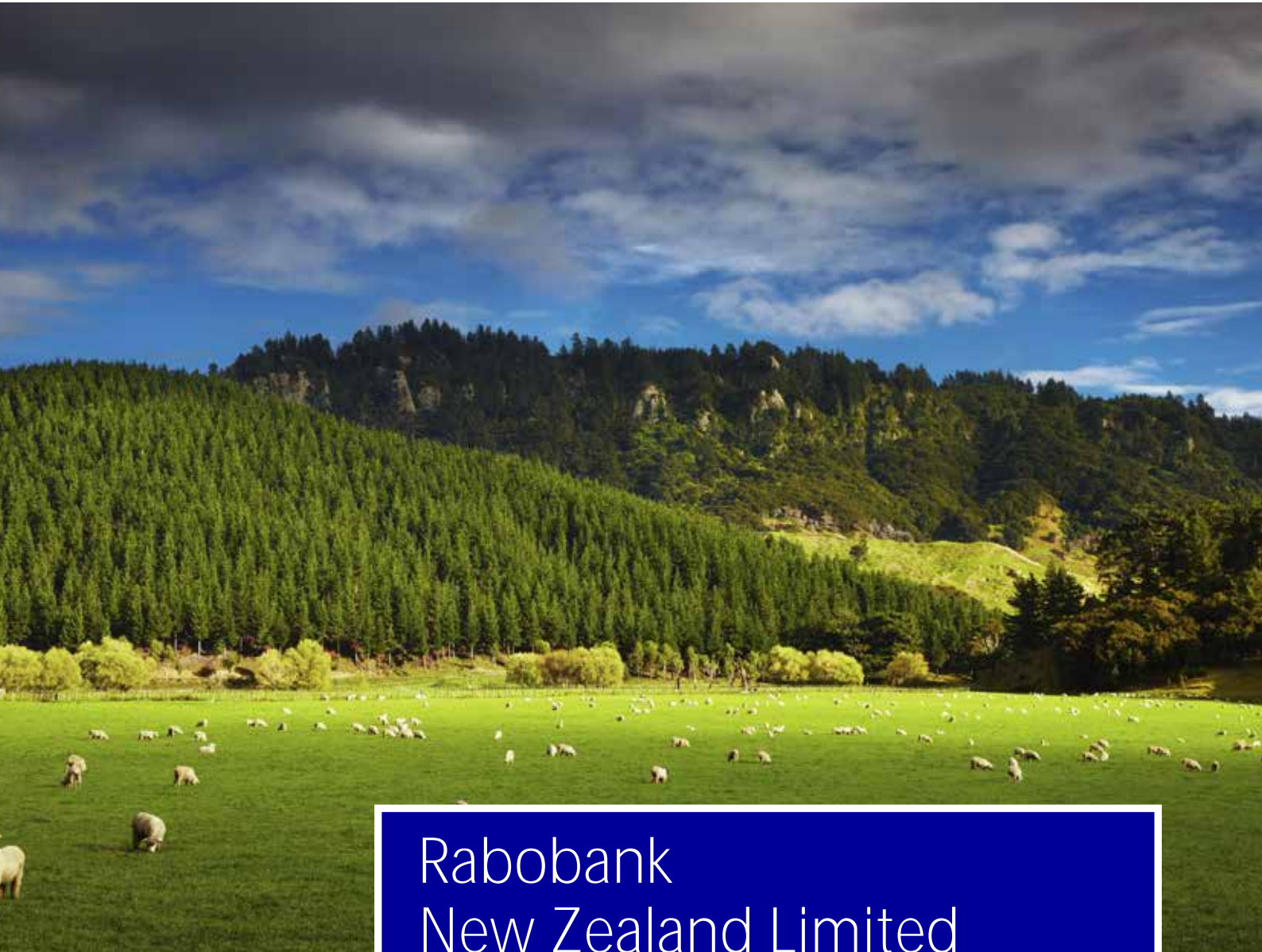




Rabobank



Rabobank New Zealand Limited

*Disclosure Statement – For the three months ended
31 March 2017*

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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 (New Zealand Incorporated Registered Banks) Order 2014 (as amended) ("Order").

In this Disclosure Statement, in accordance with the requirements of the Order and unless the context otherwise requires:

- "Bank" and "Banking Group" refer to Rabobank New Zealand Limited
- "Rabobank" refers to Coöperatieve Rabobank U.A.

General matters

Composition of the Board of directors

There have been no changes in the composition of the Bank's board of directors since 31 December 2016.

Signing of the disclosure statement

Daryl Johnson, Chief Executive Officer of the Bank, has signed this Disclosure Statement on behalf of the following directors:

- Sir Henricus (Henry) Wilhelmus van der Heyden (Chairman)
- Geerten Battjes
- Andrew James Borland
- Anne Bernadette Brennan
- William Patrick Gurry
- Peter James Knoblanche
- Bernardus Jacobus Marttin
- Jan Alexander Pruijs

Credit ratings

The Bank has the following general credit rating applicable to its long term senior unsecured obligations, including obligations payable in New Zealand, in New Zealand dollars.

Rating Agency	Current Credit Rating
Standard & Poor's	A (stable)

Auditors for the Bank

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

General Disclosures

Guarantee arrangements

Under a series of guarantees, Rabobank guaranteed all the Bank's obligations. Each such guarantee has now expired, except that all obligations incurred by the Bank while a guarantee was current and before the guarantee expired remain guaranteed until those obligations are repaid. The only obligations that remain guaranteed are therefore obligations that were incurred before the close of 30 April 2015 and that have not subsequently been repaid e.g. A deposit obligation incurred before 30 April 2015 will have been repaid (and the deposit obligation will have ceased to be guaranteed) if the deposit is paid into an account with another bank.

