



Rabobank New Zealand Limited

Disclosure Statement - 31 December 2022

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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 ("Reserve Bank Act") and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) ("Order").

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

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

Rabobank's New Zealand address for service is Level 4, 32 Hood Street, Hamilton, New Zealand.

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

General matters

Ultimate parent bank

The Bank's ultimate parent bank is Coöperatieve Rabobank U.A. (referred to as Rabobank).

Summary of regulations

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

Interests in 5% or more of voting securities of Bank

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

Priority of creditors' claims

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

Composition of the Board of directors

On 23rd November 2022 Andrew Borland resigned as Chair and Director of the Bank.

Christopher Black was appointed as a Director of the Bank on 21st November 2022, and was elected Chair at the Board's meeting on 23rd November 2022.

Directors

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

Name:	Christopher John Black (Chair)
Occupation(s):	Director
Qualifications:	Bachelor of Land Surveying, University of Otago Post Graduate Diploma in Accounting, Victoria University of Wellington Chartered Accountant, Australia and New Zealand
Country of Residence:	New Zealand
Type of director:	Independent Non-Executive Director
External Directorships:	Black Family Trustee Company Limited Southern Cross Healthcare Limited Southern Cross Pet Insurance Limited Southern Cross Medical Society Southern Cross Health Trust Mental Health Foundation Toka Tū Ake Earthquake Commission

General Disclosures (unaudited)

General matters (continued)

Name:	Geerten Battjes
Occupation(s):	Banker
Qualifications:	Degree in Econometrics (Honours) from the State University of Groningen in the Netherlands
Country of Residence:	The Netherlands
Type of director:	Non-Independent Non-Executive Director
External Directorships:	Rabobank Australia Limited GEFR Battjes Investments BV
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Name:	Anne Bernadette Brennan
Occupation(s):	Director
Qualifications:	Bachelor of Commerce (Honours), Fellow of the Institute of Chartered Accountants, Australia and New Zealand Fellow of the Australian Institute of Company Directors
Country of Residence:	Australia
Type of director:	Independent Non-Executive Director
External Directorships:	O'Connell Street Associates Pty Ltd NSW Treasury Corporation The Lottery Corporation The GPT Group The Endeavour Group
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Name:	Brent John Goldsack
Occupation(s):	Director
Qualifications:	Bachelor of Commerce and Administration, Victoria University
Country of Residence:	New Zealand
Type of director:	Independent Non-Executive Director
External Directorships:	Better Eggs Limited Power Farming Holdings Limited The Hills Golf Club Limited Fonterra Co-operative Group Limited Waitomo Group Limited Waitomo Energy Limited Waitomo Land Limited Waitomo Petroleum Limited Kiwi Fuels Limited Kiwi Transactions Limited Henergy Cage-Free Limited
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Name:	Bernardus Jacobus Martin
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 Non-Executive Director
External Directorships:	Rabobank Australia Limited Rabobank International Holding B.V. De Lage Landen International B.V. Chairman of the Shareholders Council of Rabo Partnerships Rabobank North America President of European Association of Co-operative Banks Member of the Board of Trustees of the Neumann Stiftung Chairman of the Global Steering Committee of the Food Action Alliance
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General Disclosures (unaudited)

General matters (continued)

Name:	Lara Yocarini
Occupation(s):	Banker
Qualifications:	MPhil in Development Studies, University of Cambridge
Country of Residence:	The Netherlands
Type of director:	Non-Independent Non-Executive Director
External Directorships:	Rabobank Australia Limited Conservis LLC Shareholders Council of Rabo Partnerships B.V.

The address to which any documents or communication may be sent to any director is Rabobank New Zealand Limited, PO Box 19373, Hamilton 3244; or Level 4, 32 Hood Street, Hamilton 3204, New Zealand. The documents or communication should be marked for the attention of the Director.

Signing of the disclosure statement

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

- Christopher John Black (Chair)
- Geerten Battjes
- Anne Bernadette Brennan
- Brent John Goldsack
- Bernardus Jacobus Martin
- Lara Yocarini

Director related transactions

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

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

Board audit committee

The Bank has a board audit committee (BAC).

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

Conflict of interest policy

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

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

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

Auditor

PricewaterhouseCoopers is the appointed auditor of the Bank. The auditor's address is One International Towers Sydney, Watermans Quay, Barangaroo, NSW 2000.

General Disclosures (unaudited)

Credit ratings

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

There have been changes to the ratings in the two years immediately before 31 December 2022. On 24 June 2021 Standard & Poor's revised the Bank's rating from A (negative) to A (stable).

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

Historical summary of financial statements for the Banking Group

	Year ended 31/12/2022	Year ended 31/12/2021	Year ended 31/12/2020	Year ended 31/12/2019	Year ended 31/12/2018
in millions of NZD					
Statement of comprehensive income					
Interest income	643.77	445.80	478.73	545.65	548.99
Interest expense	(278.50)	(115.19)	(198.17)	(283.54)	(294.80)
Net interest income	365.27	330.61	280.55	262.12	254.19
Other income	2.71	2.55	2.20	1.09	1.59
Other expense	(0.37)	(0.45)	(0.53)	(0.45)	(0.61)
Other operating gain	(7.09)	(0.66)	0.06	0.54	0.54
Non-interest income/(expense)	(4.76)	1.44	1.70	1.18	1.52
Operating income	360.51	332.04	282.31	263.30	255.71
Operating expenses	(156.01)	(147.88)	(140.39)	(126.43)	(111.64)
Impairment (losses)/releases	(0.10)	16.57	(3.91)	(13.40)	(0.58)
Profit before income tax	204.40	200.73	138.00	123.46	143.49
Income tax expense	(57.23)	(56.28)	(38.66)	(34.12)	(40.39)
Net profit for the year	147.11	144.45	99.34	89.34	103.10
Statement of financial position					
Total assets	15,034.90	13,295.29	12,722.73	12,544	11,977.36
Total individually impaired assets	194.35	270.92	375.98	414.29	257.27
Total liabilities	12,993.50	11,389.59	10,953.99	10,875.12	10,398.71
Total equity	2,041.39	1,905.70	1,768.74	1,668.41	1578.65

The amounts disclosed above are extracted from the audited annual reports of the Banking Group.

