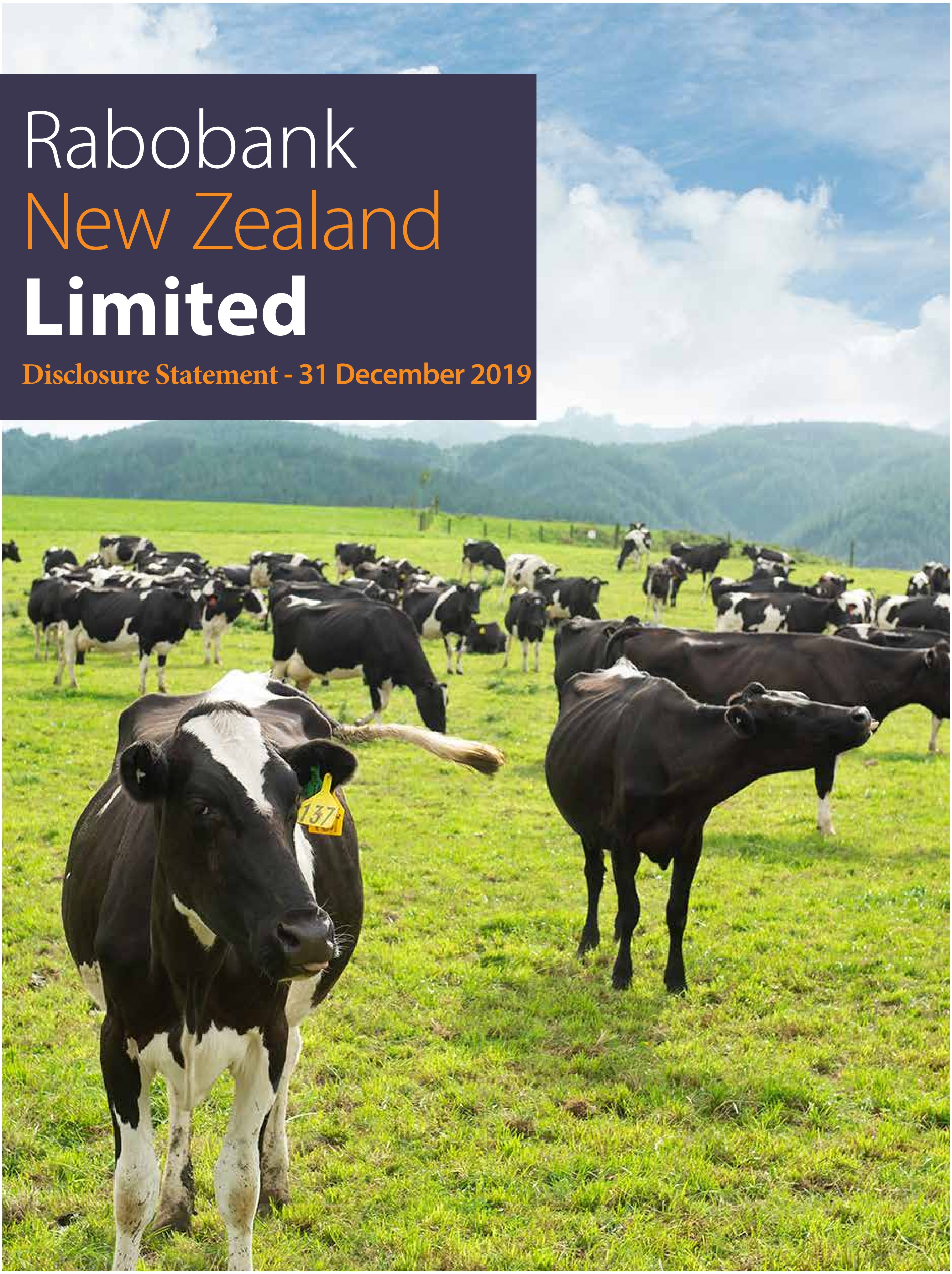
Rabobank New Zealand Limited

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 Bank Disclosure Statements (New Zealand Incorporated Banks) Order 2014 (as amended) ("Order").

In this Disclosure Statement, unless the context otherwise requires:

- "Rabobank" refers to Coöperatieve Rabobank U.A., incorporated in the Netherlands.
- "Bank" or "Banking Group" refers to Rabobank New Zealand Limited.

The financial information is disclosed for the years ended 31 December 2019 and 31 December 2018, and has been audited by the external auditors, except for the Capital Adequacy and Regulatory Liquidity Information on pages 25-29 which has been reviewed by the external auditors.

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

General matters

Ultimate parent bank

The Bank's ultimate parent bank is Coöperatieve Rabobank U.A. (referred to as Rabobank). Rabobank's New Zealand address for service is Level 23, 157 Lambton Quay, Wellington, New Zealand.

Summary of regulations

There are no regulations, legislations or other restrictions of a legally enforceable nature that may materially inhibit the legal ability of Rabobank to provide material financial support to the Bank.

Interests in 5% or more of voting securities of Bank

The Bank is 100% owned by Rabobank International Holding B.V., which in turn is 100% owned by Rabobank. Therefore, Rabobank has the ability to indirectly appoint 100% of the board of directors of the Bank.

Priority of creditors' claims

In the event that the Bank is liquidated or ceases to trade, the claims of all creditors, except the preferential claims specified in Schedule 7 to the Companies Act 1993, would be unsecured and would rank in priority equally with each other and behind such preferential claims.

Composition of the Board of directors

There were no changes in the composition of the Bank's board of directors in 2019.

However, with effect on 1 April 2020:

- Sir Henry van der Heyden will resign as a director of the Bank and be replaced as the Chair of the Bank by Andrew Borland;
- Peter Knoblanche will resign as a director of the Bank;
- Jillian Segal will resign as a director of the Bank; and
- Brent Goldsack will be appointed as a director of the Bank,

such that, as from 1 April 2020, the Bank's Board will comprise the following directors:

- Andrew Borland (Chair)
- Geerten Battjes
- Anne Brennan

General Disclosures

General matters (continued)

Composition of the Board of directors (continued)

- Bernardus Marttin
- Jan Pruijs
- Brent Goldsack

Directors

The directors of the Bank and their details at the time this Disclosure Statement was signed were:

Name:	Sir Henricus (Henry) Wilhelmus van der Heyden	External Directorships: · Aanzien Limited · Foodstuffs New Zealand Limited · Foodstuffs North Island Limited · Independent Egg Producers Co-op Limited · Maglands Limited · Mamaku South Limited · Manuka SA (Chairman) · Maxwell Farms Limited (Chairman) · Maxwell Farms (Developments) Limited · Maxwell Farms (Maroa) Limited · Maxwell Farms (Poihipi) Limited · Maxwell Farms (Te Kopia) Limited · Maxwell Farms (Tutukau) Limited · Pascaro Investments Limited · Rabobank Australia Limited (Chairman) · Rimu SA (Chairman) · Tainui Group Holdings Limited (Chairman) · Toromiro SA · Trebol Investments Limited · Trebol Nominees Limited · Van der Heyden Nominee Limited · Waikato-Tainui Limited
Occupation(s):	Director (Chairman)	
Qualifications:	Bachelor of Engineering (Agricultural) (Honours)	
Country of Residence:	New Zealand	
Type of director:	Independent Non-Executive Director	
Name:	Geerten Battjes	External Directorships: · Rabobank Australia Limited · Rabo Herverzekeringsmaatschappij NV
Occupation(s):	Banker	
Qualifications:	Degree in Econometrics (Honours) from the State University of Groningen in the Netherlands	
Country of Residence:	The Netherlands	
Type of director:	Non-Independent Non-Executive Director	
Name:	Andrew James Borland	External Directorships: · Akaroa Salmon Limited · Fern Ridge Produce Limited · Geo. H. Scales Limited · George H Investments Limited · Longview Group Holdings Limited · Meateor Foods Limited · Meateor Foods Australia Pty Limited · Meateor GP Limited · Meateor Group Limited · Meateor US LLC · Mr Apple New Zealand Limited · New Zealand Apple Limited
Occupation(s):	Company Director	
Qualifications:	Bachelor of Commerce	
Country of Residence:	New Zealand	
Type of director:	Independent Non-Executive Director	

General Disclosures

General matters (continued)

Directors (continued)

		· Primary Collaboration New Zealand Limited · Primary Collaboration (Shanghai) Limited · Profruit (2006) Limited · Rabobank Australia Limited · Scales Corporation Limited · Scales Employees Limited · Scales Holdings Limited · Scales Logistics Limited · Selacs Insurance Limited · Shelby JV LLC
Name: Occupation(s): Qualifications: Country of Residence: Type of director:	Anne Bernadette Brennan Director Bachelor of Commerce (Honours), Fellow of the Institute of Chartered Accountants, Australia and New Zealand and Fellow of the Australian Institute of Company Directors. Australia Independent Non-Executive Director	External Directorships: · Argo Investments Limited · Charter Hall Group · Nufarm Limited · O'Connell Street Associates Pty Ltd · Rabobank Australia Limited · NSW Treasury Corporation
Name: Occupation(s): Qualifications: Country of Residence: Type of director:	Peter James Knoblanche Banker Bachelor of Commerce Graduate of the Advanced Management Program of Harvard Business School Australia Non-Independent Executive Director	External Directorships: · GrainCorp Pools Pty Limited · Rabo Australia Limited · Rabobank Australia Limited · Rabo Equipment Finance Limited · Soft Commodity Trading Pty Limited · Upper Avenue Road Pty Ltd as trustee of the Upper Avenue Road Superannuation Fund
Name: Occupation(s): Qualifications: Country of Residence: Type of director:	Bernardus Jacobus Marttin Banker Bachelor's degree in Business Administration, Fundacao Getulio Vargas Master's degree in Business Administration, University of Western Ontario, Canada & Hong Kong The Netherlands Non-Independent Non-Executive Director	External Directorships: · Rabobank Australia Limited · RI Investment Holding B.V. · Rabobank International Holding B.V. · Coöperatieve Rabobank U.A. · De Lage Landen International B.V. · Member of the Supervisory Board of Arise B.V. · 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 · Member of the Supervisory Board of Rabobank Foundation · Member of Dutch Trade Board (ISO NL) · Member of the board of trustees of H. Neumann Stiftung (foundation) · Utrecht America Holding
Name: Occupation(s): Qualifications: Country of Residence: Type of director:	Jan Alexander Pruijs Banker Degree in Dutch Business Law from Leiden University The Netherlands Non-Independent Non-Executive Director	External Directorships: · Rabobank Australia Limited · Board of Commissioners of Rabobank Indonesia (President Commissioner)
Name: Occupation(s): Qualifications:	Jillian Shirley Segal Director BA.LLB (UNSW) Harvard Law School, LLM	External Directorships: · General Sir John Monash Foundation · Garvan Institute of Medical Research · Australia Israel Chamber of Commerce (NSW) · Executive Council of Australian Jewry (President)

General Disclosures

General matters (continued)

Directors (continued)

Qualifications:	Officer of the Order of Australia Fellow AICD	· Grattan Institute · Weizmann Institute of Science (Member of International Supervisory Board)
Country of Residence:	Australia	
Type of director:	Independent Non-Executive Director	· Rabobank Australia Limited

The address to which any documents or communication may be sent to any director is Rabobank New Zealand Limited, PO Box 38396, Wellington Mail Centre, Lower Hutt 5045; or Level 23, 157 Lambton Quay, Wellington 6011, New Zealand. The documents or communication should be marked for the attention of the Director.

Signing of the disclosure statement

Todd Charteris, Chief Executive New Zealand, has signed this Disclosure Statement on behalf of the following directors:

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

Director related transactions

In relation to each director, neither the director nor any immediate relative or close business associate of the director has entered into any transaction with the Bank or any other member of the Banking Group that either:

- has been entered into on terms other than those which would, in the ordinary course of business of the Bank or any other member of the Banking Group, be given to any other person of like circumstances or means; or
- could otherwise be reasonably likely to influence materially the exercise of that director's duties.

Board audit committee

The Bank has a board audit committee (BAC).

The BAC is currently comprised of seven members, four of whom are independent non-executive directors of the Bank (including the chair of the BAC) – the other three are non-independent non-executive directors. The BAC meets at least four times per annum.

Conflict of interest policy

The board of directors has a policy for avoiding or dealing with conflicts of interest which may arise from the personal, professional or business interests of the directors.

Under the policy, each director must disclose specific interests in transactions with the Bank and can also disclose, by general notice, that the director is to be regarded as interested in any transaction between the Bank and any specified company/person of which the director is a shareholder, director, officer or trustee. The disclosures are made by way of email to co-directors and the Bank's interests register is maintained to reflect the disclosures. The Bank's Compliance function decides how each disclosed interest may have to be managed.

The policy reflects the specific provisions of the Bank's constitution and the Companies Act 1993.

General Disclosures

General matters (continued)

Auditors for the Bank

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

Credit ratings

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

There have been changes to the ratings in the two years immediately before 31 December 2019. On 29 June 2019 Standard & Poor's revised the Bank's rating from A (positive) to A (stable).

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

Historical summary of financial statements for the Banking Group

in millions of NZD	Year ended 31/12/2019	Year ended 31/12/2018	Year ended 31/12/2017	Year ended 31/12/2016	Year ended 31/12/2015	Year ended 31/12/2014
Statement of comprehensive income						
Interest income	545.65	548.99	547.49	571.67	623.40	578.69
Interest expense	(283.54)	(294.80)	(296.90)	(320.37)	(378.47)	(346.87)
Net interest income	**262.12**	**254.19**	**250.59**	**251.30**	**244.93**	**231.82**
Other income	1.09	1.59	2.29	1.22	1.05	1.80
Other expense	(0.45)	(0.61)	(0.83)	(1.07)	(1.72)	(3.56)
Other operating gains	0.54	0.54	0.27	1.71	0.27	0.19
Non-interest income / (expense)	**1.18**	**1.52**	**1.73**	**1.86**	**(0.40)**	**(1.57)**
Operating income	**263.30**	**255.71**	**252.32**	**253.16**	**244.53**	**230.25**
Operating expenses	(126.43)	(111.64)	(101.65)	(111.19)	(105.53)	(102.74)
Impairment releases / (losses)	(13.40)	(0.58)	(0.21)	(15.11)	5.56	19.03
Profit before income tax	**123.46**	**143.49**	**150.46**	**126.86**	**144.56**	**146.54**
Income tax expense	(34.12)	(40.39)	(42.34)	(37.39)	(40.51)	(41.05)
Net profit for the year	**89.34**	**103.10**	**108.11**	**89.47**	**104.05**	**105.49**
Statement of Financial Position						
Total assets	**12,543.53**	**11,977.36**	**11,320.92**	**11,307.52**	**10,772.75**	**10,010.33**
Total individually impaired assets	**414.30**	**257.27**	**293.12**	**131.43**	**49.19**	**239.04**
Total liabilities	**10,875.12**	**10,398.71**	**9,845.30**	**9,940.94**	**9,496.32**	**8,838.46**
Total equity	**1,668.41**	**1,578.65**	**1,475.62**	**1,366.58**	**1,276.43**	**1,171.87**

The amounts disclosed above are obtained from audited annual reports.