Based on the above, material obligations of the Bank are guaranteed as at the date its directors signed this Disclosure Statement. All new obligations incurred by the Bank after 30 April 2015 are not guaranteed.

Details of guarantor

The name and New Zealand address for services of the guarantor are:

Coöperatieve Rabobank U.A. (Rabobank)

Level 23
157 Lambton Quay
Wellington
New Zealand

Rabobank is not a member of the Banking Group.

Rabobank has the following credit ratings applicable to its long term senior unsecured obligations payable in the currency of its incorporation (The Netherlands).

Rating Agency	Current Credit Rating
Standard & Poor's	A+ (stable)
Moody's	Aa2 (negative)
Fitch	AA- (stable)

Details of guaranteed obligations

There are no limits on the amount of the obligations guaranteed under any of the expired guarantees and no material conditions applicable to the guarantees other than non-performance by the Bank. However, the fact that the guarantees have expired means that, for an obligation to be covered, it must (1) have been incurred before the close of 30 April 2015 and (2) not have been subsequently repaid.

There are no material legislative or regulatory restrictions in the Netherlands which would have the effect of subordinating the claims, under the above guarantees, of any of the creditors of the Bank on the assets of Rabobank, to other claims on Rabobank, in a winding up of Rabobank.

Further information about the guarantees

The Bank's most recent full year disclosure statement contains further information about the above guarantees. The Bank's most recent full year disclosure statement is available immediately, if the request is made at the Bank's head office, or within five working days if a request is made at any branch or agency of the Bank. Alternatively, it can also be accessed at the Bank's internet address www.rabobank.co.nz.

Material cross guarantee

No material obligations of the Bank are guaranteed under a cross guarantee arrangement.

General Disclosures

Insurance business

The Banking Group does not conduct any insurance business.

Pending proceedings or arbitration

There are no pending legal proceedings or arbitrations concerning any member of the Banking Group, whether in New Zealand or elsewhere, that may have a material adverse effect on the Bank or the Banking Group.

Conditions of registration

There were no changes to the Conditions of Registration between 31 December 2016 and 31 March 2017.

Risk management policies

Since 31 December 2016:

- there has been no material change in the Banking Group's policies for managing credit, currency, interest rate, liquidity, operational, and other material business risks (the Banking Group does not take any equity risk); and
- the Banking Group has not become exposed to a new category of risk to which the Banking Group was not previously exposed.

Securitisation, funds management, other fiduciary activities and the 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.

Since 31 December 2016, there have been no other material changes in:

- the nature of the Banking Group's involvement in the establishment, marketing, or sponsorship of trust, custodial, funds management, or other fiduciary activities; or
- any arrangements which have been put in place to ensure that difficulties arising from those activities would not impact adversely on the Banking Group.

Over the three month period ended 31 March 2017, no services have been provided, other than on arm's length terms and conditions and at fair value, by the Banking Group to any entity involved in the establishment, marketing, or sponsorship of trust, custodial, funds management, or other fiduciary activities.

Over the three month period ended 31 March 2017, no assets have been purchased, other than on arms length terms and conditions and at fair value, by the Banking Group from any entity involved in the establishment, marketing, or sponsorship of trust, custodial, funds management, or other fiduciary activities.

Other material matters

There have been no matters relating to the business or affairs of the Bank that:


- (i) are not contained elsewhere in this Disclosure Statement; and
- (ii) would, if disclosed, materially affect the decision of a person to subscribe for debt securities of which the Bank is the issuer.

Directors' Statement

After due enquiry, each director 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 Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended); and
 - The Disclosure Statement is not false or misleading; and
- (ii) over the three month period ended 31 March 2017:
 - The Bank has complied with all Conditions of Registration that applied during that period;
 - Credit exposures to connected persons (if any) were not contrary to the interests of the Banking Group; and
 - The Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied (the Bank does not have any equity risk, and therefore neither has nor requires any system to monitor or control equity risk).

Signed by Daryl Johnson, Chief Executive Officer, under an authority from each of the directors.



Daryl Johnson

Dated: 26 May 2017

Statement of Comprehensive Income

in thousands of NZD	Note	Unaudited 3 months to 31/03/2017	Unaudited 3 months to 31/03/2016 ¹	Audited Year to 31/12/2016
Statement of income				
Interest income		134,378	147,914	571,676
Interest expense		(73,851)	(84,254)	(320,370)
Net interest income		60,527	63,660	251,306
Other income	3	739	236	1,224
Other expense	4	(230)	(313)	(1,073)
Other operating gains / (losses)	5	(997)	(629)	1,708
Non-interest income / (expense)		(488)	(706)	1,859
Operating income		60,039	62,954	253,165
Operating expenses		(23,353)	(26,595)	(111,197)
Impairment losses	6	(1,481)	(798)	(15,105)
Profit before income tax		35,205	35,561	126,863
Income tax expense		(9,959)	(9,972)	(37,394)
Profit after income tax		25,246	25,589	89,469
Other comprehensive income for the period/year				
Items that may be reclassified subsequently to profit or loss				
Changes in AFS financial assets revaluation reserve	14	899	4,280	956
Income tax expense relating to changes in AFS financial assets revaluation reserve	14	(252)	(1,198)	(268)
Total items that may be reclassified subsequently to profit or loss		647	3,082	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 period/year		647	3,082	688
Total comprehensive income attributable to members of Rabobank New Zealand Limited		25,893	28,671	90,157

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

¹ Prior period comparatives have been restated. Refer to note 2.6 for details.