Guarantee arrangements

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

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

Details of guarantor

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

Coöperatieve Rabobank U.A. (Rabobank)
Level 4
32 Hood Street
Hamilton
New Zealand

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

General Disclosures (unaudited)

Guarantee arrangements (continued)

The guarantor - Rabobank

	31 December 2022	31 December 2021
in millions of EUR		
Qualifying Capital*	50,830	47,985
Qualifying Capital*/RWA(%)	21.1	22.6

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

Rabobank has the following credit ratings applicable to its long term senior unsecured obligations payable in any country or currency, including obligations payable in New Zealand in New Zealand dollars and in the Netherlands (the country of its incorporation).

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

There have been changes to the ratings in the two years immediately before 31 December 2022. On 24 June 2021 Standard & Poor's revised Rabobank's rating from A+ (negative) to A+ (stable). On 13 July 2021 Moody's revised Rabobank's rating from Aa3 (stable) to Aa2 (stable). On 26 November 2021 Fitch revised its outlook in relation to credit rating of Rabobank from A+ (negative) to A+ (stable).

General Disclosures (unaudited)

Guarantee arrangements (continued)

Descriptions of the credit rating scales are as follows:

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

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

Material cross guarantee

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

Details of guaranteed obligations

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

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

Pending proceedings or arbitration

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

Insurance business

The Banking Group does not conduct any insurance business.

Risk management policies

The Bank has an integrated framework of responsibilities and functions driven from Board level down to operational levels, covering all aspects of risk, including its material risks.

General Disclosures (unaudited)

Risk management policies (continued)

The Bank has a comprehensive Risk Management Framework (RMF) that maintains effective processes to identify, assess, manage, monitor and report risks. The Bank's RMF consists of systems, structures, policies, processes and people which enable it to manage all relevant risks. The key elements of the RMF are documented in the Risk Management Strategy (RMS). The Bank's RMS is not intended to provide detailed technical guidance on how the risk management activities are performed. The RMS describes to stakeholders and the New Zealand regulator, Rabobank's approach for managing risk and the key elements of the RMF. The RMS describes:

- The material risks identified and the approach to manage these risks;
- The approach and process used to identify, assess, manage, monitor and report on risk management matters;
- The role and responsibility of the Board, committees and senior management with respect to the RMF;
- The role and responsibility of the risk management function, the Board and management committees;
- The approach for ensuring awareness of the RMF and for instilling an appropriate risk culture, and
- The process by which the RMF is reviewed.

Material risks

The material risks of the Bank are categorised by three distinct risk categories, they are Business Risk, Financial Risk and Non-Financial Risk:

Risk Category	Description	Material Risks
Business Risk	Business shocks that threaten market and financial goals, reputation and adequacy of capital.	Business Risk
Financial Risk	Possibility of losing money through default, loss of cash flow and market exposures.	Credit Risk, Liquidity Risk and Market Risk
Non-Financial Risk	Risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	Operational Risk and Compliance Risk

The Bank does not take any equity risk.

Refer to note 30 in the financial statements for:

- policies on liquidity, market (traded and non-traded), 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 supports the execution and monitoring of risk management activities through:

- The operation of the risk management function;
- Establishment of Board Risk & Compliance Committee (BRCC) and management risk committees;
- The formation of a risk taxonomy;
- Adherence to global and local risk policies and procedures; and
- Compliance and obligations management, and regulatory oversight

General Disclosures (unaudited)

Risk management policies (continued)

Board and Management Oversight

The Bank's Board is ultimately responsible for the Bank's RMF. It is assisted in this role by the Board Risk and Compliance Committee (BRCC) and management risk committees. The Board, BRCC and management committees provide oversight that the RMF has been effectively implemented and risk management practices are in place. The Board, the Board committees and management risk committees are governed by a Charter, which sets out its purpose, authority and approach.

The Bank's Board - is ultimately responsible for the organisational strategy, Business Plan, RMF and oversight of the business operations. The Board:

- Sets risk appetite (within the overall limits set by Rabobank Group and Rabobank Wholesale and Rural);
- Approves the Internal Capital Adequacy Assessment Process (ICAAP), Capital Management Plan, RMS; and
- Approves key risk policies and standards; and
- Signs-off relevant risk and compliance attestations.

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

Board, Risk and Compliance Committee (BRCC) - the BRCC assists the 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 ICAAP, Risk Appetite Statement and RMS;
- Overseeing that effective policies, systems and data management are in place to appropriately inform the business

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

Board People and Remuneration Committee (BPRC) - assists the Board on matters relating to remuneration. Oversees appropriate linkages to performance and the RMF.

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

Management Committees - operate for the purpose of supporting management in fulfilling their responsibilities and making sure appropriate oversight and management of material risks is undertaken across the Bank.

The Bank is supported by seven key risk management committees for which the Chief Risk Officer (CRO) New Zealand, CRO Region Australia and New Zealand (RANZ) and Chief Compliance Officer (CCO) RANZ are accountable for:

- New Zealand Risk Management Committee
- New Zealand Business Approval and Review Committee (BARC) (integrated within Risk Management Committee (RMC))
- RANZ Compliance Anti-Money Laundering & Sanctions Committee (CAMS)
- RANZ Regional Credit Committee (RCC)
- Financial Restructuring Credit Committee New Zealand (FRCC NZ)
- RANZ Model Governance Committee (MGC)
- RANZ Policy & Standards Management Committee (PSMC)

Leadership Team (LT) - the Chief Executive Officer New Zealand has established an LT to assist with the day-to-day management of the Bank. The LT is responsible for the delivery of the Board agreed strategy via the Business Plan which operates within the Board approved risk appetite.

