to auditing/verifying the reporting organization's performance.

ADDITIONAL CONTEXTUAL INFORMATION

Additional relevant information required to understand organizational performance, such as:

- Key successes and shortcomings;
- Major organizational risks and opportunities;
- Major changes in the reporting period to systems or structures to improve performance; and
- Key strategies and procedures for implementing policies or achieving goals.

Product and Service Impact Disclosure on Management Approach

ASPECT: PRODUCT PORTFOLIO

CORE FS1 Policies with specific environmental and social components applied to business lines.

CORE FS2 Procedures for assessing and screening environmental and social risks in business lines.

CORE FS3 Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions.

CORE FS4 Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines.

CORE FS5 Interactions with clients/investees/business partners regarding environmental and social risks and opportunities.

FS

Product and Service Impact Performance Indicators

ASPECT: PRODUCT PORTFOLIO

CORE FS6 Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/large) and by sector.

CORE FS7 Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose.

CORE FS8 Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose.

ASPECT: AUDIT

CORE FS9 Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures.

ASPECT: ACTIVE OWNERSHIP

CORE FS10 Percentage and number of companies held in the institution's portfolio with which the reporting organization has interacted on environmental or social issues.

CORE FS11 Percentage of assets subject to positive and negative environmental or social screening.

CORE FS12 Voting polic(ies) applied to environmental or social issues for shares over which the reporting organization holds the right to vote shares or advises on voting.

FS

Economic

The economic dimension of sustainability concerns the organization's impacts on the economic conditions of its stakeholders and on economic systems at local, national, and global levels. The Economic Indicators illustrate:

- Flow of capital among different stakeholders; and
- Main economic impacts of the organization throughout society.

Financial performance is fundamental to understanding an organization and its own sustainability. However, this information is normally already reported in financial accounts. What is often reported less, and is frequently desired by users of sustainability reports, is the organization's contribution to the sustainability of a larger economic system.

Disclosure on Management Approach

Provide a concise disclosure on the Management Approach items outlined below with reference to the following Economic Aspects:

- Economic Performance;

Financial Services Sector Specific Commentary:

The DMA should include an explanation of the organization's community investment strategy in association with the data reported on community investment (see EC1 and related commentary). This should identify strategy elements related to:

- Businesses goals for community investment across each community investment type (see below);
- The intended benefits for the recipient and your business;
- Desire/expected outcomes from the community investment activity;
- How community investment activities are identified and management; and
- How performance and value for money is assessed.

FS

GOALS AND PERFORMANCE

Organization-wide goals regarding performance relevant to the Economic Aspects.

Use organization-specific Indicators (as needed) in addition to the GRI Performance Indicators to demonstrate the results of performance against goals.

POLICY

Brief, organization-wide policy (or policies) that defines the organization's overall commitment relating to the Economic Aspects listed above, or state where this can be found in the public domain (e.g., web link).

ADDITIONAL CONTEXTUAL INFORMATION

Additional relevant information required to understand organizational performance, such as:

- Key successes and shortcomings;
- Major organizational risks and opportunities;
- Major changes in the reporting period to systems or structures to improve performance; and
- Key strategies for implementing policies or achieving performance.

Financial Services Sector Specific Commentary:

In some regions such as North America, the term "community investment" refers specifically to the practice of ensuring that a portion of the deposits received from a community are provided back to members of the same community in the form of loans or other financial services. In the case of this protocol, the term is used more broadly and is not specifically focused on this particular approach to community investing.

FS

Economic Performance Indicators

ASPECT: ECONOMIC PERFORMANCE

CORE **EC1** Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.

Financial Services Sector-Specific Commentary on EC1 Indicator Protocol:

FS

Commentary added to the value generated by the organization's community investment programs and breakdown of community investment by theme.

CORE **EC2** Financial implications and other risks and opportunities for the organization's activities due to climate change.

CORE **EC3** Coverage of the organization's defined benefi plan obligations.

CORE **EC4** Significant financial assistance received from government.

ASPECT: MARKET PRESENCE

ADD **EC5** Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.

CORE **EC6** Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.

CORE **EC7** Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation.

ASPECT: INDIRECT ECONOMIC IMPACTS

CORE **EC8** Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.

ADD **EC9** Understanding and describing significant indirect economic impacts, including the extent of impacts.

