Coöperatieve Rabobank U.A.
New Zealand Banking Group

Disclosure Statement - 31 December 2020

Rabobank

Contents

General Disclosures (unaudited)

General information and definitions

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

In this Disclosure Statement:

- "Registered Bank" and "Rabobank" refer to Coöperatieve Rabobank U.A., incorporated in The Netherlands and trading as Rabobank.
- "Banking Group" or "Rabobank New Zealand Banking Group" refers to:
    - (a) the Branch;
    - (b) Rabobank New Zealand Limited ("RNZL");
    - (c) Rabo Capital Securities Limited. On 15 January 2021 Rabo Capital Securities Limited was voluntarily removed from the register of companies and thereby ceased, from that date, to be a member of the Banking Group;
    - (d) De Lage Landen Limited; and
    - (e) AGCO Finance Limited.
- "De Lage Landen Companies" means New Zealand-incorporated companies De Lage Landen Limited and AGCO Finance Limited.
- "Core Banking Group" means the Banking Group excluding the De Lage Landen Companies.
- "Overseas Banking Group" means the Registered Bank and all entities included in the Registered Bank's group for the purposes of public reporting of group financial statements in The Netherlands.
- "Branch" refers to the New Zealand business of the Registered Bank.

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

General matters

Registered Bank

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

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

No subordination of claims of creditors

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

Requirement to hold excess assets over deposit liabilities

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

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

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

However, the Financial Supervision Act, the EU Capital Requirements Regulation and the EU Capital Requirements Directive require the Overseas Banking Group to maintain certain liquid assets in order to cover an ongoing obligation to pay liabilities of the Overseas Banking Group. The requirement is based on the consolidated position of the Overseas Banking Group and any liquidity requirements of the Banking Group will form part of the Overseas Banking Group's consolidated position. This requirement has the potential to impact on the management of the liquidity of the Branch.

General Disclosures (unaudited)

General matters (continued)

Directors

There have been the following changes to the Registered Bank's Board of Directors since 31 December 2019.

- Mark Pensaert was appointed as a director of the Registered Bank with effect on 8 April 2020.
- Jan van Nieuwenhuizen resigned as a director of the Registered Bank with effect on 1 September 2020.
- Leo Degle resigned as a director of the Registered Bank with effect on 16 September 2020.

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

Managing Board

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

General Disclosures (unaudited)

General matters (continued)

Managing Board (continued)

Name:	Bernardus Jacobus Marttin	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 · Utrecht America Holding. · Rabobank Foundation · Rabo Partnerships · EACB (European Association of Co-operative Banks) · Arise N.V · Dutch Trade Board (ISO NL) · Hans R. Neumann Foundation · American Chamber of Commerce · Food Action Alliance
Occupation(s):	Banker	
Qualifications:	Bachelor's degree in Business Administration, Fundacao Getulio Vargas Master's degree in Business Administration, University of Western Ontario, Canada & Hong Kong	
Country of Residence:	The Netherlands	
Type of director:	Non-Independent Executive Director	

Name:	E.A. de Groot (Els)	External Directorships: · Member of Rabobank North American Board & Risk Committee
Occupation(s):	CRO	
Qualifications:	Master's degree in Business Economics,University of AmsterdamCertified and registered financial analyst, VBA/Vrije Universiteit Amsterdam	
Country of Residence:	The Netherlands	
Type of director:	Non-Independent Executive Director	

Name:	M.P.J. Lichtenberg (Mariëlle)	External Directorships: · Member of the Supervisory Board of Obvion N.V. · Chair of the Supervisory Board of Bouwfonds Property Development
Occupation(s):	Member Managing Board	
Qualifications:	Master's degree in European Studies, University of Amsterdam	
Country of Residence:	The Netherlands	
Type of director:	Non-Independent Executive Director	

General Disclosures (unaudited)

General matters (continued)

Managing Board (continued)

Name:	C.M. Konst (Kirsten)	External Directorships: · Member of the Board of 'Vereniging VNO-NCW' · Member of the Supervisory Board of IDH
Occupation(s):	Member Managing Board	
Qualifications:	Master's degree in Business Economics, Vrije Universiteit AmsterdamMBA executive summer program, Notre Dame University (USA)Master's degree in Financial Law, Erasmus University Rotterdam	
Country of Residence:	The Netherlands	
Type of director:	Non-Independent Executive Director	
Name:	B. Leurs (Bart)	External Directorships: · Member of the Supervisory Board of DLL International
Occupation(s):	Chief Digital Transformation Officer	
Qualifications:	Master in Business administration, University of GroningenPost-doc Controller course, University of Maastricht	
Country of Residence:	The Netherlands	
Type of director:	Non-Independent Executive Director	
Name:	I.A. Sevinga (Ieko)	External Directorships: · Non-Executive board member DPG Media B.V.
Occupation(s):	Chief Information & Operations Officer	
Qualifications:	Master's degree in Econometrics, Erasmus University Rotterdam	
Country of Residence:	The Netherlands	
Type of director:	Non-Independent Executive Director	
Name:	B.J. Vos (Janine)	External Directorships: · Member Supervisory Board of KLM N.V.· Member of the Advisory Board of 'Topvrouwen.nl' · Member of the Advisory Board of Social Capital
Occupation(s):	Chief Human Resource Officer	
Qualifications:	Master's degree in Dutch Law and Employment Law, University of Utrecht	
Country of Residence:	The Netherlands	
Type of director:	Non-Independent Executive Director	

Executive Board

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

General Disclosures (unaudited)

General matters (continued)

Supervisory Board

Name: Occupation(s): Qualifications: Country of Residence: Type of director:	J. J. Nooitgedagt (Jan) Professional Supervisory Director Master's degree in Economics, University of Groningen RA Accounting, University of Groningen The Netherlands Independent Non-Executive Director	External Directorships: · Chair Supervisory Board PostNL N.V. ·Chair Supervisory Board of Invest-NL N.V. · Board Member Fiep Westendorp Foundation · Member of the Board of foundation 'Beschermingspreferente aandelen Fugro' · Chair Foundation 'Aandelenbeheer BAM Groep'
Name: Occupation(s): Qualifications: Country of Residence: Type of director:	P.H.J.M.. Visée (Pascal) Professional SupervisoryDirector/ Independent Advisor Master's degree in Business Economics, Erasmus University Rotterdam Master's degree in Dutch Law, Erasmus University Rotterdam Chartered Accountant,Catholic University Brabant Netherlands Independent Non-Executive Director	External Directorships: · Member Supervisory Board of Mediq Holding B.V. · Member Supervisory Board of Plus Holding B.V. · Member Supervisory Board of Royal FloraHolland U.A. · Chair Supervisory Board Foundation 'Stedelijk Museum Schiedam' · Member Supervisory Board Erasmus University · Member of the Advisory Board of 'Nolet Groep B.V.' ·Non-executive member of the Board of Foundation Albron
Name: Occupation(s): Qualifications: Country of Residence: Type of director:	R. Teerlink (Ron), Chairman Supervisory Board Professional supervisory director Master's degree in Business Economics, Vrije Universiteit Amsterdam The Netherlands Independent Non-Executive Director	External Directorships: · Member of the Supervisory Board Just Eat Takeaway.com N.V. · Chair Supervisory Board Vrije Universiteit Amsterdam

General Disclosures (unaudited)

General matters (continued)

Supervisory Board (continued)

Name:	P. H. M. Hofsté (Petronella)	External Directorships: · Member Supervisory Board of Fugro N.V. · Member Supervisory Board Achmea B.V. · Member Supervisory Board PON Holding · Chair of the Board of Foundation Nyenrode · Juror Kristal Price Dutch Ministry of Economical Affairs and Climate Policy · Board Member Hendrik de Keyser Association · Member Advisory Board of 'Topvrouwen.nl'
Occupation(s):	Professional supervisory director	
Qualifications:	Bachelor's degree in Business Administration, Nyenrode University Breukelen, Master's degree in Accounting & Finance Vrije Universiteit AmsterdamPostgraduate degree in Accountancy, Vrije Universiteit Amsterdam Certified accountant, member of the Royal Dutch Institute of 'Register-accountants'	
Country of Residence:	The Netherlands	
Type of director:	Independent Non-Executive Director	

Name:	A.A.J. M. Kamp (Arian)	External Directorships: · Chair Supervisory Board Koninklijke Coöperatie Agrifirm UA · Owner Partnership A.A.J.M. Kamp and W.D.Kamp-Davelaar · Chair of the Board of Foundation 'Beheer Flynth'
Occupation(s):	Entrepreneur/Professional Supervisory Director	
Qualifications:	Secondary Agricultural School, ROC West-BrabantPost graduate Program for Supervisors, Erasmus School of Accounting & Assurance	
Country of Residence:	The Netherlands	
Type of director:	Independent Non-Executive Director	

Name:	M. Trompetter (Marjan), Vice chair Supervisory Board	External Directorships: · Chair Supervisory Board Rijnstate Hospital, Arnhem · Owner Corona Consultancy · Treasurer of the KNHM foundation
Occupation(s):	Professional supervisory director/ Management Consultant	
Qualifications:	Master's degree in Business Economics, Vrije Universiteit Amsterdam	
Country of Residence:	The Netherlands	
Type of director:	Independent Non-Executive Director	

General Disclosures (unaudited)

General matters (continued)

Supervisory Board (coninuted)

Name:	A.P. Aris (Antoinette)	External Directorships: · Member Supervisory Board Randstad N.V. · Member Supervisory Board ASML N.V. · Member Supervisory Board Jungheinrich AG · Senior Affiliate Professor of Strategy INSEAD
Occupation(s):	Professional supervisory director, Senior Affiliate Professor	
Qualifications:	Master's degree in International Land and Water Management,University of Wageningen MBA, INSEAD	
Country of Residence:	The Netherlands	
Type of director:	Independent Non-Executive Director	
Name:	M.R.C. Pensaert (Mark)	External Directorships: · Senior Advisor of the Board of Tikehau Investment Managent SA
Occupation(s):	Professional Supervisory Director	
Qualifications:	Master's in Law, University of Ghent Corporate and Securities Law, Cambridge University	
Country of Residence:	Belgium	
Type of director:	Independent Non-Executive Director	

Address for communications to directors and New Zealand Chief Executive Officer

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

Level 23
157 Lambton Quay
Wellington 6011
New Zealand

Corporate governance of Registered Bank

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

Signing of the disclosure statement

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

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

General Disclosures (unaudited)

General matters (continued)

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

External Directorships:
• None

Directors and New Zealand Chief Executive Officer related transactions

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

Audit and Risk Committees

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

Audit Committee

- P. H. M. Hofsté, Chair
- A.P. Aris
- J. J. Nooitgedagt
- R. Teerlink
- P.H.J.M. Visée

Risk Committee

- J. J. Nooitgedagt, Chair
- P. H. M. Hofsté
- A.A.J. M. Kamp
- M.R.C. Pensaert
- M. Trompetter

Conflict of interest policy

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

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

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

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

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

General Disclosures (unaudited)

General matters (continued)

Auditors

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

Credit ratings

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

There have been changes to the ratings in the two years immediately before 31 December 2020. On 25 October 2019 Fitch revised its outlook in relation to Fitch's credit rating of the Registered Bank from stable to negative. On 29 June 2019 Standard & Poor's revised the Registered Bank's rating from A+ (positive) to A+ (stable). On 24 April 2020 Standard & Poor's revised the Registered Bank's rating from A+ (stable) to A+ (negative). On 15 September 2020 Fitch revised the Registered Bank's rating from AA-(negative) to A+ (negative).

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

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.

Guarantee arrangements

No material obligations of the Registered Bank that relate to the Branch are guaranteed as at the date its directors and New Zealand Chief Executive Officer signed this Disclosure Statement.

General Disclosures (unaudited)

Historical summary of financial statements

in millions of NZD	Year ended 31/12/2020	Year ended 31/12/2019	Year ended 31/12/2018	Year ended 31/12/2017	Year ended 31/12/2016
Statement of comprehensive income					
Interest income	581.83	663.29	664.5	633.28	665.89
Interest expense	(208.04)	(314.73)	(299.82)	(305.38)	(369.91)
Net interest income	373.79	**348.56**	**364.68**	**327.90**	**295.98**
Other income	21.98	17.23	11.51	2.32	1.45
Other expense	(14.76)	(11.33)	(6.75)	(0.83)	(1.07)
Other operating gains/(losses)	(36.15)	(1.52)	(32.19)	(31.99)	9.51
Non-interest income/(expense)	(28.92)	**4.38**	**(27.43)**	**(30.50)**	**9.89**
Operating income	344.87	**352.94**	**337.25**	**297.40**	**305.87**
Operating expenses	(160.89)	(147.63)	(126.99)	(108.26)	(116.79)
Impairment (losses)/releases	(15.59)	(23.13.)	(2.48)	1.34	(16.49)
Profit before income tax	168.39	**182.18**	**207.78**	**190.48**	**172.59**
Income tax expense	(47.19)	(52.46)	(63.56)	(58.28)	(54.81)
Net profit for the year	121.19	**129.72**	**144.22**	**132.20**	**117.78**
Statement of financial position					
Total assets	**17,493.97**	**16,756.03**	**16,158.33**	**15,271.54**	**14,306.49**
Total individually impaired assets	**499.33**	**533.76**	**258.51**	**293.11**	**131.40**
Total liabilities	**15,682.40**	**14,736.32**	**14,267.89**	**13,542.04**	**12,708.12**
Head office account	**330.24**	**319.47**	**290.64**	**255.88**	**231.86**
The amount of branch profits repatriated	**-**	**-**	**-**	**-**	**-**
Total equity	**1,811.57**	**1,700.24**	**1,599.80**	**1,475.62**	**1,366.51**

The amounts disclosed above are extracted from audited annual reports.

Pending proceedings or arbitration

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

Banking Group

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

Overseas Banking Group

Interest rate derivatives

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

The Registered Bank is involved in civil proceedings before the Dutch District Court, the Court of Appeals and the Supreme Court relating to interest rate derivatives entered into with Dutch business customers. Claimants in these proceedings in general claim to have been misinformed. The Registered Bank takes the stance that it has substantive and convincing legal and factual defences against these claims. The Registered Bank intends to continue to defend itself against these claims. With respect to the (re-)assessment of the interest rate derivatives of its Dutch business customers and the advance payments made and due on grounds of settlements having been concluded, Rabobank recognised a provision of 12 million euros as at 31 December 2020 (December 31, 2019: EUR 107 million).

General Disclosures (unaudited)

Pending proceedings or arbitration (continued)

Imtech

On 30 January 2018, the Registered Bank received a letter indicating that legal proceedings may be started with respect to a potential collective action in relation to certain share offerings of Royal Imtech N.V. in which the Registered Bank was involved. Furthermore, the receivers in August 2018 sent a letter in which they describe the possible grounds on which their future claim(s) towards the Registered Bank in its capacity of lender will be based. No legal proceedings have been started and no further (legal) actions have been taken by any of the aforementioned parties. The Registered Bank considers the Imtech case to be a contingent liability because it is not possible to assess the outcome of these (possible) claims at this moment. No provision has been made.

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

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

In 2013, the Registered Bank entered into settlement agreements with various authorities in relation to their investigations into the historical Libor and Euribor submission processes of the Registered Bank. All amounts payable under these settlement agreements were fully paid and accounted for in 2013.

