Rabobank

Coöperatieve Rabobank U.A. – New Zealand Banking Group

Disclosure Statement – 31 December 2017

Contents

General Disclosures

General information and definitions

The information contained in this Disclosure Statement is as required by section 81 of the Reserve Bank of New Zealand Act 1989 and the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) ("Order").

In this Disclosure Statement:

- "Registered Bank" refers to Coöperatieve Rabobank U.A., incorporated in The Netherlands and trading as Rabobank.
- "Banking Group" or "Rabobank New Zealand Banking Group" refers to:
  - (a) the Branch;
  - (b) Rabobank New Zealand Limited ("RNZL"); and
  - (c) Rabo Capital Securities Limited.
- "Overseas Banking Group" means the Registered Bank and all entities included in the Registered Bank's group for the purposes of public reporting of group financial statements in The Netherlands.
- "Branch" refers to the New Zealand business of the Registered Bank.

The financial information is disclosed for the years ended 31 December 2017 and 2016 and has been audited by the external auditors, except for the Credit and Market Risk Exposures and Capital Adequacy Information on pages 23-26 which has been reviewed by the external auditor.

All amounts referred to in this Disclosure Statement are in New Zealand dollars unless otherwise stated.

General matters

Registered Bank

The name and address of the Registered Bank's principal office outside New Zealand is:

Coöperatieve Rabobank U.A.
Croeselaan 18
3521 CB Utrecht
The Netherlands

No subordination of claims of creditors

There are no material legislative or regulatory restrictions in the Netherlands that, in a liquidation of the Registered Bank, subordinate the claims of any class of unsecured creditors of the Branch on the assets of the Registered Bank to those of any other class of unsecured creditors of the Registered Bank.

Requirement to hold excess assets over deposit liabilities

The Registered Bank is not required by any statute to hold in New Zealand an excess of assets over deposit liabilities.

Requirement to maintain sufficient assets to cover ongoing obligation to pay deposit liabilities

The Registered Bank is not subject to any regulatory or legislative requirement in the Netherlands to maintain sufficient assets in the Netherlands to cover an ongoing obligation to pay deposit liabilities in that country. However, the Financial Supervision Act, the EU Capital Requirements Regulation and the EU Capital Requirements Directive requires the Overseas Banking Group to maintain certain liquid assets in order to cover an ongoing obligation to pay liabilities of the Overseas Banking Group. The requirement is based on the consolidated position of the Overseas Banking Group and any liquidity requirements of the Banking Group will form part of the Overseas Banking Group's consolidated position. This requirement has the potential to impact on the management of the liquidity of the Branch.

General Disclosures

General matters (continued)

Directors

There have been the following changes to the Registered Bank's Board of Directors since 31 December 2016. On 1 September 2017 the Registered Bank established, in addition to the existing Executive Board and Supervisory Board, a Managing Board. In connection with the establishment of the Managing Board, the following changes in the Registered Bank's board of directors occurred, all with effect on 1 September 2017:

- Wiebe Draijer was appointed a member and the chairman of the Managing Board
- Bas Brouwers was appointed a member of the Managing Board
- Petra van Hoeken was appointed a member of the Managing Board
- Mariëlle Lichtenberg was appointed a member of the Managing Board
- Christina Konst was appointed a member of the Managing Board and the Executive Board
- Jan van Nieuwenhuizen was appointed a member of the Managing Board
- Berry Marttin was appointed a member of the Managing Board
- Bart Leurs was appointed a member of the Managing Board
- Ieko Sevinga was appointed a member of the Managing Board
- Janine Vos was appointed a member of the Managing Board
- Ralf Dekker resigned as a member of the Executive Board
- Rien Nagel resigned as a member of the Executive Board

Details of the members of the Managing Board, Executive Board and Supervisory Board, at the time this Disclosure Statement was signed, are set out below.

Managing Board

Name:	W Draijer (Wiebe), Chairman	External Directorships:
Occupation(s):	Banker	· Member of the Supervisory Board, Kröller Müller
Qualifications:	Master's in Mechanical Engineering, Delft University of Technology INSEAD Business School plus MBA programme specialising in Finance	· Member of the Board European Association of Cooperative Banks (EACB) · Member of the Supervisory Board, Staatsbosbeheer · Member of the Board, Dutch Banking Association
Country of Residence:	The Netherlands	
Type of director:	Non-Independent Executive Director	
Name:	B.C. Brouwers (Bas), CFO	External Directorships:
Occupation(s):	Banker	· Member of the Supervisory Board of Rabohypotheekbank N.V. · Member of the Board of the Dutch Banking Association
Qualifications:	Master's degree in Business Economics (University of Groningen/University of Glasgow) Degree of certified Auditor (University of Groningen)	
Country of Residence:	The Netherlands	
Type of director:	Non-Independent Executive Director	

General Disclosures

General matters (continued)

Managing Board (continued)

Name: Occupation(s): Qualifications: Country of Residence: Type of director:	B.J. Marttin (Berry) Banker Degree in Master of Business Administration, University of Western Ontario, Canada & Hong Kong The Netherlands Non-Independent Executive Director	External Directorships: · Member of the Board, Rabo Australia Ltd · Member of the Board, Rabobank Australia Ltd · Member of the Board of Directors Rabobank International Holding B.V. · Chairman of the Supervisory Board of Rabohypotheekbank N.V. · Chairman of the Supervisory Board of Obvion N.V. · Member of the North America Board of Directors and member of the North America Board Risk Committee (Utrecht-America-Holding Inc.) · Member of the Supervisory Board of Arise · Member of the Board of Rabobank Foundation · Member of the Supervisory Board of Wageningen University · Member of the IDH Supervisory Board (Initiatief Duurzame Handel / Dutch Sustainable Trade Initiative) · First Vice-President of the Board of Directors, American Chamber of Commerce · Chairman of the Shareholders Council of Rabo Development · Member of the Supervisory Board of IDH (Initiatief Duurzame Handel/Dutch Sustainable Trade Initiative) · Member of the Board of Trustees Hanns R. Neumann Stiftung
Name: Occupation(s): Qualifications: Country of Residence: Type of director:	J.L. van Nieuwenhuizen (Jan) Banker Master's in Business Economics from Université de Fribourg, Switzerland Morgan Finance Programme, New York The Netherlands Non-Independent Executive Director	External Directorships: · Chairman of the Supervisory Board of FGH Bank · Member Advisory Board Euronext · Lid Dagelijks & Algemeen Bestuur VNO/NCW
Name: Occupation(s): Qualifications: Country of Residence: Type of director:	P.C. van Hoeken (Petra) Banker University of Leiden – Civil law The Netherlands Non-Independent Executive Director	External Directorships: · Member of the North America Board of Directors and member of the North America Board Risk Committee (Utrecht-America Holdings, Inc.) · Member of the Supervisory Board and member of the Audit and Risk Committee Nederlandse Waterschapsbank (NWB) · Member of the Advisory Board Amsterdam Institute of Finance · Member of the Board of "Oranje Fonds"
Name: Occupation(s): Qualifications: Country of Residence: Type of director:	M.P.J. Lichtenberg (Mariëlle) Banker Master in European Studies, University of Amsterdam The Netherlands Non-Independent Executive Director	External Directorships: Nil
Name: Occupation(s): Qualifications: Country of Residence: Type of director:	C.M. Konst (Kirsten) Banker Master in Business Economics, Vrije Universiteit Amsterdam The Netherlands Non-Independent Executive Director	External Directorships: · Member Supervisory Board Public Broadcasting association KRO-NCRV, Hilversum · Member Supervisory Board Members association KRO, Hilversum · Administrator House owners association

General Disclosures

General matters (continued)

Managing Board (continued)

Name: B. Leurs (Bart) Occupation(s): Banker Qualifications: Master in Business administration, University of Groningen Country of Residence: The Netherlands Type of director: Non-Independent Executive Director		External Directorships: · Board member Rabo Fintech Ventures
Name: L. Sevinga (Ieko) Occupation(s): Banker Qualifications: Master in Econometrics, Erasmus University Rotterdam Country of Residence: The Netherlands Type of director: Non-Independent Executive Director		External Directorships: · Non-Executive board member De Persgroep · Non-Executive board member MerweOord, holding company of Van Oord · Chairman "Nederlands Olympiade Paard"
Name: J. Vos (Janine) Occupation(s): Banker Qualifications: Master in Dutch Law and Employment Law, University of Utrecht Country of Residence: The Netherlands Type of director: Non-Independent Executive Director		External Directorships: · Member of the Supervisory Board of the Netherlands General Employers' Association (AWVN) · Member of the General Board of VNO-NCW on behalf of AWVN · President of the "Sociale Kring"

Executive Board

Name:	W Draijer (Wiebe), Chairman	·
Name:	B.C. Brouwers (Bas), CFO	
Name:	B.J. Marttin (Berry)	
Name:	P.C. van Hoeken (Petra)	
Name:	C.M. Konst (Kirsten)	
Name:	J.L. van Nieuwenhuizen (Jan)	

Supervisory Board

Name:	Mrs. I.P. Asscher-Vonk (Irene Petronella)	External Directorships:
Occupation(s):	Professional Supervisory Director	
Qualifications:	Degree in Dutch Law and PhD in Dutch law, University of Amsterdam	
Country of Residence:	The Netherlands	· Member Supervisory Board Philip Morris Holland B.V.
Type of director:	Independent Non-Executive Director	

General Disclosures

General matters (continued)

Supervisory Board (continued)

Name:	L.N. Degle (Leo)	External Directorships:
Occupation(s):	Professional Director / Supervisory Director	· Member Supervisory Board Berlage B.V. · Member Supervisory Board Ten Kate B.V.
Qualifications:	Degree in Business Economics from the University of Augsburg, Germany Young Managers Programme, Insead	
Country of Residence:	The Netherlands	
Type of director:	Independent Non-Executive Director	
Name:	S.L.J. Graafsma (Leo)	External Directorships:
Occupation(s):	Accountant	· Nil
Qualifications:	Professionally certified by the Dutch Institute of Registered Accountants	
Country of Residence:	The Netherlands	
Type of director:	Independent Non-Executive Director	
Name:	J. J. Nooitgedagt (Jan)	External Directorships:
Occupation(s):	Professional Director / Supervisory Director	
Qualifications:	Post-doctoral Accountancy	· Vice chairman Supervisory Board Telegraaf Media Group · Vice chairman Supervisory Board BNG Bank · Member Supervisory Board Robeco
Country of Residence:	The Netherlands	
Type of director:	Independent Non-Executive Director	
Name:	P.H.J.M.. Visée (Pascal)	External Directorships:
Occupation(s):	Professional Director/ Independent Consultant	· Member Supervisory Board of Mediq BV · Member Supervisory Board of PLUS Retail BV · Member Supervisory Board of Royal Flora Holland
Qualifications:	Chartered Accountant - Catholic University Brabant Masters Dutch Law - Erasmus University Rotterdam Masters Business Economics - Erasmus University Rotterdam	
Country of Residence:	The Netherlands	
Type of director:	Independent Non-Executive Director	
Name:	Mr. R. Teerlink (Ron), Chairman Supervisory Board	External Directorships:
Occupation(s):	Professional supervisory director Management Consultant	· Member of the Supervisory Board Takeaway.com
Qualifications:	Master's Degree in Business Economics from VU University, Amsterdam	
Country of Residence:	The Netherlands	
Type of director:	Independent Non-Executive Director	

General Disclosures

General matters (continued)

Supervisory Board (continued)

Name: Occupation(s): Qualifications: Country of Residence: Type of director:	P. H. M. Hofsté (Petronella) Supervisory director Certified accountant, member of the Royal Dutch Institute of 'Register-accountants' Postgraduate degree in Accountancy, Free University, Amsterdam, The Netherlands Masters in Accounting & Finance – cum laude Free University, Amsterdam, The Netherlands Bachelors in Business Administration, Nyenrode University, Breukelen, The Netherlands The Netherlands Independent Non-Executive Director	External Directorships: · Member Supervisory Board of Fugro N.V. · Member Supervisory Board Achmea B.V. · Member Supervisory Board Achmea's Pensions and Life Insurance business · Member of the Supervisory Board of Achmea Investment Management · Member of the Supervisory Board of Kasbank N.V.
Name: Occupation(s): Qualifications: Country of Residence: Type of director:	A.A.J. M. Kamp (Arian) Entrepreneur/Farmer Secondary Agricultural School, ROC West-Brabant Post graduate Program for Supervisors, Erasmus School of Accounting & Assurance The Netherlands Independent Non-Executive Director	External Directorships: · Vice-chairman Supervisory Board Koninklijke Coöperatie Agrifirm UA
Name: Occupation(s): Qualifications: Country of Residence: Type of director:	M. Trompetter (Marjan), Vice chair Supervisory Board Professional supervisory director Master's Degree in Business Economics, VU University Amsterdam The Netherlands Independent Non-Executive Director	External Directorships: · Vice-chair Supervisory Board Rijnstate Hospital, Arnhem · Member supervisory boards Salvation Army Welfare & Health Care Foundation and Salvation · Army Youth Care & Rehabilitation Foundation

Address for communications to directors and New Zealand Chief Executive Officer

Chief Executive Officer
Rabobank New Zealand Branch
PO Box 38396
Wellington Mail Centre, Lower Hutt 5045

Level 23
157 Lambton Quay
Wellington 6011
New Zealand

Corporate governance of Registered Bank

The Managing and Executive Boards (comprised of non-independent executive directors) are responsible for the management of the Registered Bank and its affiliated entities and the Supervisory Board (which is comprised of independent non-executive directors) supervises the policy pursued by the Managing and Executive Boards and the general course of affairs of the Registered Bank and its affiliated entities.

General Disclosures

General matters (continued)

Signing of the disclosure statement

This Disclosure Statement is signed under an authority provided by each director of the Registered Bank Managing Board, Executive Board and Supervisory Board by their agent Todd Charteris, who also signs in his capacity as New Zealand Chief Executive Officer.

Todd Charteris is the New Zealand Chief Executive Officer of the Registered Bank and the responsible person authorised in writing by each director of the Registered Bank to sign this Disclosure Statement as each director's agent. Todd Charteris's details are as follows:

Name: Todd Charteris
Occupation(s): Banker
Qualifications: Bachelor of Commerce (Finance), University of Otago
Country of Residence: New Zealand
Type of director: Non-director

External Directorships:

- None

Directors and New Zealand Chief Executive Officer related transactions

In relation to each director and the New Zealand Chief Executive Officer, there are no transactions which the directors or the New Zealand Chief Executive Officer (or any immediate relative or close business associate of them) have with the Registered Bank or any member of the Banking Group which either have been entered into on terms other than those which would, in the ordinary course of business of the Registered Bank or any member of the Banking Group, be given to any other person of like circumstances or means, or which could otherwise be reasonably likely to influence materially the exercise of the directors' or New Zealand Chief Executive Officer's duties.

Audit and Risk Committees

There is an Audit Committee covering audit matters and also a Risk Committee. Each committee comprises members of the Registered Bank's Supervisory Board who are independent directors. The current members of each committee (details of whom are set out above) are:

Audit Committee
S.L.J. Graafsma RA, Chairman
P. H. M. Hofsté
A.A.J. M. Kamp
J. J. Nooitgedagt
M. Trompetter

Risk Committee
J. J. Nooitgedagt, Chairman
L.N. Degle
S.L.J. Graafsma
R. Teerlink
P.H.J.M.. Visée

Conflict of interest policy

Owing to its co-operative structure, the governance of the Registered Bank is determined by three bodies: the General Members Council, the Managing Board and the Supervisory Board.

The Managing Board is responsible for the management of the Registered Bank and its affiliates and members of the Managing Board are appointed by the Supervisory Board. The Supervisory Board is comprised of independent members who are appointed by the General Members Council and it supervises the policies pursued by the Managing Board and the general conduct of the Registered Bank and its affiliates.

Pursuant to the Articles of Association for the Registered Bank, members of the Supervisory Board, the Managing Board and the General Members Council may not be members of more than one of these bodies at the same time.

General Disclosures

General matters (continued)

Conflict of interest policy (continued)

Members of the Supervisory Board and Managing Board may not hold any office with a credit institution within the meaning of the Financial Supervision Act that is not in any way affiliated with the Registered Bank.

The Rules of Procedure for the Supervisory Board contain specific provisions for managing conflicts of interest and members of the Supervisory Board are not permitted to take part in the decision making process on issues or transactions in which they have a conflict of interest.

Auditors

Ashley Wood
PricewaterhouseCoopers
One International Towers, Watermans Quay
BARANGAROO NSW 2000 Australia

Credit ratings

The Registered Bank has credit ratings applicable to its long term senior unsecured obligations payable in any country or currency, including obligations payable in New Zealand, in New Zealand dollars.

There have been changes to the ratings in the two years immediately before 31 December 2017. On 24 November 2016, Moody's changed its rating of the Registered Bank from 'Aa2 (stable)' to 'Aa2 (negative)'. On 17 September 2017 Standard & Poor's revised its rating of the Registered Bank from 'A+ (stable)' to 'A+ (positive)'. In addition, on 27 March 2018 Moody's changed its rating of the Registered Bank from 'Aa2 (negative)' to 'Aa3 (stable)'.

Rating Agency	Current Credit Rating
Standard & Poor's	A+ (positive)
Moody's	Aa3 (stable)
Fitch	AA- (stable)

Descriptions of the credit ratings scales are as follows:

	Standard & Poor's	Moody's	Fitch
Ability to repay principal and interest is extremely strong. This is the highest investment category.	AAA	Aaa	AAA
Very strong ability to repay principal and interest.	AA	Aa	AA
Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions.	A	A	A
Adequate ability to repay principal and interest. More vulnerable to adverse changes.	BBB	Baa	BBB
Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.	BB	Ba	BB
Greater vulnerability and therefore greater likelihood of default.	B	B	B
Likelihood of default now considered high. Timely repayment of principal and interest is dependent on favorable financial conditions.	CCC	Caa	CCC
Highest risk of default.	CC	Ca to C	CC
Obligations currently in default.	D	-	C

General Disclosures

Credit ratings (continued)

Moody's Investors Service apply numeric modifiers 1 (higher end), 2 or 3 (lower end) to ratings from Aa to B to show relative standing within major categories. Credit ratings by Fitch Ratings and Standard & Poor's may be modified by the addition of a plus (higher end) or minus (lower end) sign.

Guarantee arrangements

Material obligations of the Registered Bank that relate to the Branch are guaranteed as at the date its directors and New Zealand Chief Executive Officer signed this Disclosure Statement.

Material cross guarantees

Through the mutual financial association between various legal entities within the Overseas Banking Group, an internal liability relationship exists. This relationship is formalised in an internal 'cross-guarantee' system, which stipulates that if a participating institution has insufficient funds to meet its obligations towards its creditors, the other participants must supplement that institution's funds in order to enable it to fulfil those obligations.

There are no limits on the amount of obligations guaranteed and no material conditions on the guarantees other than insufficiency of funds to meet a participating institution's obligations towards its creditors. Nor are there any material or other legislative or regulatory restrictions in the Netherlands that, in a liquidation of a participating institution, would have the effect of limiting the claims under the cross-guarantee system of any creditors of the Registered Bank on the assets of the participating institution to other claims on the participating institution. Neither a single nor a standard representative cross-guarantee contract exists.

