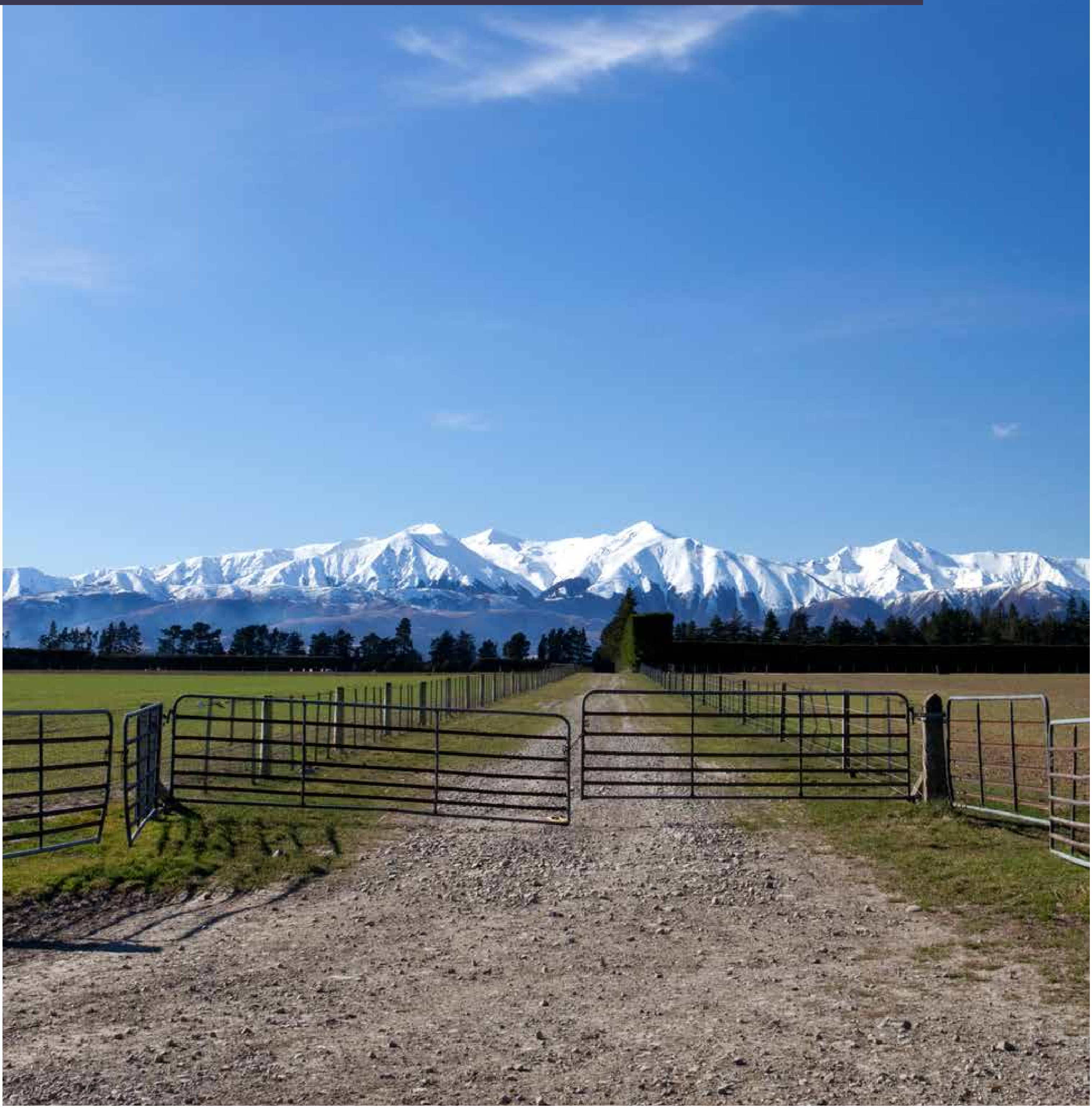
Coöperatieve Rabobank U.A.
New Zealand Banking Group

Disclosure Statement - 31 December 2019



Rabobank

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General Disclosures

General information and definitions

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

In this Disclosure Statement:

- "Registered Bank" and "Rabobank" refer to Coöperatieve Rabobank U.A., incorporated in The Netherlands and trading as Rabobank.
- "Banking Group" or "Rabobank New Zealand Banking Group" refers to:
  - (a) the Branch;
  - (b) Rabobank New Zealand Limited ("RNZL");
  - (c) Rabo Capital Securities Limited;
  - (d) De Lage Landen Limited; and
  - (e) AGCO Finance Limited.
- "Core Banking Group" means the Banking Group excluding the De Lage Landen Companies.
- "De Lage Landen Companies" means New Zealand-incorporated companies 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.
- "Branch" refers to the New Zealand business of the Registered Bank.

The financial information is disclosed for the years ended 31 December 2019 and 2018 and has been audited by the external auditors, except for the Credit and Market Risk Exposures and Capital Adequacy Information on pages 25 – 26 which has been reviewed by the external auditor.

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

This is the first Disclosure Statement for the Registered Bank in which the De Lage Landen Companies have been included in the Rabobank New Zealand Banking Group. Previously, the De Lage Landen Companies had been excluded from the Rabobank New Zealand Banking Group by agreement with the Reserve Bank of New Zealand.

General matters

Registered Bank

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

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

No subordination of claims of creditors

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

Requirement to hold excess assets over deposit liabilities

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

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

The Registered Bank is not subject to any regulatory or legislative requirement in the Netherlands to maintain sufficient assets in the Netherlands to cover an ongoing obligation to pay deposit liabilities in that country.

General Disclosures

General matters (continued)

Requirement to maintain sufficient assets to cover ongoing obligation to pay deposit liabilities (continued)

However, the Financial Supervision Act, the EU Capital Requirements Regulation and the EU Capital Requirements Directive require 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.

Directors

There have been the following changes to the Registered Bank's Board of Directors since 31 December 2018.

- Petra van Hoeken resigned as a director of the Registered Bank with effect on 1 February 2019
- Els de Groot was appointed as a director of the Registered Bank with effect on 1 February 2019
- Irene Asscher-Vonk resigned as a director of the Registered Bank with effect on 19 June 2019

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

Managing Board

Name:	W. Draijer (Wiebe), Chairman	External Directorships: · Member of the Supervisory Board, Staatsbosbeheer · Member of the Cyber Security Board · Member of the 'Nationale Cooperatieve Raad'
Occupation(s):	CEO	
Qualifications:	Master's degree in Mechanical Engineering, Delft University of Technology INSEAD Business School - MBA programme specialising in Finance	
Country of Residence:	The Netherlands	
Type of director:	Non-Independent Executive Director	
Name:	B.C. Brouwers (Bas)	External Directorships: · Vice chair of the Board of the Dutch Banking Association
Occupation(s):	CFO	
Qualifications:	Master's degree in Business Economics, University of Groningen/University of Glasgow) Degree of certified Auditor,University of Groningen	
Country of Residence:	The Netherlands	
Type of director:	Non-Independent Executive Director	

General Disclosures

General matters (continued)

Managing Board (continued)

Name:	B.J. Marttin (Berry)	External Directorships:
Occupation(s):	Member Managing Board	· Rabobank Australia Limited · Rabobank International Holding B.V. · Chair Supervisory Board of DLL International B.V · Member of the North America Board of Directors and member of the North America Board Risk Committee (Utrecht-America-Holding Inc.) · Member of the Supervisory Board of Arise N.V. · Member of the Board of Rabobank Foundation · Member of the IDH Supervisory Board (Initiatief Duurzame Handel / Dutch Sustainable Trade Initiative) · First Vice-President of the Board of Directors, American Chamber of Commerce · Chair Shareholders Council of Rabo Partnerships · Member of the Board of Trustees Hans R. Neumann Stiftung
Qualifications:	Bachelor's degree in Business Administration, Fundacao Getulio Vargas Master's degree in Business Administration, University of Western Ontario, Canada & Hong Kong	
Country of Residence:	The Netherlands	
Type of director:	Non-Independent Executive Director	
Name:	J.L. van Nieuwenhuizen (Jan)	External Directorships:
Occupation(s):	Member Managing Board	· Member Advisory Board Euronext · Member of the Boeard of VNO/NCW
Qualifications:	Master's degree in Business Economics, Université de Fribourg, Switzerland Morgan Finance Programme, New York	
Country of Residence:	The Netherlands	
Type of director:	Non-Independent Executive Director	
Name:	E.A. de Groot (Els)	External Directorships:
Occupation(s):	Chief Risk Officer	·
Qualifications:	Master's degree in Business Economics,University of Amsterdam Certified and registered financial analyst, VBA/Vrije Universiteit Amsterdam	
Country of Residence:	The Netherlands	
Type of director:	Non-Independent Executive Director	
Name:	M.P.J. Lichtenberg (Mariëlle)	External Directorships:
Occupation(s):	Member Managing Board	· Member of the Supervisory Board of Obvion N.V.
Qualifications:	Master's degree in European Studies, University of Amsterdam	
Country of Residence:	The Netherlands	
Type of director:	Non-Independent Executive Director	
Name:	C.M. Konst (Kirsten)	External Directorships:
Occupation(s):	Member Managing Board	· Member Supervisory Board Public Broadcasting association KRO-NCRV, Hilversum
Qualifications:	Master's degree in Business Economics, Vrije Universiteit Amsterdam MBA executive summer program, Notre Dame University (USA) Master's degree in Financial Law, Erasmus University Rotterdam	
Country of Residence:	The Netherlands	
Type of director:	Non-Independent Executive Director	

General Disclosures

General matters (continued)

Managing Board (continued)

Name:	B. Leurs (Bart)	External Directorships:
Occupation(s):	Chief Digital Transformation Officer	· Nil
Qualifications:	Master in Business administration, University of Groningen Post-doc Controller course, University of Maastricht	
Country of Residence:	The Netherlands	
Type of director:	Non-Independent Executive Director	
Name:	L. Sevinga (Ieko)	External Directorships:
Occupation(s):	Chief Information & Operations Officer	· Non-Executive board member DPG Media B.V. · Non-Executive board member MerweOord, holding company of Van Oord · Chair "Nederlands Olympiade Paard"
Qualifications:	Master's degree in Econometrics, Erasmus University Rotterdam	
Country of Residence:	The Netherlands	
Type of director:	Non-Independent Executive Director	
Name:	J. Vos (Janine)	External Directorships:
Occupation(s):	Chief Human Resource Officer	· Member Supervisory Board of KLM B.V. · President of the "Sociale Kring"
Qualifications:	Master's degree in Dutch Law and Employment Law, University of Utrecht	
Country of Residence:	The Netherlands	
Type of director:	Non-Independent Executive Director	

Executive Board

Name:	W Draijer (Wiebe), Chairman
Name:	B.C. Brouwers (Bas), CFO
Name:	B.J. Marttin (Berry)
Name:	E.A de Groot (Els)
Name:	C.M. Konst (Kirsten)
Name:	J.L. van Nieuwenhuizen (Jan)

Supervisory Board

Name:	L.N. Degle (Leo)	External Directorships:
Occupation(s):	Professional Supervisory Director	· Member Supervisory Board Sakroon B.V./Ten Kate B.V. · Board Member FINCA Microfinance · Board Member Wasser für die Welt · Board Member Foundation Social Investment Innovation
Qualifications:	Degree in Business Economics from the University of Augsburg, Germany Young Managers Programme, Insead	
Country of Residence:	The Netherlands	
Type of director:	Independent Non-Executive Director	
Name:	J. J. Nooitgedagt (Jan)	External Directorships:
Occupation(s):	Professional Supervisory Director	· Chair Supervisory Board PostNL N.V. · Chair Supervisory Board of Invest-NL B.V. · Board Member Fiep Westendorp Foundation · Member of the Financial Reporting and Accountancy Committee of AFM · Chair Foundation 'Aandelenbeheer BAM Groep'
Qualifications:	Master's degree in Economics, University of Groningen RA Accounting, University of Groningen	
Country of Residence:	The Netherlands	
Type of director:	Independent Non-Executive Director	

General Disclosures

General matters (continued)

Supervisory Board (continued)

Name:	P.H.J.M.. Visée (Pascal)	External Directorships:
Occupation(s):	Professional SupervisoryDirector/ Independent Advisor	· Member Supervisory Board of Mediq Holding B.V. · Member Supervisory Board of PLUS Holding B.V.
Qualifications:	Master's degree in Business Economics, Erasmus University Rotterdam Master's degree in Dutch Law, Erasmus University Rotterdam Chartered Accountant,Catholic University Brabant	· Member Supervisory Board of Royal FloraHolland U.A. · Chair Supervisory Board Foundation 'Stedelijk Museum Schiedam' · Member Supervisory Board Erasmus University · Member Board Foundation Prince Claus Fund
Country of Residence:	The Netherlands	
Type of director:	Independent Non-Executive Director	
Name:	R. Teerlink (Ron), Chairman Supervisory Board	External Directorships: · Member of the Supervisory Board Takeaway.com · Chair Supervisory Board Vrije Universiteit Amsterdam
Occupation(s):	Professional supervisory director Management Consultant	
Qualifications:	Master's degree in Business Economics, Vrije Universiteit Amsterdam	
Country of Residence:	The Netherlands	
Type of director:	Independent Non-Executive Director	
Name:	P. H. M. Hofsté (Petronella)	External Directorships:
Occupation(s):	Professional supervisory director	· Member Supervisory Board of Fugro N.V.
Qualifications:	Bachelor's degree in Business Administration, Nyenrode University Breukelen, Master's degree in Accounting & Finance Vrije Universiteit Amsterdam Postgraduate degree in Accountancy, Vrije Universiteit Amsterdam Certified accountant, member of the Royal Dutch Institute of 'Register-accountants'	· Member Supervisory Board Achmea B.V. and of · Member Supervisory Board Pon Holding · Board Member Foundation Nyenrode · Juror Kristal Price Dutch Ministry of Economical Affairs and Climate Policy · Board Member Hendrik de Keyser Association
Country of Residence:	The Netherlands	
Type of director:	Independent Non-Executive Director	
Name:	A.A.J. M. Kamp (Arian)	External Directorships:
Occupation(s):	Entrepreneur/Professional Supervisory Director	· Chair Supervisory Board Koninklijke Coöperatie Agrifirm UA · Owner Partnership A.A.J.M. Kamp and W.D.Kamp-Davelaar
Qualifications:	Secondary Agricultural School, ROC West-Brabant Post graduate Program for Supervisors, Erasmus School of Accounting & Assurance	
Country of Residence:	The Netherlands	
Type of director:	Independent Non-Executive Director	

General Disclosures

General matters (continued)

Supervisory Board (continued)

Name:	M. Trompetter (Marjan), Vice chair Supervisory Board	External Directorships: · Vice-chair Supervisory Board Rijnstate Hospital, Arnhem · Owner Corona Consultancy
Occupation(s):	Professional supervisory director/ Management Consultant	
Qualifications:	Master's degree in Business Economics, Vrije Universiteit Amsterdam	
Country of Residence:	The Netherlands	
Type of director:	Independent Non-Executive Director	
Name:	A.P. Aris (Antoinette)	External Directorships: · Member Supervisory Board Randstad N.V. · Member Supervisory Board ASML N.V. · Member Supervisory Board Jungheinrich AG · Senior Affiliate Professor of Strategy INSEAD
Occupation(s):	Professional supervisory director, Senior Affiliate Professor	
Qualifications:	Master's degree in International Land and Water Management, University of Wageningen MBA, INSEAD	
Country of Residence:	The Netherlands	
Type of director:	Independent Non-Executive Director	

Address for communications to directors and New Zealand Chief Executive Officer

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

Level 23
157 Lambton Quay
Wellington 6011
New Zealand

Corporate governance of Registered Bank

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

Signing of the disclosure statement

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

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

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

External Directorships:

- None

General Disclosures

General matters (continued)

Directors and New Zealand Chief Executive Officer related transactions

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

Audit and Risk Committees

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

Audit Committee
P. H. M. Hofsté, Chair
J. J. Nooitgedagt
R. Teerlink
P.H.J.M. Visée
Risk Committee
J. J. Nooitgedagt, Chair
A.P. Aris
L.N. Degle
P. H. M. Hofsté
A.A.J. M. Kamp
M. Trompetter

Conflict of interest policy

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

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

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

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

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

Auditors

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

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Credit ratings

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

There have been changes to the ratings in the two years immediately before 31 December 2019. On 27 March 2018 Moody's changed its rating of the Registered Bank from 'Aa2 (negative)' to 'Aa3 (stable)'. On 25 October 2019 Fitch revised the outlook on its rating of the Registered Bank to negative from stable. On 29 June 2019 Standard & Poor's revised Rabobank's rating from A+ (positive) to A+ (stable).

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

Descriptions of the credit ratings scales are as follows:

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

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

Guarantee arrangements

No 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.

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Historical summary of financial statements

in millions of NZD	31/12/2019	31/12/2018	31/12/2017	31/12/2016	31/12/2015	31/12/2014
Statement of Comprehensive Income						
Interest income	663.29	664.5	633.28	665.89	741.16	713.02
Interest expense	(314.73)	(299.82)	(305.38)	(369.91)	(422.75)	(381.56)
Net interest income	**348.56**	**364.68**	**327.90**	**295.98**	**318.41**	**331.46**
Other income	17.23	11.51	2.32	1.45	1.18	2.56
Other expense	(11.33)	(6.75)	(0.83)	(1.07)	(1.72)	(3.57)
Other operating gains / (losses)	(1.52)	(32.19)	(31.99)	9.51	(52.15)	(33.14)
Non-interest income / (expense)	**4.38**	**(27.43)**	**(30.50)**	**9.89**	**(52.69)**	**(34.15)**
Operating income	**352.94**	**337.25**	**297.40**	**305.87**	**265.72**	**297.31**
Operating expenses	(147.63)	(126.99)	(108.26)	(116.79)	(111.43)	(103.92)
Impairment (losses) / releases	(23.13)	(2.48)	1.34	(16.49)	6.19	19.42
Profit before income tax	**182.18**	**207.78**	**190.48**	**172.59**	**160.48**	**212.81**
Income tax expense	(52.46)	(63.56)	(58.28)	(54.81)	(49.43)	(63.77)
Net profit for the year	**129.72**	**144.22**	**132.20**	**117.78**	**111.05**	**149.04**
Statement of Financial Position						
Total assets	**16,756.03**	**16,158.33**	**15,271.54**	**14,306.49**	**14,484.86**	**13,547.36**
Total individually impaired assets	**553.76**	**258.51**	**293.11**	**131.40**	**49.19**	**239.04**
Total liabilities (excl. Head Office account)	**14,736.32**	**14,267.89**	**13,542.04**	**12,708.12**	**13,004.95**	**12,179.02**
Head Office account	**319.47**	**290.64**	**255.88**	**231.86**	**203.90**	**197.27**
The amount of branch profits repatriated	-	-	-	-	-	-
Total Equity	**1,700.24**	**1,599.80**	**1,475.62**	**1,366.51**	**1,276.01**	**1,171.07**

The amounts disclosed above are obtained from audited annual reports.