Statement of Financial Position

in thousands of NZD	Note	Unaudited At 31/03/2017	Unaudited At 31/03/2016 ¹	Audited At 31/12/2016
Assets				
Cash and cash equivalents		234,243	226,038	283,588
Derivative financial instruments		4,097	4,520	3,960
Available-for-sale financial assets	7	680,821	723,818	724,154
Loans and advances	8	9,636,602	9,480,325	9,652,399
Due from related entities	10	587,947	347,107	615,166
Other assets		6,120	6,194	4,405
Net deferred tax assets		16,845	12,233	18,936
Property, plant and equipment		4,524	5,218	4,789
Intangible assets		118	84	129
Total assets		11,171,317	10,805,537	11,307,526
Liabilities				
Derivative financial instruments		4,177	4,670	4,048
Deposits	11	4,099,835	3,890,740	4,141,448
Due to related entities	12	5,594,774	5,290,952	5,468,435
Subordinated debt	13	60,056	301,261	304,554
Current tax payable		11,498	1,171	10,492
Other liabilities		5,617	8,775	9,071
Provisions		2,881	2,868	2,892
Total liabilities		9,778,838	9,500,437	9,940,940
Net assets		1,392,479	1,305,100	1,366,586
Equity				
Contributed equity	14.1	551,200	551,200	551,200
Reserves	14.2	1,450	3,197	803
Retained earnings		839,829	750,703	814,583
Total equity		1,392,479	1,305,100	1,366,586

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

¹ Prior period comparatives have been restated. Refer to note 2.6 for details.

Statement of Changes in Equity

in thousands of NZD	Contributed equity	Retained earnings	Reserves	Total
At 1 January 2016	551,200	725,114	115	1,276,429
Net profit	-	25,589	-	25,589
Total other comprehensive income:				
Revaluation reserve - AFS financial assets	-	-	3,082	3,082
At 31 March 2016 (Unaudited)	551,200	750,703	3,197	1,305,100
At 1 January 2016	551,200	725,114	115	1,276,429
Net profit	-	89,469	-	89,469
Total other comprehensive income:				
Revaluation reserve - AFS financial assets	-	-	688	688
At 31 December 2016 (Audited)	551,200	814,583	803	1,366,586
At 1 January 2017	551,200	814,583	803	1,366,586
Net profit	-	25,246	-	25,246
Total other comprehensive income:				
Revaluation reserve - AFS financial assets	-	-	647	647
At 31 March 2017 (Unaudited)	551,200	839,829	1,450	1,392,479

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

Condensed Statement of Cash Flows

in thousands of NZD	Note	Unaudited 3 months to 31/03/2017	Unaudited 3 months to 31/03/2016 ¹	Audited Year to 31/12/2016
Cash flows from operating activities				
Interest received		132,712	144,139	565,726
Interest paid		(74,628)	(89,920)	(321,799)
Other cash inflows provided by operating activities		740	237	2,903
Other cash outflows used in operating activities		(34,943)	(27,905)	(134,754)
Cash flows from operating activities before changes in operating assets and liabilities		23,881	26,551	112,076
Net changes in operating assets and liabilities		44,424	59,709	(146,440)
Net cash flows from / (used in) operating activities	17	68,305	86,260	(34,364)
Cash flows from investing activities				
Cash outflows used in investing activities		-	-	(464)
Net cash flows used in investing activities		-	-	(464)
Cash flows from financing activities				
Net changes in financing liabilities		(117,650)	(67,872)	110,766
Net cash flows from / (used in) financing activities		(117,650)	(67,872)	110,766
Net change in cash and cash equivalents				
		(49,345)	18,388	75,938
Cash and cash equivalents at the beginning of the period / year		283,588	207,650	207,650
Cash and cash equivalents at the end of the period / year		234,243	226,038	283,588
Cash and cash equivalents at the end of the period / year comprise:				
Cash at bank and on hand		234,243	226,038	283,588
Cash and cash equivalents at the end of the period / year		234,243	226,038	283,588

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

¹ Prior period comparatives have been restated. Refer to note 2.6 for details.

Notes to the Financial Statements

1. Reporting entity

Rabobank New Zealand Limited (the 'Bank' and 'Banking Group') is domiciled in New Zealand.

The interim financial statements of the Bank are presented as at and for the three months ended 31 March 2017. The Bank primarily is involved in the provision of secured loans predominantly to borrowers in the rural industry and the raising of retail deposits. There were no significant changes during the three month period in the nature of the activities of the Bank.

2. Basis of preparation

2.1 Statement of compliance

These interim financial statements have been prepared and presented in accordance with the requirements of the Order and the Reserve Bank Act, and in accordance with the requirements of New Zealand equivalent to International Accounting Standard ('NZ IAS') 34 'Interim Financial Reporting' and should be read in conjunction with the Bank's financial statements for the year ended 31 December 2016. These interim financial statements do not include all the information and disclosures required in annual financial statements and should therefore be read in conjunction with the financial statements for the year ended 31 December 2016.

2.2 Basis of measurement

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

2.3 Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies. In preparing these interim financial statements, the significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation of uncertainty were the same as those applied to the financial statements as at and for the year ended 31 December 2016.