Risk management review

The approach to risk management, as described in the RMS, is reviewed on an annual basis. Aspects of the risk management policies, procedures and implementation are reviewed by the Bank's Internal Audit Department depending on the audit universe and coverage plans.

General Disclosures (unaudited)

Internal audit function

The Bank has an Internal Audit function which is part of a regionally based RANZ Internal Audit department, which is in turn part of a global Internal Audit function of the Rabobank Group. The Bank's New Zealand based staff have a reporting line to the Chief Audit Officer RANZ. The Chief Audit Officer RANZ has a hierarchical reporting line to the Chair of the Bank's Board Audit Committee ("BAC") and a functional reporting line to Rabobank's Chief Audit Officer - Wholesale and Rural. Internal Audit is responsible for providing an independent review on the adequacy and effectiveness of the Bank's control environment, which is confirmed in the Audit Rabobank New Zealand Charter.

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

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

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 Bank that:

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

Financial Statements of the Bank and Overseas Banking Group

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

Auditor's report

The Disclosure Statement has been audited by external auditor PricewaterhouseCoopers, except for the Capital Adequacy and Regulatory Liquidity Information on pages 21 to 28 which has been reviewed. The statement of the nature and scope of the audit is included in the attached auditor's report.

Conditions of registration

There have been the following changes to the Bank's Conditions of Registration since 30 June 2022.

With effect on and after 1 July 2022, changes were made to the Bank's Conditions of Registration. The changes related to: (i) removing the restrictions on dividend payments which were implemented to support financial stability in response to COVID-19. Dividend restrictions will still apply if the Bank's capital ratio falls below key thresholds; and (ii) correcting a typographical error in BS13A (Liquidity Policy Annex) in relation to the calculation of a bank's eligibility limit for all Residential Mortgage-Backed Securities, outlined in paragraph 12(a) of BS13A and the table below it (i.e. to remove the wording 'Single Name Basis Bonds' from the table). This amendment does not change the meaning of paragraph 12(a).

General Disclosures (unaudited)

Conditions of registration (continued)

Conditions of registration for Rabobank New Zealand Limited

Below is a copy of the Conditions of Registration that applied at 31 December 2022.

These conditions of registration apply on and after 1 July 2022.

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

1. That-

- (a) the Total capital ratio of the banking group is not less than 8%;
 - (b) the Tier 1 capital ratio of the banking group is not less than 6%;
 - (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5%;
 - (d) the Total capital of the banking group is not less than \$30 million;
- For the purposes of this condition of registration,-

“Total capital ratio”, “Tier 1 capital ratio”, and “Common Equity Tier 1 capital ratio” have the same meaning as in Subpart B2 of BPR100: Capital Adequacy;

“Total capital” has the same meaning as in BPR110: Capital Definitions.

1A. That-

- (a) the bank has an internal capital adequacy assessment process (“ICAAP”) that accords with the requirements set out in Part D of BPR100: Capital Adequacy;
- (b) under its ICAAP the bank identifies and measures its “other material risks” defined in Part D of BPR100: Capital Adequacy; and
- (c) the bank determines an internal capital allocation for each identified and measured “other material risk”.

1B. That, if the Prudential Capital Buffer (PCB) ratio of the banking group is 2.5% or less, the bank must-

- (a) according to the following table, limit the aggregate distributions of the bank’s earnings, other than discretionary payments payable to holders of Additional Tier 1 capital instruments, to the percentage limit on distributions that corresponds to the banking group’s PCB ratio; and

Banking group’s PCB ratio	Percentage limit on distributions of the bank’s earnings	Capital Buffer Response Framework stage
0% – 0.5%	0%	Stage 3
>0.5 – 1%	30%	Stage 2
>1 – 2%	60%	Stage 1
>2 – 2.5%	100%	None

- (b) comply with the Capital Buffer Response Framework requirements as set out in Part D of BPR120: Capital Adequacy Process Requirements.

For the purposes of this condition of registration,-

“prudential capital buffer ratio”, “distributions”, and “earnings” have the same meaning as in Subpart B2 of BPR100: Capital Adequacy;

an Additional Tier 1 capital instrument is an instrument that meets the requirements of B2.2(2)(a), (c) or (d) of BPR110: Capital Definitions.

1BA. That the bank must not make any distribution on a transitional AT1 capital instrument on or after the date on which on any conversion or write-off provision in the terms and conditions of the instrument is triggered due to either a loss absorption trigger event or a non-viability trigger event.

For the purposes of this condition of registration, “transitional AT1 capital instrument” has the meaning given in section A2.3 of BPR110: Capital Definitions and “loss absorption trigger event” and “non-viability trigger event” have the meanings given in sub-section C2.2(3) of BPR120: Capital Adequacy Requirements.

1C. That:

General Disclosures (unaudited)

Conditions of registration (continued)

- (a) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued on or after 1 July 2021 in the calculation of its capital ratios unless it has completed the notification requirements in Part B of BPR120: Capital Adequacy Process Requirements in respect of the instrument; and
- (b) the bank meets the requirements of Part C of BPR120: Capital Adequacy Process Requirements in respect of regulatory capital instruments.

For the purposes of this condition of registration,-

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection B2.2(2)(a) or (c) of BPR110: Capital Definitions;

a Tier 2 capital instrument is an instrument that meets the requirements of subsection B3.2(2)(a) or (c) of BPR110: Capital Definitions.

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

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

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

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

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

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

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

For the purposes of this condition of registration,-

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

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

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

Credit rating of the bank1	Connected exposure limit (% of the banking group’s Tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

General Disclosures (unaudited)

Conditions of registration (continued)

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

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

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy" (BS8) dated October 2021.