General Disclosures

Guarantee arrangements

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

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

Details of guarantor

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

Coöperatieve Rabobank U.A. (Rabobank)
Level 23
157 Lambton Quay
Wellington
New Zealand

Coöperatieve Rabobank U.A. is not a member of the Banking Group.

The guarantor – Rabobank

	31 December 2019 €m	31 December 2018 €m
Qualifying Capital*	51,961	53,259
Qualifying Capital*/RWA(%)	25.2	26.6

*Qualifying Capital consists of the sum of core capital (tier one) and supplementary capital (tier two). Tier two capital includes the revaluation reserves, part of the subordinated loans less deductible items specified by the De Nederlandsche Bank.

Rabobank has the following 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 and in the Netherlands (the country of its incorporation).

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

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

General Disclosures

Guarantee arrangements (continued)

Descriptions of the credit rating 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	CC to C
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.

Details of guaranteed obligations

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

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

Material cross guarantee

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

Pending proceedings or arbitration

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

Insurance business

The Banking Group does not conduct any insurance business.

General Disclosures

Risk management policies

The Bank 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 Bank's Risk Management Strategy ("RMS") defines how the Bank manages risk across the Bank within the constraints of its overall risk appetite.

The RMS covers:

- the Bank'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 Bank to deal with risk;
- the risk management governance and organisational structure implemented in the Bank to manage risk across the material risk categories;
- the approach to supporting persons within the Bank to have an awareness of the risk management framework and for instilling an appropriate risk culture across the Bank; and
- the various tools and systems implemented to effectively manage risks.

The components of the Bank'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.

The Board, Risk & Compliance Committee ("BRCC") oversees the implementation, review and monitoring of the Risk Management Strategy ("RMS"). This includes maintaining an appropriate risk appetite, risk management framework, internal control systems and management reporting framework.

On 21 February 2019, the Bank's Board established the current BRCC as a board risk and compliance committee specifically for the Bank, replacing the regional board risk & compliance committee - and with its own specific charter.

The Bank's Leadership Team and the relevant New Zealand and regional Management and Risk Committees (with Bank representation) provide oversight across the separate risk categories. This enables an appropriate level of oversight of the effective implementation of the RMS.

The Bank develops and implements policies for specific business units supported by procedures, templates, and other tools covering product policy, procedure and other key aspects of the operations of the Bank. These are designed to provide staff with the necessary guidance to allow them to fulfil their duties in a knowledgeable way and minimise operational risk.

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 Bank's activities. The Bank has an operational risk framework which is described in the RMS and is in line with the Bank's Risk Appetite Statement. The Bank uses Key Risk Indicators to monitor operational risk. These are described in the Risk Appetite Statement. The Indicators are measured on a quarterly basis to monitor that the operational risk remains at an acceptable level and in accordance with the Risk Appetite Statement.

The Bank does not take any equity risk.

General Disclosures

Risk management policies (continued)

Refer to note 30 in the financial statements for:

- policies on liquidity, market and credit risk;
- explanations of the nature of each such risk and the activities of the Bank that give rise to each such risk;
- descriptions of exposure limits and policies with respect to collateral or other security (if applicable).

Risk management review

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

Internal audit function

The Bank 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 Bank's New Zealand based staff have a hierarchical and functional reporting line to the Chief Audit Officer RANZ and an administrative line to the Bank's CEO. The Chief Audit Officer RANZ has a hierarchical reporting line to the chair of the Bank's board audit committee ("BAC") and a functional reporting line to Rabobank's Chief Audit – Wholesale and Rural. Internal Audit is responsible for providing an independent review on the adequacy and effectiveness of the 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 Bank'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.

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

The Banking Group had 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.

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 Bank'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 Bank have been deemed by the New Zealand Government to be "essential services" and the Bank is confident of being able to continue to provide all of those services to its customers.

General Disclosures

Other material matters (continued)

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

- are not contained elsewhere in the disclosure statement; and
- would, if disclosed, materially affect the decision of a person to deposit money with the Bank.

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 auditor PricewaterhouseCoopers, except for the Capital Adequacy and Regulatory Liquidity Information on pages 25-29 which has been reviewed. The statement of the nature and scope of the audit is included in the attached auditor's report.

Conditions of registration

There have been no changes to the Bank's Conditions of Registration since 30 June 2019.

Conditions of registration for Rabobank New Zealand Limited

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

These conditions apply on and after 1 January 2019.

The registration of Rabobank New Zealand Limited ("the bank") as a registered bank is subject to the following conditions:

1. That—

(a) the Total capital ratio of the banking group is not less than 8%;

(b) the Tier 1 capital ratio of the banking group is not less than 6%;

(c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5%;

(d) the Total capital of the banking group is not less than $30 million;

(e) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued after 1 January 2013 in the calculation of its capital ratios unless it has received a notice of non-objection to the instrument from the Reserve Bank; and

(f) the bank meets the requirements of Part 3 of the Reserve Bank of New Zealand document "Application requirements for capital recognition or repayment and notification requirements in respect of capital" (BS16) dated November 2015 in respect of regulatory capital instruments.

For the purposes of this condition of registration,—

"Total capital ratio", "Tier 1 capital ratio", and "Common Equity Tier 1 capital ratio" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

"Total capital" has the same meaning as in Part 2 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 8(2)(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

a Tier 2 capital instrument is an instrument that meets the requirements of subsection 9(2)(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

General Disclosures

Conditions of registration (continued)

1A. That—

(a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a bank's internal capital adequacy assessment process ('ICAAP')" (BS12) dated December 2007;

(b) under its ICAAP the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015; and

(c) the bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:

(a) according to the following table, limit the aggregate distributions of the bank's earnings to the percentage limit to distributions that corresponds to the banking group's buffer ratio:

Banking group's buffer ratio	Percentage limit to distributions of the bank's earnings
0% – 0.625%	0%
>0.625 – 1.25%	20%
>1.25 – 1.875%	40%
>1.875 – 2.5%	60%

(b) prepare a capital plan to restore the banking group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and

(c) have the capital plan approved by the Reserve Bank.

For the purposes of this condition of registration,—

"buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

2. 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.

3. 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.

General Disclosures

Conditions of registration (continued)

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.

4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the banking group to all connected persons do not exceed the rating- contingent limit outlined in the following matrix:

Credit rating of the bank[1]	Connected exposure limit (% of the banking group's Tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% of the banking group's Tier 1 capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy" (BS8) dated November 2015.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non- connected persons.

6. That the bank complies with the following corporate governance requirements:

(a) the board of the bank must have at least five directors;

(b) the majority of the board members must be non-executive directors;

(c) at least half of the board members must be independent directors;

(d) an alternate director,—

(i) for a non-executive director must be non-executive; and

1 This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service. (Fitch Ratings' scale is identical to Standard & Poor's.)

General Disclosures

Conditions of registration (continued)

(ii) for an independent director must be independent;

(e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;

(f) the chairperson of the board of the bank must be independent; and

(g) the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank 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.

8. That a person must not be appointed as chairperson of the board of the bank 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.

9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:

(a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;

(b) the committee must have at least three members;

(c) every member of the committee must be a non-executive director of the bank;

(d) the majority of the members of the committee must be independent; and

(e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

10. That a substantial proportion of the bank's business is conducted in and from New Zealand.

11. That no more than 10% of total assets may be beneficially owned by a SPV. For the purposes

of this condition,—

"total assets" means all assets of the banking group plus any assets held by any SPV that are not included in the banking group's assets:

General Disclosures

Conditions of registration (continued)

"SPV" means a person—

(a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;

(b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and

(c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond:

"covered bond" means a debt security issued by any member of the banking group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

12. That—

(a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:

(i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and

(ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and

(b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:

(i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;

(ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and

(iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011.

13. That the banking group complies with the following quantitative requirements for liquidity-risk management:

(a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;

(b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and

(c) the one-year core funding ratio of the banking group is not less than 75 per cent at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated January 2018 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated October 2018.

General Disclosures

Conditions of registration (continued)

14. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:

    (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;

    (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;

    (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and

    (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

15. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can—

    (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager—

        (i) all liabilities are frozen in full; and

        (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;

    (b) apply a de minimis to relevant customer liability accounts;

    (c) apply a partial freeze to the customer liability account balances;

    (d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;

    (e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and

    (f) reinstate customers' access to some or all of their residual frozen funds.

    For the purposes of this condition of registration, "de minimis", "partial freeze", "customer liability account", and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

16. That the bank has an Implementation Plan that—

    (a) is up-to-date; and

    (b) demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS 17) dated September 2013.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

17. That the bank has a compendium of liabilities that—

    (a) at the product-class level lists all liabilities, indicating which are—

        (i) pre-positioned for Open Bank Resolution; and

        (ii) not pre-positioned for Open Bank Resolution;

    (b) is agreed to by the Reserve Bank; and

    (c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

General Disclosures

Conditions of registration (continued)

For the purposes of this condition of registration, “compendium of liabilities”, and “pre- positioned and non pre-positioned liabilities” have the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre- positioning Requirements Policy” (BS17) dated September 2013.

18. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank’s prepositioning for Open Bank Resolution as specified in the bank’s Implementation Plan.

For the purposes of this condition of registration, “Implementation Plan” has the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS17) dated September 2013.

19. That, for a loan-to-valuation measurement period, the total of the bank’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.

20. That, for a loan-to-valuation measurement period, the total of the bank’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.

21. That the bank 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” means Rabobank New Zealand Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

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

In conditions of registration 19 to 21,—

“loan-to-valuation ratio”, “non property-investment residential mortgage loan”, “property-investment residential mortgage loan”, “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.

“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.

Directors' Statement

After due enquiry, each director believes that:

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

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

(ii) over the full year accounting period:

- The Bank has complied with all Conditions of Registration that applied during that period;
- Credit exposures to connected persons (if any) were not contrary to the interests of the Banking Group; and
- The Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied (the Bank does not have any equity risk, and therefore neither has nor requires any system to monitor or control equity risk).

Signed by Todd Charteris, Chief Executive Officer, under an authority from each of the directors.

………………………………………………

Todd Charteris

Dated: 26 March 2020

Independent auditor’s report

To the shareholder of Rabobank New Zealand Limited

This report is for Rabobank New Zealand Limited (the “Bank”) at 31 December 2019 and for the year then ended.

This report includes:

- our audit opinion on the financial statements prepared in accordance with Clause 24 of the Registered Bank Disclosure Statements (New Zealand 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, 13, 14, 15 and 17 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 capital adequacy and regulatory liquidity requirements prepared in accordance with Schedule 9 of the Order.

Report on the audit of the financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements)

We have audited the Bank’s financial statements required by Clause 24 of the Order and the supplementary information required by Schedules 4, 7, 13, 14, 15 and 17 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 the significant accounting policies; and
- the supplementary information required by Schedules 4, 7, 13, 14, 15 and 17 of the Order.

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Our opinion

In our opinion:

- the Bank's financial statements (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 9, 13, 14, 15 and 17 of the Order and included within the Statement of financial position and Notes 18, 30 and 39):

  (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 Bank 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, 13, 14, 15 and 17 of the Order and included within the Risk management policies section on pages 8 and 9, section 2.3 – Reconciliation of mortgage related amounts on page 26, Credit exposures to connected persons on page 30, Statement of financial position and Notes 18 and 30:

  (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 Bank; and
  (iii) fairly states, in all material respects, the matters to which it relates in accordance with those Schedules.

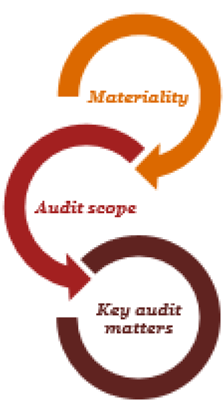
Basis for opinion

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 financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements)* 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 financial statements are free from material misstatement.

The overall Bank materiality is $6.1 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 Bank 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 Bank materiality for the 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 financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the 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 financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the current year. These matters were addressed in the context of our audit of the 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 financial statements). Provisions for impairment on loans and advances were a key audit matter because of the subjective and complex judgements made by the Bank 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 emerging trends or 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 Bank'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 Bank'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 Bank'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 Bank in the context of the borrowers' circumstances based on the detailed loan and counterparty information known by the Bank. • We compared the valuation of collateral held to external information where available.

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

The Directors of the Bank (the 'Directors') are responsible, on behalf of the Bank, 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 17 inclusive (excluding the Risk management policies section on pages 8 and 9), Directors' Declaration on page 59 of Appendix 1 and the supplementary information entitled 'Bank Financial Strength Dashboard' on pages 65 to 67 inclusive of Appendix 1. Our opinion on the 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 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 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 financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements)

The Directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the financial statements in accordance with Clause 24 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 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, 13, 14, 15 and 17 of the Order.

In preparing the financial statements, the Directors are responsible for assessing the Bank'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 Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements)

Our objectives are to obtain reasonable assurance about whether the financial statements and the supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed on pages 25 to 29 inclusive (excluding section 2.3 – Reconciliation of mortgage related amounts on page 26) and in Note 39) disclosed in accordance with Clause 24 and Schedules 4, 7, 13, 14, 15 and 17 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 financial statements.

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

https://xrb.govt.nz/standards-for-assurance-practioners/auditors-resposibilities/audit report-2/

This description forms part of our auditor's report.

Report on other legal and regulatory requirements (excluding supplementary information relating to capital adequacy and regulatory liquidity requirements)

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 financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed on pages 25 to 29 inclusive (excluding section 2.3 – Reconciliation of mortgage related amounts on page 26) and in Note 39) 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 Bank as far as appears from an examination of those records.

Report on the review of the supplementary information relating to capital adequacy and regulatory liquidity requirements

We have examined the supplementary information relating to capital adequacy and regulatory liquidity requirements required by Schedule 9 of the Order as disclosed on pages 25 to 29 inclusive (excluding section 2.3 – Reconciliation of mortgage related amounts on page 26) and in Note 39 of the financial statements of the Bank 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 capital adequacy and regulatory liquidity requirements disclosed on pages 25 to 29 inclusive (excluding section 2.3 – Reconciliation of mortgage related amounts on page 26) and in Note 39, 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 capital adequacy and regulatory liquidity requirements* section of our report.

Responsibilities of the Directors for the supplementary information relating to capital adequacy and regulatory liquidity requirements

The Directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the supplementary information relating to capital adequacy and regulatory liquidity requirements 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 the supplementary information relating to capital adequacy and regulatory liquidity requirements that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the review of the supplementary information relating to capital adequacy and regulatory liquidity requirements

Our responsibility is to express a conclusion, whether, based on our review, the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed on pages 25 to 29 inclusive (excluding section 2.3 – Reconciliation of mortgage related amounts on page 26) and in Note 39, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

A review of the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed on pages 25 to 29 inclusive (excluding section 2.3 – Reconciliation of mortgage related amounts on page 26) and in Note 39 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 capital adequacy and regulatory liquidity requirements disclosed on pages 25 to 29 inclusive (excluding section 2.3 – Reconciliation of mortgage related amounts on page 26) and in Note 39.