Pending proceedings or arbitration

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

Banking Group

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

Overseas Banking Group

Interest rate derivatives

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

General Disclosures

Pending proceedings or arbitration (continued)

Interest rate derivatives (continued)

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 and advance payments made, the Registered Bank has recognised a provision of 107 million euros as at 31 December 2019 (2018: 316). The Registered Bank's payments to customers under the Recovery Framework in 2019 amounted to 249 million euros.

Imtech

On 30 January 2018, the Registered Bank received a letter indicating that legal proceedings may be started with respect to a potential collective action in relation to certain share offerings of Royal Imtech N.V. in which the Registered Bank was involved. Furthermore, the receivers in August 2018 sent a letter in which they describe the possible grounds on which their future claim(s) towards the Registered Bank in its capacity of lender will be based. No provision has been recognised.

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.

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. The Registered Bank and/or its subsidiaries have also been summoned to appear before various Dutch, Argentine, United Kingdom, Irish and Israeli courts in civil proceedings (including class action suits) relating to interest rate benchmarks.

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

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

Insurance business

The Banking Group does not conduct any insurance business.

Non-consolidated activities

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

Risk management policies

The Registered Bank, in respect of the Core Banking Group, has an integrated risk management framework driven from governance level down to operational levels, covering all aspects of risk most notably credit, market, and operational risks but also compliance, currency, interest rate and liquidity risks. Credit risk includes concentration of credit risk, intra-day credit risk, credit risk to bank counterparties and related party credit risk. The framework applies to the Core Banking Group and a documented Risk Management Strategy ("RMS") defines how the Core Banking Group manages risk across the Core Banking Group within the constraints of its overall risk appetite.

General Disclosures

Risk management policies (continued)

The RMS covers:

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

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

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

RNZL's Board Risk and Compliance Committee ("BRCC") oversees the implementation, review and monitoring of the RMS insofar as it relates to RNZL and the ongoing appropriateness of RNZL's risk management framework. The BRCC has a separate charter defining its roles and responsibilities.

The De Lage Landen Companies follow the De Lage Landen International B.V. Risk Management Charter ("Charter"). The Charter is based on and consistent with the Risk Management Charter of Rabobank Group and:

- provides an overview of the risk management framework;
- describes the DLL Group three lines of defence approach which forms the foundation for the overall risk governance;
- describes responsibilities and authority of DLL Group Risk Management;
- includes the relationship of Group Risk Management with the regulatory authorities;
- describes the organization of Group Risk Management including risk committees and departments.

The Charter is leading in defining the minimum standards in terms of the scope of Risk Management within DLL Group and roles and responsibilities when managing risks. Depending on local rules, regulations and the regulatory environment of a group entity, this Charter may have to be enhanced for local application in line with local requirements, however the standards set out in the Charter will always apply.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human or systems errors and unexpected external events. Operational risk is inherent within the Core Banking Group's and the De Lage Landen Companies' activities. The Core Banking Group and the De Lage Landen Companies have an operational risk framework which is described and in line with the RMS the De Lage Landen Companies' Risk Appetite Statements. The Core Banking Group and the De Lage Landen Companies use Key Risk Indicators and Key Control Indicators to measure and monitor operational risk. These are described respectively in the RMS and the De Lage Landen Companies' Risk Appetite Statements. The Indicators are measured and reported to the BRCC on a quarterly basis, and in the case of the De Lage Landen Companies, to the Local (i.e. Australia/New Zealand) Risk Committee to monitor that the operational risk remains at an acceptable level and in accordance with the RMS and the De Lage Landen Companies' Risk Appetite Statements.

The Core Banking Group and the De Lage Landen do not take any equity risk.

General Disclosures

Risk management policies (continued)

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

Risk management review

The approach to risk management, as described in the RMS and the De Lage Landen Companies' Risk Appetite Statement, is reviewed on an annual basis. Aspects of the risk management policies, procedures and implementation are reviewed as part of review cycles by the Registered Bank's Internal Audit department.

Internal audit function

The Core Banking Group has an internal audit function which is part of a regionally based Rabobank Australia and New Zealand ("RANZ") Internal Audit department, which is in turn part of a global Internal Audit function of the Rabobank Group. The Core Banking Group's New Zealand based internal audit staff have a hierarchical and functional reporting line to the Chief Audit Officer RANZ and an administrative reporting line to the Rabobank New Zealand CEO. The Chief Audit Officer RANZ has a hierarchical reporting line to the chair of the Registered Bank's board audit committee ("BAC") and a functional reporting line to the Registered Bank's Chief Audit – Wholesale and Rural. Internal Audit is responsible for providing an independent review on the adequacy and effectiveness of the Registered Bank's control environment, which is confirmed in the Audit Charter.

The annual internal audit plan is presented to and approved by the BAC. The BAC regularly reviews the progress made by Internal Audit in accordance with the annual internal audit plan, considers the findings arising from the work conducted and assesses if appropriate action is taken by management. In addition to its internal audit responsibilities, the BAC monitors the external audit services being provided by the Banking Group's external auditors.

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

The BAC meets at least four times per annum.

Unlike the Core Banking Group, the De Lage Landen Companies do not have a local (i.e. New Zealand) internal audit function. The De Lage Landen Companies are integrated within the scope of the Group Internal Audit Department ("DLL Internal Audit") of De Lage Landen Group ("DLL").

DLL Internal Audit provides independent assurance, advice and insights to DLL's Executive Board and Supervisory Board, and senior management of DLL, on the quality and effectiveness of DLL's internal control, risk management and governance systems and processes. DLL Internal Audit operates in-line with DLL's core values and conducts its work in accordance with the applicable professional standards and requirements. For all audits, DLL Internal Audit complies with the requirements laid down in the mandatory elements of the IIA's International Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the international Standards for the Professional Practice of Internal Auditing (The Standards), and the Definition of Internal Auditing.

Internal Audit Management prepares an annual risk-based Audit Plan, to be approved by the Internal Audit Committee and DLL Supervisory Board, taking into account the recommendations of DLL Internal Audit and Audit Rabobank. DLL Internal Audit ensures that this plan aligns with the longer term strategic outlook, based on insights provided by the DLL Internal Audit Committee, senior management, and the second line of defence. The Audit Plan is based on a risk and control assessment of identified auditable entities or activities across the entire global DLL organization.

The scope of DLL Internal Audit includes to determine whether the De Lage Landen Companies' set-up of governance, risk management and control processes as designed and implemented by management is adequate and operating effectively. This includes an examination and evaluation of the soundness of the internal control environment and of the manner in which assigned roles and responsibilities are fulfilled. In many respects, this involves an annual rolling risk-based analysis of De Lage Landen Companies' internal control environment.

General Disclosures

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.

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

Conditions of registration

There have been changes to the Registered Bank's Conditions of Registration since 30 June 2019.

With effect on and after 1 January 2020, a change was made to the Conditions of Registration. The changes are related to definition of banking group and removal of 5% threshold for the New Zealand business of De Lage Landen Limited and AGCO Finance Limited.

Below is a copy of the Conditions of Registration that applied at 31 December 2019.

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

These conditions of registration apply on and after 1 January 2019.

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

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

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

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

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

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

In determining the total amount of the banking group's insurance business—

(a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and
(b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration,—

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

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

General Disclosures

Conditions of registration (continued)

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

3. That the business of the registered bank in New Zealand does not constitute a predominant proportion of the total business of the registered bank.
4. That no appointment to the position of the New Zealand chief executive officer of the registered bank shall be made unless:
(a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
(b) the Reserve Bank has advised that it has no objection to that appointment.
5. That Cooperatieve Rabobank U.A. complies with the requirements imposed on it by De Nederlandsche Bank N.V and the European Central Bank.
6. That Cooperatieve Rabobank U.A. complies with the following minimum capital adequacy requirements, as administered by De Nederlandsche Bank N.V. and the European Central Bank:
(a) common equity tier 1 capital of Cooperatieve Rabobank U.A. is not less than 4.5% of risk weighted exposures;
(b) tier one capital of Cooperatieve Rabobank U.A. is not less than 6% of risk weighted exposures; and
(c) (c) total capital of Cooperatieve Rabobank U.A. is not less than 8% of risk weighted exposures.
7. That liabilities of the registered bank in New Zealand, net of amounts due to related parties (including amounts due to a subsidiary or affiliate of the registered bank), do not exceed NZ$15 billion.
8. That, for a loan-to-valuation measurement period, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 70%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
9. That, for a loan-to-valuation measurement period, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
10. That the business of the registered bank in New Zealand must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration,— "banking group"—

(a) means the New Zealand business of the registered bank and its subsidiaries as required to be reported in group financial statements for the group's New Zealand business under section 461B(2) of the Financial Markets Conduct Act 2013; but
(b) does not include the New Zealand business of De Lage Landen Limited and AGCO Finance Limited if the sum of the assets of De Lage Landen Limited and AGCO Finance Limited is less than 5% of the total consolidated assets of the banking group excluding De Lage Landen Limited and AGCO Finance Limited:

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

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

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

General Disclosures

Conditions of registration (continued)

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

In conditions of registration 8 to 10,--

> "loan-to-valuation ratio", "non property-investment residential mortgage loans", property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated January 2019, and where the version of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) referred to in BS19 for the purpose of defining these terms is that dated November 2015.
>
> "loan-to-valuation measurement period" means a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of June 2019.

Other material matters

On 11 March 2020 the World Health Organisation declared the COVID-19 outbreak to be a global pandemic. The identification of the COVID-19 virus, and its subsequent spread throughout New Zealand and the world, is considered a material matter for the current 2020 financial year. On the basis that this is a non-adjusting subsequent event for accounting purposes, all figures presented in the Disclosure Statement reflect the conditions known as at 31 December 2019 and do not reflect the effect of COVID-19. At the date this Disclosure Statement is signed, it is not possible to reliably estimate the financial effect of COVID-19 on the Banking Group's operations, financial performance or condition, including the impairment of its financial assets and the fair value of its financial instruments. Financial services of the types provided by the Banking Group have been deemed by the New Zealand Government to be "essential services" and the Banking Group is confident of being able to continue to provide all of those services to its customers.

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

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

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

Financial Statements of Registered Bank and Overseas Banking Group

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

Auditor's report

The Disclosure Statement has been audited by external auditors PricewaterhouseCoopers, except for the Credit and Market Risk Exposures and Capital Adequacy Information on pages 25 – 26 which has been reviewed. The statement of the nature and scope of the audit is included in the attached auditor's report.

Directors' and New Zealand Chief Executive Officer's Statements

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

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

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

(ii) over the full year accounting period:

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

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

……………………………………

Todd Charteris

Dated: 30 March 2020

Independent auditor's report

To the Directors of Cooperatieve Rabobank U.A.

This report is for the Cooperatieve Rabobank U.A. New Zealand Banking Group (the "Banking Group"), which is the aggregation of the New Zealand business of Cooperatieve Rabobank U.A., incorporated in the Netherlands and trading as Rabobank (the "Registered Bank"). The New Zealand business of Rabobank Cooperatieve U.A., comprises of Rabobank New Zealand Branch, Rabobank New Zealand Limited, Rabo Capital Securities Limited, De Lage Landen Limited and AGCO Finance Limited (collectively referred to as the "Banking Group") at 31 December 2019 and for the year then ended.

This report includes:

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

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

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

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

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

We have audited the Banking Group's aggregated financial statements required by Clause 25 of the Order and the supplementary information required by Schedule 4, 7, 11 and 13 of the Order which comprises:

- the statement of financial position as at 31 December 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended;
- the notes to the financial statements, which include a summary of significant accounting policies; and
- the supplementary information required by Schedules 4, 7, 11 and 13 of the Order.

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Our opinion

In our opinion:

- the Banking Group's aggregated financial statements (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 9, 11 and 13 of the Order and included within the Notes 18, 33 and 42):

  (i) comply with generally accepted accounting practice in New Zealand;
  (ii) comply with NZ IFRS and IFRS; and
  (iii) give a true and fair view of the financial position of the Banking Group as at 31 December 2019, and its financial performance and cash flows for the year then ended.

- the supplementary information disclosed in accordance with Schedules 4, 7, 11 and 13 of the Order and included within the Risk management policies section on pages 10 to 12 inclusive, Supplementary Financial Disclosures and Asset Quality on page 24, section 1 – Reconciliation of mortgage related amounts on page 25 and Notes 18 and 33:

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

Basis for opinion

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

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

Our audit approach

Overview

An audit is designed to obtain reasonable assurance whether the aggregated financial statements are free from material misstatement.

The overall Banking Group materiality is $9.1 million, which represents approximately 5% of profit before income tax.

We chose profit before income tax as the benchmark because, in our view, it is the benchmark against which the performance of the Banking Group is most commonly measured by users, and is a generally accepted benchmark. The 5% is based on our professional judgement, noting that it is also within the range of commonly accepted profit-related thresholds.

We have determined that there is one key audit matter:

- Provisions for impairment on loans and advances.

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Banking Group materiality for the aggregated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the aggregated financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the aggregated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the aggregated financial statements as a whole, taking into account the structure of the Banking Group, the accounting processes and controls, and the industries in which the Banking Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the aggregated financial statements for the current year. These matters were addressed in the context of our audit of the aggregated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter

Provisions for impairment on loans and advances (Refer to Notes 10, 16 and 18 of the aggregated financial statements).

Provisions for impairment on loans and advances were a key audit matter because of the subjective and complex judgements made by the Banking Group in determining the necessity for, and then estimating the size of, provisions for impairment on loans and advances.

Key elements in the provisioning for impairment on loans and advances under NZ IFRS 9 include:

- The judgement applied in determining exposures that have a significant increase in credit risk including the allocation of all financial assets subject to impairment into 3 separate stages depending on their nature and characteristics;
- The application and judgements in setting the assumptions used in the expected credit loss ("ECL") models, such as estimating forward looking probability of default (PD), loss given default (LGD) of financial instruments and macro-economic scenarios and their weightings; and
- Overlays added to reflect the particular situations which are not otherwise captured by the impairment models.

We assessed the design and tested the operating effectiveness of relevant key controls over the provisioning for impairment on loans and advances under NZ IFRS 9.

The relevant key controls included:

- Governance over the development, validation and approval of the Banking Group's ECL models to assess compliance with NZ IFRS 9.
- Review and approval of key judgements, assumptions and forward looking information used in the ECL models.
- Interfaces and reconciliations of transfer of key data inputs from source systems to the models.
- The review and approval process for the outputs of the ECL model and the adjustments and economic overlays that are applied to the modelled outputs.

Our procedures over the provisions for impairment on loans and advances included:

Collective Provision (Stage 1, 2, 3a)

- Consideration of the methodology inherent within the models against the requirement of NZ IFRS 9.
- Assessment of key assumptions in the ECL models, including staging, PD and LGD. This included using credit modelling specialists in our assessment.
- Assessment of the economic information used within, and weightings applied to, forward looking scenarios.
- Testing the accuracy and completeness of the key data inputs used in the ECL models by comparing it to the relevant supporting documents.
- Recalculation of the ECL for a sample using the key assumptions in the models, such as PD and LGD.
- Consideration of the potential for the ECL provisions to be affected by events not captured by the Banking Group's ECL models, and assessing whether the overlays were appropriate in accordance with the New Zealand Accounting Standards.

Specific provision (stage 3b)

- For a sample of individually assessed loans and advances, we examined the forward looking scenarios used and the weightings applied, including the Banking Group's cash flow forecasts, supporting the impairment calculation in light of the requirement of NZ IFRS 9.

Key audit matter	How our audit addressed the key audit matter
	• We assessed the key judgements (in particular the amount and timing of recoveries) made by the Banking Group in the context of the borrowers' circumstances based on the detailed loan and counterparty information known by the Banking Group. • We compared the valuation of collateral held to external information where available.

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

The Directors of Cooperatieve Rabobank U.A. (the 'Directors') are responsible, on behalf of Cooperatieve Rabobank U.A., for the other information included in the Disclosure Statement. The other information comprises the information required to be included in the Disclosure Statement in accordance with Schedule 2 of the Order and is included on pages 1 to 16 inclusive (excluding the Risk management policies section on pages 10 to 12 inclusive) and the supplementary information entitled 'Bank Financial Strength Dashboard' on page 63 of Appendix 1. Our opinion on the aggregated financial statements and supplementary information does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the aggregated financial statements and the supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed on pages 25 and 26 (excluding section 1 – Reconciliation of mortgage related amounts on page 25) and in Note 42) disclosed in accordance with Clause 25 and Schedules 4, 7, 11 and 13 of the Order, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these aggregated financial statements.

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

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

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

We also report in accordance with the requirements of Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order. In relation to our audit of the aggregated financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed on pages 25 and 26 (excluding section 1 – Reconciliation of mortgage related amounts on page 25) and in Note 42) for the year ended 31 December 2019:

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

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

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

We have examined the supplementary information relating to credit and market risk exposures and capital adequacy required by Schedule 9 of the Order as disclosed on pages 25 and 26 (excluding section 1 – Reconciliation of mortgage related amounts on page 25) and in Note 42 of the aggregated financial statements of the Banking Group for the year ended 31 December 2019.

Our conclusion

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to credit and market risk exposures and capital adequacy disclosed on pages 25 and 26 (excluding section 1 – Reconciliation of mortgage related amounts on page 25) and in Note 42, is not in all material respects, disclosed in accordance with Schedule 9 of the Order.

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

Basis for our conclusion

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

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

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

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

Our responsibility is to express a conclusion, whether, based on our review, the supplementary information relating to credit and market risk exposures and capital adequacy disclosed on pages 25 and 26 (excluding section 1 – Reconciliation of mortgage related amounts on page 25) and in Note 42, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

A review of the supplementary information relating to credit and market risk exposures and capital adequacy disclosed on pages 25 and 26 (excluding section 1 – Reconciliation of mortgage related amounts on page 25) and in Note 42 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 ISAs NZ and ISAs. Accordingly we do not express an audit opinion on the supplementary information relating to credit and market risk exposures and capital adequacy disclosed on pages 25 and 26 (excluding section 1 – Reconciliation of mortgage related amounts on page 25) and in Note 42.