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

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

- (a) the board of the bank must have at least five directors;
- (b) the majority of the board members must be non-executive directors;
- (c) at least half of the board members must be independent directors;
- (d) an alternate director,-
 - (i) for a non-executive director must be non-executive; and
 - (ii) for an independent director must be independent;
- (e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;
- (f) the chairperson of the board of the bank must be independent; and
- (g) the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

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

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

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

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

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

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

- (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
- (b) the committee must have at least three members;
- (c) every member of the committee must be a non-executive director of the bank;
- (d) the majority of the members of the committee must be independent; and
- (e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

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

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

General Disclosures (unaudited)

Conditions of registration (continued)

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

For the purposes of this condition,-

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

“SPV” means a person-

- (a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;
- (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
- (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond:

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

12. That-

- (a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:
 - (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and
 - (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document “Significant Acquisitions Policy” (BS15) dated December 2011; and
- (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:
 - (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
 - (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document “Significant Acquisitions Policy” (BS15) dated December 2011; and
 - (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

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

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

- (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
- (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
- (c) the one-year core funding ratio of the banking group is not less than 75 per cent at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled “Liquidity Policy” (BS13) dated July 2022 and “Liquidity Policy Annex: Liquid Assets” (BS13A) dated July 2022.

General Disclosures (unaudited)

Conditions of registration (continued)

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

- (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
- (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
- (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
- (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

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

- (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager-
 - (i) all liabilities are frozen in full; and
 - (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;
- (b) apply a de minimis to relevant customer liability accounts;
- (c) apply a partial freeze to the customer liability account balances;
- (d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;
- (e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and
- (f) reinstate customers' access to some or all of their residual frozen funds.

For the purposes of this condition of registration, "de minimis", "partial freeze", "customer liability account", and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.

16. That the bank has an Implementation Plan that-

- (a) is up-to-date; and
- (b) demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS 17) dated June 2022.

For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.

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

- (a) at the product-class level lists all liabilities, indicating which are-
 - (i) pre-positioned for Open Bank Resolution; and
 - (ii) not pre-positioned for Open Bank Resolution;
- (b) is agreed to by the Reserve Bank; and
- (c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

For the purposes of this condition of registration, "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.

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

General Disclosures (unaudited)

Conditions of registration (continued)

For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.

19. That, for a loan-to-valuation measurement period ending on or after 31 October 2021 the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 60%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

20. That, for a loan-to-valuation measurement period ending on or before 31 March 2022, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

21. That, for a loan-to-valuation measurement period ending on or after 30 April 2022, the total of the bank's qualifying new mortgage lending amount in respect of non property investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 10% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

22. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration,-

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

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

In these conditions of registration, the version dates of the Reserve Bank of New Zealand Banking Prudential Requirement (BPR) documents that are referred to in the capital adequacy conditions 1 to 1C, or are referred to in turn by those documents or by Banking Supervision Handbook (BS) documents, are-

BPR document	Version date
BPR100: Capital adequacy	1 October 2021
BPR110: Capital definitions	1 October 2021
BPR120: Capital adequacy process requirements	1 July 2021
BPR130: Credit risk RWAs overview	1 July 2021
BPR131: Standardised credit risk RWAs	1 October 2021
BPR132: Credit risk mitigation	1 October 2021
BPR133: IRB credit risk RWAs	1 October 2021
BPR134: IRB minimum system requirements	1 July 2021
BPR140: Market risk exposure	1 October 2021
BPR150: Standardised operational risk	1 July 2021
BPR151: AMA operational risk	1 July 2021
BPR160: Insurance, securitisation, and loan transfers	1 July 2021
BPR001: Glossary	1 July 2021

In conditions of registration 19 to 22,-

General Disclosures (unaudited)

Conditions of registration (continued)

“loan-to-valuation ratio”, “non property-investment residential mortgage loan”, “property-investment residential mortgage loan”, “qualifying new mortgage lending amount in respect of property-investment residential mortgage loans”, “qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans”, and “residential mortgage loan” have the same meaning as in the Reserve Bank of New Zealand document entitled “Framework for Restrictions on High-LVR Residential Mortgage Lending” (BS19) dated October 2021:

“loan-to-valuation measurement period” means means a period of six calendar months ending on the last day of the sixth calendar month.

Directors' Statement

After due enquiry, each director of the Bank believes 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 Order; and
- The Disclosure Statement is not false or misleading; and

(ii) over the full year ended 31 December 2022:

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

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



Todd Charteris

Dated 21 March 2023



Independent Assurance Report

To the shareholder of Rabobank New Zealand Limited

Limited assurance report on compliance with the information required on capital adequacy and regulatory liquidity requirements

Our conclusion

We have undertaken a limited assurance engagement on Rabobank New Zealand Limited (the “Bank”)’s compliance, in all material respects, with clause 21 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the “Order”) which requires information prescribed in Schedule 9 of the Order relating to capital adequacy and regulatory liquidity requirements to be disclosed in its full year Disclosure Statement for the year ended 31 December 2022 (the “Disclosure Statement”).

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Bank’s information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 21 of the Order and disclosed on pages 21 to 28 inclusive (excluding section 2.3 - Reconciliation of mortgage related accounts on page 24) and in Note 39 of Appendix 1, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

Basis for conclusion

We have conducted our engagement in accordance with Standard on Assurance Engagements 3100 (Revised) *Compliance Engagements* (“SAE 3100 (Revised)”) issued by the New Zealand Auditing and Assurance Standards Board.

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

Directors’ responsibilities

The Directors are responsible on behalf of the Bank for compliance with the Order, including clause 21 of the Order which requires information relating to capital adequacy and regulatory liquidity requirements prescribed in Schedule 9 of the Order to be included in the Disclosure Statement, for the identification of risks that may threaten compliance with that clause, controls that would mitigate those risks and monitoring ongoing compliance.

