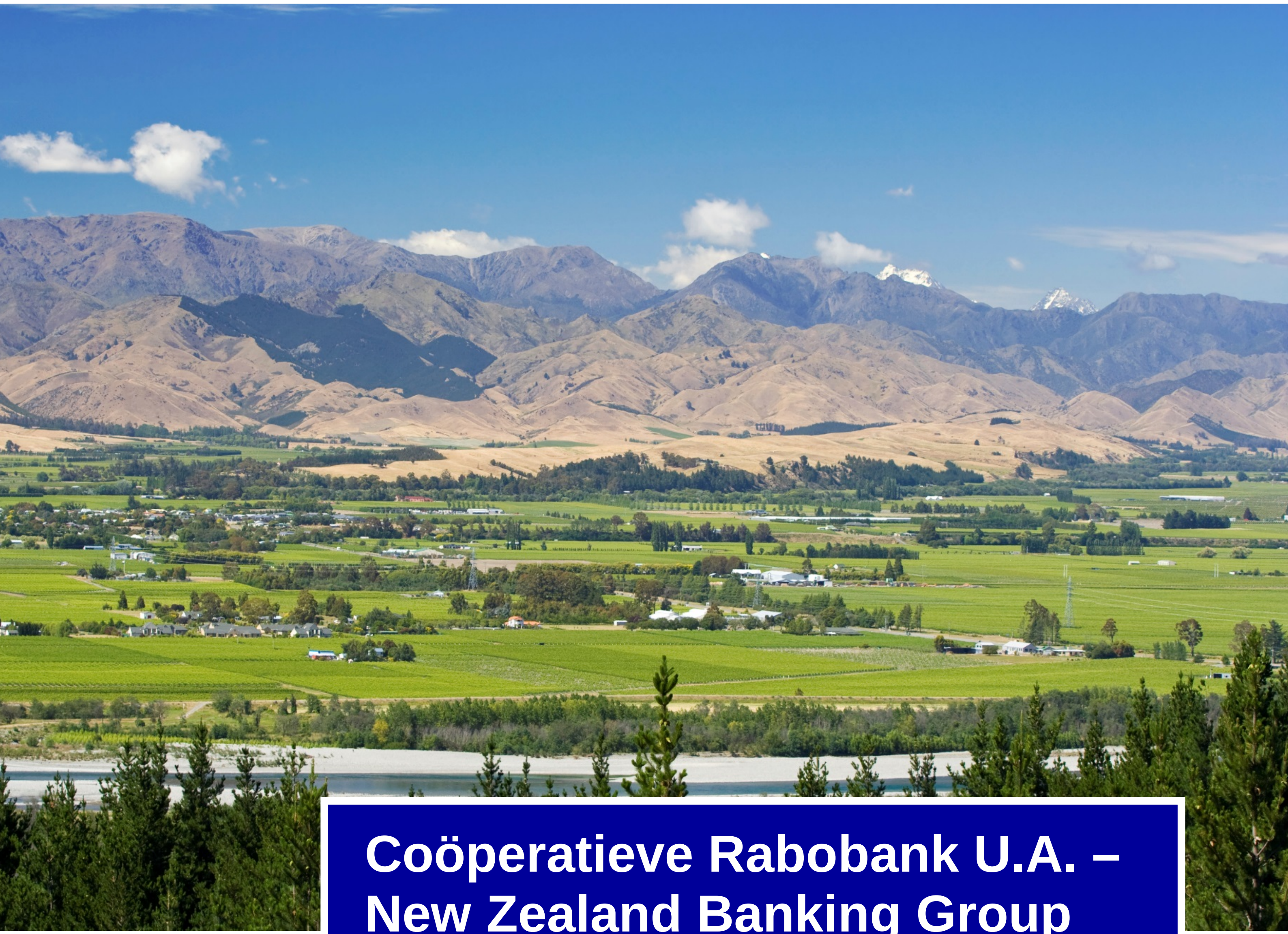
Rabobank



Coöperatieve Rabobank U.A. – New Zealand Banking Group

Disclosure Statement

For the six months ended 30 June 2018

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 ("Reserve Bank Act") 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.
- "Branch" refers to the New Zealand business of the Registered Bank.
- "Banking Group" or "Rabobank New Zealand Banking Group" refers to:

  (a) the Branch;
  (b) Rabobank New Zealand Limited; and
  (c) Rabo Capital Securities Limited,

  but, in accordance with the Registered Bank's conditions of registration, does not include De Lage Landen Limited and AGCO Finance 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.

General matters

Directors

There have been no changes to the Registered Bank's Board of Directors since 31 December 2017.

The directors of the Managing, Executive and Supervisory Boards, on whose behalf the New Zealand Chief Executive Officer has signed this Disclosure Statement, are listed as follows:

Managing Board

W. Draijer (Wiebe), chairman
B.C. Brouwers (Bas), member
P.C. van Hoeken (Petra), member
M.P.J. Lichtenberg (Mariëlle), member
C.M. Konst (Kirsten), member
J.L. van Nieuwenhuizen (Jan), member
B.J. Marttin (Berry), member
B. Leurs (Bart), member
L. Sevinga (Ieko), member
J. Vos (Janine), member

Executive Board

W. Draijer (Wiebe), chairman
B.C. Brouwers (Bas), member
B.J. Marttin (Berry), member
J.L. van Nieuwenhuizen (Jan), member
P.van Hoeken (Petra), member
C.M. Konst (Kirsten), member

Supervisory Board

R. Teerlink (Ron), chairman
M. Trompetter (Marjan), vice chairman
I.P. Asscher-Vonk (Irene), member
L.N. Degle (Leo), member
S.L.J. Graafsma, (Leo), member

General Disclosures

General matters (continued)

Supervisory Board (continued)

A.A.J.M. Kamp (Arian), member
J. J. Nooitgedagt (Jan), member
P.H.J.M. Visée (Pascal), member
P.H.M. Hofsté (Petri), member

New Zealand Chief Executive Officer

With effect on 29 January 2018, Todd Charteris was appointed New Zealand chief executive officer of the Registered Bank (as well as of Rabobank New Zealand Limited), as the permanent replacement for former chief executive officer Daryl Johnson.

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 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.

Auditors for the Banking Group

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 and in New Zealand dollars.

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

General Disclosures

Insurance business

The Banking Group does not conduct any insurance business.

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

An internal cross-guarantee system exists between certain legal entities within the Overseas Banking Group. Under this system, 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.

The system is a remnant of the Registered Bank's previous cooperative structure that was in effect until 31 December 2015, when the local Dutch member banks merged into the Registered Bank. It is intended that the system will be terminated before the close of 2018.

The remaining participating institutions are:

- The Registered Bank
- De Lage Landen International B.V.
- Rabo Direct Financiering B.V (previously named De Lage Landen Financiering B.V.)
- Rabo Factoring B.V. (previously named De Lage Landen Trade Finance B.V.)
- Rabo Lease B.V. (previously named De Lage Landen Financial Services B.V.)
- Rabohypotheekbank N.V.

The Registered Bank's disclosure statement for the year ended 31 December 2017 contains further information about the cross-guarantee system. A copy of that disclosure statement can be obtained at https://www.rabobank.co.nz/corporate/regulatory-disclosures/.

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.

Risk management policies

Since 31 December 2017:

- 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 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.

Rabobank New Zealand Limited has ceased offering managed funds through RaboDirect, an online banking and investment service. This decision includes the Cash Advantage Fund (CAF) and Term Advantage Fund (TAF). RaboDirect managed funds customers (excluding the CAF and TAF) were offered the option to shift their fund holdings to another distributor of third party managed funds, InvestNow Saving and Investment Service Limited, and most such customers took that option.

General Disclosures

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

Since 31 December 2017 there have been no other material changes in the Banking Group's:

- involvement in the establishment, marketing, or sponsorship of trust, custodial, funds management, or other fiduciary activities (as set out above); or
- arrangements to ensure that difficulties arising from those activities would not impact adversely on the Banking Group.

Conditions of registration

There have been changes to the Conditions of Registration between 31 December 2017 and 30 June 2018.

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.

Other material matters

The Registered Bank is the parent company of the global Rabobank co-operative group, with operations in 38 countries, including New Zealand and Australia. The Rabobank New Zealand Banking Group has a network of 32 offices in New Zealand and employs over 300 people. Two of Rabobank New Zealand Limited's independent directors and the Banking Group's CEO are resident in New Zealand. The Banking Group has an outsourcing arrangement in place that governs certain operational services provided by its Australian affiliate. Having regard to the Banking Group's regional and global links and at the request of the Reserve Bank of New Zealand, Rabobank New Zealand Limited has commissioned an independent report to consider aspects of its governance and management frameworks and their operation, the extent of their independence from the Overseas Banking Group and their consistency with the current expectations of the Reserve Bank of New Zealand.

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 is taking part in the Recovery Framework.

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.