Participating institutions within the Overseas Banking Group are:

- the Registered Bank
- De Lage Landen International B.V.
- De Lage Landen Financiering B.V.
- De Lage Landen Trade Finance B.V.
- De Lage Landen Financial Services B.V.
- Rabo Hypotheekbank N.V.
- Raiffeisenhypotheekbank N.V.

For regulatory and financial reporting purposes, the Registered Bank and the participating subsidiaries, are treated as one consolidated entity.

General Disclosures

Historical summary of financial statements

in millions of NZD	Year ended 31/12/2017	Year ended 31/12/2016	Year ended 31/12/2015	Year ended 31/12/2014	Year ended 31/12/2013
Statement of Comprehensive Income					
Interest income	633.28	665.89	741.16	713.02	662.15
Interest expense	(305.38)	(369.91)	(422.75)	(381.56)	(345.39)
Net interest income	**327.90**	**295.98**	**318.41**	**331.46**	**316.76**
Other income	2.32	1.45	1.18	2.56	1.89
Other expense	(0.83)	(1.07)	(1.72)	(3.57)	-
Other operating gains / (losses)	(31.99)	9.51	(52.15)	(33.14)	24.81
Non-interest income / (expense)	**(30.50)**	**9.89**	**(52.69)**	**(34.15)**	**26.70**
Operating income	**297.40**	**305.87**	**265.72**	**297.31**	**343.46**
Operating expenses	(108.26)	(116.79)	(111.43)	(103.92)	(101.05)
Impairment (losses) / releases	1.34	(16.49)	6.19	19.42	(1.05)
Profit before income tax	**190.48**	**172.59**	**160.48**	**212.81**	**241.36**
Income tax expense	(58.28)	(54.81)	(49.43)	(63.77)	(68.80)
Net profit for the year	**132.20**	**117.78**	**111.05**	**149.04**	**172.56**
Statement of Financial Position					
Total assets	15,271.54	14,306.49	14,484.86	13,547.36	12,191.38
Total impaired assets	293.11	131.40	49.19	239.04	404.40
Total liabilities (excl. Head Office account)	13,542.04	12,708.12	13,004.95	12,179.02	10,998.94
Head Office account	255.88	231.86	203.90	197.27	128.42
The amount of branch profits repatriated	-	-	-	-	100.00
Equity	1,475.62	1,366.51	1,276.01	1,171.07	1,064.02

The amounts disclosed above are obtained from audited annual reports.

Pending proceedings or arbitration

Except as set out below, there are no pending legal proceedings or arbitrations concerning any member of the Banking Group or, if publicly available, the Overseas Banking Group, whether in New Zealand or elsewhere, that may have a material adverse effect on the Registered Bank or the Banking Group.

Banking Group

There are no pending legal proceedings or arbitrations concerning any member of the Banking Group that may have a material adverse effect on the Banking Group

Overseas Banking Group

Interest rate derivatives

The Registered Bank enters into interest rate derivatives with Dutch business customers who wish to reduce interest rate risk. In March 2016, the Dutch Minister of Finance appointed an independent committee which published a recovery framework (the Recovery Framework) on the reassessment of Dutch interest rate derivatives. The Registered Bank has decided to take part in the Recovery Framework. Implementation of the Recovery Framework is expected to be finalised in 2018.

The Registered Bank is involved in civil proceedings in the Netherlands relating to interest rate derivatives concluded with Dutch business customers. The majority of these concern individual cases. In addition, there is a collective action regarding interest rate derivatives. These actions concern allegations relating to alleged misconduct in connection with the Registered Bank’s Euribor submissions (as described below) and/or allegations of misinforming clients with respect to interest rate derivatives. The Registered Bank will defend itself against all these claims. Furthermore, there are pending complaints and proceedings against the Registered Bank regarding interest rate derivatives brought before the Dutch Financial Services Complaints Authority, which has opened a conflict resolution procedure.

General Disclosures

Pending proceedings or arbitration (continued)

With respect to the (re-)assessment of the interest rate derivatives of its Dutch business customers, the Registered Bank has recognised a provision of 450 million euros (2016: 664).

Prospectus liability issues

In 2011, the Dutch Investors Association (VEB) issued proceedings against the company formerly known as Fortis N.V. (currently trading as Ageas N.V.), the underwriters involved – including the Registered Bank – and the former directors of Fortis N.V. The proceedings state that investors were misled by the prospectus published by Ageas N.V. in connection with its rights issue in September 2007 and that the impact and risks of the subprime crisis for Fortis were misrepresented in the prospectus and has requested a declaratory judgement stating that the defendants acted illegitimately and must be held liable for the loss allegedly suffered by investors in Fortis. The Registered Bank maintains that the alleged loss has not been properly substantiated and has been defending itself against the claim.

A settlement process is under way with the Amsterdam Court of Appeal due to consider in March 2018 whether a settlement agreement is binding. If the Court declares the settlement agreement binding, then payments will be made to claimants, with investors who opt out of the settlement still able the claim damages from Ageas and the defendants (including the Registered Bank) on an individual basis. If the Court rules that the settlement agreement is not binding, the proceedings described above in principle will resume.

The Registered Bank considers the Fortis case to be a contingent liability. No provision has been made.

In January the Registered Bank received a letter indicating a potential collective action in relation to certain share offerings of Royal Imtech N.V. in which Rabobank was involved.

London Interbank Offer Rate (Libor)/Euro Interbank Offer Rate (Euribor)

The Registered Bank has been involved for a number of years in several regulatory proceedings in relation to interest rate benchmark-related issues. The Registered Bank is cooperating with those regulators in these investigations.

In 2013, the Registered Bank entered into settlement agreements with various authorities in relation to their investigations into the historical Libor and Euribor submission processes of the Registered Bank. All amounts payable under these settlement agreements were fully paid and accounted for in 2013. Additionally, some of these settlement agreements required the Registered Bank to: (i) improve measures or to continue their implementation; and (ii) cooperate on a continuous basis with ongoing investigations into the conduct of the Registered Bank and of its current and former employees in respect of the inappropriate conduct relating to interest rate benchmark submissions. The Registered Bank continues to comply with all its obligations under these settlement agreements.

The Registered Bank, along with a large number of other panel banks and brokers, has been named as a defendant in a number of putative class action suits and individual civil court cases brought before the United States Courts. These proceedings relate to the US Dollar (USD) Libor, British Pound Sterling Libor, Japanese Yen Libor, Tibor and Euribor. In 2014, an Argentinian consumer protection organisation brought a class action suit against the Registered Bank in Argentina in relation to USD Libor. The Registered Bank has also been summoned to appear before various Dutch, United Kingdom and Irish courts in civil proceedings relating to Euribor and other benchmarks. Furthermore, various individuals and entities (including five Dutch collective claim foundations, two of which have initiated proceedings in the Netherlands) have initiated class action suits and civil proceedings in relation to interest rate benchmarks.

The Registered Bank considers that it has substantive and convincing legal and factual defences against these claims and intends to continue to defend itself against these claims.

As no reliable estimate of potential liability can be made, the Registered Bank considers these cases to be a contingent liability. No provision has been made.

U.S Bank Secrecy Act (BSA)/Anti-money laundering (AML)

Rabobank, National Association (RNA), a retail banking subsidiary of the Registered Bank in California, has been under investigation by the US Department of Justice (DOJ), the US Office of the Comptroller of the Currency (OCC) and the Financial Crimes Enforcement Network (FinCEN). The investigations related to RNA's BSA/AML compliance programme and the manner in which certain former employees communicated with the OCC in 2013. In 2017 RNA engaged in discussions to settle these matters.

General Disclosures

Pending proceedings or arbitration (continued)

On 7 February 2018 it was announced that RNA has entered into agreements with the DOJ and OCC to conclude the investigations. RNA has agreed to pay approximately USD 369.2 million in forfeiture and civil money penalties and fines and to plead guilty to one charge of conspiring to obstruct a regulatory examination. Under the agreement with the DOJ, no further action will be taken against RNA with regard to its BSA/AML compliance programme and related conduct. Given the overlapping nature of the investigations and the RNA's remediation, no additional penalties or measures will be sought by Financial Crimes Enforcement Network of the U.S. Department of the Treasury, which has also concluded its examination.

In February 2017, a criminal complaint was filed with the Dutch Public Prosecutor (DPP) against the Registered Bank, two group entities and the persons in charge of these entities asking for a criminal investigation in relation to the DOJ investigation. Rabobank understands that the DPP has received the complaint and awaits the DPP's response to it. Rabobank has insufficient information to determine if a provision should be recognised for DPP's possible response.

Insurance business

The Banking Group does not conduct any insurance business.

Non-consolidated activities

The Registered Bank does not conduct any insurance business or non-financial activities in New Zealand that are outside the Banking Group (The Registered Bank does not carry on any insurance business or non-financial activities in New Zealand).

Risk management policies

The Registered Bank, in respect of itself and its group members' operations in New Zealand, has an integrated risk management framework driven from governance level down to operational levels, covering all aspects of risk most notably credit, market, and operational risks but also compliance, currency, interest rate and liquidity risks. Credit risk includes concentration of credit risk, intra-day credit risk, credit risk to bank counterparties and related party credit risk. The framework applies to the Banking Group and an approved Risk Management Strategy ("RMS") defining how the Banking Group ensures that it manages risk across the enterprise within the constraints of its overall risk appetite.

The RMS covers:

- The Banking Group's approach to risk management across all material risk categories;
- the policies and procedures dealing with risk management matters;
- key roles and responsibilities of the different functions within the Banking Group to deal with risk;
- the risk management governance and organisational structure implemented in the Banking Group to manage risk across the material risk categories;
- the approach to ensuring all persons within the Banking Group have awareness of the risk management framework and for instilling an appropriate risk culture across the institution; and
- the various tools and systems implemented to effectively manage risks.

The components of the Banking Group's risk management framework include:

- documented and approved delegations of authority;
- standing risk committees with appropriate terms of reference;
- three lines of assurance model;
- reporting including appropriate data and management information systems; and
- setting an appropriate risk appetite.

General Disclosures

Risk management policies (continued)

The Board Risk and Compliance Committee ("BRCC") oversees the implementation, review and monitoring of the Risk Management Strategy ("RMS"), and ensures the ongoing appropriateness of the Banking Group's risk management framework. The BRCC has a separate charter defining its roles and responsibilities.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human or systems errors and unexpected external events. Operational risk is inherent within the Banking Group's activities. The Banking Group has an operational risk framework which is described in the RMS and is in line with the Banking Group's Risk Appetite Statement. The Banking Group uses Key Risk Indicators and Key Control Indicators to measure and monitor operational risk. These are described in the Risk Appetite Statement. The Indicators are measured on a quarterly basis to ensure that the operational risk remains at an acceptable level and in accordance with the Risk Appetite Statement.

The Banking Group does not take any equity risk.

For policies on liquidity, market (currency and interest rate) and credit risks, and explanations of the nature of each such risk and the activities of the Banking Group that give rise to each such risk, refer to note 33 in the financial statements.

Risk management review

The approach to risk management, as described in the RMS, is reviewed on an annual basis. Aspects of the risk management policies, procedures and implementation are reviewed as part of the annual review cycle by the Registered Bank's Internal Audit department.

Internal audit function

The Banking Group has an internal audit function which is part of a regionally based Rabobank Australia and New Zealand Internal Audit department. The Banking Group's New Zealand based internal audit staff have a primary reporting line to the Head of Internal Audit Rabobank Australia and New Zealand (RANZ) and a secondary reporting line to the Rabobank New Zealand CEO. Internal Audit is responsible for providing an independent review of the Banking Group's operations in an efficient manner.

Internal Audit performs audits using a risk based approach. Accordingly, greater emphasis is placed on those areas assessed as involving higher levels of risk.

The annual internal audit plan covering all auditable areas (including in New Zealand) is presented to and approved by the RANZ Board Audit Committee (BAC). The BAC regularly reviews the progress made by Internal Audit in accordance with the RANZ annual internal audit plan and considers the findings arising from the work conducted. The frequency of audits depends on each annual internal audit plan.

The BAC meets at least four times per annum. In addition to its internal audit responsibilities, the BAC oversees compliance with applicable financial reporting requirements and monitors the external audit services being provided by external auditors.

Securitisation, funds management, other fiduciary activities and marketing and distribution of insurance products

The Banking Group has no involvement in the origination of securitised assets, the marketing or servicing of securitisation schemes or the marketing and distribution of insurance products.

Except as set out below, the Banking Group has no involvement in trust, custodial, funds management, or other fiduciary activities established, marketed or sponsored by a member of the Banking Group.

On 14 February 2006, Rabobank New Zealand Limited launched RaboDirect, an online banking and investment service offering access to third party managed funds. RaboDirect distributes managed fund investments to New Zealand residents. Distribution agreements are in place with selected unrelated fund managers and, on the basis of those agreements and with the exception of the Cash Advantage Fund (CAF), RaboDirect is entitled to distribution fees from the fund managers and entry fees from investors.

General Disclosures

Securitisation, funds management, other fiduciary activities and marketing and distribution of insurance products (continued)

AMP Investment Management (NZ) Limited is the CAF's manager. All amounts invested in the CAF are held in an interest-bearing deposit account with the Registered Bank.

The CAF is offered through RaboDirect and other distribution channels and was opened to investments from the public on 27 November 2007.

It has been decided to cease offering managed funds through RaboDirect. This decision includes the CAF and Term Advantage Fund (TAF). For managed funds excluding the CAF and TAF, the Bank expects to complete the process to effect such cessation before 31 March 2018. The CAF will be wound-up on 13 March 2018 with the proceeds returned as cash to unitholders. No further investments were accepted into the TAF from 3 October 2017 and existing investors will have their investments repaid as they mature. Existing RaboDirect managed funds customers (excluding the CAF and TAF) have been offered the option to shift their fund holdings to another distributor of third party managed funds, InvestNow Saving and Investment Services Limited.

Arrangements are in place to ensure that difficulties arising from RaboDirect and the CAF would not impact on the Banking Group. The main arrangements are that no investment advice is provided to clients through RaboDirect, RNZL purchases the managed fund investments and holds them as nominee on behalf of clients and the Banking Group maintains comprehensive internal controls and obtains external professional advice in relation to the CAF.

Over the year ended 31 December 2017 financial services provided by any member of the Banking Group to fund managers whose funds were available through the "RaboDirect" service have been provided on arm's length terms and conditions and at fair value. Over that year no member of the Banking Group purchased any assets from any such fund manager.

Managed fund investments through the "RaboDirect" service amounted to $228 million as at 31 December 2017 ($399 million as at 31 December 2016).

Conditions of registration

There have been changes to the Registered Bank's Conditions of Registration since 30 September 2017.

With effect on and after 1 January 2018, changes were made to the Conditions of Registration. The changes are related to the Reserve Bank's loan-to-valuation ratio (LVR) requirements and allow a 5% flow of investor mortgage lending with LVRs greater than 65%, a 15% flow of non-property investor lending with LVRs above 80% and some additional loans to meet the criteria for the combined collateral exemption.

Below is a copy of the Conditions of Registration that applied at 31 December 2017.

Conditions of registration for Cooperatieve Rabobank U.A. in New Zealand

These conditions of registration apply on and after 1 October 2016.

The registration of Cooperatieve Rabobank U.A. ("the registered bank") in New Zealand is subject to the following conditions:

1. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

   In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.

2. That the Banking Group's insurance business is not greater than 1% of its total consolidated assets.

   For the purposes of this condition of registration, the Banking Group's insurance business is the sum of the following amounts for entities in the Banking Group:

   (a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and

General Disclosures

Conditions of registration (continued)

Conditions of registration for Cooperatieve Rabobank U.A. in New Zealand (continued)

(b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

In determining the total amount of the Banking Group's insurance business-

(a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and

(b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration,-

"insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance:

"insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

3. That the business of the Registered Bank in New Zealand does not constitute a predominant proportion of the total business of the Registered Bank.
4. That no appointment to the position of the New Zealand Chief Executive Officer of the Registered Bank shall be made unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.
5. That Cooperatieve Rabobank U.A. complies with the requirements imposed on it by De Nederlandsche Bank N.V and the European Central Bank.
6. That Cooperatieve Rabobank U.A. complies with the following minimum capital adequacy requirements, as administered by De Nederlandsche Bank N.V. and the European Central Bank:
   (a) common equity tier 1 capital of Cooperatieve Rabobank U.A. is not less than 4.5% of risk weighted exposures; and
   (b) tier one capital of Cooperatieve Rabobank U.A. is not less than 6% of risk weighted exposures; and
   (c) total capital of Cooperatieve Rabobank U.A. is not less than 8% of risk weighted exposures.
7. That liabilities of the registered bank in New Zealand, net of amounts due to related parties (including amounts due to a subsidiary or affiliate of the registered bank), do not exceed NZ$15 billion.
8. That, for a loan-to-valuation measurement period, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 60%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

9. That, for a loan-to-valuation measurement period, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 10% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

10. That the business of the registered bank in New Zealand must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage

General Disclosures

Conditions of registration (continued)

Conditions of registration for Cooperatieve Rabobank U.A. in New Zealand (continued)

require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration,-

"Banking Group"-

(a) means the New Zealand business of the registered bank and its subsidiaries as required to be reported in group financial statements for the group's New Zealand business under section 461B(2) of the Financial Markets Conduct Act 2013; but

(b) does not include the New Zealand business of De Lage Landen Limited and AGCO Finance Limited if the sum of the assets of De Lage Landen Limited and AGCO Finance Limited is less than 5% of the total consolidated assets of the banking group excluding De Lage Landen Limited and AGCO Finance Limited:

"business of the registered bank in New Zealand" means the New Zealand business of the registered bank as defined in the requirement for financial statements for New Zealand business in section 461B(1) of the Financial Markets Conduct Act 2013.

"generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

"liabilities of the registered bank in New Zealand" means the liabilities that the registered bank would be required to report in financial statements for its New Zealand business if section 461B(1) of the Financial Markets Conduct Act 2013 applied.

In conditions of registration 8 to 10,--

"loan-to-valuation ratio", "non property-investment residential mortgage loans", property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for

Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated October 2016, and where the version of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) referred to in BS19 for the purpose of defining these terms is that dated November 2015.

"loan-to-valuation measurement period" means a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of March 2017.

Other material matters

There are no matters relating to the business or affairs of the Registered Bank and/or the Banking Group that:

(a) are not contained elsewhere in the Disclosure Statement; and

(b) would, if disclosed, materially affect the decision of a person to subscribe for debt securities of which the Registered Bank or any member of the Banking Group is the issuer.

Financial Statements of Registered Bank and Overseas Banking Group

The most recent publicly available financial statements of the Registered Bank and the Overseas Banking Group are available at the internet address www.rabobank.co.nz

Auditor's report

The Disclosure Statement has been audited by external auditors PricewaterhouseCoopers, except for the Credit and Market Risk Exposures and Capital Adequacy Information on pages 23-26 which has been reviewed. The statement of the nature and scope of the audit is included in the attached auditor's report.