Auditor independence

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

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

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants — Sydney

30 March 2020

Supplementary Financial Disclosures and Asset Quality

1 Supplementary information on the statement of financial position

	Banking Group	
in thousands of NZD	2019	2018
Total interest earning and discount bearing assets	16,519,370	15,981,914
Total interest and discount bearing liabilities	14,490,682	14,073,617

	Registered Bank in New Zealand	
in thousands of NZD	2019	2018
Liabilities of the Registered Bank net of amounts due to related entities	2,885,477	3,660,361
Retail deposits of the Registered Bank	-	-

2 Additional information for registered bank's overseas banking group

	Overseas banking group	
in millions of EUR	31/12/2019	31/12/2018
Net profit after income tax	2,203	3,004
Percentage (on a twelve month rolling basis) of average total assets	0.4%	0.5%

As at 31 December		
Total assets	590,598	590,437
% change over the previous twelve months	0.0%	-2.1%

3 Asset quality of registered bank's overseas banking group

	Overseas banking group	
in millions of EUR	31/12/2019	31/12/2018
Total individually impaired assets (before allowances for credit impairment loss and net of interest held in suspense)	15,090	15,993
Total individually impaired assets as a percentage of total assets (%)	2.6%	2.7%
Total individual credit impairment allowance	3,225	3,226
Total individual credit impairment allowance as a percentage of total individually impaired assets (%)	21.4%	20.2%
Total collective credit impairment allowance	715	509

Credit and Market Risk Exposures and Capital Adequacy (unaudited)

1 Residential mortgages

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

	As at 31 December 2019		
in thousands of NZD	Drawn	Undrawn	Total
LVR range			
Do not exceed 80%	28,856	8,754	37,610
Exceeds 80% and not 90%	807	274	1,081
Exceeds 90%	-	-	-
Total	**29,663**	**9,028**	**38,691**

Reconciliation of mortgage related amounts

in thousands of NZD	2019
Loans and advances - loans with residential mortgages	29,663
Plus: short term residential mortgage classified as overdrafts	-
Less: housing loans made to corporate customers	-
On-balance sheet residential mortgage exposures subject to the standardised approach	29,663
Off-balance sheet residential mortgage exposures subject to the standardised approach	9,028
Total residential mortgages exposures (as per LVR analysis)	**38,691**

2 Market risk end of period notional capital charges

As at 31 December 2019 in thousands of NZD	Implied risk weighted exposure	Notional capital charges
Interest rate risk	586,625	46,930
Foreign currency risk	124,500	9,960
Total	**711,125**	**56,890**

The Banking Group does not take any equity risk.

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

6 months to 31 December 2019 in thousands of NZD	Implied risk weighted exposure	Notional capital charges
Interest rate risk	628,750	50,300
Foreign currency risk	287,000	22,960
Total	**915,750**	**73,260**

The Banking Group does not take any equity risk.

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

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

Credit and Market Risk Exposures and Capital Adequacy (unaudited)

5 Capital Ratios of overseas banking group - Rabobank

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

in percentage (%)	31/12/2019	31/12/2018
Common Equity Tier 1 capital ratio	16.3%	16.0%
Tier one capital ratio	18.8%	19.5%
Total capital ratio	**25.2%**	**26.6%**

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 CRR (Capital Requirements Regulation).

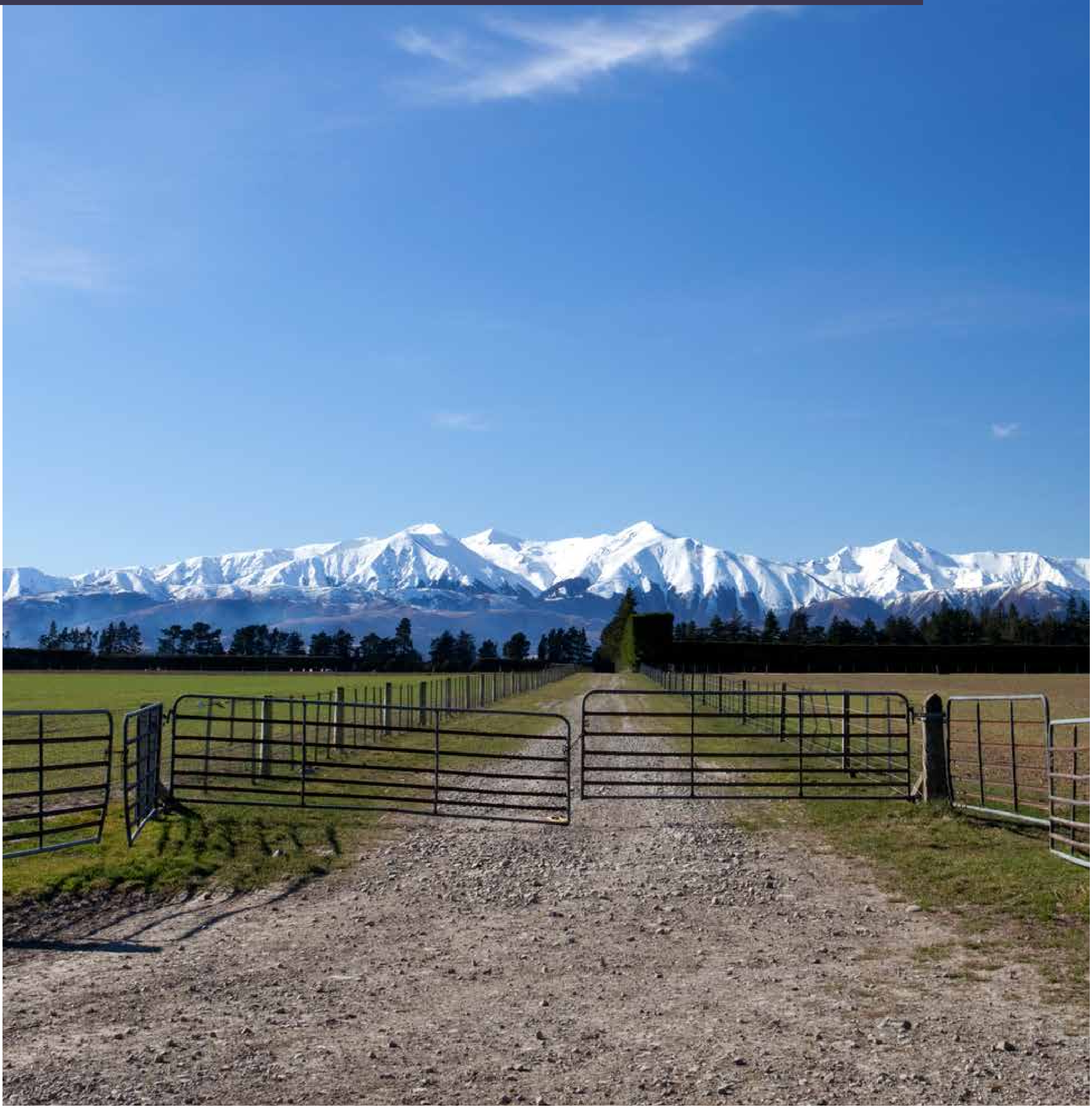
Rabobank Group's Capital Adequacy and Risk Management Report (pillar 3) are publicly available on
https://www.rabobank.com/en/images/pillar-3-report-2019.pdf

Appendix 1

Financial Statements for the Rabobank New Zealand Banking Group for the year ended 31 December 2019

Coöperatieve Rabobank U.A.
New Zealand Banking Group

Financial Statements - 31 December 2019



Rabobank

Financial Statements 2019

Notes to the financial statements

Statement of Comprehensive Income

in thousands of NZD	Notes	For the year ended 31 December 2019	2018
Interest income	4	663,285	664,501
Interest expense	5	(314,733)	(299,820)
Net interest income		**348,552**	**364,681**
Other income	6	17,231	11,509
Other expense	7	(11,332)	(6,754)
Other operating losses	8	(1,516)	(32,198)
Non-interest income / (expense)		**4,383**	**(27,443)**
Operating income		**352,935**	**337,238**
Operating expenses	9	(147,625)	(126,997)
Impairment releases / (losses)	10	(23,127)	(2,479)
Profit before income tax		**182,183**	**207,762**
Income tax expense	12.1	(52,457)	(63,559)
Net profit for the year		**129,726**	**144,203**
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss			
Changes in FVOCI revaluation reserve	30.2	741	114
Income tax expense relating to changes in FVOCI revaluation reserve	30.2	(207)	(32)
Total items that may be reclassified subsequently to profit or loss		**534**	**82**
Items that will not be reclassified to profit or loss			
Other reserves		-	-
Total items that will not be reclassified to profit or loss		**-**	**-**
Total other comprehensive income for the year		**534**	**82**
Total comprehensive income attributable to members of the Banking Group		**130,260**	**144,285**

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

Statement of Financial Position

in thousands of NZD	Notes	At 31 December 2019	2018
Assets			
Cash and cash equivalents	13	420,769	422,414
Derivative financial instruments	14	123,343	97,925
Financial assets at fair value through other comprehensive income	15	757,248	647,062
Loans and advances	16	13,805,974	12,686,319
Due from related entities	17	1,548,034	2,240,705
Other assets	19	68,019	45,870
Income tax receivables		524	-
Net deferred tax assets	12.3	18,969	14,974
Property, plant and equipment	20	12,089	3,020
Intangible assets	21	1,057	45
Total assets		**16,756,026**	**16,158,334**
Liabilities			
Derivative financial instruments	14	160,939	113,270
Debt securities in issue	22	2,199,913	3,105,153
Deposits	23	5,474,696	4,705,582
Preference shares	24	-	280,666
Due to related entities	25	6,865,827	6,031,923
Interest bearing liabilities		4,725	10,469
Current tax liabilities		2,893	4,296
Other liabilities	26	23,476	13,190
Provisions	27	3,854	3,342
Head office account	28	319,468	290,640
Total liabilities		**15,055,791**	**14,558,531**
Net assets		**1,700,235**	**1,599,803**
Equity			
Contributed equity	30.1	551,201	551,201
Reserves	30.2	2,340	1,806
Retained earnings	30.3	1,146,694	1,046,796
Total equity		**1,700,235**	**1,599,803**

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

Signed in Utrecht, The Netherlands.

For and on behalf of the Board of Coöperatieve Rabobank U.A., trading as Rabobank:

B.C. Brouwers
Director

Date: 30 March 2020

B.J. Marttin
Director

Date: 30 March 2020

Statement of Changes in Equity

in thousands of NZD	Contributed equity	Retained earnings	Reserves	Total equity
At 1 January 2018	**551,201**	**939,499**	**1,724**	**1,492,424**
Net profit (excluding Branch*)	-	109,287	-	109,287
Total other comprehensive income:				-
Revaluation reserve - Financial assets at fair value through other comprehensive income	-	-	82	82
Total comprehensive income for the period	**-**	**109,287**	**82**	**109,369**
At 31 December 2018	**551,201**	**1,046,796**	**1,806**	**1,599,803**
At 1 January 2019	551,201	1,046,796	1,806	1,599,803
Net profit (excluding Branch*)	-	100,898	-	100,898
Total other comprehensive income:				
Revaluation reserve - Financial assets at fair value through other comprehensive income	-	-	534	534
Total comprehensive income for the period	**-**	**100,898**	**534**	**101,432**
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Distributions to owners	-	(1,000)	-	(1,000)
Total contributions by and distributions to owners	-	**(1,000)**	-	**(1,000)**
At 31 December 2019	**551,201**	**1,146,694**	**2,340**	**1,700,235**

* Statement of changes in equity excludes current year profit and cumulative surpluses of the Branch (refer to note 28). The net surplus of the Branch is disclosed as head office account under liabilities in the Statement of Financial Position.

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

Statement of Cash Flows

in thousands of NZD	Notes	For the year ended 31 December 2019	2018
Cash flows from operating activities			
Cash was provided from:			
Interest income		651,177	663,969
Other income		17,231	11,509
Bad debt recovery		12	(26)
Cash was applied to:			
Interest expense		(311,238)	(289,366)
Payments for derivative financial instruments*		20,612	80,192
Other expenses		(448)	(612)
Management fees and other operating expenses		(140,889)	(122,143)
Tax payments		(58,581)	(73,102)
Cash flows from operating activities before changes in operating assets and liabilities		**177,876**	**270,421**
Changes in operating assets and liabilities:			
Financial assets at fair value through other comprehensive income		(109,278)	(42,649)
Loans and advances		(1,163,750)	(947,575)
Due from related entities		714,102	(24,860)
Deposits		759,861	178,409
Changes in operating assets and liabilities arising from cash flows movements		**200,935**	**(836,675)**
Net cash flows from / (used in) operating activities	**37**	**378,812**	**(566,255)**
Cash flows from investing activities			
Cash was applied to:			
Purchase of intangible assets		(1,219)	(49)
Principal elements of lease payments		(3,321)	-
Purchase of property, plant and equipment		(36,410)	(12,725)
Net cash flows (used in) investing activities		**(40,950)**	**(12,774)**
Cash flows from financing activities			
Changes in financing liabilities:			
Debt securities in issue		(903,256)	(675,693)
Preference shares		(280,000)	-
Interest bearing liabilities		5,744	(11,489)
Due to related entities		839,006	1,198,477
Dividends paid		(1,000)	(1,000)
Net cash flows (used in) / from financing activities		**(339,506)**	**510,295**
Net change in cash and cash equivalents		**(1,644)**	**(68,734)**
Cash and cash equivalents at beginning of the year		422,414	491,147
Cash and cash equivalents at end of the year		**420,769**	**422,414**
Cash and cash equivalents at end of the year comprise of:			
Cash at bank and on hand	13	420,769	422,414
Cash and cash equivalents at end of the year		**420,769**	**422,414**

* Transactions are settled on a net basis.

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

Notes to the Financial Statements

1 Reporting entity

In accordance with the Financial Market Conduct Act 2013, a reporting entity is required to prepare financial statements for its New Zealand business. Cooperatieve Rabobank U.A ("Rabobank") is a reporting entity. The New Zealand business of Cooperatieve Rabobank U.A comprises of Rabobank New Zealand Branch (the "Branch"), Rabobank New Zealand Limited ("RNZL" or "Bank"), Rabo Capital Securities Limited ("RCSL"), De Lage Landen Limited ("DLL") and AGCO Finance Limited ("AGCO") (collectively referred to as "Rabobank New Zealand Banking Group" or the "Group"). RNZL, RCSL, DLL and AGCO are incorporated under the Companies Act 1993.

These financial statements are an aggregation of the financial statements of the above entities as at and for the year ended 31 December 2019, which comprise all the activities of the Rabobank Group in New Zealand.

2 Basis of preparation

2.1 Statement of compliance

These financial statements are prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the requirements of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) ('Order') for the Banking Group, for the purpose of reporting the New Zealand business of Rabobank as represented by the Banking Group.

The Banking Group comprises entities and operations as required by the Reserve Bank of New Zealand which does not constitute a group in accordance with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") 10 Consolidated Financial Statements. Consequently, this financial information has been prepared to comply with the Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), NZ IFRS and other authoritative pronouncements of the External Reporting Board, as appropriate for for-profit entities, except for compliance with NZ IFRS 10 and it does not constitute a complete set of financial statements as required in accordance with NZ IFRS. These financial statements also comply with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board ('IASB'), except for compliance with IFRS 10 Consolidated Financial Statements.

These financial statements were approved and authorised for issue on behalf the board of directors on 30 March 2020.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except for financial assets at fair value through other comprehensive income and derivative financial instruments which have been measured at fair value. The going concern assumption and the accrual basis of accounting have been adopted.

2.3 Functional and presentation currency

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

2.4 New and amended standards adopted by Banking Group

The Bank has adopted NZ IFRS 16 Leases from 1 January 2019 for the first time. The Banking Group had to change its accounting policies and make certain adjustments following the adoption of NZ IFRS 16. The impact is disclosed in note 2.6. The other amendments did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

Notes to the Financial Statements

2 Basis of preparation (continued)

2.5 Significant accounting judgments and estimates

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

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

2.5.1 Impairment of financial assets

In line with relevant accounting standards, the Banking Group applies the three-stage expected credit loss (ECL) impairment models for measuring and recognising expected credit losses. The Banking Group's accounting policy for loan impairment is set out in note 3.5.

The Banking Group uses estimates and management judgement in the determination of ECL for the following attributes:

- Significant increase in credit risk: judgement is required to transfer assets from stage 1 to stage 2.
- Forward-looking information: the estimation of expected credit losses for each stage and the assessment of significant increases in credit risk consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions (forward looking information). The estimation of forward-looking information may require significant judgement.
- Macro-economic scenarios: The Banking Group uses three global macroeconomic scenarios in their ECL models to determine the expected credit losses which reflect reflect information available on current conditions and forecasts of future economic conditions, such as gross domestic product growth, unemployment rates and interest rates. These forward-looking macroeconomic forecasts require judgment and are partly based on internal Rabobank research.
- Measurement of expected credit losses: The probability of default (PD) x loss given default (LGD) x exposure at default (EAD) inputs are used to estimate expected credit losses. These inputs require estimates in the following way:

  PD – The probability of default is an estimate of the likelihood of default over a given time horizon.

  EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after reporting date.

  LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that Rabobank would expect to receive, including cash flows expected from collateral and other credit enhancements.
- Measurement of individually assessed financial asset: For credit-impaired financial assets that are assessed on an individual basis, a discounted cash flow calculation is performed. In many cases, judgement is required for the estimation of the expected future cash flows and the weighting of the three scenarios.

2.5.2 Fair value of financial instruments

Information regarding the determination of the fair value of financial instruments is included in note 35.

2 Basis of preparation (continued)

2. 6 Changes in accounting policies

This note explains the impact of the adoption of NZ IFRS 16 “Leases” on the Banking Group’s financial statements. The Banking Group has adopted NZ IFRS 16 retrospectively from 1 January 2019, and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the accounting standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 3.5.7.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. On adoption of NZ IFRS 16, the Banking Group recognised the right-of-use assets and a corresponding lease liability in the statement of financial position. On initial application, the right-of-use asset was measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The lease liability was measured at the present value of the lease payments discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.19%.

Practical expedients applied

In applying NZ IFRS 16 for the first time, the Banking Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Notes to the Financial Statements

2 Basis of preparation (continued)

2.6 Changes in accounting policies (continued)

Measurement of lease liabilities

In thousands of NZD	NZ IFRS 16
Operating lease commitments disclosed as at 31 December 2018	**10,440**
Discounted using the lessee's incremental borrowing rate of at the date of initial application	10,005
(Less): short-term leases recognised on a straight-line basis as expense	20
(Less): low-value leases recognised on a straight-line basis as expense	-
(Less): contracts reassessed as service agreements	2,222
Add/(less): adjustments as a result of a different treatment of extension and termination options	10,543
Add/(less): adjustments relating to changes in the index or rate affecting variable payments	258
Lease liability recognised as at 1 January 2019	**18,564**
Of which are:	
Current lease liabilities	3,613
Non-current lease liabilities	14,951
	18,564

Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a modified retrospective basis. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

In thousands of NZD	1/01/2019 NZ IFRS 16
Properties	16,360
Motor vehicles	2,204
Total right-of-use assets	**18,564**

Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets (included within property, plant and equipment) – increase by $18,564 thousand
- lease liabilities – increase by $18,564 thousand

The net impact on retained earnings on 1 January 2019 was nil.

Lessor accounting

The Banking Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases (see note 3.5.7) as a result of the adoption of NZ IFRS 16.

Notes to the Financial Statements

3 Significant accounting policies

3.1 Basis of aggregation

The aggregated financial statements comprise the financial statements of the Banking Group as at and for the year ended 31 December 2019. The Banking Group comprises entities and operations as required to be included by the RBNZ and the Financial Markets Conduct Act 2013 that do not constitute a group in accordance with NZ IFRS 10.

3.1.1 Subsidiaries

Subsidiaries are those entities over which the Banking Group has control. Control exists when the Banking Group is exposed to, or has rights, to variable returns from its involvement with an entity, and has the ability to affect those returns through its power over that entity.

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

3.1.2 Transactions eliminated on aggregation

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

3.2 Revenue and expense recognition

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

3.2.1 Interest income and expense

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

3.2.2 Fee and commission income and expense

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

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

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

3.2.3 Rental income

Lease income from operating leases is recognised in the statement of comprehensive income on a straight line basis over the lease term.