Auditor independence

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

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

Who we report to

This report is made solely to the Bank's shareholder. 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 Bank and the Bank's shareholder, 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
26 March 2020

Capital Adequacy under the Standardised Approach and Regulatory Liquidity Ratios (unaudited)

1 Capital

in thousands of NZD	As at 31 December 2019
Tier 1 capital	
Common Equity Tier 1 ("CET1") capital	1,652,790
Subtotal CET1 capital	**1,652,790**
Additional Tier 1 ("AT1") capital	-
Subtotal AT1 capital	**-**
Total Tier 1 capital	**1,652,790**
Tier 2 capital	
Term subordinated debt subject to phase-out transitional arrangements	-
Total Tier 2 capital	**-**
Total capital	**1,652,790**

For a detailed breakdown of the Capital refer to note 39.1 in the annual report of Rabobank New Zealand Limited attached as Appendix 1.

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

2 Credit risk

2.1 Calculation of on-balance sheet exposures

As at 31 December 2019 in thousands of NZD	Total exposure after credit risk mitigation	Risk weight	Risk weighted exposure	Minimum pillar 1 capital requirement
Cash and gold bullion	-	0%	-	-
Sovereigns and central banks	781,392	0%	-	-
Multilateral development banks and other international organisations	81,845	0%	-	-
Multilateral development banks and other international organisations	109,695	20%	21,939	1,755
Public sector entities	-	20%	-	-
Banks	104,054	20%	20,811	1,665
Banks - related entities	1,943	20%	389	31
Corporate	-	50%	-	-
Residential mortgages not past due - LVR does not exceed 80%	28,856	35%	10,100	808
Residential mortgages not past due - LVR between 80% and 90%	807	50%	404	32
Residential mortgages not past due - LVR between 90% and 100%	-	75%	-	-
Past due residential mortgages	-	100%	-	-
Other past due assets[1]	395,453	150%	593,180	47,454
Equity holdings (not deducted from capital) that are publicity traded	-	300%	-	-
All other equity holdings (not deducted from capital)	-	400%	-	-
Other[2]	561	0%	-	-
Other[3]	10,766,326	100%	10,766,326	861,306
Non-risk weighted assets [4]	22,784	N/A	-	-
Total on-balance sheet exposures	**12,293,716**		**11,413,149**	**913,051**

[1] Other past due assets that have been risk weighted at 150% comprise of loans and advances classified as more than 90 days past due assets, and impaired assets when the allowance for impairment for the loan is less than 20% of the outstanding amount of the loan.

[2] Other assets that have been risk weighted at 0% represent income tax receivable and GST receivable.

[3] Other assets that have been risk weighted at 100% comprise of loans and advances, finance leases, property plant and equipment, sundry debtors and accrued interest receivable.

[4] Non-risk weighted assets relate to net deferred tax assets, derivative assets and other intangible assets.

Capital Adequacy under the Standardised Approach and Regulatory Liquidity Ratios (unaudited)

2 Credit risk (continued)

2.2 Calculation of off-balance sheet exposures

As at 31 December 2019 in thousands of NZD	Total exposure	Credit conversion factor %	Credit equivalent amount	Average risk weight %	Risk weighted exposure	Minimum pillar 1 capital requirement
Direct credit substitutes	5,776	100%	5,776	100%	5,776	462
Asset sales with recourse	-	100%	-	0%	-	-
Forward asset purchase	-	100%	-	0%	-	-
Commitments with certain drawdown	-	100%	-	100%	-	-
Note issuance facility	-	50%	-	0%	-	-
Revolving underwriting facility	-	50%	-	0%	-	-
Performance-related contingency	-	50%	-	0%	-	-
Trade-related contingency	-	20%	-	0%	-	-
Placements of forward deposits	-	100%	-	0%	-	-
Other commitments where original maturity is more than one year	63,785	50%	31,893	100%	31,893	2,551
Other commitments where original maturity is less than or equal to one year	-	20%	-	100%	-	-
Other commitments which can be cancelled unconditionally at any time without prior notice	1,491,887	0%	-	100%	-	-
Market related contracts*						
Foreign exchange forwards - related entities	312	N/A	3	20%	1	-
Foreign exchange forwards	284	N/A	4	100%	4	-
Foreign exchange swaps - related entities	650	N/A	8	20%	2	-
Foreign exchange swaps	594	N/A	6	100%	6	-
Interest rate swaps - related entities	144,246	N/A	634	20%	127	10
Interest rate swaps	144,246	N/A	5,820	100%	5,820	466
Other - forward rate agreement	-	N/A	-	20%	-	-
Other-CVA adjustment	N/A	N/A	N/A	2%	7,388	591
Other-CVA adjustment	N/A	N/A	N/A	0.8%	725	58
Total off-balance sheet exposures	**1,851,780**		**44,144**		**51,742**	**4,138**

*The current exposure method has been used to calculate the credit equivalent amount on all market related off-balance sheet exposures.

2.3 Additional residential mortgages information

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

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 value of residential mortgage exposures	**29,663**	**9,028**	**38,691**

Reconciliation of mortgage related amounts

in thousands of NZD	2019
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 mortgage exposures subject to the standardised approach (as per LVR analysis)	**38,691**

Capital Adequacy under the Standardised Approach and Regulatory Liquidity Ratios (unaudited)

3 Credit risk mitigation

As at 31 December 2019 in thousands of NZD	Total value of on- and off-balance sheet exposures covered by eligible collateral (after haircutting)	Total value of on- and off-balance sheet exposures covered by guarantees or credit derivatives
Sovereign or central bank	-	-
Multilateral development bank	-	-
Public sector entities	-	-
Bank	251,755	-
Corporate	-	-
Residential mortgage	-	-
Other	-	-
Total	**251,755**	**-**

4 Operational risk

Operational risk capital requirement

As at 31 December 2019 in thousands of NZD	Implied risk weighted exposure	Total operating risk capital requirement
Operational risk	774,550	61,964
Total	**774,550**	**61,964**

5 Market risk period-end capital charges

As at 31 December 2019 in thousands of NZD	Implied risk weighted exposure	Aggregate capital charges
Interest rate risk	321,125	25,690
Foreign currency risk	17,125	1,370
Total	**338,250**	**27,060**

The Bank does not take any equity risk.

6 Market risk peak end-of-day capital charges

6 months to 31 December 2019 in thousands of NZD	Implied risk weighted exposure	Aggregate capital charges
Interest rate risk	323,500	25,880
Foreign currency risk	29,500	2,360
Total	**353,000**	**28,240**

The Bank does not take any equity risk.

7 Method for deriving peak end-of-day aggregate 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).

8 Total capital requirements

As at 31 December 2019 in thousands of NZD	Total exposure after credit risk mitigation	Risk weighted exposure or implied risk weighted exposure	Total capital requirement
Total credit risk	14,145,496	11,464,891	917,192
Operational risk	N/A	774,550	61,964
Market risk	N/A	338,250	27,060
Total	**14,145,496**	**12,577,691**	**1,006,216**

Capital Adequacy under the Standardised Approach and Regulatory Liquidity Ratios (unaudited)

9 Capital ratios

	2019		2018	
in percentage (%) - As at year end	Ratio	Minimum ratio requirement	Ratio	Minimum ratio requirement
Common Equity Tier 1 capital ratio	13.14%	4.50%	13.26%	4.50%
Tier 1 capital ratio	13.14%	6.00%	13.26%	6.00%
Total capital ratio	**13.14%**	**8.00%**	**13.26%**	**8.00%**

10 Buffer ratio

in percentage (%)	2019	2018
Buffer ratio	5.14%	5.26%
Buffer ratio requirement	2.50%	2.50%

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

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

11 Solo capital adequacy

in percentage (%)	2019*	2018*
Common Equity Tier 1 capital ratio	13.14%	13.26%
Tier 1 capital ratio	13.14%	13.26%
Total capital ratio	**13.14%**	**13.26%**

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

12 Pillar 2 capital for other material risks

in thousands of NZD	2019	2018
Internal capital allocation for other material risks	50,311	47,221

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

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

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

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

(iv) Strategic risk: Strategic risk is the risks affected or created by an organisation's business strategy and strategic objectives.

(v) Compliance risk: Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or reputational damage an organisation may suffer as a result of its failure to comply with key laws, regualtory standards and industry codes applicable to its banking activities

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

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

Capital Adequacy under the Standardised Approach and Regulatory Liquidity Ratios (unaudited)

13 Capital adequacy of the ultimate parent bank

Capital adequacy of 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 1 capital ratio	18.8%	19.5%
Total capital ratio	**25.2%**	**26.6%**

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

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

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

14 Regulatory liquidity ratios

Capital ratios	3 months to 31/12/2019	3 months to 30/09/2019
Quarterly average core funding ratio	83.4%	87.8%
Quarterly average one-month mismatch ratio	6.4%	8.2%
Quarterly average one-week mismatch ratio	6.4%	7.4%

Credit Exposures to Connected Persons

1 Concentration of credit exposures to connected persons

As at 31 December 2019	Exposures in thousands of NZD	Exposures as a % of Banking Group's tier one capital %
Bank connected persons		
Aggregate at end-of-period	1,943	0.1%
Peak end-of-day for the year	17,293	1.0%
Contingent credit exposures arising from risk lay-off arrangements	-	-
Non-bank connected persons		
Aggregate at end-of-period	-	-
Peak end-of-day for the year	-	-
Contingent credit exposures arising from risk lay-off arrangements	-	-

As at 31 December 2019, the Banking Group's rating-contingent connected exposure limit was net 40% of Tier One Capital, with regulatory recognition of netting arrangements being in place. Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% of the Banking Group’s Tier One Capital. Aggregate gross exposures to connected persons must not exceed 125% of the Banking Group’s Tier One Capital.

The peak end-of-day credit exposure is measured by taking the maximum end-of-day aggregate credit exposure during the year and dividing it by the Banking Group's Tier One Capital as at the end of the year.

The information on credit exposure to connected persons has been derived in accordance with Rabobank New Zealand Limited's conditions of registration and Connected Exposures Policy (BS8), and is net of individual credit impairment allowances, excluding advances of a capital nature and gross of set-offs.

Credit exposure is calculated on the basis of actual exposure.

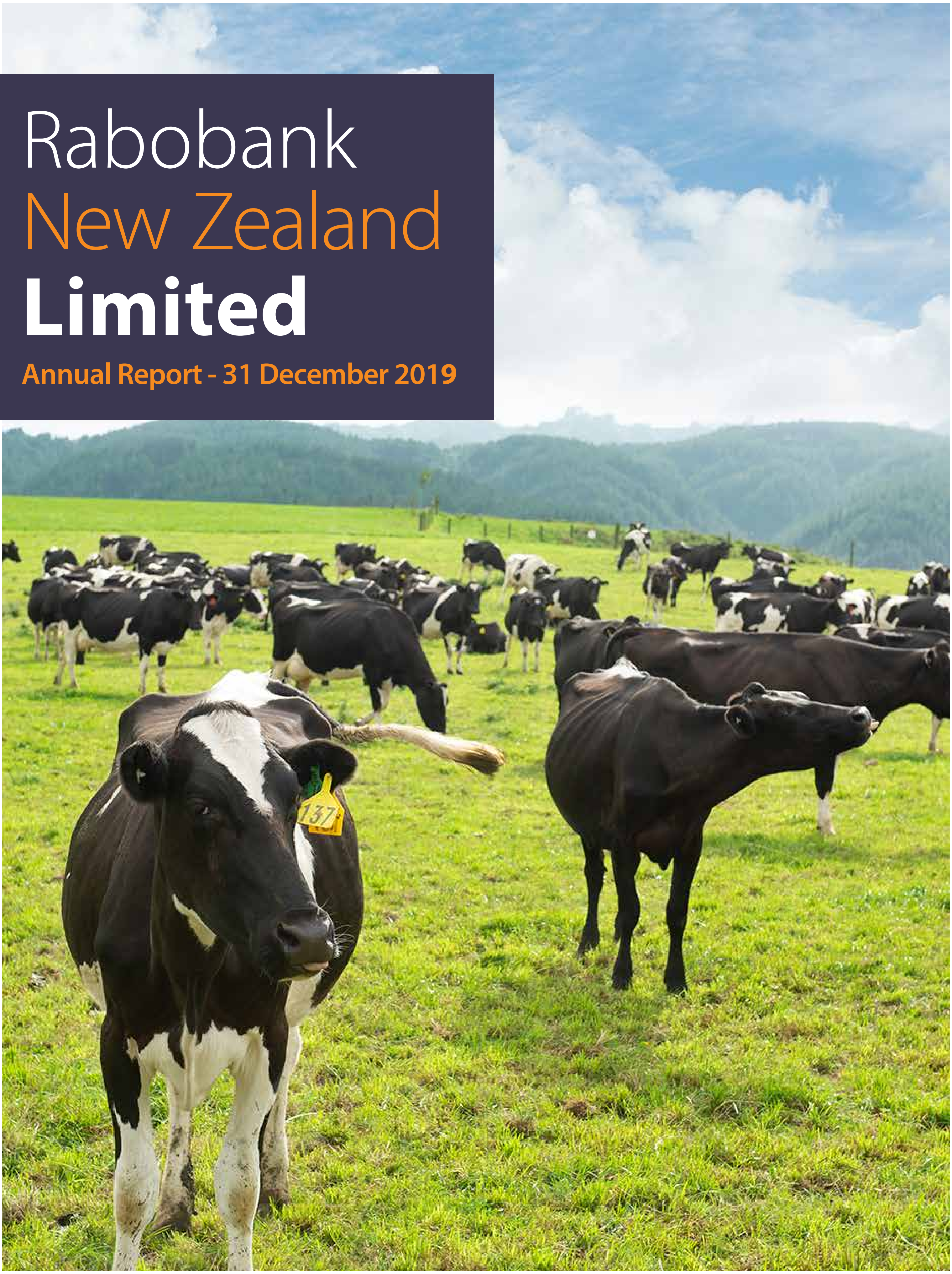
The Banking Group has no individual credit impairment allowances provided against credit exposures to connected persons as at 31 December 2019.