The Registered Bank, along with a large number of other panel banks and brokers, has been named as a defendant in a number of putative class action suits and individual civil court cases brought before the United States Courts. These proceedings relate to the US Dollar (USD) Libor, British Pound Sterling Libor, Japanese Yen Libor, Tibor and Euribor. The Registered Bank and/or its subsidiaries have also been summoned to appear before various Dutch, Argentine, United Kingdom, Irish and Israeli courts in civil proceedings (including class action suits) relating to interest rate benchmarks.

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

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

Insurance business

The Banking Group does not conduct any insurance business.

Non-consolidated activities

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

Risk management policies

The Registered Bank, in respect of the Core Banking Group, has an integrated risk management framework driven from governance level down to operational levels, covering all aspects of risk. The Core Banking Group has a comprehensive Risk Management Strategy (RMS) framework that maintains effective processes to identify, assess, manage, monitor and report risks. The Core Banking Group's RMS consists of systems, structures, policies, processes and people which enable it to manage all risks relevant to the Core Banking Group. The framework provides value to the Core Banking Group through:

- Specifying the material risks of the bank and the approach to manage these risks;
- The internal controls systems in place to manage risk to an acceptable level;
- The policies and standards used to identify, monitor and report on risk management matters;
- The role and responsibility of the risk management function, the Board and management committees; and
- The approach for ensuring awareness of the RMS and for instilling an appropriate risk culture.

The material risks of the Core Banking Group are categorised by three distinct risk categories, as defined within the RMS. They are Business Risk, Financial Risk and Non-Financial Risk:

General Disclosures (unaudited)

Risk management policies (continued)

Risk Categorisation	Description	Aligned Material Risks
Business Risk	Business shocks that threaten market and financial goals, reputation and adequacy of capital.	Strategic (including Capital Adequacy) and Reputational Risk
Financial Risk	Possibility of losing money through default, loss of cash flow and market exposures.	Credit, Liquidity and Market Risk
Non-Financial Risk	Risks which are not covered by traditional financial risk management.	Operational and Compliance Risk

Refer to note 32 in the financial statements for:

- policies on liquidity, market, credit, operational and compliance 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).

The business manages and owns the risks, adheres to policy requirements and continuously monitors risk exposures, controls and outstanding actions. Risk governance at the Core Banking Group supports the execution and monitoring of risk management activities through:

- The operation of the risk management function;
- Establishment of RNZL's Board and the Core Banking Group's management committees;
- The formation of a risk taxonomy;
- Adherence to global and local risk policies and procedures; and
- Compliance and obligations management, and regulatory oversight

Board and Management Oversight

The RNZL's Board is ultimately responsible for RNZL's RMS. It is assisted in this role by RNZL Board and management committees. The RNZL Board and management committees provide oversight that the RMS has been effectively implemented and risk management practices are in place. RNZL Board and committees are governed by a Charter or Terms of Reference, which sets out its purpose, authority and approach.

RNZL's Board - is ultimately responsible for the organisational strategy, Business Plan, RMF and oversight of the business operations. This includes the ownership and setting of:

- Risk appetite (within the overall limits set by Rabobank Group and Rabobank Wholesale and Rural);
- Approving key risk policies and standards;
- Making relevant risk and compliance attestations; and
- Approving RMS

The development and operation of the above activities have been delegated to management by RNZL's Board.

RNZL's Board, Risk & Compliance Committee (BRCC) - the RNZL's BRCC assists the RNZL Board by providing objective non-executive oversight of the implementation and operation of the RMF, through:

- Overseeing and evaluating the quality and performance of risk and compliance functions;
- Maintaining an appropriate Risk Appetite Statement and RMS;
- Ensuring effective systems and data management are in place to appropriately inform the business; and
- Evaluating and endorsing key risk related policies, standards and functions

The development and operation of the above activities have been delegated to management by RNZL''s BRCC.

RNZL Board Remuneration Committee (REMCO) - assists the Board on matters relating to remuneration and oversees appropriate linkages to performance, risk and the RMF within the Rabobank New Zealand Remuneration Policy.

RNZL Board Audit Committee (BAC) - assists the Board to fulfil its oversight responsibilities for RNZL's financial reporting, internal control systems, risk management systems and the internal and external audit functions.

Core Banking Group's Management Committees - operate for the purpose of supporting management in fulfilling their responsibilities and ensuring appropriate oversight and management of material risks.

General Disclosures (unaudited)

Risk management policies (continued)

The Core Banking Group is supported by six key risk management committees for which the Chief Risk Officer (CRO) New Zealand, CRO RANZ and Chief Compliance Officer (CCO) RANZ are accountable for:

- New Zealand Risk Management Committee
- RANZ Compliance Anti-Money Laundering & Sanctions Committee (CAMS)
- RANZ Local Credit Committee
- Financial Restructuring Credit Committee New Zealand
- RANZ Model Governance Committee
- RANZ Policy & Standards Management Committee

Leadership Team (LT) - the Chief Executive Officer New Zealand has established an LT to assist with the day to day management of the Core Banking Group. The LT is responsible for:

- Operationalisation of relevant risk frameworks;
- Compliance to regulatory requirements; and
- Maintenance of a strong organisational risk culture

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

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

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

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

Risk management review

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

Internal audit function

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

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

Internal Audit performs audits using a risk based approach. Accordingly, greater emphasis is placed on those areas assessed as involving higher levels of risk. The frequency of audits depends on the audit universe and coverage plans.

General Disclosures (unaudited)

Internal audit function (continued)

The BAC meets at least four times per annum.

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

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

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

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

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

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

(i) are not contained elsewhere in the disclosure statement; and
(ii) would, if disclosed, materially affect the decision of a person to subscribe for debt securities of which the Registered Bank or any manager of the Banking Group is the issuer.

Financial Statements of Registered Bank and Overseas Banking Group

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

Auditor’s report

The Disclosure Statement has been audited by external auditors PricewaterhouseCoopers, except for the Credit and Market Risk Exposure and Capital Adequacy Information on pages 27 - 28 which has been reviewed. The statement of the nature and scope of the audit is included in the attached auditor's report.

General Disclosures (unaudited)

Conditions of registration

There have been no changes to the Registered Bank's Conditions of Registration since 30 June 2020.

Below is a copy of the Conditions of Registration that applied at 31 December 2020.

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

These conditions apply on and after 1 May 2020.

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

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

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

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

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

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

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

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

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

For the purposes of this condition of registration,-

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

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

3. That the business of the registered bank in New Zealand does not constitute a predominant proportion of the total business of the registered bank.

4. That no appointment to the position of the New Zealand chief executive officer of the registered bank shall be made unless:

(a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
(b) the Reserve Bank has advised that it has no objection to that appointment.

5. That Cooperatieve Rabobank U.A. complies with the requirements imposed on it by De Nederlandsche Bank N.V and the European Central Bank.

6. That Cooperatieve Rabobank U.A. complies with the following minimum capital adequacy requirements, as administered by De Nederlandsche Bank N.V. and the European Central Bank:

General Disclosures (unaudited)

Conditions of registration (continued)

(a) common equity tier 1 capital of Cooperatieve Rabobank U.A. is not less than 4.5% of risk weighted exposures;
(b) tier one capital of Cooperatieve Rabobank U.A. is not less than 6% of risk weighted exposures; and
(c) total capital of Cooperatieve Rabobank U.A. is not less than 8% of risk weighted exposures.

7. That liabilities of the registered bank in New Zealand, net of amounts due to related parties (including amounts due to a subsidiary or affiliate of the registered bank), do not exceed NZ$15 billion.

“banking group” means the New Zealand business of the registered bank and its subsidiaries as required to be reported in group financial statements for the group’s New Zealand business under section 461B(2) of the Financial Markets Conduct Act 2013.

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

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

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

Directors' and New Zealand Chief Executive Officer's Statement

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

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

- The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended); and
- The Disclosure Statement is not false or misleading; and

(ii) over the full year ended 31 December 2020:

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

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

Todd Charteris

Dated: 24 March 2021

Independent auditor's report

To the Directors of Cooperatieve Rabobank U.A.

This report is for the Cooperatieve Rabobank U.A. New Zealand Banking Group (the "Banking Group"), which is the aggregation of the New Zealand business of Cooperatieve Rabobank U.A., incorporated in the Netherlands and trading as Rabobank (the "Registered Bank"). The New Zealand business of Rabobank Cooperatieve U.A., comprises of Rabobank New Zealand Branch, Rabobank New Zealand Limited, Rabo Capital Securities Limited, De Lage Landen Limited and AGCO Finance Limited (collectively referred to as the "Banking Group") at 31 December 2020 and for the year then ended.

This report includes:

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

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

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

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

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

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

- the statement of financial position as at 31 December 2020;
- 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 aggregated financial statements, which include significant accounting policies and other explanatory information; and
- the supplementary information required by Schedules 4, 7, 11 and 13 of the Order.

Liability limited by a scheme approved under Professional Standards Legislation.

Our opinion

In our opinion:

- the Banking Group's aggregated financial statements (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 9, 11 and 13 of the Order and included within the Notes 18, 32 and 41):

  (i) comply with generally accepted accounting practice in New Zealand;
  (ii) comply with NZ IFRS and IFRS; and
  (iii) give a true and fair view of the financial position of the Banking Group as at 31 December 2020, and its financial performance and cash flows for the year then ended.

- the supplementary information disclosed in accordance with Schedules 4, 7, 11 and 13 of the Order and included in the *Risk management policies* section on pages 11 to 13 inclusive, Supplementary Financial Disclosures and Asset Quality on page 26, section 1 – *Reconciliation of mortgage related accounts* on page 27, and in Notes 18 and 32:

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

Basis for opinion

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

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

Independence

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

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

Key audit matters

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

Description of the key audit matter	How our audit addressed the key audit matter
Provisions for impairment on loans and advances (Refer to Notes 10, 16 and 18 of the aggregated financial statements) Provisions for impairment on loans and advances were a key audit matter because of the subjective and complex judgements made by the Banking Group in determining the necessity for, and then estimating the size of, provisions for impairment on loans and advances. NZ IFRS 9 Financial Instruments (NZ IFRS 9) requires an expected credit loss ("ECL") model to take into account forward looking information reflecting the Banking Group's view on potential future economic events. This requires considerable judgement to estimate ECL provision against financial instruments. The Banking Group uses judgements in the determination of ECL for the following key attributes: • significant increase in credit risk; • forward looking information; • macroeconomic scenarios; • key inputs including probability of default (PD), loss given default (LGD) and exposure at default (EAD); • overlay adjustments required to address those elements not captured by the ECL model; and • key inputs including expected future cash flows and weighting of the scenarios used in measuring individually assessed ECL provisions. The COVID-19 pandemic has significantly increased the estimation uncertainty, particularly in estimating the above key attributes used in determining the ECL as at year end. The principal considerations for our determination that the provisions for impairment on loans and advances is a key audit matter are:	We assessed the design and tested the operating effectiveness of relevant key controls over the provisioning for impairment on loans and advances under NZ IFRS 9. The relevant key controls included: • Governance over the development, validation and approval of the Banking Group's ECL models to assess compliance with NZ IFRS 9. • Review and approval of key judgements, assumptions and forward looking information used in the ECL models. • Interfaces and reconciliations of transfer of key data inputs from source systems to the models. • The review and approval process for the outputs of the ECL model and the adjustments and economic overlays that are applied to the modelled outputs. Our audit procedures over the provisions for impairment on loans and advances, performed on a sample basis, included: **Collective Provision (Stage 1, 2, 3a)** • Consideration of the methodology inherent within the models against the requirement of NZ IFRS 9. • Appropriateness of key assumptions in the ECL models, including staging, PD and LGD. This included using credit modelling specialists in our assessment. • Appropriateness 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 of loans and advances using the key assumptions in the models, such as PD and LGD. • Consideration of the potential for the ECL provisions to be affected by events not captured by the Banking Group's ECL models, with a particular focus on the impact of COVID-19, and assessing whether the overlays were reasonable.

Description of the key audit matter	How our audit addressed the key audit matter
• The judgements 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 ECL models, such as estimating forward looking PD, LGD, EAD of financial instruments and macro-economic scenarios and their weightings; • Overlays added to reflect the estimation uncertainty brought upon by COVID-19; and • The judgement and assumptions applied to determine individually assessed ECL provisions.	**Specific Provision (stage 3b)** • For a sample of individually assessed loans and advances, we assessed the appropriateness of the forward looking scenarios used and the weightings applied, including the Banking Group's cash flow forecasts supporting the impairment calculation in light of the requirement of NZ IFRS 9. • We assessed the appropriateness of key judgements (in particular the amount and timing of recoveries) made by the Banking Group in the context of the borrowers' circumstances based on the detailed loan and counterparty information known by the Banking Group. • We compared the valuation of collateral held to external information where available. We considered the impacts of events occurring subsequent to balance date on the loan provisions. We also evaluated the reasonableness of the Banking Group's disclosures against the requirements of NZ IFRS.

Our audit approach

Overview

Overall group materiality: $8.4 million, which represents 5% of profit before income tax.

We chose profit before income tax as the benchmark because, in our view, it is the benchmark against which the performance of the Banking Group is most commonly measured by users, and is a generally accepted benchmark.

- Full scope audits were performed for Rabobank New Zealand Branch, Rabobank New Zealand Limited, De Lage Landen Limited and AGCO Finance Limited;
- Analytical review procedures were performed on Rabo Capital Securities Limited.

As reported above, we have one key audit matter, being:

- Provisions for impairment on loans and advances

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the aggregated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. 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.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the aggregated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the aggregated financial statements.

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

How we tailored our group audit scope

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

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

The Directors of Cooperatieve Rabobank U.A. (the 'Directors') are responsible, on behalf of Cooperatieve Rabobank U.A., for the other information included in the Disclosure Statement. The other information comprises the information required to be included in the Disclosure Statement in accordance with Schedule 2 of the Order and is included on pages 1 to 16 inclusive (excluding the *Risk management policies* section on pages 11 to 13 inclusive). Our opinion on the aggregated financial statements and supplementary information does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the aggregated financial statements, as a whole, and the supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed on pages 27 and 28 (excluding section 1 – *Reconciliation of mortgage related accounts* on page 27) and in Note 41) disclosed in accordance with Clause 25 and Schedules 4, 7, 11, and 13 of the Order, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these aggregated financial statements.

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

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

This description forms part of our auditor's report.

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

We also report in accordance with the requirements of Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order. In relation to our audit of the aggregated financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed on pages 27 and 28 (excluding section 1 – *Reconciliation of mortgage related accounts* on page 27) and in Note 41) for the year ended 31 December 2020:

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

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

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

We have examined the supplementary information relating to credit and market risk exposures and capital adequacy required by Schedule 9 of the Order as disclosed on pages 27 and 28 (excluding section 1 – *Reconciliation of mortgage related accounts* on page 27) and in Note 41 of the aggregated financial statements of the Banking Group for the year ended 31 December 2020.

Our conclusion

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to credit and market risk exposures and capital adequacy disclosed on pages 27 and 28 (excluding section 1 – *Reconciliation of mortgage related accounts* on page 27) and in Note 41, 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 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410 (Revised)). Our responsibilities under this standard are further described in the *Auditor's responsibilities for the review of the supplementary information relating to credit and market risk exposures and capital adequacy* section of our report.