Our independence and quality management

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, which is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We apply Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires our firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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We are independent of the Bank. Other than in our capacity as auditors and providers of other related assurance services we have no relationship with, or interests in, the Bank. Certain partners and employees of our firm may deal with the Bank on normal terms within the ordinary course of trading activities of the Bank. The provision of these other services and these relationships have not impaired our independence as auditor of the Bank.

Assurance practitioner's responsibilities

Our responsibility is to express a limited assurance conclusion on whether the Bank's information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 21 of the Order is not, in all material respects, disclosed in accordance with Schedule 9 of the Order. SAE 3100 (Revised) requires that we plan and perform our procedures to obtain limited assurance about whether anything has come to our attention that causes us to believe that the Bank's information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 21 of the Order, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

In a limited assurance engagement, the assurance practitioner performs procedures, primarily consisting of discussion and enquiries of management and others within the entity, as appropriate, and observation and walk-throughs, and evaluates the evidence obtained. The procedures selected depend on our judgement, including identifying areas where the risk of material non-compliance with clause 21 of the Order in respect of the information relating to capital adequacy and regulatory liquidity requirements is likely to arise.

Given the circumstances of the engagement we:

- obtained an understanding of the process, data and internal controls implemented over the preparation of the information relating to capital adequacy and regulatory liquidity requirements;
- obtained an understanding of the Bank's compliance framework and internal control environment to ensure the information relating to capital adequacy and regulatory liquidity requirements is in compliance with the Reserve Bank of New Zealand's (the "RBNZ") prudential requirements for banks;
- obtained an understanding and assessed the impact of any matters of non-compliance with the RBNZ's prudential requirements for banks that relate to capital adequacy and regulatory liquidity requirements and inspected relevant correspondence with the RBNZ;
- performed analytical and other procedures on the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order, and considered its consistency with the annual financial statements; and
- agreed the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order to information extracted from the Bank's accounting records or other supporting documentation, which included publicly available information as prescribed by clause 14 of Schedule 9 of the Order.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance opinion on compliance with the compliance requirements.



Inherent limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure, it is possible that fraud, error or non-compliance with the compliance requirements may occur and not be detected.

A limited assurance engagement on the Bank's information relating to capital adequacy and regulatory liquidity requirements prescribed in Schedule 9 of the Order to be included in the Disclosure Statement in compliance with clause 21 of the Order does not provide assurance on whether compliance will continue in the future.

Use of report

This report has been prepared for use by the Bank's shareholder for the purpose of establishing that these compliance requirements have been met.

Our report should not be used for any other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility for any reliance on this report to anyone other than the Bank and the Bank's shareholder, or for any purpose other than that for which it was prepared.

The engagement partner on the engagement resulting in this independent assurance report is Sam Hinchliffe.

A handwritten signature in black ink that reads "Praveen Kumar Cooper". The signature is written in a cursive, flowing style.

Chartered Accountants
21 March 2023

Sydney

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

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

1 Capital

	As at 31 December 2022
In thousands of NZD	
Tier 1 capital	
Common Equity Tier 1 ("CET1") capital	551,200
Retained earnings (net of appropriations)	1,505,883
Accumulated other comprehensive income and other disclosed reserves	(15,689)
Less deductions from CET1 capital:	
Deferred tax assets	(15,719)
Goodwill and other intangible assets	(1,203)
Subtotal CET1 capital	2,024,472
Additional Tier 1 ("AT1") capital	
Subtotal AT1 capital	-
Total Tier 1 capital	2,024,472
Tier 2 capital	
Term subordinated debt subject to phase-out transitional arrangements	-
Revaluation reserve	-
Total Tier 2 capital	-
Total capital	2,024,472

For a detailed breakdown of the Capital refer to note 39.1 in the annual report of Rabobank New Zealand Limited attached as Appendix 1. The above balances are derived in accordance with the conditions of registration relating to capital adequacy and the Reserve Bank document entitled "Banking Prudential Requirement (BPR) 110 Capital Definitions".

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

2 Credit risk

2.1 Calculation of on-balance sheet exposures

In thousands of NZD	Total exposure after credit risk mitigation	Risk weight	Risk weighted exposure	Minimum pillar 1 capital requirement
As at 31 December 2022				
Cash and gold bullion	-	0%	-	-
Sovereigns and central banks	1,114,780	0%	-	-
Multilateral development banks and other international organisations	306,359	0%	-	-
Multilateral development banks and other international organisations	40,071	20%	8,014	641
Banks	160,632	20%	32,126	2,570
Banks - related party ¹	3,637	20%	727	58
Public sector entities	-	20%	-	-
Corporate	-	50%	-	-
Residential mortgages not past due - LVR does not exceed 80%	-	40%	-	-
Residential mortgages not past due - LVR between 80% and 90%	-	70%	-	-
Residential mortgages not past due - LVR between 90% and 100%	-	90%	-	-
Past due residential mortgages	-	100%	-	-
Other past due assets ²	194,012	150%	291,018	23,281
Other past due assets ³	334	100%	334	27
Equity holdings (not deducted from capital) included in the NZX 50 or overseas equivalent index	-	300%	-	-
All other equity holdings (not deducted from capital)	-	400%	-	-
Other ⁴	12,575,559	100%	12,575,559	1,006,045
Non-risk weighted assets ⁵	34,079	N/A	-	-
Total on-balance sheet exposures	14,429,463		12,907,778	1,032,622

¹ The related party exposure disclosed above is the net exposure after credit risk mitigation tools have been applied in accordance with BS8 and BPR132.

² Other past due assets that have been risk weighted at 150% comprise of loans and advances classified as more than 90 days past due assets, and impaired assets when the provision for doubtful debt is less than 20% of the outstanding amount of the loan.

³ Other past due assets that have been risk weighted at 100% comprise of loans and advances classified as more than 90 days past due assets, and impaired assets when the provision for doubtful debt is greater than 20% of the outstanding amount of the loan.