Directors' and New Zealand Chief Executive Officer's Statements

After due enquiry, each director and the New Zealand Chief Executive Officer believes that:

(i) as at the date on which the Disclosure Statement is signed:

- The Disclosure Statement contains all the information that is required by the Order; and
- The Disclosure Statement is not false or misleading;

(ii) over the full year accounting period:

- The Registered Bank has complied with all conditions of registration that applied during that period; and
- The Branch and the other members of the Banking Group had systems in place to monitor and control adequately the material risks of the Banking Group, including credit risk, concentration of credit risk, interest rate risk, currency risk, liquidity risk and other business risks, and those systems were being properly applied (the Banking Group does not have any equity risk, and therefore neither has nor requires any system to monitor or control equity risk).

Signed by Todd Charteris in his capacity as New Zealand Chief Executive Officer of the Registered Bank and as agent authorised in writing by each director.

……………………………………

Todd Charteris

Dated: 28 March 2018

Independent auditor's report

To the Directors of Cooperatieve Rabobank U.A - New Zealand Banking Group

The accompanying financial report of the Cooperatieve Rabobank U.A – New Zealand Banking Group (the "Banking Group") comprises the aggregation of the New Zealand business of Cooperatieve Rabobank U.A, incorporated in the Netherlands and trading as Rabobank (the "Registered Bank"), Rabobank New Zealand Limited and Rabo Capital Securities Limited at 31 December 2017 and for the year then ended.

This report includes:

- our audit opinion on the aggregated financial statements in Appendix 1 prepared in accordance with Clause 25 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order"), New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and International Financial Reporting Standards ("IFRS").

- our audit opinion on the supplementary information prepared in accordance with Schedules 4, 7, 10, 11 and 13 of the Order.

- our audit opinion on other legal and regulatory requirements in accordance with Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order.

- our review conclusion on the supplementary information relating to credit and market risk exposures and capital adequacy prepared in accordance with Schedule 9 of the Order.

Report on the audit of the aggregated financial statements and supplementary information (excluding supplementary information relating to credit and market risk exposures and capital adequacy)

We have audited the aggregated financial statements required by Clause 25 of the Order and the supplementary information required by Schedule 4, 7, 10, 11 and 13 of the Order.

The aggregated financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy) comprise:

- the statement of financial position as at 31 December 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended;
- the notes to the financial statements, which includes a summary of significant accounting policies for the Banking Group; and
- the supplementary information required by Schedules 4, 7, 10, 11 and 13 of the Order.

Our audit opinion

In our opinion:

- The aggregated financial statements (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 9, 10, 11 and 13 of the Order and included within the Statement of Financial position, pages 23 to 26 inclusive, and in Note 42 of the aggregated financial statements):

    (i) comply with generally accepted accounting practice in New Zealand;
    (ii) comply with International Financial Reporting Standards; and
    (iii) give a true and fair view of the financial position of the Banking Group as at 31 December 2017, and its financial performance and cash flows for the year then ended.

- The supplementary information disclosed in accordance with Schedules 4, 7, 10, 11 and 13 of the Order and included within the Statement of Financial Position and pages 23 to 26 inclusive:

    (i) has been prepared in all material respects, in accordance with the guidelines issued under section 78(3) of the Reserve Bank of New Zealand Act 1989 or any conditions of registration;
    (ii) is in accordance with the books and records of the Banking Group; and
    (iii) fairly states, in all material respects, the matters to which it relates in accordance with those Schedules.

Basis for our audit opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the aggregated financial statements and supplementary information (Excluding the supplementary information relating to credit and market risk exposures and capital adequacy)* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the aggregated financial statements, supplementary information and auditor's report

The Directors of Cooperatieve Rabobank U.A (the 'Directors') are responsible, on behalf of Cooperative Rabobank U.A, for the other information in the Disclosure Statement. Our opinion on the aggregated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the aggregated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the aggregated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the aggregated financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy)

The Directors are responsible, on behalf of Cooperatieve Rabobank U.A, for the preparation and fair presentation of the aggregated financial statements in accordance with Clause 25 of the Order, NZ IFRS and IFRS and that give a true and fair view of the matters to which they relate. The Directors are also responsible for such internal controls as the Directors determine are necessary to enable the preparation of the aggregated financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible for the preparation and fair presentation of supplementary information in the Disclosure Statement which complies with Schedules 2, 4, 7, 10, 11 and 13 of the Order.

In preparing the aggregated financial statements, the Directors are responsible for assessing the Banking Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Banking Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the aggregated financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy)

Our objectives are to obtain reasonable assurance about whether the aggregated financial statements and the supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed on pages 23 to 26 inclusive and in Note 42 of the aggregated financial statements) disclosed in accordance with Clause 25 and Schedules 4, 7, 10, 11 and 13 of the Order, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these aggregated financial statements.

A further description of our responsibilities for the audit of the aggregated financial statements is located at the External Reporting Board's website at:
http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-5/

This description forms part of our auditor's report.

Report on other legal and regulatory requirements (excluding supplementary information relating to credit and market risk exposures and capital adequacy)

We also report in accordance with the requirements of Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order. In relation to our audit of the aggregated financial statements (excluding the supplementary information relating to capital adequacy disclosed on pages 23 to 26 inclusive and in Note 42 of the aggregated financial statements) for the year ended 31 December 2017:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Banking Group as far as appears from an examination of those records.

Report on the review of the supplementary information relating to credit and market risk exposures and capital adequacy

We have reviewed the supplementary information relating to credit and market risk exposures and capital adequacy required by Schedule 9 of the Order as disclosed on pages 23 to 26 inclusive and in Note 42 of the aggregated financial statements of the Banking Group for the year ended 31 December 2017.

Our review opinion

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to credit and market risk exposures and capital adequacy disclosed on pages 23 to 26 inclusive and in Note 42 of the aggregated financial statements of the Banking Group, is not in all material respects:

(i) prepared in accordance with the Banking Group's conditions of registration; and
(ii) disclosed in accordance with Schedule 9 of the Order.

This opinion is to be read in the context of what we say in the remainder of this report.

Basis for our review opinion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). Our responsibilities under this standard are further described in the Auditor's responsibilities for the review of the supplementary information relating to credit and market risk exposures and capital adequacy section of our report.

Responsibilities of the Directors for the supplementary information relating to credit and market risk exposures and capital adequacy

The Directors are responsible, on behalf of the Cooperatieve Rabobank U.A, for the preparation and fair presentation of supplementary information relating to credit and market risk exposures and capital adequacy that is prepared in accordance with the Banking Group's conditions of registration and is disclosed in accordance with Schedule 9 of the Order. The Directors are also responsible for such internal controls as the Directors determine are necessary to enable the preparation of supplementary information relating to credit and market risk exposures and capital adequacy that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the review of the supplementary information relating to credit and market risk exposures and capital adequacy

Our responsibility is to express a conclusion, whether, based on our review, the supplementary information relating to credit and market risk exposures and capital adequacy disclosed on pages 23 to 26 inclusive and in Note 42 of the aggregated financial statements, is not, in all material respects:

(i) prepared in accordance with the Banking Group's conditions of registration; and
(ii) disclosed in accordance with Schedule 9 of the Order.

A review in accordance with NZ SRE 2410 of the supplementary information relating to capital adequacy disclosed in pages 23 to 26 inclusive and in Note 42 of the aggregated financial statements is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with ISAs NZ and ISAs. Accordingly we do not express an audit opinion on the supplementary information relating to credit and market risk exposures and capital adequacy disclosed on pages 23 to 26 inclusive and in Note 42 of the aggregated financial statements.

Auditor independence

We are independent of the Banking Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor we have no relationship with, or interest in, the Banking Group. Certain partners and employees of our firm may deal with the Banking Group on normal terms within the ordinary course of trading activities of the Banking Group. These matters have not impaired our independence as auditor of the Banking Group.

Who we report to

This report is made solely to the Banking Group's Directors. Our work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Banking Group and the Banking Group's Directors, for our work, for this report, or for the opinions we have formed.

The engagement partner on the engagement resulting in this independent auditor's report is Ashley Wood.

Ashley Wood

Chartered Accountants
28 March 2018

Sydney

Supplementary Financial Disclosures and Asset Quality

1 Supplementary information on the statement of financial position

	Banking Group	
in thousands of NZD	2017	2016
Total interest earning and discount bearing assets	15,030,888	14,125,140
Total interest and discount bearing liabilities	13,358,988	12,517,571

	Registered Bank in New Zealand	
in thousands of NZD	2017	2016
Liabilities of the Registered Bank net of amounts due to related entities	4,394,625	3,602,022
Retail deposits of the Registered Bank	-	-

2 Additional information for registered bank's overseas banking group

	Overseas banking group	
in millions of EUR	31/12/2017	31/12/2016
Net profit after income tax	2,674	2,024
Percentage (on a twelve month rolling basis) of average total assets	0.4%	0.3%

As at 31 December		
Total assets	602,991	662,593
% change over the previous twelve months	-9.0%	-2.4%

3 Asset quality of registered bank's overseas banking group

	Overseas banking group	
in millions of EUR	31/12/2017	31/12/2016
Total individually impaired assets (before allowances for credit impairment loss and net of interest held in suspense)	16,720	16,564
Total individually impaired assets as a percentage of total assets (%)	2.8%	2.5%
Total individual credit impairment allowance	4,189	5,846
Total individual credit impairment allowance as a percentage of total individually impaired assets (%)	25.1%	35.3%
Total collective credit impairment allowance	645	756

Credit and Market Risk Exposures and Capital Adequacy

1 Residential mortgages

Residential mortgages by loan-to-valuation ratio ("LVR")

	As at 31 December 2017		
in thousands of NZD	Drawn	Undrawn	Total
LVR range			
Do not exceed 80%	31,656	7,802	39,458
Exceeds 80% and not 90%	5,386	959	6,345
Exceeds 90%	-	-	-
Total	**37,042**	**8,761**	**45,803**

Reconciliation of mortgage related amounts

in thousands of NZD	2017
Loans and advances - loans with residential mortgages	37,042
Plus: short term residential mortgage classified as overdrafts	-
Less: housing loans made to corporate customers	-
On-balance sheet residential mortgage exposures subject to the standardised approach	37,042
Off-balance sheet residential mortgage exposures subject to the standardised approach	8,761
Total residential mortgages exposures (as per LVR analysis)	**45,803**

2 Market risk end of period notional capital charges

As at 31 December 2017 in thousands of NZD	Implied risk weighted exposure	Notional capital charges
Interest rate risk	488,375	39,070
Foreign currency risk	147,750	11,820
Total	**636,125**	**50,890**

3 Market risk peak end-of-day notional capital charges

6 months to 31 December 2017 in thousands of NZD	Implied risk weighted exposure	Notional capital charges
Interest rate risk	510,125	40,810
Foreign currency risk	164,125	13,130
Total	**674,250**	**53,940**

4 Method for deriving peak end-of-day notional capital charge

The market risk information is derived in accordance with the conditions of registration relating to capital adequacy and the Reserve Bank document entitled "Capital Adequacy Framework (Standardised Approach)" (BS2A).

Credit and Market Risk Exposures and Capital Adequacy

5 Capital Ratios of overseas banking group - Rabobank

Capital adequacy ratios for Rabobank are publicly available in the Rabobank Annual Report.

in percentage (%)	31/12/2017	31/12/2016
Common Equity Tier 1 capital ratio	15.8%	14.0%
Tier one capital ratio	18.8%	17.6%
Total capital ratio	**26.2%**	**25.0%**

Minimum Capital Requirements

Rabobank is required by Dutch Central Bank DNB to hold minimum capital at least equal to that specified under Basel framework and those requirements imposed on it by the DNB have been met as at the reporting date.

Rabobank calculates the regulatory capital, the external required capital for credit risk, for virtually its entire loan portfolio on the basis of the Advanced Internal Rating Approach approved by the DNB. The Standardised Approach is applied, in consultation with DNB, to portfolios with relatively limited exposure and to a few smaller foreign portfolios that are not suited to the Advanced Internal Rating Approach. Operational risk is measured using the internal model approved by DNB that is based on the Advanced Measurement Approach. Regarding market risk, Rabobank has obtained permission from DNB to calculate the general and specific position risk using its own internal value-at-risk (VaR) models, based on the rules of CAD II (Capital Adequacy Directive).

Rabobank Group's Capital Adequacy and Risk Management Report (pillar 3) are publicly available on
https://www.rabobank.com/en/images/annual-report-2017.pdf

Credit Exposures to Individual Counterparties

1 Concentration of credit exposure to individual counterparties

31 December 2017	Banking Group As at	Banking Group Peak for the quarter
Bank counterparties		
Percentage of shareholders' equity		
10-15%	-	-
Non-bank counterparties		
Percentage of shareholders' equity		
10-15%	-	-

All non-bank counterparties included in the preceeding table do not have a long-term credit rating.

Credit exposure is calculated on the basis of actual exposure net of individual credit impairment provision; and excludes credit exposures to Connected Persons; credit exposures to the central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent; credit exposures to any bank with a long-term credit rating of A- or A3 or above, or its equivalent; and credit exposures to an individual counterparty or a group of closely related counterparties if they are booked outside New Zealand.

The credit exposure is measured over the overseas banking group's equity as at 31 December 2017.

The peak end-of-day credit exposure is measured by taking the maximum end-of-day aggregate amount of credit exposure and dividing it by the overseas banking group's equity.

Appendix 1

Financial Statements for the Rabobank New Zealand Banking Group for the year ended 31 December 2017

Coöperatieve Rabobank U.A. – New Zealand Banking Group

Financial Statements – 31 December 2017

Financial Statements 2017

Notes to the financial statements

Statement of Comprehensive Income

in thousands of NZD	Notes	For the year ended 31 December 2017	2016
Statement of income			
Interest income	4	633,276	665,898
Interest expense	5	(305,381)	(369,915)
Net interest income		**327,895**	**295,983**
Other income	6	2,317	1,448
Other expense	7	(825)	(1,073)
Other operating gains / (losses)	8	(31,986)	9,516
Non-interest income / (expense)		**(30,494)**	**9,891**
Operating income		**297,401**	**305,874**
Operating expenses	9	(108,262)	(116,791)
Impairment releases / (losses)	10	1,335	(16,495)
Profit before income tax		**190,474**	**172,588**
Income tax expense	12.2	(58,275)	(54,813)
Net profit for the year		**132,199**	**117,775**
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss			
Changes in AFS revaluation reserve	30.2	1,279	956
Income tax expense relating to changes in AFS revaluation reserve	30.2	(358)	(268)
Total items that may be reclassified subsequently to profit or loss		**921**	**688**
Items that will not be reclassified to profit or loss			
Other reserves		-	-
Total items that will not be reclassified to profit or loss		**-**	**-**
Total other comprehensive income for the year		**921**	**688**
Total comprehensive income attributable to members of Banking Group		**133,120**	**118,463**

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of Financial Position

in thousands of NZD	Notes	At 31 December 2017	2016
Assets			
Cash and cash equivalents	13	488,415	517,705
Derivative financial instruments	14	201,096	134,099
Available-for-sale financial assets	15	604,299	724,154
Loans and advances	16	11,253,838	10,524,468
Due from related entities	18	2,700,794	2,373,741
Other assets	19	5,493	5,167
Income tax receivables		-	2,566
Net deferred tax assets	12.3	13,443	19,676
Property, plant and equipment	20	4,075	4,789
Intangible assets	21	87	129
Total assets		**15,271,540**	**14,306,494**
Liabilities			
Derivative financial instruments	14	103,978	112,721
Debt securities in issue	22	3,780,874	2,651,978
Deposits	23	4,519,901	4,981,364
Preference shares	24	280,666	280,666
Due to related entities	25	4,828,634	4,667,824
Current tax liabilities		11,796	-
Other liabilities	26	11,106	10,674
Provisions	27	3,090	2,892
Head office account	28	255,874	231,864
Total liabilities		**13,795,919**	**12,939,983**
Net assets		**1,475,621**	**1,366,511**
Equity			
Contributed equity	30.1	551,201	551,201
Reserves	30.2	1,724	803
Retained earnings	30.3	922,696	814,507
Total equity		**1,475,621**	**1,366,511**

The above statement of financial position should be read in conjunction with the accompanying notes.

Signed in Utrecht, The Netherlands.
For and on behalf of the Board of Coöperatieve Rabobank U.A., trading as Rabobank:

B.C. Brouwers
Director

Date: 26 March 2018

J.L. van Nieuwenhuizen
Director

Date: 26 March 2018

Statement of Changes in Equity

in thousands of NZD	Contributed equity	Retained earnings	Reserves	Total equity
At 1 January 2016	551,201	724,698	115	1,276,014
Net profit (excluding Branch*)	-	89,809	-	89,809
Total other comprehensive income:				
Revaluation reserve - Available-for-sale financial assets	-	-	688	688
Total comprehensive income for the period	**-**	**89,809**	**688**	**90,497**
At 31 December 2016	**551,201**	**814,507**	**803**	**1,366,511**
At 1 January 2017	551,201	814,507	803	1,366,511
Net profit (excluding Branch*)	-	108,189	-	108,189
Total other comprehensive income:				
Revaluation reserve - Available-for-sale financial assets	-	-	921	921
Total comprehensive income for the period	**-**	**108,189**	**921**	**109,110**
At 31 December 2017	**551,201**	**922,696**	**1,724**	**1,475,621**

* Statement of changes in equity excludes current year profit and cumulative surpluses of the Branch. The net surplus of the Branch is disclosed as head office account under liabilities in the Statement of Financial Position.

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

in thousands of NZD	Notes	For the year ended 31 December 2017	2016
Cash flows from operating activities			
Cash was provided from:			
Interest income		621,065	670,794
Other income		2,317	1,448
Bad debt recovery		10	20
Cash was applied to:			
Interest expense		(315,317)	(376,455)
Payments for derivative financial instruments*		(107,768)	(11,371)
Other expenses		(825)	(1,073)
Management fees and other operating expenses		(105,852)	(115,514)
Tax payments		(38,038)	(41,409)
Cash flows from operating activities before changes in operating assets and liabilities		**55,592**	**126,440**
Changes in operating assets and liabilities:			
Available-for-sale financial assets		121,209	(78,037)
Loans and advances		(718,518)	95,130
Due from related entities		(325,344)	369,463
Deposits		(455,417)	180,697
Changes in operating assets and liabilities arising from cash flows movements		**(1,378,070)**	**567,253**
Net cash flows from / (used in) operating activities	**37**	**(1,322,478)**	**693,693**
Cash flows from investing activities			
Cash was applied to:			
Purchase of property, plant and equipment		(408)	(395)
Purchase of intangible assets		-	(77)
Net cash flows (used in) investing activities		**(408)**	**(472)**
Cash flows from financing activities			
Changes in financing liabilities:			
Debt securities in issue		1,130,731	(483,262)
Due to related entities		162,865	14,468
Net cash flows (used in) / from financing activities		**1,293,596**	**(468,794)**
Net change in cash and cash equivalents		**(29,290)**	**224,427**
Cash and cash equivalents at beginning of the year		517,705	293,278
Cash and cash equivalents at end of the year		**488,415**	**517,705**

Cash and cash equivalents at end of the year comprise of:			
Cash at bank and on hand	13	488,415	517,705
Cash and cash equivalents at end of the year		**488,415**	**517,705**

* Transactions are settled on a net basis.