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

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

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

Our responsibility is to express a conclusion, whether, based on our review, the supplementary information relating to credit and market risk exposures and capital adequacy disclosed on pages 27 and 28 (excluding section 1 – *Reconciliation of mortgage related accounts* on page 27) and in Note 41, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

A review of the supplementary information relating to credit and market risk exposures and capital adequacy disclosed on pages 27 and 28 (excluding section 1 – *Reconciliation of mortgage related accounts* on page 27) and in Note 41 in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with ISAs NZ and ISAs. Accordingly we do not express an audit opinion on the supplementary information relating to credit and market risk exposures and capital adequacy disclosed on pages 27 and 28 (excluding section 1 – *Reconciliation of mortgage related accounts* on page 27) and in Note 41.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
24 March 2021

Sydney

Supplementary Financial Disclosures and Asset Quality

1. Additional information on statement of financial position

	Banking Group	
	2020	2019
In thousands of NZD		
Total interest earning and discount bearing assets	17,191,920	16,519,370
Total interest and discount bearing liabilities	15,046,245	14,490,682

	Registered Bank in New Zealand	
	2020	2019
In thousands of NZD		
Liabilities of the Registered Bank in New Zealand, net of amounts due to related parties	4,141,414	2,885,477
Retails deposits of the Registered Bank in New Zealand	-	-

2. Additional information for registered bank' overseas banking group

	31/12/2020	31/12/2019
in millions of EUR		
Net profit after income tax	1,096	2,203
Percentage (on twelve month rolling basis) of average total assets	0.2%	0.4%

	31/12/2020	31/12/2019
in millions of EUR		
Total assets	632,258	590,598
% change over the prevous twelve months	7.1%	0.0%

3. Asset quality of registered bank's overseas banking group

	31/12/2020	31/12/2019
in millions of EUR		
Total individually impaired assets (before allowances for credit impairment loss and net of interest held in suspense)	13,507	15,090
Total individually impaired assets as a percentage of total assets (%)	2.1%	2.6%
Total individual credit impairment allowance	3,134	3,225
Total individual credit impairment allowance as a percentage of total individually impaired assets (%)	23.2	21.4%
Total collective credit impairment allowance	1,566	715

Credit and Market Risk Exposures and Capital Adequacy (unaudited)

The financial information set out in this note has been reviewed (not audited) by the external auditor.

1. Residential mortgages

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

In thousands of NZD	At 31 December 2020 Drawn	Undrawn	Total
LVR range			
Do not exceed 80%	20,932	7,202	28,134
Exceeds 80% and not 90%	651	735	1,386
Exceeds 90%	315	379	694
Total	**21,898**	**8,316**	**30,214**

Reconciliation of mortgage related accounts

In thousands of NZD	2020
Loans and advances - loans with residential mortgages	21,898
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	21,898
Off-balance sheet residential mortgages exposures subject to the standardised approach	8,316
Total residential mortgage exposures subject to the standardised approach (as per LVR analysis)	**30,214**

2. Market risk end of period notional capital charges

	As at 31 December 2020	
In thousands of NZD	Implied risk weighted exposure	Notional capital charges
Interest rate risk	619,875	49,590
Foreign currency risk	168,375	13,470
Total	**788,250**	**63,060**

The Banking Group does not take any equity risk.

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

	6 months to 31 December 2020	
In thousands of NZD	Implied risk weighted exposure	Notional capital charges
Interest rate risk	681,375	54,510
Foreign currency risk	328,250	26,260
Total	**1,009,625**	**80,770**

Credit and Market Risk Exposures and Capital Adequacy (unaudited)

3. Market risk peak end-of-day notional capital charges (continued)

The Banking Group does not take any equity risk.

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

The above 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).

5. Capital Ratios of overseas banking group - Rabobank

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

in percentage (%)	31/12/2020	31/12/2019
Common equity Tier 1 capital ratio	16.80%	16.30%
Tier 1 capital ratio	19.00%	18.80%
Total capital ratio	**24.20%**	**25.20%**

Minimum capital requirements

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

Rabobank calculates its regulatory capital for credit risk for almost the entire loan portfolio using the Advanced Internal Ratings Based Approach approved by the supervisory authority. In consultation with the DNB, Rabobank applies the Standardised Approach to portfolios with relatively limited exposure and to some smaller portfolios outside the Netherlands which are not suitable for the Advanced Internal Ratings Based Approach.

Rabobank measures operational risk using an internal model, approved by DNB, that is based on the Advanced Measurement Approach. For market risk exposure, DNB has given Rabobank permission to calculate the general and specific position risk using its own internal value-at-risk (VaR) models, based on the The Capital Requirements Regulation (CRR).

Rabobank's Capital Adequacy and Risk Management Report (pillar 3) are publicly available on https://www.rabobank.com/en/images/pillar-3-report-2020.pdf

Appendix 1

Annual Report for Rabobank New Zealand
Banking Group
for the year ended 31 December 2020

Annual Report 2020

Statement of Comprehensive Income

in thousands of NZD	Note	For the year ended 31 December 2020	2019
Interest income	4	581,834	663,285
Interest expense	5	(208,045)	(314,733)
Net interest income		**373,789**	**348,552**
Other income	6	21,986	17,231
Other expense	7	(14,763)	(11,332)
Other operating gains/(losses)	8	(36,146)	(1,516)
Non-interest income / (expense)		**(28,923)**	**4,383**
Operating income		**344,866**	**352,935**
Operating expenses	9	(160,889)	(147,625)
Impairment (losses)/releases	10	(15,591)	(23,127)
Profit before income tax		**168,386**	**182,183**
Income tax expense	12.1	(47,195)	(52,457)
Net profit for the year		**121,191**	**129,726**
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)	28.2	1,275	741
Tax associated with changes in the fair value of financial assets through other comprehensive income	28.2	(357)	(207)
Total items that may be reclassified subsequently to profit or loss		**918**	**534**
Items that will not be reclassified to profit or loss			
Total items that will not be reclassified to profit or loss		**-**	**-**
Total other comprehensive income for the year		**918**	**534**
Total comprehensive income attributable to members of Rabobank New Zealand Banking Group		**122,109**	**130,260**

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 2020	At 31 December 2019
Assets			
Cash and cash equivalents	13	531,341	420,769
Derivative financial instruments	14	170,964	123,343
Financial assets at fair value through other comprehensive income	15	676,470	757,248
Loans and advances	16	14,157,133	13,805,974
Due from related entities	17	1,842,693	1,548,034
Other assets	19	68,728	68,019
Current tax receivables		14,155	524
Net deferred tax assets	12.3	21,470	18,969
Property, plant and equipment	20	8,711	12,089
Intangible assets	21	2,304	1,057
Total assets		17,493,969	16,756,026
Liabilities			
Derivative financial instruments	14	249,123	160,939
Debt securities in issue		3,265,078	2,199,913
Deposits	22	5,732,025	5,474,696
Interest bearing liabilities		1,935	4,725
Due to related entities	24	6,073,516	6,865,827
Current tax payable		1,427	2,893
Other liabilities	25	21,829	23,476
Provisions	26	7,225	3,854
Head office account		330,242	319,468
Total liabilities		15,682,400	15,055,791
Net assets		1,811,569	1,700,235
Equity			
Contributed equity	28.1	551,200	551,201
Reserves	28.2	3,258	2,340
Retained earnings	28.3	1,257,111	1,146,694
Total equity		1,811,569	1,700,235

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

B.C. Brouwers

Director
24 March 2021

B.J. Marttin

Director
24 March 2021

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

Statement of Changes in Equity

in thousands of NZD	Contributed equity (Note 28)	Retained earnings	Reserves (Note 28)	Total
At 1 January 2019	**551,201**	**1,046,796**	**1,806**	**1,599,803**
Net profit	-	100,898	-	100,898
Total other comprehensive income:				
Revaluation reserve - FVOCI financial assets	-	-	534	534
Total comprehensive income for the period	**-**	**100,898**	**534**	**101,432**
Cash dividends	-	(1,000)	-	(1,000)
At 31 December 2019	**551,201**	**1,146,694**	**2,340**	**1,700,235**
	(Note 28)		(Note 28)	
At 1 January 2020	**551,201**	**1,146,694**	**2,340**	**1,700,235**
Net profit	-	110,418	-	110,418
Total other comprehensive income:				
Revaluation reserve - FVOCI financial assets	-	-	918	918
Cash dividends	(1)	(1)	-	(2)
Total comprehensive income for the period	**-**	**110,418**	**-**	**110,418**
At 31 December 2020	**551,200**	**1,257,111**	**3,258**	**1,811,569**

Statement of Cash Flows

in thousands of NZD	Note	For the year ended 31 December 2020	2019
Cash flows from operating activities			
Cash was provided from:			
Interest income		575,299	651,177
Other income		22,087	17,231
Bad debt recovery		-	12
Derivative financial instruments *		4,451	20,612
Cash was applied to:			
Interest paid		(237,481)	(311,238)
Other expense	7	(537)	(448)
Management fees and other operating expenses		(147,008)	(140,889)
Tax payments		(65,153)	(58,581)
Cash flows from operating activities before changes in operating assets and liabilities		**151,658**	**177,876**
Cash was applied to:			
Financial assets at fair value through other comprehensive income		82,053	(109,278)
Loans and advances		(366,204)	(1,163,750)
Due from related entities		(292,038)	714,102
Deposits		279,662	759,861
Changes in operating assets and liabilities arising from cash flow movements		**(296,527)**	**200,935**
Net cash flows (used in)/from operating activities	**36**	**(144,869)**	**378,811**
Cash flows from investing activities			
Cash was applied to:			
Purchase of property, plant and equipment		(20,976)	(36,410)
Purchase of intangible assets		(1,773)	(1,219)
Net cash flows used in investing activities		**(22,749)**	**(37,629)**
Cash flows from financing activities			
Changes in financing liabilities:			
Debt securities in issue		1,065,745	(903,256)
Principal elements of lease payments		(4,052)	(3,321)
Preference shares		-	(280,000)
Interest bearing liabilities		2,791	5,744
Due to related parties		(786,292)	839,006
Dividends paid		(2)	(1,000)
Net cash flows from/(used in) financing activities		**278,190**	**(342,827)**
Net change in cash and cash equivalents		**110,572**	**(1,645)**
Cash and cash equivalents at the beginning of the period / year		420,769	422,414
Cash and cash equivalents at the end of the year		**531,341**	**420,769**

* Transactions are settled on a net basis.

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

Notes to the Financial Statements

1. Reporting entity

In accordance with the Financial Market Conduct Act 2013, a reporting entity is required to prepare financial statements for its New Zealand business. Cooperatieve Rabobank U.A ("Rabobank") is a reporting entity. The New Zealand business of Cooperatieve Rabobank U.A comprises of Rabobank New Zealand Branch (the "Branch"), Rabobank New Zealand Limited ("RNZL" or "Bank"), Rabo Capital Securities Limited ("RCSL"), De Lage Landen Limited ("DLL") and AGCO Finance Limited ("AGCO") (collectively referred to as "Rabobank New Zealand Banking Group" or the "Group"). RNZL, RCSL, DLL and AGCO are incorporated under the Companies Act 1993. On 15 January 2021 RCSL was voluntarily removed from the register of companies and thereby ceased, from that date, to be a member of the Banking Group.

These financial statements are an aggregation of the financial statements of the above entities as at and for the year ended 31 December 2020, which comprise all the activities of the Rabobank Group in New Zealand.

2. Basis of preparation

2.1 Statement of compliance

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

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

These financial statements were approved and authorised for issue on behalf the board of directors on 24 March 2021.

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 Banking Group operates (the functional currency). The financial statements are presented in New Zealand dollars (NZD), which is the Banking Group'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 Banking Group

The accounting policies adopted by the Banking Group are consistent with those adopted and disclosed in the prior period. The Bank has applied, where relevant, all new or revised accounting standards and interpretations effective and applicable to the year ended 31 December 2020.

Notes to the Financial Statements

2. Basis of preparation (continued)

2.5 Significant accounting judgments and estimates

Coronavirus (COVID-19) pandemic

The COVID-19 pandemic and its effect on the global economy have impacted our customers, operations and the Banking Group's performance. The outbreak necessitated governments to respond at unprecedented levels to protect the health of population, local economies and livelihoods. It has affected different regions at different times and at varying degrees and there remains a risk of subsequent waves of infections. Thus the pandemic has significantly increased the estimation uncertainty in the preparation of these financial statements including:

- the extent and duration of the disruption to business arising from the actions of governments, businesses and consumers to contain the spread of the virus;
- the extent and duration of the expected economic downturn, and subsequent recovery. This includes the impacts on capital markets and liquidity, credit quality, increasing unemployment, declines in consumer spending, reductions in production, and other restructuring activities; and
- the effectiveness of government and central bank measures to support businesses and consumers through this disruption and economic downturn.

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 determination of impairment. This involves an assessment of the situations, based on the financial data and information available. Although these assessments are made based on the best estimate by the management of current events and actions, actual results may vary from these estimates. If different assumptions or estimates were applied, the resulting value would change, impacting the net assets and income of the Banking Group.

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

2.5.1 Impairment of financial assets

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

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

- Significant increase in credit risk: judgement is required to transfer assets from stage 1 to stage 2.
- Forward-looking information: the estimation of expected credit losses for each stage and the assessment of significant increases in credit risk consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions (forward looking information). The estimation of forward-looking information may require significant judgement.
- Macro-economic scenarios: The Banking Group uses three global macroeconomic scenarios in their ECL models to determine the expected credit losses which reflect information available on current conditions and forecasts of future economic conditions. These forward-looking macroeconomic forecasts require judgment and are mostly 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.

Notes to the Financial Statements

2. Basis of preparation (continued)

- 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.

Impact of COVID-19

Management and particularly risk management continue to monitor measures taken by New Zealand government, the macro economic scenarios and assessing the impact specifically relative to the Banking Group's ECL. As a result this has adversely impacted the credit quality of the Banking Group's credit exposure which has resulted in increased model based provisioning in the collective impairment levels (Stage 1 and 2) of the loan portfolio. The impact on specific individual provisions as at December 2020 are immaterial.

A large part of the impact on the expected credit losses resulting from the COVID-19 pandemic relates to changes to the forward-looking information that result in an increase to the NZ IFRS 9 Stage 1 and 2 impairment allowances, resulting in higher levels of impairment charges. Note 16 "Loans and advances" provides an overview of the exposures and impairment allowances per stage.

The macroeconomic scenarios applied in 31 December 2020 reflect management's best estimate of economic conditions. The base case scenario reflects recovery in 2021 as the Bank sees a significant mitigating effect from the financial support packages being introduced by Australian government. The base case scenario is considered the most likely scenario with a likelihood of 70% while the downside and upside scenario each have a likelihood of 15% each. Further information on the macroeconomic scenarios and forward-looking information can be found in note 18 "Credit quality, impaired assets and provision for impairment".

3. Significant accounting policies

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

3.1 Basis of aggregation

The aggregated financial statements comprise the financial statements of the Banking Group as at and for the year ended 31 December 2020. The Banking Group comprises entities and operations as required to be included by the RBNZ and the Financial Markets Conduct Act 2013 that do not constitute a group in accordance with NZ IFRS 10.

3.1.1 Subsidiaries

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

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

3.1.2 Transactions eliminated on aggregation

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

3.2 Revenue and expense recognition

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

3.2.1 Interest income and expense

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

3.2.2 Fee and commission income and expense

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

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

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

3.2.3 Rental income

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

3.2.4 Other expenses

Operating expenses are recognised on an accrual basis.