2.4 Principal accounting policies

There have been no material changes in accounting policies during the interim financial period. The accounting policies used in the preparation of these interim financial statements are consistent with the accounting policies used in the preparation of the Bank's financial statements for the year ended 31 December 2016.

The Bank has not early adopted any NZ equivalents to International Financial Reporting Standards ('NZ IFRS') that are not yet in effect.

2.5 Functional and presentation currency

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

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.

Notes to the Financial Statements

2 Basis of preparation (continued)

2.6 Comparative figures (continued)

Certain amounts reported as comparative information have changed as a result of a review of classifications. The correction has been applied by restating each of the affected financial statement line items for the prior periods. The following tables summarise the line items that have been impacted by this change on the Bank's financial statements. As a result, some of the sub-totals and totals disclosed have also been revised.

There was no impact to net assets, total comprehensive income after tax or cash and cash equivalents arising from these classification changes.

Statement of Comprehensive Income (Extract)

In thousands of NZD	Note	Unaudited 3 months to 31/03/2016	Change	Unaudited 3 months to 31/03/2016 Restated
Other income / (expense)		(77)	77	-
Other income	3	-	236	236
Other expense	4	-	(313)	(313)
Operating income		62,954	-	62,954
Profit before income tax		35,561	-	35,561
Net profit for the period/year		25,589	-	25,589
Total comprehensive income attributable to members of Rabobank New Zealand Limited		28,671	-	28,671

Statement of Financial Position (Extract)

In thousands of NZD	Note	Unaudited 31/03/2016	Change	Unaudited 31/03/2016 Restated
Loans and advances	8	9,471,143	9,182	9,480,325
Other assets		15,376	(9,182)	6,194
Total assets		10,805,537	-	10,805,537
Deposits	11	3,861,866	28,874	3,890,740
Due to related entities	12	5,292,213	(1,261)	5,290,952
Subordinated debt	13	300,000	1,261	301,261
Other liabilities		37,649	(28,874)	8,775
Total liabilities		9,500,437	-	9,500,437

Statement of Cash Flows (Extract)

In thousands of NZD		Unaudited 31/03/2016	Change	Unaudited 31/03/2016 Restated
Net changes in operating assets and liabilities		(16,348)	76,057	59,709
Net cash flows from / (used in) operating activities	17	10,203	76,057	86,260
Net changes in financing liabilities		8,185	(76,057)	(67,872)
Net cash flows from / (used in) financing activities		8,185	(76,057)	(67,872)

Notes to the Financial Statements

3 Other income

in thousands of NZD	Unaudited 3 months to 31/03/2017	Unaudited 3 months to 31/03/2016 ¹	Audited Year to 31/12/2016
Lending and credit facility related fee income	326	236	1,196
Other income	413	-	28
Total other income	739	236	1,224

¹ Prior period comparatives have been restated. Refer to note 2.6 for details.

4 Other expense

in thousands of NZD	Unaudited 3 months to 31/03/2017	Unaudited 3 months to 31/03/2016 ¹	Audited Year to 31/12/2016
Commission and fee expense*	(230)	(313)	(1,073)
Total other expense	(230)	(313)	(1,073)

* Balance relates to fee charged by Rabobank for the obligations incurred before the guarantee expired still remain guaranteed. Refer to note 22 for further information on the guarantees.

¹ Prior period comparatives have been restated. Refer to note 2.6 for details.

5 Other operating gains / (losses)

in thousands of NZD	Unaudited 3 months to 31/03/2017	Unaudited 3 months to 31/03/2016	Audited Year to 31/12/2016
Net trading gains / (losses) on derivatives	81	(17)	339
Foreign exchange gains / (losses)	(1,078)	(612)	1,369
Total other operating gains / (losses)	(997)	(629)	1,708

6 Impairment losses

in thousands of NZD	Unaudited 3 months to 31/03/2017	Unaudited 3 months to 31/03/2016	Audited Year to 31/12/2016
Collective provision losses	452	-	18,196
Specific provision losses / (releases)	1,029	798	(2,440)
Other losses	-	-	(631)
Bad debt recovery	-	-	(20)
Total impairment losses	1,481	798	15,105

7 Available-for-sale (AFS) financial assets

in thousands of NZD	Unaudited At 31/03/2017	Unaudited At 31/03/2016	Audited At 31/12/2016
New Zealand Government Securities	515,295	612,355	539,227
Other debt securities (Kauri)	165,526	111,463	184,927
Total available-for-sale financial assets	680,821	723,818	724,154

Additional information on liquidity portfolio

The Bank holds a portfolio of high quality liquid securities to support liquidity risk management. The size of the Bank's liquidity portfolio is based on the amount required to meet its liquidity requirements.

Notes to the Financial Statements

8 Loans and advances

in thousands of NZD	Unaudited At 31/03/2017	Unaudited At 31/03/2016 ¹	Audited At 31/12/2016
Lending	9,609,468	9,430,528	9,620,906
Finance leases	56,610	61,414	59,698
Gross loans and advances	9,666,078	9,491,942	9,680,604
Accrued interest	8,084	9,182	8,264
Provisions for doubtful debts:			
Collective	(32,646)	(13,998)	(32,194)
Specific	(4,914)	(6,801)	(4,275)
Net loans and advances	9,636,602	9,480,325	9,652,399

¹ Prior period comparatives have been restated. Refer to note 2.6 for details.