Appendix 1

Annual Report for the Rabobank New Zealand Limited for the year ended 31 December 2019

Rabobank New Zealand Limited

Annual Report - 31 December 2019



Rabobank

Annual Report 2019

Notes to the financial statements

Statement of Comprehensive Income

in thousands of NZD	Note	For the year ended 31 December 2019	2018
Interest income	4	545,651	548,985
Interest expense	5	(283,536)	(294,800)
Net interest income		**262,115**	**254,185**
Other income	6	1,090	1,596
Other expense	7	(448)	(612)
Other operating gains	8	538	539
Non-interest income / (expense)		**1,180**	**1,523**
Net operating income		**263,295**	**255,708**
Operating expenses	9	(126,434)	(111,639)
Impairment releases / (losses) - (Net)	10	(13,398)	(582)
Profit before income tax		**123,463**	**143,487**
Income tax expense	12.1	(34,123)	(40,398)
Net profit for the year		**89,340**	**103,089**
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss			
Changes in the fair value of financial assets at fair value through other comprehensive income (gross)	26.2	585	117
Deferred tax attributable to items taken directly to equity	26.2	(164)	(33)
Total items that may be reclassified subsequently to profit or loss		**421**	**84**
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		**421**	**84**
Total comprehensive income attributable to members of Rabobank New Zealand Limited		**89,761**	**103,173**

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

Statement of Financial Position

in thousands of NZD	Note	At 31 December 2019	At 31 December 2018
Assets			
Cash and cash equivalents	13	344,353	266,891
Derivative financial instruments	14	7,163	4,416
Financial assets at fair value through other comprehensive income	15	732,631	647,062
Loans and advances	16	11,175,124	10,606,458
Due from related entities	17	251,758	428,422
Other assets	19	4,859	7,483
Net deferred tax assets	12.3	14,564	13,559
Property, plant and equipment	20	12,019	3,020
Intangible assets	21	1,057	45
Total assets		**12,543,528**	**11,977,356**
Liabilities			
Derivative financial instruments	14	7,241	4,521
Deposits	22	4,944,744	4,261,790
Due to related entities	23	5,891,702	6,105,915
Current tax payable		6,835	13,463
Other liabilities	24	20,802	9,674
Provisions	25	3,793	3,343
Total liabilities		**10,875,117**	**10,398,706**
Net assets		**1,668,411**	**1,578,650**
Equity			
Contributed equity	26.1	551,200	551,200
Reserves	26.2	2,227	1,806
Retained earnings	26.3	1,114,984	1,025,644
Total equity		**1,668,411**	**1,578,650**
Interest earning and discount bearing assets and liabilities			
Total interest earning and discount bearing assets		**12,495,128**	**11,939,254**
Total interest and discount bearing liabilities		**10,780,434**	**10,307,610**

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

For, and on behalf of, the Board of Directors, who authorised these financial statements for issue on 26 March 2020.

Sir Henricus (Henry) Wilhelmus van der Heyden
Chairman
Date: 26 March 2020

Anne Brennan
Director
Date: 26 March 2020

Statement of Changes in Equity

in thousands of NZD	Contributed equity	Retained earnings	Reserves	Total
At 1 January 2018	551,200	922,695	1,722	1,475,617
Change in accounting policy: NZ IFRS 9	-	(140)	-	(140)
Restated opening balance under NZ IFRS 9	551,200	922,555	1,722	1,475,477
Net profit	-	103,089	-	103,089
Other comprehensive income:				
Revaluation reserve - FVOCI financial assets	-	-	84	84
At 31 December 2018	**551,200**	**1,025,644**	**1,806**	**1,578,650**
At 1 January 2019	551,200	1,025,644	1,806	1,578,650
Net profit	-	89,340	-	89,340
Total other comprehensive income:				
Revaluation reserve - FVOCI financial assets	-	-	421	421
At 31 December 2019	**551,200**	**1,114,984**	**2,227**	**1,668,411**

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

Statement of Cash Flows

in thousands of NZD	Note	For the year ended 31 December 2019	2018
Cash flows from operating activities			
Cash was provided from:			
Interest income		550,450	547,441
Other income		1,090	1,596
Bad debt recovery		10	-
Derivative financial instruments*		430	583
Cash was applied to:			
Interest expense		(278,387)	(296,350)
Other expense	7	(448)	(612)
Management fees and other operating expenses		(117,205)	(109,982)
Tax payments		(41,920)	(54,990)
Cash flows from operating activities before changes in operating assets and liabilities		**114,020**	**87,686**
Changes in operating assets and liabilities:			
Financial assets at fair value through other comprehensive income		(84,900)	(51,630)
Loans and advances		(583,589)	(612,948)
Due from related entities		176,589	(62,472)
Deposits		672,620	246,980
Due to related entities		12,467	2,143
Changes in operating assets and liabilities arising from cash flow movements		**193,187**	**(477,927)**
Net cash flows from / (used in) operating activities	34	**307,207**	**(390,241)**
Cash flows from investing activities			
Cash was provided from:			
Principal elements of lease payments		(3,321)	-
Cash was applied to:			
Purchase of property, plant and equipment		(3,709)	(50)
Purchase of intangible assets		(1,219)	-
Net cash flows from / (used in) investing activities		**(8,249)**	**(50)**
Cash flows from financing activities			
Cash was provided from:			
Issue of share capital		-	-
Changes in financing liabilities:			
Due to related entities		(221,496)	318,676
Net cash flows from / (used in) financing activities		**(221,496)**	**318,676**
Net change in cash and cash equivalents		**77,462**	**(71,615)**
Cash and cash equivalents at the beginning of the year		266,891	338,506
Cash and cash equivalents at the end of the year		**344,353**	**266,891**
Cash and cash equivalents at the end of the year comprise of:			
Cash at banks	13	344,353	266,891
Cash and cash equivalents at the end of the year		**344,353**	**266,891**

* 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

Rabobank New Zealand Limited (the "Bank") is a limited liability company incorporated and domiciled in New Zealand and registered under the Companies Act 1993. The Bank is a profit-oriented entity for the purpose of preparing this financial report. The Bank is an issuer for the purposes of the Financial Markets Conduct Act 2013. Financial statements for the Bank are presented as at and for the year ended 31 December 2019.

The registered office is at Level 23,157 Lambton Quay, Wellington, New Zealand.

The Bank is wholly owned by Rabobank International Holding B.V. and its ultimate parent entity is Coöperatieve Rabobank U.A. ("Rabobank"), trading as Rabobank and domiciled in the Netherlands.

The principal activities of the Bank during the financial year were the provision of secured loans predominantly to borrowers in the rural sector and the raising of retail deposits. There were no significant changes during the year in the nature of the activities of the Bank.

2 Basis of preparation

2.1 Statement of compliance

The 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 (New Zealand Incorporated Registered Banks) Order 2014 (as amended) ('Order'). These financial statements comply the Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), the New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other authoritative pronouncements of the External Reporting Board, as appropriate for for-profit entities. These financial statements also comply with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board ('IASB').

These financial statements were approved and authorised for issue by the board of directors on 26 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 (FVOCI) 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

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in New Zealand dollars (NZD), which is the Bank's functional and presentation currency. All financial information presented in NZD has been rounded to the nearest thousand unless otherwise stated.

2.4 New and amended standards adopted by the Bank

The Bank has adopted NZ IFRS 16 Leases from 1 January 2019 for the first time. The Bank 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.

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, lease extension options and determination of loan 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 Bank. The most significant uses of judgment and estimates are as follows:

Notes to the Financial Statements

2 Basis of preparation (continued)

2.5 Significant accounting judgments and estimates

2.5.1 Impairment of financial assets

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

The Bank 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 Bank uses three global macroeconomic scenarios to determine the expected credit losses which 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 assets and liabilities is included in note 32.

2.5.3 Leases - extension and termination options

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).

Most extension options in offices and vehicles leases have not been included in the lease liability, because the Bank could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

Notes to the Financial Statements

2.6 Changes in accounting policies

This note explains the impact of the adoption of NZ IFRS 16 "Leases" on the Bank's financial statements. The Bank 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 3.4.7.

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 Bank 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 Bank 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 accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- 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	**10,356**
Discounted using the lessee's incremental borrowing rate of at the date of initial application	9,929
(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	**18,488**
Of which are:	
Current lease liabilities	3,573
Non-current lease liabilities	14,915
	18,488

Measurement of right-of-use assets

The associated right-of-use assets for property and motor vehicles 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	2,128
Total right-of-use assets	**18,488**

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 $18,488 thousand
- lease liabilities – increase by $18,488 thousand

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

Lessor accounting

The Bank did not need to make any adjustments to the accounting for assets held as lessor under operating leases (see note 3.4.7) as a result of the adoption of NZ IFRS 16.

Notes to the Financial Statements

3 Significant accounting policies

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

3.1 Revenue and expense recognition

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

3.1.1 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.

3.1.2 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.

3.1.3 Other expenses

Operating expenses are recognised on an accrual basis.

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

3.2 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 fair value through other comprehensive income financial assets, are recognised in equity through other comprehensive income.

Notes to the Financial Statements

3 Significant accounting policies (continued)

3.3 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.

3.4 Financial assets

3.4.1 Classification of financial assets

The Bank classifies its financial assets in the following measurement categories:

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

The classification depends on:

1. Business model assessment:

The Bank 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 Bank 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.

Notes to the Financial Statements

3 Significant accounting policies (continued)

3.4 Financial assets (continued)

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 recognized 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.

3.4.2 Measurement of financial assets

At initial recognition, the Bank 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 Bank's business model for managing the asset and the cash flow characteristics of the asset.

3.4.3 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 Company 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.

3.4.4 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.

3.4.5 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 Bank'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 32.

Notes to the Financial Statements

3 Significant accounting policies (continued)

3.4 Financial assets (continued)

3.4.6 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.

3.4.7 Leases

The Bank as Lessee

At lease commencement date, the Bank 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 Bank, 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 Bank 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 Bank also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Bank 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 Bank 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 Bank 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.

Notes to the Financial Statements

3 Significant accounting policies (continued)

3.4.7 Leases (continued)

The Bank as Lessor

The Bank's policy for accounting for leases where the Bank 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.

3.4.8 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.

3.4.9 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.

3.4.10 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 and the Bank 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 Bank derecognises the assets when control is no longer retained, or when control is retained, the assets are recognised to the extent of the Company's continuing involvement.

3.5 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 stage 3 instruments the interest income will be recognised by applying the effective interest rate on the net carrying amount

Notes to the Financial Statements

3 Significant accounting policies (continued)

3.5 Impairment of financial assets (continued)

(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.

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 (ECL) 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 Bank 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.

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 Bank 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.

Notes to the Financial Statements

3 Significant accounting policies (continued)

3.5 Impairment of financial assets (continued)

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.

In some circumstances, the Bank 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 recognizing 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 recognizes 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 LTV ratios).

3.5.1 Past due loans

Past due loans are where payments are 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.

3.5.2 Restructured assets

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

Notes to the Financial Statements

3 Significant accounting policies (continued)

3.6 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 & fittings	10 years
Office equipment	5 years
Computer hardware	5 years

Each year, the Bank 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.

3.7 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 Bank. These assets are amortised using the straight-line method over their estimated useful life of five years.

3.8 Other assets

Other assets include interest, 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 Impairment of non-financial assets

The Bank 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 Bank 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.

3.10 Financial liabilities

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

Notes to the Financial Statements

3 Significant accounting policies (continued)

3.10 Financial liabilities (continued)

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 held at fair value through profit or loss.

3.10.1 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 demand deposits. Due to related entities includes deposits and settlement account balances due to related parties.

They are brought to account at fair value plus 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.

3.10.2 Other liabilities

Other liabilities include interest, 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.

3.10.3 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.

3.10.4 Contingent liabilities

Contingent liabilities mainly include financial guarantees and lending commitments.

Financial guarantees are contracts that require the Bank 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 in accordance with accounting policy under note 3.5.

3.11 Provisions

A provision is recognised if the Bank 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 dividends is recognised when dividends are declared by the directors.

3.12 Employee benefits

3.12.1 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.

Notes to the Financial Statements

3 Significant accounting policies (continued)

3.12 Employee benefits (continued)

3.12.2 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.

3.13 Equity

3.13.1 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.

3.13.2 Reserves

Fair value through other comprehensive income (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.

3.14 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.

3.15 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 Bank. 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.

3.16 Comparative figures

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

Notes to the Financial Statements

4 Interest income

in thousands of NZD	2019	2018
Loans and advances	520,386	518,616
Related entities	4,873	8,048
Financial assets at fair value through other comprehensive income	11,928	13,925
Finance lease income	3,181	3,415
Cash and balances with central bank	2,248	2,854
Due from other financial institutions	3,035	2,127
Total interest income	**545,651**	**548,985**

5 Interest expense

in thousands of NZD	2019	2018
Deposits	130,969	109,781
Related entities	152,144	184,565
Subordinated debt	-	454
Lease liabilities	423	-
Total interest expense	**283,536**	**294,800**

6 Other income

in thousands of NZD	2019	2018
Lending and credit facility related fee income	1,090	1,303
Other income	-	293
Total other income	**1,090**	**1,596**

7 Other expense

in thousands of NZD	2019	2018
Commission and fee expense *	448	612
Total other expense	**448**	**612**

* Balance relates to fee charged for the obligations under guarantees provided by Rabobank. Refer to note 35 for further information on guarantees.

8 Other operating gains

in thousands of NZD	2019	2018
Net trading gains on derivatives	509	574
Losses on disposal / write off of property, plant and equipment	(3)	(2)
Losses on disposal / write off of FVOCI financial assets	84	-
Foreign exchange gains	(52)	(33)
Total other operating gains	**538**	**539**

Notes to the Financial Statements

9 Operating expenses

in thousands of NZD	2019	2018
Advertising and marketing	2,711	1,750
Professional fees	4,103	2,355
Computer charges	776	459
Depreciation and amortisation	4,780	1,145
Management expenses and recharge costs*	51,045	47,917
Personnel	52,714	44,973
Rental charges payable under operating leases	1,594	3,667
Telecommunication	1,082	812
Travel and lodging	4,468	5,088
Office supplies	350	1,281
Other	2,811	2,192
Total operating expenses	**126,434**	**111,639**

* 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 35 for further details of the nature of expenses recharged to the Bank.

10 Impairment (losses) / releases

in thousands of NZD	2019	2018
Collective provision (charges)	(1,388)	(1,634)
Specific provision (charges) / releases (note 18.5)	(12,020)	1,052
Bad debt recovery	10	-
Total impairment (losses) / releases	**(13,398)**	**(582)**

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 and / or review of the financial statements of the Bank	251,142	244,301
Advisory services	-	-
Tax compliance	-	-
Total auditor's remuneration	**251,142**	**244,301**

12 Income tax

12.1 Income tax expense

in thousands of NZD	2019	2018
Current income tax	36,798	40,833
Decrease in net deferred tax assets	(2,054)	(423)
(Over) / Under provided in prior years relating to deferred tax	848	-
(Over) / Under provision in current tax liabilities	(1,469)	(12)
Total income tax expense	**34,123**	**40,398**

Notes to the Financial Statements

12 Income tax (continued)

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

in thousands of NZD	2019	2018
Profit before income tax	123,463	143,487
Taxation @ 28% (2018: 28%)	**34,570**	**40,176**
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income :		
Non-deductible expenses	174	234
(Over) provided in prior years relating to deferred tax	848	-
Under provision in current tax liabilities	(1,469)	(12)
Income tax expense	**34,123**	**40,398**

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		877	(488)
Impairment provisions		11,401	9,847
Employee benefits		1,635	1,527
Others		(32)	2,195
Provision for long service leave		1,059	924
FVOCI financial assets revaluation reserve	26.2	(867)	(703)
Total net deferred tax assets		**14,564**	**13,559**

Movements:

in thousands of NZD	2019	2018
Opening balance	13,559	13,077
Credited / (charged) to statement of comprehensive income:		
Accruals	234	(419)
Depreciation	1,365	(1,155)
Impairment provisions	1,554	668
Employee benefits	108	181
Interest forgone on impaired assets	-	(699)
Others	(2,227)	1,867
Provision for long service leave	135	72
Debited to equity reserve:		
FVOCI financial assets revaluation reserve	(164)	(33)
Total movement	**1,005**	**482**
Closing balance	**14,564**	**13,559**

12.4 Imputation credit account

in thousands of NZD	2019	2018
Imputation credit	457,712	430,312

Notes to the Financial Statements

13 Cash and cash equivalents

in thousands of NZD	2019	2018
Cash at banks	104,054	101,677
Balances with Central Bank	240,299	165,214
Total cash and cash equivalents	**344,353**	**266,891**

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.