⁴ Other assets that have been risk weighted at 100% comprise of loans and advances, finance leases, property, plant and equipment, sundry debtors and accrued interest receivable.

⁵ Non-risk weighted assets relate to net deferred tax assets, derivative assets and other intangible assets.

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

2.2 Calculation of off-balance sheet exposures

	Total exposure	Credit conversion factor %	Credit equivalent amount	Average risk weight %	Risk weighted exposure	Minimum pillar 1 capital requirement
In thousands of NZD						
At 31 December 2022						
Direct credit substitutes	5,130	100%	5,130	100%	5,130	410
Asset sales with recourse	-	100%	-	0%	-	-
Forward asset purchase	-	100%	-	0%	-	-
Commitments with certain drawdown	-	100%	-	100%	-	-
Note issuance facility	-	50%	-	0%	-	-
Revolving underwriting facility	-	50%	-	0%	-	-
Performance-related contingency	-	50%	-	0%	-	-
Trade-related contingency	-	20%	-	0%	-	-
Placements of forward deposits	-	100%	-	0%	-	-
Other commitments where original maturity is more than one year	51,268	50%	25,634	100%	25,634	2,051
Other commitments where original maturity is less than or equal to one year	-	20%	-	100%	-	-
Other commitments which can be cancelled unconditionally at any time without prior notice	1,900,925	0%	-	100%	-	-
Total off-balance sheet exposures	1,957,323		30,764		30,764	2,461

	Total Exposure	Credit equivalent amount	Average risk weight %	Risk weighted exposure	Minimum pillar 1 capital requirement
Counterparty credit risk					
Foreign exchange contracts	1,285	14	79%	11	-
Interest rate contracts	1,583,552	8,542	53%	4,507	361
Other	225,714	33,437	69%	23,207	1,856
Credit valuation adjustment	-	-	-%	15,113	1,209
	-	-	-%	-	-
Total	1,810,551	41,993		42,838	3,426

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

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

2.3 Additional residential mortgages information

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

In thousands of NZD	At 31 December 2022		
	Drawn	Undrawn	Total
LVR range			
Do not exceed 80%	-	-	-
Exceeds 80% and not 90%	-	-	-
Exceeds 90%	-	-	-
Total value of residential mortgage exposures	-	-	-

Reconciliation of mortgage related accounts

In thousands of NZD	2022
Loans and advances - loans with residential mortgages	-
Plus short term residential mortgage classified as overdrafts	-
Less housing loans made to corporate customers	-
Total residential mortgage exposures subject to the standardised approach (as per LVR analysis)	-

3 Credit risk mitigation

In thousands of NZD	At 31 December 2022	
	Total value of on- and off-balance sheet exposures covered by eligible collateral (after haircutting)	Total value of on- and off-balance sheet exposures covered by guarantees or credit derivatives
Sovereign or central bank	-	-
Multilateral development bank	-	-
Public sector entities	-	-
Banks - related party*	640,373	-
Corporate	-	-
Residential mortgage	-	-
Other	-	-
Total gross-exposure basis	640,373	-
Total net-exposure basis*	3,637	-

* On 2 April 2015, Reserve Bank of New Zealand advised that it has no objection to RNZL measuring connected party exposures on a net exposure basis, as described in BS8. As described in BPR132, the exposure value for bilateral on-balance sheet netting of loans and deposits is calculated by treating loans as exposures and deposits as cash collateral.

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

4 Operational risk

Operational risk capital requirement

	As at 31 December 2022	
	Implied risk weighted exposure	Total operational risk capital requirement
In thousands of NZD		
Operational risk	878,475	70,278
Total	878,475	70,278

5 Market risk period-end capital charges

	As at 31 December 2022	
	Implied risk weighted exposure	Aggregate capital charges
In thousands of NZD		
Interest rate risk	488,375	39,070
Foreign currency risk	375	30
Total	488,750	39,100

The bank does not have any equity risk.

6 Market risk peak end-of-day capital charges

	As at 31 December 2022	
	Implied risk weighted exposure	Aggregate capital charges
In thousands of NZD		
Interest rate risk	545,000	43,600
Foreign currency risk	5,250	420
Total	550,250	44,020

The bank does not take any equity risk.

7 Method for delivering peak end-of-day aggregate 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 "Banking Prudential Requirement (BPR) 140: Market risk exposure".

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

8 Total capital requirements

	As at 31 December 2022		
	Total exposure after credit risk mitigation	Risk weighted exposure or implied risk weighted exposure	Total capital requirement
In thousands of NZD			
Total credit risk	18,197,337	12,981,381	1,038,509
Operational risk	N/A	878,475	70,278
Market risk	N/A	488,750	39,100
Total	18,197,337	14,348,606	1,147,887

9 Capital ratios compared to minimum ratio requirements

	At 31 December 2022		At 31 December 2021	
	Ratio	Minimum ratio requirement	Ratio	Minimum ratio requirement
In percentage (%)				
Common Equity Tier 1 capital ratio	14.11%	4.50%	13.95%	4.50%
Tier 1 capital ratio	14.11%	6.00%	13.95%	6.00%
Total capital ratio	14.11%	8.00%	13.95%	8.00%

10 Prudential capital buffer ratio

	At 31 December 2022	At 31 December 2021
In percentage (%)		
Prudential capital buffer ratio	6.11%	5.95%
Buffer trigger ratio	2.50%	2.50%

11 Solo capital adequacy

	At 31 December 2022	At 31 December 2021
In percentage (%)		
Common equity tier 1 (CET1) capital ratio	14.11%	13.95%
Total capital ratio	14.11%	13.95%
Tier 1 capital ratio	14.11%	13.95%

The ratios above are derived in accordance with the conditions of registration relating to capital adequacy and the Reserve Bank document Banking Prudential Requirement (BPR) 100: Capital Adequacy.