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

1 Reporting entity

The reporting entity is Coöperatieve Rabobank U.A. ("Rabobank"). Rabobank New Zealand Banking Group (the "Banking Group") consists of Rabobank New Zealand Branch (the "Branch"); Rabobank New Zealand Limited ("RNZL") and Rabo Capital Securities Limited ("RCSL"). RNZL and RCSL are incorporated under the Companies Act 1993.

These financial statements are a combination of the financial statements of the above entities as at and for the year ended 31 December 2017, which comprise all the activities of the Rabobank Group in New Zealand except the businesses of De Lage Landen Limited and AGCO Finance Limited, which are excluded in accordance with Rabobank's conditions of registration.

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared and presented in accordance with the Financial Markets Conduct Act 2013, the Reserve Bank of New Zealand Act 1989 and the Reserve Bank of New Zealand ("RBNZ") reporting framework for the Banking Group, for the purpose of reporting the New Zealand business of Rabobank as represented by the Banking Group.

For this purpose, the Banking Group comprises entities and operations are reported as required by the RBNZ which does not constitute a group in accordance with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") 10 *Consolidated Financial Statements*. Consequently, while this financial information has been prepared under the measurement and recognition principles of NZ IFRS, except for compliance with NZ IFRS 10 and as appropriate for profit-oriented entities, it does not constitute a complete set of financial statements as required in accordance with NZ IFRS.

These financial statements were approved and authorised for issue on behalf the board of directors on 26 March 2018.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except for available-for-sale (AFS) financial assets and derivative financial instruments which have been measured at fair value. The going concern assumption and the accrual basis of accounting have been adopted.

The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

2.3 Functional and presentation currency

Unless otherwise indicated, all amounts are expressed in New Zealand dollars (NZD), the functional and presentation currency of the operations of the entities in the Banking Group, as this currency best reflects the economic substance of the underlying events and circumstances relevant to the Banking Group. All financial information presented in NZD has been rounded to the nearest thousand, unless otherwise stated.

2.4 Changes in accounting policies

The Banking Group has applied the following standards and amendments for the first time for the financial year ended 31st December 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to NZ IAS 12);
- Disclosure initiative (Amendments to NZ IAS 7), and
- Annual Improvements to NZ IFRSs 2014-2016 Cycle.

The adoption of these amendments did not have any impact on the amounts recognised in prior periods and will also not affect the current or future periods.

The amendments to NZ IAS 7 require disclosure of changes in liabilities arising from financing activities, see note 37.

Notes to the Financial Statements

2 Basis of preparation (continued)

2.5 Significant accounting judgments and estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts for assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. This primarily concerns the determination of the taxes, determination of the fair value of assets and liabilities and determination of impairment. This involves an assessment of the situations, based on the financial data and information available. Although these assessments are made based on the best estimate by the management of current events and actions, actual results may vary from these estimates. If different assumptions or estimates were applied, the resulting value would change, impacting the net assets and income of the Banking Group.

The most significant uses of judgment and estimates are as follows:

2.5.1 Fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly manner between market participants at the measurement date.

Fair value is obtained from quoted market prices, independent broker price quotations and discounted cash flow models, which incorporate current market and contractual prices for the underlying instrument, time to expiry and yield curves. The calculation of fair value for any financial instrument may also require a degree of judgment to adjust the quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used).

The majority of outstanding derivative positions are transacted over-the-counter and therefore need to be valued using valuation techniques. The valuation of financial instruments is described in more detail in note 35.

2.5.2 Impairment of financial assets

Loan impairment allowances are recognised if there is objective evidence that the Banking Group will not be able to collect all amounts due under the original terms of the contract. Determining a provision requires a significant degree of judgement formulation, based on the evaluation by the management of the risks in the loan portfolio, the current economic circumstances, credit losses over the previous years, as well as developments in business sectors, business concentrations and geopolitics. Changes in judgement formulation as well as further analyses may lead to changes in the magnitude of loan impairment allowance over time.

Determining objective evidence for decreased creditworthiness and determining the magnitude of the recoverable amount form part of the processes that are surrounded by inherent uncertainty and which involve various assumptions and factors regarding the creditworthiness of the borrowers, expected future cash flows and the value of collateral.

2.5.3 Tax

When determining the tax expense and the related current and deferred tax due and tax credits, estimates are used. The fiscal treatment of transactions is not certain in every case and provisions for tax are held to reflect these uncertainties. The tax due and tax credits proposed are based on all known information, and where relevant, external advice.

Differences between the final outcome and the figures adopted in these financial statements are shown in the current and deferred tax due and tax credits for the period when certainty is gained as to the fiscal treatment and/or when the tax assessments are imposed.

2.6 Comparative figures

Comparative information has been revised where appropriate to enhance comparability. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Notes to the Financial Statements

3 Significant accounting policies

3.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Banking Group as at and for the year ended 31 December 2017. The Banking Group comprises entities and operations as required to be included by the RBNZ that do not constitute a group in accordance with NZ IFRS 10.

3.1.1 Subsidiaries

Subsidiaries are those entities over which the Banking Group has control. Control exists when the Banking Group is exposed to, or has rights, to variable returns from its involvement with an entity, and has the ability to affect those returns through its power over that entity. By agreement with the RBNZ, Rabobank subsidiaries De Lage Landen Limited and AGCO Finance Limited are excluded.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences and until the date that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

3.1.2 Transactions eliminated on consolidation

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full in preparing the consolidated financial statements.

3.2 Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Banking Group and the revenue can be reliably measured. The principal sources of revenue are interest income, fees and commissions.

3.2.1 Interest income and expense

For all interest bearing financial instruments, interest income or expense are recognised in profit or loss using the effective interest method. The effective interest method calculates the amortised cost of a financial instrument and allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, a shorter period, where appropriate) to the net carrying amount of the financial asset or liability. The calculation includes all transaction costs and fees that are directly attributable to the instrument and are an integral part of the effective interest method. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

3.2.2 Fee and Commission income and expense

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are capitalised and included in the effective interest rate, and recognised in profit or loss over the expected life of the instrument. Commitment fees to originate a loan, which is unlikely to be drawn down, are recognised as fee income over the commitment period.

Fees and commissions that relate to the execution of a significant act (for example, advisory or arrangement services, placement fees and underwriting fees) are recognised when the significant act has been completed. Fees charged for providing ongoing services (for example, maintaining and administering existing facilities) are recognised as income over the period the service is provided.

Fees and commissions paid for guarantees on deposits and other liabilities are recognised as an expense over the period the guarantee is provided.

3.2.3 Other expenses

Operating expenses are recognised on an accrual basis.

Management fees are charged to the Banking Group to reflect the cost of resources and services provided by related parties.

Notes to the Financial Statements

3 Significant accounting policies (continued)

3.3 Foreign currency

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities resulting from foreign currency transactions are subsequently translated at the spot rate at reporting date.

Translation differences arising on the settlement of monetary items, or on translating monetary items at rates different to those at which they were initially recognised or included in a previous financial report, are recognised in the statement of comprehensive income in the period in which they arise.

Translation differences on non-monetary items are reported as part of the fair value gains or losses on these items. Translation differences on non-monetary items measured at fair value through equity, such as securities classified as AFS financial assets, are recognised in equity through other comprehensive income.

3.4 Income tax

Income tax expense comprises of current tax and movements in deferred tax balances. Income tax expense is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates that have been enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit or loss, and temporary differences associated with investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected realisation or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted at the reporting date and that are expected to apply to the temporary differences when they reverse.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3.5 Financial assets

The Banking Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss (including derivative assets), AFS financial assets and loans and receivables. Management determines the classification of its financial assets at initial recognition.

The Banking Group has not classified any of its financial assets as held-to-maturity investments.

Financial assets are recognised initially at fair value plus directly attributable transaction costs. The best evidence of fair value at initial recognition is the transaction price, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets.

3.5.1 Cash and cash equivalents

Cash and cash equivalents are highly liquid short-term investments held to meet current obligations in cash, rather than for investments or other purposes. Such investments have remaining terms of less than 90 days at inception. It includes cash at bank, central bank settlement accounts and Nostro balances. Cash and cash equivalents are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

Notes to the Financial Statements

3 Significant accounting policies (continued)

3.5 Financial assets (continued)

3.5.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value, including transaction costs, and are subsequently carried at amortised cost, using the effective interest method, less any provisions for impairment. The losses arising from impairment are recognised in the statement of comprehensive income as 'impairment releases / (losses)'.

The Banking Group presents loans and receivables in the following categories in the statement of financial position:

Loans and advances

Loans and advances includes advances, overdrafts and term loans to customers.

Due from related entities

Due from related entities includes loans and settlement account balances with related parties.

3.5.3 Derivative financial instruments

Derivative financial instruments are contracts whose value is derived from one or more underlying price, index or other variability. They include foreign exchange contracts, options, interest rate swaps, commodity derivatives and currency swaps. Derivative financial instruments are used as part of the Banking Group's sales and trading activities, and to hedge certain assets and liabilities.

All derivative financial instruments are recognised at fair value. The fair value is determined using listed market prices, prices offered by brokers or cash flow discounting models and based on current market prices and contracted prices for the underlying instruments, as well as the time value of money, yield curves and the volatility of the underlying assets and liabilities.

All derivative financial instruments are classified as assets if their fair value is positive and under liabilities if their fair value is negative. The fair value hierarchy is described in more detail in note 35.

All gains and losses from changes in the fair value are recognised immediately in the statement of comprehensive income.

3.5.4 Available-for-sale financial assets

AFS financial assets comprise principally short and long term bank, public and other debt securities including bonds, bills of exchange, commercial papers, and certificates of deposit that are not classified as either financial assets at fair value through profit or loss, or loans and receivables.

Purchases and sales of AFS financial assets are recognised on trade-date, the date on which the Banking Group commits to purchase or sell the assets. AFS financial assets are initially recognised at fair value including transaction costs. Subsequent to initial recognition, AFS financial assets are carried at their fair value. Interest income is recognised using the effective interest method.

Unrealised gains or losses arising from changes in the fair value of AFS financial assets are recognised in equity in the AFS financial assets reserve net of applicable income tax. When AFS financial assets are sold, collected, otherwise disposed of, or become impaired, the accumulated fair value adjustments are included in the statement of comprehensive income as gains or losses as part of other operating income. The fair value hierarchy is described in more detail in note 35.

3.5.5 Finance leases

Leases where the Banking Group as lessor transfers substantially all the risks and rewards incident to ownership of an asset to the lessee or a third party are classified as finance leases. Upon initial recognition the leased asset is presented as a receivable and measured at an amount equal to the net investment in the lease.

NZ IAS 17 Leases requires income on finance lease transactions to be recognised on a basis reflecting a constant periodic return based on the lessor's net investment outstanding in respect of the finance lease. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognised over the term of the lease using the effective interest method.

Notes to the Financial Statements

3 Significant accounting policies (continued)

3.5 Financial assets (continued)

3.5.6 Offsetting

Offsetting of income and expenses

Income and expenses are not offset unless required or permitted by an accounting standard. It generally arises in the following circumstances:

- where transaction costs form an integral part of the effective interest rate of a financial instrument which is measured at amortised cost, these are offset against the interest income generated by the financial instrument; or
- where gains and losses relating to fair value hedges are assessed as being effective; or
- where gains and losses arise from a group of similar transactions, such as foreign exchange gains and losses.

Offsetting assets and liabilities

Assets and liabilities are offset and the net amount reported in the statement of financial position only where there is:

- a current enforceable legal right to offset the asset and liability; and
- an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.5.7 Regular way purchase and sale of financial assets

All financial assets and liabilities are initially recognised on the trade date. This includes 'regular way trades': purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3.5.8 Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred; or when the Banking Group has transferred substantially all the risks and rewards of ownership. In transactions where substantially all the risks and rewards are neither retained nor transferred, the Banking Group derecognises the assets when control is no longer retained, or when control is retained, the assets are recognised to the extent of the Banking Group's continuing involvement.

3.6 Impairment of financial assets

The carrying amounts of the Banking Group's financial assets are assessed at each reporting date to determine whether there is objective evidence that a financial asset or a group of financial assets is impaired.

The provision for impairment includes losses if there is objective evidence that losses are attributable to some portions of the loan portfolio at the reporting date. Examples of objective evidence for impairments are:

- significant financial problems on the part of the borrower;
- default in making interest and/or redemption payments on the part of the borrower;
- loan renegotiations;
- possibility of bankruptcy of or financial reorganisation of the borrower;
- changes in borrowers' payment status;
- changes in economic circumstances that could cause the borrower to default.

If there is objective evidence that an impairment loss has been incurred, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

The impairment losses on financial assets are disclosed in more detail in note 10 and note 17.

3.6.1 Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as 'Loans and receivables'), the Banking Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

Individually significant financial assets are tested for impairment on an individual basis. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but

Notes to the Financial Statements

3 Significant accounting policies (continued)

3.6 Impairment of financial assets (continued)

not yet identified. The remaining financial assets are assessed collectively by portfolio of loans that share similar credit risk characteristics.

3.6.1 Financial assets carried at amortised cost (continued)

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the statement of comprehensive income.

3.6.2 Specific provision

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'.

When a financial asset is uncollectable, either partially or in full, it is written off against the related provision for impairment. Financial assets are considered to be uncollectable when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Banking Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the provision. If a write-off is later recovered, the recovery is credited to the statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If the asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

3.6.3 Collective provision

Collective provision are maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the reporting date.

The expected future cash flows for portfolios of assets with similar credit risk characteristics are estimated on the basis of historical loss experience. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Increases or decreases in the provision amount are recognised in the statement of comprehensive income.

3.6.4 AFS financial assets

When a decline in the fair value of an AFS financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss is measured as the difference between the acquisition cost and the current fair value, less any impairment charge previously recognised in the statement of comprehensive income. The cumulative loss is removed from other comprehensive income and recognised in the statement of comprehensive income. If, in a subsequent period, the fair value of an AFS debt securities increases and the increase can be objectively related to an event occurring after the impairment event, the impairment charge is reversed through the statement of comprehensive income.

3.6.5 Restructured assets

Restructured assets are those impaired loans on which the original contractual terms have been formally modified due to the financial difficulties of borrowers, and on which interest continues to be accrued at a rate which is equal to or greater than the Banking Group's average cost of funds at the date of restructuring.

Notes to the Financial Statements

3 Significant accounting policies (continued)

3.6 Impairment of financial assets (continued)

3.6.6 Past due loans

Past due loans are where payment is overdue. Adequate security is held to cover amounts owing including unpaid principal and interest in arrears. Interest due but not received is taken to interest income until the loan is classified as non-accrual.

3.7 Property, plant and equipment

Property, plant and equipment are carried at cost, which includes direct and incremental acquisition cost, less accumulated depreciation and impairments if applicable. Subsequent costs are capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is expensed as incurred. Straight-line depreciation is applied to these assets in accordance with the schedule below. Each asset is depreciated to its residual value over its estimated useful life:

Office fixtures and fittings	10 years
Office equipment	5 years
Computer hardware	5 years

Each year, the Banking Group assesses whether there are indications of impairment of property, plant and equipment. If the carrying amount of an asset exceeds its estimated recoverable amount, the carrying amount is written down immediately to its recoverable amount. Impairment losses of property, plant and equipment are included in the statement of comprehensive income. Gains and losses on the disposal of items of property, plant and equipment are determined in proportion to their carrying amounts and taken into account when determining the operating result.

3.8 Intangible assets

Intangible assets consist of acquired and internally developed computer software and are stated at cost less accumulated amortisation and impairment if any.

Internal and external costs directly incurred in the purchase or development of computer software, including subsequent upgrades and enhancements, are recognised as intangible assets when it is probable that they will generate future economic benefits attributable to the Banking Group. These assets are amortised using the straight-line method over their estimated useful lives of five years.

3.9 Other assets

Other assets include accrued interest, accrued fees, other income receivable and all other financial assets. These are measured at amortised cost using the effective interest method. All other non-financial assets are recorded at the cash value to be realised when settled.

3.10 Impairment of non-financial assets

The Banking Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any such indication exists or when annual impairment testing for an asset is required, the Banking Group estimates the asset's recoverable amount.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. In assessing its value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the corresponding impairment loss is recognised immediately in the statement of comprehensive income.

A previously recognised impairment loss is assessed at each reporting date for any indications that the loss has decreased or no longer exists. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised.

Notes to the Financial Statements

3 Significant accounting policies (continued)

3.11 Financial liabilities

The Banking Group classifies significant financial liabilities in the following categories: due to other financial institutions, deposits, debt securities in issue, due to related entities, preference shares and other liabilities. Financial liabilities are recognised when an obligation arises and derecognised when it is discharged, cancelled or expired.

Financial liabilities are initially recognised at fair value less transaction costs, except where they are designated at fair value, in which case transaction costs are expensed as incurred. They are subsequently measured at amortised cost, except for derivatives and financial liabilities at fair value, which are carried at fair value through profit or loss.

3.11.1 Due to other financial institutions, deposits, and due to related entities

Due to other financial institutions includes deposits placed by other financial institutions, Vostro balances, bank overdrafts and settlement account balances due to other financial institutions. Deposits include term deposits, savings deposits and other on demand deposits. Due to related entities includes deposits and settlement account balances due to related parties.

They are brought to account at fair value less directly attributable transaction costs at inception, and are subsequently measured at amortised cost. Interest expense and yield related fees are taken to the statement of comprehensive income using the effective interest method.

3.11.2 Debt securities in issue

Debt securities in issue include bonds, notes and medium term notes that have been issued by the Banking Group. They are brought to account at fair value less directly attributable transaction costs at inception, and are subsequently measured at amortised cost. Interest expense and yield related fees are taken to the statement of comprehensive income using the effective interest method.

3.11.3 Preference shares

Preference shares are recorded as liabilities when there is an an unconditional obligation to deliver cash or another financial asset to settle the contractual obligation. The preference shares are stated at amortised cost. Interest expense is recognised in the statement of comprehensive income using the effective interest method.

3.11.4 Other liabilities

Other liabilities include accrued interest, accrued fees and other accrued expenses payable and all other financial liabilities. They are recognised initially at their fair value, and subsequently measured at the carrying value to be paid when settled.

3.11.5 Contingent liabilities

Contingent liabilities mainly include financial guarantees and lending commitments.

Financial guarantees are contracts that require the Banking Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Lending commitments are defined amounts (unutilised credit lines or undrawn portions of credit lines) against which clients can borrow money under defined terms and conditions.

Financial guarantees and other contingent liabilities are accounted for as off balance sheet items. Provisioning for these exposures is calculated under NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

3.11.6 Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled, or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

3.12 Provisions

A provision is recognised if the Banking Group has a present obligation (legal or constructive) as a result of a past event, if it is probable that an outflow of resources will be required to settle the obligation, and if a reliable estimate can be made of the amount of the obligation.

Notes to the Financial Statements

3 Significant accounting policies (continued)

A provision for dividend is recognised when dividend is declared by the directors.

3.13 Head Office Account

The Head Office Account for NZ Banking Group is classified as a liability in accordance with *NZ IAS 32 Financial Instruments: Presentation*.

