Pillar 3 – Capital Adequacy and Risk Disclosures

Quarterly Update as at 30 September 2019

Introduction

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. A subset of this information is disclosed quarterly.

Verification of the Disclosure

This Pillar 3 Disclosure ("the Disclosure") document is unaudited. However, it has been verified in accordance with the Board approved Prudential Disclosure policy.

Scope of Application

The Bank is a Level 1 entity 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 Bank currently remains on the Standardised Approach for Credit, Market and Operational risk for APRA regulatory reporting.

Nature of Business

The Bank continues to focus on the provision of flexible, competitively priced, secured loans to the rural sector in Australia. The Bank continues to provide internet banking services to retail clients through its RaboDirect division.

There were no significant changes in the state of affairs of the Bank during the financial year.

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Attachment C

Table 3: Capital Adequacy (Risk Weighted Equivalent)		
Credit Risk Subject to Standardised approach	30 September 2019 AUD mln	30 June 2019 AUD mln
Corporate*	17,244.0	17,247.1
Government	–	–
Bank	86.6	85.2
Residential mortgage	46.5	43.0
Other retail	–	–
Other	27.9	27.9
Total capital requirement subject to standardised approach	**17,405.0**	**17,403.2**
Credit risk capital requirement relating to securitisation exposures	–	–
Market risk minimum capital requirement	**0.1**	**0.5**
Operational risk minimum capital requirement	**1,155.8**	**1,155.8**
Total RWA and capital requirement	**18,560.9**	**18,559.5**
Capital ratios (%)		
Common Equity Tier 1 capital Ratio	13.26%	13.02%
Tier 1 Capital Ratio	13.26%	13.02%
Total Capital Ratio	14.12%	13.88%

** Note: Corporate includes corporate and private sector counterparties.*

Attachment C

Table 4: Credit risk

Exposure Type	30 September 2019 Gross credit exposure AUD mln	30 September 2019 Average gross credit exposure AUD mln	30 June 2019 Gross credit exposure AUD mln	30 June 2019 Average gross credit exposure AUD mln
Cash and liquid assets	251.1	242.6	234.1	271.6
Trading securities	–	–	–	–
Investment securities	1,682.2	1,626.3	1,570.3	1,603.9
Due from other financial institutions	599.8	598.2	596.5	593.9
Loans and advances	16,881.6	16,908.4	16,935.1	16,198.6
Acceptances	–	–	–	–
Derivatives*	55.3	55.2	55.0	52.5
Contingent liabilities, commitments, and other off-balance sheet exposures*	336.8	331.2	325.5	321.5
Other assets	27.9	27.9	27.9	26.0
Total exposures	**19,834.7**	**19,789.8**	**19,744.4**	**19,068.0**

Portfolios subject to standardised approach	Gross credit exposure AUD mln	Average gross credit exposure AUD mln	Gross credit exposure AUD mln	Average gross credit exposure AUD mln
Corporate**	17,147.3	17,166.9	17,186.2	16,439.7
Government	1,358.7	1,304.3	1,249.8	1,284.7
Bank	1,195.3	1,183.6	1,171.9	1,206.9
Residential Mortgage	105.5	107.1	108.6	110.7
Other retail	–	–	–	–
Other	27.9	27.9	27.9	26.0
Total exposures	**19,834.7**	**19,789.8**	**19,744.4**	**19,068.1**

* *Note: Derivatives and off-balance sheet exposures represent the credit equivalent amount of the Bank's off-balance sheet exposures calculated in accordance with APS112.*

** *Note: Corporate includes corporate and private sector counterparties*

Attachment C

Table 4: Credit risk (continued)

Portfolios subject to Standardised approach as at 30 September 2019	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*	129.6	218.6	63.9	3.5	2.3
Government	–	–	–	–	–
Bank	–	–	–	–	–
Residential Mortgage	–	–	–	–	–
Other retail	–	–	–	–	–
Other	–	–	–	–	–
Total	**129.6**	**218.6**	**63.9**	**3.5**	**2.3**

Portfolios subject to Standardised approach as at 30 June 2019	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*	101.2	133.4	62.8	-1.7	–
Government	–	–	–	–	–
Bank	–	–	–	–	–
Residential Mortgage	–	–	–	–	–
Other retail	–	–	–	–	–
Other	–	–	–	–	–
Total	**101.2**	**133.4**	**62.8**	**-1.7**	**–**

Balance	30 September 2019 AUD mln	30 June 2019 AUD mln
General reserve for credit losses	**90.8**	**90.8**

** Note: Corporate includes corporate and private sector counterparties.*

*** Note: Past due loans>= 90 days includes impaired loans.*

Attachment C

Table 5: Securitisation Exposures

No securitisation or resecuritisation activity was undertaken during the September 2019 or June 2019 quarters.