9 Credit quality, impaired assets and provision for impairment

in thousands of NZD	At 31/03/2017 (Unaudited)			
	Residential mortgages	Corporate	Retail*	Total
End-period balances				
Individually impaired assets	-	-	146,246	146,246
Assets that are at least 90 days past due but not impaired	-	-	4,126	4,126
Specific provision	-	-	4,914	4,914
Collective provision	-	-	32,646	32,646
Charges to the Statement of Comprehensive Income				
Specific provision charges	-	-	1,029	1,029
Collective provision charges	-	-	452	452

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

10 Due from related entities

in thousands of NZD	Unaudited At 31/03/2017	Unaudited At 31/03/2016	Audited At 31/12/2016
Current account balances - wholly owned group*	101,281	136,405	101,234
Advances - wholly owned group*	485,750	210,676	513,198
Accrued interest receivable - wholly owned group*	916	26	734
Total due from related entities	587,947	347,107	615,166

* The wholly owned group refers to other Rabobank related entities. Refer to note 22 for further information on related party disclosures.

11 Deposits

in thousands of NZD	Unaudited At 31/03/2017	Unaudited At 31/03/2016 ¹	Audited At 31/12/2016
Call deposits	1,974,941	2,059,908	1,929,543
Term deposits	2,094,800	1,801,958	2,181,543
Accrued interest on call deposits	63	48	51
Accrued interest on term deposits	30,031	28,826	30,311
Total deposits	4,099,835	3,890,740	4,141,448

¹ Prior period comparatives have been restated. Refer to note 2.6 for details.

Notes to the Financial Statements

12 Due to related entities

in thousands of NZD	Unaudited At 31/03/2017	Unaudited At 31/03/2016 ¹	Audited At 31/12/2016
Current account balances - wholly owned group*	31,291	5,482	29,400
Advances - wholly owned group*	5,528,419	5,253,239	5,407,960
Accrued interest payable - wholly owned group*	35,064	32,231	31,075
Total due to related entities	5,594,774	5,290,952	5,468,435

* The wholly owned group refers to other Rabobank related entities. Refer to note 22 for further information on related party disclosures.

¹ Prior period comparatives have been restated. Refer to note 2.6 for details.

13 Subordinated debt

in thousands of NZD	Unaudited At 31/03/2017	Unaudited At 31/03/2016	Audited At 31/12/2016
Due to wholly owned group*	60,056	301,261	304,554
Total subordinated debt	60,056	301,261	304,554

The Bank issued to Rabobank (New Zealand Branch) perpetual subordinated debt with a principal amount of NZ\$300,000,000, and a based rate (i.e. BKBM FRA rate) plus a margin of 2.25 per cent per annum. During 2017, subordinated debt of \$240,000,000 was redeemed, leaving outstanding principal of \$60,000,000. Interest is payable semi-annually on the last days of February and August respectively. The subordinated debt was issued on 13 August 2010 and is subordinated in rights of payment in the event of liquidation or wind up to the claims of depositors and all creditors of the Bank. The debt is repayable on any date at the option of the Bank, subject to a Bank directors' resolution that repayment is in the best interest of the Bank, and the Bank giving at least 10 business days' irrevocable notice to the holder. Under the Basel III and RBNZ capital adequacy requirements, the perpetual subordinated debt progressively cease to be eligible Tier 2 capital for capital adequacy purposes as set out in table below. The subordinated debt instrument that currently qualifies as Tier 2 capital for capital adequacy purposes as at 31 March 2017 amounts to NZ\$60 million (31 December 2016: \$120 million, 31 March 2016: \$180 million).

Year commencing	Percentage of instruments that may be included in regulatory capital
1 January 2014	80
1 January 2015	60
1 January 2016	40
1 January 2017	20
1 January 2018	0

* The wholly owned group refers to other Rabobank related entities. Refer to note 22 for further information on related party disclosures.

14 Equity

14.1 Contributed equity

in thousands of NZD	Unaudited At 31/03/2017	Unaudited At 31/03/2016	Audited At 31/12/2016
Ordinary share capital	551,200	551,200	551,200
Total contributed equity	551,200	551,200	551,200

Prior to February 1998, the Bank issued 20,600,000 ordinary shares at a value of \$2 per share. On 11 August 2010, the Bank issued 150,000,000 ordinary shares at a value of \$2 per share. On 19 September 2012, the Bank issued 55,000,000 ordinary shares at a value of \$2 per share. On 20 September 2013, the Bank issued 50,000,000 ordinary shares at a value of \$2 per share.

As at 31 March 2017, 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; 31 March 2016: 275,600,000). Each share was issued at \$2 and has no par value. The ordinary share capital qualifies as Common Equity Tier 1 capital for capital adequacy purposes.

Notes to the Financial Statements

14 Equity (continued)

14.2 Reserves

in thousands of NZD	Unaudited At 31/03/2017	Unaudited At 31/03/2016	Audited At 31/12/2016
AFS financial assets reserve			
Opening balance	803	115	115
Changes in AFS financial assets revaluation reserve (gross)	899	4,280	956
Changes in AFS financial assets revaluation reserve (deferred tax)	(252)	(1,198)	(268)
Total AFS financial assets reserve	1,450	3,197	803

The nature and purpose of the AFS financial assets reserve is to record the unrealised gains or losses arising from changes in the fair value of AFS financial assets. The AFS financial assets reserve qualifies as Common Equity Tier 1 capital for capital adequacy purposes.