Environmental Performance Indicators

ASPECT: MATERIALS

CORE **EN1** Materials used by weight or volume.

CORE **EN2** Percentage of materials used that are recycled input materials.

ASPECT: ENERGY

CORE **EN3** Direct energy consumption by primary energy source.

CORE **EN4** Indirect energy consumption by primary source.

ADD **EN5** Energy saved due to conservation and efficiency improvements.

ADD **EN6** Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.

ADD **EN7** Initiatives to reduce indirect energy consumption and reductions achieved.

ASPECT: WATER

CORE **EN8** Total water withdrawal by source.

ADD **EN9** Water sources significantly affected by withdrawal of water.

ADD **EN10** Percentage and total volume of water recycled and reused.

ASPECT: BIODIVERSITY

CORE **EN11** Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.

CORE **EN12** Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.

ADD **EN13** Habitats protected or restored.

ADD **EN14** Strategies, current actions, and future plans for managing impacts on biodiversity.

ADD **EN15** Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.

ASPECT: EMISSIONS, EFFLUENTS, AND WASTE

CORE **EN16** Total direct and indirect greenhouse gas emissions by weight.

FS

Financial Services Sector-Specific Commentary on EN16 Indicator Protocol:

Commentary added to invite reporting on greenhouse gas emissions relating to business travel.

CORE **EN17** Other relevant indirect greenhouse gas emissions by weight.

ADD **EN18** Initiatives to reduce greenhouse gas emissions and reductions achieved.

CORE **EN19** Emissions of ozone-depleting substances by weight.

CORE **EN20** NO, SO, and other significant air emissions by type and weight.

CORE **EN21** Total water discharge by quality and destination.

CORE **EN22** Total weight of waste by type and disposal method.

FS

Financial Services Sector-Specific Commentary on EN22 Indicator Protocol:

Commentary added to specify primary types of waste streams being paper and waste IT for financial institutions.

CORE **EN23** Total number and volume of significant spills.

ADD **EN24** Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.

Labor Practices and Decent Work

The specific Aspects under the category of Labor Practices are based on internationally recognized universal standards, including:

- United Nations Universal Declaration of Human Rights and its Protocols;
- United Nations Convention: International Covenant on Civil and Political Rights;
- United Nations Convention: International Covenant on Economic, Social, and Cultural Rights;
- ILO Declaration on Fundamental Principles and Rights at Work of 1998 (in particular the eight core conventions of the ILO); and
- The Vienna Declaration and Programme of Action.

The Labor Practices Indicators also draw upon the two instruments directly addressing the social responsibilities of business enterprises: the ILO Tripartite Declaration Concerning Multinational Enterprises and Social Policy, and the Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises.

Disclosure on Management Approach

Provide a concise disclosure on the following Management Approach items with reference to the Labor Aspects listed below. The ILO Tripartite Declaration Concerning Multinational Enterprises and Social Policy (in particular the eight core conventions of the ILO) and the Organization for Economic Co-operation and Development Guidelines for Multinational Enterprises, should be the primary reference points.

- Employment;
- Labor/Management Relations;
- Occupational Health and Safety;

Financial Services Sector-Specific Commentary:

Financial institutions should report their policies and practices regarding threats and violence in

- Bank robberies (e.g. kidnapping etc.); and
- As a result of legal reporting requirements on criminal activities (e.g. money laundering, terrorism).

FS

Policies and practices include education, training, counselling, prevention, and risk-control programs.

- Training and Education; and
- Diversity and Equal Opportunity.

GOALS AND PERFORMANCE

Organization-wide goals regarding performance relevant to the Labor Aspects, indicating their linkage to the internationally recognized universal standards.

Use organization-specific Indicators (as needed) in addition to the GRI Performance Indicators to demonstrate the results of performance against goals.

POLICY

Brief, organization-wide policy (or policies) that defines the organization's overall commitment related to the Labor Aspects, or state where this can be found in the public domain (e.g., web link). Also reference their linkage to the international standards indicated above.

ORGANIZATIONAL RESPONSIBILITY

The most senior position with operational responsibility for Labor Aspects or explain how operational responsibility is divided at the senior level for these Aspects. This differs from Disclosure 4.1, which focuses on structures at the governance level.

