



**Rabobank**

**Rabobank  
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Mr Chris Dreverman  
Acting Senior Manager  
Diversified Institutions Division  
APRA

*Date* 28 November 2017

*Subject* **Rabobank Australia Limited and Rabobank Australia Branch  
APRA Prudential Review Report - Problem Asset Management**

Dear Chris

Thank you for your letter of 10 November in relation to the Prudential Review by APRA of our Problem Asset Management processes.

We have considered the findings as presented in your letter and now provide you with an update on our proposed actions and timelines for addressing those findings.

### **Credit Risk Appetite**

Action recommended: By 30 March 2018, Rabobank more clearly define its credit risk appetite to address the quality of its new lending. Rabobank should ensure that risk appetite limits have been prudently calibrated, reviewed and challenged.

We are currently in the process of our annual review of our Risk Appetite Statements and related documentation. As part of that review we will consider appropriate measures with respect to new business lending. The updated Risk Appetite Statement will be presented at our next Board meeting in March and we will provide you with a copy.

### **Lessons Learned**

Action recommended: By 30 March 2018, Rabobank will execute on its current plan to enhance its lessons learned process. The plan will clearly outline the actions taken to ensure Rabobank will better ensure that, in future reviews, substantive actions will have been taken to address any weaknesses identified.

Work has commenced to improve the process around lessons learned. This includes; the alignment with recently established Group wide Standard on Lessons Learned, the creation of a common reporting and centralised repository for lessons learned, the systemic sharing and distribution of lessons learned paper, the embedding of actions and findings into processes and policies and the inclusion of lessons learned in training materials across all Risk and Compliance programs. A full report on this will be provided by the end of March 2018.



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## **Valuations**

Action requested: By 30 March 2018, Rabobank provide a copy of its review of valuations.

It is noted "In its response to APRA, Rabobank should clearly outline how this review addresses the issues that were identified in the six lessons learned memos (listed at footnote 2) and how any changes to policy or practices may impact LSR overrides."

Since the occurrence of the incidents in the lessons learned papers, the Bank has established the new (independent) Asset Quality Management team and a new framework around valuations. This team is independent of the first line (recommendation for the provision of credit) and the second line (credit analyst and approvals) personnel. The Head of Internal Appraisals reports directly the Chief Risk Officer.

In particular, we note that there is a new Valuation of Real Estate Policy (refer attached). This prescribes the following:

- that all input in CMS+ related to property valuations and inspections are checked by an independent Internal Appraiser; the Internal Appraisers are being assessed in line with AQM's Quality Assurance framework;
- that only Internal Appraisers can perform Internal Appraisals and adopt the market value in CMS+;
- that only Internal Appraiser are allowed to instruct External Valuers; and
- that the Internal Appraisers critically review external valuation reports.

You will note that all valuations are now conducted independently. Thus the amount of exceptions to LSR are not impacted by any (intended or unintended) bias in our decision making process. We note we consider this to address the concerns from the lessons learned papers and accordingly we consider this matter closed.

However, we are happy to meet with you further on this to discuss in more detail if required.

We trust the above addresses the issues raised in your letter and as noted we will provide you with the relevant updates in March 2018.

Yours sincerely



Mark Cox  
Chief Risk Officer