3.14 Employee benefits

3.14.1 Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months for the reporting date, are recognised in other liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for annual leave are recognised when the leave is accrued and measured at the rates paid or payable.

3.14.2 Long service leave

The liability for long service leave is recognised in the provision for the employee entitlements and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee turnover and periods of service.

3.15 Equity

3.15.1 Contributed equity

Contributed equity consists of ordinary share capital and is the amount of fully and partly paid up capital from the issue of ordinary shares.

Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction, net of tax, from the proceeds.

3.15.2 Reserve

AFS financial assets revaluation reserve

This reserve includes changes in the fair value of AFS financial assets, net of tax. These changes are transferred to the statement of comprehensive income when the asset is derecognised or impaired.

3.16 Goods and services tax

Income, expenses, assets and liabilities are recognised net of the amount of Goods and Services Tax (GST) except where the GST incurred on purchase of goods and services is not recoverable from the taxation authority. The non-recoverable GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of GST recoverable from, or payable to the taxation authority, is included as part of receivables or payables in the balance sheet. Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to the taxation authority.

3.17 Accounting standards not early adopted

The following new standards and interpretations were not effective in the 2017 year. The Banking Group will apply these pronouncements on their effective date.

NZ IFRS 9 Financial Instruments

The standard contains new accounting requirements for financial assets and liabilities, including classification and measurement, impairment and general hedge accounting. It specifies a simpler methodology for classifying and measuring financial assets, with two primary measurement categories: amortised cost and fair value. The general hedge accounting provisions are more principle based, allowing closer alignment between accounting and risk management

Notes to the Financial Statements

3 Significant accounting policies (continued)

practices. The standard also requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. The standards will be effective for the 31 December 2018 financial year end. The Banking Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

(i) Classification and measurement

The Banking Group's debt instruments that are currently classified as available-for-sale will satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no material change to the accounting for these assets.

The other financial assets held by the Banking Group include cash and cash equivalents, loans and receivable have been assessed to meet the conditions for classification at amortised cost under NZ IFRS 9. Accordingly, the Banking Group does not expect the new guidance to affect the classification and measurement of these financial assets. There will be no impact on the Bank's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Bank does not have any such liabilities.

(ii) Impairment

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under NZ IFRS 39. Based on the assessments undertaken to date, the Banking Group expects a movement within 10% of the current provisions for impairment balance. These estimates are based on accounting policies, assumptions, judgements and estimation techniques that remain subject to change until the Bank finalises its financial statements for the year ending 31 December 2018. The implementation work is not yet fully completed. In particular, we are still in the process of: validating NZ IFRS 9 models; using the final envisaged data flow architecture; effectively implementing and testing controls to ensure the completeness and accuracy of data flows to the models and to ensure the accuracy of specific impairments; improving documentation of input data (including assumptions) of the calculations in specific impairment files; determining whether the model for macro-economic scenarios sufficiently captures the non-linear behaviour of the impairments.

NZ IFRS 9 also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the disclosures about its financial instruments particularly in the year of the adoption of the new standard being 2018.

(iii) Hedge accounting

As the Banking Group does not currently apply hedge accounting, there is no impact from the hedge accounting changes in NZ IFRS 9.

The Banking Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

NZ IFRS 15 Revenue from Contracts with Customers

The standard provides a single comprehensive model for revenue recognition. The standard is not mandatory until 1 January 2018 and will be effective for the 31 December 2018 financial year. It supersedes current recognition and related interpretations. NZ IFRS 15 will not materially impact the revenue recognition for the Banking Group. This is because the majority of Banking Group's revenues are recognised in accordance with NZ IFRS 39 Financial Instruments (and NZ IFRS 9 going forward).

NZ IFRS 16 Leases

NZ IFRS 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The standard will primarily affect the accounting for the Bank's operating leases. As at the reporting date, the Bank has non-cancellable operating lease commitments of $11,787 thousand, (see note 32.2). The Bank has not yet quantified the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard but expect the impact to lead to a material gross up of the balance sheet. The standard is mandatory for financial years commencing on or after 1 January 2019. The Bank does not intend to adopt the standard before its effective date. The Banking Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Notes to the Financial Statements

4 Interest income

in thousands of NZD	2017	2016
Loans and advances	552,151	582,261
Related entities - capital securities	23,359	23,359
Related entities	29,871	32,350
AFS financial assets	17,048	17,546
Finance lease income	3,476	3,795
Cash and balances with Central Bank	4,203	6,583
Due from other financial institutions	3,168	4
Total interest income	**633,276**	**665,898**

5 Interest expense

in thousands of NZD	2017	2016
Debt securities in issue	84,936	119,253
Deposits	124,432	142,515
Related entities	79,093	90,933
Preference shares	16,818	16,819
Other	102	395
Total interest expense	**305,381**	**369,915**

6 Other income

in thousands of NZD	2017	2016
Lending and credit facility related fee income	1,592	1,421
Other income	725	27
Total other income	**2,317**	**1,448**

7 Other expense

in thousands of NZD	2017	2016
Commission and fee expense *	(825)	(1,073)
Total other expense	**(825)**	**(1,073)**

* Balance relates to fee charged for the obligations under guarantees provided by Rabobank. Refer to note 38 for further information on guarantees.

Notes to the Financial Statements

8 Other operating gains / (losses)

in thousands of NZD	2017	2016
Gains / (losses) arising from:		
hedging instruments		-
trading derivatives*	(35,810)	2,842
Fair value hedge amortisation	3,782	6,693
Losses on disposal / write-off of property, plant and equipment	-	-
Losses on disposal / write off of available-for-sale financial assets	75	-
Foreign exchange losses	(33)	(19)
Total other operating gains / (losses)	**(31,986)**	**9,516**

* Within the balance of $35.8 million loss (2016: $2.8 million gain), there is a balance of $0.1 million gain (2016: $0.1 million loss) which relates to the Reserve Bank of New Zealand requiring the New Zealand Banking Group to produce a set of financial accounts that notionally consolidates a branch together with locally incorporated subsidiaries. The notional consolidation of branches with some locally incorporated subsidiaries is not ordinarily allowed under generally accepted accounting principles. This results in internal hedges that are ordinarily effective to become ineffective. The gain / (loss) on consolidation is not required to be tax effected.

9 Operating expenses

in thousands of NZD	2017	2016
Advertising and marketing	2,743	3,186
Professional fees	1,071	611
Computer charges	476	289
Depreciation and amortisation	1,164	1,126
Management fees	47,123	56,205
Personnel	43,510	42,696
Rental charges payable under operating leases	3,816	3,778
Telecommunication	766	1,148
Travel and lodging	4,364	4,418
Office supplies	579	677
Other	2,650	2,657
Total operating expenses	**108,262**	**116,791**

10 Impairment losses / (releases)

in thousands of NZD	2017	2016
Collective provision / (releases)	(7,429)	19,586
Specific provision / (releases)	6,104	(2,440)
Other losses / (gains)	-	(631)
Bad debt recovery	(10)	(20)
Total impairment losses / (releases)	**(1,335)**	**16,495**

11 Auditor's remuneration

in whole NZD	2017	2016
Amounts received or due and receivable by auditor for:		
Audit or review of the financial statements	212,758	212,312
Advisory services		-
Tax compliance		-
Total auditor's remuneration	**212,758**	**212,312**

Notes to the Financial Statements

12 Income tax

12.1 Income tax expense

in thousands of NZD	2017	2016
Current income tax	52,694	59,627
(Increase) / Decrease in net deferred tax assets	5,631	(5,283)
(Over) / under provided in prior years relating to deferred tax	244	(37)
(Over) / under provision in current tax liabilities	(294)	506
Total income tax expense	**58,275**	**54,813**

12.2 Numerical reconciliation of income tax expense to prima facie tax payable

in thousands of NZD	2017	2016
Profit before income tax	190,474	172,588
Taxation @ 28% (2016: 28%)	**53,333**	**48,325**
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:		
Non-deductible expenses	4,992	6,111
Non-taxable gains / (losses)	244	(92)
Under / (over) provision	(294)	469
Income tax expense	**58,275**	**54,813**

There are no unrecognised income tax losses or unrecognised timing differences carried forward.

12.3 Net deferred tax assets

in thousands of NZD	2017	2016
The balance comprises temporary differences attributable to:		
Accruals	676	1,550
Depreciation	669	603
Impairment provisions	9,422	10,842
Employee benefits	1,346	1,271
Interest forgone on impaired assets	699	4,380
Others	450	560
Provision for long service leave	852	783
AFS financial assets	(671)	(313)
Total net deferred tax assets	**13,443**	**19,676**

Movements:

in thousands of NZD	2017	2016
Opening balance	19,676	14,622
Credited / (charged) to statement of comprehensive income:		
Accruals	(874)	1,495
Depreciation	66	102
Impairment provisions	(1,420)	4,705
Employee benefits	75	19
Interest forgone on impaired assets	(3,681)	(486)
Others	(110)	(298)
Provision for long service leave	69	3
Unamortised income	-	(218)
Debited to equity reserve:		
AFS financial assets	(358)	(268)
Total movement	**(6,233)**	**5,054**
Closing balance	**13,443**	**19,676**

Notes to the Financial Statements

12 Income tax (continued)

12.4 Imputation credit account

in thousands of NZD	2017	2016
Imputation credit	385,290	333,975

13 Cash and cash equivalents

in thousands of NZD	2017	2016
Cash at banks	239,819	275,514
Balances with Central Bank	248,596	242,191
Total cash and cash equivalents	**488,415**	**517,705**

All cash and cash equivalents balances are highly liquid and recoverable on demand.

14 Derivative financial instruments

Derivative contracts include forwards, swaps and options; all of which are bilateral contracts or payment exchange agreements, whose fair values are derived from the notional value of an underlying asset, reference rate or index. The derivative instruments are classified as financial assets when their fair value is positive and as financial liabilities when their fair value is negative. The fair value is volatile to fluctuations in market interest rates or foreign exchange rates relative to their terms. The Banking Group uses derivatives as an end-user as part of its asset and liability management activities.

	2017			2016		
in thousands of NZD	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
Held for trading derivatives						
Interest rate derivatives						
Swaps (related entities)*	8,555,199	47,454	47,216	8,709,872	68,738	62,840
Swaps (non-related entities)	322,788	7,817	165	251,775	7,614	1,293
Currency swaps (related entities)*	-	-	-	-	-	-
Forward rate agreements (related entities)*	-	2	-	-	55	42
Forward rate agreements (non-related entities)	-	-	-	-	-	-
Foreign exchange derivatives						
Swaps (related entities)*	3,231,423	118,408	21,272	1,257,036	27,909	12,387
Swaps (non-related entities)	268,865	1,472	11,724	231,572	2,058	11,864
Forwards (related entities)*	369,900	13,003	5,129	309,790	16,932	1,633
Forwards (non-related entities)	349,171	5,296	10,798	267,852	1,582	13,451
Currency options (related entities)*	224,599	5,170	2,504	169,657	7,208	2,003
Currency options (non-related entities)	218,645	2,474	5,170	159,851	2,003	7,208
Total derivatives	**13,540,590**	**201,096**	**103,978**	**11,357,405**	**134,099**	**112,721**
Amounts due for settlement within 12 months		145,661	65,105		58,706	52,036
Amounts due for settlement over 12 months		55,435	38,873		75,393	60,685
Total derivatives		**201,096**	**103,978**		**134,099**	**112,721**

* Balance relates to other Rabobank related entities.

The Banking Group enters into derivative transactions as part of its funding, sales and trading activities and for economic hedging purposes.

The notional amounts provide a basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end but do not indicate the Banking Group's exposure to credit or market risks.

Notes to the Financial Statements

15 Available-for-sale financial assets

in thousands of NZD	2017	2016
New Zealand government securities	435,939	539,227
Other debt securities (Kauri)	168,360	184,927
Total available-for-sale financial assets	**604,299**	**724,154**
Amounts due for settlement within 12 months	317,210	526,157
Amounts due for settlement over 12 months	287,089	197,997
Total available-for-sale financial assets	**604,299**	**724,154**

16 Loans and advances

in thousands of NZD	2017	2016
Lending	11,215,768	10,492,426
Finance leases (note 16.1)	60,938	59,698
Gross loans and advances	**11,276,706**	**10,552,124**
Accrued interest	10,788	11,230
Provisions for credit impairment:		
Collective (note 17.5)	(27,182)	(34,611)
Specific (note 17.5)	(6,474)	(4,275)
Net loans and advances	**11,253,838**	**10,524,468**
Amounts due for settlement within 12 months [1]	5,294,232	5,149,218
Amounts due for settlement over 12 months [1]	5,959,606	5,375,250
Gross loans and advances	**11,253,838**	**10,524,468**

[1] Prior period comparatives have been restated to use facility maturity rather than loan maturity for Corporate Loans.

16.1 Finance Leases

	2017			
in thousands of NZD	Net investment	Unearned finance income	Unguaranteed residuals	Minimum lease payments
One year or less	27,423	2,026	-	29,449
Between one and two years	19,105	1,471	-	20,576
Between two and five years	14,410	1,270	-	15,680
Total finance leases	**60,938**	**4,767**	**-**	**65,705**

	2016			
in thousands of NZD	Net investment	Unearned finance income	Unguaranteed residuals	Minimum lease payments
One year or less	25,611	2,765	-	28,376
Between one and two years	18,235	1,450	-	19,685
Between two and five years	15,852	749	-	16,601
Total finance leases	**59,698**	**4,964**	**-**	**64,662**

Leasing arrangements

RNZL provides equipment and motor vehicle finance under hire purchase and leasing contracts to a broad range of industries. Contract terms are generally up to 5 years with either regular monthly payments or structured payments to match the customers' seasonal income patterns. The Bank only undertakes contracts where the underlying equipment or vehicle is used for a business purpose.

Notes to the Financial Statements

17 Credit quality, impaired assets and provision for impairment

17.1 Individually impaired assets

in thousands of NZD	2017 Residential mortgages	Corporate	Retail*	Total
Opening balance	-	-	131,428	131,428
Additions	-		227,897	227,897
Amounts written off	-	-	(2,308)	(2,308)
Returned to performing or repaid	-	-	(63,901)	(63,901)
Closing balance	**-**	**-**	**293,116**	**293,116**
Aggregate amount of undrawn balances on lending commitments on impaired assets	-	-	11,980	11,980
Analysis of individually impaired assets				
Non-performing assets	-	-	286,034	286,034
Specific provision against non-performing assets (note 17.5)	-	-	(6,474)	(6,474)
Net non-performing assets	**-**	**-**	**279,560**	**279,560**
Restructured assets	-	-	7,082	7,082
Specific provision against restructured assets (note 17.5)	-	-	-	-
Net restructured assets	**-**	**-**	**7,082**	**7,082**

in thousands of NZD	2016 Residential mortgages	Corporate	Retail*	Total
Opening balance	-	-	49,187	49,187
Additions	-	56,747	108,105	164,852
Amounts written off	-	-	(2,664)	(2,664)
Returned to performing or repaid	-	(56,747)	(23,200)	(79,947)
Closing balance	**-**	**-**	**131,428**	**131,428**
Aggregate amount of undrawn balances on lending commitments on impaired assets	-	-	5,257	5,257
Analysis of individually impaired assets				
Non-performing assets	-	-	124,697	124,697
Specific provision against non-performing assets (note 17.5)	-	1	(4,276)	(4,275)
Net non-performing assets	**-**	**1**	**120,421**	**120,422**
Restructured assets	-	-	6,731	6,731
Specific provision against restructured assets (note 17.5)	-	-	-	-
Net restructured assets	**-**	**-**	**6,731**	**6,731**

* Retail exposures include lending to rural clients together with all other lending to small and medium businesses.

Notes to the Financial Statements

17 Credit quality, impaired assets and provision for impairment (continued)

17.2 Past due assets but not impaired

	2017			
in thousands of NZD	Residential mortgages	Corporate	Retail*	Total
Less than 30 days past due	-	-	25,821	25,821
At least 30 days but less than 60 days past due	-	-	1,035	1,035
At least 60 days but less than 90 days past due	-	-	561	561
At least 90 days past due (note 17.3)	-	-	367	367
Closing balance	**-**	**-**	**27,784**	**27,784**

	2016			
in thousands of NZD	Residential mortgages	Corporate	Retail*	Total
Less than 30 days past due	-	-	17,173	17,173
At least 30 days but less than 60 days past due	-	-	2,762	2,762
At least 60 days but less than 90 days past due	-	-	1,475	1,475
At least 90 days past due (note 17.3)	-	-	7,777	7,777
Closing balance	**-**	**-**	**29,187**	**29,187**

17.3 At least 90 days past due assets but not impaired

	2017			
in thousands of NZD	Residential mortgages	Corporate	Retail*	Total
Opening balance	-	-	7,777	7,777
Additions	-	-	185	185
Amounts written off	-	-	-	-
Repayments	-	-	(7,595)	(7,595)
Closing balance	**-**	**-**	**367**	**367**

	2016			
in thousands of NZD	Residential mortgages	Corporate	Retail*	Total
Opening balance	-	-	24,896	24,896
Additions	-	-	4,467	4,467
Amounts written off	-	-	-	-
Repayments	-	-	(21,586)	(21,586)
Closing balance	**-**	**-**	**7,777**	**7,777**

* Retail exposures include lending to rural clients together with all other lending to small and medium businesses.

17.4 Other assets under administration

Assets with a book value of $873k were under administration as at 31 December 2017. (2016: $251k)

Notes to the Financial Statements

17 Credit quality, impaired assets and provision for impairment (continued)

17.5 Provision for credit impairment

	2017			
in thousands of NZD	Residential mortgages	Corporate	Retail*	Total
Collective provision				
Opening balance	-	-	34,611	34,611
Charge / (release) to statement of comprehensive income	-	-	(7,429)	(7,429)
Other movements	-	-	-	-
Closing balance	**-**	**-**	**27,182**	**27,182**
Specific provision				
Opening balance	-	(1)	4,276	4,275
Charge / (release) to statement of comprehensive income	-	-	6,104	6,104
Amounts written off	-		(2,308)	(2,308)
Recoveries	-	-	-	-
Reversals	-	-	-	-
Provision for impairment recognised during the year	-	-	8,372	8,372
Discount unwind**	-	-	(9,969)	(9,969)
Closing balance (17.1)	**-**	**(1)**	**6,475**	**6,474**

	2016			
in thousands of NZD	Residential mortgages	Corporate	Retail*	Total
Collective provision				
Opening balance	-	-	15,025	15,025
Charge / (release) to statement of comprehensive income	-	-	19,586	19,586
Other movements	-	-	-	-
Closing balance	**-**	**-**	**34,611**	**34,611**
Specific provision				
Opening balance	-	(1)	6,894	6,893
Charge / (release) to statement of comprehensive income	-	-	(2,440)	(2,440)
Amounts written off	-	-	(2,664)	(2,664)
Recoveries	-	-	20	20
Reversals	-	-	-	-
Provision for impairment recognised during the year	-	-	7,132	7,132
Discount unwind**	-	-	(4,666)	(4,666)
Closing balance (17.1)	**-**	**(1)**	**4,276**	**4,275**

* Retail exposures include lending to rural clients together with all other lending to small and medium businesses.