TRAINING AND AWARENESS

Procedures related to training and raising awareness in relation to the Labor Aspects.

MONITORING AND FOLLOW-UP

Procedures related to monitoring and corrective and preventive actions, including those related to the supply chain.

List of certifications for labor-related performance or certification systems, or other approaches to auditing/verifying the reporting organization or its supply chain.

ASPECT: COMMUNITY

CORE **SO1** Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.

FS

CORE **FS13** Access points in low-populated or economically disadvantaged areas by type.

CORE **FS14** Initiatives to improve access to financial services for disadvantaged people.

ASPECT: CORRUPTION

CORE **SO2** Percentage and total number of business units analyzed for risks related to corruption.

CORE **SO3** Percentage of employees trained in organization's anti-corruption policies and procedures.

CORE **SO4** Actions taken in response to incidents of corruption.

ASPECT: PUBLIC POLICY

CORE **SO5** Public policy positions and participation in public policy development and lobbying.

ADD **SO6** Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.

ASPECT: ANTI-COMPETITIVE BEHAVIOR

ADD **SO7** Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.

ASPECT: COMPLIANCE

CORE **SO8** Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.

Product Responsibility Performance Indicators address the aspects of a reporting organization's products and services that directly affect customers, namely, health and safety, information and labeling, marketing, and privacy.

These aspects are chiefly covered through disclosure on internal procedures and the extent to which these procedures are not complied with.

Disclosure on Management Approach

Provide a concise disclosure on the following Management Approach items with reference to the Product Responsibility Aspects:

- Customer Health and Safety;
- Product and Service Labeling;
- Marketing Communications;
- Customer Privacy; and
- Compliance.

GOALS AND PERFORMANCE

Organization-wide goals regarding performance relevant to the Product Responsibility Aspects.

Use organization-specific Indicators (as needed) in addition to the GRI Performance Indicators to demonstrate the results of performance against goals.

POLICY

Brief, organization-wide policy (or policies) that defines the organization's overall commitment to the Product Responsibility Aspects, or state where this can be found in the public domain (e.g., web link).

ORGANIZATIONAL RESPONSIBILITY

The most senior position with operational responsibility for Product Responsibility Aspects, or explain how operational responsibility is divided at the senior level for Product Responsibility Aspects. This differs from Disclosure 4.1, which focuses on structures at the governance level.

TRAINING AND AWARENESS

Procedures related to training and raising awareness in relation to the Product Responsibility Aspects.

MONITORING AND FOLLOW-UP

Procedures related to monitoring and corrective and preventive actions, including those related to the supply chain.

List of certifications for product responsibility-related performance or certification systems, or other approaches to auditing/verifying the reporting organization or its supply chain.

ADDITIONAL CONTEXTUAL INFORMATION

Additional relevant information required to understand organizational performance, such as:

- Key successes and shortcomings;
- Major organizational risks and opportunities;
- Major changes in the reporting period to systems or structures to improve performance; and
- Key strategies and procedures for implementing policies or achieving goals.

Financial Services Sector-Specific Product Responsibility Disclosure on Management Approach

FS

ASPECT: PRODUCT AND SERVICE LABELING

CORE **FS15** Policies for the fair design and sale of financial products and services.

Product Responsibility Performance Indicators

ASPECT: CUSTOMER HEALTH AND SAFETY

CORE **PR1** Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.

ADD **PR2** Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.

ASPECT: PRODUCT AND SERVICE LABELING

CORE **PR3** Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.

ADD **PR4** Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.

ADD **PR5** Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.

CORE **FS16** Initiatives to enhance financial literacy by type of beneficiary. FS

ASPECT: MARKETING COMMUNICATIONS

CORE **PR6** Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.

ADD **PR7** Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.