15 Contingent liabilities

Through the normal course of business, the Bank 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 review has been made on a case by case basis. The Bank 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 Bank 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 Bank'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 Bank's option. The Bank 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	Unaudited At 31/03/2017	Unaudited At 31/03/2016	Audited At 31/12/2016
Guarantees	4,866	4,355	4,501
Lending commitments			
Irrevocable lending commitments	97,410	110,208	95,847
Revocable lending commitments	1,311,417	1,243,165	1,203,521
Total contingent liabilities	1,413,693	1,357,728	1,303,869

Guarantees represent conditional undertakings by the Bank to support the financial obligations of its customers to third parties. Lending commitments include the Bank's obligations to provide funding facilities which remain undrawn at balance date, or where letter of offers have been issued but not yet accepted.

16 Expenditure commitments

16.1 Capital expenditure commitments

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

in thousands of NZD	Unaudited At 31/03/2017	Unaudited At 31/03/2016	Audited At 31/12/2016
One year or less	-	544	-
Total capital expenditure commitments	-	544	-

16.2 Operating lease commitments

in thousands of NZD	Unaudited At 31/03/2017	Unaudited At 31/03/2016	Audited At 31/12/2016
One year or less	4,141	4,625	4,414
Between one and two years	2,899	3,869	2,610
Between two and five years	4,383	6,109	4,778
Over five years	1,259	2,058	1,426
Total operating lease commitments	12,682	16,660	13,228

Notes to the Financial Statements

16 Expenditure commitments (continued)

16.2 Operating lease commitments (continued)

Lease arrangements entered into by the Bank are for the purpose of accommodating the Bank's needs. These include operating lease 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 Bank. Rental payments are determined in terms of the relevant lease requirements, usually reflecting market rentals as described by standard valuation practice. The Bank as lessee has no purchase options over premises occupied. There are no restrictions imposed on the Bank's lease of space other than those forming part of the negotiated lease arrangements for each specific premises.

17 Reconciliation of net cash flows from operating activities

in thousands of NZD	Unaudited 3 months to 31/03/2017	Unaudited 3 months to 31/03/2016 ¹	Audited Year to 31/12/2016
Net profit after tax	25,246	25,589	89,469
Non-cash items	2,834	4,770	14,882
Deferrals or accruals of past or future operating cash receipts or payments			
Change in net operating assets and liabilities	44,424	59,709	(146,440)
Change in interest receivable/payable	(2,443)	(9,441)	(7,379)
Change in other deferrals or accruals	(1,756)	5,633	15,104
Net cash flows from / (used in) operating activities	68,305	86,260	(34,364)

¹ Prior period comparatives have been restated. Refer to note 2.6 for details.

18 Concentration of credit exposures to individual counterparties

	Unaudited As 31/03/2017	Unaudited Peak for the quarter
Number of bank counterparties:		
Percentage of bank's equity		
10-15%	-	-
15-20%	-	-
20-25%	-	-
Number of non-bank counterparties:		
Percentage of bank's equity		
10-15%	-	-
15-20%	-	-

All non-bank counterparties included in the preceding 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; and credit exposures to any bank with a long-term credit rating of A- or A3 or above, or its equivalent.

The peak end-of-day credit exposure is measured by taking the maximum end-of-day aggregate credit exposure during the quarter and dividing it by the Bank's equity as at the end of the quarter.

Notes to the Financial Statements

19 Fair value of financial instruments

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or amortised cost. NZ IFRS 13 'Fair value measurement' requires the Bank to disclose the fair value of those financial instruments not already carried at fair value in the Balance Sheet.

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

In thousands of NZD	Unaudited At 31/03/2017		Unaudited At 31/03/2016 ¹		Audited At 31/12/2016	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Cash and cash equivalents	234,243	234,243	226,038	226,038	283,588	283,588
Derivative financial instruments	4,097	4,097	4,520	4,520	3,960	3,960
Available-for-sale financial assets	680,821	680,821	723,818	723,818	724,154	724,154
Loans and advances	9,636,602	9,817,449	9,480,325	9,657,559	9,652,399	9,818,277
Due from related entities	587,947	582,610	347,107	347,105	615,166	611,851
Other financial assets	5,477	5,477	4,959	4,959	4,147	4,147
Total financial assets	11,149,187	11,324,697	10,786,767	10,963,999	11,283,414	11,445,977
Financial liabilities						
Derivative financial instruments	4,177	4,177	4,670	4,670	4,048	4,048
Deposits	4,099,835	4,119,982	3,890,740	3,853,619	4,141,448	4,160,629
Due to related entities	5,594,774	5,657,293	5,290,952	5,324,349	5,468,435	5,501,964
Subordinated debt	60,056	68,716	301,261	337,700	304,554	338,284
Other financial liabilities	5,617	5,617	8,775	8,775	9,071	9,071
Total financial liabilities	9,764,459	9,855,785	9,496,398	9,529,113	9,927,556	10,013,996

¹ Prior period comparatives have been restated. Refer to note 2.6 for details.

Fair value hierarchy

The Bank categorises its fair value measurements on the basis of inputs used in measuring fair value using the fair value hierarchy below:

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 Available-for-sale 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.

A Credit Valuation Adjustment (CVA) is applied to the Bank's over-the-counter derivative exposures to take into account the counterparty's risk of default when measuring the fair value of the derivative. The Bank uses a Bilateral Credit Valuation Adjustment (BCVA) methodology to calculate the expected future credit exposure for all derivative exposures including inputs regarding probabilities of default (PDs) and loss given default (LGD).