With respect to the (re-)assessment of the interest rate derivatives of its Dutch business customers, the Registered Bank as at 30 June 2018 maintained a provision of 342 million euros, reduced from a provision of 450 million euros as at 31 December 2017 as a result of payments made in the half year ended 30 June 2018. The initial provision, as at 31 December 2016, was 664 million euros.

General Disclosures

Other material matters (continued)

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.

The Amsterdam Court of Appeal has recently declared a settlement agreement of 1.2 billion euros binding. investors may choose to opt out of the settlement during an opt-out period of five months. After this period (and provided that the settlement is not annulled because the opt-out ratio exceeds a certain limit), distributions of payments will start. As part of the settlement agreement, eligible shareholders that do not opt out of the settlement and the VEB, among other collective interest groups that are party to the settlement agreement, release Rabobank (and other underwriters) of all claims, actions, charges and damages in relation to the events surrounding Fortis as described in the settlement agreement and covered in the VEB proceedings.

Investors that choose to opt out of the settlement may still able the claim damages from Ageas and the defendants (including the Registered Bank) on an individual basis.

On 30 January 2018 Rabobank received received a letter indicating that legal proceedings may be started at a later stage with respect to a potential collective action in relation to certain share offerings of Royal Imtech N.V. in which Rabobank was involved. This situation has remained unchanged.

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 takes the stance that it has substantive and convincing legal and factual defences against these claims and intends to continue to defend itself against these claims.

The Registered Bank considers these cases to be a contingent liability. No provision has been made.

General Disclosures

Other material matters (continued)

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.

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.

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. There has, as yet, been no further progress on this matter.

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

(a) are not contained elsewhere in this 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.com/en/about-rabobank/results-and-reports/index.html

Directors' and New Zealand Chief Executive Officer's Statement

After due enquiry, each director and the New Zealand Chief Executive Officer believe 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 (Overseas Incorporated Registered Banks) Order 2014 (as amended); and
- The Disclosure Statement is not false or misleading;

(ii) over the six months period ended 30 June 2018:

- 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 Banking Group's material risks, 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.

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Todd Charteris

Dated: 31 August 2018

Statement of Comprehensive Income

In thousands of NZD	Notes	Unaudited 6 months to 30/06/2018	Unaudited 6 months to 30/06/2017	Audited Year to 31/12/2017
Income statement				
Interest income		**319,326**	310,556	633,276
Interest expense		**(144,403)**	(158,915)	(305,381)
Net interest income		**174,923**	151,641	327,895
Other income	3	**1,005**	1,382	2,317
Other expense	4	**(329)**	(442)	(825)
Other operating gains / (losses)	5	**(22,141)**	(8,607)	(31,986)
Operating income		**153,458**	143,974	297,401
Operating expenses		**(52,074)**	(51,469)	(108,262)
Impairment releases / (losses)	6	**355**	740	1,335
Profit before income tax		**101,739**	93,245	190,474
Income tax expense		**(30,930)**	(28,623)	(58,275)
Net profit for the period/year		**70,809**	64,622	132,199
Other comprehensive income for the period / year				
Items that may be reclassified subsequently to profit or loss				
Changes in FVOCI financial assets revaluation reserve	14.2	**397**	1,031	1,279
Income tax credit / (expense) relating to changes in FVOCI financial assets revaluation reserve	14.2	**(111)**	(289)	(358)
Total items that may be reclassified subsequently to profit or loss		**286**	742	921
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		**286**	742	921
Total comprehensive income attributable to members of the Banking Group		**71,095**	65,364	133,120

30 June 2018 results reflect adoption of NZ IFRS 9. Prior periods have not been restated. Refer to Note 2 - Principal accounting policies for further information.

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

In thousands of NZD	Notes	Unaudited At 30/06/2018	Unaudited At 30/06/2017	Audited At 31/12/2017
Assets				
Cash and cash equivalents		**598,698**	513,744	488,415
Derivative financial instruments		**123,806**	128,045	201,096
Available-for-sale financial assets	7	**-**	754,837	604,299
Financial assets at fair value through other comprehensive income	7	**651,382**	-	-
Loans and advances	8	**11,443,925**	10,802,610	11,253,838
Due from related entities	9	**2,005,000**	2,408,695	2,700,794
Other assets		**6,978**	5,697	5,493
Income tax receivables		**6,145**	4,906	-
Net deferred tax assets		**13,256**	12,782	13,443
Property, plant and equipment		**3,563**	4,256	4,075
Intangible assets		**66**	108	87
Total assets		**14,852,819**	14,635,680	15,271,540
Liabilities				
Derivative financial instruments		**83,091**	124,487	103,978
Debt securities in issue		**3,729,984**	2,985,642	3,780,874
Deposits	10	**4,602,697**	4,829,948	4,519,901
Preference shares		**280,597**	280,597	280,666
Due to related entities	11	**4,343,686**	4,740,677	4,828,634
Current tax liabilities		**-**	-	11,796
Other liabilities		**8,128**	7,519	11,106
Provisions		**3,342**	3,071	3,090
Head office account		**270,492**	243,522	255,874
Total liabilities		**13,322,017**	13,215,463	13,795,919
Net assets		**1,530,802**	1,420,217	1,475,621
Equity				
Contributed equity	14.1	**551,201**	551,201	551,201
Reserves	14.3	**2,010**	1,545	1,724
Retained earnings		**977,591**	867,471	922,696
Total equity		**1,530,802**	1,420,217	1,475,621

The financial position as at 30 June 2018 reflects adoption of NZ IFRS 9. Prior periods have not been restated. Refer to Note 2 - Principal accounting policies for further information.

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

In thousands of NZD	Contributed equity	Retained earnings	Reserves	Total
At 1 January 2017	551,201	814,507	803	1,366,511
Net profit (excluding Branch*)	-	52,964	-	52,964
Other comprehensive income:				
Revaluation reserve - AFS financial assets	-	-	742	742
At 30 June 2017 (Unaudited)	551,201	867,471	1,545	1,420,217
At 1 January 2017	551,201	814,507	803	1,366,511
Net profit (excluding Branch*)	-	108,189	-	108,189
Other comprehensive income:				
Revaluation reserve - AFS financial assets	-	-	921	921
At 31 December 2017 (Audited)	551,201	922,696	1,724	1,475,621
At 1 January 2018	551,201	922,696	1,724	1,475,621
Impact of adoption of NZ IFRS 9				
Restated opening balance under NZ IFRS 9		(964)		(964)
Net profit (excluding Branch*)	-	55,859	-	55,859
Other comprehensive income:				
Revaluation reserve - FVOCI financial assets	-	-	286	286
At 30 June 2018 (Unaudited)	551,201	977,591	2,010	1,530,802

30 June 2018 results reflect adoption of NZ IFRS 9. Prior periods have not been restated. Refer to Note 2 - Principal accounting policies for further information.
* Statement of Changes in Equity excludes current year and cumulative surpluses of the Branch. The net surplus / loss 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.

Condensed Statement of Cash Flows

In thousands of NZD	Notes	Unaudited 6 months to 30/06/2018	Unaudited 6 months to 30/06/2017	Audited Year to 31/12/2017
Cash flows from operating activities				
Interest received		**322,858**	310,913	621,065
Interest paid		**(142,615)**	(166,426)	(315,317)
Other cash inflows provided by operating activities		**1,005**	1,382	2,327
Other cash outflows used in operating activities		**(69,195)**	(69,557)	(252,483)
Cash flows from operating profits before changes in operating assets and liabilities		**112,053**	76,312	55,592
Net changes in operating assets and liabilities		**531,999**	(485,197)	(1,378,070)
Net cash flow from operating activities	26	**644,052**	(408,885)	(1,322,478)
Cash flows from investing activities				
Cash inflows / outflows used in investing activities		**(42)**	95	(408)
Net cash flow from investing activities		**(42)**	95	(408)
Cash flows from financing activities				
Net changes in financing liabilities		**(533,727)**	404,829	1,293,596
Net cash flows from financing activities		**(533,727)**	404,829	1,293,596
Net change in cash and cash equivalents for the period / year		**110,283**	(3,961)	(29,290)
Cash and cash equivalents at beginning of the period / year		**488,415**	517,705	517,705
Cash and cash equivalents at end of the period / year		**598,698**	513,744	488,415
Cash and cash equivalents at end of the period / year comprise of:				
Cash at bank and on hand		**598,698**	513,744	488,415
Cash and cash equivalents at end of the period / year		**598,698**	513,744	488,415

30 June 2018 results reflect adoption of NZ IFRS 9. Prior periods have not been restated. Refer to Note 2 - Principal accounting policies for further information.

The above Statement of Cashflows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

1 Reporting entity

The reporting entity is the Registered Bank (Coöperatieve Rabobank U.A.). These interim financial statements relate to the Rabobank New Zealand Banking Group, which comprises the Registered Bank's New Zealand Branch, Rabobank New Zealand Limited and Rabo Capital Securities Limited.