Source: Global Report Initiative (2011)

ANNEX 4: Institutions Subscribed to Equator Principles

Institution	Adoption Date	Country	Region	Reporting Period	Annual Submission Deadline	In Compliance
ABN Amro	03-Aug-09	The Netherlands	Europe	2013	31-Jul	Y
Access Bank Plc	04-Jun-09	Nigeria	Africa	2013	31-Jul	Y
Ahli United Bank	01-May-11	Kingdom of Bahrain	Middle East	2013	31-Jul	Y
ANZ	15-Dec-06	Australia	Oceania	To 30 Sept 2013	30-Apr	Y
Arab African International Bank	25-Jan-09	Egypt	Africa	To 30 Sept 2013	30-Apr	Y
ASN Bank NV	25-Nov-09	The Netherlands	Europe	2013	31-Jul	Y
Banco Bilbao Vizcaya Argentaria	18-May-04	Spain	Europe	2013	30-Apr	Y
Banco Bradesco	08-Sep-04	Brazil	Latin America	2013	31-Jul	Y
Banco de Crédito	22-Jan-13	Peru	Latin America	2013	31-Jul	Y
Banco de Galicia y Buenos Aires	19-Mar-07	Argentina	Latin America	2013	31-Jul	Y
Banco de la República Oriental del Uruguay	03-Jan-08	Uruguay	Latin America	2013	31-Jul	Y
Banco do Brasil	06-Jul-06	Brazil	Latin America	2013	31-Jul	Y
Banco Espírito Santo	16-Aug-05	Portugal	Europe	2013	31-Jul	Y
Banco Mercantil del Norte	12-Mar-12	Mexico	North America	2013	31-Jul	Y
Banco PINE	07-Dec-12	Brazil	Latin America	2013	31-Jul	Y
Banco Popular Español	20-May-13	Spain	Europe	2013	31-Jul	Y
Banco Sabadell	29-Sep-11	Spain	Europe	2013	30-Apr	Y

Banco Santander	30-Apr-09	Spain	Europe	2013	31-Jul	Y
Bancolombia	11-Dec-08	Colombia	Latin America	2013	31-Jul	Y
Bank Muscat	18-Aug-07	Sultanate of Oman	Middle East	2013	31-Jul	Y
Bank of America Corporation	28-Jul-06	US	North America	2013	31-Jul	Y
Bank of Montreal	15-Sep-05	Canada	North America	To 31 Oct 2013	30-Apr	Y
Bank of Nova Scotia	25-Sep-06	Canada	North America	To 31 Oct 2013	30-Apr	Y
Bank of Tokyo-Mitsubishi UFJ	22-Dec-05	Japan	Asia	To 31 Mar 2014	31-Oct	Y
Barclays	04-Jun-03	UK	Europe	2013	31-Jul	Y
BMCE Bank	10-May-10	Morocco	Africa	2013	31-Jul	Y
BNP Paribas	24-Oct-08	France	Europe	2013	31-Jul	Y
CAIXA Economica Federal	18-Nov-09	Brazil	Latin America	2013	31-Jul	Y
CaixaBank	19-Mar-07	Spain	Europe	2013	31-Jul	Y
Canadian Imperial Bank of Commerce	03-Dec-03	Canada	North America	To 31 Oct 2013	30-Apr	Y
CIBanco	07-Mar-12	Mexico	North America	2013	31-Jul	Y
CIFI	06-Apr-07	Costa Rica	Latin America	2013	31-Jul	Y
Citigroup	04-Jun-03	US	North America	2013	31-Jul	Y
Commonwealth Bank of Australia	26-May-14	Australia	Oceania	First Year Grace	TBC	Y
CORPBANCA	29-Jul-07	Chile	Latin America	To 30 Jun 2014	31-Jul	Y
Credit Suisse Group	04-Jun-03	Switzerland	Europe	2013	31-Jul	Y
Crédit Agricole Corporate and Investment Bank	04-Jun-03	France	Europe	2013	31-Jul	Y
DekaBank	01-Mar-11	Germany	Europe	2013	31-Jul	Y
DNB	29-May-08	Norway	Europe	2013	31-Jul	Y