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

3.3 Foreign currency

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

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

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

3.4 Income tax

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

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

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

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

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

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

3.5 Financial assets

3.5.1 Classification of financial assets

The Banking Group classifies its financial assets in the following measurement categories:

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

The classification depends on:

1. Business model assessment:

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

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

2. Contractual cash flow assessment:

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

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

A debt instrument that is held within a business model "hold to collect" and meets the SPPI test is measured at amortized 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.

Notes to the Financial Statements

3. Significant accounting policies (continued)

The Banking Group does not hold equity instruments.

3.5.2 Measurement of financial assets

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

Subsequent measurement of debt instruments depends on the Banking Group's business model for managing the asset and the cash flow characteristics of the asset.

3.5.3 Loans and advances

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost and presented as 'Loans and advances to customers' or 'Due from other financial institutions' or ' Due from related entities'. At initial recognition, the Banking Group measures these financial assets at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Interest income from these financial assets is included in net interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in 'gains/(losses) arising from the derecognition of financial assets measured at amortised cost'. Impairment losses are included in 'Impairment losses' in the Statement of Comprehensive Income.

3.5.4 Cash and cash equivalents

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

3.5.5 Derivative financial instruments

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

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

All derivative financial instruments are included under assets if their fair value is positive and under liabilities if their fair value is negative. This fair value hierarchy is described in more detail in note 34 .

3.5.6 Financial assets at fair value through other comprehensive income

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

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

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

3.5.7 Leases

The Banking Group as Lessee

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

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

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

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

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

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

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

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

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

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

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

The Banking Group as Lessor

Upon initial recognition the leased asset is presented as a receivable and measured at an amount equal to the net investment in the lease.

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

3.5.8 Offsetting

Offsetting of income and expenses

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

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

Offsetting assets and liabilities

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

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

3.5.9 Regular way purchase and sale of financial assets

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

3.5.10 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; or when the Banking Group has transferred substantially all the risks and rewards of ownership. In transactions where substantially all the risks and rewards are neither retained nor transferred, the Banking Group derecognises the assets when control is no longer retained, or when control is retained, the assets are recognised to the extent of the Banking Group's continuing involvement.

3.6 Impairment of financial assets

Impairment allowances apply to financial assets at amortised cost and financial assets at fair value through OCI, as well as to lease receivables, contract assets, trade receivables, certain loan commitments and financial guarantees. At initial recognition, an allowance is recognised for the amount of the expected credit losses from possible defaults in the coming 12 months (stage 1). If credit risk increased significantly since origination (but remains non-credit-impaired), an allowance will be required for the amount that equals the expected credit losses from possible defaults during the expected lifetime of the financial asset (stage 2). If the financial instrument becomes credit-impaired the allowance will remain at the Lifetime ECL (stage 3). Stage 3 allowance is assessed either on collective (stage 3A) or individual (stage 3B) basis. For these instruments the interest income will be recognised by applying the effective interest rate on the net carrying amount (including the allowance). Financial instruments become credit-impaired when one or more events have occurred that had an adverse impact on estimated future cash flows. The Bank does not use the low credit risk exemption for any financial instrument.

Two fundamental drivers of the NZ IFRS 9 impairments requirements are a) the methodology for the measurement of 12-Month and Lifetime Expected Credit Losses and b) the criteria used to determine whether a 12-month ECL (stage 1), Lifetime ECL non-credit-impaired (stage 2), or Lifetime ECL credit-impaired (stage 3) should be applied (also referred to as stage determination criteria).

3.6.1 Methodology to determine expected credit losses

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

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

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

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

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

Default definition

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

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

Collective versus individual assessment

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

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 recognized 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 recognizing 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).

3.6.3 Past due loans

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

3.6.4 Restructured assets

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

3.7 Property, plant and equipment

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

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

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

3.8 Intangible assets

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

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

3.9 Other assets

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

3.9.1 Operating lease asset

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

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

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

3.10 Impairment of non-financial assets

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

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

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

3.11 Financial liabilities

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

Notes to the Financial Statements

3. Significant accounting policies (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.

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

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

3.11.2 Debt securities in issue

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

3.11.3 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.

3.11.4 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.

3.11.5 Contingent liabilities

Contingent liabilities mainly include financial guarantees and lending commitments.

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

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

3.12 Provisions

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

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

3.13 Head Office Account

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

3.14 Employee benefits

3.14.1 Wages and salaries and annual leave

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

3.14.2 Long service leave

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

3.15 Equity

3.15.1 Contributed equity

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

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

3.15.2 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.

3.16 Goods and services tax

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

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

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

3.17 Accounting standards not early adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Banking Group. These standards are not expected to have a material impact on the Banking Group in the current or future reporting periods and on foreseeable future transactions.

3.18 Comparative figures

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

Notes to the Financial Statements

4. Interest income

in thousands of NZD	2020	2019
Loans and advances	557,483	618,296
Related entities	12,205	21,106
Financial assets at fair value through other comprehensive income	7,776	13,215
Finance lease income	2,583	3,181
Cash and balances with central bank	1,480	3,301
Due from other financial institutions	307	4,186
Total interest income	**581,834**	**663,285**

5. Interest expense

in thousands of NZD	2020	2019
Deposits	108,060	142,499
Related entities	61,624	93,127
Preference shares	-	7,741
Debt securities in issue	37,732	70,010
Interest bearing liabilities	94	234
Lease liabilities	298	427
Other	237	695
Total interest expense	**208,045**	**314,733**

6. Other income

in thousands of NZD	2020	2019
Lending and credit facility related fee income	934	1,092
Other income	1,240	1,491
Rental income from operating lease	17,406	13,582
Fee and commission income	2,406	1,066
Total other income	**21,986**	**17,231**

7. Other expense

in thousands of NZD	2020	2019
Commission and fee expense**	537	448
Depreciation expense on operating lease	14,226	10,884
Total other expense	**14,763**	**11,332**

** Balance relates to fee charged for the obligations under guarantees provided by Rabobank. Refer to note 37 for further information guarantees.

Notes to the Financial Statements

8. Other operating gains/(losses)

in thousands of NZD	2020	2019
Net trading gains / (losses) on derivatives	(37,376)	(3,951)
Losses on disposal/write off of property, plant and equipment	(34)	(3)
Gain on disposal/write off of FVOCI financial assets	-	167
Foreign exchange gains / (losses)	238	(41)
Fair value hedge amortisation	1,026	2,312
Total other operating gains	**(36,146)**	**(1,516)**

9. Operating expenses

in thousands of NZD	2020	2019
Advertising and marketing	2,094	2,738
Professional fees	3,510	4,782
Depreciation and amortisation	5,537	4,824
Management expenses and recharge costs	68,779	68,425
Personnel	69,372	54,286
Telecommunication	1,241	1,082
Travel and lodging	2,865	4,817
Office supplies	452	472
Other	5,508	4,518
Rental charges payable under operating leases	1,531	1,681
Total operating expenses	**160,889**	**147,625**

10. Impairment losses/(releases)

in thousands of NZD	2020	2019
Collective provision charges	4,833	6,411
Specific provision (releases)/charges	11,342	17,224
Bad debt (losses)/recovery	(584)	(508)
Total impairment losses/(releases)	**15,591**	**23,127**

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. Auditors' remuneration

in whole NZD	2020	2019
Amounts received or due and receivable by auditor for:		
Audit and/or review of the financial statements	414,621	338,368

Notes to the Financial Statements

12. Income tax

12.1 Income tax expense

in thousands of NZD	2020	2019
Current income tax	50,368	58,430
Decrease in net deferred tax assets	(2,992)	(5,018)
(Over)/Under provided in prior years relating to deferred tax	237	788
(Over)/Under provision in current tax liabilities	(418)	(1,743)
Total income tax expense	**47,195**	**52,457**

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

in thousands of NZD	2020	2019
Profit before income tax	168,386	182,183
Taxation @ 28% (2019: 28%)	47,148	51,011
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income :		
Non-deductible expenses	226	2,401
Under/(over) provision	(179)	(955)
Income tax expense	**47,195**	**52,457**

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

12.3 Net deferred tax assets

in thousands of NZD	2020	2019
The balance comprises temporary differences attributable to:		
Accruals	1,521	491
Depreciation	1,146	1,326
Impairment provisions	16,883	15,037
Employee benefits	1,597	1,635
Others	403	331
Provision for long service leave	1,187	1,059
FVOCI financial assets revaluation reserve	(1,267)	(910)
Total net deferred tax assets	**21,470**	**18,969**

Notes to the Financial Statements

12. Income tax (continued)

Movements:

in thousands of NZD	2020	2019
Opening balance	18,969	14,974
Credited / (charged) to statement of comprehensive income:		
Accruals	1,030	234
Depreciation	(180)	1,752
Impairment provisions	1,846	4,160
Employee benefits	(38)	108
Others	72	(2,187)
Provision for long service leave	128	133
Debited to equity reserve:		
FVOCI financial assets revaluation reserve	(357)	(205)
Total movement	2,501	3,995
Closing balance	21,470	18,969

12.4 Imputation credit account

in thousands of NZD	2020	2019
Imputation credit	513,118	468,073

13. Cash and short-term deposits

in thousands of NZD	2020	2019
Cash at banks	70,134	167,126
Balances with Central Bank	461,207	253,643
Total cash and cash equivalents	**531,341**	**420,769**

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

14. Derivative financial instruments

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

Notes to the Financial Statements

14. Derivative financial instruments (continued)

	2020			2019		
	Notional amount	Fair value assets	Fair value liabilities	Notional amount	Fair value assets	Fair value liabilities
in thousands of NZD						
Held for trading derivatives						
Interest rate derivatives						
Swaps (related entities)*	13,138,838	70,147	83,594	10,013,957	68,137	61,519
Swaps (non-related entities)	378,495	16,994	348	383,937	13,729	788
Forward rate agreement (related entities)*	-	-	11	-	-	11
Foreign exchange derivatives						
Swaps (related entities)*	3,522,735	41,968	115,352	2,606,825	16,993	68,282
Swaps (non-related entities)	110,875	(29)	10,115	120,732	1,050	7,163
Forwards (related entities)*	495,077	33,812	1,820	428,403	13,654	1,970
Forwards (non-related entities)	420,575	822	30,601	382,864	1,402	12,825
Currency options (related entities)*	90,328	3,733	117	261,012	5,642	1,007
Currency options (non-related entities)	90,328	117	3,722	261,012	1,004	5,642
Commodities (related entities)*	51,083	26	3,417	29,418	-	1,732
Commodities (non-related entities)*	51,083	3,374	26	29,418	1,732	-
Total derivatives	**18,349,417**	**170,964**	**249,123**	**14,517,578**	**123,343**	**160,939**
Amounts due for settlement within 12 months		76,589	191,007		40,432	111,899
Amounts due for settlement over 12 months		94,375	58,116		82,911	49,040
Total derivatives		**170,964**	**249,123**		**123,343**	**160,939**

* Balance relates to other Rabobank related entities. Refer to note 37 for further information on related party disclosures.

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

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

Notes to the Financial Statements

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

in thousands of NZD	2020	2019
New Zealand Government Securities	482,818	541,092
Other debt securities (Kauri)	193,652	216,156
Total financial assets FVOCI	**676,470**	**757,248**
Amounts due for settlement within 12 months	467,470	525,449
Amounts due for settlement over 12 months	209,000	231,799
Total financial assets FVOCI	676,470	757,248

The impairment allowance relating to financial assets at fair value through other comprehensive income was nil (2019: $3 thousand).

16. Loans and advances

in thousands of NZD	2020	2019
Lending	13,470,222	13,150,440
Finance leases	735,950	698,140
Gross loans and advances	**14,206,172**	**13,848,580**
Accrued interest	10,387	10,409
Provisions for impairment		
Stage 3B	(17,926)	(16,258)
Stage 3A	(13,240)	(18,503)
Stage 2	(9,619)	(8,032)
Stage 1	(18,641)	(10,222)
Total provisions	**(59,426)**	**(53,015)**
Net loans and advances	**14,157,133**	**13,805,974**
Amounts due for settlement within 12 months	6,702,300	6,787,784
Amounts due for settlement over 12 months	7,454,833	7,018,190
Net loans and advances	14,157,133	13,805,974

16.1 Finance leases

	2020			
in thousands of NZD	Net investments	Unearned income	Unguaranteed residuals	Minimum lease payments
One year or less	302,418	31,580	-	333,998
Between one and two years	414,438	31,745	-	446,183
Between two and five years	19,094	741	-	19,835
Total finance leases	**735,950**	**64,066**	**-**	**800,016**

Notes to the Financial Statements

16. Loans and advances (continued)

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

Leasing arrangements
RNZL, DLL and AGCO provide 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 Banking Group only undertakes contracts where the underlying equipment or vehicle is used for a business purpose.

17. Due from related entities

in thousands of NZD	2020	2019
Current account balances - wholly owned group*	73,169	91,582
Advances - wholly owned group*	1,769,897	1,456,248
Accrued interest receivable - wholly owned group*	468	868
Stage 1 provision for impairment (note 18.6)	(841)	(664)
Total due from related entities	1,842,693	1,548,034
Amounts due for settlement within 12 months	1,842,693	1,548,034
Total due from related entities	1,842,693	1,548,034

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

* The wholly owned group refers to other Rabobank related entities. Refer to note 37 for further information on related parties.

Notes to the Financial Statements

18. Credit quality, impaired assets and provision for impairment

18.1 Individually impaired assets

	2020			
in thousands of NZD	**Residential mortgages**	**Corporate**	**Retail***	**Total**
Opening balance	-	115,436	418,300	533,736
Additions	-	30,864	216,598	247,462
Amounts written off	-	(6,398)	(4,437)	(10,835)
Returned to performing or repaid	-	(19,705)	(251,330)	(271,035)
Closing balance	**-**	**120,197**	**379,131**	**499,328**
Aggregate amount of undrawn balances on lending commitments on impaired assets	-	12,300	13,656	25,956
Analysis of individually impaired assets				
Gross non-performing assets	-	120,197	379,131	499,328
Specific provision against non-performing assets (note 18.5)	-	(8,314)	(9,612)	(17,926)
Net non-performing assets	**-**	**111,883**	**369,519**	**481,402**
Restructured assets	-	-	-	-
Specific provision against restructured assets (note 18.5)	-	-	-	-
Net restructured assets	**-**	**-**	**-**	**-**

	2019			
in thousands of NZD	**Residential mortgages**	**Corporate**	**Retail***	**Total**
Opening balance	-	-	258,505	258,505
Additions	-	121,594	310,001	431,595
Amounts written off	-	-	(9,949)	(9,949)
Returned to performing or repaid	-	(6,158)	(140,257)	(146,415)
Closing balance	**-**	**115,436**	**418,300**	**533,736**
Aggregate amount of undrawn balances on lending commitments on impaired assets	-	7,500	13,464	20,964
Analysis of individually impaired assets				
Gross non-performing assets	-	115,436	418,300	533,736
Specific provision against non-performing assets (note 18.5)	-	(3,983)	(12,275)	(16,258)
Net non-performing assets	**-**	**111,453**	**406,025**	**517,478**
Restructured assets	-	-	-	-
Specific provision against restructured assets	-	-	-	-
Net restructured assets	**-**	**-**	**-**	**-**

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

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

18.2 Past due assets but not impaired

	2020			
	Residential mortgage	Corporate	Retail*	Total
in thousands of NZD				
Less than 30 days past due	-	-	53,221	53,221
At least 30 days but less than 60 days past due	-	-	3,842	3,842
At least 60 days but less than 90 days past due	-	-	1,097	1,097
At least 90 days past due (note 18.3)	-	-	764	764
Closing balance	**-**	**-**	**58,924**	**58,924**

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

18.3 At least 90 days past due assets

	2020			
	Residential mortgages	Corporate	Retail*	Total
in thousands of NZD				
Opening balance	-	-	630	630
Additions	-	-	16,046	16,046
Amounts written off	-	-	-	-
Repayments	-	-	(15,912)	(15,912)
Closing balance	**-**	**-**	**764**	**764**

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

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

18.4 Other assets under administration

There were no assets under administration as at 31 December 2020 (2019: $48 thousand).