** The impairment loss on an impaired asset is calculated as the difference between the asset's carrying amount and the estimated future cash flows discounted to its present value using the original effective interest rate for the asset. The discount unwinds over the period the asset is held, as interest income.

Notes to the Financial Statements

18 Due from related entities

in thousands of NZD	2017	2016
Current account balances - wholly owned group*	8,977	22,713
Loans and advances - wholly owned group*	2,406,421	2,067,341
Capital securities - wholly owned group*	280,000	280,000
Accrued interest receivable - wholly owned group*	5,396	3,687
Total due from related entities	**2,700,794**	**2,373,741**

Amounts due for settlement within 12 months	2,006,163	1,429,386
Amounts due for settlement over 12 months	694,631	944,355
Total due from related entities	**2,700,794**	**2,373,741**

* The wholly owned group refers to other Rabobank related entities. Refer to note 38 for further information on related party disclosures.

19 Other assets

in thousands of NZD	2017	2016
Accrued interest receivable	4,216	3,621
GST receivable	189	206
Sundry debtors	562	855
Others	526	485
Total other assets	**5,493**	**5,167**

All other assets are due for settlement within 12 months

20 Property, plant and equipment

in thousands of NZD	Office Fixtures & Fittings	Office Equipment	Computer Hardware	Total
Balance as at 1 January 2016				
Cost	10,321	33	1,503	11,857
Accumulated depreciation	(5,407)	(33)	(928)	(6,368)
Net book value	**4,914**	**-**	**575**	**5,489**
Balance as at 31 December 2016				
Cost	10,700	27	1,496	12,223
Accumulated depreciation	(6,266)	(27)	(1,141)	(7,434)
Net book value	**4,434**	**-**	**355**	**4,789**
Balance as at 31 December 2017				
Cost	10,704	64	1,491	12,259
Accumulated depreciation	(7,156)	(29)	(999)	(8,184)
Net book value	**3,548**	**35**	**492**	**4,075**

Reconciliation

Reconciliation of the carrying amount of property, plant and equipment at the beginning and end of the year.

in thousands of NZD	Office Fixtures & Fittings	Office Equipment	Computer Hardware	Total
Balance as at 1 January 2016	**4,914**	-	**575**	**5,489**
Acquisitions	395	-	-	395
Disposals	(2)	-	(7)	(9)
Depreciation	(873)	-	(213)	(1,086)
Balance as at 31 December 2016	**4,434**	-	**355**	**4,789**
Acquisitions		36	372	408
Disposals				-
Depreciation	(886)	(1)	(235)	(1,122)
Balance as at 31 December 2017	**3,548**	**35**	**492**	**4,075**

Notes to the Financial Statements

21 Intangible assets

in thousands of NZD	2017	2016
Computer software		
Opening balance as at 1 January		
At cost	219	141
Less accumulated amortisation	(90)	(50)
Net book value	**129**	**91**
Closing balance at 31 December		
At cost	219	219
Less accumulated amortisation	(132)	(90)
Net book value	**87**	**129**

Reconciliation		
Opening balance	129	91
Acquisitions	-	77
Written off	-	-
Amortisation	(42)	(39)
Closing balance	**87**	**129**

22 Debt securities in issue

in thousands of NZD	2017	2016
Bonds	1,104,274	1,509,164
Notes	1,188,414	1,127,216
Commercial Paper	1,474,423	-
Accrued interest	13,763	15,598
Total debt securities in issue	**3,780,874**	**2,651,978**

Amounts due for settlement within 12 months	2,980,874	1,301,978
Amounts due for settlement over 12 months	800,000	1,350,000
Total debt securities in issue	**3,780,874**	**2,651,978**

23 Deposits

in thousands of NZD	2017	2016
Call deposits	2,088,021	2,437,971
Term deposits	2,404,487	2,509,954
Accrued interest	27,393	33,439
Total deposits	**4,519,901**	**4,981,364**

Amounts due for settlement within 12 months	3,273,380	3,905,885
Amounts due for settlement over 12 months	1,246,521	1,075,479
Total deposits	**4,519,901**	**4,981,364**

Notes to the Financial Statements

24 Preference shares

in thousands of NZD	2017	2016
Preference shares	280,000	280,000
Accrued interest	666	666
Preference shares at the end of the year	**280,666**	**280,666**

On 27 May 2009, RCSL issued 280,000,000 perpetual, non cumulative, non voting preference shares. The issue price was NZD1 per share. The preference shares carry the rights to a quarterly distribution, which equals the five-year swap interest plus an annual 3.75% mark-up and was reset at 8.7864% per annum on 25 May 2009. As from the issue date (27 May 2009), the distribution was payable every quarter in arrears until 18 June 2014. The rate was reset at 8.3425% per annum on 18 June 2014 and the distribution is payable every quarter in arrears until 18 June 2019. From 18 June 2019, the distribution will be made payable every quarter based on the 90-day bank bill swap interest rate plus an annual 3.75% mark-up.

RCSL has the option to redeem the preference shares in certain circumstances (including from the First Call Date (18 June 2019) or any other dividend payment date thereafter), and has undertaken to exercise its option to redeem the preference shares on the First Conditional Call Date (18 June 2039). The shares are listed on the New Zealand stock exchange ("NZDX") for debt securities.

The preference shares are direct, unsecured and subordinated obligations of RCSL.

25 Due to related entities

in thousands of NZD	2017	2016
Current account balances - wholly owned group*	98,110	101,015
Deposits and short term advances - wholly owned group*	4,722,901	4,557,131
Accrued interest payable - wholly owned group*	7,623	9,678
Total due to related entities	**4,828,634**	**4,667,824**
Amounts due for settlement within 12 months	3,822,209	4,011,777
Amounts due for settlement over 12 months	1,006,425	656,047
Total due to related entities	**4,828,634**	**4,667,824**

* The wholly owned group refers to other Rabobank related entities. Refer to note 38 for further information on related party disclosures.

26 Other liabilities

in thousands of NZD	2017	2016
Interest paid in advance	986	1,366
Accrued expenses	7,083	6,365
Sundry creditors	3,037	2,943
Total other liabilities	**11,106**	**10,674**

All other liabilities are due for settlement within 12 months

27 Provisions

in thousands of NZD	2017	2016
Provision for long service leave	3,032	2,792
Other provisions	58	100
Total provisions	**3,090**	**2,892**

Changes in provisions were as follows:

in thousands of NZD	2017	2016
Provisions for long service leave		
Opening balance	2,792	2,785
Additions	442	489
Used	(182)	(401)
Released	(20)	(81)
Closing balance	**3,032**	**2,792**

Notes to the Financial Statements

28 Head office account

in thousands of NZD	2017	2016
Movement of head office account		
Opening balance	231,864	203,898
Net profit of the Branch	24,010	27,966
Closing balance	**255,874**	**231,864**

29 Priority of financial liabilities in the event of a liquidation

The financial liabilities of the Branch reported in these financial statements as part of the liabilities of the Banking Group are unsecured. Where the assets of the Branch in New Zealand are liquidated or the Branch ceases to trade, those financial liabilities would rank (under New Zealand law in relation to those assets) equally with the claims of the Branch's other unsecured creditors and behind the preferred creditors set out in Schedule 7 of the Companies Act 1993. The claims of the Branch's unsecured and preferred creditors in relation to the assets of the Branch in New Zealand are, in general terms, broadly equivalent to the claims of the unsecured and preferred creditors of Coöperatieve Rabobank U.A. in relation to assets in countries other than New Zealand in which Coöperatieve Rabobank U.A. carries on business.

30 Equity

30.1 Contributed equity

in thousands of NZD	2017	2016
Paid up capital in Rabobank New Zealand Limited	551,200	551,200

Total authorised and paid up capital comprises 275,600,000 ordinary shares fully paid ranking equally as to dividends, voting rights and rights to share in any surplus on winding up (31 December 2016: 275,600,000). Each share was issued at $2 and has no par value.

Paid up capital Rabo Capital Securities Limited	1	1

Total authorised and paid up capital comprises 1,000 ordinary shares fully paid ranking equally as to voting rights but are not entitled to receive or participate in any dividend or distribution made by RCSL (31 December 2016: 1,000). Each share was issued at $1 and has no par value.

Total equity	**551,201**	**551,201**

30.2 Reserves

in thousands of NZD	2017	2016
Reserves		
Opening balance	803	115
Changes in AFS revaluation reserve (gross)	1,279	956
Changes in AFS revaluation reserve (deferred tax)	(358)	(268)
Closing balance	**1,724**	**803**

Nature and purpose of AFS reserve

Records the unrealised gains or losses arising from changes in the fair value of AFS financial assets.

30.3 Retained earnings

in thousands of NZD	2017	2016
Opening balance	814,507	724,698
Net profit (excluding Branch) for the year	108,189	89,809
Closing balance	**922,696**	**814,507**

Notes to the Financial Statements

31 Contingent liabilities

Through the normal course of business, the Banking Group may be involved in litigation claims. The aggregate potential liability arising in respect of these claims cannot be accurately assessed. Provisions have been made where appropriate for likely loss of actual and potential claims after a review has been made on a case by case basis. The Banking Group does not consider that the outcome of any claims made either individually or in aggregate are likely to have a material effect on its operation or financial position.

The Banking Group is party to financial instruments with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers and in managing its own risk profile. These financial instruments include commitments to extend credit facilities, financial guarantees, and standby letters of credit. The Banking Group's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract or notional amount of those instruments. However, some commitments to extend credit and provide underwriting facilities can be cancelled or revoked at any time at the Banking Group's option. The Banking Group uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The following table shows the maximum amount payable for the following contingent liabilities.

in thousands of NZD	2017	2016
Guarantees	14,016	8,583
Lending commitments		
Irrevocable lending commitments	768,915	712,058
Revocable lending commitments	1,826,185	1,217,728
Total contingent liabilities	**2,609,116**	**1,938,369**

Letters of credit are undertakings by the Banking Group to repay a loan obligation in the event of a default by a customer or undertakings to pay overseas suppliers of goods in the event of payment default by a customer who is importing goods.

Guarantees represent conditional undertakings by the Banking Group to support the financial obligations of its customers to third parties.

Lending commitments include the Banking Group's obligations to provide lending facilities which remain undrawn at balance date, or where letter of offers have been issued but not accepted yet.

32 Expenditure commitments

32.1 Capital expenditure commitments

Estimated capital expenditure contracted for at balance date, but not provided for, or payable:

in thousands of NZD	2017	2016
One year or less		-
Total capital expenditure commitments	**-**	**-**

Notes to the Financial Statements

32 Expenditure commitments (continued)

32.2 Operating lease commitments

in thousands of NZD	2017	2016
One year or less	4,151	4,414
Between one and two years	2,934	2,610
Between two and five years	3,967	4,778
Over five years	735	1,426
Total operating lease commitments	**11,787**	**13,228**

Lease arrangements entered into by the Banking Group are for the purpose of accommodating the Banking Group's needs. These include operating leases arrangements over premises, motor vehicles used by staff in conducting business and office equipment such as photocopiers and printers.

Leases may be over commercial and residential premises and reflect the needs of the occupying business and market conditions. All leases are negotiated with external professional property advisors acting for the Banking Group. Rental payments are determined in terms of the relevant lease requirements, usually reflecting market rentals as described by standard valuation practice. The Banking Group as lessee has no purchase options over premises occupied. There are no restrictions imposed on the Banking Group's lease of space other than those forming part of the negotiated lease arrangements for each specific premises.

33 Risks arising from financial instruments

The Banking Group has an integrated framework of responsibilities and functions driven from the RNZL Board in accordance with the RNZL Board Risk and Compliance Committee Charter (which also deals with risk and compliance matters relating to NZ branch) level down to operational levels, covering all material risks most notably credit, market, liquidity and operational risk.

The Banking Group is ultimately responsible for the organisational strategy and business plan and ultimately responsible for the risk management framework and is responsible for the oversight of its operation by management.

The RNZL Board, through the Board, Risk & Compliance Committee (BRCC), oversees the establishment, implementation, review and monitoring of the Risk Management Strategy. It is also responsible for overseeing the effective and consistent application of the Risk Management Framework across the Banking Group. This includes setting and monitoring risk appetite, approving risk limits and risk policies (within the overall limits set by Rabobank Group).

Notes to the Financial Statements

33 Risks arising from financial instruments (continued)

33.1 Liquidity risk

Liquidity risk is defined as the risk that the Banking Group will not have sufficient funds available to meet its financial and transactional cash flow obligations and regulatory obligations. The Banking Group's liquidity policies are designed to ensure that it has sufficient funds available, even in adverse circumstances, to meet its obligations, including loans and advances to customers and maturities of deposits and other obligations. Liquidity policies are reviewed periodically or at least annually and have been further strengthened in 2017. Rabobank's commitment to build retail deposit clients and increased liquid asset provisions have supported the liquidity position during this period.

For the Banking Group, both long term and short term liquidity frameworks are in place.

- The long term framework measures the mismatch of core assets and liabilities with maturities greater than one year. The mismatch is measured monthly. A shortfall of long term liabilities above a defined acceptable limit triggers a request for long term funds.
- The short term framework focuses upon the net cash outflow on a 1 day, 7 day and 30 day horizon. The framework considers contractual and expected maturity on all asset and liability payments.

Liquidity risk is disclosed based on both contractual maturity and expected maturity.

- Contractual maturity is based on the undiscounted cash flows (principal and interest) based on the actual period of the contract. The tables in contractual maturity summarises the maturity profile of the Banking Group's financial assets and financial liabilities and contingent liabilities based on the contractual undiscounted cash flows.
- Expected maturity is based on an internally approved model and reflects how Banking Group manages liquidity risk. The overriding principle is to match fund assets to the expected maturity of the liquidity commitment. Key assumptions regarding the expected maturity dates in the long term framework are applied to both the Rural asset portfolio and retail deposit liabilities.
- In the short term framework, the expected maturity of corporate and rural loans and assets held for collateral are always assumed to be rolled over, reflecting a conservative position whereby Rabobank commits to refinancing its core client base. The tables in expected maturity summarises the maturity analysis of financial assets and financial liabilities according to when they are expected to be recovered or settled.

The Banking Group actively monitors and manages the mismatch between assets and liabilities as part of standard banking operations. The management of the mismatch of assets against liabilities using expected cash flows allows for the repayment behaviour of assets and liabilities that are not aligned to the contractual maturity. The Banking Group has access to diverse sources of short term funding programs that are supported in the market by its strong credit rating. These funding programs support the renewal of maturing liabilities.

Liquidity portfolio

The Banking Group holds a portfolio of high quality liquid securities to support liquidity risk management. The size of the Banking Group's liquidity portfolio is based on the amount required to meet its liquidity risk appetite and regulatory obligations.

in thousands of NZD	2017	2016
Cash at banks	239,819	275,514
Balances with Central Bank	248,596	242,191
New Zealand government securities	435,939	539,227
Other debt securities (Kauri)	168,360	184,927
Total liquid assets	**1,092,714**	**1,241,859**

Notes to the Financial Statements

33 Risks arising from financial instruments (continued)

33.1 Liquidity risk (continued)

33.1.1 Contractual maturity of financial assets and liabilities

The tables below show the maturity analysis of financial assets and liabilities by remaining contractual maturity based on undiscounted cash flows (principal and interest)

in thousands of NZD	Total	On Demand	Less than 6 Months	6-12 Months	12-24 Months	24-60 Months	Over 60 Months
At 31 December 2017							
Financial assets							
Cash and cash equivalents	488,415	488,415	-	-	-	-	-
Derivative financial instruments*	204,316	-	108,316	37,339	23,519	34,573	569
AFS financial assets	616,841	-	292,051	33,512	208,779	82,499	-
Loans and advances	13,996,852	-	3,890,513	3,083,190	3,071,927	2,913,768	1,037,454
Due from related entities	2,774,926	9,306	1,989,560	43,643	406,280	277,875	48,262
Other financial assets	4,967	-	4,967	-	-	-	-
Total financial assets	**18,086,317**	**497,721**	**6,285,407**	**3,197,684**	**3,710,505**	**3,308,715**	**1,086,285**
Financial liabilities							
Derivative financial instruments*	106,702	-	46,140	18,965	16,115	24,807	675
Debt securities in issue	3,853,118	-	1,808,987	1,215,197	264,825	564,109	-
Deposits	4,558,074	2,088,021	1,488,212	418,645	396,579	166,485	132
Preference shares	305,227	-	8,409	8,409	288,409		
Due to related entities	4,908,250	98,447	2,867,451	903,957	825,856	109,248	103,291
Other financial liabilities	10,120	-	10,120	-	-	-	-
Head office account	255,874	-	255,874	-	-	-	-
Total financial liabilities	**13,997,365**	**2,186,468**	**6,485,193**	**2,565,173**	**1,791,784**	**864,649**	**104,098**

in thousands of NZD	Total	On Demand	Less than 6 Months	6-12 Months	12-24 Months	24-60 Months	Over 60 Months
At 31 December 2016							
Financial assets							
Cash and cash equivalents	517,705	517,705	-	-	-	-	-
Derivative financial instruments*	149,288	-	43,604	15,263	25,006	62,620	2,795
AFS financial assets	743,823	-	279,736	258,260	37,367	168,460	-
Loans and advances[1]	11,283,035	-	1,678,587	2,436,178	3,045,347	2,770,701	1,352,222
Due from related entities[2]	2,471,979	23,122	1,445,890	42,213	374,452	554,603	31,699
Other financial assets	4,682	-	4,682	-	-	-	-
Total financial assets	**15,170,512**	**540,827**	**3,452,499**	**2,751,914**	**3,482,172**	**3,556,384**	**1,386,716**
Financial liabilities							
Derivative financial instruments*	127,223	-	33,639	19,275	23,584	46,442	4,283
Debt securities in issue	2,739,684	-	1,315,687	28,195	727,404	668,398	-
Deposits	5,016,793	2,437,969	1,788,473	443,349	178,114	168,856	32
Preference shares [2]	322,045	-	8,409	8,409	16,818	288,409	
Due to related entities	4,791,177	101,422	2,470,465	524,465	1,005,016	581,624	108,185
Other financial liabilities	9,308	-	9,308	-	-	-	-
Head office account	231,864	-	231,864	-	-	-	-
Total financial liabilities	**13,238,094**	**2,539,391**	**5,857,845**	**1,023,693**	**1,950,936**	**1,753,729**	**112,500**

*The FX derivatives contracts are presented on a net basis by each counterparty, on the basis that settlement at maturity happens simultaneously which presents a more relevant view of the contractual cash flows.

[1] Prior period comparatives have been restated to use facility maturity rather than loan maturity for Corporate Loans.

[2] Prior period comparatives have been restated to correct to use first call date option rather then final maturity date for preference shares.