DZ Bank	01-Jan-13	Germany	Europe	2013	31-Jul	Y
Ecobank Transnational Incorporated	01-Jan-12	Togo	Africa	2013	31-Jul	Y
Efic	03-Mar-09	Australia	Oceania	To 30 Jun 2014	31-Jan	Y
Eksport Kredit Fonden	14-May-04	Denmark	Europe	2013	30-Apr	Y
Eksportkreditt Norway	27-Jun-14	Norway	Europe	First Year Grace	TBC	Y
Ex-Im Bank	31-Mar-11	US	North America	To 30 Apr 2014	31-Oct	Y
Export Development Canada	25-Oct-07	Canada	North America	2013	31-Jul	Y
Fidelity Bank	01-Nov-12	Nigeria	Africa	2013	31-Jul	Y
FirstRand	13-Jul-09	South Africa	Africa	To 30 June 2014	31-Jan	Y
FMO	19-Oct-05	The Netherlands	Europe	2013	31-Jul	Y
HSBC	04-Sep-03	UK	Europe	2013	31-Jul	Y
IDFC	03-Jun-13	India	Asia	To 31 Mar 2014	31-Oct	Y
Industrial Bank	31-Oct-08	China	Asia	2013	31-Jul	Y
ING Bank	23-Jun-03	The Netherlands	Europe	2013	31-Jul	Y
Intesa Sanpaolo	04-Aug-06	Italy	Europe	2013	31-Jul	Y
Itaú Unibanco	12-Aug-04	Brazil	Latin America	2013	31-Jul	Y
JPMorgan	04-Dec-06	US	North America	2013	31-Jul	Y
KBC Group	27-Jan-04	Belgium	Europe	2013	31-Jul	Y
KfW IPEX-Bank	03-Mar-08	Germany	Europe	2013	31-Jul	Y
Lloyds Banking Group	31-Jan-08	UK	Europe	2013	31-Jul	Y
Manulife Financial	11-May-05	Canada	North America	2013	31-Jul	Y

Mizuho Bank	27-Oct-03	Japan	Asia	To 31 Mar 2014	31-Oct	Y
National Australia Bank	25-Oct-07	Australia	Oceania	To 30 Sept 2013	31-Jan	Y
Natixis	30-Dec-10	France	Europe	2013	31-Jul	Y
Nedbank	10-Nov-05	South Africa	Africa	2013	31-Jul	Y
NIBC Bank	09-Nov-10	The Netherlands	Europe	2013	31-Jul	Y
Nordea Bank	21-Feb-07	Sweden	Europe	2013	30-Apr	Y
Rabobank Group	04-Jun-03	The Netherlands	Europe	2013	31-Jul	Y
Royal Bank of Canada	21-Jul-03	Canada	North America	2013	30-Apr	Y
Royal Bank of Scotland	04-Jun-03	Scotland	Europe	2013	31-Jul	Y
Skandinaviska Enskilda Banken	03-Apr-07	Sweden	Europe	2013	31-Jul	Y
Société Générale	03-Sep-07	France	Europe	2013	31-Jul	Y
Standard Bank	02-Feb-09	South Africa	Africa	2013	31-Jul	Y
Standard Chartered	08-Oct-03	UK	Europe	2013	31-Jul	Y
Sumitomo Mitsui Banking Corporation	03-Sep-07	Japan	Asia	2013	31-Jul	Y
TD Bank Financial Group	12-Apr-07	Canada	North America	To 31 Oct 2013	30-Apr	Y
UK Green Investment Bank	02-Dec-13	UK	Europe	To 31 Mar 2014	31-Oct	Y
UniCredit Bank	04-Jun-03	Germany	Europe	2013	31-Jul	Y
Wells Fargo Bank	12-Jul-05	US	North America	2013	31-Jul	Y
Westpac Banking Corporation	04-Jun-03	Australia	Oceania	To 30 Sept 2014	30-Apr	Y

Source: Equator Principles (2014)

ANNEX 5: COBANK's Code of Ethics

CoBank, ACB
Code of Ethics for CoBank Chief Executive Officer, President, Chief Operating Officer, Chief Financial Officer, Chief Credit Officer, Chief Risk Officer and Other Senior Financial Professionals

This Code of Ethics applies to the Chief Executive Officer, President, Chief Operating Officer, Chief Financial Officer, Chief Credit Officer, Chief Risk Officer, and all other senior financial professionals. CoBank and its directors, officers and employees will conduct business in accordance with the highest ethical standards as set forth in the Director Standards of Conduct Policy and the Associate Responsibilities and Conduct Policy, relating to ethical conduct, conflicts of interest, and compliance with the law.

It is the obligation of every senior financial professional to know and comply with this Code of Ethics, which supplements CoBank's Associate Responsibilities and Conduct Policy. CoBank is responsible for the preparation and distribution of its financial statements and related disclosures and for providing relevant information that is true, accurate and complete to the Federal Farm Credit Banks Funding Corporation for use in preparing the Farm Credit System financial statements and related disclosures. CoBank expects all of its employees to act in accordance with the highest standards of personal and professional integrity in all aspects of their activities, to comply with all applicable laws, rules and regulations, to deter wrongdoing and abide by its Associate Responsibilities and Conduct Policy and other policies and procedures approved by the Board of Directors and employed by CoBank that govern the conduct of its employees.