Notes to the Financial Statements

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

18.5 Provision for impairment loans and advances

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

	2020				
	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
in thousands of NZD					
Residential mortgages					
Opening balance	-	-	-	-	-
Charge to statement of comprehensive income	-	-	-	-	-
Amounts written off	-	-	-	-	-
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	-	-
Closing balance residential mortgages	**-**	**-**	**-**	**-**	**-**

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

	2020				
	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
in thousands of NZD					
Corporate					
Opening balance	208	198	4,829	3,983	9,218
Changes due to change in credit risk	-	-	-	-	-
Charge to statement of comprehensive income	1,247	(4,927)	1,208	10,431	7,959
Amounts written off	-	-	-	(6,398)	(6,398)
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	(334)	4,798	(4,799)	298	(37)
Closing balance corporate	**1,121**	**69**	**1,238**	**8,314**	**10,742**

Notes to the Financial Statements

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

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

			2020		
	Stage 1	**Stage 2**	**Stage 3A**	**Stage 3B**	**Total**
in thousands of NZD					
Retail					
Opening balance	8,968	7,712	13,673	12,275	42,628
Charge to statement of comprehensive income (note 10)	7,249	1,646	(2,124)	911	7,682
Amounts written off	-	-	-	(4,335)	(4,335)
Recoveries	-	-	-	(584)	(584)
Reversals	-	-	-	-	-
Other movements	(155)	4	396	1,345	1,590
Closing balance retail	**16,062**	**9,362**	**11,945**	**9,612**	**46,981**

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

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)

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

			2020		
	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
in thousands of NZD					
Opening balance	1,046	122	1	-	1,169
Charge to statement of comprehensive income (note 10)	412	66	56	-	534
Amounts written off	-	-	-	-	-
Recoveries	-	-	-	-	-
Other movements	-	-	-	-	-
Closing balance on loan commitments and financial guarantees	**1,458**	**188**	**57**	**-**	**1,703**

			2019		
	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
in thousands of NZD					
Opening balance	669	91	-	-	760
Charge to statement of comprehensive income (note 10)	377	31	1	-	409
Amounts written off	-	-	-	-	-
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	-	-
Closing balance on loan commitments and financial guarantees	**1,046**	**122**	**1**	**-**	**1,169**

18.5.3 Total provisions for impairment on loans advances

			2020		
	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
in thousands of NZD					
Opening balance	10,222	8,032	18,503	16,258	53,015
Charge to statement of comprehensive income (note 10)	8,908	(3,215)	(860)	11,342	16,175
Amounts written off	-	-	-	(10,733)	(10,733)
Recoveries	-	-	-	(584)	(584)
Other movements	(489)	4,802	(4,403)	1,643	1,553
Closing balance on loans and advances and loan commitments and financial guarantees	**18,641**	**9,619**	**13,240**	**17,926**	**59,426**

Notes to the Financial Statements

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

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

Notes to the Financial Statements

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

18.6 Provision for impairment due from related entities

18.6.1 Impairment allowances on due from related entities

	2020				
	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
in thousands of NZD					
Opening balance	664	-	-	-	664
Charge to statement of comprehensive income (note 10)	177	-	-	-	177
Amounts written off	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	-	-
Closing balance related parties	**841**	**-**	**-**	**-**	**841**

	2019				
	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
in thousands of NZD					
Opening balance	884	-	-	-	884
Charge to statement of comprehensive income (note 10)	(220)	-	-	-	(220)
Amounts written off	-	-	-	-	-
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	-	-
Closing balance on loans and advances and loan commitments and financial guarantees	**664**	**-**	**-**	**-**	**664**

18.7 Forward-looking information and macro-economic scenarios

Modelled provision for ECL

The estimation of ECL for each stage and the assessment of significant increases in credit risk consider information about past events and current conditions as well as forecasts of future events and economic conditions (forward looking information). There is a considerable degree of judgement involved in preparing these forecasts due to the uncertainly around impact of COVID-19. The Bank uses three, probability-weighted, macroeconomic scenarios (consisting of a baseline, a baseline minus and a baseline plus scenario) in the ECL models to determine the expected credit losses.

Baseline scenario is most likely scenario and is based on the National Institute Global Econometric Model (NiGEM) which is provided by the National Institute Of Economic and Social Research in London (NIESR). The NiGEM forecast is enriched by Rabobank research.

Notes to the Financial Statements

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

The Bank uses a statistical simulation method from the National Institute Global Econometric Model (NIGEM) to generate plus and minus scenarios. The procedure for the formulation involves two steps:
1. Use the stochastic function of NiGEM to run 1000 scenarios starting in the first quarter where the plus and minus scenarios may differ from the baseline and ending in the final quarter of the RaboResearch delivery.
NiGEM uses historical residuals (randomly chosen) from the model equations to give shocks during the forecast period (Monte Carlo simulation). The result is the distribution of macroeconomic outcomes based on the historical variance of the world trade loss.
2. Look up the two scenarios which represent the 15% upper scenarios and the 15% lower scenarios of the distribution.NiGEM forecast is enriched by Rabobank research.

Important variables in MES are gross domestic product growth, private sector investments and exports of goods and services. These forward looking macroeconomic forecasts require judgment and are largely based on internal Rabobank research.

The base case scenario uses current Rabobank research forecasts and reflects the latest available macroeconomic view which shows recovery from 2021. The latest view considers both the economic and societal impacts of COVID-19. The forecast assume the following:

- Forecast growth of GDP per capita of 3.0% in 2021;
- Forecast growth in private sector investments of 10.0% in 2021; and
- Forecast growth in exports of goods and services of 4.5% in 2021.

An analysis on the sensitivity of key forward-looking macroeconomic inputs used in the ECL modelling process for stage 1 and stage 2 provisioning and the probability-weights applied to each of the three scenarios is presented below:

Notes to the Financial Statements

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

New Zealand		*2021*	*2022*	*2023*	*ECL unweighted In thousands of NZD*	*Probability*	Weighted ECL in thousands of NZD *31 December 2020*	*31 December 2019*
Plus	GDP per capita	3.8%	3.7%	0.9%	10,876	15%		
	Private sector investments	13.0%	7.9%	-3.4%				
	Exports of Goods & Services	6.9%	7.9%	3.4%				
Baseline	GDP per capita	3.0%	2.4%	1.4%				
	Private sector investments	10.0%	4.3%	0.1%	12,598	70%	13,046	12,399
	Exports of Goods & Services	4.5%	6.0%	4.0%				
Minus	GDP per capita	2.0%	0.7%	2.1%				
	Private sector investments	6.3%	-0.6%	5.2%	16,009	15%		
	Exports of Goods & Services	1.4%	3.4%	4.8%				

COVID - 19 overlay

The COVID-19 pandemic is leading to material structural shifts in the behaviour of the economy and customers, and unprecedented actions by banks, governments and regulators in response. ECL models are expected to be subject to a higher than usual level of uncertainty during this period. In this environment there is a heightened need for the application of judgement in order to reflect these evolving relationships and risks. This judgement has been applied in the form of a COVID-19 overlay.

Where there is increased uncertainty regarding the forward-looking economic conditions under NZ IFRS 9, or limitations of the historical data used to calibrate the models to current stressed environments, overlays are typically used to address areas of potential risk not captured in the underlying modelled ECL.

The COVID-19 pandemic has had, and continues to have, an impact on business around the world and the economic environments in which they operate. There also exists significant uncertainly regarding the duration and severity of COVID-19 impacts and the associated disruption to the economy and our customers. While the impacts on the broader economy are included in the assumptions used in the economic scenarios, these general economy wide impacts may not fully reflect the specific impact on individual customers, and therefore the potential risk is not captured in the underlying modelled ECL. As overlay require the application of expert judgement, they are documented and subject to comprehensive internal governance and oversight.

The Banking Group recognised a COVID-19 overlay as at 31 December 2020 of $10,631 thousand.

Notes to the Financial Statements

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

18.8 Impact of changes in gross financial assets on loss allowance

			2020		
	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
in thousands of NZD					
Opening balance	12,307,302	998,183	9,359	533,736	13,848,580
Additions	9,312,066	790,960	1,490	203,583	10,308,099
Amount written off	-	-	-	(10,835)	(10,835)
Deletions	(8,774,440)	(717,977)	(7,682)	(267,982)	(9,768,081)
Changes due to transfer between ECL stages	(148,964)	(61,932)	(1,521)	40,826	(171,591)
Closing balance	**12,695,964**	**1,009,234**	**1,646**	**499,328**	**14,206,172**
Provisions for impairment	(18,641)	(9,619)	(13,230)	(17,926)	(59,416)
Net loans and advances	**12,677,323**	**999,615**	**(11,584)**	**481,402**	**14,146,756**

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

Whilst the gross loans and advances classified as Stage 3B (for provisioning purposes) have been disclosed as Stage 3B in Note 32.3.3, 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.

19. Other assets

	2020	2019
in thousands of NZD		
Accrued interest receivable	3,718	3,745
GST receivable	1,343	2,003
Sundry debtors	2,587	3,602
Others	1,446	1,123
Operating lease asset	59,634	57,546
Total other assets	**68,728**	**68,019**

All other assets are due for settlement within 12 months. See maturity breakdown for operating lease asset below.

Notes to the Financial Statements

19. Other assets (continued)

Operating lease assets

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

in thousands of NZD	2020	2019
At cost	90,274	78,432
Less accumulated amortisation	(30,640)	(20,886)
Carrying amount as at 31 December	59,634	57,546

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

in thousands of NZD	2020	2019
No later than one year	18,652	12,808
Later than one year but no later than five years	40,468	41,788
Later than five years	514	2,950
Total	**59,634**	**57,546**

Reconciliation of the carrying amounts for operating lease assets:

in thousands NZD	2020	2019
Carrying amount as at 1 January	57,546	35,729
Net additions	16,314	32,701
Depreciation	(14,226)	(10,884)
Carrying amount as at 31 December	59,634	57,546

20. Property, plant and equipment

	Right-of-use asset	Office Equipment	Office Fixtures & Fittings	Computer Hardware	Total
in thousands NZD 2020					
Cost	14,303	171	11,225	893	26,592
Accumulated depreciation	(7,460)	(97)	(9,508)	(816)	(17,881)
Total	**6,843**	**74**	**1,717**	**77**	**8,711**
in thousands NZD 2019					
Cost	13,500	162	10,732	1,442	25,836
Accumulated depreciation	(3,565)	(69)	(8,780)	(1,333)	(13,747)
Total	**9,935**	**93**	**1,952**	**109**	**12,089**

Reconciliation

Notes to the Financial Statements

20. Property, plant and equipment (continued)

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

in thousands NZD 2019	Right-of-use asset	Office Fixtures & Fittings	Office equipment	Computer Equipment	Total
Balance as at 1 January	-	2,690	71	259	3,020
NZ IFRS 16 implementation	18,564	-	-	-	18,564
Reassessment of extension options	(7,072)	-	-	-	(7,072)
Acquisitions	2,017	131	48	-	2,196
Disposals	-	(3)	-	-	(3)
Depreciation	(3,574)	(866)	(26)	(150)	(4,616)
Total	**9,935**	**1,952**	**93**	**109**	**12,089**

in thousands NZD 2020	Right-of-use asset	Office Fixtures & Fittings	Office equipment	Computer Equipment	Total
Balance as at 1 January	9,935	1,952	93	109	12,089
Acquisitions	960	585	9	32	1,586
Disposals	-	(34)	-	-	(34)
Depreciation	(4,052)	(786)	(28)	(64)	(4,930)
Total	**6,843**	**1,717**	**74**	**77**	**8,711**

20.1 Leases

Banking Group as a lessee

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

	2020	2019
Properties	5,234	7,621
Motor vehicles	1,624	2,314
Total right of use assets	**6,858**	**9,935**

	2020	2019
Current lease liabilities	3,475	3,709
Non current lease liabilities	3,549	6,436
Total lease liabilities	**7,024**	**10,145**

The following are the amounts recognised in profit or loss:

	2020	2019
Depreciation expense of right-of-use assets	4,052	3,574
Interest expense on lease liabilities	298	427
Expense relating to short-term leases (included in cost of sales)	-	24
Variable lease payments (included in cost of sales)	612	565
Total amount recognised in profit or loss	4,962	4,590

The total cash outflow for leases in 2020 was $4,346 thousand (2019: was $4,286 thousand)

Notes to the Financial Statements

21. Intangible assets

	2020	2019
in thousands NZD		
Computer software		
At cost	1,296	219
Less accumulated amortisation	(239)	(174)
Net book value	**1,057**	**45**

Closing balance as at 31 December		
At cost	3,069	1,296
Accumulated amortisation	(765)	(239)
Net book value	**2,304**	**1,057**

Reconciliation

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

	2020	2019
in thousands of NZD		
Opening balance	1,057	45
Acquisitions	1,772	1,219
Amortisation	(525)	(207)
Closing balance	**2,304**	**1,057**

22. Deposits

	2020	2019
in thousands of NZD		
Call deposits	2,689,829	2,173,935
Term deposits	3,020,611	3,256,843
Accrued interest on term deposits	21,585	43,918
Total deposits	**5,732,025**	**5,474,696**
Amounts due for settlement within 12 months	4,136,359	4,207,122
Amounts due for settlement over 12 months	1,595,666	1,267,574
Total deposits	**5,732,025**	**5,474,696**

23. Debt securities in issue

	2020	2019
in thousands of NZD		
Notes	299,981	1,114,707
Bonds	474,396	885,636
Commercial Paper/Certificates of deposits	2,479,530	187,819
Accrued interest	11,171	11,751
Total debt securities on issue	**3,265,078**	**2,199,913**

Notes to the Financial Statements

23. Debt securities in issue (continued)

Amounts due for settlement within 12 months	2,788,944	1,426,379
Amounts due for settlement over 12 months	476,134	773,534
Total debt securities in issue	3,265,078	2,199,913

24. Due to related entities

in thousands of NZD	2020	2019
Current account balances - wholly owned group	496,240	444,277
Advances - wholly owned group	5,576,038	6,413,788
Accrued interest payable - wholly owned group	1,238	7,762
Total due to related entities	**6,073,516**	**6,865,827**
Amounts due for settlement within 12 months	5,472,684	5,508,609
Amounts due for settlement over 12 months	600,832	1,357,218
Total due to related entities	**6,073,516**	**6,865,827**

The wholly owned group refers to other Rabobank related entities. Refer to note 37 for further information on related party disclosures.