3.2.4 Other expenses

Operating expenses are recognised on an accrual basis.

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

Notes to the Financial Statements

3 Significant accounting policies (continued)

3.3 Foreign currency

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

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

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

3.4 Income tax

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

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

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

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

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

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

3.5 Financial assets

3.5.1 Classification of financial assets

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.

Notes to the Financial Statements

3 Significant accounting policies (continued)

3.5 Financial assets (continued)

The classification depends on:

1. Business model assessment: The Banking Group assesses its business models at a level that reflects how financial assets are managed seen from a strategic point of view. The Bank considers all relevant evidence available at the assessment date, such as how the performance of the business model and the financial assets held in that model is evaluated and reported. And how the risks affecting the performance of the business model are managed. This assessment results in the following business models:

- 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.

2. Contractual cash flow assessment: The Banking Group assesses whether the cash flows of the financial assets are solely payment of principal and interest on the principal amount outstanding (SPPI test) and, hence, consistent with basic lending arrangements. In basic lending arrangements, the consideration for the time value of money and credit risk are typically the most significant elements of interest. However in such arrangements, interest may also include consideration for other basic lending risks (such as liquidity risk) and costs (such as administrative costs) associated with holding financial assets for a particular period of time. Additionally, interest may include a profit margin consistent with a basic lending arrangement.

The business model assessment can be made on a portfolio basis, whereas the contractual cash flow assessment is assessed for each individual financial asset. Rabobank only reclassifies debt instruments when the business model for managing those assets changes.

A debt instrument that is held within a business model "hold to collect" and meets the SPPI test is measured at amortised cost unless the asset is designated at fair value through profit or loss. A debt instrument that is held within a business model "hold to collect and sell" and meets the SPPI test is measured at fair value with fair value adjustments recognised in other comprehensive income unless the asset is designated at fair value through profit or loss. All other debt instruments are mandatorily measured at fair value through profit or loss.

The Bank does not hold equity instruments.

3.5.2 Measurement of financial assets

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 at fair value 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.

3.5.3 Loans and advances

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 customers' or 'Due from other financial institutions' or ' Due from related entities'. At initial recognition, the Banking Group measures these financial assets at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Interest income from these financial assets is included in net interest income using the effective interest rate method. Any gain or loss 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 losses' in the Statement of Comprehensive Income.

Notes to the Financial Statements

3 Significant accounting policies (continued)

3.5 Financial assets (continued)

3.5.4 Cash and cash equivalents

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

3.5.5 Derivative financial instruments

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

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

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

3.5.6 Financial assets at fair value through other comprehensive income

Investments in debt instruments are measured at fair value through other comprehensive income where they have:

- contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- are held within business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

These debt instruments are initially recognised at fair value plus direct attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment gains and losses and interest revenue are recognised in profit and loss. Upon disposal, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the income statement.

3.5.7 Leases

As described in note 2.6, the Banking Group has applied NZ IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated.

The Banking Group as Lessee

At lease commencement date, the Banking Group recognises a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Banking Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Banking Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Banking Group also assesses the right-of-use asset for impairment when such indicators exist.

Notes to the Financial Statements

3 Significant accounting policies (continued)

3.5.7 Leases (continued)

At the commencement date, the Banking Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate being the rate that the Banking Group would have to borrow the funds necessary to obtain an asset of similar value with similar terms.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed payments), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised. Lease liabilities are net of any lease incentives receivables.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Banking Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in other liabilities.

The Banking Group as Lessor

The Banking Group's policy for accounting for lease where the Banking Group is the lessor under NZ IFRS 16 has not changed from the comparative period. Upon initial recognition the leased asset is presented as a receivable and measured at an amount equal to the net investment in the lease.

Income on finance lease transactions to be recognised on a basis reflecting a constant periodic return based on the lessor's net investment outstanding in respect of the finance lease. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognised over the term of the lease using the effective interest method. Refer to note 3.9.1. for Operating Leases.

3.5.8 Offsetting

Offsetting of income and expenses

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

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

Offsetting assets and liabilities

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

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

3.5.9 Regular way purchase and sale of financial assets

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

Notes to the Financial Statements

3 Significant accounting policies (continued)

3.5 Financial assets (continued)

3.5.10 Regular way purchase and sale of financial assets

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

3.5.11 Derecognition of financial assets

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

3.6 Impairment of financial assets

Impairment allowances apply to financial assets at amortised cost and financial assets at fair value through OCI, as well as to lease receivables, contract assets, trade receivables, certain loan commitments and financial guarantees. At initial recognition, an allowance is recognised for the amount of the expected credit losses from possible defaults in the coming 12 months (stage 1). 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 from possible defaults during the expected lifetime of the financial asset (stage 2). If the financial instrument becomes credit-impaired the allowance will remain at the Lifetime ECL (stage 3). Stage 3 allowance is assessed either on collective (stage 3A) or individual (stage 3B) basis. 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 an adverse impact on estimated future cash flows. The Bank does not use the low credit risk exemption for any financial instrument.

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 (stage 1), Lifetime ECL non-credit-impaired (stage 2), or Lifetime ECL credit-impaired (stage 3) should be applied (also referred to as stage determination criteria).

a) Methodology to determine expected credit losses

In order to determine ECLs the Banking Group utilises point in time Probability of Default (PD) x Loss Given Default (LGD) x Exposure at Default (EAD) models for the majority of the portfolio in scope. Three global macroeconomic scenarios (consisting of a baseline, a baseline minus and a baseline plus scenario) are incorporated into these models and probability weighted in order to determine the expected credit losses. For credit-impaired financial assets that are assessed on an individual basis (stage 3B), a discounted cash flow calculation is performed which is based on the weighted average of the net present value of expected future cash flows in three different scenarios: a sustainable cure, an optimizing and a liquidation scenario.

When unexpected external developments or data quality issues are not sufficiently covered by the outcome of the ECL models, an adjustment will be made.

b) Stage determination criteria

In order to allocate financial instruments in scope between stage 1, stage 2 and stage 3 a framework of qualitative and quantitative factors has been developed. The criteria for allocating a financial instrument to stage 3 are fully aligned with 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, Rabobank uses criteria, such as days past due status, special asset management status and deterioration of the PD since origination.

Notes to the Financial Statements

3 Significant accounting policies (continued)

3.6 Impairment of financial assets (continued)

For portfolios without individual PD's or with PD's that are not updated on a frequent basis such that an assessment of the change in PD is not possible, a collective assessment on groups of financial instruments with shared credit risk characteristics is made for the purpose of stage determination.

Significant increases in credit risk (SICR)

At each reporting date, the Banking Group assesses whether the credit risk on financial instruments has increased significantly since initial recognition. There is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when the contractual payments are over 30 days past due. The rebuttable presumption is not an absolute indicator that lifetime ECL should be recognised, but is presumed to be the latest point at which lifetime ECL should be recognised.

The assessment of whether lifetime ECL are recognised is based on significant increases in the likelihood or default risk occurring since initial recognition – irrespective of whether a financial instrument has been repriced to reflect an increase in credit risk – instead of based on evidence of a financial instrument being credit-impaired at the reporting date or an actual default occurring. Generally, there will be a SICR before a financial instrument becomes credit impaired or an actual default occurs. For loan commitments, the Bank considers changes in the default risk occurring on the loan to which a loan commitment relates. For financial guarantee contracts, it considers the changes in the risk that the specified debtor will default on the contract.

The assessment of changes in credit risk analysis is a multifactor and holistic analysis. Whether a specific factor is relevant (and its weight compared to other factors) depends on the type of product, characteristics of the financial instruments and the borrower as well as geographical region. The methods used to determine whether credit risk on financial instruments has increased significantly since initial recognition considers the mentioned characteristics of the instruments (or a group of instruments) and the default patterns in the past for comparable financial instruments.

Default definition

In defining default for the purposes of determining the risk of a default occurring, the Bank applies a default definition consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and considers qualitative indicators when appropriate.

However, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due, unless Rabobank has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. The definition of default used for these purposes is applied consistently to all financial instruments, unless information becomes available that demonstrates that another default definition is more appropriate for a particular financial instrument.

Collective versus individual assessment

Some factors or indicators may not be identifiable on an individual instrument level. In that case, the factors or indicators are assessed for appropriate portfolios, groups of portfolios or a portion of a portfolio to determine whether the requirements for recognition of lifetime ECL have been met. The aggregation of financial instruments to assess whether there are changes in credit risk on a collective basis may change over time when new information becomes available on groups of, or individual, financial instruments.

Depending on the nature of the financial instruments and the credit risk information available for particular groups of financial instruments, Rabobank may not be able to identify SICR for an individual instrument before that instrument becomes past due. This may be the case for financial assets (such as retail loans) for which there is little or no updated credit risk information routinely obtained and monitored on an individual instrument level until a customer breaches the contractual terms. If changes in the credit risk for an individual instrument is not captured before it becomes past due, a loss allowance based solely on credit information at an individual instrument level would not represent the changes in credit risk since initial recognition.

Notes to the Financial Statements

3 Significant accounting policies (continued)

3.6 Impairment of financial assets (continued)

In some circumstances, the Banking Group has no reasonable and supportable information available without undue cost or effort to measure lifetime ECL on an individual instrument basis. Lifetime ECL is then recognised by collectively considering comprehensive credit risk information, which not only incorporates past due information but also all relevant credit information (including forward-looking macroeconomic information) to approximate the result of recognising lifetime ECL when there has been a SICR since initial recognition on an individual instrument level.

For the purpose of determining SICR and recognising a loss allowance on a collective basis, the Bank may group financial instruments based on shared credit risk characteristics with the objective of facilitating an analysis designed to enable SICR to be identified on a timely basis. However, when Rabobank is unable to group financial instruments for which the credit risk is considered to have increased significantly since initial recognition based on shared credit risk characteristics, it recognises lifetime ECL on a portion of the financial instruments for which credit risk is deemed to have increased significantly.

Shared credit risk characteristics may include but are not limited to: instrument types, credit risk ratings, collateral types, initial recognition dates, remaining terms to maturity, industries, geographical location, and collateral value relative to the financial instrument if it has an impact on the PD (for instance, non-recourse loans in some jurisdictions or Loan to valuation ratios).

3.6.1 Restructured assets

Restructured assets are those impaired loans on which the original contractual terms have been formally modified due to the financial difficulties of borrowers, and on which interest continues to be accrued at a rate which is equal to or greater

3.6.2 Past due loans

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

3.7 Property, plant and equipment

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

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

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

3.8 Intangible assets

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

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

3 Significant accounting policies (continued)

3.9 Other assets

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

3.9.1 Operating lease asset

The Banking Group, as lessor, leases property, plant and equipment under operating leases. Operating lease assets are measured at cost less accumulated depreciation and accumulated impairment losses if any. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is based on the cost of an asset less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives for the current and comparative periods are between 1 to 7 years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Lease income from operating leases where the Banking Group is a lessor is recognised in income on a straight-line basis over the lease term. The Banking Group operating lease portfolio mainly comprises material handling equipment with the lease terms being 3 to 5 years and other assets have lease terms of 1 to 7 years. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The recoverability of the lease assets is tested at least annually. The testing involves estimates of future rentals and residual values based on historical experience and information received routinely from independent appraisers where required. The testing indicates the Banking Group is not exposed to any significant impairment risk in relation to its operating lease portfolio. The Banking Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard

3.10 Impairment of non-financial assets

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

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

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

3.11 Financial liabilities

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

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

Notes to the Financial Statements

3 Significant accounting policies (continued)

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

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

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

3.11.2 Debt securities in issue

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

3.11.3 Preference shares

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

3.11.4 Other liabilities

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

3.11.5 Contingent liabilities

Contingent liabilities mainly include financial guarantees and lending commitments.

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

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

3.11.6 Derecognition of financial liabilities

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

3.12 Provisions

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

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

3.13 Head Office Account

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

Notes to the Financial Statements

3 Significant accounting policies (continued)

3.14 Employee benefits

3.14.1 Wages and salaries and annual leave

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

3.14.2 Long service leave

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

3.15 Equity

3.15.1 Contributed equity

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

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

3.15.2 Reserve

FVOCI financial assets revaluation reserve

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

3.16 Goods and services tax

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

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

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

3.17 Accounting standards not early adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Banking Group. These standards are not expected to have a material impact on the Bank in the current or future reporting periods and on foreseeable future transactions.

3.18 Comparative figures

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

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

Notes to the Financial Statements

4 Interest income

in thousands of NZD	2019	2018
Loans and advances	618,296	606,173
Related entities - capital securities	10,752	23,359
Related entities	10,354	9,037
FVOCI financial assets	13,215	13,944
Finance lease income	3,181	3,414
Cash and balances with Central Bank	3,301	4,203
Due from other financial institutions	4,186	4,371
Total interest income	**663,285**	**664,501**

5 Interest expense

in thousands of NZD	2019	2018
Debt securities in issue	70,010	79,031
Deposits	142,499	122,033
Related entities	93,127	80,818
Preference shares	7,741	16,818
Interest bearing liabilities	234	535
Lease liabilities	427	-
Other	695	585
Total interest expense	**314,733**	**299,820**

6 Other income

in thousands of NZD	2019	2018
Lending and credit facility related fee income	1,092	1,485
Other income	1,491	1,500
Fee and commission income	1,066	991
Rental income from operating lease	13,582	7,533
Total other income	**17,231**	**11,509**

7 Other expense

in thousands of NZD	2019	2018
Commission and fee expense *	(448)	(612)
Depreciation expense of operating lease assets	(10,884)	(6,142)
Total other expense	**(11,332)**	**(6,754)**

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

Notes to the Financial Statements

8 Other operating gains / (losses)

in thousands of NZD	2019	2018
Gains / (losses) arising from:		
trading derivatives	(3,951)	(34,583)
Fair value hedge amortisation	2,312	2,312
Losses on disposal / write-off of property, plant and equipment	(3)	(2)
Losses on disposal / write off of FVOCI financial assets	167	-
Foreign exchange losses	(41)	75
Total other operating gains / (losses)	**(1,516)**	**(32,198)**

9 Operating expenses

in thousands of NZD	2019	2018
Advertising and marketing	2,738	1,815
Professional fees	4,782	2,692
IT expenses	776	469
Depreciation and amortisation	4,824	1,145
Management fees*	68,425	59,981
Personnel	54,286	46,256
Rental charges payable under operating leases	1,681	3,829
Telecommunication	1,082	813
Travel and lodging	4,817	5,175
Office supplies	472	1,486
Other	3,742	3,336
Total operating expenses	**147,625**	**126,997**

Comparative figures have been reclassified to correct classification and to conform to current year presentation. * Management expenses and recharges relate to provision of administrative and management services as well as recharges of direct costs incurred by other related entities under intercompany arrangements. Refer to note 38 for further details of the nature of expenses recharged to the Banking Group.

10 Impairment losses / (releases)

in thousands of NZD	2019	2018
Collective provision	6,411	2,392
Specific provision	17,224	61
Bad debt (recovery)/charge	(508)	26
Total impairment losses / (releases)	**23,127**	**2,479**

Collective provision consists of collective provision 12-Month ECL (stage 1), collective provision lifetime ECL not credit impaired (stage 2), collective provision lifetime ECL credit impaired (stage 3A). Specific provision consists of specific provision lifetime ECL credit impaired (Stage 3B).

11 Auditor's remuneration

in whole NZD	2019	2018
Amounts received or due and receivable by auditor for:		
Audit or review of the financial statements	338,368	327,729
Advisory services	-	-
Tax compliance	-	-
Total auditor's remuneration	**338,368**	**327,729**

Notes to the Financial Statements

12 Income tax

12.1 Income tax expense

in thousands of NZD	2019	2018
Current income tax	58,430	63,933
(Increase) / Decrease in net deferred tax assets	(5,018)	(364)
(Over) / under provided in prior years relating to deferred tax	788	-
(Over) / under provision in current tax liabilities	(1,743)	(10)
Total income tax expense	**52,457**	**63,559**

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

in thousands of NZD	2019	2018
Profit before income tax	182,183	207,762
Taxation @ 28% (2018: 28%)	**51,011**	**58,173**
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:		
Non-deductible expenses	2,401	5,396
Non-taxable gains / (losses)	-	-
Under / (over) provision	(955)	(10)
Income tax expense	**52,457**	**63,559**

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

12.3 Net deferred tax assets

in thousands of NZD	2019	2018
The balance comprises temporary differences attributable to:		
Accruals	491	257
Depreciation	1,326	(426)
Impairment provisions	15,037	10,877
Employee benefits	1,635	1,527
Others	331	2,518
Provision for long service leave	1,059	926
FVOCI financial assets	(910)	(705)
Total net deferred tax assets	**18,969**	**14,974**

Movements:

in thousands of NZD	2019	2018
Opening balance	14,974	14,161
Credited / (charged) to statement of comprehensive income:		
Accruals	234	(419)
Depreciation	1,752	(1,496)
Impairment provisions	4,160	1,404
Employee benefits	108	181
Interest forgone on impaired assets	-	(699)
Others	(2,187)	1,802
Provision for long service leave	133	74
Debited to equity reserve:		
FVOCI financial assets	(205)	(34)
Total movement	**3,995**	**813**
Closing balance	**18,969**	**14,974**

Notes to the Financial Statements

12 Income tax (continued)

12.4 Imputation credit account

in thousands of NZD	2019	2018
Imputation credit	468,073	439,375

13 Cash and cash equivalents

in thousands of NZD	2019	2018
Cash at banks	167,126	173,923
Balances with Central Bank	253,643	248,491
Total cash and cash equivalents	**420,769**	**422,414**

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

14 Derivative financial instruments

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

	2019			2018		
in thousands of NZD	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
Held for trading derivatives						
Interest rate derivatives						
Swaps (related entities)*	10,013,957	68,137	61,519	8,475,322	50,604	45,997
Swaps (non-related entities)	383,937	13,729	788	432,962	9,980	-
Currency swaps (related entities)*	-	-	-	-	-	-
Forward rate agreements (related entities)*	-	-	11	-	-	-
Forward rate agreements (non-related entities)	-	-	-	-	-	-
Foreign exchange derivatives						
Swaps (related entities)*	2,606,825	16,993	68,282	2,323,873	17,824	45,006
Swaps (non-related entities)	120,732	1,050	7,163	524,801	2,122	5,807
Forwards (related entities)*	428,403	13,654	1,970	385,700	6,917	4,689
Forwards (non-related entities)	382,864	1,402	12,825	363,387	4,374	5,640
Currency options (related entities)*	261,012	5,642	1,007	228,518	3,691	2,440
Currency options (non-related entities)	261,012	1,004	5,642	228,518	2,413	3,691
Commodities (related entities)*	29,418	-	1,732	-	-	-
Commodities (non-related entities)	29,418	1,732	-	-	-	-
Total derivatives	**14,517,578**	**123,343**	**160,939**	**12,963,081**	**97,925**	**113,270**
Amounts due for settlement within 12 months		40,432	111,899		42,924	75,326
Amounts due for settlement over 12 months		82,911	49,040		55,001	37,944
Total derivatives		**123,343**	**160,939**		**97,925**	**113,270**

* Balance relates to other Rabobank related entities.