You agree to:

a. Engage in and promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships.

b. Avoid conflicts of interest and disclose to the Ethics, Compliance and Standards of Conduct Officer or the Confidential Complaint Hotline any material transaction or relationship that reasonably could be expected to give rise to a conflict.

c. Take all reasonable measures to protect the confidentiality of non-public information about CoBank and its customers obtained or created in connection with its activities and to prevent the unauthorized disclosure of this information unless required by applicable law or regulation or legal or regulatory process.

d. Produce full, fair, accurate, timely and understandable disclosure in CoBank's and the District's financial statements and related financial reports or communications, as well as CoBank's and the District's reports and documents filed with, or submitted to, the Funding Corporation and the Farm Credit Administration.

- 1 -

e. Comply with applicable laws, rules and regulations, as well as the terms and conditions of self-regulatory agreements to which CoBank is a party.

f. Promptly report any possible violation of this Code of Ethics to the Ethics, Compliance and Standards of Conduct Officer or the Confidential Complaint Hotline and, if potentially material to the System financial statements, to the Funding Corporation General Counsel or Chief Executive Officer or System Audit Committee.

g. Promptly report any actual violation of this Code of Ethics to the Funding Corporation General Counsel or Chief Executive Officer or System Audit Committee, and the corrective action plan with respect to the actual violation.

You are prohibited from directly or indirectly taking any action to fraudulently influence, coerce, manipulate or mislead CoBank's independent public accountant for the purpose of rendering the financial statements of CoBank misleading.

You understand that you will be held accountable for adherence to this Code of Ethics. Your failure to observe the terms of this Code of Ethics may result in disciplinary action, up to and including termination of employment. Violations of the Code of Ethics may also constitute violations of law and may result in civil and criminal penalties for you, your supervisors or CoBank.

If you have any questions regarding the best course of action in a particular situation, CoBank's Ethics, Compliance and Standards of Conduct Officer, Andrew Jacob should be promptly contacted by phone (303)793-2196 or email at ajacob@cobank.com. If you would prefer to remain anonymous in reporting any possible violation of this Code of Ethics you can use the Whistleblower Hotline toll free at 1-888-525-5391 or complete a web report at www.reportlineweb.com/cobank.

Source: CoBank (2013)

ANNEX 6: World's Safest Banks List in 2014

The Magazine > November 2014 > WORLD'S SAFEST BANKS 2014

WORLD'S SAFEST BANKS 2014

Standard Bearers

NOVEMBER 13, 2014 | Author: ANDREW CUNNINGHAM

WORLD'S SAFEST BANKS 2014 | TOP 50

Rank	Bank	Fitch	Moody's	S&P	Total Score	Assets $mn	Statement Date	Country
1	KfW	AAA	Aaa	AAA	30	640,953	12/31/13	Germany
2	Zürcher Kantonalbank	AAA	Aaa	AAA	30	167,927	12/31/13	Switzerland
3	Landwirtschaftliche Rentenbank	AAA	Aaa	AAA	30	112,995	12/31/13	Germany
4	L-Bank	AAA	Aaa	AAA	30	96,733	12/31/13	Germany
5	Bank Nederlandse Gemeenten	AAA	Aaa	AA+	29	180,917	12/31/13	Netherlands
6	Nederlandse Waterschapsbank**	N/R	Aaa	AA+	27.5	100,500	12/31/13	Netherlands
7	NRW.BANK	AAA	Aa1	AA-	26	197,425	12/31/13	Germany
8	Caisse des Dépôts et Consignations	AA+	Aa1	AA	26	197,337	12/31/13	France