Notes to the Financial Statements

19 Fair value of financial instruments (continued)

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

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

in thousands of NZD	Level 1	Level 2	Level 3	Total
At 31 March 2017 (Unaudited)				
Financial assets				
Derivative financial instruments	-	4,097	-	4,097
Available-for-sale financial assets	680,821	-	-	680,821
Financial liabilities				
Derivative financial instruments	-	4,177	-	4,177

in thousands of NZD	Level 1	Level 2	Level 3	Total
At 31 March 2016 (Unaudited)				
Financial assets				
Derivative financial instruments	-	4,520	-	4,520
Available-for-sale financial assets	723,818	-	-	723,818
Financial liabilities				
Derivative financial instruments	-	4,670	-	4,670

in thousands of NZD	Level 1	Level 2	Level 3	Total
At 31 December 2016 (Audited)				
Financial assets				
Derivative financial instruments	-	3,960	-	3,960
Available-for-sale financial assets	724,154	-	-	724,154
Financial liabilities				
Derivative financial instruments	-	4,048	-	4,048

Transfers in 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 follows, and are categorised as 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 financial liabilities fair value approximates carrying value due to their short term nature, frequent repricing or high credit rating.

Due to 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.

Subordinated debt

Fair values are calculated using discounted cash flow models based on repricing dates, with discount rates at current interest rates for instruments with similar maturity.

Notes to the Financial Statements

20 Capital adequacy under the standardised approach

20.1 Capital

in thousands of NZD	Unaudited At 31/03/2017
Tier 1 capital, which consists of:	
Common Equity Tier 1 capital	1,375,517
Additional Tier 1 capital	-
Tier 2 capital	60,000
Total Capital	1,435,517

20.2 Deductions included in calculation of capital

in thousands of NZD	Unaudited At 31/03/2017
Deductions from Common Equity Tier 1 capital	(16,963)
Deductions from Additional Tier 1 capital	-
Deductions from Tier 2 capital	-

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

20.3 Pillar 1 capital requirements

in thousands of NZD	Unaudited At 31/03/2017 Pillar one capital requirement
On-balance sheet credit risk:	
Residential mortgages (including past due)	1,124
Corporate	-
Claims on banks	3,273
Claims on banks - related entities	16
Other	774,573
Total on-balance sheet credit risk	778,986
Other capital requirements:	
Off-balance sheet credit exposures	5,236
Operational risk	55,964
Market risk	22,460
Total other capital requirements	83,660
Total Pillar 1 capital requirements	862,646

20.4 Residential mortgages

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

in thousands of NZD	31/03/2017 (Unaudited)		Total
	Drawn amounts	Undrawn amounts	
LVR range			
Does not exceed 80%	33,203	8,551	41,754
Exceeds 80% and not 90%	4,846	1,056	5,902
Exceeds 90%	-	-	-
Total	38,049	9,607	47,656

Notes to the Financial Statements

20 Capital adequacy under the standardised approach (continued)

20.5 Capital ratios

	31/03/2017 (unaudited)	
	Ratio	Minimum ratio requirement
	%	%
Common Equity Tier 1 capital ratio	12.76%	4.50%
Tier 1 capital ratio	12.76%	6.00%
Total capital ratio	13.31%	8.00%

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

20.6 Buffer ratio

	Unaudited 31/03/2017 %
Buffer ratio	5.30%
Buffer ratio requirement	2.50%

The buffer ratio is defined as the amount of Common Equity Tier 1 not required to meet the minimum capital ratio requirements.

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

20.7 Pillar 2 capital for other material risks

in thousands of NZD	Unaudited 31/03/2017
Internal capital allocation for other material risks	43,132

The Pillar 2 risks that the Bank has identified are described below:

(i) Credit concentration risk: Concentration risk of a loan portfolio is a function of the relative proportion of loans across industry sectors, geographic areas, specific borrowers, credit quality and size of exposures.

(ii) Liquidity risk: Liquidity risk is the combined risks of not being able to meet financial obligations as they fall due (funding liquidity risk); and that liquidity in financial markets may reduce significantly (market liquidity risk).

(iii) Reputation risk: Reputation risk is the potential that negative publicity, perception and/or loss of confidence regarding Rabobank New Zealand's business practices, whether true or not, will cause Rabobank New Zealand's clients, employees and other key stakeholders to lose trust in the organisation.

The Bank has reviewed these other risks and does not believe any individual risk as being material and requiring a capital allocation. However, consistent with the Bank's ICAAP and the Bank's prudent capital management, it believes that 5% of Pillar 1 capital for Pillar 2 would provide sufficient capital given the current risk profile. The internal capital allocation for the Pillar 2 risks forms part of the internal capital buffer.

The Bank will review this allocation methodology every reporting period in line with industry practice as this area evolves over time.

Notes to the Financial Statements

21 Additional information on statement of financial position

in thousands of NZD	Unaudited 31/03/2017
Total interest earning and discount bearing assets	11,130,826
Total interest and discount bearing liabilities	9,682,556
Financial assets pledged as collateral	-

22 Related party disclosures

The Bank's parent entity is Rabobank International Holding B.V. The ultimate controlling entity is Rabobank. Both the parent entity and the ultimate controlling entity are incorporated in The Netherlands. Dealings with the parent and ultimate controlling entity include lending, funding, deposits and derivative transactions.

22.1 Transactions with related parties

(i) Commission and fee expense

A fee of \$0.23 million was charged to the Bank by Rabobank in consideration for providing the obligations guarantees for the three month period ended 31 March 2017 (December 2016: \$1.1 million; March 2016: \$0.31 million).