These interim financial statements as at and for the six months ended 30 June 2018 are a combination of the interim financial statements of the above entities, but do not (in accordance with the Registered Bank's conditions of registration as issued by the Reserve Bank of New Zealand) include the businesses of De Lage Landen Limited and Agco Finance Limited.

2 Basis of preparation

2.1 Statement of compliance

The interim financial statements have been prepared and presented in accordance with the Order, and the Reserve Bank of New Zealand Act 1989. For this purpose the Banking Group comprises entities and operations as required by the RBNZ but it does not constitute a group in accordance with New Zealand equivalent to International Financial Reporting Standards ('NZ IFRS') 10 Consolidated Financial Statements.

These interim financial statements have been prepared in accordance with the requirements of the New Zealand equivalent to International Accounting Standard ('NZ IAS') 34 Interim Financial Reporting and should be read in conjunction with the Banking Group's financial statements for the year ended 31 December 2017. 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 2017.

2.2 Basis of measurement

These interim financial statements have been prepared under the historical cost convention, except for derivative financial instruments and financial assets at fair value through other comprehensive income, 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 hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

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 Banking Group's accounting policies and the key sources of estimation of uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2017.

2.4 Principal accounting policies

The accounting policies used in the preparation of these interim financial statements are consistent with the accounting policies used in the preparation of the annual financial statements for the year ended 31 December 2017. Other amendments to NZ IFRS effective for 2018 did not have a material effect except for the adoption of NZ IFRS 9 ' Financial Instruments' ('NZ IFRS 9') on 1 January 2018.

NZ IFRS 9 replaces NZ IAS 39 'Financial Instruments: Recognition and Measurement' ('NZ IAS 39') for annual periods on or after 1 January 2018. The Banking Group has not restated comparative information for 2017 for financial instruments in the scope of NZ IFRS 9, as permitted by accounting standards. Therefore, the comparative information for 2017 is reported under NZ IAS 39 and is not comparable to the information presented for 2018. For further information refer to note 2.8.

The Banking Group 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 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.

2.6 Principles of consolidation

The basis of aggregation incorporates the assets and liabilities of all entities within the Banking Group and the results of those entities. The effects of transactions as well as balances between entities in the Banking Group have been eliminated.

Notes to the Financial Statements

2 Basis of preparation (continued)

2.7 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.

2.8 Changes in accounting principles and presentation

NZ IFRS 15 Revenue from Contracts with Customers

NZ IFRS 15 applied but has no material impact on the revenue recognition for the Banking Group. This is because the majority of Banking Group's revenues are recognised in accordance with NZ IFRS 9 (previously NZ IAS 39).

NZ IFRS 9 Financial Instruments

Classification

From 1 January 2018, the Banking Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows:

- Business model assessment: Assessment how the business is managed and how the business is seen from a strategic point of view. Also the frequency and size of the sales are taken into account. This assessment results in a classification:

  - Hold to collect: where the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; or

  - Hold to collect and sell: where the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; or

  - Other business model.

- Type of contractual cash flows: Assessment of the financial assets whether the cash flows are solely payment of principal and interest.

The business model assessment can be made on a portfolio basis, whereas the contractual cashflow assessment is assessed for each individual financial asset.

A debt instrument that is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at amortised cost unless the asset is designated at fair value through profit or loss.

A debt instrument that meets the cash flow characteristics test and is not designated at fair value through profit or loss is measured at fair value with fair value adjustments recognised in other comprehensive income if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and sell financial assets. All other debt instruments are measured at fair value through profit or loss. The Banking Group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Banking Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets measured at fair value through profit or loss are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. Derivative financial instruments are recognised initially and are subsequently measured at fair value through profit or loss.

Subsequent measurement of debt instruments depends on the Banking Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Banking Group classifies its debt instruments:

- Amortised cost (AC)

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost and presented as 'Loans and advances to banks' and 'Loans and advances to customers'. Interest income from these financial assets is included in net interest income using the effective interest rate method. Any gain or loss

Notes to the Financial Statements

2 Basis of preparation (continued)

2.8 Changes in accounting principles and presentation (continued)

arising on derecognition is recognised directly in profit or loss and presented in Gains/ (losses) arising from the derecognition of financial assets measured at amortised cost. Impairment losses are included in 'Impairment charges on financial assets' in the statement of comprehensive income.

- Fair value through other comprehensive income (FVOCI)

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income and presented as 'Financial assets at fair value through other comprehensive income'. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest from these financial assets is included in net interest income using the effective interest rate method. Impairment losses are included in 'Impairment charges on financial assets' in the statement of comprehensive income.

- Fair value through profit or loss (FVPL)

  - Financial assets that do not meet the criteria for amortised cost or FVOCI are mandatorily measured at FVPL and presented as 'Financial assets mandatorily at fair value'; or
  - Financial assets that are irrevocably included as 'Financial assets designated at fair value' at inception if the use of the designation removes or significantly reduces an accounting mismatch; or
  - Financial assets that are held for trading.

A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within gains/ (losses) on financial assets and liabilities at fair value through profit or loss in the period in which it arises.

Impairment allowances on financial assets

The rules governing impairments apply to financial assets at amortised cost and financial assets at fair value through OCI, as well as to lease receivables, certain loan commitments and financial guarantees. At initial recognition, an allowance is formed for the amount of the expected credit losses from possible defaults in the coming 12 months ('12-months expected credit loss' (ECL)). If credit risk increased significantly since origination (but remains non-credit-impaired), an allowance will be required for the amount that equals the expected credit losses stemming from possible defaults during the expected lifetime of the financial asset ('Lifetime ECL'). If the financial instrument becomes credit-impaired the allowance will remain at the Lifetime ECL. However, for these instruments the interest income will be recognised by applying the effective interest rate on the net carrying amount (including the allowance). Financial instruments become credit-impaired when one or more events have occurred that had a detrimental impact on estimated future cash flows.

The ECLs on an instrument should be based on an unbiased probability-weighted amount that is determined by evaluating a range of possible and reasonable outcomes and should reflect information available on current conditions and forecasts of future economic conditions, such as e.g. gross domestic product growth, unemployment rates and interest rates.

Two fundamental drivers of the NZ IFRS 9 impairments requirements are a) the methodology for the measurement of 12-Month and Lifetime Expected Credit Losses and b) the criteria used to determine whether a 12-month ECL, Lifetime ECL non-credit-impaired, or Lifetime ECL credit-impaired should be applied (also referred to as stage determination criteria).

Methodology to determine expected credit losses

In order to determine ECLs the Banking Group utilises Probability of Default (PD) x Loss Given Default (LGD) x Exposure at Default (EAD) models for the majority of the portfolio in scope. Specific NZ IFRS 9 models have been developed that are structured similar to Rabobank's Advanced Internal Rating Based Approach (A-IRB) models for regulatory purposes, but based on point in time estimates, lifetime parameters and excluding prudential elements and downturn elements. Furthermore, forecasts of multiple future economic conditions (macroeconomic scenarios) are incorporated into the ECL models and probability weighted in order to determine the eventual expected credit losses. The Banking Group utilises three global macroeconomic scenarios, a baseline scenario, a baseline minus and a baseline plus, which are probability weighted. When unexpected external developments are not sufficiently covered by the ECL models a top level adjustment will be made.

Stage determination criteria

In order to allocate financial instruments in scope between the categories 12-month ECL (stage 1), Lifetime ECL Non-Credit-Impaired (stage 2) and Lifetime ECL Credit-Impaired (stage 3) a framework of qualitative and quantitative factors has been developed. As thedefinition of credit-impaired used for IFRS 9 purposes is aligned with the default definition used for regulatory purposes, the stage 3 portfolio equals the defaulted portfolio. The criteria for allocating a financial instrument to stage 3 are therefore fully aligned with

Notes to the Financial Statements

2 Basis of preparation (continued)

2.8 Changes in accounting principles and presentation (continued)

the criteria for assigning a defaulted status, for example 90 days past due status, or if a debtor is likely to become unable to pay its credit obligations without liquidation of collateral by the bank. In order to allocate financial instruments between stages 1 and 2, we use criteria that are currently applied in the credit process, such as days past due status and special asset management status. Also, the quantitative criteria used are related to the probability of default (PD), where a financial instrument is allocated to stage 2 when an increase in the weighted average PD since origination exceeds a predefined threshold.

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.

Changes in presentation of interest income

As a result of a change in NZ IAS 1 due to the implementation of NZ IFRS 9, interest income on financial assets using the effective interest method should be presented separately in the statement of comprehensive income. Interest income on financial assets using the effective interest method includes interest income on 'Loans and advances to banks', 'Loans and advances to customers' and 'Financial assets at fair value through other comprehensive income'. The Banking Group does not derive interest income on financial assets that do not use the effective interest method and as a result this change does not apply.