Notes to the Financial Statements

25. Other liabilities

in thousands of NZD	2020	2019
Lease liabilities	7,024	10,145
Sundry creditors	5,798	5,262
Accrued expenses	9,007	8,069
Total other liabilities	**21,829**	**23,476**

$3,475 thousand (2019: $3,709 thousand) of lease liabilities is expected to be settled within 12 months and $3,549 thousand (2019: $6,436 thousand) of lease liabilities is expected to be settled over 12 months. All other liabilities are due for settlement within 12 months.

26. Provisions

in thousands of NZD	2020	2019
Provision for long service leave	4,325	3,842
Other provisions	2,900	12
Total provisions	**7,225**	**3,854**

Other provisions

The Labour Inspectorate of Ministry of Business, Innovation and Employment ("MBIE") has undertaken a programme of compliance audits of New Zealand organisations in respect of the Holidays Act 2003 (the "Holiday Act"). During 2020 the Banking Group undertook a review of its compliance with the Holidays Act 2003. This review has identified that there are some areas of non-compliance and some areas of possible non-compliance with the requirements of the Holidays Act 2003. As a result, the Banking Group commenced a remediation program and raised a provision for payments to employees.

Determining the amount of the provision requires the exercise of significant judgement. This includes forming a view on a number of different assumptions. The key assumptions in the provision estimate as at 31 December 2020 are: assumed definition of payments (i.e. the legislative interpretation of the definition of "discretionary payments" under the Holiday Act has not been definitively determined) and period of non compliance.

Changes in provisions were as follows:

	2020	2019
in thousands of NZD		
Provision for long service leave		
Opening balance	3,842	3,307
Additions	3,395	1,225
Used	(687)	(178)
Releases	(2,225)	(512)
Closing balance	**4,325**	**3,842**

27. Head office account

in thousands NZD	2020	2019
Opening balance	319,468	290,640
Net profit of the Branch	10,774	28,828
Closing balance	**330,242**	**319,468**

Notes to the Financial Statements

28. Equity

in thousands of NZD	2020	2019
Contributed equity (note 28.1)	551,200	551,201
Reserves (note 28.2)	3,258	2,340
Retained earnings (note 28.3)	1,257,111	1,146,694
Total equity	**1,811,569**	**1,700,235**

28.1 Contributed equity

in thousands of NZD	2020	2019
Paid up capital in Rabobank New Zealand Limited	551,200	551,200
Paid up capital in Rabo Capital Securities Limited	-	1
Total equity	**551,200**	**551,201**

Total authorised and paid up capital comprises 275,600,000 ordinary shares fully paid ranking equally as to dividends, voting rights and rights to share in any surplus on winding up (31 December 2019: 275,600,000). Each share was issued at $2 and has no par value.

Total authorised and paid up capital comprised 1,000 ordinary shares fully paid ranking equally as to voting rights but was not entitled to receive or participate in any dividend or distribution made by RCSL (31 December 2019: 1,000). Each share was issued at $1 and has no par value. On 21 October 2020, RCSL paid final dividend and was deregistered on 15 January 2021.

28.2 Reserves

in thousands of NZD	2020	2019
Opening balance	2,340	1,806
Changes in FVOCI financial assets revaluation reserve (gross)	1,275	741
Changes in FVOCI financial assets revaluation reserve (deferred tax)	(357)	(207)
Closing balance	**3,258**	**2,340**

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.

28.3 Retained earnings

in thousands of NZD	2020	2019
Opening balance	1,146,694	1,046,796
Dividend paid	(1)	(1,000)
Net profit for the year	110,418	100,898
Closing balance	**1,257,111**	**1,146,694**

Notes to the Financial Statements

29. Priority of financial liabilities in the event of a liquidation

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

30. Contingent liabilities

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

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

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

in thousands of NZD	2020	2019
Guarantees	87,912	18,542
Lending commitments		
Irrevocable lending commitments	905,344	899,493
Revocable lending commitments	2,127,620	2,257,528
Total contingent liabilities	3,120,876	3,175,563

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

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

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

31. Expenditure commitments

31.1 Capital expenditure commitments

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

Notes to the Financial Statements

31. Expenditure commitments (continued)

in thousands of NZD	2020	2019
One year or less	-	733
Total capital expenditure commitments	**-**	**733**

31.2 Operating lease commitments

in thousands of NZD	2020	2019
One year or less	1,186	961
Between one and two years	1,302	608
Between two and five years	1,688	490
Over five years	3,419	-
Total operating lease commitments	**7,595**	**2,059**

Lease arrangements entered into by the Banking Group 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 and office equipment such as photocopiers and printers.

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

32. Risk arising from financial instruments

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

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

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

32.1 Liquidity risk

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

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

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

Notes to the Financial Statements

32. Risk arising from financial instruments (continued)

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

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

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

The identified funding and liquidity risks must be measured using a risk indicator. DLL cascades key risk indicators (KRIs) related to liquidity risk to all subsidiaries within DLL Group. These KRIs are based on a simplified approach of gap reporting with an escalation process based on possible loss.

Concentration in funding sources increases liquidity risk, so the aim of DLL Group is to continue to diversify its funding base further by expanding securitization programs, attracting further development bank funding (e.g. EIB, BNDES, FIRA) and sourcing external funding where appropriate. All transactions/new funding lines/routes must be approved by DLL Group Treasury. DLL Treasury discuss and seek approval where required from the necessary DLL and Rabobank Committees to ensure a fully aligned funding approach within the wider Rabobank group.

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

De Lage Landen Companies must apply a 'matched-funding' policy, except for a 10% liquidity limit, DLL's own equity, minority interests and other working capital items such as deferred tax. DLL Group Treasury must ensure that the DLL Group wide liquidity risk exposures remain within this limit. Such limits are reviewed for the consolidated DLL Group by DLL Group Treasury on a monthly basis.

The following compliance monitoring is in place to address DLL liquidity risk:
1. Annual Review of the liquidity standard performed by DLL Group Treasury.
2. Preparation of gap reports and asset & liability reconciliations on a monthly basis by the country finance manager. These reports are reviewed by the local Loan Risk Committee and documented in the LRC minutes.
3. Reports outlining the KPI's on country liquidity risks is issued to DLL Treasury, Internal Audit and Group Risk staff.
4. A risk dashboard on the balance sheet risks is prepared on a daily basis and reviewed on a monthly basis. Data is sent to Rabobank on a monthly basis and DLL receives an output for review.

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

Notes to the Financial Statements

32. Risk arising from financial instruments (continued)

Liquidity portfolio

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

in thousands of NZD	Note	2020	2019
Cash at banks	13	70,134	167,126
Balances with Central Bank	13	461,207	253,643
New Zealand Government Securities	15	482,818	541,092
Other debt securities (Kauri)	15	193,652	216,156
Total liquid assets		**1,207,811**	**1,178,017**

Notes to the Financial Statements

32. Risk arising from financial instruments (continued)

32.1.1 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 2020							
Financial assets							
Cash and cash equivalents	531,341	531,341	-	-	-	-	-
Derivative financial instruments	171,010	-	49,336	27,253	39,532	51,804	3,085
Financial assets at fair value through other comprehensive income	678,620	-	463,112	5,396	783	209,329	-
Loans and advances	14,254,284	-	2,523,948	4,072,422	3,700,810	3,435,494	521,610
Due from related entities	1,842,693	73,169	1,769,524	-	-	-	-
Other financial assets	7,589	-	7,589	-	-	-	-
Total financial assets	**17,485,537**	**604,510**	**4,813,509**	**4,105,071**	**3,741,125**	**3,696,627**	**524,695**
Financial liabilities							
Derivative financial instruments	249,736	-	166,621	24,386	23,961	29,448	5,320
Debt securities in issue	3,272,117	-	1,543,248	1,250,388	149,090	329,391	-
Deposits	5,739,875	2,689,828	1,722,115	685,801	349,958	292,173	-
Due to related entities	6,092,204	496,240	3,700,044	1,289,081	504,137	8,976	93,726
Other financial liabilities	20,139	-	14,905	1,579	2,303	1,352	-
Interest bearing liabilities	1,934	-	1,100	559	275	-	-
Head office account	330,242	-	330,242	-	-	-	-
Total financial liabilities	**15,706,247**	**3,186,068**	**7,478,275**	**3,251,794**	**1,029,724**	**661,340**	**99,046**
Contingent liabilities							
Guarantees	87,912	6,331	-	3,307	2,036	73,828	2,410
Lending commitments	3,032,964	1,659,997	77,601	190,221	849,092	205,103	50,950
Total contingent liabilities	**3,120,876**	**1,666,328**	**77,601**	**193,528**	**851,128**	**278,931**	**53,360**

Notes to the Financial Statements

32. Risk arising from financial instruments (continued)

in thousands of NZD	Total	On Demand	Less than 6 months	6-12 months	12-24 months	24-60 months	Over 60 months
At 31 December 2019							
Financial assets							
Cash and cash equivalents	420,769	420,769	-	-	-	-	-
Derivative financial instruments	124,594	-	27,901	12,531	21,710	58,793	3,659
Financial assets at fair value through other comprehensive income	764,908	-	528,274	1,525	152,423	82,686	-
Loans and advances	14,127,827	-	2,333,836	3,819,926	4,259,276	3,071,202	643,587
Due from related entities	1,549,765	91,768	1,457,997	-	-	-	-
Other financial assets	9,350	-	9,350	-	-	-	-
Total financial assets	**16,997,213**	**512,537**	**4,357,358**	**3,833,982**	**4,433,409**	**3,212,681**	**647,246**
Financial liabilities							
Derivative financial instruments	163,059	-	74,599	37,300	19,428	27,461	4,271
Debt securities in issue	2,232,155	-	1,261,057	181,727	293,731	495,640	-
Deposits	5,507,148	2,173,935	2,086,320	690,704	238,654	317,423	112
Due to related entities	6,924,079	494,037	3,572,339	1,479,699	877,006	405,268	95,730
Other financial liabilities	21,981	-	13,380	1,960	3,258	3,383	-
Interest bearing liabilities	4,721	-	2,105	695	1,648	273	-
Head office account	319,468	-	319,468	-	-	-	-
Total financial liabilities	**15,172,611**	**2,667,972**	**7,329,268**	**2,392,085**	**1,433,725**	**1,249,448**	**100,113**
Contingent liabilities							
Guarantees	18,542	5,756	500	5,350	3,128	1,588	2,220
Lending commitments	3,157,021	1,574,543	61,724	654,565	406,368	457,073	2,748
Total contingent liabilities	**3,175,563**	**1,580,299**	**62,224**	**659,915**	**409,496**	**458,661**	**4,968**

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

Notes to the Financial Statements

32. Risk arising from financial instruments (continued)

32.1.2 Expected maturity

The Banking Group actively monitors and manages the mismatch between assets and liabilities as part of standard banking operations. The management of the mismatch of assets against liabilities using expected flows allows for the repayment behaviour of assets and liabilities that are not aligned to the contractual maturity. The Banking Group has access to various sources of short and long term funding via its retail and SME deposit portfolio, and intercompany funding arrangements with Rabobank. These funding options support the renewal of maturing liabilities.

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

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.

in thousands of NZD	Total	Call - 6 months	6 - 12 months	12 - 24 months	24 - 60 months	Over 60 months
At 31 December 2020						
Financial assets						
Cash and cash equivalents	531,341	531,341	-	-	-	-
Derivative financial instruments	171,010	49,336	27,253	39,532	51,804	3,085
Financial assets at fair value through other comprehensive income	678,620	463,112	5,396	783	209,329	-
Loans and advances	14,200,982	3,289,466	3,412,844	6,593,982	851,655	53,035
Due from related entities	1,842,693	1,842,693	-	-	-	-
Other financial assets	7,589	7,589	-	-	-	-
Total financial assets	**17,432,235**	**6,183,537**	**3,445,493**	**6,634,297**	**1,112,788**	**56,120**
Financial liabilities						
Derivative financial instruments	249,736	166,621	24,386	23,961	29,448	5,320
Deposits	5,748,907	3,086,413	1,054,881	950,934	651,192	5,487
Due to related entities	6,092,204	4,196,285	1,289,081	504,137	8,976	93,725
Debt securities in issue	3,272,117	1,543,248	1,250,388	149,090	329,391	-
Other liabilities	20,139	14,905	1,579	2,303	1,352	-
Interest bearing liabilities	1,934	1,100	559	275	-	-
Head office account	330,242	330,242	-	-	-	-
Total financial liabilities	**15,715,279**	**9,338,814**	**3,620,874**	**1,630,700**	**1,020,359**	**104,532**

Notes to the Financial Statements

32. Risk arising from financial instruments (continued)

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

Notes to the Financial Statements

32. Risk arising from financial instruments (continued)

32.2 Market risk

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

Normal day-to-day banking activities can give rise to either of the aforementioned market risks. Currency risk arises from activities such as executing derivative products denominated in a foreign currency and holding balances in a foreign currency. Interest rate risk arises from activities such as borrowing and lending to customers, obtain funding from the retail market and from borrowing and lending with related parties. Market risks for the Core Banking Group result from the maturity mismatch of asset and liabilities giving rise to interest rate and FX risks. 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 Core Banking Group. The Core Banking Group has no exposure to market risk for equities and commodities.

Structural interest rate risk that arises from the investment on large capital base of the Core Banking Group and the residual interest rate risks resulting from the asset and liability activities are captured as part of interest rate risk in the banking book.

Prior to 30 August 2020, the Core Banking Group used VaR as one of the measures of market risk. VaR is a statistical measure of potential loss using historically observed market movements. The VaR uses a 1 year historical simulation to compute the 97.5% confidence interval for loss on a 1 day holding period basis. The VaR model is designed to measure market risk in normal market conditions. Although a valuable guide to market risk, VaR has its limitations. For example:

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

The Risk Management Committee have approved a VaR limit of $3 million which applied throughout the year till 30 August 2020 (December 2019: $3 million).

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

From 30 August 2020, the Core Banking Group measures interest rate risk in banking book with both ‘economic value’ and ‘earnings’ based measures to calculate the impact of interest rate movements on the economic value of equity and the net interest income. The Core Banking Group reported using the measures of Basis Point Value (BPV), Modified Duration (MD) and Earnings at Risk (EaR).

Earnings-at-Risk is measuring the largest deviation in negative terms of the expected Net Interest Income in the next twelve months as a result of different interest rate scenarios.

Notes to the Financial Statements

32. Risk arising from financial instruments (continued)

Earnings at risk is calculated once a month based on a standard interest-rate-sensitivity analysis. This analysis shows the main reduction of the projected interest income over the next 12 months triggered by a set of scenarios: two in which all money market and capital market interest rates assume each currencies' yield curve receives its own size of shock in the upwards and downwards parallel scenario's where the shock is based on historical analysis, and by two scenarios in which the yield curve steepens or flattens. The projected interest rate income is based on a scenario in which all interest rates and other rates remain equal. Due to already low interest levels, the floor in the downward scenario has been reached leading to a decrease of 50 basis points.

Modified Duration indicates by what percentage the economic value of equity will fall if the money market and capital market interest rates increase by one percentage point. The Board has set an upper limit of 6% for this purpose. Additional limits apply for the basis point value.

	2020
in thousands NZD	
EaR at year end	(3,490)

Basis Point Value shows the absolute change in economic value resulting from a one basis point parallel upward shock of the relevant yield curves (per currency).