Notes to the Financial Statements

33 Risks arising from financial instruments (continued)

33.1 Liquidity risk (continued)

33.1.2 Contractual maturity of contingent liabilities

The tables below show the maturity analysis of contingent liabilities by remaining contractual maturity.

in thousands of NZD	Total	On Demand	Less than 6 Months	6-12 Months	12-24 Months	24-60 Months	Over 60 Months
At 31 December 2017							
Guarantees	14,016	5,309	-	2,250	-	4,237	2,220
Lending commitments	2,595,100	1,404,621	598,926	71,154	76,712	435,469	8,218
Total contingent liabilities	**2,609,116**	**1,409,930**	**598,926**	**73,404**	**76,712**	**439,706**	**10,438**

in thousands of NZD	Total	On Demand	Less than 6 Months	6-12 Months	12-24 Months	24-60 Months	Over 60 Months
At 31 December 2016							
Guarantees	8,583	4,481	3,662	70	350	-	20
Lending commitments	1,929,786	1,274,645	131,432	135,057	41,850	336,433	10,369
Total contingent liabilities	**1,938,369**	**1,279,126**	**135,094**	**135,127**	**42,200**	**336,433**	**10,389**

Notes to the Financial Statements

33 Risks arising from financial instruments (continued)

33.1 Liquidity risk (continued)

33.1.3 Expected maturity

The tables below show the maturity analysis of financial assets and liabilities by expected maturity based on undiscounted cash flows (principal and interest)

in thousands of NZD	Total	Call-6 Months	6-12 Months	12-24 Months	24-60 Months	Over 60 Months
At 31 December 2017						
Financial assets						
Cash and cash equivalents	488,415	488,415	-	-	-	-
Derivative financial instruments	204,316	108,316	37,339	23,519	34,573	569
AFS financial assets	616,841	292,051	33,512	208,779	82,499	-
Loans and advances	11,522,392	2,696,482	2,673,523	5,609,886	542,501	-
Due from related entities	2,774,926	1,998,866	43,643	406,280	277,875	48,262
Other financial assets	4,967	4,967	-	-	-	-
Total financial assets	**15,611,857**	**5,589,097**	**2,788,017**	**6,248,464**	**937,448**	**48,831**
Financial liabilities						
Derivative financial instruments	106,702	46,140	18,965	16,115	24,807	675
Debt securities in issue	3,853,118	1,808,987	1,215,197	264,825	564,109	-
Deposits	4,599,092	2,605,398	700,206	916,883	376,473	132
Preference shares	305,227	8,409	8,409	288,409	-	-
Due to related entities	4,908,250	2,965,898	903,957	825,856	109,248	103,291
Other financial liabilities	10,120	10,120	-	-	-	-
Head office account	255,874	255,874	-	-	-	-
Total financial liabilities	**14,038,383**	**7,700,826**	**2,846,734**	**2,312,088**	**1,074,637**	**104,098**

in thousands of NZD	Total	Call-6 Months	6-12 Months	12-24 Months	24-60 Months	Over 60 Months
At 31 December 2016						
Financial assets						
Cash and cash equivalents	517,705	517,705	-	-	-	-
Derivative financial instruments	149,288	43,604	15,263	25,006	62,620	2,795
AFS financial assets	743,823	279,736	258,260	37,367	168,460	-
Loans and advances1	10,790,188	2,550,267	2,668,517	5,215,009	356,395	-
Due from related entities2	2,471,979	1,469,012	42,213	374,452	554,603	31,699
Other financial assets	4,682	4,682	-	-	-	-
Total financial assets	**14,677,665**	**4,865,006**	**2,984,253**	**5,651,834**	**1,142,078**	**34,494**
Financial liabilities						
Derivative financial instruments	127,223	33,639	19,275	23,584	46,442	4,283
Debt securities in issue	2,739,684	1,315,687	28,195	727,404	668,398	-
Deposits	5,062,371	3,153,498	784,592	799,858	324,391	32
Preference shares 2	322,045	8,409	8,409	16,818	288,409	-
Due to related entities	4,791,177	2,571,887	524,465	1,005,016	581,624	108,185
Other financial liabilities	9,308	9,308	-	-	-	-
Head office account	231,864	231,864	-	-	-	-
Total financial liabilities	**13,283,672**	**7,324,292**	**1,364,936**	**2,572,680**	**1,909,264**	**112,500**

Maturity analysis of contingent liabilities (guarantees and lending commitments) by expected maturity is not disclosed as it is not expected to be different from contractual maturity in managing liquidity risk under the long term liquidity risk framework.

1 Prior period comparatives have been restated to use facility maturity rather than loan maturity for Corporate Loans.
2 Prior period comparatives have been restated to correct to use first call date option rather then final maturity date for preference shares.

Notes to the Financial Statements

33 Risks arising from financial instruments (continued)

33.2 Market risk

Market risk is defined as the risk that the fair value or future cash flows of a financial instrument that may fluctuate because of changes in market prices. The Banking Group's main types of market risk relate to interest rate and currency risks from non trading activities that arise from the banking book. The Banking Group's market risk is governed by the policies and procedures agreed by the Board. The policies serve a two-fold purpose: to protect the capital and earnings of the Group, and to allow risk managers to benefit from movements in market risk without unduly compromising the Banking Group's capital or the stability of its' earnings. The market risk policy and procedures are continually updated in line with business developments. No material changes were made to the objectives, policies or processes impacting the Banking Group from the prior year.

Normal day-to-day banking activities can give rise to either of the aforementioned market risks. Currency risk arises from activities such as executing derivative products denominated in a foreign currency and holding balances in a foreign currency. Interest rate risk arises from activities such as borrowing and lending to customers, obtain funding from the retail market and from borrowing and lending with related parties. Market risks for the Banking Group result from the maturity mismatch of asset and liabilities giving rise to interest rate and FX risks. Market Risk capture and report the residual interest rate risks. Since client activity is almost entirely in local currency, and funding is broadly sourced from local markets, there is only residual exposure to foreign exchange risk for the Bank. The Banking Group has no exposure to market risk for equities and commodities.

The Banking Group uses Value-at-Risk (VaR) as one of the measures of market risk. VaR is a statistical measure of potential loss using historically observed market movements. The VaR uses a 1 year historical simulation to compute the 97.5% confidence interval for loss on a 1 day holding period basis. The VaR model is designed to measure market risk in normal market conditions. Although a valuable guide to market risk, VaR has its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a 1-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a 1-day holding period may be insufficient to liquidate or hedge all positions fully;
- the use of 97.5% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

The Risk Management Committee have approved a VaR limit of $3 million which applied throughout the year (Dec16: $3.9 million).

in thousands of NZD	2017	2016
VaR at year end	934	1,395

Market Risk also uses these tools which include positions, interest rate sensitivities and stress scenarios prepared daily in managing and measuring market risks and interest rate risk on banking book for the Banking Group. The production of all sensitivities is performed within trade capture systems. At the end of each day, independent market data is captured and used to discount all expected and replicated cash flows. The interest rate sensitivity, which is linear, is a measurement of gains or losses sensitivity of underlying positions to a 1 basis point upward shift in interest rate across the positions in the interest rate curve.

in thousands of NZD	2017	2016
Interest Rate Sensitivity at year end (loss)	(202)	(241)

Notes to the Financial Statements

33 Risks arising from financial instruments (continued)

33.2 Market risk (continued)

33.2.1 Repricing analysis

The tables below show the repricing of assets and liabilities based on the earlier of repricing or contractual maturity date.

in thousands of NZD	Total	Call-3 Months	3-6 Months	6-12 Months	12-24 Months	Over 24 Months	Non-Interest bearing
At 31 December 2017							
Financial assets							
Cash and cash equivalents	488,415	488,415	-	-	-	-	-
Derivative financial instruments	201,096	-	-	-	-	-	201,096
AFS financial assets	604,299	122,485	157,811	30,044	212,736	81,223	-
Loans and advances	11,253,838	6,211,200	1,657,290	1,036,190	1,428,054	910,033	11,071
Due from related entities	2,700,794	1,840,576	133,536	26,551	384,976	309,655	5,500
Other financial assets	4,967	-	-	-	-	-	4,967
Total financial assets	**15,253,409**	**8,662,676**	**1,948,637**	**1,092,785**	**2,025,766**	**1,300,911**	**222,634**
Other assets	526	-	-	-	-	-	526
Income tax receivables	-	-	-	-	-	-	-
Net deferred tax assets	13,443	-	-	-	-	-	13,443
Property, plant and equipment	4,075	-	-	-	-	-	4,075
Intangible assets	87	-	-	-	-	-	87
Total non-financial assets	**18,131**	**-**	**-**	**-**	**-**	**-**	**18,131**
Total assets	**15,271,540**	**8,662,676**	**1,948,637**	**1,092,785**	**2,025,766**	**1,300,911**	**240,765**
Financial liabilities							
Derivative financial instruments	103,978	-	-	-	-	-	103,978
Debt securities in issue	3,780,874	1,214,445	695,641	1,052,688	249,710	554,627	13,763
Deposits	4,519,901	2,994,321	546,839	404,838	384,743	161,769	27,391
Preference shares	280,666	-	-	280,000	-	-	666
Due to related entities	4,828,634	3,893,924	588,919	336,525	-	-	9,266
Other financial liabilities	10,120	-	-	-	-	-	10,120
Head office account	255,874	-	-	-	-	-	255,874
Total financial liabilities	**13,780,047**	**8,102,690**	**1,831,399**	**2,074,051**	**634,453**	**716,396**	**421,058**
Current tax liabilities	11,796	-	-	-	-	-	11,796
Other liabilities	986	-	-	-	-	-	986
Provisions	3,090	-	-	-	-	-	3,090
Total non-financial liabilities	**15,872**	**-**	**-**	**-**	**-**	**-**	**15,872**
Total liabilities	**13,795,919**	**8,102,690**	**1,831,399**	**2,074,051**	**634,453**	**716,396**	**436,930**
Interest rate derivatives							
Swaps	-	288,083	139,000	220,834	(699,757)	51,840	
Repricing gap (interest-bearing assets and liabilities)	1,671,786	848,069	256,238	(760,432)	691,556	636,355	
Cumulative mismatch	**1,671,786**	**848,069**	**1,104,307**	**343,875**	**1,035,431**	**1,671,786**	

Notes to the Financial Statements

33 Risks arising from financial instruments (continued)

33.2 Market risk (continued)

33.2.1 Repricing analysis (continued)

in thousands of NZD	Total	Call-3 Months	3-6 Months	6-12 Months	12-24 Months	Over 24 Months	Non-Interest bearing
At 31 December 2016							
Financial assets							
Cash and cash equivalents	517,705	517,705	-	-	-	-	-
Derivative financial instruments	134,099	-	-	-	-	-	134,099
AFS financial assets	724,154	111,710	155,948	254,611	30,135	171,750	-
Loans and advances	10,524,468	5,557,761	1,185,016	1,588,596	1,150,665	1,031,111	11,319
Due from related entities	2,373,741	643,035	6,647	22,060	1,135,606	563,022	3,371
Other financial assets	4,682	-	-	-	-	-	4,682
Total financial assets	**14,278,849**	**6,830,211**	**1,347,611**	**1,865,267**	**2,316,406**	**1,765,883**	**153,471**
Other assets	485	-	-	-	-	-	485
Income tax receivables	2,566	-	-	-	-	-	2,566
Net deferred tax assets	19,676	-	-	-	-	-	19,676
Property, plant and equipment	4,789	-	-	-	-	-	4,789
Intangible assets	129	-	-	-	-	-	129
Total non-financial assets	**27,645**	**-**	**-**	**-**	**-**	**-**	**27,645**
Total assets	**14,306,494**	**6,830,211**	**1,347,611**	**1,865,267**	**2,316,406**	**1,765,883**	**181,116**
Financial liabilities							
Derivative financial instruments	112,721	-	-	-	-	-	112,721
Debt securities in issue	2,651,978	1,106,381	569,999	10,000	300,000	650,000	15,598
Deposits	4,981,364	3,333,149	839,695	445,789	166,511	162,784	33,436
Preference shares	280,666	-	-	-	-	280,000	666
Due to related entities	4,667,824	4,131,351	521,916	-		-	14,557
Other financial liabilities	9,308	-	-	-	-	-	9,308
Head office account	231,864	-	-	-	-	-	231,864
Total financial liabilities	**12,935,725**	**8,570,881**	**1,931,610**	**455,789**	**466,511**	**1,092,784**	**418,150**
Other liabilities	1,366	-	-	-	-	-	1,366
Provisions	2,892	-	-	-	-	-	2,892
Total non-financial liabilities	**4,258**	**-**	**-**	**-**	**-**	**-**	**4,258**
Total liabilities	**12,939,983**	**8,570,881**	**1,931,610**	**455,789**	**466,511**	**1,092,784**	**422,408**
Interest rate derivatives							
Swaps	-	1,497,808	(186,930)	(620,571)	(552,200)	(138,107)	
Repricing gap (interest-bearing assets and liabilities)	1,607,803	(242,862)	(770,929)	788,907	1,297,695	534,992	
Cumulative mismatch	**1,607,803**	**(242,862)**	**(1,013,791)**	**(224,884)**	**1,072,811**	**1,607,803**	

33 Risks arising from financial instruments (continued)

33.3 Credit risk

Credit risk arises from the potential inability of a debtor or counterparty to meet their contractual obligations.

The Banking Group's credit policies focus, amongst other things, on facility terms, serviceability and relevant security. The Banking Group grants facilities only if it expects that a client will fully meet its payment commitment and the approval of facilities is undertaken by authorised personnel or an appropriate Credit Committee. Once a facility has been granted, the Banking Group monitors the extent to which the client meets its agreed obligations. In its approval process the Banking Group uses the Banking Group's Internal Risk Rating, which reflects the counterparty's probability of default. The credit processes, including compliance with policy, are subject to internal and external audit.

The Banking Group has a credit framework (including the credit policies) which is described in the Banking Group's Risk Management Strategy and is in line with the RNZL Board approved Risk Appetite Statement for RNZL. The Banking Group uses Key Risk Indicators for RNZL, Rabobank New Zealand Branch, and Rabobank Australia & New Zealand Group (RANZG) to measure and monitor credit and concentration risk.
These are described in the Risk Appetite Statement's for RNZL and RANZG. The portfolio is measured against the Key Risk Indicators on a quarterly basis to ensure the risk profile of the portfolio remains at an acceptable level and in accordance with the risk appetite. The key concentration risks that are monitored via the Key Risk Indicators are sector, exposure and geographical concentration.

Industry sectors are determined by reference to the Australia and New Zealand Standard Industrial Classification (ANZSIC) Codes.

No significant changes were made to the objectives, policies or processes from the prior year.

33.3.1 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The following tables show the maximum exposure to credit risk for the components of the balance sheet and off balance sheet, including derivatives and commitments and guarantees by industry and geography.

Credit exposures consist of in thousands of NZD	2017	2016
Cash and cash equivalents	488,415	517,705
AFS financial assets	604,299	724,154
Loans and advances	11,253,838	10,524,468
Due from related entities	2,700,794	2,373,741
Other financial assets	4,967	4,682
Derivative financial instruments	201,096	134,099
Commitments and guarantees	2,609,116	1,938,369
Total credit exposures	**17,862,525**	**16,217,218**

Credit exposures analysed by industry type in thousands of NZD	2017	2016
Agriculture	12,413,773	10,747,892
Finance and insurance	3,201,873	2,909,652
Forestry and fishery	208,539	192,779
Government	677,990	783,014
Manufacturing	747,223	908,190
Property and business services	123,605	120,864
Wholesale trade	246,071	321,008
Other	243,451	233,819
Total credit exposures	**17,862,525**	**16,217,218**

Notes to the Financial Statements

33 Risks arising from financial instruments (continued)

33.3 Credit risk (continued)

33.3.1 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements (continued)

Analysis of credit exposure by geographical areas

in thousands of NZD	2017	2016
Australia	378,287	214,417
Finland	50,296	51,056
Germany	118,064	136,101
Netherlands	2,059,060	1,923,807
New Zealand	15,243,045	13,884,838
United Kingdom	5	-
United States of America	13,768	6,999
Total credit exposures	**17,862,525**	**16,217,218**

33.3.2 Collateral and other credit enhancements

The main types of collateral obtained are as follows:

Asset Class	Collateral type
Cash and cash equivalents	These exposures are mainly to relatively low risk banks (rated A+, AA- or better). These balances are not collateralised.
Derivative financial instruments	Exposures of Food and Agribusiness banking clients under derivative transactions are generally fully secured or partially secured by the same security that secures the loan of these clients. Security is typically taken under general security agreements and specific security arangements over agricultural or commercial properties (i.e. the farm), business assets, inventories or other assets. Other forms of credit protection may also be sought or taken out if warranted. The security is usually linked to derivative close-out netting arrangements which govern such transactions. Exposures to related parties under derivative transactions are generally considered to be low risk due to the nature of the counterparties, and there are typically no collateral or other credit enhancements obtained.
AFS financial assets	These exposures are with the New Zealand government and other financial institutions (supranationals). Collateral is not sought directly with respect to these exposures.
Loans and advances	The food and agribusiness banking loans are fully secured or partially secured. This lending will generally have a significant level of collateralisation depending on the nature of the product. For Rural lending, security is typically taken in the form of mortgages over water rights, rural and non-rural, commercial properties, and some residential properties; General Security Agreements over all present and after-acquired property; Specific Security Agreements over specific personal property; and Borrower group guarantees, as well as guarantees from some directors and principals. For food and agribusiness lending, security is typically taken in the form of General Security Agreements over all present and after-acquired property of the Borrower Group, specific real property mortgages and Borrower Group guarantees. For corporate lending, general security agreements over the company and specific mortgages apply. As at 31 December 2017 average loan to valuation ratio for lending to rural clients is 47.6% (2016: 45.3%).
Due from related entities	These exposures are generally considered to be low risk due to the nature of the counterparties. There are typically no collateral or other credit enhancements obtained in respect of amounts due from related entities.
Other assets	Collateral is generally not sought on these balances except on accrued interest receivable which is assumed to follow the principal amount recorded in Loans.

It is the Banking Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. The Banking Group does not use or take repossessed properties for business use. During the year ended 31 December 2017, the Banking Group did not assume ownership of any repossessed properties (2016: nil).

Notes to the Financial Statements

33 Risks arising from financial instruments (continued)

33.3 Credit risk (continued)

33.3.3 Credit quality per class of financial assets

The credit quality of financial assets is managed by the Banking Group using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Banking Group's internal credit rating system. The amounts presented are gross of impairment provisions.

	Neither past due nor impaired						
in thousands of NZD	R0-R7	R8-R10	R11-R14	R15-R20	Past due but not impaired	Individually impaired	Total
At 31 December 2017							
Cash and cash equivalents (note 13)	488,415	-	-	-	-	-	488,415
AFS financial assets (note 15)	604,299	-	-	-	-	-	604,299
Gross loans and advances* (note 16)	212,735	1,047,156	7,203,754	2,492,161	27,784	293,116	11,276,706
Total	**1,305,449**	**1,047,156**	**7,203,754**	**2,492,161**	**27,784**	**293,116**	**12,369,420**
At 31 December 2016							
Cash and cash equivalents (note 13)	517,705	-	-	-	-	-	517,705
AFS financial assets (note 15)	724,154	-	-	-	-	-	724,154
Gross loans and advances* (note 16)	82,347	1,094,432	6,384,404	2,830,326	29,187	131,428	10,552,124
Total	**1,324,206**	**1,094,432**	**6,384,404**	**2,830,326**	**29,187**	**131,428**	**11,793,983**

* Gross loans and advances exclude provisions for doubtful debts.