9	Banque et Caisse d'Epargne de l'Etat	N/R	Aa1	AA+	26	56,102	12/31/13	Luxembourg
10	Société de Financement Local (SFIL)	AA	Aa2	AA	24	115,195	12/31/13	France
11	TD Bank Group	AA-	Aa1	AA-	23	824,916	10/31/13	Canada
12	DBS Bank	AA-	Aa1	AA-	23	317,729	12/31/13	Singapore
13	Oversea-Chinese Banking Corp	AA-	Aa1	AA-	23	267,485	12/31/13	Singapore
14	United Overseas Bank	AA-	Aa1	AA-	23	224,634	12/31/13	Singapore
15	Rabobank	AA-	Aa2	AA-	22	929,719	12/31/13	Netherlands
16	Royal Bank of Canada	AA	Aa3	AA-	22	823,278	10/31/13	Canada
17	National Australia Bank	AA-	Aa2	AA-	22	752,585	9/30/13	Australia
18	Commonwealth Bank of Australia	AA-	Aa2	AA-	22	698,745	6/30/13	Australia
19	ANZ Group	AA-	Aa2	AA-	22	654,432	9/30/13	Australia
20	Westpac	AA-	Aa2	AA-	22	648,485	9/30/13	Australia
21	Nordea	AA-	Aa3	AA-	21	869,444	12/31/13	Sweden
22	Bank of Nova Scotia	AA-	Aa2	A+	21	711,350	10/31/13	Canada

23	Svenska Handelsbanken	AA-	Aa3	AA-	21	387,591	12/31/13	Sweden
24	Hang Seng Bank	A+	Aa2	AA-	21	147,511	12/31/13	Hong Kong
25	National Bank of Abu Dhabi	AA-	Aa3	AA-	21	88,512	12/31/13	UAE
26	Caisse centrale Desjardins	AA-	Aa2	A+	21	32,691	12/31/13	Canada
27	HSBC	AA-	Aa3	A+	20	2,671,318	12/31/13	United Kingdom
28	Sparkassen-Finanzgruppe (Sparkasse)	A+	Aa2	N/R	20	1,455,045	12/31/12	Germany
29	China Development Bank	A+	Aa3	AA-	20	1,341,642	12/31/13	China
30	Bank of Montreal	AA-	Aa3	A+	20	513,867	10/31/13	Canada
31	CIBC	AA-	Aa3	A+	20	381,015	10/31/13	Canada
32	Agricultural Development Bank of China	A+	Aa3	AA-	20	364,583	12/31/12	China
33	Export-Import Bank of China	A+	Aa3	AA-	20	308,873	12/31/13	China
34	HSBC France	AA-	A1	AA-	20	288,089	12/31/13	France
35	Korea Finance Corporation	AA-	Aa3	A+	20	245,217	12/31/13	South Korea

36	Industrial Bank of Korea	AA-	Aa3	A+	20	201,424	12/31/13	South Korea
37	Korea Development Bank	AA-	Aa3	A+	20	158,921	12/31/13	South Korea
38	Pohjola Bank	A+	Aa3	AA-	20	139,265	12/31/13	Finland
39	CoBank	AA-	N/R	AA-	20	97,644	12/31/13	United States
40	AgriBank	AA-	N/R	AA-	20	87,726	12/31/13	United States
41	National Bank of Kuwait	AA-	Aa3	A+	20	65,958	12/31/13	Kuwait
42	Export-Import Bank of Korea (KEXIM)	AA-	Aa3	A+	20	58,181	12/31/13	South Korea
43	BancoEstado	A+	Aa3	AA-	20	48,802	12/31/13	Chile
44	Banque Cantonale Vaudoise*	N/R	A1	AA	20	45,349	12/31/13	Switzerland
45	AgFirst	AA-	N/R	AA-	20	28,844	12/31/13	United States
46	DZ Bank	A+	A1	AA-	19	533,689	12/31/13	Germany
47	BNY Mellon	AA-	A1	A+	19	374,310	12/31/13	United States
48	U.S. Bancorp	AA-	A1	A+	19	364,021	12/31/13	United States
49	Qatar National Bank	A+	Aa3	A+	19	121,837	12/31/13	Qatar
50	Samba Financial Group	A+	Aa3	A+	19	54,676	12/31/13	Saudi Arabia

- **Source for ratings: Fitch Ratings, Standard & Poor's, Moody's Investors Service.**
- **Source for Reporting Assets: Fitch Solutions, except for * Moody's Investors Service, and ** bank's financial reports.**
- **Ratings current as of August 14, 2014**

Source: Global Finance Magazine (2014)