Market Risk also uses other tools which include positions, interest rate sensitivities and stress scenarios prepared monthly and are used in managing and measuring interest rate risk on the banking book for the Bank.

	2020	2019
in thousands NZD		
BPV at year end	-	(250)

2019: captures residual interest rate risk
2020: captures structural and residual interest rate risk

The De Lage Landen Companies main type of market risk is interest rate risk.

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

Interest rate exposures on finance lease portfolios are mitigated based on their expected maturity terms (or repricing if shorter) or on contractual maturity terms (or repricing if shorter). The policy of match-funding is applied to all De Lage Landen Companies' asset financing business from an interest rate perspective. Where equity or shorter-term liquidity is used to fund assets, derivative transactions may be used to cover the longer-term interest rate risk with the approval of DLL Group Treasury.

DLL's Group Interest Rate Risk Standard is structured around the limits granted to the De Lage Landen Companies by Rabobank and the De Lage Landen Companies' Risk Appetite. This standard applies to all entities and countries within DLL Group.

Notes to the Financial Statements

32. Risk arising from financial instruments (continued)

32.2.1 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 2020							
Financial assets							
Cash and cash equivalents	531,341	531,341	-	-	-	-	-
Derivative financial instruments	170,964	-	-	-	-	-	170,964
Financial assets at fair value through	676,470	207,471	255,000	5,000	-	208,999	-
Loans and advances	14,157,133	7,359,938	1,767,842	1,587,315	2,394,936	1,036,294	10,808
Due from related entities	1,842,693	1,837,784	-	-	-	-	4,909
Other financial assets	7,589	-	-	-	-	-	7,589
Total financial assets	**17,386,190**	**9,936,534**	**2,022,842**	**1,592,315**	**2,394,936**	**1,245,293**	**194,270**
Other assets	61,138	-	-	-	-	-	61,138
Income tax receivable	14,155	-	-	-	-	-	14,155
Net deferred tax assets	21,470	-	-	-	-	-	21,470
Property, plant and equipment	8,712	-	-	-	-	-	8,712
Intangible assets	2,304	-	-	-	-	-	2,304
Total non-financial assets	**107,779**	**-**	**-**	**-**	**-**	**-**	**107,779**
Total assets	**17,493,969**	**9,936,534**	**2,022,842**	**1,592,315**	**2,394,936**	**1,245,293**	**302,049**

Notes to the Financial Statements

32. Risk arising from financial instruments (continued)

in thousands of NZD	Total	Call - 3 months	3 - 6 months	6 - 12 months	12 - 24 months	Over 24 months	Non-Interest bearing
Financial liabilities							
Derivative financial instruments	249,123	-	-	-	-	-	249,123
Debt securities in issue	3,265,078	1,266,399	269,416	1,243,697	147,375	327,021	11,170
Deposits	5,732,025	3,612,859	797,219	667,779	342,834	289,787	21,547
Due to related entities	6,073,516	4,284,555	1,091,970	683,736	2,377	8,589	2,289
Interest bearing liabilities	1,935	517	584	559	275	-	-
Other financial liabilities	20,172	2,723	921	1,505	2,221	1,327	11,475
Head office account	330,242	-	-	-	-	-	330,242
Total financial liabilities	**15,672,091**	**9,167,053**	**2,160,110**	**2,597,276**	**495,082**	**626,724**	**625,846**
Other liabilities	1,657	-	-	-	-	-	1,657
Provisions	7,225	-	-	-	-	-	7,225
Current tax liabilities	1,427	-	-	-	-	-	1,427
Total non-financial liabilities	**10,309**	**-**	**-**	**-**	**-**	**-**	**10,309**
Total liabilities	**15,682,400**	**9,167,053**	**2,160,110**	**2,597,276**	**495,082**	**626,724**	**636,155**

Notes to the Financial Statements

32. Risk arising from financial instruments (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 2020							
Interest rate derivatives							
Swaps	-	1,501,329	(586,444)	481,400	(1,396,939)	744	
Repricing gap (interest bearing assets and liabilities)	2,145,675	2,270,718	(723,712)	(523,560)	502,915	619,313	
Cumulative mismatch	2,145,675	2,270,718	1,547,007	1,023,446	1,526,361	2,146,145	

in thousands of NZD	Total	Call - 3 months	3 - 6 months	6 - 12 months	12 - 24 months	Over 24 months	Non-Interest bearing
At 31 December 2019							
Financial assets							
Cash and cash equivalents	420,769	420,769	-	-	-	-	-
Derivative financial instruments	123,343	-	-	-	-	-	123,343
Financial assets at fair value through	757,248	252,170	262,429	-	161,533	81,116	-
Loans and advances	13,805,974	7,763,933	1,592,277	910,121	2,558,360	969,526	11,757
Due from related entities	1,548,034	1,547,136	-	-	-	-	898
Other financial assets	9,350	-	-	-	-	-	9,350
Total financial assets	**16,664,718**	**9,984,008**	**1,854,706**	**910,121**	**2,719,893**	**1,050,642**	**145,348**
Other assets	58,669	-	-	-	-	-	58,669
Income tax receivable	524	-	-	-	-	-	524
Net deferred tax assets	18,969	-	-	-	-	-	18,969
Property, plant and equipment	12,089	-	-	-	-	-	12,089
Intangible assets	1,057	-	-	-	-	-	1,057
Total non-financial assets	**91,308**	**-**	**-**	**-**	**-**	**-**	**91,308**
Total assets	**16,756,026**	**9,984,008**	**1,854,706**	**910,121**	**2,719,893**	**1,050,642**	**236,656**

Notes to the Financial Statements

32. Risk arising from financial instruments (continued)

in thousands of NZD	Total	Call - 3 months	3 - 6 months	6 - 12 months	12 - 24 months	Over 24 months	Non-Interest bearing
Financial liabilities							
Derivative financial instruments	160,939	-	-	-	-	-	160,939
Debt securities in issue	2,199,913	844,568	696,033	176,470	-	471,091	11,751
Deposits	5,474,696	3,211,969	1,011,019	668,195	229,137	310,459	43,917
Due to related entities	6,865,827	4,605,125	1,822,006	416,246	-	13,566	8,884
Interest bearing liabilities	4,725	1,165	944	695	1,648	273	-
Other financial liabilities	21,981	932	915	1,836	3,098	3,292	11,908
Head office account	319,468	-	-	-	-	-	319,468
Total financial liabilities	**15,047,549**	**8,663,759**	**3,530,917**	**1,263,442**	**233,883**	**798,681**	**556,867**
Other liabilities	1,495	-	-	-	-	-	1,495
Provisions	3,854	-	-	-	-	-	3,854
Current tax liabilities	2,893	-	-	-	-	-	2,893
Total non-financial liabilities	**8,242**	**-**	**-**	**-**	**-**	**-**	**8,242**
Total liabilities	**15,055,791**	**8,663,759**	**3,530,917**	**1,263,442**	**233,883**	**798,681**	**565,109**

Notes to the Financial Statements

32. Risk arising from financial instruments (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 2019							
Interest rate derivatives							
Swaps	-	1,430,409	(60,800)	216,000	(1,606,611)	21,002	
Repricing gap (interest bearing assets and liabilities)	2,028,688	2,750,658	(1,737,011)	(137,321)	879,399	272,963	
Cumulative mismatch	2,028,688	2,750,658	1,013,647	876,326	1,755,725	202,869	

Notes to the Financial Statements

32. Risk arising from financial instruments (continued)

32.3 Credit Risk

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

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

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

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

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

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

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

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

32.3.1 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:

32. Risk arising from financial instruments (continued)

in thousands of NZD	2020	2019
Cash and cash equivalents	531,341	420,769
Financial assets at fair value through other comprehensive income	676,470	757,248
Loans and advances	14,157,133	13,805,974
Due from related entities	1,842,692	1,548,034
Other financial assets	7,589	9,350
Derivative financial instruments	170,964	123,343
Commitment and guarantees (note 30)	3,120,876	3,175,563
Total credit exposures	20,507,065	19,840,281

Credit exposures analysed by industry type:

in thousands of NZD	2020	2019
Agriculture	13,598,699	14,171,371
Finance and insurance	2,335,399	1,940,188
Forestry and fishery	341,016	353,436
Government	945,868	796,555
Manufacturing	1,301,805	1,182,804
Property and business services	222,622	179,453
Wholesale trade	1,184,967	670,593
Other	576,689	545,881
Total credit exposures	20,507,065	19,840,281

Credit exposure analysed by geographical areas:

	2020	2019
New Zealand	17,979,976	17,719,411
The Netherlands	1,744,410	1,438,151
Australia	501,544	459,541
United States of America	112,192	5,011
Finland	92,831	97,125
Germany	33,471	110,544
Philippines	31,999	-
Luxembourg	10,642	10,498
Total credit exposures	20,507,065	19,840,281

32.3.2 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.

Notes to the Financial Statements

32. Risk arising from financial instruments (continued)

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 2020, average loan to valuation ratio is 45.9%. (2019: 45.9%).
Due from related entities	These exposures are generally considered to be low risk due to the nature of the counterparties. There are typically no collateral or other credit enhancements obtained in respect of amounts due from related entities.
Other assets	Collateral is generally not sought on these balances except on accrued interest receivable which is assumed to follow the principal amount recorded in Loans.

It is the Banking Group's policy to dispose of repossessed assets in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. The Banking Group does not use or take repossessed properties for business use. During the year ended 31 December 2020, the Banking Group did not assume ownership of any repossessed properties (31 December 2019: nil).

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

32.3.3 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	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
in thousands of NZD					
At 31 December 2020					
R0-R7	531,341	-	-	-	531,341
R8-R10	-	-	-	-	-
R11-R14	-	-	-	-	-
R15-R20	-	-	-	-	-
D1-D4	-	-	-	-	-
Total	**531,341**	**-**	**-**	**-**	**531,341**

Notes to the Financial Statements

32. Risk arising from financial instruments (continued)

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

Financial assets at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
in thousands of NZD					
At 31 December 2020					
R0-R7	676,470	-	-	-	676,470
R8-R10	-	-	-	-	-
R11-R14	-	-	-	-	-
R15-R20	-	-	-	-	-
D1-D4	-	-	-	-	-
Total	**676,470**	**-**	**-**	**-**	**676,470**

in thousands of NZD	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
At 31 December 2019					
R0-R7	675,404	81,844	-	-	757,248
R8-R10	-	-	-	-	-
R11-R14	-	-	-	-	-
R15-R20	-	-	-	-	-
D1-D4	-	-	-	-	-
Total	**675,404**	**81,844**	**-**	**-**	**757,248**

Loans and advances	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
in thousands of NZD					
At 31 December 2020					
R0-R7	407,064	-	-	-	407,064
R8-R10	1,357,041	19,546	-	-	1,376,587
R11-R14	8,814,782	136,784	-	-	8,951,566
R15-R20	2,117,077	852,904	-	-	2,969,981
D1-D4	-	-	1,646	499,328	500,974
Total	**12,695,964**	**1,009,234**	**1,646**	**499,328**	**14,206,172**

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

Gross loans and advances exclude provisions for doubtful debts.

Notes to the Financial Statements

32. Risk arising from financial instruments (continued)

Contingent liabilities	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
in thousands of NZD					
At 31 December 2020					
R0-R7	884,966	-	-	-	884,966
R8-R10	622,507	775	-	-	623,282
R11-R14	1,379,400	5,795	-	-	1,385,195
R15-R20	171,781	28,924	-	-	200,705
D1-D4	-	-	772	25,956	26,728
Total	**3,058,654**	**35,494**	**772**	**25,956**	**3,120,876**

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

Credit ratings and descriptions

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

32.3.4 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 2020 was $43,339 thousand (2019: $4,497 thousand). Amortised cost before modification of financial assets with lifetime ECL whose cash flows were modified during the period was $231,399 thousand (2019: $272,116 thousand).

32.3.5 Estimated fair value of collateral on impaired loans

	2020	2019
in thousands of NZD		
Fair value of collateral held**	481,402	517,736
Total impaired assets (note 18.1)	499,328	533,736

Notes to the Financial Statements

32. Risk arising from financial instruments (continued)

** 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.

32.3.6 Concentration of credit exposures to individual counterparties

	2020	2019
Analysis of concentration of exposure to closely related counterparties:		
Analysis of concentration of exposure to individual counterparties:		
10-15%	1	-
15-20%	-	-
20%-25%	-	-
25%-30%	-	-
80-85%	-	1
95-100%	1	-
Analysis of concentration of exposure to individual counterparties:		
Number of Individual Counterparties		
10-15%	-	-
15-20%	-	-
20-25%	-	-
25-30%	1	-
30-35%	-	1

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

32.4 Operational and Compliance risk

Operational risk involves the risk of loss resulting from inadequate or failed internal processes, people, systems and external events.

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss of reputation that Banking Group may suffer as a result of its failure to comply with key legislation, regulatory standards, industry codes
and internal policies applicable to its financial services activities.

The Core Banking Group's Risk Appetite Statement specifies key business outcomes, expectations and metrics with respect to operational risk and compliance risk which define the Bank's risk appetite and risk culture.

Each Business Line Manager, as the 1st Line of Responsibility, within the Core Banking Group is responsible for the management of operational risk. This includes the responsibility to conduct self-assessments that risks and controls are appropriate for the environment in which they are operating. The 1st Line of Responsibility is also responsible for maintaining compliance with legal and regulatory obligations, including licencing requirements, and to mitigate compliance risks.

In the 2nd line of responsibility the Operational Risk and Compliance teams are responsible for facilitating and challenging the development of risk appetite with the business, and through challenge and oversight of risk in their respective fields, provide insights that support the business to improve risk maturity and address issues. To provide a platform for effective business risk practices, the teams are responsible for the development and maintenance of the Risk and Control Framework (RCF) and Compliance Management Framework respectively, as well as all supporting policies, standards and systems. The frameworks provide the mechanics by which the organisation can identify, measure, evaluate, control, mitigate and report on the various sources of risks that could have a material impact, both financial and non-financial, either on Core Banking Group or on the interest of its clients

Governance over operational risk, compliance risk and their supporting sub frameworks is provided by way of the Risk Management Committee (RMC) and the Compliance, AML, Sanctions Committee (CAMs). The mandate of the RMC extends to providing oversight of all material risk categories across Core Banking Group. Reporting on operational risk and compliance as well as insights are, in turn, provided to the BRCC and Board when required or when material matters are identified.

Notes to the Financial Statements

32. Risk arising from financial instruments (continued)

The De Lage Landen Companies have an operational risk framework which is described and in line with the RMS and the De Lage Landen Companies' Risk Appetite Statement. The De Lage Landen Companies use Key Risk Indicators and Key Control Indicators to measure and monitor operational risk. These are described in the De Lage Landen Companies' Risk Appetite Statement. The Indicators are measured and reported to LRC on a quarterly basis, to monitor that the operational risk remains at an acceptable level and in accordance with the RMS and the De Lage Landen Companies' Risk Appetite Statement.

The ANZ Compliance team actively monitors for updates in regulatory standards, industry codes and DLL internal policies and in addition, ensures adherence through independent review of our existing controls' and its effectiveness in meeting the changes. Material changes are formally assessed via the Local Compliance Committee (LCOC) where the committee aims to address upcoming changes before their effective date and to formally examine the pending impact to our Risk Appetite. The Committee is comprised of key departmental stakeholders and meets quarterly.