	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)*	144,246	38	5,416	149,246	-	4,484
Swaps (non-related entities)	144,246	5,338	37	149,246	4,380	-
Foreign exchange derivatives						
Swaps (related entities)*	650	40	-	110	5	-
Swaps (non-related entities)	594	-	41	105	-	6
Forwards (related entities)*	312	13	2	879	29	2
Forwards (non-related entities)	284	2	13	849	2	29
Commodities (related entities)*	29,418	-	1,732	-	-	-
Commodities (non-related entities)	29,418	1,732	-	-	-	-
Total derivatives	**349,168**	**7,163**	**7,241**	**300,435**	**4,416**	**4,521**
Amounts due for settlement within 12 months		2,503	2,503		125	129
Amounts due for settlement over 12 months		4,660	4,738		4,291	4,392
Total derivatives		**7,163**	**7,241**		**4,416**	**4,521**

* Balance relates to other Rabobank related entities. Refer to note 35 for further information on related party disclosures.

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 year end, but do not indicate the Bank's exposure to credit or market risks.

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

in thousands of NZD	2019	2018
New Zealand Government Securities	541,092	464,467
Other debt securities (Kauri)	191,539	182,595
Total financial assets FVOCI	**732,631**	**647,062**
Amounts due for settlement within 12 months	520,985	519,798
Amounts due for settlement over 12 months	211,646	127,264
Total financial assets FVOCI	**732,631**	**647,062**

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

Notes to the Financial Statements

16 Loans and advances

in thousands of NZD	2019	2018
Lending	11,153,434	10,573,367
Finance leases (note 16.1)	54,352	59,833
Gross loans and advances	**11,207,786**	**10,633,200**
Accrued interest	7,944	8,725
Provisions for impairment		
Stage 3B	(11,768)	(8,104)
Stage 3A	(13,674)	(11,199)
Stage 2	(7,012)	(7,108)
Stage 1	(8,152)	(9,056)
Total provisions for impairment	(40,606)	(35,467)
Net loans and advances	**11,175,124**	**10,606,458**

Amounts due for settlement within 12 months	5,548,088	5,262,191
Amounts due for settlement over 12 months	5,627,036	5,344,267
Net loans and advances	**11,175,124**	**10,606,458**

16.1 Finance leases

	2019			
in thousands of NZD	Net investment	Unearned income	Unguaranteed residuals	Minimum lease payments
One year or less	25,768	2,145	-	27,913
Between one and two years	15,762	1,077	-	16,839
Between two and five years	12,822	605	-	13,427
Total finance leases	**54,352**	**3,827**	**-**	**58,179**

	2018			
in thousands of NZD	Net investment	Unearned income	Unguaranteed residuals	Minimum lease payments
One year or less	27,930	2,581	-	30,511
Between one and two years	18,462	1,260	-	19,722
Between two and five years	13,441	675	-	14,116
Total finance leases	**59,833**	**4,516**	**-**	**64,349**

Leasing arrangements

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

Notes to the Financial Statements

17 Due from related entities

in thousands of NZD	2019	2018
Current account balances - wholly owned group*	3,769	3,123
Advances - wholly owned group*	247,660	424,895
Accrued interest receivable - wholly owned group*	441	603
Stage 1 provision for impairment (note 18.6)	(112)	(199)
Total due from related entities	**251,758**	**428,422**
Amounts due for settlement within 12 months	176,758	263,422
Amounts due for settlement over 12 months	75,000	165,000
Total due from related entities	**251,758**	**428,422**

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 outlines 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	-	-	257,246	257,246
Additions	-	-	277,673	277,673
Amounts written off	-	-	(9,280)	(9,280)
Returned to performing or repaid	-	-	(111,340)	(111,340)
Closing balance	**-**	**-**	**414,299**	**414,299**
Aggregate amount of undrawn balances on lending commitments on impaired assets	-	-	13,464	13,464
Analysis of individually impaired assets				
Gross non-performing assets	-	-	414,299	414,299
Specific provision against non-performing assets (note 18.5)	-	-	(11,768)	(11,768)
Net non-performing assets	**-**	**-**	**402,531**	**402,531**
Restructured assets	-	-	-	-
Specific provision against restructured assets (note 18.5)	-	-	-	-
Net restructured assets	**-**	**-**	-	-

	2018			
in thousands of NZD	Residential mortgages	Corporate	Retail*	Total
Opening balance	-	-	293,116	293,116
Additions	-	-	41,985	41,985
Amounts written off	-	-	(1,754)	(1,754)
Returned to performing or repaid	-	-	(76,101)	(76,101)
Closing balance	**-**	**-**	**257,246**	**257,246**
Aggregate amount of undrawn balances on lending commitments on impaired assets	-	-	27,061	27,061
Analysis of individually impaired assets				
Gross non-performing assets	-	-	257,246	257,246
Specific provision against non-performing assets (note 18.5)	-	-	(8,104)	(8,104)
Net non-performing assets	**-**	**-**	**249,142**	**249,142**
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	-	-	26,751	26,751
At least 30 days but less than 60 days past due	-	-	156	156
At least 60 days but less than 90 days past due	-	-	2,267	2,267
At least 90 days past due (note 18.3)	-	-	379	379
Closing balance	**-**	**-**	**29,553**	**29,553**

	2018			
in thousands of NZD	Residential mortgages	Corporate	Retail*	Total
Less than 30 days past due	-	-	18,506	18,506
At least 30 days but less than 60 days past due	-	-	-	-
At least 60 days but less than 90 days past due	-	-	50	50
At least 90 days past due (note 18.3)	-	-	1,154	1,154
Closing balance	**-**	**-**	**19,710**	**19,710**

18.3 At least 90 days past due assets

	2019			
in thousands of NZD	Residential mortgages	Corporate	Retail*	Total
Opening balance	-	-	1,154	1,154
Additions	-	-	379	379
Amounts written off	-	-	-	-
Repayments	-	-	(1,154)	(1,154)
Closing balance	**-**	**-**	**379**	**379**

	2018			
in thousands of NZD	Residential mortgages	Corporate	Retail*	Total
Opening balance	-	-	367	367
Additions	-	-	1,154	1,154
Amounts written off	-	-	-	-
Repayments	-	-	(367)	(367)
Closing balance	**-**	**-**	**1,154**	**1,154**

* 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	-	-	-	-	-
Amounts written off	-	-	-	-	-
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	-	-
Closing balance corporate	-	-	-	-	-

		2019			
in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
Retail					
Opening balance	8,441	7,018	11,199	8,104	34,762
Charge to statement of comprehensive income	**(1,278)**	**(127)**	**2,474**	**12,020**	**13,089**
Amounts written off	-	-	-	(9,280)	(9,280)
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	924	924
Closing balance retail	**7,163**	**6,891**	**13,673**	**11,768**	**39,495**

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	615	90	-	-	706
Charge to statement of comprehensive income	**374**	**31**	**1**	**-**	**406**
Amounts written off	-	-	-	-	-
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-		-	-	-
Closing balance on loan commitments and financial guarantees	**989**	**121**	**1**	**-**	**1,112**

Total provisions for impairment on loans and advances

	2019				
in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
Opening balance	9,056	7,108	11,199	8,104	35,467
Charge to statement of comprehensive income	**(904)**	**(96)**	**2,475**	**12,020**	**13,495**
Amounts written off	-	-	-	(9,280)	(9,280)
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	924	924
Closing balance on loans and advances and loan commitments and financial guarantees	**8,152**	**7,012**	**13,674**	**11,768**	**40,606**

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	7,600	7,716	9,504	9,548	34,368
Charge to statement of comprehensive income	**841**	**(698)**	**1,695**	**(1,052)**	**786**
Amounts written off	-	-	-	(1,754)	(1,754)
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	1,362	1,362
Closing balance retail	**8,441**	**7,018**	**11,199**	**8,104**	**34,762**

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	838	96	-	-	934
Charge to statement of comprehensive income	**(223)**	**(7)**	**-**	**-**	**(229)**
Amounts written off	-	-	-	-	-
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	1	-	-	1
Closing balance on loan commitments and financial guarantees	**615**	**90**	**-**	**-**	**706**

Total provisions for impairment on loans and advances

	2018				
in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
Opening balance	8,438	7,812	9,504	9,548	35,302
Charge to statement of comprehensive income	**618**	**(705)**	**1,695**	**(1,052)**	**556**
Amounts written off	-	-	-	(1,754)	(1,754)
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	1	-	1,362	1,363
Closing balance on loans and advances and loan commitments and financial guarantees	**9,056**	**7,108**	**11,199**	**8,104**	**35,467**

* 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

18.6 Provision for impairment due from related entities

Impairment allowances on due from related entities

in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
	2019				
Opening balance	199	-	-	-	199
Charge to statement of comprehensive income	(87)	**-**	**-**	**-**	(87)
Amounts written off	-	-	-	-	-
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	-	-
Closing balance related parties	**112**	**-**	**-**	**-**	**112**

Impairment allowances on due from related entities

in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
	2018				
Opening balance	173	-	-	-	173
Charge to statement of comprehensive income	**26**	**-**	**-**	**-**	**26**
Amounts written off	-	-	-	-	-
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	-	-
Closing balance related parties	**199**	**-**	**-**	**-**	**199**

18.7 Impact of changes in gross financial assets on loss allowance

in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
	2019				
Opening balance	9,543,071	809,812	23,072	257,246	10,633,201
Additions	7,822,699	722,246	44,599	277,673	8,867,217
Amount written off	-	-	-	(9,280)	(9,280)
Deletions	(7,402,672)	(673,789)	(95,548)	(111,340)	(8,283,349)
Changes due to transfer between ECL stages	(78,384)	41,781	36,603	-	-
Other	17,256	(17,788)	635	(1)	102
Gross loans and advances	**9,901,970**	**882,262**	**9,361**	**414,298**	**11,207,891**
Provisions for impairment	(8,152)	(7,012)	(13,674)	(11,768)	(40,606)
Net loans and advances	**9,893,818**	**875,250**	**(4,313)**	**402,530**	**11,167,285**

in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
	2018				
Opening balance	8,911,106	807,077	8,330	293,116	10,019,629
Additions	9,681,127	574,389	139,176	41,985	10,436,677
Amount written off	-	-	-	(1,754)	(1,754)
Deletions	(8,968,314)	(663,719)	(130,916)	(76,101)	(9,839,050)
Changes due to transfer between ECL stages	(80,848)	92,065	(11,217)	-	-
Other	-	-	17,699	-	-
Gross loans and advances	**9,543,071**	**809,812**	**23,072**	**257,246**	**10,633,200**
Provisions for impairment	(8,401)	(7,018)	(11,199)	(8,104)	(34,722)
Net loans and advances	**9,534,670**	**802,794**	**11,872**	**249,142**	**10,598,478**

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.

Notes to the Financial Statements

19 Other assets

in thousands of NZD	2019	2018
Accrued interest receivable	3,515	6,724
GST receivable	563	222
Sundry debtors	33	35
Prepayments	668	265
Others	80	237
Total other assets	**4,859**	**7,483**

All other assets are due for settlement within 12 months

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	-	10,700	63	1,491	12,254
Accumulated depreciation	-	(7,152)	(28)	(999)	(8,179)
Net book value	**-**	**3,548**	**35**	**492**	**4,075**
Balance as at 31 December 2018					
Cost	-	10,700	114	1,443	12,257
Accumulated depreciation	-	(8,010)	(43)	(1,184)	(9,237)
Net book value	**-**	**2,690**	**71**	**259**	**3,020**
Balance as at 31 December 2019					
Cost	13,386	10,732	162	1,442	25,722
Accumulated depreciation	(3,521)	(8,780)	(69)	(1,333)	(13,703)
Net book value	**9,865**	**1,952**	**93**	**109**	**12,019**

Notes to the Financial Statements

20 Property, plant and equipment (continued)

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 / write-off	-	-	-	(2)	(2)
Depreciation	-	(858)	(15)	(231)	(1,104)
Balance as at 31 December 2018	**-**	**2,690**	**71**	**259**	**3,020**
NZ IFRS16 implementation	18,488	-	-	-	18,488
Reassessment of extension options	(7,072)	-	-	-	(7,072)
Acquisitions	1,979	131	48	-	2,158
Disposals / write-off	-	(3)	-	-	(3)
Depreciation	(3,530)	(866)	(26)	(150)	(4,572)
Balance as at 31 December 2019	**9,865**	**1,952**	**93**	**109**	**12,019**

* In respect of right-of-use asset, refer to note 2.6 and note 20 for further information on the accounting for leasing contracts under NZ IFRS 16.

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	2,244	2,128
Total right-of-use assets (note 20)	**9,865**	**18,488**
Lease liabilities		
Current lease liabilities	3,683	3,573
Non-current lease liabilities	6,390	14,915
Total lease liabilities (note 24)	**10,073**	**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	1,019	-
Interest expense on lease liabilities	423	-
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 Bank's leasing activities and how these are accounted for

Lease arrangements entered into by the Bank are for the purpose of accommodating the Bank'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 Bank has applied NZ IFRS 16 at 1 January 2019. The new accounting policies disclosed in note 3.4.7 and note 2.6 explain the impact of adoption on NZ IFRS 16.

Notes to the Financial Statements

20 Property, plant and equipment (continued)

20.1 Leases (continued)

Extension and termination options

Extension and termination options are included in a number of property leases across the Bank. 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 Bank 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.

21 Intangible assets

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

Reconciliation

Reconciliation of the carrying amount of intangible assets at the beginning and end of the year.

in thousands of NZD	2019	2018
Opening balance	45	87
Acquisitions	1,219	-
Write-off	-	-
Amortisation	(207)	(42)
Closing balance	**1,057**	**45**

22 Deposits

in thousands of NZD	2019	2018
Call deposits	1,744,662	1,692,702
Term deposits	3,156,843	2,536,183
Accrued interest on call deposits	23	56
Accrued interest on term deposits	43,216	32,849
Total deposits	**4,944,744**	**4,261,790**
Amounts due for settlement within 12 months	3,677,170	2,944,805
Amounts due for settlement over 12 months	1,267,574	1,316,985
Total deposits	**4,944,744**	**4,261,790**

Notes to the Financial Statements

23 Due to related entities

in thousands of NZD	2019	2018
Current account balances - wholly owned group*	24,853	12,386
Borrowings - wholly owned group*	5,845,124	6,066,619
Accrued interest payable - wholly owned group*	21,725	26,910
Total due to related entities	**5,891,702**	**6,105,915**
Amounts due for settlement within 12 months	2,893,702	2,182,915
Amounts due for settlement over 12 months	2,998,000	3,923,000
Total due to related entities	**5,891,702**	**6,105,915**

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

24 Other liabilities

in thousands of NZD	2019	2018
Lease liabilities	10,073	-
Sundry creditors	2,801	2,436
Accrued expenses	7,928	7,238
Total other liabilities	**20,802**	**9,674**

In respect of lease liabilities, refer to note 2.6 and note 20 for further information on the accounting for leasing contracts under NZ IFRS 16.