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

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

Notes to the Financial Statements

15 Financial assets at fair value through other comprehensive income

in thousands of NZD	2019	2018
New Zealand government securities	541,092	464,467
Other debt securities (Kauri)	216,156	182,595
Total financial assets at fair value through other comprehensive income	**757,248**	**647,062**
Amounts due for settlement within 12 months	525,449	519,798
Amounts due for settlement over 12 months	231,799	127,264
Total financial assets at fair value through other comprehensive income	**757,248**	**647,062**

The impairment allowance relating to financial assets at fair value through other comprehensive income was $3 thousand (2018: $6 thousand).

16 Loans and advances

in thousands of NZD	2019	2018
Lending	13,150,440	12,075,882
Finance leases (note 16.1)	698,140	636,309
Gross loans and advances	**13,848,580**	**12,712,191**
Accrued interest	10,409	12,810
Provisions for impairment		
Stage 3B	(16,258)	(8,550)
Stage 3A	(18,503)	(11,199)
Stage 2	(8,032)	(7,720)
Stage 1	(10,222)	(11,213)
Total provisions for impairment	(53,015)	(38,682)
Net loans and advances	**13,805,974**	**12,686,319**
Amounts due for settlement within 12 months	6,787,784	6,119,281
Amounts due for settlement over 12 months	7,018,190	6,567,038
Gross loans and advances	**13,805,974**	**12,686,319**

16.1 Finance Leases

	2019			
in thousands of NZD	Net investment	Unearned finance income	Unguaranteed residuals	Minimum lease payments
One year or less	295,303	31,945	-	327,248
Between one and five years	397,725	32,732	-	430,457
Over five years	5,112	233	-	5,345
Total finance leases	**698,140**	**64,910**	**-**	**763,050**

	2018			
in thousands of NZD	Net investment	Unearned finance income	Unguaranteed residuals	Minimum lease payments
One year or less	268,829	33,526	-	302,355
Between one and five years	350,305	28,082	-	378,387
Over five years	17,175	885	-	18,060
Total finance leases	**636,309**	**62,493**	**-**	**698,802**

Leasing arrangements

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

Notes to the Financial Statements

17 Due from related entities

in thousands of NZD	2019	2018
Current account balances - wholly owned group*	91,582	100,541
Advances - wholly owned group*	1,456,248	1,859,501
Capital securities - wholly owned group*	-	280,000
Accrued interest receivable - wholly owned group*	868	1,547
Stage 1 provision for impairment (note 18.6)	(664)	(884)
Total due from related entities	**1,548,034**	**2,240,705**
Amounts due for settlement within 12 months	1,548,034	2,240,705
Amounts due for settlement over 12 months	-	-
Total due from related entities	**1,548,034**	**2,240,705**

There were no stages 2, 3A or 3B provisions for impairment.

* The wholly owned group refers to other Rabobank related entities. Refer to note 35 for further information on related party disclosures.

18 Credit quality, impaired assets and provision for impairment

The following table outlined details of assets which are assessed as individually impaired.

18.1 Individually impaired assets

	2019			
in thousands of NZD	Residential mortgages	Corporate	Retail*	Total
Opening balance	-	-	258,505	258,505
Additions	-	121,594	310,001	431,595
Amounts written off	-	-	(9,949)	(9,949)
Returned to performing or repaid	-	(6,158)	(140,257)	(146,415)
Closing balance	**-**	**115,436**	**418,300**	**533,736**
Aggregate amount of undrawn balances on lending commitments on impaired assets	-	7,500	13,464	20,964
Analysis of individually impaired assets				
Gross non-performing assets	-	115,436	418,300	533,736
Specific provision against non-performing assets	-	(3,983)	(12,275)	(16,258)
Net non-performing assets	**-**	**111,453**	**406,025**	**517,478**
Restructured assets	-	-	-	-
Specific provision against restructured assets	-	-	-	-
Net restructured assets	**-**	**-**	-	-

	2018			
in thousands of NZD	Residential mortgages	Corporate	Retail*	Total
Opening balance	-	-	293,699	293,699
Additions	-	-	48,386	48,386
Amounts written off	-	-	(2,739)	(2,739)
Returned to performing or repaid	-	-	(80,834)	(80,834)
Closing balance	**-**	**-**	**258,512**	**258,512**
Aggregate amount of undrawn balances on lending commitments on impaired assets	-	-	27,061	27,061
Analysis of individually impaired assets				
Gross non-performing assets	-	-	258,512	258,512
Specific provision against non-performing assets	-	-	(8,550)	(8,550)
Net non-performing assets	**-**	**-**	**249,962**	**249,962**
Restructured assets	-	-	-	-
Specific provision against restructured assets	-	-	-	-
Net restructured assets	**-**	**-**	**-**	**-**

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

Notes to the Financial Statements

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

18.2 Past due assets but not impaired

	2019			
in thousands of NZD	Residential mortgages	Corporate	Retail*	Total
Less than 30 days past due	-	23,000	26,751	49,751
At least 30 days but less than 60 days past due	-	-	666	666
At least 60 days but less than 90 days past due	-	-	2,446	2,446
At least 90 days past due (note 18.3)	-	-	630	630
Closing balance	**-**	**23,000**	**30,493**	**53,493**

	2018			
in thousands of NZD	Residential mortgages	Corporate	Retail*	Total
Less than 30 days past due	-	-	30,869	30,869
At least 30 days but less than 60 days past due	-	-	2,788	2,788
At least 60 days but less than 90 days past due	-	-	1,416	1,416
At least 90 days past due (note 18.3)	-	-	1,212	1,212
Closing balance	**-**	**-**	**36,285**	**36,285**

18.3 At least 90 days past due assets

	2019			
in thousands of NZD	Residential mortgages	Corporate	Retail*	Total
Opening balance	-	-	1,212	1,212
Additions	-	-	6,659	6,659
Amounts written off	-	-	-	-
Repayments	-	-	(7,241)	(7,241)
Closing balance	**-**	**-**	**630**	**630**

	2018			
in thousands of NZD	Residential mortgages	Corporate	Retail*	Total
Opening balance	-	-	1,001	1,001
Additions	-	-	5,299	5,299
Amounts written off	-	-	-	-
Repayments	-	-	(5,088)	(5,088)
Closing balance	**-**	**-**	**1,212**	**1,212**

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

18.4 Other assets under administration

Assets with a book value of $48 thousand were under administration as at 31 December 2019 (2018: $3,627 thousand).

Notes to the Financial Statements

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

18.5 Provision for impairment loans and advances

Provisions for impairment on loans and advances (excluding commitments and financial guarantees)

		2019			
in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
Residential mortgages					
Opening balance	-	-	-	-	-
Charge to statement of comprehensive income	-	-	-	-	-
Amounts written off	-	-	-	-	-
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	-	-
Closing balance residential mortgages	-	-	-	-	-

		2019			
in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
Corporate					
Opening balance	-	-	-	-	-
Changes due to change in credit risk	-	-	-	-	-
Charge to statement of comprehensive income	**40**	**198**	**4,829**	**3,983**	**9,050**
Amounts written off	-	-	-	-	-
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	168	-	-	-	168
Closing balance corporate	**208**	**198**	**4,829**	**3,983**	**9,218**

		2019			
in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
Retail					
Opening balance	10,544	7,629	11,199	8,550	37,922
Charge to Statement of Comprehensive Income	**(1,408)**	**83**	**2,474**	**12,750**	**13,899**
Amounts written off	-	-	-	(10,445)	(10,445)
Recoveries	-	-	-	496	496
Reversals	-	-	-	-	-
Other movements	(168)	-	-	924	756
Closing balance retail	**8,968**	**7,712**	**13,673**	**12,275**	**42,628**

Notes to the Financial Statements

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

18.5 Provision for impairment loans and advances (continued)

Provisions for impairment on commitments and financial guarantees associated with loans and advances

	2019				
in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
Opening balance	669	91	-	-	760
Charge to Statement of Comprehensive Income	**377**	**31**	**1**	**-**	**409**
Amounts written off	-	-	-	-	-
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	-	-
Closing balance on loan commitments and financial guarantees	**1,046**	**122**	**1**	**-**	**1,169**

Total provisions for impairment on loans and advances

	2019				
in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
Opening balance	11,213	7,720	11,199	8,550	38,682
Charge to Statement of Comprehensive Income	**(991)**	**312**	**7,304**	**16,733**	**23,358**
Amounts written off	-	-	-	(10,445)	(10,445)
Recoveries	-	-	-	496	496
Reversals	-	-	-	-	-
Other movements	-	-	-	924	924
Closing balance on loans and advances and loan commitments and financial guarantees	**10,222**	**8,032**	**18,503**	**16,258**	**53,015**

Notes to the Financial Statements

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

18.5 Provision for impairment loans and advances

Provisions for impairment on loans and advances (excluding commitments and financial guarantees)

		2018			
in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
Residential mortgages					
Opening balance		-	-	-	-
Charge to statement of comprehensive income	-	-	-	-	-
Amounts written off	-	-	-	-	-
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	-	-
Closing balance residential mortgages	-	-	-	-	-

		2018			
in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
Corporate					
Opening balance	-	-	-	-	-
Changes due to change in credit risk	-	-	-	-	-
Charge to statement of comprehensive income	-	-	-	-	-
Amounts written off	-	-	-	-	-
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	-	-
Closing balance corporate	-	-	-	-	-

		2018			
in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
Retail					
Opening balance	9,230	7,969	9,504	9,951	36,654
Charge to Statement of Comprehensive Income	**1,314**	**(340)**	**1,695**	**61**	**2,730**
Amounts written off	-	-	-	(2,824)	(2,824)
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	1,362	1,362
Closing balance retail	**10,544**	**7,629**	**11,199**	**8,550**	**37,922**

Notes to the Financial Statements

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

18.5 Provision for impairment loans and advances (continued)

Provisions for impairment on commitments and financial guarantees associated with loans and advances

	2018				
in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
Opening balance	880	96	-	-	976
Charge to statement of comprehensive income	**(211)**	**(5)**	**-**	**-**	**(217)**
Amounts written off	-	-	-	-	-
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	-	-
Closing balance on loan commitments and financial guarantees	**669**	**91**	**-**	**-**	**759**

Total provisions for impairment on loans and advances

	2018				
in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
Opening balance	10,110	8,065	9,504	9,951	37,630
Charge to Statement of Comprehensive Income	**1,103**	**(345)**	**1,695**	**61**	**2,513**
Amounts written off	-	-	-	(2,824)	(2,824)
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	1,362	1,362
Closing balance on loans and advances and loan commitments and financial guarantees	**11,213**	**7,720**	**11,199**	**8,550**	**38,681**

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

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

Notes to the Financial Statements

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

18.6 Provision for impairment due from related entities

Impairment allowances on due from related entities

		2019			
in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
Opening balance	884	-	-	-	884
Charge to Statement of Comprehensive Income	**(220)**	**-**	**-**	**-**	**(220)**
Amounts written off	-	-	-	-	-
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	-	-
Closing balance related parties	**664**	**-**	**-**	**-**	**664**

Impairment allowances on due from related entities

		2018			
in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
Opening balance	945	-	-	-	945
Charge to Statement of Comprehensive Income	**(61)**	**-**	**-**	**-**	**(61)**
Amounts written off	-	-	-	-	-
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	-	-
Closing balance related parties	**884**	**-**	**-**	**-**	**884**

18.7 Impact of changes in gross financial assets on loss allowance

		2019			
in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
Opening balance	11,591,182	839,432	23,072	258,505	12,712,191
Additions	10,358,004	812,524	44,599	431,595	11,646,722
Amount written off		-	-	(9,949)	(9,949)
Deletions	(9,250,345)	(723,320)	(95,548)	(137,470)	(10,206,683)
Changes due to transfer between ECL stages	(408,689)	87,332	36,603	(8,945)	(293,699)
Other	17,150	(17,785)	633	-	(2)
Gross loans and advances	**12,307,302**	**998,183**	**9,359**	**533,736**	**13,848,580**
Provisions for impairment	(10,222)	(8,032)	(18,503)	(16,258)	(53,015)
Net loans and advances	**12,297,080**	**990,151**	**(9,144)**	**517,478**	**13,795,565**

Whilst the gross loans and advances classified as Stage 3B (for provisioning purposes) have been disclosed as Stage 3B in Note 30.3.3, the collective provisions associated with those Stage 3B loans, that have been individually assessed to not require a specific provision, have been included within the Stage 3A provision balance disclosed in Note 16 and Note 18. For this reason, the provision for impairment and gross loans and advances for stages 3A and 3B should be read in conjunction.

		2018			
in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
Opening balance	10,626,584	834,155	8,330	294,400	11,763,469
Additions	10,159,848	577,358	139,175	42,674	10,919,055
Amount written off	-	-	-	(2,849)	(2,849)
Deletions	(9,112,606)	(665,560)	(130,916)	(76,101)	(9,985,183)
Changes due to transfer between ECL stages	(82,644)	93,479	(11,216)	381	-
Other	-	-	17,699	-	17,699
Gross loans and advances	**11,591,182**	**839,432**	**23,072**	**258,505**	**12,712,191**
Provisions for impairment	(11,213)	(7,720)	(11,199)	(8,550)	(38,682)
Net loans and advances	**11,579,969**	**831,712**	**11,873**	**249,955**	**12,673,509**

Notes to the Financial Statements

19 Other assets

in thousands of NZD	2019	2018
Operating lease asset	57,546	35,729
Accrued interest receivable	3,745	6,724
GST receivable	2,003	551
Sundry debtors	3,602	1,417
Others	1,123	1,449
Total other assets	**68,019**	**45,870**

All other assets are due for settlement within 12 months

19.1 Operating lease assets

DLL and AGCO have entered into operating leases with its customers on its property, plant, and equipment, consisting of mainly forklift equipment with lease terms of 3 to 5 years and other assets with lease terms of 1 to 7 years.

in thousands of NZD	2019	2018
At cost	78,432	48,720
Less accumulated amortisation	(20,886)	(12,991)
Carrying amount as at 31 December	**57,546**	**35,729**

The table below describes the future minimum lease payments that apply to operating lease assets:

in thousands of NZD	2019	2018
No later than one year	12,808	8,249
Later than one year but no later than five years	41,788	27,417
Later than five years	2,950	63
Total	**57,546**	**35,729**

Reconciliation of the carrying amounts for operating lease assets:

in thousands of NZD	2019	2018
Carrying amount as at 1 January	35,729	29,146
Net additions	32,701	12,725
Depreciation	(10,884)	(6,142)
Carrying amount as at 31 December	**57,546**	**35,729**

20 Property, plant and equipment

in thousands of NZD	Right-of-use asset	Office Fixtures & Fittings	Office Equipment	Computer Hardware	Total
Balance as at 1 January 2018					
Cost	-	10,704	64	1,491	12,254
Accumulated depreciation	-	(7,156)	(29)	(999)	(8,179)
Net book value	**-**	**3,548**	**35**	**492**	**4,075**
Balance as at 31 December 2018					
Cost	-	10,704	115	1,443	12,257
Accumulated depreciation	-	(8,014)	(44)	(1,184)	(9,237)
Net book value	**-**	**2,690**	**71**	**259**	**3,020**
Balance as at 31 December 2019					
Cost	13,500	10,732	162	1,442	25,836
Accumulated depreciation	(3,565)	(8,780)	(69)	(1,333)	(13,747)
Net book value	**9,935**	**1,952**	**93**	**109**	**12,089**

In respect of right-of-use asset, refer to note 2.6 and note 3.5.7 for further information on the accounting for leasing contracts under NZ IFRS 16.

Reconciliation

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

in thousands of NZD	Right-of-use asset	Office Fixtures & Fittings	Office Equipment	Computer Hardware	Total
Balance as at 1 January 2018	**-**	**3,548**	**35**	**492**	**4,075**
Acquisitions	-	-	51	-	51
Disposals	-	-	-	(2)	(2)
Depreciation	-	(858)	(15)	(231)	(1,104)
Balance as at 31 December 2018	**-**	**2,690**	**71**	**259**	**3,020**
NZ IFRS16 implementation	18,564	-	-	-	18,564
Reassessment of extension options	(7,072)	-	-	-	(7,072)
Acquisitions	2,017	131	48	-	2,196
Disposals / write-off	-	(3)	-	-	(3)
Depreciation	(3,574)	(866)	(26)	(150)	(4,616)
Balance as at 31 December 2019	**9,935**	**1,952**	**93**	**109**	**12,089**

Notes to the Financial Statements

20 Property, plant and equipment (continued)

20.1 Leases

The statement of financial position shows the following amounts relating to leases:

In thousands of NZD	31/12/2019	1/01/2019
Right-of-use assets		
Properties	7,621	16,360
Motor vehicles	2,314	2,128
Total right-of-use assets	**9,935**	**18,488**
Lease liabilities		
Current lease liabilities	3,709	3,573
Non-current lease liabilities	6,436	14,915
Total lease liabilities (note 26)	**10,145**	**18,488**

The statement of profit or loss shows the following amounts relating to leases:

In thousands of NZD	31/12/2019	31/12/2018
Depreciation right-of-use assets		
Properties	2,510	-
Motor vehicles	1,064	-
Interest expense on lease liabilities	427	-
Expense relating to short-term leases	24	-
Expense relating to leases of low-value assets	-	-
Expense relating to variable lease payments not included in lease liabilities	565	-

The total cash outflow for leases in 2019 was $4,286 thousand.

The Banking Group's leasing activities and how these are accounted for

Lease arrangements entered into by the Banking Group are for the purpose of accommodating the Banking Group's needs. These include operating lease arrangements over premises and motor vehicles used by staff in conducting business.

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

The Banking Group has applied NZ IFRS 16 at 1 January 2019. The new accounting policies are disclosed in note 3.4.7 and note 2.6 explains the impact of adoption on NZ IFRS 16.

Extension and termination options

Extension and termination options are included in a number of property leases across the Banking Group. These terms are used to maximise operational flexibility in terms of managing contracts. All of extension and termination options held are exercisable only by the Banking Group and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was a decrease in recognised lease liabilities and right-of-use assets of $7,072 thousand.

Notes to the Financial Statements

21 Intangible assets

in thousands of NZD	2019	2018
Computer software		
Opening balance as at 1 January		
At cost	219	219
Less accumulated amortisation	(174)	(132)
Net book value	**45**	**87**
Closing balance at 31 December		
At cost	1,296	219
Less accumulated amortisation	(239)	(174)
Net book value	**1,057**	**45**

Reconciliation		
Opening balance	45	87
Acquisitions	1,219	-
Written off	-	-
Amortisation	(207)	(42)
Closing balance	**1,057**	**45**

22 Debt securities in issue

in thousands of NZD	2019	2018
Bonds	885,636	1,001,492
Notes	1,114,707	1,066,218
Commercial Paper	187,819	1,023,708
Accrued interest	11,751	13,735
Total debt securities in issue	**2,199,913**	**3,105,153**
Amounts due for settlement within 12 months	1,426,379	2,073,400
Amounts due for settlement over 12 months	773,534	1,031,753
Total debt securities in issue	**2,199,913**	**3,105,153**

23 Deposits

in thousands of NZD	2019	2018
Call deposits	2,173,935	2,064,134
Term deposits	3,256,843	2,606,783
Accrued interest	43,918	34,665
Total deposits	**5,474,696**	**4,705,582**
Amounts due for settlement within 12 months	4,207,122	3,388,597
Amounts due for settlement over 12 months	1,267,574	1,316,985
Total deposits	**5,474,696**	**4,705,582**

Notes to the Financial Statements

24 Preference shares

in thousands of NZD	2019	2018
Preference shares	-	280,000
Accrued interest	-	666
Preference shares at the end of the year	**-**	**280,666**

RCSL held $280 million capital securities which are debt obligations of Rabobank. The capital securities carried the rights to a quarterly distribution, which equalled 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 was 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. The capital securities were not transferable and the scheduled repayment date was 18 June 2039. They were unsecured. All interest payments have been made on the due date. On 18 June 2019 all securities issued by RCSL were redeemed, together with underlying securities issued by the Registered Bank to RCSL.