Notes to the Financial Statements

2 Basis of preparation (continued)

2.8 Changes in accounting principles and presentation (continued)

Key impacts of the implemenation of NZ IFRS 9

The implementation of NZ IFRS 9 resulted in an increase of the impairment allowance of financial assets of NZD 1.8 million as a result of the new expected credit loss impairment model. Of this, NZD 1.5 million relates to financial assets at amortised cost. This movement and all other movements due to the NZ IFRS 9 implementation are disclosed in the following table which shows a reconciliation between the statement of financial position as reported per 31 December 2017 under NZ IAS 39 and the restated amounts per 1 January 2018 under NZ IFRS 9.

Statement of Financial Position

In thousands of NZD	Note	Audited 31/12/2017 NZ IAS 39	Reclassification	Remeasurement (ECL)	Unaudited 1/01/2018 NZ IFRS 9
Assets					
Cash and cash equivalents		488,415	-	-	488,415
Derivative financial instruments		201,096	-	-	201,096
Available-for-sale financial assets		604,299	(604,299)	-	-
Financial assets at fair value through other comprehensive income		-	604,299	-	604,299
Loans and advances		11,253,838	-	(655)	11,253,183
Due from related entities		2,700,794	-	(1,148)	2,699,646
Other assets		5,493	-	-	5,493
Income tax receivables		-	-	-	-
Net deferred tax assets		13,443	-	505	13,948
Property, plant and equipment		4,075	-	-	4,075
Intangible assets		87	-	-	87
Total assets		**15,271,540**	**-**	**(1,298)**	**15,270,242**
Liabilities					
Derivative financial instruments		103,978	-	-	103,978
Debt securities in issue		3,780,874	-	-	3,780,874
Deposits		4,519,901	-	-	4,519,901
Preference shares		280,666	-	-	280,666
Due to related entities		4,828,634	-	-	4,828,634
Current tax liabilities		11,796	-	-	11,796
Other liabilities		11,106	-	-	11,106
Provisions		3,090	-	-	3,090
Head office account		255,874	-	(334)	255,540
Total liabilities		**13,795,919**	**-**	(334)	**13,795,585**
Net assets		**1,475,621**	**-**	**(964)**	**1,474,657**
Equity					
Contributed equity		551,201	-	-	551,201
Reserves		1,724	-	-	1,724
Retained earnings		922,696	-	(964)	921,732
Total equity		**1,475,621**	**-**	**(964)**	**1,474,657**

2 Basis of preparation (continued)

2.8 Changes in accounting principles and presentation (continued)

Classification and measurement

The following table summarises the impact on classification and measurements to the Bank's financial assets and liabilities on 1 January 2018:

In thousands of NZD	Note	Measurement Category under NZ IAS 39	Measurement Category under NZ IFRS 9	As at 1 January 2018 Carrying amount under NZ IAS 39	Carrying amount under NZ IFRS 9
Financial Assets					
Cash and cash equivalents		Loans and receivables	Amortised cost	488,415	488,415
Derivative financial instruments		Fair value through profit or loss	Fair value through profit or loss	-	-
Available-for-sale financial assets	(a)	Available for sale	Fair value through other comprehensive income	201,096	201,096
Loans and advances		Loans and receivables	Amortised cost	11,253,838	11,253,183
Due from related entities		Loans and receivables	Amortised cost	2,700,794	2,699,646
Other assets		Loans and receivables	Amortised cost	5,493	5,493

There were no changes in the classification and measurement of financial liabilities of the Bank.

(a) Debt instruments that were previously classified as available for sale financial assets and carried at fair value through other comprehensive income (FVOCI) were assessed to have a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and accordingly, are classified at FVOCI under NZ IFRS 9 and included in "financial assets at fair value through other comprehensive income' in the statement of financial position as at 1 January 2018.

Reconciliation of impairment allowances

The following table reconciles the impairment allowances determined in accordance with NZ IAS 39 as at 31 December 2017 to the impairment allowances in accordance with NZ IFRS 9 as per 1 January 2018. The NZ IAS 39 impairment methodology was based on an 'incurred loss' model, meaning that an allowance is determined when an instrument is credit-impaired, that is, when a loss event has occurred that had a detrimental impact on estimated future cash flows. This will generally align with the stage 3 category of NZ IFRS 9. However, within the expected credit loss framework of NZ IFRS 9 the entire portfolio of financial instruments will be assigned an impairment allowance through the additions of the 12-month ECL category (stage 1) and the Lifetime ECL Non-Credit-Impaired (stage 2), generally leading to increases in overall allowances.

In thousands of NZD	
Total impairment allowances NZ IAS 39 as at 31 December 2017	**33,656**
Reclassifications of financial assets at amortised cost	2,497
Remeasurements	1,803
Total impairment allowances NZ IFRS 9 as at 1 January 2018	**37,956**

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to banks	1,148	-	-	1,148
Loans and advances to customers	8,038	7,891	19,903	35,832
Credit related contingent liabilities	881	95	-	976
Total impairment allowances NZ IFRS 9 as at 1 January 2018				**37,956**

Notes to the Financial Statements

3 Other income

In thousands of NZD	Unaudited 6 months to 30/06/2018	Unaudited 6 months to 30/06/2017	Audited Year to 31/12/2017
Lending and credit facility related fee income	**711**	791	1,592
Other income	**294**	591	725
Total other income	**1,005**	1,382	2,317

4 Other expense

In thousands of NZD	Unaudited 6 months to 30/06/2018	Unaudited 6 months to 30/06/2017	Audited Year to 31/12/2017
Commission and fee expense *	**(329)**	(442)	(825)
Total other income/(expense)	**(329)**	(442)	(825)

* Balance relates to fee charged for the guarantees obligations provided by Rabobank. Refer to note 27 for further information on guarantees.

5 Other operating gains / (losses)

In thousands of NZD	Unaudited 6 months to 30/06/2018	Unaudited 6 months to 30/06/2017	Audited Year to 31/12/2017
Gains / (losses) arising from:			
- trading derivatives*	**(23,342)**	(11,179)	(35,810)
Fair value hedge amortisation	**1,147**	2,616	3,782
Losses on disposal / write off of available-for-sale financial assets	**-**	-	75
Foreign exchange gains / (losses)	**54**	(44)	(33)
Total other operating gains / (losses)	**(22,141)**	(8,607)	(31,986)

*Within the balance of $23.3 million loss, there is a balance of $0.1 million loss (June 2017: $0.1 million loss; December 2017: $0.1 million gain) 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 branch with 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.

6 Impairment releases / (losses)

In thousands of NZD	Unaudited 6 months to 30/06/2018	Unaudited 6 months to 30/06/2017	Audited Year to 31/12/2017
Collective (provisions) / releases	**(1,812)**	2,879	7,429
Specific (provisions) / releases	**2,167**	(2,139)	(6,104)
Bad debt recovery	**-**	-	10
Total impairment releases / (losses)	**355**	740	1,335

Notes to the Financial Statements

7 Available-for-sale (AFS) financial assets

Financial assets at fair value through other comprehensive income (FVOCI)

In thousands of NZD	Unaudited At 30/06/2018	Unaudited At 30/06/2017	Audited At 31/12/2017
New Zealand government securities	**468,529**	569,166	435,939
Other debt securities (Kauri)	**182,853**	185,671	168,360
Total available-for-sale financial assets/ Financail assets at FVOCI	**651,382**	754,837	604,299

Additional information on 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 requirements.

8 Loans and advances

In thousands of NZD	Unaudited At 30/06/2018	Unaudited At 30/06/2017	Audited At 31/12/2017
Lending	**11,414,307**	10,773,260	11,215,768
Finance leases	**57,112**	56,247	60,938
Gross loans and advances	**11,471,419**	10,829,507	11,276,706
Accrued interest	**10,351**	9,438	10,788
Provisions for doubtful debts:			
Collective	**(29,410)**	(31,732)	(27,182)
Specific	**(8,435)**	(4,603)	(6,474)
Net loans and advances	**11,443,925**	10,802,610	11,253,838

9 Due from related entities

In thousands of NZD	Unaudited At 30/06/2018	Unaudited At 30/06/2017	Audited At 31/12/2017
Current account balances - wholly owned group*	**12,269**	5,901	8,977
Advances - wholly owned group*	**1,711,563**	2,119,054	2,406,421
Capital securities - wholly owned group*	**280,000**	280,000	280,000
Accrued interest receivable - wholly owned group*	**1,989**	3,740	5,396
Collective provision for doubtful debts (note 12.3)	**(821)**	-	-
Total due from related entities	**2,005,000**	2,408,695	2,700,794

* The wholly owned group refers to Rabobank related entities. Refer to note 27 for further information on related party disclosures.