33. Concentration of funding of financial liabilities

Analysis of funding by product:

in thousands of NZD	2020	2019
Debt securities in issue	3,265,078	2,199,913
Deposits	5,732,025	5,474,696
Due to related entities	6,073,516	6,865,827
Interest bearing liabilities	1,935	4,725
Other liabilities	20,172	21,981
Head Office account	330,242	319,468
Total funding	15,422,968	14,886,610

Analysis of funding by industry:

in thousands of NZD	2020	2019
Agriculture	787,344	706,662
Finance and insurance	10,946,092	10,839,971
Manufacturing	11,824	13,145
Personal and other services	3,317,525	3,008,877
Transport and storage	2,115	1,295
Wholesale trade	102,372	61,494
Other	255,696	255,166
Total funding	**15,422,968**	**14,886,610**

Analysis of funding concentration by geographical areas:

in thousands of NZD	2020	2019
Australia	907,806	866,208
The Netherlands	7,129,412	6,412,392
New Zealand	6,953,046	6,945,717
United Kingdom	400,672	577,326
United States of America	9,616	59,914
All other countries	22,416	25,053
Total funding	15,422,968	14,886,610

Notes to the Financial Statements

34. 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 Banking Group to disclose the fair value of those financial instruments not already measured at fair value in the statement of financial position.

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

	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
in thousands of NZD				
Financial assets				
Cash and cash equivalents	531,341	531,341	420,769	420,769
Derivative financial instruments	170,964	170,964	123,343	123,343
Financial assets at fair value through other comprehensive income	676,470	676,470	757,248	757,248
Loans and advances	14,157,133	14,347,202	13,805,974	14,016,622
Due from related entities	1,842,693	1,843,001	1,548,034	1,548,023
Other financial assets	7,589	7,589	9,350	9,350
Total financial assets	**17,386,190**	**17,576,567**	**16,664,718**	**16,875,355**
Financial liabilities				
Derivative financial instruments	249,123	249,123	160,939	160,939
Debt securities in issue	3,265,078	3,295,430	2,199,913	2,226,071
Deposits	5,732,025	5,802,931	5,474,696	5,547,813
Due to related entities	6,073,516	6,086,771	6,865,827	6,880,190
Interest bearing liabilities	1,935	1,828	4,725	4,321
Other financial liabilities	20,172	20,172	21,981	21,981
Head office account	330,242	330,242	319,468	319,468
Total financial liabilities	**15,672,091**	**15,786,497**	**15,047,549**	**15,160,783**

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 measured at fair value

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

Notes to the Financial Statements

34. Fair value of financial instruments (continued)

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 Banking Group'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 Banking Group 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).

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

	Level 1	Level 2	Level 3	Total
in thousands of NZD				
At 31 December 2020				
Financial assets				
Derivative financial instruments	-	170,964	-	170,964
Financial assets at fair value through other comprehensive income	676,470	-	-	676,470
Financial liabilities				
Derivative financial instruments	-	249,123	-	249,123

	Level 1	Level 2	Level 3	Total
in thousands of NZD				
At 31 December 2019				
Financial assets				
Derivative financial instruments	-	123,343	-	123,343
Financial assets at fair value through other comprehensive income	757,248	-	-	757,248
Financial liabilities				
Derivative financial instruments	-	160,939	-	160,939

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

Financial assets and financial liabilities measured at amortised cost

For financial assets and financial liabilities measured 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

35. Offsetting financial assets and financial liabilities

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

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 31 December 2020 and 31 December 2019. The column 'net amount' shows the impact on the bank's balance sheet if all set-off rights were exercised.

	Effects of offsetting on the balance sheet			Related amounts not offset		
2020	**Gross amounts**	**Gross amounts set off in the statement of financial position**	**Net amounts presented in the statement of financial position**	**Amounts subject master agreements**	**Financial instruments collateral**	**Net amount**
in thousands of NZD						
Financial Assets						
Derivative financial instruments	170,964	-	170,964	(368)	-	170,596
Total financial assets	**170,964**	**-**	**170,964**	**(368)**	**-**	**170,596**
Financial Liabilities						
Derivative financial instruments	249,123	-	249,123	(368)	-	248,755
Total financial liabilities	**249,123**	**-**	**249,123**	**(368)**	**-**	**248,755**

Notes to the Financial Statements

35. Offsetting financial assets and financial liabilities (continued)

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

Notes to the Financial Statements

36. Reconciliation of cash flows

36.1 Reconciliation of net cash flows from operating activities

in thousands of NZD	2020	2019
Net profit for the year	121,192	129,726
Non-cash items:		
Depreciation	19,156	4,572
Amortisation of intangible assets	526	207
Impairment losses	14,491	23,232
Foreign exchange losses/(gains)	(238)	41
Write off of property, plant and equipment	34	3
Changes in operating assets or operating liabilities:		
Change in derivative financial instruments	40,801	22,210
Change in financial assets at fair value through other comprehensive income	82,053	(195,072)
Change in loans and advances	(366,793)	(969,177)
Change in due from related entities	(292,038)	604,082
Change in other assets	(4,002)	1,466
Change in other liabilities	1,951	(7,101)
Change in income tax receivable	(13,633)	1,234
Change in income tax payable	(1,467)	(3,157)
Change in accrued interest receivable	1,884	6,705
Change in accrued interest payable	(29,437)	3,532
Change in deposits	279,662	759,861
Change in net deferred tax assets	(2,857)	(3,939)
Change in employee entitlements	3,345	452
Change in fee received in advanced	501	(65)
Net cash flows (used in)/from operating activities	**(144,869)**	**378,812**

36.2 Reconciliation of liabilities arising from cash flows from financing activities

At 31 December 2019	
Due to related entities	6,865,827
Debt securities in issue	2,199,913
Cash flows	307,860
Non-cash movements	(35,006)
At 31 December 2020	
Due to related entities	6,073,516
Debt securities in issue	3,265,078
At 31 December 2018	
Due to related entities	6,031,923
Debt securities in issue	3,105,153
Cash flows	(46,021)
Non-cash movements	(25,315)
At 31 December 2019	
Due to related entities	6,865,827
Debt securities in issue	2,199,913

37. Related party disclosures

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

Notes to the Financial Statements

37. Related party disclosures (continued)

37.1 Transactions with related parties

37.1.1 Guarantees

For the period 18 February 1998 to 30 April 2015 the obligations of RNZL were guaranteed pursuant to a series of guarantees in favour of the creditors of RNZL.

Obligations incurred by RNZL up to the close of 30 April 2015 will continue to be covered guaranteed, until those obligations are repaid or otherwise satisfied. All new obligations incurred by RNZL after 30 April 2015 are not guaranteed.

37.1.2 Commission and fee expense

A fee of $0.46 million was charged to RNZL by Rabobank in consideration for providing the obligations guarantees for 2020 (2019: $0.45 million).

37.1.3 Management expenses

A management fee of $47.1 million (December 2019: $48 million) was charged to the Banking Group by the Australia Branch of Rabobank for the provision of administrative and management services. Some operating expenses of the Bank are paid and re-charged to the Banking Group by this related entity.

Overseas Rabobank head office charges management fee in a form of direct recharges (e.g. staff costs, internal audit fees, legal fees, insurance premiums specific for the Bank, and IT covering specific infrastructure and systems support) and global allocations (e.g Central Management and Support, Global business management and support functions, and IT functions).A management fee of $14 million (December 2019: $13.8 million) was charged to the Banking Group by Rabobank for the provision of administrative and management services.

An amount of $5.4 million (2019: $4.9 million) was charged to the Banking Group as management fees by De Lage Landen Pty Limited.

Corporate centre expenses of $2.1 million (2019: $1.7 million) were charged by De Lage Landen International B.V.

37.1.4 Other transactions

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

	2020	2019
in thousands of NZD		
Interest income due from related parties	12,205	21,106
Interest expense due to related parties	61,624	93,127
Due from related entities	1,842,692	1,548,034
Due to related entities	6,073,516	6,865,827

Derivatives with a combined notional of $17,298 million and a net fair value liability position of ($54.6 million) (2019: $13,340 million and ($30.1 million liability position) respectively) are held with Rabobank.

37.1.5 Capital securities

On 18 June 2019 all securities issued by RCSL were redeemed, together with underlying securities issued by the Registered Bank to RCSL.

37.2 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.

Notes to the Financial Statements

37. Related party disclosures (continued)

37.3 Provision for impairment

For the year ended 31 December 2020, the Banking Group has not made any specific provision for impairment relating to amounts owed by related parties. Provision has not been recognised on grounds of it being minimal and immaterial. The Banking Group recognises collective impairment allowance relating to amounts owned by related parties in accordance with expected credit loss impairment model.

38. Key management personnel

38.1 Compensation of key management personnel (KMP)

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

	2020	2019
in whole NZD		
Short term employee benefits	4,085,718	4,607,299
Post employment benefits	101,061	147,774
Other long term benefits	228,320	613,301
Termination benefits	-	118,924
Total KMP compensation	**4,415,099**	**5,487,298**

38.2 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% (2019: 0.8%) below published market rate. Outstanding loan balances at 31 December 2020 are secured. Provision has not been recognised on grounds of it being minimal and immaterial.

	2020	2019
in whole NZD		
Loans outstanding at the beginning of the year	3,282,971	4,038,847
Net loan movements during the year	(3,282,971)	(755,876)
Loans outstanding at the end of the year	**-**	**3,282,971**
Interest income during the year	22,753	159,362

	2020	2019
in whole NZD		
Deposits outstanding at the beginning of the year	78,487	79,349
Net deposit movements during the year	741	(862)
Deposits outstanding at the end of the year	**79,228**	**78,487**
Interest expense during the year	755	4,867

39. Subsequent events

The directors are not aware of any 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 Banking Group, the results of those operations or the state of affairs of the Banking Group in subsequent financial years.

Notes to the Financial Statements

40. Dividend

RCSL paid final dividend of $2 thousand in 2020 (2019: AGCO paid dividend of $1,000 thousand).

41. Capital management

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

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

During 2020 and 2019, the Banking Group complied in full with all its externally imposed financial requirements.

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

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

Independent auditor's report

To the Directors of Cooperatieve Rabobank U.A.

Our opinion

The accompanying financial report of the Cooperatieve Rabobank U.A. New Zealand Banking Group is the aggregation of the New Zealand business of Cooperatieve Rabobank U.A., incorporated in the Netherlands and trading as Rabobank (the "Registered Bank"). The New Zealand business of Rabobank Cooperatieve Rabobank U.A. comprises of Rabobank New Zealand Branch, Rabobank New Zealand Limited, Rabo Capital Securities Limited, De Lage Landen Limited and AGCO Finance Limited (collectively referred to as the "Banking Group") at 31 December 2020 and for the year then ended.

In our opinion, the accompanying aggregated financial statements of the Banking Group, present fairly, in all material respects, the financial position of the Banking Group as at 31 December 2020, 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).

What we have audited

The aggregated financial statements comprise:

- the statement of financial position as at 31 December 2020;
- 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 aggregated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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

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Key audit matters

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

Description of the key audit matter	How our audit addressed the key audit matter
Provisions for impairment on loans and advances (Refer to Notes 10, 16 and 18 of the aggregated financial statements) Provisions for impairment on loans and advances were a key audit matter because of the subjective and complex judgements made by the Banking Group in determining the necessity for, and then estimating the size of, provisions for impairment on loans and advances. NZ IFRS 9 Financial Instruments (NZ IFRS 9) requires an expected credit loss ("ECL") model to take into account forward looking information reflecting the Banking Group's view on potential future economic events. This requires considerable judgement to estimate ECL provision against financial instruments. The Banking Group uses judgements in the determination of ECL for the following key attributes: • significant increase in credit risk; • forward looking information; • macroeconomic scenarios; • key inputs including probability of default (PD), loss given default (LGD) and exposure at default (EAD); • overlay adjustments required to address those elements not captured by the ECL model; and • key inputs including expected future cash flows and weighting of the scenarios used in measuring individually assessed ECL provisions.	We assessed the design and tested the operating effectiveness of relevant key controls over the provisioning for impairment on loans and advances under NZ IFRS 9. The relevant key controls included: • Governance over the development, validation and approval of the Banking Group's ECL models to assess compliance with NZ IFRS 9. • Review and approval of key judgements, assumptions and forward looking information used in the ECL models. • Interfaces and reconciliations of transfer of key data inputs from source systems to the models. • The review and approval process for the outputs of the ECL model and the adjustments and economic overlays that are applied to the modelled outputs. Our audit procedures over the provisions for impairment on loans and advances, performed on a sample basis, included: **Collective Provision (Stage 1, 2, 3a)** • Consideration of the methodology inherent within the models against the requirement of NZ IFRS 9. • Appropriateness of key assumptions in the ECL models, including staging, PD and LGD. This included using credit modelling specialists in our assessment. • Appropriateness 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.

Description of the key audit matter	How our audit addressed the key audit matter
The COVID-19 pandemic has significantly increased the estimation uncertainty, particularly in estimating the above key attributes used in determining the ECL as at year end. The principal considerations for our determination that the provisions for impairment on loans and advances is a key audit matter are: • The judgements 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 ECL models, such as estimating forward looking PD, LGD, EAD of financial instruments and macro-economic scenarios and their weightings; • Overlays added to reflect the estimation uncertainty brought upon by COVID-19; and • The judgement and assumptions applied to determine individually assessed ECL provisions.	• Recalculation of the ECL for a sample of loans and advances 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, with a particular focus on the impact of COVID-19, and assessing whether the overlays were reasonable. **Specific Provision (stage 3b)** • For a sample of individually assessed loans and advances, we assessed the appropriateness of the forward looking scenarios used and the weightings applied, including the Banking Group's cash flow forecasts supporting the impairment calculation in light of the requirement of NZ IFRS 9. • We assessed the appropriateness of key judgements (in particular the amount and timing of recoveries) made by the Banking Group in the context of the borrowers' circumstances based on the detailed loan and counterparty information known by the Banking Group. • We compared the valuation of collateral held to external information where available. We considered the impacts of events occurring subsequent to balance date on the loan provisions. We also evaluated the reasonableness of the Banking Group's disclosures against the requirements of NZ IFRS.

Our audit approach

Overview

Overall group materiality: $8.4 million, which represents 5% of profit before income tax.

We chose profit before income tax as the benchmark because, in our view, it is the benchmark against which the performance of the Banking Group is most commonly measured by users, and is a generally accepted benchmark.

- Full scope audits were performed for Rabobank New Zealand Branch, Rabobank New Zealand Limited, De Lage Landen Limited and AGCO Finance Limited;
- Analytical review procedures were performed on Rabo Capital Securities Limited.

As reported above, we have one key audit matter, being:

- Provisions for impairment on loans and advances

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the aggregated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. 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.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the aggregated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the aggregated financial statements.

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

How we tailored our group audit scope

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

Other information

The Directors of Cooperatieve Rabobank U.A. (the “Directors”) are responsible for the other information. The other information comprises the information included in the Annual report, but does not include the aggregated financial statements and our auditor's report thereon.

Our opinion on the aggregated financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

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

Responsibilities of the Directors for the aggregated financial statements

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

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

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

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

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

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/
This description forms part of our auditor’s report.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
24 March 2021

Sydney