25 Due to related entities

in thousands of NZD	2019	2018
Current account balances - wholly owned group*	444,277	145,676
Deposits and short term advances - wholly owned group*	6,413,788	5,875,414
Accrued interest payable - wholly owned group*	7,762	10,833
Total due to related entities	**6,865,827**	**6,031,923**

Amounts due for settlement within 12 months	5,508,609	4,958,942
Amounts due for settlement over 12 months	1,357,218	1,072,981
Total due to related entities	**6,865,827**	**6,031,923**

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

26 Other liabilities

in thousands of NZD	2019	2018
Lease liabilities	10,145	-
Interest paid in advance	1,495	1,103
Accrued expenses	8,069	7,731
Sundry creditors	3,767	4,356
Total other liabilities	**23,476**	**13,190**

In respect of lease liabilities, refer to note 2.6 and note 3.5.7 for further information on the accounting for leasing contracts under NZ IFRS 16.

$3,684 thousand of lease liabilities is expected to be settled within 12 months and $6,461 thousand of lease liabilities is expected to be settled over 12 months. All other liabilities are due for settlement within 12 months.

27 Provisions

in thousands of NZD	2019	2018
Provision for long service leave	3,842	3,307
Other provisions	12	35
Total provisions	**3,854**	**3,342**

Changes in provisions were as follows:

in thousands of NZD	2019	2018
Provisions for long service leave		
Opening balance	3,307	3,032
Additions	1,225	517
Used	(178)	(182)
Released	(512)	(60)
Closing balance	**3,842**	**3,307**

Notes to the Financial Statements

28 Head office account

in thousands of NZD	2019	2018
Movement of head office account		
Opening balance	290,640	255,874
Impact of adoption of NZ IFRS 9	-	(151)
Net profit of the Branch	28,828	34,917
Closing balance	**319,468**	**290,640**

29 Priority of financial liabilities in the event of a liquidation

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

30 Equity

30.1 Contributed equity

in thousands of NZD	2019	2018
Paid up capital in Rabobank New Zealand Limited	551,200	551,200

Total authorised and paid up capital comprises 275,600,000 ordinary shares fully paid ranking equally as to dividends, voting rights and rights to share in any surplus on winding up (31 December 2018: 275,600,000). Each share was issued at $2 and has no par value.

Paid up capital Rabo Capital Securities Limited	1	1

Total authorised and paid up capital comprises 1,000 ordinary shares fully paid ranking equally as to voting rights but are not entitled to receive or participate in any dividend or distribution made by RCSL (31 December 2018: 1,000). Each share was issued at $1 and has no par value.

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

30.2 Reserves

in thousands of NZD	2019	2018
Reserves		
Opening balance	1,806	1,724
Changes in FVOCI revaluation reserve (gross)	741	114
Changes in FVOCI revaluation reserve (deferred tax)	(207)	(32)
Closing balance	**2,340**	**1,806**

Nature and purpose of FVOCI reserve

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

30.3 Retained earnings

in thousands of NZD	2019	2018
Opening balance	1,046,796	939,499
Impact of first time adoption of NZ IFRS 9	-	(990)
Net profit (excluding Branch) for the year	100,898	109,287
Distributions to owners	(1,000)	(1,000)
Closing balance	**1,146,694**	**1,046,796**

Notes to the Financial Statements

31 Contingent liabilities

Through the normal course of business, the Banking Group may be involved in litigation claims. The aggregate potential liability arising in respect of these claims cannot be accurately assessed. Provisions have been made where appropriate for likely loss of actual and potential claims after a review has been made on a case by case basis. The 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 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 Group's option. The 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	2019	2018
Guarantees	18,542	472,614
Lending commitments		
Irrevocable lending commitments	899,493	670,689
Revocable lending commitments	2,257,528	1,914,058
Total contingent liabilities	**3,175,563**	**3,057,361**

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

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

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

32 Expenditure commitments

32.1 Capital expenditure commitments

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

in thousands of NZD	2019	2018
One year or less	733	-
Total capital expenditure commitments	**733**	**-**

Notes to the Financial Statements

32 Expenditure commitments (continued)

32.2 Operating lease commitments

in thousands of NZD	2019	2018
One year or less	961	4,236
Between one and two years	608	2,965
Between two and five years	490	3,239
Over five years	-	-
Total operating lease commitments	**2,059**	**10,440**

The Banking Group has applied NZ IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. Subsequently, operating lease commitments as at 31 December 2019, only include short-term leases and service portion of lease payments under operating leases. Comparative information includes all operating lease commitments prior to adoption of NZ IFRS 16.

33 Risks arising from financial instruments

The Banking Group has an integrated framework of responsibilities and functions to manage the credit, market and liquidity risk of the groups balance sheet, which can be influenced by financial instruments.

Risk is managed through a risk management framework and policies applicable to the entities comprising Rabobank New Zealand Banking Group. The risk management framework and appetite statement has been set by the Board and Risk Committee of RNZL, or the ultimate parent as appropriate. The risk management framework deals with risk and compliance matters down to operational levels, covering all material risks most notably credit, market, liquidity and operational risk.

Oversight and monitoring of risk is undertaken by the Risk Management functions of RNZL, the Branch, DLL & AGCO and also the ultimate parent. References to risk management of operations implicitly involves oversight by the individual entities and ultimate parent.

33.1 Liquidity risk

Liquidity risk is defined as the risk that the Core Banking Group and the De Lage Landen Companies will not have sufficient funds available to meet its financial and transactional cash flow obligations and regulatory obligations. The Core Banking Group's liquidity policies are designed to ensure that it has sufficient funds available, even in adverse circumstances, to meet its obligations, including loans and advances to customers and maturities of deposits and other obligations. Liquidity policies are reviewed periodically and at least annually. Rabobank's commitment to maintain appropriate level of retail deposit clients and liquid assets have supported the liquidity position during this period.

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

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

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

- Contractual maturity is based on the undiscounted cash flows (principal and interest) based on the actual period of the contract. The tables in contractual maturity summarises the maturity profile of the Core Banking Group's financial assets and financial liabilities and contingent liabilities based on the contractual undiscounted cash flows.
- Expected maturity is based on an internally approved model and reflects how the Core Banking Group manages liquidity risk. The overriding principle is to match fund assets to the expected maturity of the liquidity commitment. Key assumptions regarding the expected maturity dates in the long term framework are applied to both the Rural asset portfolio and retail deposit liabilities.

Notes to the Financial Statements

33 Risks arising from financial instruments (continued)

33.1 Liquidity risk (continued)

- In the short term framework, the expected maturity of corporate and rural loans and assets held for collateral are always assumed to be rolled over, reflecting a conservative position whereby Rabobank commits to refinancing its core client base. The tables in expected maturity summarises the maturity analysis of financial assets and financial liabilities according to when they are expected to be recovered or settled.

Similarly, the De Lage Landen Companies identify liquidity risk by business products, with the main distinction being short-term assets (such as Commercial Finance) and long-term assets (being amortizing lease and loan portfolios).

The identified funding and liquidity risks must be measured using a risk indicator. DLL cascades key risk indicators (KRIs) related to liquidity risk to all subsidiaries within DLL Group. These KRIs are based on a simplified approach of gap reporting with an escalation process based on possible loss.
Concentration in funding sources increases liquidity risk, so the aim of DLL Group is to continue to diversify its funding base further by expanding securitization programs, attracting further development bank funding (e.g. EIB, BNDES, FIRA) and sourcing external funding where appropriate. All transactions/new funding lines/routes must be approved by DLL Group Treasury. DLL Treasury discuss and seek approval where required from the necessary DLL and Rabobank Committees to ensure a fully aligned funding approach within the wider Rabobank group.

Rabobank manages the consolidated Group liquidity requirements, with De Lage Landen Companies having obtained a waiver from solo supervision at a DLL Group level. Rabobank therefore sets liquidity policies and limits within which the De Lage Landen Companies must operate, to ensure that De Lage Landen Companies' liquidity positions are catered for within Rabobank consolidated regulatory reporting. However, DLL is responsible for managing regulatory liquidity ratios, such as loan cover ratios, in certain territories where the DLL subsidiary is solo supervised.

De Lage Landen Companies must apply a 'matched-funding' policy, except for a 10% liquidity limit, DLL's own equity, minority interests and other working capital items such as deferred tax. DLL Group Treasury must ensure that the DLL Group wide liquidity risk exposures remain within this limit. Such limits are reviewed for the consolidated DLL Group by DLL Group Treasury on a monthly basis.
The following compliance monitoring is in place to address DLL liquidity risk:
1. Annual Review of the liquidity standard performed by DLL Group Treasury.
2. Preparation of gap reports and asset & liability reconciliations on a monthly basis by the country finance manager. These reports are reviewed by the local Loan Risk Committee and documented in the LRC minutes.
3. Reports outlining the KPI's on country liquidity risks is issued to DLL Treasury, Internal Audit and Group Risk staff.
4. A risk dashboard on the balance sheet risks is prepared on a daily basis and reviewed on a monthly basis. Data is sent to Rabobank on a monthly basis and DLL receives an output for review.

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

Liquidity portfolio

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

in thousands of NZD	2019	2018
Cash at banks	167,126	173,923
Balances with Central Bank	253,643	248,491
New Zealand government securities	541,092	464,467
Other debt securities (Kauri)	216,156	182,595
Total liquid assets	**1,178,017**	**1,069,476**

Notes to the Financial Statements

33 Risks arising from financial instruments (continued)

33.1 Liquidity risk (continued)

33.1.1 Contractual maturity of financial assets and liabilities

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

in thousands of NZD	Total	On Demand	Less than 6 Months	6-12 Months	12-24 Months	24-60 Months	Over 60 Months
At 31 December 2019							
Financial assets							
Cash and cash equivalents	420,769	420,769	-	-	-	-	-
Derivative financial instruments*	124,594	-	27,901	12,531	21,710	58,793	3,659
FVOCI financial assets	764,908	-	528,274	1,525	152,423	82,686	-
Loans and advances	14,127,827	-	2,333,836	3,819,926	4,259,276	3,071,202	643,587
Due from related entities	1,549,765	91,768	1,457,997	-	-	-	-
Other financial assets	9,350	-	9,350	-	-	-	-
Total financial assets	**16,997,213**	**512,537**	**4,357,358**	**3,833,982**	**4,433,409**	**3,212,681**	**647,246**
Financial liabilities							
Derivative financial instruments*	163,059	-	74,599	37,300	19,428	27,461	4,271
Debt securities in issue	2,232,155	-	1,261,057	181,727	293,731	495,640	-
Deposits	5,507,148	2,173,935	2,086,320	690,704	238,654	317,423	112
Preference shares	-	-	-	-	-	-	-
Due to related entities	6,924,079	494,037	3,572,339	1,479,699	877,006	405,268	95,730
Other financial liabilities	21,981	-	13,380	1,960	3,258	3,383	-
Interest bearing liabilities	4,721	-	2,105	695	1,648	273	-
Head office account	319,468	-	319,468	-	-	-	-
Total financial liabilities	**15,172,611**	**2,667,972**	**7,329,268**	**2,392,085**	**1,433,725**	**1,249,448**	**100,113**

in thousands of NZD	Total	On Demand	Less than 6 Months	6-12 Months	12-24 Months	24-60 Months	Over 60 Months
At 31 December 2018							
Financial assets							
Cash and cash equivalents	422,414	422,414	-	-	-	-	-
Derivative financial instruments*	100,301	-	34,851	6,832	20,265	35,820	2,533
AFS financial assets	656,093	-	523,267	1,344	52,644	78,838	-
Loans and advances[1]	13,208,043	-	2,131,183	3,415,933	3,364,119	3,443,156	853,652
Due from related entities	2,296,769	101,766	2,159,443	5,562	10,090	18,201	1,707
Other financial assets	8,692	-	8,692	-	-	-	-
Total financial assets	**16,692,312**	**524,180**	**4,857,436**	**3,429,671**	**3,447,118**	**3,576,015**	**857,892**
Financial liabilities							
Derivative financial instruments*	115,892	-	39,077	36,368	15,224	22,532	2,691
Debt securities in issue	3,177,919	-	1,078,068	1,035,694	416,542	647,615	-
Deposits	4,745,746	2,064,134	1,571,473	508,176	394,534	207,214	215
Preference shares	288,409	-	288,409	-	-	-	-
Due to related entities	6,126,154	149,932	3,553,322	571,344	1,323,920	428,221	99,415
Other financial liabilities	12,087	-	12,087	-	-	-	-
Interest bearing liabilities	10,459	-	3,683	2,207	2,771	1,798	-
Head office account	290,640	-	290,640	-	-	-	-
Total financial liabilities	**14,767,306**	**2,214,066**	**6,836,759**	**2,153,789**	**2,152,991**	**1,307,380**	**102,321**

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

Notes to the Financial Statements

33 Risks arising from financial instruments (continued)

33.1 Liquidity risk (continued)

33.1.2 Contractual maturity of contingent liabilities

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

in thousands of NZD	Total	On Demand	Less than 6 Months	6-12 Months	12-24 Months	24-60 Months	Over 60 Months
At 31 December 2019							
Guarantees	18,542	5,756	500	5,350	3,128	1,588	2,220
Lending commitments	3,157,021	1,574,543	61,724	654,565	406,368	457,073	2,748
Total contingent liabilities	**3,175,563**	**1,580,299**	**62,224**	**659,915**	**409,496**	**458,661**	**4,968**

in thousands of NZD	Total	On Demand	Less than 6 Months	6-12 Months	12-24 Months	24-60 Months	Over 60 Months
At 31 December 2018							
Guarantees	472,614	5,819	-	950	460,454	3,171	2,220
Lending commitments	2,584,747	1,476,068	38,636	658,584	103,525	301,839	6,095
Total contingent liabilities	**3,057,361**	**1,481,887**	**38,636**	**659,534**	**563,979**	**305,010**	**8,315**

Notes to the Financial Statements

33 Risks arising from financial instruments (continued)

33.1 Liquidity risk (continued)

33.1.3 Expected maturity

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

in thousands of NZD	Total	Call-6 Months	6-12 Months	12-24 Months	24-60 Months	Over 60 Months
At 31 December 2019						
Financial assets						
Cash and cash equivalents	420,769	420,769	-	-	-	-
Derivative financial instruments	124,594	27,901	12,531	21,710	58,793	3,659
FVOCI financial assets	764,908	528,274	1,525	152,423	82,686	-
Loans and advances	13,985,541	3,252,895	3,588,963	6,444,400	675,873	23,410
Due from related entities	1,549,765	1,549,765	-	-	-	-
Other financial assets	9,350	9,350	-	-	-	-
Total financial assets	**16,854,927**	**5,788,954**	**3,603,019**	**6,618,533**	**817,352**	**27,069**
Financial liabilities						
Derivative financial instruments	163,059	74,599	37,300	19,428	27,461	4,271
Debt securities in issue	2,232,155	1,261,057	181,727	293,731	495,640	-
Deposits	5,532,226	3,248,213	980,535	708,417	582,777	12,284
Preference shares	-	-	-	-	-	-
Due to related entities	6,924,079	4,066,376	1,479,699	877,006	405,268	95,730
Other financial liabilities	21,981	13,380	1,960	3,258	3,383	-
Interest bearing liabilities	4,721	2,105	695	1,648	273	-
Head office account	319,468	319,468	-	-	-	-
Total financial liabilities	**15,197,689**	**8,985,198**	**2,681,916**	**1,903,488**	**1,514,802**	**112,285**

in thousands of NZD	Total	Call-6 Months	6-12 Months	12-24 Months	24-60 Months	Over 60 Months
At 31 December 2018						
Financial assets						
Cash and cash equivalents	422,414	422,414	-	-	-	-
Derivative financial instruments	100,301	34,851	6,832	20,265	35,820	2,533
AFS financial assets	656,093	523,267	1,344	52,644	78,838	-
Loans and advances	12,948,651	2,967,791	3,231,224	3,878,496	2,871,140	-
Due from related entities	2,296,769	2,261,209	5,562	10,090	18,201	1,707
Other financial assets	8,692	8,692	-	-	-	-
Total financial assets	**16,432,920**	**6,218,224**	**3,244,962**	**3,961,495**	**3,003,999**	**4,240**
Financial liabilities						
Derivative financial instruments	115,892	39,077	36,368	15,224	22,532	2,691
Debt securities in issue	3,177,919	1,078,068	1,035,694	416,542	647,615	-
Deposits	4,785,159	2,644,157	778,180	899,344	463,263	215
Preference shares	288,409	288,409	-	-	-	-
Due to related entities	6,126,154	3,703,254	571,344	1,323,920	428,221	99,415
Other financial liabilities	12,087	12,087	-	-	-	-
Other financial liabilities	10,459	3,683	2,207	2,771	1,798	-
Head office account	290,640	290,640	-	-	-	-
Total financial liabilities	**14,806,719**	**8,059,375**	**2,423,793**	**2,657,801**	**1,563,429**	**102,321**

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

Notes to the Financial Statements

33 Risks arising from financial instruments (continued)

33.2 Market risk

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

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

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

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

The Risk Management Committee have approved a VaR limit of $3 million throughout the year (2018: $3.0 million).

in thousands of NZD	2019	2018
VaR at year end	1,191	958

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

in thousands of NZD	2019	2018
Interest Rate Sensitivity at year end (loss)	(250)	(223)

While the Core Banking Group is dealing with interest rate risk and currency risk, the De Lage Landen Companies main type of market risk is interest rate risk.
The De Lage Landen Companies will always have some limited interest rate risk, as the subsidiaries are continually writing fixed rate business and applying a mix of pre-hedging for 'rate-card' business, hedging as transacted for larger deals (> € 1 million) and hedging generally weekly in arrears for other flow business.

Interest rate exposures on finance lease portfolios are mitigated based on their expected maturity terms (or repricing if shorter) or on contractual maturity terms (or repricing if shorter). The policy of match-funding is applied to all De Lage Landen Companies' asset financing business from an interest rate perspective. Where equity or shorter-term liquidity is used to fund assets, derivative transactions may be used to cover the longer-term interest rate risk with the approval of DLL Group Treasury.
DLL's Group Interest Rate Risk Standard is structured around the limits granted to the De Lage Landen Companies by Rabobank and the De Lage Landen Companies' Risk Appetite. This standard applies to all entities and countries within DLL Group.