10 Deposits

In thousands of NZD	Unaudited At 30/06/2018	Unaudited At 30/06/2017	Audited At 31/12/2017
Call deposits	**2,152,630**	2,463,282	2,088,021
Term deposits	**2,418,706**	2,339,806	2,404,487
Accrued interest on call deposits	**674**	770	681
Accrued interest on term deposits	**30,687**	26,090	26,712
Total deposits	**4,602,697**	4,829,948	4,519,901

11 Due to related entities

In thousands of NZD	Unaudited At 30/06/2018	Unaudited At 30/06/2017	Audited At 31/12/2017
Current account balances - wholly owned group*	**137,068**	138,998	98,110
Advances - wholly owned group*	**4,197,910**	4,592,987	4,722,901
Accrued interest payable - wholly owned group*	**8,708**	8,692	7,623
Total due to related entities	**4,343,686**	4,740,677	4,828,634

* The wholly owned group refers to Rabobank related entities. Refer to note 27 for further information on related party disclosures.

Notes to the Financial Statements

12 Credit quality, impaired assets and provision for impairment

12.1 Individually impaired assets

	At 30/06/2018 (Unaudited)				
In thousands of NZD	Related parties	Residential mortgages	Corporate	Retail*	Total
Opening balance	-	-	-	293,116	293,116
Additions	-	-	-	29,272	29,272
Amounts written off	-	-	-	-	-
Returned to performing or repaid	-	-	-	(43,662)	(43,662)
Closing balance	**-**	**-**	-	**278,726**	**278,726**
Aggregate amount of undrawn balances on lending commitments on impaired assets	-	-	-	10,263	10,263

There have been no other significant changes in the gross carrying amount of loans and receivables during the period that have contributed to the changes in provision for credit impairment under the expected loss model.

12.2 Past due assets but not impaired

	At 30/06/2018 (Unaudited)				
In thousands of NZD	Related parties	Residential mortgages	Corporate	Retail*	Total
Less than 30 days past due	-	-	-	20,316	20,316
At least 30 days but less than 60 days past due	-	-	-	81	81
At least 60 days but less than 90 days past due	-	-	-	353	353
At least 90 days past due	-	-	-	1,810	1,810
Total past due assets	**-**	**-**	**-**	**22,560**	**22,560**

12.3 Provision for credit impairment

	At 30/06/2018 (Unaudited)				
In thousands of NZD	Related parties	Residential mortgages	Corporate	Retail*	Total
Collective provision					
Opening balance	-	-	-	27,182	27,182
Restated for adoption of new accounting standards	1,148	-	-	89	1,237
Charge / (release) to statement of comprehensive income - 12 month ECL (note 6)	(327)	-	-	1,000	673
Charge / (release) to statement of comprehensive income - lifetime ECL (note 6)	-	-	-	1,139	1,139
Other movements	-	-	-	-	-
Closing balance	**821**	**-**	**-**	**29,410**	**30,231**
The collective provision measured under NZ IFRS 9 is now presented as 12 months and lifetime expected credit losses following adoption of NZ IFRS 9.					
Specific provision					
Opening balance	-	-	-	6,474	6,474
Reclassifications of financial assets at amortised cost	-	-	-	2,497	2,497
Restated for adoption of new accounting standards	-	-	-	566	566
Charge / (release) to statement of comprehensive income	-	-	-	(2,167)	(2,167)
Amounts written off	-	-	-	-	-
Discount unwind**	-	-	-	1,065	1,065
Closing balance	**-**	**-**	**-**	**8,435**	**8,435**

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

12.4 Other assets under administration

There are no other assets under administration as at 30 June 2018 (2017: Nil).

Notes to the Financial Statements

13 Asset quality of Registered Bank's Overseas Banking Group

At as 31 December (Audited)	2017 EURm
Total individually impaired assets (before allowances for credit impairment loss and net of interest held in suspense)	16,720
Total individually impaired assets as a percentage of total assets (%)	2.8%
Total individual credit impairment allowance	4,189
Total individual credit impairment allowance as a percentage of total individually impaired assets (%)	25.1%
Total collective credit impairment allowance	645

14 Contributed equity, Reserves and Capital management

14.1 Contributed equity

In thousands of NZD	Unaudited At 30/06/2018	Unaudited At 30/06/2017	Audited At 31/12/2017
Paid up capital in Rabobank New Zealand Limited	**551,200**	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 2017: 275,600,000; 30 June 2017: 275,600,000). Each share was issued at $2 and has no par value.

In thousands of NZD	Unaudited At 30/06/2018	Unaudited At 30/06/2017	Audited At 31/12/2017
Paid up capital Rabo Capital Securities Limited	1	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 the Company. Each share was issued at $1 and has no par value.

In thousands of NZD	Unaudited At 30/06/2018	Unaudited At 30/06/2017	Audited At 31/12/2017
Total equity	**551,201**	551,201	551,201

14.2 Reserves

In thousands of NZD	Unaudited At 30/06/2018	Unaudited At 30/06/2017	Audited At 31/12/2017
FVOCI financial assets reserve			
Opening balance	**1,724**	803	803
Changes in FVOCI financial assets revaluation reserve (gross)	**397**	1,031	1,279
Changes in FVOCI financial assets revaluation reserve (deferred tax)	**(111)**	(289)	(358)
Total FVOCI reserve	**2,010**	1,545	1,724

The nature and purpose of the FVOCI financial assets revaluation reserve (AFS financial assets reserve under NZ IAS 39) is to record the unrealised gains or losses arising from changes in the fair value of FVOCI financial assets. The FVOCI financial assets revaluation reserve qualifies as Common Equity Tier One capital for capital adequacy purposes.

Notes to the Financial Statements

14 Contributed equity, Reserves and Capital management (continued)

14.3 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 the six month period ended 30 June 2018 and the 2017 financial year, 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 natures of its businesses, and how the various risks it is exposured 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 changes were made to the objectives, policies or processes from the prior year.

15 Priority of financial liabilities in the event of a liquidation

The financial liabilities of the Branch reported in these financial statements 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.

16 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	Unaudited At 30/06/2018	Unaudited At 30/06/2017	Audited At 31/12/2017
Guarantees	**18,466**	7,078	14,016
Lending commitments			
Irrevocable lending commitments	**641,275**	866,595	768,915
Revocable lending commitments	**1,990,702**	1,292,530	1,826,185
Total contingent liabilities	**2,650,443**	2,166,203	2,609,116

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 the reporting date, or where letter of offers have been issued but not yet accepted.

Notes to the Financial Statements

17 Expenditure commitments

17.1 Capital expenditure commitments

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

In thousands of NZD	Unaudited At 30/06/2018	Unaudited At 30/06/2017	Audited At 31/12/2017
One year or less	**-**	-	-
Total capital expenditure commitments	**-**	-	-

17.2 Operating lease commitments

In thousands of NZD	Unaudited At 30/06/2018	Unaudited At 30/06/2017	Audited At 31/12/2017
One year or less	**4,019**	3,879	4,151
Between one and two years	**3,039**	2,814	2,934
Between two and five years	**3,797**	4,135	3,967
Over five years	**583**	1,080	735
Total operating lease commitments	**11,438**	11,908	11,787

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.

Notes to the Financial Statements

18 Risks arising from financial instruments

The major types of risks the Banking Group is exposed to are liquidity, market and credit risks.

18.1 Liquidity risk

The following maturity analysis for financial assets and financial liabilities and contingent liabilities presents the contractual undiscounted cash flows receivable and payable, and is based on the remaining period as at the reporting date to the contractual maturity.

The total balance in the table below may not agree to the Statement of Financial Position as the table incorporates all cash flows on an undiscounted basis, which include both principal and associated future interest income/expense accruals.

Maturity analysis of financial assets and financial liabilities and contingent liabilities by 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 30/06/2018 (Unaudited)							
Financial assets							
Cash and cash equivalents	598,698	598,698	-	-	-	-	-
Derivative financial instruments *	126,022	-	72,795	12,669	19,178	20,391	989
FVOCI financial assets	665,845	-	244,355	288,563	53,573	79,354	-
Loans and advances	12,035,488	-	4,311,562	344,300	5,013,694	1,308,250	1,057,682
Due from related entities	2,070,213	12,432	1,278,412	321,323	100,754	296,773	60,519
Other financial assets	6,273	-	6,273	-	-	-	-
Total financial assets	15,502,539	611,130	5,913,397	966,855	5,187,199	1,704,768	1,119,190
Financial liabilities							
Derivative financial instruments *	85,666	-	36,675	8,059	17,889	21,942	1,101
Debt securities in issue	3,816,183	-	2,433,529	313,504	393,252	675,898	-
Deposits	4,642,486	2,152,629	1,415,188	473,590	429,420	171,648	11
Preference shares	296,818	-	8,409	288,409	-	-	-
Due to related entities	4,434,677	138,097	2,253,092	631,796	1,001,047	309,090	101,555
Other liabilities	7,274	-	7,274	-	-	-	-
Provisions	270,492	-	270,492	-	-	-	-
Total financial liabilities	13,553,596	2,290,726	6,424,659	1,715,358	1,841,608	1,178,578	102,667
Contingent liabilities							
Guarantees	18,466	5,344	1,900	-	4,400	4,602	2,220
Lending commitments	2,631,977	1,542,397	611,921	81,229	176,945	211,087	8,398
Total contingent liabilities	2,650,443	1,547,741	613,821	81,229	181,345	215,689	10,618

* 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 cashflows.

