



Basel II Pillar 3 Annual disclosure

Update as at 31 December 2009

Rabobank Australia Limited

ABN 50 001 621 129 AFSL 234 700

Contact:

Catherine Dawson – Head of Regulatory Affairs

Email: Catherine.Dawson@rabobank.com

David Mu – Head of Tax and Regulatory Reporting

Email: David.Mu@rabobank.com

www.rabobank.com.au

Rabobank Australia Limited (“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 Australian Prudential Standard 330 (“APS 330”), financial institutions are required to disclose prudential information on a semi-annual basis. This disclosure aligns with 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.

The Chief Executive Officer attests that the disclosure meets the requirements of APS 310 Audit and Related Arrangements

for Prudential Reporting. Disclosure controls and procedures have been designed and implemented to effectively manage prudential reporting risk

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.

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 Advanced Measurement Approach (“AMA”) for operational risk from 1 January 2008.

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 31st 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. The Bank is not required to have its Prudential Disclosure audited by an external auditor. However, the disclosure have been prepared with information otherwise published or supplied to APRA that has been subject to review by an external auditor.

Frequency

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

Table 15: Capital structure

The amount of Tier 1 capital, with separate disclosure of:	AUD mln
Paid-up ordinary shares	198.2
General reserves	2.3
Retained earnings	686.1
Current year earnings	95.4
Deductions from Tier 1 capital, including Goodwill and Investments	(28.4)
Net Tier 1 capital	953.7
The total amount of Tier 2 capital (Net of Deductions)	302.5
Total Capital Base	1,256.2

The Bank has a range of capital instruments and mechanisms that it uses to manage its Tier 1 and Tier 2 Capital. Tier 1 capital comprises the highest quality capital which includes paid up ordinary shares, audited retained earnings, reserves and other approved capital resources.

The Total Capital Base for the financial year ended 31 December 2009 was AUD 1,256.2 mln (31 December 2008: AUD 1,169.6 mln), an increase of 7.4% over prior year due to current year earnings.

Table 16: Capital adequacy (Risk weighted equivalent)

Subject to standardised approach	AUD mln
Corporate	9,284.8
Government	-
Bank	7.9
Residential mortgage	571.4
Other retail	-
Other	-
Total capital requirement subject to standardised approach	9,864.1
Credit risk capital requirement relating to securitisation exposures	-
Market risk minimum capital requirement	1.4
Operational risk minimum capital requirement	652.3
Total Risk-Weighted Assets and capital requirement	10,517.8
Capital ratios (%)	
Total capital ratio	11.94%
Tier 1 capital ratio	9.07%

The Bank continued to maintain a strong capital position. Total capital ratio as at 31 December 2009 was 11.94% (31 December 2008: 11.26%). Strong lending saw higher risk weighted assets over the year for Corporate reflecting a continuing focus on growing lending to the rural sector.

Table 17: Credit risk

Exposure type	Gross credit exposure AUD mln	Average gross credit exposure AUD mln
Cash and liquid assets	67.4	34.7
Trading securities	-	-
Investment securities	633.5	607.1
Due from other financial institutions	1,784.5	1,284.9
Loans and advances	10,610.1	10,654.0
Acceptances	-	-
Derivatives	14.8	23.6
Contingent liabilities, commitments, and other off-balance sheet exposures	98.3	96.9
Other assets	-	-
Total exposures	13,208.6	12,701.2

Portfolios subject to standardised approach	Gross credit exposure AUD mln	Average gross credit exposure AUD mln
Corporate	9,242.8	9,300.4
Government	700.9	641.8
Bank	1,794.6	1,302.7
Residential mortgage	1,470.3	1,456.2
Other retail	-	-
Other	0	0.1
Total exposures	13,208.6	12,701.2

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 in the lending activities to other banks.

Table 17: 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	186.4	268.2	94.5	16.5	-
Government	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgage	-	27.1	-	-	-
Other retail	-	-	-	-	-
Other	-	-	-	-	-
Total	186.4	295.4	94.5	16.5	-

	Balance AUD mln
General Reserve for Credit Losses	72.5

General Reserve for Credit Losses ("GRCL") is amount set aside in respect of losses on loans and advances in accordance with the requirement of APRA Prudential Standard APS 220, in addition to impairment losses recognised under AASB 139. The GRCL increased by AUD 22 mln to AUD 72 mln (31 December 2008: AUD 50 mln) . This is mainly due to increases in the loan portfolio but also other factors determined by credit to have an influence on future losses in the loan book.