(ii) Guarantees

The first period

For the period 18 February 1998 to 17 February 2008 ("the First Period"), the obligations of the Bank were guaranteed pursuant to a deed of guarantee dated 18 February 1998 (as amended by an amending deed dated 19 February 1998) by Rabobank in favour of Permanent Trustee Company Limited (the "Trustee") as trustee for the creditors of the Bank (the "First Guarantee").

Whilst the First Guarantee expired on 17 February 2008, all obligations incurred by the Bank during the First Period will continue to be covered by the First Guarantee until those obligations are repaid.

The second period

For the period 18 February 2008 to 17 February 2010 ("the Second Period"), the obligations of the Bank were guaranteed pursuant to a deed of guarantee dated 6 February 2008 by Rabobank in favour of the creditors of the Bank (the "Second Guarantee").

Whilst the Second Guarantee expired on 17 February 2010, all obligations incurred by the Bank during the Second Period will continue to be covered by the Second Guarantee until those obligations are repaid.

The third period

For the period 18 February 2010 to 17 February 2012 ("the Third Period"), the obligations of the Bank were guaranteed pursuant to a deed of guarantee dated 1 September 2009 by Rabobank in favour of the creditors of the Bank (the "Third Guarantee").

Whilst Third Guarantee expired on 17 February 2012, all obligations incurred by the Bank during the Third Period will continue to be covered by the Third Guarantee until those obligations are repaid.

The fourth period

For the period 18 February 2012 to 17 February 2013 ("the Fourth Period"), the obligations of the Bank were guaranteed pursuant to a deed of guarantee dated 10 October 2011 by Rabobank in favour of the creditors of the Bank (the "Fourth Guarantee").

Whilst the Fourth Guarantee expired on 17 February 2013, all obligations incurred by the Bank during the Fourth Period will be covered by the Fourth Guarantee until those obligations are repaid.

The fifth period

For the period 18 February 2013 to 17 February 2014 ("the Fifth Period"), the obligations of the Bank are guaranteed pursuant to a deed of guarantee dated 9 July 2012 by Rabobank in favour of the creditors of the Bank (the "Fifth Guarantee").

Whilst the Fifth Guarantee expired on 17 February 2014 all obligations incurred by the Bank during the Fifth Period will be covered by the Fifth Guarantee until those obligations are repaid.

The sixth period

For the period 18 February 2014 to 17 February 2015 ("the Sixth Period"), the obligations of the Bank are guaranteed pursuant to a deed of guarantee dated 20 August 2013 by Rabobank in favour of the creditors of the Bank (the "Sixth Guarantee").

Whilst the Sixth Guarantee expired on 17 February 2015 all obligations incurred by the Bank during the Sixth Period will be covered by the Sixth Guarantee until those obligations are repaid.

Notes to the Financial Statements

22 Related party disclosures (continued)

22.1 Transactions with related parties (continued)

(ii) Guarantees (continued)

The seventh period

For the period 18 February 2015 to 30 April 2015 ("the Seventh Period"), the obligations of the Bank will be guaranteed pursuant to a deed of guarantee dated 19 September 2014 by Rabobank in favour of the creditors of the Bank (the "Seventh Guarantee").

Whilst the Seventh Guarantee expired on 30 April 2015, all obligations incurred by the Registered Bank up to the close of 30 April 2015 will continue to be covered by the Seventh Guarantee or one of the earlier guarantees described above (as applicable), until those obligations are repaid or otherwise satisfied.

Further information about the expiry of the guarantee can be found at www.rabodirect.co.nz.

(iii) Management fees

A management fee of \$8.4 million was charged to the Bank by the Australia Branch of Rabobank for the provision of administrative and management services. Some operating expenses of the Bank are paid and re-charged to the Bank by this related entity (December 2016: \$36.4 million; March 2016: \$9.6 million).

A management fee of \$2.0 million was charged to the Bank by the Rabobank Head Office in the Netherlands for the provision of administrative and management services (December 2016: \$17.4 million; March 2016: \$3.2 million).

A management fee of \$0.4 million (31 December 2016: \$1.7 million; 31 March 2016: nil) was charged to NZ Branch of Rabobank by the Bank for the provision of administrative and management services.

(iv) Other transactions

The Bank enters into a number of transactions with other related entities within the Rabobank Group of entities, but mainly with the New Zealand Branches of Rabobank (Refer to notes 10, 12 and 13 for period ending balances). These include funding and derivative transactions. The interest income earned on related entities transactions was \$2.7 million (December 2016: \$11.0 million; March 2016: \$3.1 million), and the interest expense paid on related entities transactions was \$45.5 million (December 2016: \$202.1 million; March 2016: \$53.6 million). The principal amounts of due from and due to the related entities are separately disclosed in the statement of financial position and the accompanying notes to the financial statements.

(v) Working capital facilities

A loan facility of EUR 4.6 billion was granted by the New Zealand Branch of Rabobank to the Bank on 21 December 2016. The unused amount at 31 March 2017 was EUR 0.9 billion.

22.2 Terms and conditions of transactions with related parties

All transactions with related parties are made in the ordinary course of business at arm's length terms and conditions.

Outstanding balances at period end are unsecured and settlement occurs in cash.

22.3 Provision for impairment

For the period ended 31 March 2017, the Bank has not made any provision for impairment relating to amounts owed by related parties as there has been no history of defaults (2016: Nil). An impairment assessment is undertaken at each period end 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 Bank recognises a provision for impairment.

23 Subsequent events

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

24 Dividend

No dividend was proposed or paid by the Bank for the three month period ended 31 March 2017 (2016: Nil).