



Basel II Pillar 3 Annual Disclosure

Update as at 31 December 2008

Rabobank Australia Limited

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Rabobank Australia Limited (the Bank) is an Authorised Deposit-taking Institution (ADI) subject to regulation by the Australian Prudential Regulation Authority (APRA) under the authority of the Banking Act 1959.

In accordance with the Australian Prudential Standard 330 (APS 330), financial institutions are required to disclose prudential information on a semi-annual basis. This disclosure aligns with the Rabobank financial year end reporting period. A subset of this information is disclosed quarterly.

The tables in this disclosure adopt the numbering applied in APS 330 to facilitate comparisons between other financial institutions under the standardised approach.

Background

The Basel II Capital Accord principles took effect in Australia from 1 January 2008. The framework comprises of three pillars:

- Pillar 1: Minimum capital requirements
- Pillar 2: Supervisory review process
- Pillar 3: Market discipline

The Bank commenced reporting its regulatory disclosures to APRA under the requirements of Pillar 1 from 1 January 2008 using the standardised approach. The Bank also implemented the Pillar 2 requirements including documentation of its Internal Capital Adequacy Assessment Process (ICAAP) with the latest version approved by the local Board in November 2008.

Although not a requirement under APS 330, the Bank elected to have the Annual Pillar 3 disclosure reviewed by the bank’s

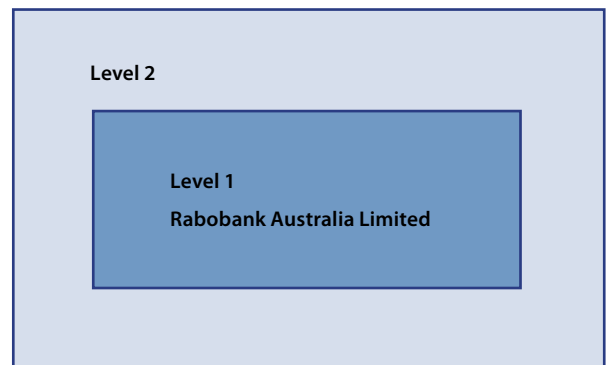
external auditor Ernst & Young. The Bank believes this compliments best practice risk management protocols.

The Chief Executive Officer attests that the disclosure meets the requirements of APS310 Audit and Related Arrangements for Prudential Reporting.

Scope of application

The Bank establishes level 1 for regulatory (APRA) reporting purposes. The Bank is a solo entity, therefore does not have any subsidiaries, level 2 entities.

- Level 1 – Standalone basis (“Solo”)
- Level 2 – The consolidation of the Bank and all its subsidiary entities other than non-consolidated subsidiaries (“Consolidated”)



Context

The Rabobank Group (Group) gained accreditation from the De Nederlandsche Bank (DNB), Group’s Home Regulator, to use the Advanced Internal Ratings Based Approach (AIRB) for credit risk and the Advance Measurement Approach (AMA) for operational risk from 1 January 2008. Some subsidiaries

currently remain on standardised approach for credit risk within the Rabobank Group, namely Rabobank America and ACCBank in Ireland.

The Bank gained accreditation for AMA from the DNB from 1 January 2008. The Rabobank Group gained DNB accreditation to use the AIRB for credit risk from 31 December 2008 for the bank's Rural portfolio. The Rural lending portfolio is a significant majority of the Bank's lending by exposure.

The Bank currently remains on the standardised approach for Credit, Market and Operational risk for APRA regulatory reporting.

Frequency

The Capital Structure information is reported semi-annually. The Capital Adequacy and Credit Risk information is available on a quarterly basis.

Enquires

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Table 15: Capital structure

The amount of Tier 1 capital, with separate disclosure of:	\$AUD mln
Paid-up ordinary share capital	198.2
General reserves	2.5
Retained earnings	595.0
Current year earnings	113.6
Deductions from Tier 1 capital, including Goodwill and Investments	(19.7)
Net Tier 1 capital	889.6
The total amount of Tier 2 capital (Net of deductions)	280.0
Total capital base	1,169.6

Table 16: Capital adequacy (Risk weighted equivalent)

Subject to standardised approach	\$ AUD mln
Corporate	8,840.2
Government	-
Bank	19.0
Residential mortgage	926.2
Other retail	-
Other	-
Total capital requirement subject to standardised approach	9,785.4
Credit risk capital requirement relating to securitisation exposures	-
Market risk minimum capital requirement	0.1
Operational risk minimum capital requirement	602.2
Total RWA and capital requirement	10,387.7
Capital ratios (%)	
Total capital ratio	11.26%
Tier 1 capital ratio	8.56%

The Bank's capital base was strengthened during the December quarter with a \$ AUD150 mln Tier 2 subordinated debt issue. The Tier 2 capital injection increased the Bank's total capital ratio to 11.26%, an increase of 1.29% from the September quarter of 9.97%.

Strong lending in the December quarter saw higher risk weighted assets for corporate, an increase of approximately 5%.

Table 17: Credit risk

Exposure type	Gross credit exposure \$ AUD mln	Average gross credit exposure \$ AUD mln
Cash and liquid assets	606.2	320.7
Trading securities	-	-
Investment securities	-	-
Due from other financial institutions	1,925.8	1,599.2
Loans and advances	10,382.5	10,160.9
Acceptances	-	-
Derivatives	23.5	31.4
Contingent liabilities, commitments, and other off-balance sheet exposures	96.2	93.4
Other assets	-	-
Total exposures	13,034.2	12,205.6

Portfolios subject to standardised approach	Gross credit exposure \$ AUD mln	Average gross credit exposure \$ AUD mln
Corporate	9,169.3	8,805.8
Government	606.2	320.7
Bank	1,936.6	1,617.1
Residential mortgage	1,321.6	1,461.8
Other retail	-	-
Other	0.5	0.2
Total exposures	13,034.2	12,205.6

The growth in gross credit exposure during the December quarter was primarily driven by increased lending activities to Corporate, Bank and Government, an increase of approximately 9.1%, 50% and 1,727% respectively from the September quarter. The Bank and Government lending activity is reflected in the 'Due from other financial institutions' and 'Cash and liquid assets' exposure types. The Bank in response to APRA's requirements for liquid assets, has increased exposure to the Reserve Bank of Australia in the form of cash balances and term deposits.

The Bank's credit risk mitigation techniques, in particular netting agreement allows for the significant differences between the risk weighted equivalent value and the gross credit exposure by type and portfolio. This is particularly evident for Bank lending activity.

Table 18: Credit risk (continued)

Portfolios subject to standardised approach	Impaired loans \$ AUD mln	Past due loans ≥ 90 days \$ AUD mln	Specific provision balance \$ AUD mln	Charges for specific provision \$ AUD mln	Write-offs \$ AUD mln
Corporate	121.1	322.7	65.3	1.9	0.4
Government	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgage	-	20.2	-	-	-
Other retail	-	-	-	-	-
Other	-	-	-	-	-
Total	121.1	342.9	65.3	1.9	0.4

	Balance \$ AUD mln
General reserve for credit losses	50.0

Historically the Bank's level of loan impairments and write offs have been quite low. The Bank in the December quarter undertook a review of customer files. This aligns with the Bank's strong conservative risk management practices. Past due loans remain static at 2.6% of total exposures compared to the September quarter. Impaired loans also remained relatively static at 1% of total exposures compared to 1.1% for the September quarter.