$3,683 thousand of lease liabilities is expected to be settled within 12 months and $6,390 thousand of lease liabilities is expected to be settled over 12 months. All other liabilities are due for settlement within 12 months.

25 Provisions

in thousands of NZD	2019	2018
Provision for long service leave	3,781	3,308
Other provisions	12	35
Total provisions	**3,793**	**3,343**

25 Provisions (continued)

Changes in provisions were as follows:

in thousands of NZD	2019	2018
Provision for long service leave		
Opening balance	3,308	3,032
Additions	1,164	518
Used	(178)	(182)
Releases	(513)	(60)
Closing balance	**3,781**	**3,308**

Notes to the Financial Statements

26 Equity

in thousands of NZD	2019	2018
Contributed equity (note 26.1)	551,200	551,200
Reserves (note 26.2)	2,227	1,806
Retained earnings (note 26.3)	1,114,984	1,025,644
Total equity	**1,668,411**	**1,578,650**

26.1 Contributed equity

Changes in contributed equity, reserves and retained earnings were as follows:

in thousands of NZD	2019	2018
Opening balance	551,200	551,200
Ordinary share capital issued during the year	-	-
Closing balance	**551,200**	**551,200**

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

As at 31 December 2019, total authorised and paid up capital comprised 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. The ordinary share capital qualifies as Common Equity Tier 1 capital for capital adequacy purposes.

26.2 Reserves

in thousands of NZD	2019	2018
Opening balance	1,806	1,722
Changes in FVOCI financial assets revaluation reserve (gross)	585	117
Changes in FVOCI financial assets revaluation reserve (deferred tax)	(164)	(33)
Closing balance	**2,227**	**1,806**

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

26.3 Retained earnings

in thousands of NZD	2019	2018
Opening balance	1,025,644	922,695
Impact of adoption of NZ IFRS 9	-	(140)
Net profit for the year	89,340	103,089
Closing balance	**1,114,984**	**1,025,644**

Notes to the Financial Statements

27 Contingent liabilities

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

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

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

in thousands of NZD	2019	2018
Guarantees	5,776	5,839
Lending commitments		
Irrevocable lending commitments	63,785	74,240
Revocable lending commitments	1,491,888	1,403,648
Total contingent liabilities	**1,561,449**	**1,483,727**

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

28 Expenditure commitments

28.1 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**	**-**

28.2 Non-cancellable operating lease commitments

in thousands of NZD	2019	2018
One year or less	916	4,196
Between one and two years	582	2,921
Between two and five years	490	3,239
Over five years	-	-
Total operating lease commitments	**1,988**	**10,356**

The Bank 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, 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.

29 Priority of financial liabilities in the event of a liquidation

The financial liabilities of the Bank reported in these financial statements are unsecured. Where the assets of the Bank are liquidated or the Bank ceases to trade, those financial liabilities would rank (under New Zealand law in relation to those assets) equally with the claims of the Bank's other unsecured creditors and behind the preferred creditors set out in Schedule 7 of the Companies Act 1993.

30 Risks arising from financial instruments

Rabobank New Zealand Limited has an integrated framework of responsibilities and functions driven from the Board level down to operational levels, covering all material risks most notably credit, market, liquidity and operational risk.

The Rabobank New Zealand Limited Board are ultimately responsible for the organisational strategy and business plan and ultimately responsible for the risk management framework and is responsible for the oversight of its operation by management.

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

30.1 Liquidity risk

Liquidity risk is defined as the risk that the Bank will not have sufficient funds available to meet its financial and transactional cash flow obligations and regulatory obligations. The Bank'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, maturities of deposits and other obligations. Liquidity policies are reviewed periodically or 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.

The main activities that give rise to liquidity risk are the Bank's typical banking activities of raising and repaying funding, lending and repaying of loans, and cashflows generated from derivatives. One fundamental role for a bank is to manage the maturity mismatch between assets and liabilities and liquidity risk arises when there is a mismatch in volume and timing of cashflows.

30 Risks arising from financial instruments (continued)

30.1 Liquidity risk (continued)

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

The Bank actively monitors and manages the mismatch between assets and liabilities as part of standard banking operations. The management of the mismatch of assets against liabilities using expected cash flows allows for the repayment behaviour of assets and liabilities that are not aligned to the contractual maturity. The Bank 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 Bank holds a portfolio of high quality liquid securities to support liquidity risk management. The size of the Bank's liquidity portfolio is based on the amount required to meet its liquidity risk appetite and regulatory obligations.

in thousands of NZD	Note	2019	2018
Cash at banks	13	104,054	101,677
Balances with Central Bank	13	240,299	165,214
New Zealand Government Securities	15	541,092	464,467
Other debt securities (Kauri)	15	191,539	182,595
Total liquid assets		**1,076,984**	**913,953**

Notes to the Financial Statements

30 Risks arising from financial instruments (continued)

30.1 Liquidity risk (continued)

30.1.1 Contractual maturity

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

in thousands of NZD	Total	On Demand	Less than 6 Months	6-12 Months	12-24 Months	24-60 Months	Over 60 Months
At 31 December 2019							
Financial assets							
Cash and cash equivalents	344,353	344,353	-	-	-	-	-
Derivative financial instruments	7,407	-	46	2,457	965	3,898	41
Financial assets at fair value through other comprehensive income	739,970	-	523,671	1,397	132,216	82,686	-
Loans and advances	11,458,154	-	1,845,242	3,049,692	3,510,421	2,432,622	620,177
Due from related entities	254,668	3,770	174,019	501	30,711	45,667	-
Other financial assets	4,111	-	4,111	-	-	-	-
Total financial assets	**12,808,663**	**348,123**	**2,547,089**	**3,054,047**	**3,674,313**	**2,564,873**	**620,218**
Financial liabilities							
Derivative financial instruments	7,485	-	54	2,449	1,043	3,898	41
Deposits	4,976,605	1,744,663	2,035,254	640,499	238,654	317,423	112
Due to related entities	5,971,613	24,854	812,732	2,118,081	2,970,279	45,667	-
Other liabilities	21,336	-	12,729	1,960	3,258	3,383	6
Total financial liabilities	**10,977,039**	**1,769,517**	**2,860,769**	**2,762,989**	**3,213,234**	**370,371**	**159**
Contingent liabilities							
Guarantees	5,776	5,756	-	-	-	-	20
Lending commitments	1,555,673	1,547,031	2,285	-	180	3,430	2,747
Total contingent liabilities	**1,561,449**	**1,552,787**	**2,285**	**-**	**180**	**3,430**	**2,767**

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	266,891	266,891	-	-	-	-	-
Derivative financial instruments	4,742	-	105	20	1,471	2,918	228
Financial assets at fair value through other comprehensive income	656,093	-	523,267	1,344	52,644	78,838	-
Loans and advances	11,076,725	-	1,791,563	2,872,099	2,857,682	2,701,729	853,652
Due from related entities	439,138	3,123	263,045	1,750	52,724	118,496	-
Other financial assets	6,981	-	6,981	-	-	-	-
Total financial assets	**12,450,570**	**270,014**	**2,584,961**	**2,875,213**	**2,964,521**	**2,901,981**	**853,880**
Financial liabilities							
Derivative financial instruments	4,846	-	126	2	1,572	2,918	228
Deposits	4,301,792	1,692,702	1,498,951	508,176	394,534	207,214	215
Due to related entities	6,333,933	12,426	653,537	1,624,577	1,543,631	2,499,762	-
Other liabilities	9,674	-	9,674	-	-	-	-
Total financial liabilities	**10,650,245**	**1,705,128**	**2,162,288**	**2,132,755**	**1,939,737**	**2,709,894**	**443**
Contingent liabilities							
Guarantees	5,839	5,819	-	-	-	-	20
Lending commitments	1,477,888	1,464,523	482	1,519	1,183	4,087	6,094
Total contingent liabilities	**1,483,727**	**1,470,342**	**482**	**1,519**	**1,183**	**4,087**	**6,114**

Notes to the Financial Statements

30 Risks arising from financial instruments (continued)

30.1 Liquidity risk (continued)

30.1.2 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	344,353	344,353	-	-	-	-
Derivative financial instruments	7,407	46	2,457	965	3,898	41
Financial assets at fair value through other comprehensive income	739,970	523,671	1,397	132,216	82,686	-
Loans and advances	11,315,870	2,764,302	2,818,730	5,695,545	37,293	-
Due from related entities	254,668	177,789	501	30,711	45,667	-
Other financial assets	4,111	4,111	-	-	-	-
Total financial assets	**12,666,379**	**3,814,272**	**2,823,085**	**5,859,437**	**169,544**	**41**
Financial liabilities						
Derivative financial instruments	7,485	54	2,449	1,043	3,898	41
Deposits	5,001,682	2,767,874	930,330	708,417	582,777	12,284
Due to related entities	5,971,613	837,586	2,118,081	2,970,279	45,667	-
Other liabilities	21,336	12,729	1,960	3,258	3,383	6
Total financial liabilities	**11,002,116**	**3,618,243**	**3,052,820**	**3,682,997**	**635,725**	**12,331**

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	266,891	266,891	-	-	-	-
Derivative financial instruments	4,742	105	20	1,471	2,918	228
Financial assets at fair value through other comprehensive income	656,093	523,267	1,344	52,644	78,838	-
Loans and advances	10,817,336	2,628,171	2,687,391	5,461,523	40,251	-
Due from related entities	439,138	266,168	1,750	52,724	118,496	-
Other financial assets	6,981	6,981	-	-	-	-
Total financial assets	**12,191,181**	**3,691,583**	**2,690,505**	**5,568,362**	**240,503**	**228**
Financial liabilities						
Derivative financial instruments	4,846	126	2	1,572	2,918	228
Deposits	4,341,205	2,200,203	778,180	899,344	463,263	215
Due to related entities	6,333,933	665,963	1,624,577	1,543,631	2,499,762	-
Other liabilities	9,674	9,674	-	-	-	-
Total financial liabilities	**10,689,658**	**2,875,966**	**2,402,759**	**2,444,547**	**2,965,943**	**443**

Maturity analysis of contingent liabilities (guarantees and 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.

30 Risks arising from financial instruments (continued)

30.2 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 Bank's main types of market risk relate to interest rate and currency risks from non trading activities that arise from the banking book. The Bank's market risk is governed by the policies and procedures agreed by the Board. The policies serve a two-fold purpose: to protect the capital and earnings of the Bank, and to allow risk managers to benefit from movements in market risk without unduly compromising the Bank'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 Bank 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 Bank result from the maturity mismatch of asset and liabilities giving rise to interest rate and FX risks. Market Risk capture and report the residual interest rate risks. Since client activity is almost entirely in local currency, and funding is broadly sourced from local markets, there is only residual exposure to foreign exchange risk for the Bank. The Bank has no exposure to market risk for equities and commodities.

The Bank 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 $2 million which applied throughout the year (December 18: $2 million).

in thousands of NZD	2019	2018
VaR at year end	949	216

Market Risk also uses other tools which include positions, interest rate sensitivities and stress scenarios prepared daily and are used in managing and measuring market risks and interest rate risk on the banking book for the Bank. 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)	(143)	(100)

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Notes to the Financial Statements

30 Risks arising from financial instruments (continued)

30.2 Market Risk (continued)

30.2.2 Repricing analysis

The tables below show the repricing of assets and liabilities based on the earlier of repricing and 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	344,353	344,353	-	-	-	-	-
Derivative financial instruments	7,163	-	-	-	-	-	7,163
FVOCI financial assets	732,631	247,706	262,429	-	141,380	81,116	-
Loans and advances	11,175,124	5,926,364	1,351,030	736,135	2,390,319	762,982	8,294
Due from related entities	251,758	251,314	-	-	-	-	444
Other financial assets	4,111						4,111
Total financial assets	**12,515,140**	**6,769,737**	**1,613,459**	**736,135**	**2,531,699**	**844,098**	**20,012**
Other assets	748	-	-	-	-	-	748
Income tax receivable	-	-	-	-	-	-	
Net deferred tax assets	14,564	-	-	-	-	-	14,564
Property, plant and equipment	12,019	-	-	-	-	-	12,019
Intangible assets	1,057	-	-	-	-	-	1,057
Total non-financial assets	**28,388**	**-**	**-**	**-**	**-**	**-**	**28,388**
Total assets	**12,543,528**	**6,769,737**	**1,613,459**	**736,135**	**2,531,699**	**844,098**	**48,400**
Financial liabilities							
Derivative financial instruments	7,241	-	-	-	-	-	7,241
Deposits	4,944,744	2,732,696	1,011,019	618,195	229,137	310,459	43,238
Due to related entities	5,891,702	2,927,855	300,000	922,000	1,674,000	45,000	22,847
Other liabilities	20,802	932	915	1,836	3,098	3,292	10,729
Total financial liabilities	**10,864,489**	**5,661,483**	**1,311,934**	**1,542,031**	**1,906,235**	**358,751**	**84,055**
Current tax payable	6,835	-	-	-	-	-	6,835
Provisions	3,793	-	-	-	-	-	3,793
Total non-financial liabilities	**10,628**	**-**	**-**	**-**	**-**	**-**	**10,628**
Total liabilities	**10,875,117**	**5,661,483**	**1,311,934**	**1,542,031**	**1,906,235**	**358,751**	**94,683**
Interest rate derivatives							
Swaps	-	104,246	-	-	(26,700)	(77,546)	
Repricing gap (interest bearing assets and liabilities)	1,714,694	1,212,500	301,525	(805,896)	598,764	407,801	
Cumulative mismatch	1,714,694	1,212,500	1,514,025	708,128	1,306,893	1,714,694	

Notes to the Financial Statements

30 Risks arising from financial instruments (continued)

30.2 Market Risk (continued)

30.2.2 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	266,891	266,891	-	-	-	-	-
Derivative financial instruments	4,416	-	-	-	-	-	4,416
FVOCI financial assets	647,062	428,537	89,025	-	52,972	76,528	-
Loans and advances	10,606,458	5,918,491	1,433,954	1,471,201	1,080,299	693,540	8,973
Due from related entities	428,422	387,816	-	-	-	40,000	606
Other financial assets	6,981	-	-	-	-	-	6,981
Total financial assets	**11,960,230**	**7,001,735**	**1,522,979**	**1,471,201**	**1,133,271**	**810,068**	**20,976**
Other assets	502	-	-	-	-	-	502
Income tax receivable	-	-	-	-	-	-	-
Net deferred tax assets	13,559	-	-	-	-	-	13,559
Property, plant and equipment	3,020	-	-	-	-	-	3,020
Intangible assets	45	-	-	-	-	-	45
Total non-financial assets	**17,126**	**-**	**-**	**-**	**-**	**-**	**17,126**
Total assets	**11,977,356**	**7,001,735**	**1,522,979**	**1,471,201**	**1,133,271**	**810,068**	**38,102**
Financial liabilities							
Derivative financial instruments	4,521	-	-	-	-	-	4,521
Deposits	4,261,790	2,501,708	661,150	482,506	383,341	200,180	32,905
Due to related entities	6,105,915	4,566,725	60,000	640,000	427,000	385,000	27,190
Other liabilities	9,674	-	-	-	-	-	9,674
Total financial liabilities	**10,381,900**	**7,068,433**	**721,150**	**1,122,506**	**810,341**	**585,180**	**74,290**
Current tax payable	13,463	-	-	-	-	-	13,463
Provisions	3,343	-	-	-	-	-	3,343
Total non-financial liabilities	**16,806**	**-**	**-**	**-**	**-**	**-**	**16,806**
Total liabilities	**10,398,706**	**7,068,433**	**721,150**	**1,122,506**	**810,341**	**585,180**	**91,096**
Interest rate derivatives							
Swaps	-	109,246	(10,000)	5,000	-	(104,246)	
Repricing gap (interest bearing assets and liabilities)	1,631,644	42,548	791,829	353,695	322,930	120,642	
Cumulative mismatch	**1,631,644**	**42,548**	**834,377**	**1,188,072**	**1,511,002**	**1,631,644**	

Notes to the Financial Statements

30 Risks arising from financial instruments (continued)

30.3 Credit Risk

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

The main activities that give rise to credit risk are the Bank lending money and otherwise entering into transactions involving customers of the Bank, or others owing money to the Bank.