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

12 Pillar 2 capital for other material risks

In thousands of NZD	At 31 December 2022	At 31 December 2021
Internal capital allocation for other material risks	53,835	47,172

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

- (i) Credit Concentration Risk of a loan portfolio is a function of the relative proportion of loans across industry sectors, geographic areas, single obligors, credit quality, etc. It is an overall spread of the Bank's assets over the number or variety of debtors to whom the Bank has lent money.
- (ii) Compliance risk is the failure to comply with any legal or regulatory obligations. This includes the risk of impairment of the Bank's integrity, which can damage the rights and interests of our clients as well as the reputation and trustworthiness of the Bank, leading the legal claims or regulatory sanctions and/or financial loss. This includes the following sub-risks: Breach of Sanctions; Competition; Conflicts of Interest; Corruption; Data Privacy; Fraud; Market Inefficiency and Misconduct; Money Laundering; Record Keeping; Terrorism Financing; and Treating Clients Fairly. Although identified as a separate material risk for the purposes of the RMS, for the purposes of the ICAAP, Compliance Risk is explicitly captured by Operational Risk as defined in BPR001 Glossary.
- (iii) Business risk includes shocks that threaten market and financial goals, reputation and adequacy. This includes the following sub-risks: Capital Adequacy; Climate-related ; Environmental, Social and Governance Risk; Strategic Risk; and Reputational Risk.
 - Strategic risk is the risk affecting the development and implementation of the Bank's business strategy. It is largely associated with the competitive positioning of the business and our ability to respond in a timely manner to changes in the competitive landscape.
 - Contagion Risk is the risk associated with the Bank's dealings with related entities.
 - Reputational risk is the negative perception on the part of customers, counterparties, market analysts, regulators and other relevant parties of the Bank.
- (iv) Liquidity and funding risk is the risk that the Bank will not have sufficient liquidity to meet its payment obligations (including repaying depositors or maturing wholesale debt) when they fall due, or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets.
- (v) Interest rate risk in the banking book (IRRBB) is the risk of loss in earnings or in the economic value on banking book items as a consequence of movements in interest rates.

The Bank has completed an internal assessment of all the material risks focused by the Bank. This is described in the ICAAP document. The result show that no individual Pillar 2 risk would require a high capital allocation. The Bank adopted capital buffer of 4.69% as at 31 December 2022 against strategic risk and interest rate risk in the Banking Group (31 December 2021: an internal capital allocation of 4.35% of Pillar 1 capital). The internal capital allocation for the Pillar 2 risks forms part of the internal capital buffer.

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

13 Capital adequacy of the ultimate parent bank

Capital adequacy of Rabobank

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

At 31 December	2022 %	2021 %
Common equity Tier 1 capital ratio	16.00%	17.40%
Tier 1 capital ratio	18.00%	19.20%
Total capital ratio	21.10%	22.60%

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

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/about-us/organization/results-and-reports/downloads>

14 Regulatory liquidity ratios

	3 months to 31/12/2022	3 months to 30/09/2022
Capital ratios		
Quarterly average core funding ratio	83.0%	84.8%
Quarterly average one-month mismatch ratio	6.0%	6.1%
Quarterly average one-week mismatch ratio	6.0%	6.3%

Credit Exposures to Connected Persons

1 Concentration of credit exposures to connected persons

	Exposures in thousands NZD	Exposures as % of Banking Group's tier one capital %
As at 31 December 2022		
Bank connected persons		
Aggregate at end-of-period	3,637	0.20
Peak end-of-day for the year	21,625	1.10
Contingent credit exposures arising from risk lay-off arrangements	-	0.00
Aggregate at end-of-period (Gross amount)	640,373	31.60
Aggregate at end-of-period (Amount netted off)	636,736	31.50
Peak end-of-day for the year (Gross amount)	659,525	32.60
Peak end-of-day for the year (Amount netted off)	637,900	31.50
Non-bank connected persons		
Aggregate at end-of-period	-	
Peak end-of-day for the year	-	
Contingent credit exposures arising from risk lay-off arrangements	-	

As at 31 December 2022, the Banking Group's rating-contingent connected exposure limit was net 40% of Tier One Capital, with regulatory recognition of netting arrangements being in place. Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% of the Banking Group's Tier One Capital. Aggregate gross exposures to connected persons must not exceed 125% of the Banking Group's Tier One Capital.

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

The information on credit exposure to connected persons has been derived in accordance with Rabobank New Zealand Limited's conditions of registration and Connected Exposures Policy (BS8), and is net of individual credit impairment allowances, excluding advances of a capital nature and gross of set-offs. As described in the Reserve Bank of New Zealand Banking Prudential Requirement documents, the exposure value for bilateral on-balance sheet netting of loans and deposits is calculated by treating loans as exposures and deposits as cash collateral. Credit exposure is calculated on the basis of actual exposure.

The Banking Group has no individual credit impairment allowances provided against credit exposures to connected persons as at 31 December 2022.

Appendix 1

Annual Report for Rabobank New Zealand Limited
for the year ended 31 December 2022

Annual Report 2022

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Statement of Comprehensive Income

in thousands of NZD	Note	For the year ended 31 December	
		2022	2021
Interest income	4	643,766	445,795
Interest expense	5	(278,498)	(115,191)
Net interest income		365,268	330,604
Other income	6	2,713	2,554
Other expense	7	(375)	(454)
Other operating losses	8	(7,093)	(663)
Non-interest income / (expense)		(4,755)	1,437
Operating income		360,513	332,041
Operating expenses	9	(156,009)	(147,884)
Impairment benefits/(losses)	10	(103)	16,571
Profit before income tax		204,401	200,728
Income tax expense	12.1	(57,294)	(56,277)
Net profit for the year		147,107	144,451
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss			
Changes in the fair value of financial assets at fair value through other comprehensive income (gross)	26.2	(15,853)	(10,396)
Changes in the fair value of financial assets through other comprehensive income (deferred tax)	26.2	4,439	2,911
Total items that may be reclassified subsequently to profit or loss		(11,414)	(7,485)
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		(11,414)	(7,485)
Total comprehensive income attributable to shareholder of Rabobank New Zealand Limited		135,693	136,966