Notes to the Financial Statements

33 Risks arising from financial instruments (continued)

33.2 Market risk (continued)

33.2.1 Repricing analysis

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

in thousands of NZD	Total	Call-3 Months	3-6 Months	6-12 Months	12-24 Months	Over 24 Months	Non-Interest bearing
At 31 December 2019							
Financial assets							
Cash and cash equivalents	420,769	420,769	-	-	-	-	-
Derivative financial instruments	123,343	-	-	-	-	-	123,343
FVOCI financial assets	757,248	252,170	262,429	-	161,533	81,116	-
Loans and advances	13,805,974	7,763,933	1,592,277	910,121	2,558,360	969,526	11,757
Due from related entities	1,548,034	1,547,136	-	-	-	-	898
Other financial assets	9,350	-	-	-	-	-	9,350
Total financial assets	**16,664,718**	**9,984,008**	**1,854,706**	**910,121**	**2,719,893**	**1,050,642**	**145,348**
Other assets	58,669	-	-	-	-	-	58,669
Income tax receivables	524	-	-	-	-	-	524
Net deferred tax assets	18,969	-	-	-	-	-	18,969
Property, plant and equipment	12,089	-	-	-	-	-	12,089
Intangible assets	1,057	-	-	-	-	-	1,057
Total non-financial assets	**91,308**	**-**	**-**	**-**	**-**	**-**	**91,308**
Total assets	**16,756,026**	**9,984,008**	**1,854,706**	**910,121**	**2,719,893**	**1,050,642**	**236,656**
Financial liabilities							
Derivative financial instruments	160,939	-	-	-	-	-	160,939
Debt securities in issue	2,199,913	844,568	696,033	176,470	-	471,091	11,751
Deposits	5,474,696	3,211,969	1,011,019	668,195	229,137	310,459	43,917
Preference shares	-	-	-	-	-	-	-
Due to related entities	6,865,827	4,605,125	1,822,006	416,246	-	13,566	8,884
Other financial liabilities	21,981	932	915	1,836	3,098	3,292	11,908
Interest bearing liabilities	4,725	1,165	944	695	1,648	273	-
Head office account	319,468	-	-	-	-	-	319,468
Total financial liabilities	**15,047,549**	**8,663,759**	**3,530,917**	**1,263,442**	**233,883**	**798,681**	**556,867**
Current tax liabilities	2,893	-	-	-	-	-	2,893
Other liabilities	1,495	-	-	-	-	-	1,495
Provisions	3,854	-	-	-	-	-	3,854
Total non-financial liabilities	**8,242**	**-**	**-**	**-**	**-**	**-**	**8,242**
Total liabilities	**15,055,791**	**8,663,759**	**3,530,917**	**1,263,442**	**233,883**	**798,681**	**565,109**
Interest rate derivatives							
Swaps	-	1,430,409	(60,800)	216,000	(1,606,611)	21,002	
Repricing gap (interest-bearing assets and liabilities)	2,028,688	2,750,658	(1,737,011)	(137,321)	879,399	272,963	
Cumulative mismatch	**2,028,688**	**2,750,658**	**1,013,647**	**876,326**	**1,755,725**	**2,028,688**	

Notes to the Financial Statements

33 Risks arising from financial instruments (continued)

33.2 Market risk (continued)

33.2.1 Repricing analysis (continued)

in thousands of NZD	Total	Call-3 Months	3-6 Months	6-12 Months	12-24 Months	Over 24 Months	Non-Interest bearing
At 31 December 2018							
Financial assets							
Cash and cash equivalents	422,414	422,414	-	-	-	-	-
Derivative financial instruments	97,925	-	-	-	-	-	97,925
AFS financial assets	647,062	428,537	89,025	-	52,972	76,528	-
Loans and advances	12,686,319	7,455,086	1,534,889	1,575,670	1,232,314	875,349	13,011
Due from related entities	2,240,705	1,959,130	280,000	-	-	-	1,575
Other financial assets	8,692	-	-	-	-	-	8,692
Total financial assets	**16,103,117**	**10,265,167**	**1,903,914**	**1,575,670**	**1,285,286**	**951,877**	**121,203**
Other assets	37,178	-	-	-	-	-	37,178
Income tax receivables	-	-	-	-	-	-	-
Net deferred tax assets	14,974	-	-	-	-	-	14,974
Property, plant and equipment	3,020	-	-	-	-	-	3,020
Intangible assets	45	-	-	-	-	-	45
Total non-financial assets	**55,217**	**-**	**-**	**-**	**-**	**-**	**55,217**
Total assets	**16,158,334**	**10,265,167**	**1,903,914**	**1,575,670**	**1,285,286**	**951,877**	**176,420**
Financial liabilities							
Derivative financial instruments	113,270	-	-	-	-	-	113,270
Debt securities in issue	3,105,153	946,720	389,400	1,022,002	403,186	330,110	13,735
Deposits	4,705,582	2,943,742	661,150	482,506	383,341	200,180	34,663
Preference shares	280,666	-	280,000	-	-	-	666
Due to related entities	6,031,923	6,002,564	-	-	-	18,247	11,112
Other financial liabilities	12,087	-	-	-	-	-	12,087
Interest bearing liabilities	10,469	2,262	1,431	2,207	2,771	1,798	-
Head office account	290,640	-	-	-	-	-	290,640
Total financial liabilities	**14,549,790**	**9,895,288**	**1,331,981**	**1,506,715**	**789,298**	**550,335**	**476,173**
Current tax liabilities	4,296	-	-	-	-	-	4,296
Other liabilities	1,103	-	-	-	-	-	1,103
Provisions	3,342	-	-	-	-	-	3,342
Total non-financial liabilities	**8,741**	**-**	**-**	**-**	**-**	**-**	**8,741**
Total liabilities	**14,558,531**	**9,895,288**	**1,331,981**	**1,506,715**	**789,298**	**550,335**	**484,914**
Interest rate derivatives							
Swaps	-	387,488	(345,000)	(220,457)	(35,500)	213,469	
Repricing gap (interest-bearing assets and liabilities)	1,908,297	757,367	226,933	(151,502)	460,488	615,011	
Cumulative mismatch	**1,908,297**	**757,367**	**984,300**	**832,798**	**1,293,286**	**1,908,297**	

Notes to the Financial Statements

33 Risks arising from financial instruments (continued)

33.3 Credit risk

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

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

The Core Banking Group has a credit framework (including the credit policies) which is described in the Core Banking Group's Risk Management Strategy and is in line with the RNZL Board approved Risk Appetite Statement for RNZL. The Core Banking Group uses Key Risk Indicators for RNZL, Rabobank New Zealand Branch, and Rabobank Australia & New Zealand (RANZ) to measure and monitor credit and concentration risk.

These are described in the Risk Appetite Statements for RNZL and the Core Banking Group. The portfolio is measured against the Key Risk Indicators on a quarterly basis to ensure the risk profile of the portfolio remains at an acceptable level and in accordance with the risk appetite. The key concentration risks that are monitored via the Key Risk Indicators are sector, exposure and geographical concentration. Structures.

In the case of the De Lage Landen Companies, credit risks are managed under a hierarchy of Risk Committees and Credit Committees within the Rabobank Group, including DLL's Local (i.e. Australia/New Zealand) Credit Committee (LCC). The maximum exposure to individual customers is subject to limits granted and reviewed annually by DLL's Global Risk Committee (GRC), ensuring the credit risk is not concentrated with any one customer or counterparty. The LCC has certain delegated authorities for deciding on customer credit limits, financial products and contractual structures. Each new customer is analysed individually for creditworthiness prior to any agreement being made. The LCC meets on a weekly basis, or more often as required.

Risk policies include the management and control of customer credit limits; external customer risk ratings; vendor and dealer relationships; portfolio management; asset management and residual value setting; contracts management; and operational risk management. The Local Risk Committee (LRC) manages and monitors overall risk management at the local level. The LRC is also responsible for overseeing the implementation of and adherence to local and global risk policies, together with overall operational risk management. Concentrations of credit risk are also minimised by offering equipment financing to several industry sectors including food and agriculture; construction, transportation and industrials; office technology and healthcare. To manage credit risk, the De Lage Landen Companies accept collateral and other credit enhancements from end-users, vendors and third parties, including guarantees and vendor loss pool programs.

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

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

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

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

Credit exposures consist of		
in thousands of NZD	2019	2018
Cash and cash equivalents	420,769	422,414
Financial assets at fair value through other comprehensive income	757,248	647,062
Loans and advances	13,805,974	12,686,319
Due from related entities	1,548,034	2,240,705
Other financial assets	9,350	8,692
Derivative financial instruments	123,343	97,925
Commitments and guarantees	3,175,563	3,057,361
Total credit exposures	**19,840,281**	**19,160,478**

Credit exposures analysed by industry type		
in thousands of NZD	2019	2018
Agriculture	14,171,371	13,687,461
Finance and insurance	1,940,188	2,725,297
Forestry and fishery	353,436	374,273
Government	796,555	718,144
Manufacturing	1,182,804	816,531
Property and business services	179,453	153,381
Wholesale trade	670,593	266,426
Other	545,881	418,965
Total credit exposures	**19,840,281**	**19,160,478**

Notes to the Financial Statements

33 Risks arising from financial instruments (continued)

33.3 Credit risk (continued)

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

Analysis of credit exposure by geographical areas		
in thousands of NZD	2019	2018
Australia	459,541	615,922
Finland	97,125	56,738
Germany	110,544	117,684
Luxembourg	10,498	-
Netherlands	1,438,151	1,710,042
New Zealand	17,719,411	16,633,453
United Kingdom	-	5,084
United States of America	5,011	21,555
Total credit exposures	**19,840,281**	**19,160,478**

33.3.2 Collateral and other credit enhancements

The main types of collateral obtained are as follows:

Asset Class	Collateral type
Cash and cash equivalents	These exposures are mainly to relatively low risk banks (rated A+, AA- or better). These balances are not collateralised.
Derivative financial instruments	Exposures of Food and Agribusiness banking clients under derivative transactions are generally fully secured or partially secured by the same security that secures the loan of these clients. Security is typically taken under general security agreements and specific security arrangements over agricultural or commercial properties (i.e. the farm), business assets, inventories or other assets. Other forms of credit protection may also be sought or taken out if warranted. The security is usually linked to derivative close-out netting arrangements which govern such transactions. Exposures to related parties under derivative transactions are generally considered to be low risk due to the nature of the counterparties, and there are typically no collateral or other credit enhancements obtained.
FVOCI financial assets	These exposures are with the New Zealand government and other financial institutions (supranationals). Collateral is not sought directly with respect to these exposures.
Loans and advances	The food and agribusiness banking loans are fully secured or partially secured. This lending will generally have a significant level of collateralisation depending on the nature of the product. For Rural lending, security is typically taken in the form of mortgages over water rights, rural and non-rural, commercial properties, and some residential properties; General Security Agreements over all present and after-acquired property; Specific Security Agreements over specific personal property; and Borrower group guarantees, as well as guarantees from some directors and principals. For food and agribusiness lending, security is typically taken in the form of General Security Agreements over all present and after-acquired property of the Borrower Group, specific real property mortgages and Borrower Group guarantees. For corporate lending, general security agreements over the company and specific mortgages apply. As at 31 December 2019 average loan to valuation ratio for lending to rural clients is 45.9% (2018: 45.9%).
Due from related entities	These exposures are generally considered to be low risk due to the nature of the counterparties. There are typically no collateral or other credit enhancements obtained in respect of amounts due from related entities.
Other assets	Collateral is generally not sought on these balances except on accrued interest receivable which is assumed to follow the principal amount recorded in Loans.

It is the Banking Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. The Banking Group does not use or take repossessed properties for business use. During the year ended 31 December 2019, the Banking Group did not assume ownership of any repossessed properties (2018: nil).

The Banking Group writes off loans when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The Banking Group may write-off loans that are still subject to enforcement activity. The outstanding contractual amounts of partly or wholly written off assets during 2019 was nil.

Notes to the Financial Statements

33 Risks arising from financial instruments (continued)

33.3.3 Credit quality per class of financial assets

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

Cash and cash equivalents in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
At 31 December 2019					
R0-R7	420,769	-	-	-	420,769
R8-R10	-	-	-	-	-
R11-R14	-	-	-	-	-
R15-R20	-	-	-	-	-
D1-D4	-	-	-	-	-
Total	**420,769**	**-**	**-**	**-**	**420,769**

Financial assets at fair value through other comprehensive income in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
At 31 December 2019					
R0-R7	675,404	81,844	-	-	757,248
R8-R10	-	-	-	-	-
R11-R14	-	-	-	-	-
R15-R20	-	-	-	-	-
D1-D4	-	-	-	-	-
Total	**675,404**	**81,844**	**-**	**-**	**757,248**

*Gross loans and advances in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
At 31 December 2019					
R0-R7	68,628		-	-	68,628
R8-R10	1,609,400	1,832	-	-	1,611,232
R11-R14	8,116,160	128,060	-	-	8,244,220
R15-R20	2,513,114	868,291	-	-	3,381,405
D1-D4	-	-	9,359	533,736	543,095
Total	**12,307,302**	**998,183**	**9,359**	**533,736**	**13,848,580**

* Gross loans and advances exclude provisions for doubtful debts.

Contingent liabilities in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
At 31 December 2019					
R0-R7	108,731	-	-	-	108,731
R8-R10	1,809,347	-	-	-	1,809,347
R11-R14	1,004,397	8,445	-	-	1,012,842
R15-R20	196,321	27,021	-	-	223,342
D1-D4	-	-	337	20,964	21,301
Total	**3,118,796**	**35,466**	**337**	**20,964**	**3,175,563**

Notes to the Financial Statements

33 Risks arising from financial instruments (continued)

33.3.3 Credit quality per class of financial assets (continued)

Cash and cash equivalents in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
At 31 December 2018					
R0-R7	422,414	-	-	-	422,414
R8-R10	-	-	-	-	-
R11-R14	-	-	-	-	-
R15-R20	-	-	-	-	-
D1-D4	-	-	-	-	-
Total	**422,414**	**-**	**-**	**-**	**422,414**

Financial assets at fair value through other comprehensive income in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
At 31 December 2018					
R0-R7	601,169	45,893	-	-	647,062
R8-R10	-	-	-	-	-
R11-R14	-	-	-	-	-
R15-R20	-	-	-	-	-
D1-D4	-	-	-	-	-
Total	**601,169**	**45,893**	**-**	**-**	**647,062**

* Gross loans and advances in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
At 31 December 2018					
R0-R7	76,164	-	-	-	76,164
R8-R10	1,410,469	279	-	-	1,410,748
R11-R14	7,882,925	89,521	-	-	7,972,446
R15-R20	2,202,831	771,801	-	-	2,974,632
D1-D4	-	-	19,696	258,505	278,201
Total	**11,572,389**	**861,602**	**19,696**	**258,505**	**12,712,191**

* Gross loans and advances exclude provisions for doubtful debts.

Contingent liabilities in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
At 31 December 2019					
R0-R7	108,909		-	-	108,909
R8-R10	1,740,651	6	-	-	1,740,657
R11-R14	1,012,851	7,791	-	-	1,020,642
R15-R20	154,006	27,810	-	-	181,816
D1-D4	-	-	4,493	826	5,319
Total	**3,016,417**	**35,607**	**4,493**	**826**	**3,057,343**

Credit rating descriptions

R0-R7	Counterparties that are strong to extremely strong in meeting current and future financial commitments of the Banking Group.
R8-R10	Counterparties that have adequate capacity to meet current and future financial commitments to the Group.
R11-R14	Counterparties that have adequate capacity to meet current financial commitments of the Banking Group.
R15-R20	Counterparties that currently have the capacity to meet financial commitments but are vulnerable to adverse business, financial or economic conditions. The higher the rating the more sensitive the counterparty is to adverse changes in business, financial or economic conditions.
D1-D4	Counterparties are in default classifications. D1 represents more than 90 days' past due on a material contractual payment; D2 indicates that it is unlikely that the obligor will pay its debt in full, without recourse by the bank to actions such as realizing security; D3 indicates that a distressed sale or a distressed restructuring has occurred that likely results in a credit-related economic loss; and D4 indicates bankruptcy status.

The default ratings are assigned following identification of default triggers and result in transfer of the loans to stage 3 for the purposes of calculation of impairment allowance. Following identification of the default triggers, the Banking Group assess whether the account is impaired. This is required to be completed for every account in the Banking Group when default triggers are identified and for every loan application / review. The default triggers provide an objective check of factual and financial matters that might be an indication of default, and eventual impairment. Refer to Note 18.1 for details of loans assessed as impaired. All of these are subject to Lifetime ECL allowance.

Notes to the Financial Statements

33 Risks arising from financial instruments (continued)

33.3.4 Modified assets

The risk of default of modified assets is assessed at the reporting date and compared with the risk under the original terms at initial recognition. Rabobank monitors the subsequent performance of these forborne modified assets and may determine that the credit risk has significantly improved, so that the assets are moved from stage 3 or stage 2 (Lifetime ECL) to stage 1 (12-month ECL). The gross carrying amount of such assets held as at 31 December 2019 was 4,497 thousand (2018: 10,103 thousand). Amortised cost before modification of financial assets with lifetime ECL whose cash flows were modified during the period was $272,116 thousand (2018: $19,744 thousand).

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

in thousands of NZD	1-29 days	30-59 days	60 - 89 days	At least 90 days	Total
At 31 December 2019					
Loans and advances* (note 18.2)	49,751	666	2,446	630	53,493
At 31 December 2018					
Loans and advances* (note 18.2)	30,869	2,788	1,416	1,212	36,285

* Based on contractual due dates.

33.3.6 Estimated fair value of collateral on impaired loans

in thousands of NZD	2019	2018
Fair value of collateral held**	533,736	250,440
Total impaired assets (note 18.1)	517,478	258,512

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

33.3.7 Concentration of credit exposure

Analysis of concentration of exposure to closely related counterparties:

Number of Groups of Closely Related Counterparties	2019	2018
Percentage of equity		
10-15%	-	-
15-20%	-	-
20-25%	-	-
25-30%	-	-
30-35%	-	-
35-40%	-	1
80-85%	1	-
105-110%	-	1

Analysis of concentration of exposure to individual counterparties:

Number of Individual Counterparties	2019	2018
Percentage of equity		
10-15%	-	1
15-20%	-	-
20-25%	-	1
25-30%	-	-
30-35%	1	-

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

Notes to the Financial Statements

34 Concentration of funding of financial liabilities

Analysis of funding by product:

in thousands of NZD	2019	2018
Debt securities in issue	2,199,913	3,105,153
Deposits	5,474,696	4,705,582
Preference shares	-	280,666
Due to related entities	6,865,827	6,031,923
Other financial liabilities	21,981	12,087
Interest bearing liabilities	4,725	10,469
Head office account	319,468	290,640
Total funding	**14,886,610**	**14,436,520**

Analysis of funding by industry:

in thousands of NZD	2019	2018
Agriculture	706,662	830,991
Finance and insurance	10,839,971	10,697,291
Manufacturing	13,145	9,472
Personal and other services	3,008,877	2,617,425
Transport and storage	1,295	635
Wholesale trade	61,494	48,275
Other	255,166	232,431
Total funding	**14,886,610**	**14,436,520**

Analysis of funding concentration by geographical areas:

in thousands of NZD	2019	2018
Australia	866,208	741,225
Netherlands	6,412,392	5,841,678
New Zealand	6,945,717	6,862,334
United Kingdom	577,326	699,696
United States of America	59,914	13,031
All other countries	25,053	278,556
Total funding	**14,886,610**	**14,436,520**

Comparative figures have been reclassified to correct geographical classification and to conform to current year presentation.