The Bank's credit risk policies focus, amongst other things, on facility terms, serviceability and relevant security. The Bank 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 Bank monitors the extent to which the client meets its agreed obligations. In its approval process the Bank uses the Bank's Internal Risk Rating, which reflects the counterparty's probability of default. The credit risk processes, including compliance with policy, are subject to internal and external audit.

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

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

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

30.3.1 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	344,353	266,891
Financial assets at fair value through other comprehensive income	732,631	647,062
Loans and advances	11,175,124	10,606,458
Due from related entities	251,758	428,422
Other financial assets	4,111	6,981
Derivative financial instruments	7,163	4,416
Commitment and guarantees (note 27)	1,561,449	1,483,727
Total credit exposures	**14,076,589**	**13,443,957**

Credit exposures analysed by industry type:

in thousands of NZD	2019	2018
Agriculture	12,415,623	11,701,929
Finance and insurance	556,312	793,642
Forestry and fishery	36,172	30,554
Government	783,173	634,305
Property and business services	123,595	95,929
Other	161,714	187,598
Total credit exposures	**14,076,589**	**13,443,957**

Credit exposures analysed by geographical areas:

in thousands of NZD	2019	2018
New Zealand	13,870,597	13,235,204
Australia	7,660	7,691
Finland	72,279	56,738
Germany	110,543	117,684
Luxembourg	10,498	5,084
United States of America	5,012	11,284
The Netherlands	-	10,272
Total credit exposures	**14,076,589**	**13,443,957**

Notes to the Financial Statements

30 Risks arising from financial instruments (continued)

30.3 Credit Risk (continued)

30.3.2 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.
Financial assets at fair value through other comprehensive income	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. These lending exposures will generally have a significant level of collateralisation depending on the nature of the product. Security is typically taken in the form of mortgages over water rights, rural and non-rural properties, 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 some clients, security is 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. As at 31 December 2019, average loan to valuation ratio 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 Bank policy to dispose of repossessed assets in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. The Bank does not use or take repossessed properties for business use. During the year ended 31 December 2019, the Bank did not assume ownership of any repossessed properties (31 December 2018: nil).

The Bank 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 Bank may write-off loans that are still subject to enforcement activity. The outstanding contractual amounts of partly or wholly written off assets during 2018 was nil.

Notes to the Financial Statements

30 Risks arising from financial instruments (continued)

30.3.3 Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank 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 Bank'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	344,353	-	-	-	344,353
R8-R10	-	-	-	-	-
R11-R14	-	-	-	-	-
R15-R20	-	-	-	-	-
D1-D4	-	-	-	-	-
Total	**344,353**	**-**	**-**	**-**	**344,353**

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	671,194	61,437	-	-	732,631
R8-R10	-	-	-	-	-
R11-R14	-	-	-	-	-
R15-R20	-	-	-	-	-
D1-D4	-	-	-	-	-
Total	**671,194**	**61,437**	**-**	**-**	**732,631**

Gross loans and advances in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
At 31 December 2019					
R0-R7	68,156	-	-	-	68,156
R8-R10	762,006	-	-	-	762,006
R11-R14	6,987,782	76,273	-	-	7,064,055
R15-R20	2,083,922	805,988	-	-	2,889,910
D1-D4	-	-	9,361	414,298	423,659
Total	**9,901,866**	**882,261**	**9,361**	**414,298**	**11,207,786**

* 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	370,956	-	-	-	370,956
R11-R14	891,158	5,890	-	-	897,048
R15-R20	143,913	27,000	-	-	170,913
D1-D4	-	-	337	13,464	13,801
Total	**1,514,758**	**32,890**	**337**	**13,464**	**1,561,449**

Notes to the Financial Statements

30 Risks arising from financial instruments (continued)

30.3.3 Credit quality per class of financial assets (continued)

The credit quality of financial assets is managed by the Bank 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 Bank'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 2018					
R0-R7	266,891	-	-	-	266,891
R8-R10	-	-	-	-	-
R11-R14	-	-	-	-	-
R15-R20	-	-	-	-	-
D1-D4	-	-	-	-	-
Total	**266,891**	**-**	**-**	**-**	**266,891**

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	75,781	-	-	-	75,781
R8-R10	883,679	6	-	-	883,685
R11-R14	6,883,161	82,758	-	-	6,965,919
R15-R20	1,678,268	749,215	-	-	2,427,483
D1-D4	-	-	26,796	253,536	280,332
Total	**9,520,889**	**831,979**	**26,796**	**253,536**	**10,633,200**

* 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 2018					
R0-R7	106,909		-	-	106,909
R8-R10	383,809	-	-	-	383,809
R11-R14	825,806	7,655	-	-	833,461
R15-R20	126,911	27,344	-	-	154,255
D1-D4	-	-	4,493	800	5,293
Total	**1,443,435**	**34,999**	**4,493**	**800**	**1,483,727**

* Gross loans and advances exclude provisions for doubtful debts.

Notes to the Financial Statements

30 Risks arising from financial instruments (continued)

30.3.3 Credit quality per class of financial assets (continued)

Credit rating descriptions

R0-R7	Counterparties that are strong to extremely strong in meeting current and future financial commitments of the Bank.
R8-R10	Counterparties that have adequate capacity to meet current and future financial commitments to the Bank.
R11-R14	Counterparties that have adequate capacity to meet current financial commitments of the Bank.
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 Bank assess whether the account is impaired. This is required to be completed for every account in the Bank 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.

30.3.4 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 $180,516 thousand (2018: $19,744 thousand).

30.3.5 Estimated fair value of collateral on impaired loans

in thousands of NZD	2019	2018
Fair value of collateral held**	402,531	249,174
Total individually impaired assets (note 18.1)	414,299	257,246

** 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.

30.3.6 Concentration of credit exposures to individual counterparties

	2019		2018	
Bank counterparties:	As at 31 December	Peak for the period	As at 31 December	Peak for the period
Percentage of Common equity Tier 1 capital				
10-15%	-	-	-	-
15-20%	-	-	-	-
20-25%	-	1	-	-
Non-bank counterparties:				
Percentage of Common equity Tier 1 capital				
10-15%	-	-	-	-
15-20%	-	-	-	-
20-25%	-	-	-	-

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

Credit exposure is calculated on the basis of actual exposure net of individual credit impairment provision. It excludes credit exposures to Connected Persons, credit exposures to the central government or central bank of any country with a long-term credit rating of A- or A3 or above, or its equivalent, and credit exposures to any supranational or quasi-sovereign agency with a long-term credit rating of A- or A3 or above, or its equivalent.

The peak end-of-day credit exposure is measured by taking the maximum end-of-day aggregate credit exposure during the period and dividing it by the Banking Group's Common equity Tier 1 capital as at the end of the period.

Notes to the Financial Statements

30 Risks arising from financial instruments (continued)

30.3 Credit Risk (continued)

30.3.7 Concentration of credit exposure with related counterparties

Number of groups of closely related counterparties	2019	2018
Percentage of Common equity Tier 1 capital		
20-25%	-	-
25-30%	-	-
30-35%	-	-
35-40%	-	-

For the purpose of this disclosure, the Bank measures connected party exposures on a net-exposure basis, as described in the RBNZ's Connected Exposures Policy (BS8). Aggregate gross exposures to connected persons must not exceed 125% of the Bank's Tier One capital or net exposures a percentage based on an external rating (S&P A = 40%) of the Bank's Tier One capital ratio. As described in "Capital Adequacy Framework (Standardised Approach)" (BS2A), the exposure value for bilateral on-balance sheet netting of loans and deposits is calculated by treating loans as exposures and deposits as cash collateral. Information on loss allowance is included in note 35.

31 Concentration of funding of financial liabilities

Analysis of funding by product:

in thousands of NZD	2019	2018
Deposits	4,944,744	4,261,790
Due to related entities	5,891,702	6,105,915
Other liabilities	20,802	9,674
Total funding	**10,857,248**	**10,377,379**

Analysis of funding by industry:

in thousands of NZD	2019	2018
Agriculture	706,523	830,911
Finance and insurance	6,867,012	6,681,849
Personal and other services	3,008,877	2,617,425
Other	274,837	247,194
Total funding	**10,857,249**	**10,377,379**

Analysis of funding concentration by geographical areas:

in thousands of NZD	2019	2018
Australia	31,865	16,016
The Netherlands	3,999	2,553
New Zealand	10,769,633	10,305,830
United Kingdom	17,488	17,107
United States of America	10,293	11,601
All other countries	23,971	24,272
Total funding	**10,857,249**	**10,377,379**

Notes to the Financial Statements

32 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 3.4 NZ IFRS 13 'Fair Value Measurement' requires the Bank to disclose the fair value of those financial instruments not already carried at fair value in the Balance Sheet.

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

in thousands of NZD	2019 Carrying amount	2019 Fair value	2018 Carrying amount	2018 Fair value
Financial assets				
Cash and cash equivalents	344,353	344,353	266,891	266,891
Derivative financial instruments	7,163	7,163	4,416	4,416
Financial assets at fair value through other comprehensive income	732,631	732,631	647,062	647,062
Loans and advances	11,175,124	11,397,943	10,606,458	10,772,007
Due from related entities	251,758	250,751	428,422	426,141
Other financial assets	4,111	4,111	6,981	6,981
Total financial assets	**12,515,140**	**12,736,952**	**11,960,230**	**12,123,498**
Financial liabilities				
Derivative financial instruments	7,241	7,241	4,521	4,521
Deposits	4,944,744	5,017,905	4,261,790	4,315,654
Due to related entities	5,891,702	5,925,105	6,105,915	6,163,194
Other financial liabilities*	20,802	20,802	9,674	9,674
Total financial liabilities	**10,864,489**	**10,971,053**	**10,381,900**	**10,493,043**

* Other financial liabilities exclude lease liabilities.

Fair value hierarchy

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

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

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

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

Valuation methodology

Financial assets and financial liabilities carried at fair value

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

Derivative financial instruments and 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.

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

Notes to the Financial Statements

32 Fair value of financial instruments (continued)

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

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

in thousands of NZD	Level 1	Level 2	Level 3	Total
At 31 December 2019				
Financial assets				
Derivative financial instruments	-	7,163	-	7,163
Financial assets at fair value through other comprehensive income	732,631	-	-	732,631
Financial liabilities				
Derivative financial instruments	-	7,241	-	7,241

in thousands of NZD	Level 1	Level 2	Level 3	Total
At 31 December 2018				
Financial assets				
Derivative financial instruments	-	4,416	-	4,416
Financial assets at fair value through other comprehensive income	647,062	-	-	647,062
Financial liabilities				
Derivative financial instruments	-	4,521	-	4,521

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 follows, and are categorised as level 3 (with the exception of cash and cash equivalents which are level 1, and due from other financial institutions and deposits which are level 2).

Cash and cash equivalents

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

Due from other financial institutions, Loans and advances and Due from related entities

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

Other financial assets and Other financial liabilities

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

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.

Notes to the Financial Statements

33 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Rabobank New Zealand Limited 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 bank's balance sheet if all set-off rights were exercised.

2019 in thousands of NZD	Effects of offsetting on the balance sheet Gross amounts	 Gross amounts set off in the balance sheet	 **Net amounts presented in the balance sheet**	Related amounts not offset Amounts subject master agreements	 Financial instrument collateral	 **Net amount**
Financial Assets						
Derivative financial instruments	7,163	-	7,163	-	-	7,163
Total financial assets	**7,163**	**-**	**7,163**	**-**	**-**	**7,163**
Financial Liabilities						
Derivative financial instruments	7,241	-	7,241	-	-	7,241
Total financial liabilities	**7,241**	**-**	**7,241**	**-**	**-**	**7,241**

2018 in thousands of NZD	Effects of offsetting on the balance sheet Gross amounts	 Gross amounts set off in the balance sheet	 **Net amounts presented in the balance sheet**	Related amounts not offset Amounts subject master agreements	 Financial instrument collateral	 **Net amount**
Financial Assets						
Derivative financial instruments	4,416	-	4,416	-	-	4,416
Total financial assets	**4,416**	**-**	**4,416**	**-**	**-**	**4,416**
Financial Liabilities						
Derivative financial instruments	4,521	-	4,521	-	-	4,521
Total financial liabilities	**4,521**	**-**	**4,521**	**-**	**-**	**4,521**

Notes to the Financial Statements

34 Reconciliation of cash flows

34.1 Reconciliation of net cash flows from operating activities

in thousands of NZD	Note	2019	2018
Net profit for the year		89,340	103,089
Non-cash items:			
Depreciation	9	4,572	1,104
Amortisation of intangible assets	9	207	42
Impairment losses	10	13,408	582
Foreign exchange losses / (gains)	8	52	33
Write off of property, plant and equipment	20	3	2
Changes in operating assets or operating liabilities:			
Change in derivative financial instruments		(27)	42
Change in financial assets at fair value through other comprehensive income		(84,900)	(51,630)
Change in loans and advances		(583,589)	(612,360)
Change in due from related entities		176,589	(62,472)
Change in other assets		2,685	(156)
Change in other liabilities		1,263	381
Change in income tax payable		(6,628)	(14,077)
Change in accrued interest receivable		4,799	(2,132)
Change in accrued interest payable		5,149	(1,550)
Change in deposits		672,620	246,980
Change in due to related parties		12,467	2,143
Change in net deferred tax assets		(1,253)	(515)
Change in employee entitlements		450	253
Net cash flows from / (used in) operating activities		**307,207**	**(390,241)**

34.2 Reconciliation of liabilities arising from cash flows from financing activities

in thousands of NZD		
At 31 December 2018		
Due to related entities	23	6,105,915
Cash flows - principal		(209,029)
Cash flows - interest		(5,185)
Non-cash movements		-
At 31 December 2019		-
Due to related entities	23	5,891,702
At 31 December 2017		
Due to related entities		5,732,753
Subordinated debt		60,859
Cash flows - principal		320,853
Cash flows - interest		(8,516)
Non-cash movements		(34)
At 31 December 2018		
Due to related entities		6,105,915
Subordinated debt		-

Notes to the Financial Statements

35 Related party disclosures

The Bank's parent entity is Rabobank International Holding B.V. The ultimate controlling party is Rabobank. Both the parent entity and the ultimate controlling entity are incorporated in the Netherlands. Dealings include funding, deposits and derivatives. The amounts of principal and interest due from and to related entities are disclosed in the statement of financial position and notes to the financial statements.