Notes to the Financial Statements

18 Risks arising from financial instruments (continued)

18.2 Market risk

The table below shows 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 30/06/2018 (Unaudited)							
Financial assets							
Cash and cash equivalents	598,698	598,698	-	-	-	-	-
Derivative financial instruments	123,806	-	-	-	-	-	123,806
FVOCI financial assets	651,382	136,980	96,066	285,857	56,662	75,817	-
Loans and advances	11,443,925	6,520,987	1,363,711	1,401,640	1,359,669	787,306	10,612
Due from related entities	2,005,000	1,259,944	8,072	24,242	371,262	339,432	2,048
Other financial assets	6,273	-	-	-	-	-	6,273
Total financial assets	14,829,084	8,516,609	1,467,849	1,711,739	1,787,593	1,202,555	142,739
Other assets	705	-	-	-	-	-	705
Income tax receivables	6,145	-	-	-	-	-	6,145
Net deferred tax assets	13,256	-	-	-	-	-	13,256
Property, plant and equipment	3,563	-	-	-	-	-	3,563
Intangible assets	66	-	-	-	-	-	66
Total non-financial assets	23,735	-	-	-	-	-	23,735
Total assets	14,852,819	8,516,609	1,467,849	1,711,739	1,787,593	1,202,555	166,474
Financial liabilities							
Derivative financial instruments	83,091	-	-	-	-	-	83,091
Debt securities in issue	3,729,984	1,565,251	1,131,972	299,010	404,298	318,887	10,566
Deposits	4,602,697	2,925,140	593,173	471,815	413,686	167,525	31,358
Preference shares	280,597	-	-	280,000	-	-	597
Due to related entities	4,343,686	3,853,016	443,883	-	-	29,256	17,531
Other financial liabilities	7,274	-	-	-	-	-	7,274
Head office account	270,492	-	-	-	-	-	270,492
Total financial liabilities	13,317,821	8,343,407	2,169,028	1,050,825	817,984	515,668	420,909
Other liabilities	854	-	-	-	-	-	854
Provisions	3,342	-	-	-	-	-	3,342
Total non-financial liabilities	4,196	-	-	-	-	-	4,196
Total liabilities	13,322,017	8,343,407	2,169,028	1,050,825	817,984	515,668	425,105
Interest rate derivatives							
Swaps	-	593,822	274,134	(422,300)	(474,357)	28,701	
Repricing gap (interest bearing assets and liabilities)	1,789,433	767,024	(427,045)	238,614	495,252	715,588	
Cumulative mismatch	1,789,433	767,024	339,979	578,593	1,073,845	1,789,433	

Notes to the Financial Statements

18 Risks arising from financial instruments (continued)

18.3 Credit risk

Credit risk arises from the potential inability of a debtor or counterparty to meet their contractual obligations.
Concentration of credit risk is determined by management by industry sector. Industry sectors are determined by reference to the Australia and New Zealand Standard Industrial Classification (ANZSIC) Codes.

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

(i) 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.

In thousands of NZD	Unaudited At 30/06/2018
Cash and cash equivalents	598,698
Derivative financial instruments	123,806
FVOCI financial assets	651,382
Loans and advances	11,443,925
Due from related entities	2,005,000
Other financial assets	6,273
Commitments and guarantees	2,650,443
Total credit exposures	**17,479,527**

Analysis of credit exposures by industry: In thousands of NZD	Unaudited At 30/06/2018
Agriculture	11,568,485
Finance and insurance	2,654,843
Forestry and fishery	178,985
Government	716,380
Manufacturing	1,638,877
Property and business services	106,924
Wholesale trade	408,064
Other	206,969
Total credit exposures	**17,479,527**

Analysis of credit exposures by geographical areas: In thousands of NZD	Unaudited At 30/06/2018
New Zealand	15,665,043
The Netherlands	1,483,613
Australia	140,824
United States	5,116
Luxemburg	10,088
Germany	118,606
Finland	56,237
Total credit exposures	**17,479,527**

(ii) Concentration of credit exposures to individual counterparties

	At 30/06/2018	Peak for the quarter
Number of bank counterparties:		
Percentage of shareholders' equity		
10-15%	-	-
Number of non-bank counterparties:		
Percentage of shareholders' equity		
10-15%	-	-

Notes to the Financial Statements

18 Risks arising from financial instruments (continued)

18.4 Credit risk (continued)

(ii) Concentration of credit exposures to individual counterparties (continued)

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; 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 the date of the most recent audited financial statements (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.

(iii) 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 30/06/2018 (Unaudited)							
Cash and cash equivalents	598,698	-	-	-	-	-	598,698
AFS financial assets/Financial assets FVOCI (note 7)	651,382	-	-	-	-	-	651,382
Gross loans and advances (note 8)*	256,700	1,240,824	7,145,345	2,527,264	22,560	278,726	11,471,419
Total	**1,506,780**	**1,240,824**	**7,145,345**	**2,527,264**	**22,560**	**278,726**	**12,721,499**

*Gross loans and advances exclude provisions for doubtful debts.

Credit rating description

R0-R7	Counterparties that are strong to extremely strong in meeting current and future financial commitments to 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 to 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.

19 Credit and market risk exposures and capital adequacy

19.1 Residential mortgages

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

In thousands of NZD	Drawn amounts	Undrawn amounts	Total
At 30/06/2018 (Unaudited)			
LVR range			
Do not exceed 80%	31,447	9,220	40,667
Exceeds 80% and not 90%	4,244	632	4,876
Exceeds 90%	-	-	-
Total	**35,691**	**9,852**	**45,543**

Notes to the Financial Statements

19 Credit and market risk exposures and capital adequacy (continued)

19.1 Residential mortgages (continued)

Reconciliation of mortgage related amounts In thousands of NZD	Unaudited At 30/06/2018
Loans and advances - residential mortgages	35,691
Plus short term residential mortgages classified as overdrafts	-
On-balance sheet residential mortgages exposures	35,691
Off-balance sheet residential mortgages exposures	9,852
Total residential mortgages exposures (as per LVR analysis)	**45,543**

19.2 Market risk end-of-period notional capital charges

In thousands of NZD	Implied risk weighted exposure	Notional capital charges
At 30/06/2018 (Unaudited)		
Interest rate risk	517,750	41,420
Foreign currency risk	155,750	12,460
Total	**673,500**	**53,880**

The Banking Group does not take any equity risk.

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

In thousands of NZD	Implied risk weighted exposure	Notional capital charges
At 30/06/2018 (Unaudited)		
Interest rate risk	523,250	41,860
Foreign currency risk	231,750	18,540
Total	**755,000**	**60,400**

The Banking Group does not take any equity risk.

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

The market risk information above has been derived in accordance with the "Capital Adequacy Framework" (Standardised Approach) (BS2A).

19.5 Capital Ratios of Overseas Banking Group - Rabobank

At 31 December (Audited)	2017 %	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's Capital Adequacy and Risk Management Report (pillar 3) are publicly available on https://www.rabobank.com/en/images/annual-report-2017.pdf

Notes to the Financial Statements

20 Concentration of funding of financial liabilities

Total funding comprised:

In thousands of NZD	Unaudited At 30/06/2018
Debt securities in issue	3,729,984
Deposits	4,602,697
Preference shares	280,597
Due to related entities	4,343,686
Other financial liabilities	7,274
Head office account	270,492
Total funding	**13,234,730**

Analysis of funding by industry:

In thousands of NZD	Unaudited At 30/06/2018
Agriculture	781,652
Finance and insurance	9,511,477
Personal and other services	2,625,492
Other	316,109
Total funding	**13,234,730**

Analysis of funding concentration by geographical areas:

In thousands of NZD	Unaudited At 30/06/2018
Australia	857,871
New Zealand	7,431,736
The Netherlands	4,656,746
United Kingdom	8,520
United States of America	9,453
All other countries	270,404
Total funding	**13,234,730**

21 Additional information on statement of financial position

In thousands of NZD	Banking Group Unaudited At 30/06/2018
Total interest earning and discount bearing assets	14,686,345
Total interest and discount bearing liabilities	12,896,912
Financial assets pledged as collateral for liabilities or contingent liabilities	-

In thousands of NZD	Branch Unaudited At 30/06/2018
Liabilities of the Registered Bank in New Zealand, net of amounts due to related entities	4,676,547
Retail deposits of the Registered Bank in New Zealand	-

Notes to the Financial Statements

22 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 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:

	At 30/06/2018 (Unaudited)		At 30/06/2017 (Unaudited)		At 31/12/2017 (Audited)	
In thousands of NZD	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Cash and cash equivalents	598,698	598,698	513,744	513,744	488,415	488,415
Derivative financial instruments	123,806	123,806	128,045	128,045	201,096	201,096
FVOCI financial assets/AFS financial assets	651,382	651,382	754,837	754,837	604,299	604,299
Loans and advances	11,443,925	11,622,884	10,802,610	10,998,047	11,253,838	11,437,833
Due from related entities	2,005,000	2,023,675	2,408,695	2,431,708	2,700,794	2,727,559
Other financial assets	6,273	6,273	5,151	5,151	4,967	4,967
Total financial assets	14,829,084	15,026,718	14,613,082	14,831,532	15,253,409	15,464,169
Financial liabilities						
Derivative financial instruments	83,091	83,091	124,487	124,487	103,978	103,978
Debt securities in issue	3,729,984	3,759,501	2,985,642	3,023,823	3,780,874	3,814,905
Deposits	4,602,697	4,650,636	4,829,948	4,875,971	4,519,901	4,565,352
Preference shares	280,597	292,600	280,597	295,400	280,666	299,880
Due to related entities	4,343,686	4,356,140	4,740,677	4,756,376	4,828,634	4,842,195
Other financial liabilities	7,274	7,274	6,371	6,371	10,120	10,120
Head office account	270,492	270,492	243,522	243,522	255,874	255,874
Total financial liabilities	13,317,821	13,419,734	13,211,244	13,325,950	13,780,047	13,892,304

Fair value hierarchy

The Banking Group uses the following hierarchy for determining and disclosing the fair value of derivatives and available-for-sale 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 FVOCI 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

22 Fair value of financial instruments (continued)

Financial assets and financial liabilities carried at fair value

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

In thousands of NZD	Level 1	Level 2	Level 3	Total
At 30 June 2018 (Unaudited)				
Financial assets				
Derivative financial instruments	-	123,806	-	123,806
FVOCI financial assets	651,382	-	-	651,382
Financial liabilities				
Derivative financial instruments	-	83,091	-	83,091

In thousands of NZD	Level 1	Level 2	Level 3	Total
At 30 June 2017 (Unaudited)				
Financial assets				
Derivative financial instruments	-	128,045	-	128,045
AFS financial assets	754,837	-	-	754,837
Financial liabilities				
Derivative financial instruments	-	124,487	-	124,487

In thousands of NZD	Level 1	Level 2	Level 3	Total
At 31 December 2017 (Audited)				
Financial assets				
Derivative financial instruments	-	201,096	-	201,096
AFS financial assets	604,299	-	-	604,299
Financial liabilities				
Derivative financial instruments	-	103,978	-	103,978

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 investments. (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, Debt securities in issue, Deposits and Due to related entities

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

For financial liabilities carried at amortised cost, an estimate of the fair value has been derived as follows, are 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/period end.

Notes to the Financial Statements

23 Offsetting of financial assets and 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 30 June 2018 and 30 June 2017. 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		
30/06/2018 in thousands NZD Financial Assets	Gross amounts	Gross amounts set off in in balance sheet	Net amounts presented in balance sheet	Amounts subject master agreements	Financial Instrument Collateral	Net amount
Derivative financial instruments	123,806	-	123,806	(2,223)	-	123,806
Total financial assets	123,806	-	123,806	(2,223)	-	123,806
Financial Liabilities						
Derivative financial instruments	83,091	-	83,091	(2,223)	-	83,091
Total financial liabilities	83,091	-	83,091	(2,223)	-	83,091

	Effects of offsetting on the balance sheet			Related amounts not offset		
30/06/2017 in thousands NZD Financial Assets	Gross amounts	Gross amounts set off in in balance sheet	Net amounts presented in balance sheet	Amounts subject master agreements	Financial Instrument Collateral	Net amount
Derivative financial instruments	128,045	-	128,045	-	-	128,045
Total financial assets	128,045	-	128,045	-	-	128,045
Financial Liabilities						
Derivative financial instruments	124,487	-	124,487	-	-	124,487
Total financial liabilities	124,487	-	124,487	-	-	124,487

24 Maturity analysis of assets and liabilities

The table below shows a maturity analysis of assets and liabilities analysed according to when they are expected to be recovered or settled within 12 months (current) and greater than 12 months (non-current).

	30/06/2018			30/06/2017		
In thousands of NZD	Current	Non-Current	Total	Current	Non-Current	Total
Assets						
Cash and cash equivalents	598,698	-	598,698	513,744	-	513,744
Derivative financial instruments	85,681	38,125	123,806	54,049	73,996	128,045
FVOCI financial assets	524,670	126,712	651,382	538,314	216,523	754,837
Loans and advances*	5,373,721	6,070,204	11,443,925	5,279,393	5,523,217	10,802,610
Due from related entities	1,574,306	430,694	2,005,000	2,128,695	280,000	2,408,695
Other assets	6,978	-	6,978	5,697	-	5,697
Income tax receivables	6,145	-	6,145	4,906	-	4,906
Net deferred tax assets	-	13,256	13,256	-	12,782	12,782
Property, plant and equipment	-	3,563	3,563	-	4,256	4,256
Intangible assets	-	66	66	-	108	108
Total assets	8,170,199	6,682,620	14,852,819	8,524,798	6,110,882	14,635,680
Liabilities						
Derivative financial instruments	44,647	38,444	83,091	89,954	34,533	124,487
Debt securities in issue	2,709,240	1,020,744	3,729,984	1,885,642	1,100,000	2,985,642
Deposits	3,264,372	1,338,325	4,602,697	3,654,448	1,175,500	4,829,948
Preference shares	280,597	-	280,597	597	280,000	280,597
Due to related entities	2,970,705	1,372,981	4,343,686	3,187,095	1,553,582	4,740,677
Other liabilities	8,128	-	8,128	7,519	-	7,519
Provisions	1,466	1,876	3,342	1,219	1,852	3,071
Head office account	-	270,492	270,492	-	243,522	243,522
Total liabilities	9,279,155	4,042,862	13,322,017	8,826,474	4,388,989	13,215,463

* Prior period comparatives have been restated to use facility maturity date rather then loan maturity date for Corporate Loans.

Notes to the Financial Statements

25 Additional information for Registered Bank's Overseas Banking Group

For the year ended 31 December (Audited)	2017 EURm	2016 EURm
Net profit after income tax	2,674	2,024
Percentage (on a twelve month rolling basis) of average total assets	0.4%	0.3%
Total assets	602,991	662,593
% change over the previous twelve months	-9.0%	-2.4%

26 Reconciliation of net cash flows from operating activities

In thousands of NZD	Unaudited 6 months to 30/06/2018	Unaudited 6 months to 30/06/2017	Audited Year to 31/12/2017
Net profit after income tax	**70,809**	64,623	132,199
Non-cash items	**166**	3,121	(128)
Deferrals or accruals of past or future operating cash receipts or payments:			
Change in net operating assets and liabilities	**531,999**	(485,197)	(1,378,070)
Change in interest receivable/payable	**5,454**	(7,154)	(21,767)
Change in other deferrals or accruals	**35,624**	15,722	(54,712)
Net cash flow provided by / (used in) operating activities	**644,052**	(408,885)	(1,322,478)

27 Related party disclosures

The Banking Group consists of RNZL, a wholly owned subsidiary of Rabobank International Holdings B.V. whose ultimate parent is Rabobank; the Branch which is the New Zealand business of Rabobank and RCSL. De Lage Landen Limited and AGCO Finance Limited are related entities of the Banking Group, but are not included in the disclosure statements pursuant to the conditions of registration as issued by the Reserve Bank of New Zealand. Dealings with the parent and ultimate controlling entity include lending, funding, deposits and derivative transactions.

27.1 Transactions with related parties

(i) Guarantees

The first period

For the period 18 February 1998 to 17 February 2008 ("the First Period"), the obligations of RNZL 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 RNZL (the "First Guarantee").

Whilst the First Guarantee expired on 17 February 2008, all obligations incurred by RNZL 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 RNZL were guaranteed pursuant to a deed of guarantee dated 6 February 2008 by Rabobank in favour of the creditors of RNZL (the "Second Guarantee").

Whilst the Second Guarantee expired on 17 February 2010, all obligations incurred by RNZL 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 RNZL were guaranteed pursuant to a deed of guarantee dated 1 September 2009 by Rabobank in favour of the creditors of RNZL (the "Third Guarantee").

Whilst the Third Guarantee expired on 17 February 2012, all obligations incurred by RNZL 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 RNZL were guaranteed pursuant to a deed of guarantee dated 10 October 2011 by Rabobank in favour of the creditors of RNZL (the "Fourth Guarantee").