Notes to the Financial Statements

35 Fair value of financial instruments

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

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

	2019		2018	
in thousands of NZD	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Cash and cash equivalents	420,769	420,769	422,414	422,414
Derivative financial instruments	123,343	123,343	97,925	97,925
FVOCI financial assets	757,248	757,248	647,062	647,062
Loans and advances	13,805,974	14,016,622	12,686,319	12,860,666
Due from related entities	1,548,034	1,548,023	2,240,705	2,244,642
Other financial assets	9,350	9,350	8,692	8,692
Total financial assets	**16,664,718**	**16,875,355**	**16,103,117**	**16,281,401**
Financial liabilities				
Derivative financial instruments	160,939	160,939	113,270	113,270
Debt securities in issue	2,199,913	2,226,071	3,105,153	3,129,326
Deposits	5,474,696	5,547,813	4,705,582	4,759,475
Preference shares	-	-	280,666	284,200
Due to related entities	6,865,827	6,880,190	6,031,923	6,043,593
Other financial liabilities	21,981	21,981	12,087	12,087
Interest bearing liabilities	4,725	4,321	10,469	10,469
Head office account	319,468	319,468	290,640	290,640
Total financial liabilities	**15,047,550**	**15,160,783**	**14,549,790**	**14,643,060**

There were no transfers between levels for recurring fair value measurements during the year.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of derivatives and FVOCI 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

35 Fair value of financial instruments (continued)

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

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

in thousands of NZD	Level 1	Level 2	Level 3	Total
At 31 December 2019				
Financial assets				
Derivative financial instruments	-	123,343	-	123,343
FVOCI financial assets	757,248	-	-	757,248
Total financial assets	**757,248**	**123,343**	**-**	**880,591**
Financial liabilities				
Derivative financial instruments	-	160,939	-	160,939
Total financial liabilities	**-**	**160,939**	**-**	**160,939**

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

in thousands of NZD	Level 1	Level 2	Level 3	Total
At 31 December 2018				
Financial assets				
Derivative financial instruments	-	97,925	-	97,925
AFS financial assets	647,062	-	-	647,062
Total financial assets	**647,062**	**97,925**	**-**	**744,987**
Financial liabilities				
Derivative financial instruments	-	113,270	-	113,270
Total financial liabilities	**-**	**113,270**	**-**	**113,270**

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

Financial assets and financial liabilities carried at amortised cost

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

Cash and cash equivalents

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

Loans and advances and Due from related entities

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

Other financial assets and Other financial liabilities

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

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

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

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

Preference shares

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

Notes to the Financial Statements

36 Offsetting financial assets and financial liabilities

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

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 31 December 2019 and 31 December 2018. The column 'net amount' shows the impact on the Group's Statement of Financial Position if all set-off rights were exercised.

2019	Effects of offsetting on the Statement of Financial Position			Related amounts not offset		
in thousands of NZD	Gross amounts	Gross amounts set off in the Statement of Financial Position	Net amounts presented in the Statement of Financial Position	Amounts subject netting arrangements	Financial instrument collateral	**Net amount**
Financial Assets						
Derivative financial instruments	123,343	-	123,343	(2,429)	-	120,914
Total financial assets	**123,343**	**-**	**123,343**	**(2,429)**	**-**	**120,914**
Financial Liabilities						
Derivative financial instruments	160,939	-	160,939	(2,429)	-	158,510
Total financial liabilities	**160,939**	**-**	**160,939**	**(2,429)**	**-**	**158,510**

2018	Effects of offsetting on the Statement of Financial Position			Related amounts not offset		
in thousands of NZD	Gross amounts	Gross amounts set off in the Statement of Financial Position	Net amounts presented in the Statement of Financial Position	Amounts subject netting arrangements	Financial instrument collateral	**Net amount**
Financial Assets						
Derivative financial instruments	97,925	-	97,925	-	-	97,925
Total financial assets	**97,925**	**-**	**97,925**	**-**	**-**	**97,925**
Financial Liabilities						
Derivative financial instruments	113,270	-	113,270	-	-	113,270
Total financial liabilities	**113,270**	**-**	**113,270**	**-**	**-**	**113,270**

Notes to the Financial Statements

37 Reconciliation of cash flows

37.1 Reconciliation of net cash flows from operating activities

in thousands of NZD	2019	2018
Net profit for the year	129,726	144,203
Non-cash items:		
Depreciation	4,572	7,246
Amortisation of intangible assets	207	42
Impairment losses / (releases)	23,232	2,479
Losses on write-off of property, plant and equipment	3	2
Foreign exchange losses	41	(75)
Changes in operating assets or operating liabilities:		
(Increase) / decrease in derivative financial instruments	22,210	112,463
(Increase) / decrease in FVOCI financial assets	(109,278)	(42,649)
(Increase) / decrease in loans and advances	(1,163,750)	(946,987)
(Increase) / decrease in due from related entities	714,102	(24,860)
(Increase) / decrease in other assets	186	2,227
Increase / (decrease) in other liabilities	(7,062)	1,155
(Increase) / decrease in income tax receivable	1,234	-
Increase / (decrease) in income tax payable	(3,157)	(8,699)
(Increase) / decrease in accrued interest receivable	6,705	(1,236)
Increase / (decrease) in accrued interest payable	3,532	10,454
Increase / (decrease) in deposits	759,861	178,409
Increase / (decrease) in fee received in advance	(65)	117
(Increase) / decrease in net deferred tax assets	(3,939)	(813)
Increase / (decrease) in employee entitlements	452	268
Net cash flows from / (used in) operating activities	**378,812**	**(566,254)**

37.2 Reconciliation of liabilities arising from cash flows from financing activities

in thousands of NZD	
At 31 December 2018	
Due to related entities	6,031,923
Debt securities in issue	3,105,153
Cash flows	(46,021)
Non-cash movements	(25,315)
At 31 December 2019	
Due to related entities	6,865,827
Debt securities in issue	2,199,913
At 31 December 2017	
Due to related entities	4,829,099
Debt securities in issue	3,780,874
Cash flows	535,748
Non-cash movements	(8,645)
At 31 December 2018	
Due to related entities	6,031,923
Debt securities in issue	3,105,153

Notes to the Financial Statements

38 Related party disclosures

All New Zealand related party entities are aggregated in these financial statements. New Zealand Banking Group related parties are Rabobank global entities in other countries.

38.1 Transactions with related parties

38.1.1 Guarantee arrangements

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

38.1.2 Management fees

Management expenses and recharges consisted of four types, namely expenses incurred in relation to services received from a) Australian Branch of Rabobank; b) overseas Rabobank Head Office, c) De Lage Landen Pty Limited; and d) De Lage Landen International B.V.

in thousands of NZD	2019	2018
Personnel	25,037	21,865
Food and agri research	2,727	1,278
Professional fees	7,788	5,978
Depreciation	5,046	2,566
Rental and maintenance of premises	1,421	1,413
Computer charges	2,141	2,452
Travel and lodging	1,209	1,198
Telecommunication	722	848
Advertising and marketing	855	1,174
Other	1,062	1,831
	48,008	**40,603**

b) $13.8 million (2018: $12.7 million) were charged to the Bank by the Rabobank Head Office.

c) An amount of $4.9 million (2018: $4.6 million) was charged to the Banking Group as management fees by De Lage Landen Pty Limited.

d) Corporate centre expenses of $1.7 million (2018: $1.8 million) were charged by De Lage Landen International B.V.

38.1.3 Commission and fee expense

A fee of $0.45 million was charged to RNZL by Rabobank in consideration for providing the obligations guarantees for 2019 (2018: $0.8 million).

38.1.4 Other transactions

The Banking Group enters into a number of transactions with other related entities of Rabobank. These transactions include funding, loans deposits, accrued interest and derivative transactions. Interest recorded and charged was on normal commercial terms throughout the year. The balances and transactions are summarised in table below:

in thousands of NZD	2019	2018
Interest income due from related entities	10,354	9,037
Interest expense due to related entities	93,127	80,818
Due from related entities	1,548,034	2,240,705
Due to related entities	6,865,827	6,031,923

Derivatives with a combined notional of $13,340 million and a net fair value liability position of ($30.1 million) (2018: $11,413 million and ($19.1 million liability position) respectively) are held with Rabobank.

38.1.5 Capital securities

RCSL held $280 million capital securities which are debt obligations of Rabobank. The capital securities carried the rights to a quarterly distribution, which equalled 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 was 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. The capital securities were not transferable and the scheduled repayment date was 18 June 2039. They were unsecured. All interest payments have been made on the due date. On 18 June 2019 all securities issued by RCSL were redeemed, together with underlying securities issued by the Registered Bank to RCSL.

38.2 Terms and conditions of transactions with related parties

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

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

38.3 Provision for impairment on due from related entities

For the year ended 31 December 2019, the Banking Group has not made any specific provision for impairment relating to amounts owed by related parties. Provision has not been recognised on grounds of it being minimal and immaterial. The Banking Group recognises collective impairment allowance relating to amounts owned by related parties in accordance with expected credit loss impairment model.

Notes to the Financial Statements

39 Key management personnel

39.1 Compensation of key management personnel (KMP)

The information disclosed below includes benefits paid to Rabobank New Zealand Limited executives together with any benefits paid to the directors for the services they provided to other entities within the Rabobank Australia and New Zealand including the New Zealand Branch of Rabobank and Rabobank New Zealand Limited as well as directors and KMPs of DLL and AGCO. The full compensation paid to executives and directors for their services in relation to all entities within the Rabobank Australia and New Zealand is disclosed in table below.

in whole NZD	2019	2018
Short term employee benefits	4,607,299	5,042,480
Post employment benefits	147,774	145,980
Other long term benefits	613,301	627,663
Termination benefits	118,924	587,546
Total KMP compensation	**5,487,298**	**6,403,669**

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

The following table provides the total amount of loans to key management personnel. On average the interest payable on the loan is approximately 0.8% (2018: 0.8%) below published market rates. Outstanding loan balances at 31 December 2019 are secured. Provision has not been recognised on grounds of it being minimal and immaterial.

in whole NZD	2019	2018
Loans outstanding at the beginning of the year	4,038,847	4,953,760
Net loan draw downs / (repaid) during the year	(755,876)	(914,913)
Loans outstanding at the year end	**3,282,971**	**4,038,847**
Interest revenue during the year	159,362	207,357

Prior period balances have been restated to reflect loans provided by the Bank and incorporate additional transactions.

in whole NZD	2018	2017
Deposits outstanding at the beginning of the year	79,349	49,000
Net deposit movements during the year	(862)	30,349
Deposits outstanding at the end of the year	**78,487**	**79,349**
Interest expense during the year	4,867	1,111

40 Subsequent events

As at 31 December 2019, a limited number of cases of an unknown virus had been reported to the World Health Organisation. Following the subsequent spread of the virus, on 11 March 2020 the World Health Organisation declared the COVID-19 outbreak to be a pandemic. The identification of the COVID-19 virus post 31 December 2019, and its subsequent spread throughout New Zealand and the world, is considered a non-adjusting subsequent event. The expected credit loss provisions and fair value of financial instruments as at 31 December 2019 reflect the conditions known as at 31 December 2019 and do not factor in the effect of COVID-19.

As at the date of this report, it is not possible to reliably estimate the effect of COVID-19 on the Banking Group's operations; and the financial effect on the impairment of its financial assets or the fair value of its financial instruments.

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

41 Dividend

AGCO paid a dividend of $1,000 thousand for 2019 (2018: $1,000 thousand).

42 Capital management

The Banking Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Banking Group's capital is monitored by management of the 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 2019 and 2018, the Banking Group complied in full with all its externally imposed financial requirements.

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

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

Independent auditor's report

To the Directors of Cooperatieve Rabobank U.A.

The accompanying financial report of the Cooperatieve Rabobank U.A. New Zealand Banking Group (the "Banking Group") is the aggregation of the New Zealand business of Cooperatieve Rabobank U.A., incorporated in the Netherlands and trading as Rabobank (the "Registered Bank"). The New Zealand business of Rabobank Cooperatieve Rabobank U.A. comprises of Rabobank New Zealand Branch, Rabobank New Zealand Limited, Rabo Capital Securities Limited, De Lage Landen Limited and AGCO Finance Limited (collectively referred to as the "Banking Group") at 31 December 2019 and for the year then ended.

The aggregated financial statements comprise:

- the statement of financial position as at 31 December 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the aggregated financial statements of Cooperatieve Rabobank U.A. New Zealand Banking Group (the "Banking Group"), present fairly, in all material respects, the aggregated financial position of the Banking Group as at 31 December 2019, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

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

Independence

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

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

Our audit approach

Overview

An audit is designed to obtain reasonable assurance whether the aggregated financial statements are free from material misstatement.

The overall Banking Group materiality is $9.1 million, which represents approximately 5% of profit before income tax.

We chose profit before income tax as the benchmark because, in our view, it is the benchmark against which the performance of the Banking Group is most commonly measured by users, and is a generally accepted benchmark. The 5% is based on our professional judgement, noting that it is also within the range of commonly accepted profit-related thresholds.

We have determined that there is one key audit matter:

- Provisions for impairment on loans and advances.

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Banking Group materiality for the aggregated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the aggregated financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the aggregated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the aggregated financial statements as a whole, taking into account the structure of the Banking Group, the accounting processes and controls, and the industries in which the Banking Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the aggregated financial statements for the current year. These matters were addressed in the context of our audit of the aggregated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Provisions for impairment on loans and advances (Refer to Notes 10, 16 and 18 of the aggregated financial statements). Provisions for impairment on loans and advances were a key audit matter because of the subjective and complex judgements made by the Banking Group in determining the necessity for, and then estimating the size of, provisions for impairment on loans and advances. Key elements in the provisioning for impairment on loans and advances under NZ IFRS 9 include: • The judgement applied in determining exposures that have a significant increase in credit risk including the allocation of all financial assets subject to impairment into 3 separate stages depending on their nature and characteristics; • The application and judgements in setting the assumptions used in the expected credit loss ("ECL") models, such as estimating forward looking probability of default (PD), loss given default (LGD) of financial instruments and macro-economic scenarios and their weightings; and • Overlays added to reflect the particular situations which are not otherwise captured by the impairment models.	We assessed the design and tested the operating effectiveness of relevant key controls over the provisioning for impairment on loans and advances under NZ IFRS 9. The relevant key controls included: • Governance over the development, validation and approval of the Banking Group's ECL models to assess compliance with NZ IFRS 9. • Review and approval of key judgements, assumptions and forward looking information used in the ECL models. • Interfaces and reconciliations of transfer of key data inputs from source systems to the models. • The review and approval process for the outputs of the ECL model and the adjustments and economic overlays that are applied to the modelled outputs. Our procedures over the provisions for impairment on loans and advances included: **Collective Provision (Stage 1, 2, 3a)** • Consideration of the methodology inherent within the models against the requirement of NZ IFRS 9. • Assessment of key assumptions in the ECL models, including staging, PD and LGD. This included using credit modelling specialists in our assessment. • Assessment of the economic information used within, and weightings applied to, forward looking scenarios. • Testing the accuracy and completeness of the key data inputs used in the ECL models by comparing it to the relevant supporting documents. • Recalculation of the ECL for a sample using the key assumptions in the models, such as PD and LGD.

Key audit matter	How our audit addressed the key audit matter
	• Consideration of the potential for the ECL provisions to be affected by events not captured by the Banking Group's ECL models, and assessing whether the overlays were appropriate in accordance with the New Zealand Accounting Standards. **Specific Provision (stage 3b)** • For a sample of individually assessed loans and advances, we examined the forward looking scenarios used and the weightings applied, including the Banking Group's cash flow forecasts supporting the impairment calculation in light of the requirement of NZ IFRS 9. • We assessed the key judgements (in particular the amount and timing of recoveries) made by the Banking Group in the context of the borrowers' circumstances based on the detailed loan and counterparty information known by the Banking Group. • We compared the valuation of collateral held to external information where available.

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

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

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

Responsibilities of the Directors for the aggregated financial statements

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

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

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

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

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

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
30 March 2020

Sydney

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
in millions of NZD	Unaudited 3 months to 31/03/2019	Unaudited 3 months to 30/06/2019	Unaudited 3 months to 30/09/2019	Unaudited 3 months to 31/12/2019		Unaudited 12 months to 31/12/2019
Total interest income	163	165	153	170	12	663
Total interest expense	(78)	(80)	(73)	(68)	(16)	(315)
Net interest income	**85**	**85**	**80**	**102**	**(4)**	**348**
Gains/losses on trading and hedging	1	(4)	(2)	(1)	4	(2)
Fee and commission income	-	-	-	2	-	2
All other income	-	-	-	15	-	15
Operating expenses	(29)	(32)	(36)	(61)	-	(158)
Impaired asset expense	(4)	(14)	7	(12)	-	(23)
Profit before tax	**53**	**35**	**49**	**45**	**-**	**182**
Tax expense	(16)	(11)	(14)	(11)	-	(52)
Profit after tax	**37**	**24**	**35**	**34**	**-**	**130**
Return on assets (%)	0.9%	0.6%	0.9%	0.8%		0.8%
Return on equity (%)	7.9%	5.2%	7.4%	6.4%		7.8%
Net interest margin (%)	2.2%	2.1%	1.9%	2.5%		2.1%

Financial Position

At 31/12/2019 (Unaudited) in thousands of NZD	Dashboard	Classification differences	Disclosure Statement
Cash and bank deposits	1,960	(1,540)	420
Debt securities held	757	-	757
Net loans and advances	13,814	(7)	13,807
Derivatives in an asset position	123	-	123
All other assets	102	(1)	101
Due from related entities	(included above)	1,548	1,548
Total assets	**16,756**	**-**	**16,756**
Deposits	5,475	-	5,475
Debt securities issued	2,214	(14)	2,200
Other borrowings	6,849	22	6,871
Derivatives in a liability position	161	-	161
All other liabilities	38	(8)	30
Head office account	-	319	319
Total liabilities	**14,737**	**319**	**15,056**
Equity	**2,019**	**(319)**	**1,700**

Asset Quality

At 31/12/2019 (Unaudited) in millions of NZD	Housing	Consumer	Business	Agriculture	All other	Total
Total loans	30	11	2,564	11,255	9	13,869
Impaired loans	-	-	133	401	-	534
Loans 90 days past due but not impair	-	-	1	-	-	1
Total non-performing loans	**-**	**-**	**134**	**401**	**-**	**535**
Non-performing loans ratio (%)	0%	0%	5%	4%	0%	4%
Individual provisions	-	-	5	12	-	17
Collective provisions	-	-	8	29	1	38
On-balance sheet residential mortgage exposures with LVRs that:						
On-balance sheet residential mortgage exposures with LVRs that:						
Exceeds 80% and not 90%						3
Exceeds 90%						-