35.1 Transactions with related parties

35.1.1 Guarantees

The first period

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

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

The second period

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

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

The third period

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

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

The fourth period

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

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

The fifth period

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

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

Notes to the Financial Statements

35 Related party disclosures (continued)

35.1 Transactions with related parties (continued)

35.1.1 Guarantees (continued)

The sixth period

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

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

The seventh period

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

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

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

35.1.2 Commission and fee expense

A fee of $0.45 million was charged to the Bank by Rabobank in consideration for providing the obligations guarantees for 2019 (2018: $0.6 million).

35.1.3 Management expenses

Management expenses and recharges mainly consisted of two types, namely expenses incurred in relation to services received from a) Australian Branch of Rabobank; and b) overseas Rabobank Head Office.

a) Expenses that are related to provision of administrative and management services to the Bank (e.g. employee expenses, rent, professional fees) incurred by Australia Branch of Rabobank are recharged as per service level agreements . In total, management expenses and recharge costs of $43 million were charged by the Australia Branch of Rabobank in 2019 (2018: $37 million). Below table includes details of expenses recharged to the Bank by the Australia Branch of Rabobank:

in thousands of NZD	2019	2018
Personnel	22,238	20,081
Food and agri research	1,193	526
Professional fees	7,724	5,830
Depreciation	5,045	2,435
Rental and maintenance of premises	1,295	1,302
Computer charges	2,126	2,322
Travel and lodging	1,089	1,093
Telecommunication	534	749
Advertising and marketing	825	1,087
Other	1,005	1,374
	43,074	**36,799**

b) $14 million (2018: $13 million) were charged to the Bank by the Rabobank Head Office.

The Bank re-charged $6 million (2018: $1.8 million) of expenses that related to provision of administrative and mangement services to New Zealand Branch of Rabobank.

35.1.4 Other transactions

The Bank enters into a number of transactions with other related entities of Rabobank, but mainly with the New Zealand Branch of Rabobank. These transactions include funding, loans deposits and accrued interest. 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	4,873	8,048
Interest expense due to related entities	152,144	184,565
Interest expense subordinated debt	-	454
Due from related entities	251,758	428,422
Due to related entities	5,891,702	6,105,915

Derivatives with a combined notional of $175 million and a net fair value liability position of ($7 million) (2018: $150.2 million and ($4.5 million) respectively) are held with the New Zealand Branch of Rabobank and with Rabobank.

Notes to the Financial Statements

35 Related party disclosures (continued)

35.1.5 Working capital facilities

A loan facility of EUR 4.35 billion was granted from the New Zealand Branch of Rabobank to the Bank. The unused amount at 31 December 2019 was EUR 0.8 billion (2018: EUR 1.2 billion).

35.2 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.

35.3 Provision for impairment

For the year ended 31 December 2019, the Bank 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 Bank recognises collective impairment allowance relating to amounts owned by related parties in accordance with expected credit loss impairment model.

36 Key management personnel

36.1 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. Compensation is not apportioned for the time spent on entities outside of the Bank. 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	4,095,831	4,401,087
Post employment benefits	130,324	124,854
Other long term benefits	609,979	622,369
Termination benefits	118,924	587,546
Total KMP compensation	**4,955,058**	**5,735,856**

36.2 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 movements during the year	(755,876)	(914,913)
Loans outstanding at the end of the year	**3,282,971**	**4,038,847**
Interest income during the year	159,362	207,357

in whole NZD	2019	2018
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

Notes to the Financial Statements

37 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 Bank'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 year not otherwise dealt with in this report that has or may significantly affect the operations of the Bank, the results of those operations or the state of affairs of the Bank in subsequent financial years.

38 Dividend

No dividend was proposed or paid by the Bank for 2019 (2018: nil).

39 Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business.

The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Reserve Bank of New Zealand (RBNZ) in supervising the Bank.

The Bank's conditions of registration require capital adequacy ratios to be calculated in accordance with the BS2A (Capital Adequacy Framework). For regulatory capital adequacy purposes, total regulatory capital is defined as the sum of Common Equity Tier One capital, Additional Tier One capital and Tier Two capital. Tier One capital is defined as the sum of Common Equity Tier One capital and Additional Tier One capital.

Common Equity Tier 1 or core capital includes paid up ordinary shares, retained earnings, FVOCI financial assets revaluation reserve less certain deductions. The Bank does not have any additional Tier One capital. Tier Two capital includes subordinated debt.

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

The Bank maintained a strong capital position with its capital ratio well in excess of the regulatory minimum capital adequacy requirements and the Board approved capital target level at all times throughout the year ended 2019. The Bank has complied in full with all of its imposed capital requirements during the 2019 and 2018 financial years.

39.1 Capital

in thousands of NZD	2019	2018
Common Equity Tier 1 ("CET1") capital		
Paid-up ordinary shares issued by the Bank plus related share premium	551,200	551,200
Retained earnings (net of appropriations)	1,114,984	1,025,644
Accumulated other comprehensive income and other disclosed reserves	2,227	1,806
Less deductions from CET1 capital:		
Tax deductions	(14,564)	(13,559)
Goodwill and other intangible assets	(1,057)	(45)
Subtotal CET1 capital	**1,652,790**	**1,565,046**
Additional Tier 1 ("AT1") capital		
Instruments issued by the Bank (or a SPV of the Bank)	-	-
Share premium resulting from the issue of instruments included in AT1 capital	-	-
Regulatory adjustments applied to AT1 capital	-	-
Subtotal AT1 capital	**-**	**-**
Total Tier 1 capital	**1,652,790**	**1,565,046**
Tier 2 capital		
Term subordinated debt subject to phase-out transitional arrangements	-	-
Revaluation reserve	-	-
Total Tier 2 capital	**-**	**-**
Total capital	**1,652,790**	**1,565,046**

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

Notes to the Financial Statements

39 Capital management (continued)

39.2 Capital Adequacy (unaudited)

in thousands of NZD	2019	2018
Risk weighted exposure	12,577,691	11,805,206
Common Equity Tier 1 capital ratio	13.14%	13.26%
Tier 1 capital ratio	13.14%	13.26%
Total capital ratio	**13.14%**	**13.26%**
Minimum regulatory capital ratios		
Minimum Common Equity Tier 1 capital ratio	4.50%	4.50%
Minimum Tier 1 capital ratio	6.00%	6.00%
Minimum capital ratio	**8.00%**	**8.00%**
Buffer ratio		
Buffer ratio	5.14%	5.26%
Buffer ratio requirement	2.50%	2.50%

On 5 December 2019, the Reserve Bank of New Zealand finalised its capital adequacy rules for New Zealand banks.

- The final rules will: Increase Bank's Tier 1 minimum requirement from 6% to 7% of risk-weighted assets;
- Increase Bank's total capital requirement from 10.5% to 16% of risk-weighted assets;
- Be phased in over a 7 year period, commencing from July 2022.

Directors' Declaration

The directors of Rabobank New Zealand Limited ("the Bank") submit the annual report of the Bank for the year ended 31 December 2019.

The Shareholders of the Bank have agreed to apply the reporting concessions available under section 211(3) of the Companies Act 1993. Accordingly, there is no information required to be included in the Annual Report other than the financial statements for the year ended 31 December 2019, which are enclosed.

The directors of Rabobank New Zealand Limited declare that in their opinion:

(a) the financial report and notes of the Bank comply with the applicable accounting standards, are in accordance with the requirements of the Financial Markets Conduct Act 2013, and the Companies Act 1993 and give a true and fair view of the Bank's financial position as at 31 December 2019 and its performance for the year ended 31 December 2019; and

(b) there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they become due and payable;

Signed in accordance with a resolution of the directors.

Sir Henricus (Henry) Wilhelmus van der Heyden
Chairman

Date: 26 March 2020

Anne Brennan
Director

Date: 26 March 2020

Independent auditor's report

To the shareholder of Rabobank New Zealand Limited

The 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 financial statements of Rabobank New Zealand Limited (the Bank), present fairly, in all material respects, the financial position of the Bank 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 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 Bank 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 Bank. Partners and employees of our firm may deal with the Bank on normal terms within the ordinary course of trading activities of the business of the Bank. These matters have not impaired our independence as auditor of the Bank.

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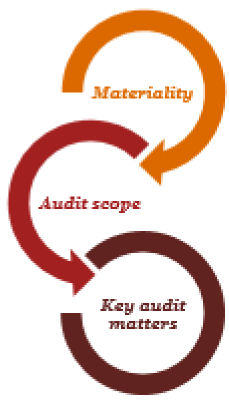
Our audit approach

Overview



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

The overall Bank materiality is $6.1 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 Bank 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 Bank materiality for the 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 financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the 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 financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the current year. These matters were addressed in the context of our audit of the 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 financial statements). Provisions for impairment on loans and advances were a key audit matter because of the subjective and complex judgements made by the Bank 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 emerging trends or 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 Bank'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 Bank'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 Bank'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 Bank in the context of the borrowers' circumstances based on the detailed loan and counterparty information known by the Bank. • We compared the valuation of collateral held to external information where available.

Information other than the financial statements and auditor's report

The Directors of Rabobank New Zealand Limited (the Directors) are responsible for the annual report. Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 financial statements

The Directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Bank'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 Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

A further description of our responsibilities for the audit of the 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-2/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Bank's shareholder. 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 Bank and the Bank's shareholder, 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
26 March 2020

Sydney

Bank Financial Strength Dashboard

Reconciliation of Disclosure Statement 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.

Credit Ratings

	Unaudited At 31/12/2019
S&P Global	A

Capital Adequacy

Capital ratios	Unaudited At 31/12/2019
Total capital ratio	13.14%
Common equity tier 1 (CET1) capital ratio	13.14%
Tier 1 capital ratio	13.14%
Buffer ratio	5.14%
Total capital ratio regulatory minimum	8.00%

in millions of NZD Capital	Unaudited At 31/12/2019
CET1 capital	1,668
CET1 deductions	16
Net CET1 capital	**1,652**
Total additional Tier 1 capital	-
Total Tier 1 capital	**1,652**
Total capital	**1,652**

Reconciliation of Disclosure Statement to Dashboard

Capital Adequacy (continued)

Risk weighted assets

At 31/12/2019 (Unaudited) in millions of NZD	Dashboard	Classification difference*	Disclosure Statement
Sovereign / quasi-sovereign	22	-	22
Public sector entities	-	-	-
Registered banks	21	-	21
Corporates	8,105	(8,105)	-
Retail / Residential mortgages	11	-	11
Other retail	-	-	-
Specialised lending exposures subject to slotting approach	-	-	-
Exposures subject to standardised approach	-	-	-
Problem loans	600	(19)	581
Equity holdings	-	-	-
Credit risk supervisory adjustment	-	-	-
All other assets	2,650	8,124	10,774
Commitments & contingent items	38	-	38
CCR for market-related contracts	14	-	14
Credit risk	11,461	-	11,461
Operational risk	775	-	775
Market risk	338	-	338
Total risk weighted assets	**12,574**	**-**	**12,574**

* Exposure categories, all at 100% risk weight

Asset Quality

At 31/12/2019 (Unaudited) in millions of NZD	Housing	Consumer	Business	Agriculture	All other	Total
Total loans	30	11	402	10,773	3	11,219
Impaired loans	-	-	14	400	-	414
Loans 90 days past due but not impaired	-	-	-	-	-	-
Total non-performing loans	**-**	**-**	**14**	**400**	**-**	**414**
Non-performing loans ratio (%)	0%	0%	3%	4%	0%	4%
Individual provisions	-	-	1	11	-	12
Collective provisions	-	-	1	28	-	29
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%						-

Reconciliation of Disclosure Statement to Dashboard

Profitability / Performance

in millions of NZD	Dashboard Unaudited 3 months to 31/03/2019	Dashboard Unaudited 3 months to 30/06/2019	Dashboard Unaudited 3 months to 30/09/2019	Dashboard Unaudited 3 months to 31/12/2019	Classification differences	Disclosure Statement Unaudited 12 months to 31/12/2019
Total interest income	138	139	137	131	-	545
Total interest expense	(75)	(74)	(70)	(65)	-	(284)
Net interest income	**63**	**65**	**67**	**66**	**-**	**261**
Gains/losses on trading and hedging	-	-	-	-	-	1
Fee and commission income	-	-	-	-	-	1
All other income	-	-	-	-	-	-
Operating expenses	(27)	(30)	(33)	(37)	-	(127)
Impaired asset expense	(4)	(14)	7	(3)	-	(14)
Profit before tax	**32**	**21**	**41**	**26**	**-**	**122**
Tax expense	(9)	(6)	(11)	(8)	-	(34)
Profit after tax	**23**	**15**	**30**	**18**	**-**	**88**

Financial Position

At 31/12/2019 (Unaudited) in millions of NZD	Dashboard	Classification differences	Disclosure Statement
Cash and bank deposits	593	(249)	344
Debt securities held	733	-	733
Net loans and advances	11,178	(3)	11,175
Derivatives in an asset position	7	-	7
All other assets	33	-	33
Due from related entities	(included above)	252	252
Total assets	**12,544**	**-**	**12,544**
Deposits	4,945	-	4,945
Debt securities issued	-	-	-
Other borrowings	5,892	-	5,892
Derivatives in a liability position	7	-	7
All other liabilities	31	-	31
Total liabilities	**10,875**	**-**	**10,875**
Equity	**1,669**	**-**	**1,669**

Liquidity

Capital ratios	Dashboard / Disclosure Statement Unaudited 3 months to 31/12/2019	Dashboard / Disclosure Statement Unaudited 3 months to 30/09/2019
Quarterly average core funding ratio	83.4%	87.4%
Quarterly average one-month mismatch ratio	6.4%	8.2%
Quarterly average one-week mismatch ratio	6.4%	7.4%

Large Exposures

	Unaudited At 31/12/2019
Top 5 credit exposures to non-bank counterparties (ie corporates) as a ratio of CET1 capital	18.5%
Credit exposures to non-bank counterparties (ie corporates) that are greater than 10% of CET1 capital	-
Top 5 credit exposures to banks as a ratio of CET1 capital	6.3%
Credit exposures to banks that are greater than 10% of CET1 capital	-