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

Notes to the Financial Statements

27 Related party disclosures (continued)

27.1 Transactions with related parties (continued)

(i) Guarantees (continued)

The fifth period

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

Whilst the Fifth Guarantee expired on 17 February 2014, all obligations incurred by RNZL 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 RNZL are guaranteed pursuant to a deed of guarantee dated 20 August 2013 by Rabobank in favour of the creditors of RNZL (the "Sixth Guarantee").

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

The seventh period

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

Whilst the Seventh Guarantee expired on 30 April 2015, all obligations incurred by RNZL 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.
All new obligations incurred by RNZL after 30 April 2015 are not guaranteed.

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

(ii) Management fees

A management fee of $15.6 million (June 2017: $19 million; December 2017: $36.3 million) was charged to the Banking Group 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 Banking Group by this related entity.
A management fee of $7.3 million (June 2017: $4.5 million; December 2017: $10.7 million) was charged to the Banking Group by Rabobank for the provision of administrative and management services.

(iii) Commission and fee expense

A fee of $0.3 million (June 2017: $0.44 million; December 2017: $0.8 million) was charged to RNZL by Rabobank in consideration for providing the obligations guarantees.

(iv) Other transactions

The Banking Group enters into a number of transactions with other related entities within the Overseas Banking Group. These include funding, deposits and derivative transactions. The interest income earned on related entities transactions was $26.7 million (June 2017: $25.1 million; December 2017: $53.2 million) , and the interest expense paid on related entities transactions was $36.1 million (June 2017: $41.1 million; December 2017: $79.1 million). The principal amounts of due from and due to the parent and ultimate controlling entity are separately disclosed in the statement of financial position and the accompanying notes to the financial statements.

(v) Capital securities

RCSL held $280 million 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.

27.2 Terms and conditions of transactions with related parties

Except for the guarantees noted in note 27.1 above, all transactions with related parties are made in the ordinary course of business on normal terms and conditions.

Notes to the Financial Statements

27 Related party disclosures (continued)

27.3 Provision for impairment on due from related entities

For the period ended 30 June 2018, the Banking Group has not made any specific provision for impairment relating to amounts owed by related parties as the payment history has been excellent (2017: 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. The implementation of NZ IFRS 9 resulted in recognition of the impairment allowance relating to amounts owned by related parties of $1.1 million as a result of the new expected credit loss impairment model. (Refer to note 2.7 for key impacts of the implemenation of NZ IFRS 9 and note 10 for period end balances).

28 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 Banking Group, the results of those operations or the state of affairs of the Banking Group in subsequent financial years.

29 Dividend

No dividend was proposed or paid by the Banking Group for the six month period ended 30 June 2018 (2017: Nil).

Independent Auditor's Review Report

To the Directors of Coöperatieve Rabobank U.A

Report on the financial statements and supplementary information

We have reviewed pages 8 to 35 of the Disclosure Statement for the six-months ended 30 June 2018 (the "Disclosure Statement") of Coöperatieve Rabobank U.A – New Zealand Banking Group (the "Banking Group") which includes the financial statements required by Clause 26 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and the supplementary information required by Schedules 5, 7, 9, 12 and 14 of the Order. The financial statements comprise the statement of financial position as at 30 June 2018, the statement of comprehensive income, the statement of changes in equity and the condensed statement of cash flows for the six month then ended, and the notes to the financial statements that include the basis of preparation and selected explanatory information for the Banking Group.

Coöperatieve Rabobank U.A – New Zealand Banking Group represent Coöperatieve Rabobank U.A's operations in New Zealand which comprises of Rabobank New Zealand Limited, Rabo Capital Securities Limited and Coöperatieve Rabobank U.A – New Zealand Branch.

Directors' responsibility

The Directors of Coöperatieve Rabobank U.A (the "Directors") are responsible on behalf of Coöperatieve Rabobank U.A, for the preparation and presentation of the Disclosure Statement, which includes financial statements prepared in accordance with Clause 26 of the Order and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible on behalf of the Coöperatieve Rabobank U.A, for the preparation and presentation of supplementary information in the Disclosure Statement which complies with Schedules 3, 5, 7, 9, 12 and 14 of the Order.

Our responsibility

Our responsibility is to express a conclusion on the financial statements and the supplementary information presented by the Directors based on our review:

- in relation to the financial statements (excluding the supplementary information) whether in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the financial statements have not been prepared, in all material respect, in accordance with New Zealand Equivalent to International Accounting Standard 34 (NZ IAS 34): *Interim Financial Reporting* and International Accounting Standard 34: *Interim Financial Reporting* (IAS 34);

Independent Auditor's Review Report (continued)

- in relation to the supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy) whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with Schedules 5, 7, 12 and 14 of the Order; and
- in relation to the supplementary information relating to credit and market risk exposures and capital adequacy whether in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

We conducted our review in accordance with the New Zealand Standard of Review Engagements 2410: Review of Financial Statements Performed by the Independent Auditor of the Entity ("NZ SRE 2410"). As the auditor of the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review in accordance with NZ SRE 2410 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 International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly we do not express an audit opinion on the financial statements and supplementary information.

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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that:

a) the financial statements on pages 8 to 35 (excluding the supplementary information) have not been prepared in all material respects, in accordance with NZ IAS 34 and IAS 34;

b) the supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy) that is required to be disclosed under Schedules 5, 7, 12 and 14 of the Order, does not fairly state the matters to which it relates in accordance with those Schedules; and

c) the supplementary information relating to credit and market risk exposures and capital adequacy that is required to be disclosed under Schedule 9 of the Order, is not in all material respects, disclosed in accordance with Schedule 9 of the Order.

Independent Auditor's Review Report (continued)

Who we report to

This report is made solely to the Directors, as a body. Our review work has been undertaken so that we might state those matters which we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Coöperatieve Rabobank U.A and Coöperatieve Rabobank U.A's Directors, as a body, for our review procedures, for this report, or for the conclusions we have formed.

For and on behalf of:

Ashley Wood

PricewaterhouseCoopers

Chartered Accountants

31 August 2018

Sydney, Australia

Bank Financial Strength Dashboard

Reconciliation of Disclosure Statements to Dashboard

This section does not form part of the Disclosure Statement and contains the information in respect of the Banking Group included on the Bank Financial Strength Dashboard (Dashboard) published on the RBNZ's website. Amounts below may differ slightly from those published by the RBNZ due to rounding differences. The tables below include reconciliations to amounts included in the Disclosure Statement where there are classification differences between the financial statements and the Dashboard.

Profitability / Performance

	Dashboard		Classification differences	**Disclosure Statement**
	Unaudited	Unaudited		Unaudited
	3 months to	3 months to		6 months to
in millions of NZD	31/03/2018	30/06/2018		30/06/2018
Total interest income	155	156	8	319
Total interest expense	(64)	(68)	(12)	(144)
Net interest income	**91**	**88**	**(4)**	**175**
Gains/losses on trading and hedging	(14)	(12)	4	(22)
Fee and commission income	-	1	-	1
All other income	-	-	-	-
Operating expenses	(26)	(26)	-	(52)
Impaired asset expense	3	(3)	-	-
Profit before tax	**54**	**48**	**-**	**102**
Tax expense	(16)	(15)	-	(31)
Profit after tax	**38**	**33**	**-**	**71**
Return on assets (%)	1.0%	0.9%		1.4%
Return on equity (%)	8.7%	7.5%		13.4%
Net interest margin (%)	2.5%	2.3%		2.7%

Financial Position

At 30/06/2018 (Unaudited)	Dashboard	Classification differences	**Disclosure Statement**
in thousands of NZD			
Cash and bank deposits	1,833	(1,234)	599
Debt securities held	651	-	651
Net loans and advances	12,213	(769)	11,444
Derivatives in an asset position	124	-	124
All other assets	32	(2)	30
Due from related entities	(included above)	2,005	2,005
Total assets	**14,853**	**-**	**14,853**
Deposits	4,603	-	4,603
Debt securities issued	4,044	(33)	4,011
Other borrowings	4,302	42	4,344
Derivatives in a liability position	83	-	83
All other liabilities	20	(9)	11
Head office account	-	270	270
Total liabilities	**13,052**	**270**	**13,322**
Equity	**1,801**	**(270)**	**1,531**

Asset Quality

Derivatives in an asset position	Housing	Consumer	Business	Agriculture	All other	**Total**
in millions of NZD						
Total loans	32	15	1,524	9,910	770	12,251
Impaired loans	-	-	9	270	-	279
Loans 90 days past due but not impaire	-	-	-	2	-	2
Total non-performing loans	**-**	**-**	**9**	**272**	**-**	**281**
Non-performing loans ratio (%)	0%	0%	1%	3%	0%	2%
Individual provisions	-	-	-	8	-	8
Collective provisions	-	-	1	29	1	31
On-balance sheet residential mortgage exposures with LVRs that:						
On-balance sheet residential mortgage exposures with LVRs that:						
Exceeds 80% and not 90%						12
Exceeds 90%						-