Credit rating descriptions	
R0-R7	Counterparties that are strong to extremely strong in meeting current and future financial commitments of the Banking Group.
R8-R10	Counterparties that have adequate capacity to meet current and future financial commitments to the Banking Group.
R11-R14	Counterparties that have adequate capacity to meet current financial commitments of the Banking Group.
R15-R20	Counterparties that currently have the capacity to meet financial commitments but are vulnerable to adverse business, financial or economic conditions. The higher the rating the more sensitive the counterparty is to adverse changes in business, financial or economic conditions.

Notes to the Financial Statements

33 Risks arising from financial instruments (continued)

33.3 Credit risk (continued)

33.3.4 Ageing analysis of past due but not impaired loans per class of financial assets

in thousands of NZD	1-29 days	30-59 days	60 - 89 days	At least 90 days	Total
At 31 December 2017					
Loans and advances* (note 17.2)	25,821	1,035	561	367	27,784
At 31 December 2016					
Loans and advances* (note 17.2)	17,173	2,762	1,475	7,777	29,187

* Based on contractual due dates.

33.3.5 Estimated fair value of collateral on impaired loans

in thousands of NZD	2017	2016
Fair value of collateral held**	286,670	124,485
Total impaired assets (note 17.1)	293,116	131,428

** Fair value amounts of security held in excess of the outstanding balance of individual impaired assets are not included in these amounts. Loans are cross collateralised against all facilities held by a customer. The estimated fair value of collateral represents the total aggregate collateral relating to the customer.

33.3.6 Concentration of credit exposure

Analysis of concentration of exposure to closely related counterparties:

Number of Groups of Closely Related Counterparties	2017	2016
Percentage of equity		
10-15%	-	1
15-20%	-	-
20-25%	1	-
25-30%	-	-
30-35%	-	1
35-40%	1	-
140-145%	-	1
160-165%	1	-

Analysis of concentration of exposure to individual counterparties:

Number of Individual Counterparties	2017	2016
Percentage of equity		
10-15%	-	1
15-20%	1	-
20-25%	-	-
25-30%	-	-

The concentrations of exposure are based on the shareholder's equity of the Banking Group.

Notes to the Financial Statements

34 Concentration of funding of financial liabilities

Analysis of funding by product:

in thousands of NZD	2017	2016
Debt securities in issue	3,780,874	2,651,978
Deposits	4,519,901	4,981,364
Preference shares	280,666	280,666
Due to related entities	4,828,634	4,667,824
Other financial liabilities	10,120	9,308
Head office account	255,874	231,864
Total funding	**13,676,069**	**12,823,004**

Analysis of funding by industry:

in thousands of NZD	2017	2016
Agriculture	720,249	551,067
Finance and insurance	9,973,177	9,056,947
Manufacturing	9,960	11,696
Personal and other services	2,692,149	2,876,239
Transport and storage	2,459	14,452
Wholesale trade	4,522	30,693
Other	273,553	281,910
Total funding	**13,676,069**	**12,823,004**

Analysis of funding concentration by geographical areas:

in thousands of NZD	2017	2016
Australia	1,082,294	1,705,365
Netherlands	5,609,429	3,358,047
New Zealand	6,777,756	7,728,037
United Kingdom	10,393	8,536
United States of America	10,544	7,415
All other countries	185,653	15,604
Total funding	**13,676,069**	**12,823,004**

Notes to the Financial Statements

35 Fair value of financial instruments

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or amortised cost, in accordance with accounting policies described in note 3.5 and 3.11. NZ IFRS 13 'Fair Value Measurement' requires the Banking Group to disclose the fair value of those financial instruments not already carried at fair value in the statement of financial position.

The estimated fair value of the financial assets and liabilities are:

	2017		2016	
in thousands of NZD	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Cash and cash equivalents	488,415	488,415	517,705	517,705
Derivative financial instruments	201,096	201,096	134,099	134,099
AFS financial assets	604,299	604,299	724,154	724,154
Loans and advances	11,253,838	11,437,833	10,524,468	10,691,732
Due from related entities	2,700,794	2,727,559	2,373,741	2,393,808
Other financial assets	4,967	4,967	4,682	4,682
Total financial assets	**15,253,409**	**15,464,169**	**14,278,849**	**14,466,180**
Financial liabilities				
Derivative financial instruments	103,978	103,978	112,721	112,721
Debt securities in issue	3,780,874	3,814,905	2,651,978	2,654,690
Deposits	4,519,901	4,565,352	4,981,364	5,001,051
Preference shares	280,666	299,880	280,666	302,120
Due to related entities	4,828,634	4,842,195	4,667,824	4,677,423
Other financial liabilities	10,120	10,120	9,308	9,308
Head office account	255,874	255,874	231,864	231,864
Total financial liabilities	**13,780,047**	**13,892,304**	**12,935,725**	**12,989,177**

Fair value hierarchy

The Banking Group uses the following hierarchy for determining and disclosing the fair value of derivatives and AFS financial assets:

Level 1: Financial instruments that have been valued by reference to unadjusted quoted prices in active markets for identical financial instruments. This category includes financial instruments valued using quoted yields where available for specific debt securities.

Level 2: Financial instruments that have been valued through valuation techniques incorporating inputs other than quoted prices within Level 1 that are observable for a similar financial asset or liability, either directly or indirectly.

Level 3: Financial instruments that have been valued using valuation techniques which incorporate significant inputs that are not based on observable market data (unobservable inputs).

Valuation methodology

Financial assets and financial liabilities carried at fair value

For financial assets and financial liabilities carried at fair value, fair value has been derived as follows:

Derivative financial instruments and AFS financial assets

Fair values are based on quoted market prices. Where a quoted price is not available, fair values are estimated using quoted market prices for securities with similar credit, maturity and yield characteristics, or market accepted valuation models as appropriate (including discounted cash flow models) based on current market yields for similar types of instruments and the maturity of each instrument.

Notes to the Financial Statements

35 Fair value of financial instruments (continued)

Financial assets and financial liabilities carried at fair value (continued)

The following table categorise financial assets and liabilities that are recognised and measured at fair value, and the valuation methodology according to the 3 levels of hierarchy.

in thousands of NZD	Level 1	Level 2	Level 3	Total
At 31 December 2017				
Financial assets				
Derivative financial instruments	-	201,096	-	201,096
AFS financial assets	604,299	-	-	604,299
Total financial assets	**604,299**	**201,096**	**-**	**805,395**
Financial liabilities				
Derivative financial instruments	-	103,978	-	103,978
Total financial liabilities	**-**	**103,978**	**-**	**103,978**

The following table categorise financial assets and liabilities that are recognised and measured at fair value, and the valuation methodology according to the 3 levels of hierarchy.

in thousands of NZD	Level 1	Level 2	Level 3	Total
At 31 December 2016				
Financial assets				
Derivative financial instruments	-	134,099	-	134,099
AFS financial assets	724,154	-	-	724,154
Total financial assets	**724,154**	**134,099**	**-**	**858,253**
Financial liabilities				
Derivative financial instruments	-	112,721	-	112,721
Total financial liabilities	**-**	**112,721**	**-**	**112,721**

Transfers into and transfers out of fair value hierarchy levels are reported using the end-of-period fair values.

Financial assets and financial liabilities carried at amortised cost

For financial assets and financial liabilities carried at amortised cost, an estimate of the fair value has been derived as below. All items are level 3 (with the exception of cash and cash equivalents which are level 1, and due from other financial institutions and deposits which are level 2).

Cash and cash equivalents

Fair value approximates carrying value due to their short term nature, frequent repricing or high credit rating.

Loans and advances and Due from related entities

The carrying value of loans and advances and due from related entities is net of collective and specific provisions. Fair value of call and variable rate loans and advances approximate their carrying value as they are short term in nature or payable on demand. Fair value of term loans and advances are estimated using discounted cash flows, applying market rates offered for loans of similar remaining maturities.

Other financial assets and Other financial liabilities

For all other financial assets and liabilities fair value approximates carrying value due to their short term nature, frequent repricing or high credit rating.

Due to other financial institutions, Deposits and Due to related entities

Fair value of call and variable rate deposits approximate their carrying value as they are short term in nature or payable on demand. Fair value of term deposits are estimated using discounted cash flows, applying market rates offered for deposits of similar remaining maturities.

For financial liabilities carried at amortised cost, an estimate of the fair value has been derived as follows, and are categorised as level 1 instruments.

Preference shares

The fair values are based on the NZDX closing prices of the preference shares at each year end.

Notes to the Financial Statements

36 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet where Rabobank New Zealand Banking Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 31 December 2017 and 31 December 2016. The column 'net amount' shows the impact on the bank's balance sheet if all set-off rights were exercised.

	Effects of offsetting on the balance sheet			Related amounts not offset		
2017 in thousands of NZD	Gross amounts	Gross amounts set off in the balance sheet	**Net amounts presented in the balance sheet**	Amounts subject netting arrangements	Financial instrument collateral	**Net amount**
Financial Assets						
Derivative financial instruments	201,096	-	201,096	(4,041)	-	197,055
Total financial assets	**201,096**	**-**	**201,096**	**(4,041)**	**-**	**197,055**
Financial Liabilities						
Derivative financial instruments	103,978	-	103,978	(4,041)	-	99,937
Total financial liabilities	**103,978**	**-**	**103,978**	**(4,041)**	**-**	**99,937**

	Effects of offsetting on the balance sheet			Related amounts not offset		
2016 in thousands of NZD	Gross amounts	Gross amounts set off in the balance sheet	**Net amounts presented in the balance sheet**	Amounts subject netting arrangements	Financial instrument collateral	**Net amount**
Financial Assets						
Derivative financial instruments	134,099	-	134,099	(19)	-	134,080
Total financial assets	**134,099**	**-**	**134,099**	**(19)**	**-**	**134,080**
Financial Liabilities						
Derivative financial instruments	112,721	-	112,721	-	-	112,721
Total financial liabilities	**112,721**	**-**	**112,721**	**-**	**-**	**112,721**

37 Reconciliation of cash flows

37.1 Reconciliation of net cash flows from operating activities

in thousands of NZD	2017	2016
Net profit for the year	132,199	117,775
Non-cash items:		
Depreciation	1,122	1,086
Amortisation of intangible assets	42	39
Impairment losses / (releases)	(1,325)	17,146
Losses from hedged items	-	-
Losses on write-off of property, plant and equipment	-	-
Foreign exchange losses	33	19
Changes in operating assets or operating liabilities:		
(Increase) / decrease in derivative financial instruments	(75,773)	(20,925)
(Increase) / decrease in AFS financial assets	120,776	(78,305)
(Increase) / decrease in loans and advances	(718,518)	94,499
(Increase) / decrease in due from related entities	(325,344)	369,463
(Increase) / decrease in other assets	269	231
Increase / (decrease) in other liabilities	812	(168)
(Increase) / decrease in income tax receivable	2,566	18,726
Increase / (decrease) in income tax payable	11,796	-
(Increase) / decrease in accrued interest receivable	(11,831)	4,346
Increase / (decrease) in accrued interest payable	(9,936)	(6,540)
Increase / (decrease) in deposits	(455,417)	180,698
Increase / (decrease) in fee received in advance	(380)	550
(Increase) / decrease in net deferred tax assets	6,233	(5,054)
Increase / (decrease) in employee entitlements	198	107
Net cash flows from / (used in) operating activities	**(1,322,478)**	**693,693**

37.2 Reconciliation of liabilities arising from cash flows from financing activities

in thousands of NZD	
At 31 December 2016	
Due to related entities	4,667,824
Debt securities in issue	2,651,978
Cash flows	1,402,744
Non-cash movements	(113,038)
At 31 December 2017	
Due to related entities	4,828,634
Debt securities in issue	3,780,874

38 Related party disclosures

The Banking Group consists of RNZL, a wholly owned subsidiary of Rabobank International Holding B.V. whose ultimate parent is Rabobank, the Branch which is the New Zealand operations of Rabobank and RCSL. De Lage Landen Limited ("DLL") and AGCO Finance Limited are related entities of the Banking Group, but are not included in the financial statements pursuant to the conditions of registration as issued by the RBNZ. Dealings include funding, deposits and derivatives. The amounts of principal and interest due from and due to related entities are disclosed in the Statement of Financial Position and Notes to the Financial Statements.
Parties are considered related if one party exercises control or has significant influence over the other party with regard to financial or operating decisions, or if a separate party controls both.

38.1 Transactions with related parties

38.1.1 Guarantee arrangements

For the period 18 February 1998 to 30 April 2015 the obligations of RNZL were guaranteed pursuant to a series of guarantees in favour of the creditors of RNZL.
Obligations incurred by RNZL up to the close of 30 April 2015 will continue to be covered guaranteed, until those obligations are repaid or otherwise satisfied. All new obligations incurred by RNZL after 30 April 2015 are not guaranteed.

Notes to the Financial Statements

38 Related party disclosures (continued)

38.1 Transactions with related parties (continued)

38.1.2 Management fees

A management fee of $36.3 million was charged to the Banking Group by the Australian Branch of Rabobank for the provision of administrative and management services. Some operating expenses of the Bank are paid and re-charged to the Banking Group by this related entity (2016: $39.1 million).

A management fee of $10.7 million was charged to the Banking Group by Rabobank for the provision of administrative and management services (2016: $17 million).

38.1.3 Commission and fee expense

A fee of $0.8 million was charged to RNZL by Rabobank in consideration for providing the obligations guarantees for 2016 (2016: $1.1 million).

38.1.4 Other transactions

The Banking Group enters into a number of transactions with other related entities within Rabobank. These include funding and derivative transactions. The amounts of principal and interest due from and due to the parent and ultimate controlling entity are included in the statement of comprehensive income, statement of financial position and the accompanying notes for those balances.

38.1.5 Capital securities

RCSL held $280 million of capital securities which are debt obligations of Rabobank. The capital securities carry the rights to a quarterly distribution, which equals the five-year swap interest plus an annual 3.75% mark-up and was set at 8.7864% per annum on 25 May 2009. As from the issue date (27 May 2009), the distribution was made payable every quarter in arrears, for the first time on 18 June 2009 (short first interest period). From 18 June 2014, the distribution is made payable every quarter based on five-year swap interest plus an annual 3.75% mark-up and was set at 8.3425% per annum. From 18 June 2019, the distribution will be made payable every quarter based on the 90-day bank bill swap interest rate plus an annual 3.75% mark-up. The capital securities are not transferable and the scheduled repayment date is 18 June 2039. They are unsecured. All interest payments have been made on the due date and there is no observable data that would indicate that an allowance for impairment is required.

38.2 Terms and conditions of transactions with related parties

All transactions with related parties are made in the ordinary course of business on normal commercial terms and conditions.

Outstanding balances at year end are unsecured and settlement occurs in cash (interest is not charged on current account of related parties).

38.3 Provision for impairment on due from related entities

For the year ended 31 December 2017, the Banking Group has not made any provision for impairment relating to amounts owed by related parties as the payment history has been excellent (2016: nil). An impairment assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, the Banking Group recognises a provision for impairment.

39 Key management personnel

39.1 Compensation of key management personnel (KMP)

The information disclosed below includes benefits paid to New Zealand KMPs together with any benefits paid to directors for the services provided to the Banking Group and other entities within RANZ. The population of New Zealand KMPs has been reassessed during the year. KMP includes roles that do not have direct responsibility for RNZL. There were 17 KMP's in 2017 (2016: 23).

in whole NZD	2017	2016
Short term employee benefits	4,880,569	8,300,752
Post employment benefits	256,056	366,392
Other long term benefits	532,894	1,115,804
Termination benefits	1,008,588	-
Total KMP compensation	**6,678,107**	**9,782,948**

Notes to the Financial Statements

39 Key management personnel (continued)

39.2 Transactions and balances with key management personnel and their related parties

The following table provides the total amount of loans to key management personnel. On average, the interest payable on the loan is approximately 0.8% (2016: 0.8%) below published market rate. Outstanding loan balances at 31 December 2017 are secured. No provision for impairment is recognised as at 31 December 2017 as the payment history has been excellent (2016: nil).

in whole NZD	2017	2016
Loans outstanding at the beginning of the year	4,222,468	2,820,928
Net loan draw downs / (repaid) during the year	(2,198,301)	1,401,540
Loans outstanding at the year end	**2,024,167**	**4,222,468**
Interest revenue during the year	99,216	109,564

40 Subsequent events

The directors are not aware of any event or circumstances since the end of the financial year not otherwise dealt with in this report that has or may significantly affect the operations of the Banking Group, the results of those operations or the state of affairs of the Banking Group in subsequent financial years.

41 Dividend

No dividend was proposed or paid by the Branch and the Banking Group for 2017 (2016: nil).

42 Capital management

The Banking Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Banking Group's capital is monitored by management of the Banking Group using, amongst other things, capital, financial and risk information.

The primary objectives of the Banking Group's capital management are to ensure that the Banking Group has sufficient capital in order to support its business and that it complies with externally imposed financial requirements.

During 2017 and 2016, the Banking Group complied in full with all its externally imposed financial requirements.

RNZL documents its Internal Capital Adequacy Assessment Process (ICAAP) as required by the Reserve Bank of New Zealand (RBNZ). The ICAAP document sets out the framework used by RNZL to determine the minimum levels of capital it requires given the nature of its business, and how the various risks it is exposed to will be managed.

The Banking Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of its activities. In order to maintain or adjust the capital structure, the Banking Group may adjust the amount of dividend payment to members, return capital to members or issue capital securities. No material changes were made to the objectives, policies or processes from the prior year.

Independent auditor's report

To the Shareholders of Cooperatieve Rabobank U.A – New Zealand Banking Group

The accompanying financial report of the Cooperatieve Rabobank U.A – New Zealand Banking Group (the "Banking Group") comprises the aggregation of the New Zealand business of Cooperatieve Rabobank U.A, incorporated in the Netherlands and trading as Rabobank (the "Registered Bank"), Rabobank New Zealand Limited and Rabo Capital Securities Limited at 31 December 2017 and for the year then ended.

The aggregated financial statements of Cooperatieve Rabobank U.A – New Zealand Banking Group comprise:

- the statement of financial position as at 31 December 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion the aggregated financial statements of Cooperatieve Rabobank U.A – New Zealand Banking Group (the "Banking Group"), present fairly, in all material respects, the financial position of the Banking Group as at 31 December 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Banking Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of*

Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor we have no relationship with, or interest in, the Banking Group.

Information other than the aggregated financial statements and auditor's report

The Directors of Cooperatieve Rabobank U.A, (the 'Directors') are responsible for the annual report. Our opinion on the aggregated financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the aggregated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the aggregated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the aggregated financial statements

The Directors are responsible, on behalf of the Banking Group, for the preparation and fair presentation of the aggregated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of aggregated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the aggregated financial statements, the Directors are responsible for assessing the Banking Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Banking Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the aggregated financial statements

Our objectives are to obtain reasonable assurance about whether the aggregated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these aggregated financial statements.

A further description of our responsibilities for the audit of the aggregated financial statements is located at the External Reporting Board's website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-5/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Banking Group's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Banking Group and the Banking Group's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Ashley Wood.

Ashley Wood

Chartered Accountants
26 March 2018

Sydney