	30 September 2019		30 June 2019	
Securitisation Exposure – Underlying asset type	**Total Exposures Securitised** AUD mln	**Recognised Gain or (Loss) on sale** AUD mln	**Total Exposures Securitised** AUD mln	**Recognised Gain or (Loss) on sale** AUD mln
Housing Loans	–	–	–	–
Commercial Loans	–	–	–	–
Credit Cards and other Personal Loans	–	–	–	–
Auto and Equipment Finance	–	–	–	–
Other	–	–	–	–
Total	**–**	**–**	**–**	**–**

	30 September 2019			30 June 2019		
Securitisation Exposure – Securitisation facility type	**On-Balance Sheet Securitisation Retained** AUD mln	**On-Balance Sheet Securitisation Purchased** AUD mln	**Off-Balance Sheet Securitisation Exposure** AUD mln	**On-Balance Sheet Securitisation Retained** AUD mln	**On-Balance Sheet Securitisation Purchased** AUD mln	**Off-Balance Sheet Securitisation Exposure** AUD mln
Securities	–	–	–	–	–	–
Liquidity support facilities	–	–	–	–	–	–
Funding facilities	–	–	–	–	–	–
Warehouse facilities	–	–	–	–	–	–
Lending facilities	–	–	–	–	–	–
Other commitments and credit enhancements	–	–	–	–	–	–
Derivative transactions	–	–	–	–	–	–
Underwriting facilities	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total	**–**		**–**	**–**		**–**

Attachment F

The Bank manages its LCR position on a daily basis that is managed according to the Board's risk appetite and includes a buffer above the minimum regulatory requirement.

On 23 July 2019 the Bank was notified by APRA that it was required to restate the LCR for the previous 2 years, treating all intercompany loans as "at-call" regardless of their contractual maturity. As a result, the quarterly average LCR over the quarter ending 30 June 2019 was restated from 129% to 35%. APRA acknowledged that Rabobank was financially sound, with strong liquidity and funding positions in the current stable environment. However APRA noted that to ensure the Bank would be able to withstand a scenario of financial stress, as for all Australian banks, its group funding agreements must be watertight, so they can be relied on when needed. The Bank has addressed and remediated this matter and it was closed on 19 September 2019. Although the quarterly average LCR over the quarter ending 30 September 2019 was 69%, the Bank's LCR was restored to be above 100% from 23 August 2019 onwards.

The Bank maintains a diverse mix of liquid assets consisting of cash with the Reserve Bank of Australia (RBA), Australian Semi-Government and Commonwealth Government securities. This composition has remained relatively stable over the last quarter. The Bank also has access to $300m of liquidity via the Committed Liquidity Facility provided by the RBA, and approved by APRA. The LCR net cash outflow (NCO) represents potential cash outflows from on and off balance sheet activities within a 30 day liquidity stress scenario, after applying APRA prescribed run-off factors to maturing debt and deposits, and inflow factors to assets. As part of its overall liquidity management strategy the Bank manages its balance sheet in a manner that aims to manage NCOs within the Board's risk appetite. The Bank's funding is predominately deposits, through retail branch clients or the Rabobank Online Savings channel. There are very limited foreign currency transactions, or derivatives transactions in the Bank.

APS330 Table 20: Liquidity Coverage Ratio Disclosure					
		30 September 2019		30 June 2019	
	Liquid Assets, of which	**Total unweighted value (average)*** AUD mln	**Total weighted value (average)**** AUD mln	**Total unweighted value (average)*** AUD mln	**Total weighted value (average)**** AUD mln
1	High Quality liquid assets (HQLA)		1,243		1,279
2	Alternative liquid assets (ALA)		300		300
3	Reserve bank of New Zealand (RBNZ) securities		-		-
	Cash Outflows				
4	Retail deposits and deposits from small business customers, of which:	5,520	999	5,487	962
5	Stable deposits	1,280	64	1,281	64
6	Less stable deposits	4,240	935	4,206	898
7	Unsecured wholesale funding, of which:	3,185	2,712	4,270	3,783
8	Operational deposits (all counterparties) and deposits in networks for cooperative banks	-	-	-	-
9	Non-operational deposits (all counterparties)	3,185	2,712	4,270	3,783
10	Unsecured debt	-	-	-	-
11	Secured wholesale funding		-		-
12	Additional requirements, of which:	3,784	244	4,061	269
13	Outflows related to derivatives exposures and other collateral requirements	2	2	6	6
14	Outflows related to loss of funding on debt products	-	-	-	-
15	Credit and liquidity facilities	146	15	87	9
16	Other contractual funding obligations	-	-	-	-
17	Other contingents funding obligations	3,635	227	3,968	254
18	Total cash outflows		3,956		5,013
	Cash Inflows				
19	Secured lending (e.g reverse repos)	7	-	-	-
20	Inflows from fully performing exposures	683	526	650	485
21	Other cash inflows	2	2	4	4
22	Total cash inflows***	692	528	654	489
23	Total liquid assets		1,543		1,579
24	Total net cash outflows		3,428		4,524
25	Liquidity Coverage ratio (%)		69		35
	Number of data points used (Business Days)		66		61

* *Unweighted values are calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows)

**Weighted values is calculated after the application of respective haircuts (for HQLA) or inflow and outflow rates (for inflows and outflows)

***Adjusted values is calculated after the application of both (i) haircuts and inflow and outflow rates and (ii) any applicable caps (i.e cap on HQLA2 and cap on inflows)

12660 / NOV 2019