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

Statement of Financial Position

in thousands of NZD		At 31 December 2022	At 31 December 2021
	Note		
Assets			
Cash and cash equivalents	13	984,953	665,576
Derivative financial instruments	14	17,154	10,807
Financial assets at fair value through other comprehensive income	15	631,386	567,887
Loans and advances	16	12,748,960	11,898,846
Due from related entities	17	611,549	115,613
Other assets	19	9,016	10,648
Net deferred tax assets	12.3	15,719	12,960
Property, plant and equipment	20	14,957	11,537
Intangible assets	21	1,203	1,418
Total assets		<u>15,034,897</u>	<u>13,295,292</u>
Liabilities			
Derivative financial instruments	14	24,993	11,174
Deposits	22	5,569,334	5,081,735
Due to related entities	23	7,185,375	6,248,125
Payables due to central bank		163,902	-
Current tax payable		13,393	16,174
Other liabilities	24	31,642	25,753
Provisions	25	4,864	6,630
Total liabilities		<u>12,993,503</u>	<u>11,389,591</u>
Net assets		<u>2,041,394</u>	<u>1,905,701</u>
Equity			
Contributed equity	26.1	551,200	551,200
Reserves	26.2	(15,689)	(4,275)
Retained earnings	26.3	1,505,883	1,358,776
Total equity		<u>2,041,394</u>	<u>1,905,701</u>
Interest earning and discount bearing assets and liabilities			
Total interest earning and discount bearing assets		14,956,531	13,230,847
Total interest and discount bearing liabilities		12,850,046	11,319,071

For and on behalf of the Board, who authorised the issue of these Financial Statements on 21 March 2023:



Christopher John Black

Chairman
21 March 2023



Anne Brennan

Director
21 March 2023

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	Reserves	Retained earnings	Total
At 1 January 2021	551,200	3,210	1,214,325	1,768,735
Net profit	-	-	144,451	144,451
Total other comprehensive income:				
Revaluation reserve - FVOCI financial assets	-	(7,485)	-	(7,485)
Total comprehensive income for the period	-	(7,485)	144,451	136,966
At 31 December 2021	<u>551,200</u>	<u>(4,275)</u>	<u>1,358,776</u>	<u>1,905,701</u>
At 1 January 2022	551,200	(4,275)	1,358,776	1,905,701
Net profit	-	-	147,107	147,107
Total other comprehensive income:				
Revaluation reserve - FVOCI financial assets	-	(11,414)	-	(11,414)
Total comprehensive income for the period	-	(11,414)	147,107	135,693
At 31 December 2022	<u>551,200</u>	<u>(15,689)</u>	<u>1,505,883</u>	<u>2,041,394</u>

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

Statement of Cash Flows

		For the year ended 31 December	
		2022	2021
in thousands of NZD			
	Note		
Cash flows from operating activities			
Cash was provided from:			
Interest income		630,455	445,597
Other income		2,713	2,554
Derivative financial instruments *		711	72
Cash was applied to:			
Interest paid		(224,345)	(126,134)
Other expense	7	(375)	(454)
Management fees and other operating expenses		(138,434)	(140,815)
Tax payments		(58,395)	(40,344)
Cash flows from operating activities before changes in operating assets and liabilities		212,330	140,476
Cash was provided from/(applied to):			
Due to related entities		29,314	(57,955)
Financial assets at fair value through other comprehensive income		(79,605)	78,077
Loans and advances		(842,155)	(307,023)
Due from related entities		(493,006)	(1,727)
Deposits		466,617	(9,273)
Payables due to central bank		163,902	-
Changes in operating assets and liabilities arising from cash flow movements		(754,933)	(297,901)
Net cash flows used in operating activities	34	(542,603)	(157,425)
Cash flows from investing activities			
Cash was applied to:			
Purchase of property, plant and equipment		(8,854)	(3,833)
Purchase of intangible assets		(311)	(201)
Net cash flows used in investing activities		(9,165)	(4,034)
Cash flows from financing activities			
Cash was provided from:			
Cash in financing liabilities:			
Due to related entities		874,764	494,028
Principal elements of lease payments		(3,619)	(3,634)
Net cash flows from financing activities		871,145	490,394
Net change in cash and cash equivalents		319,377	328,935
Cash and cash equivalents at the beginning of the period / year		665,576	336,641
Cash and cash equivalents at the end of the year		984,953	665,576

* Transactions are settled on a net basis.

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

Notes to the Financial Statements

1. Reporting entity

Rabobank New Zealand Limited (the “Bank”) is a limited liability company incorporated and domiciled in New Zealand and registered under the Companies Act 1993. The Bank is a profit-oriented entity for the purpose of preparing this financial report. The Bank is an issuer for the purposes of the Financial Markets Conduct Act 2013. Financial statements for the Bank are presented as at and for the year ended 31 December 2022.

The registered office is at Level 4, 32 Hood Street, Hamilton, New Zealand.

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

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

2. Basis of preparation

2.1 Statement of compliance

The financial statements are prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the requirements of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (‘Order’). These financial statements are also prepared in accordance with the Generally Accepted Accounting Practice in New Zealand (‘NZ GAAP’), the New Zealand equivalents to International Financial Reporting Standards (‘NZ IFRS’) and other authoritative pronouncements of the External Reporting Board, as appropriate for for-profit entities. These financial statements also comply with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (‘IASB’).

These financial statements were approved and authorised for issue by the board of directors on 21 March 2023.

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 Bank operates (the functional currency). The financial statements are presented in New Zealand dollars (NZD), which is the Bank’s functional and presentation currency. All financial information presented in NZD has been rounded to the nearest thousand unless otherwise stated.

2.4 New and amended standards adopted by the Bank

The accounting policies adopted by the Bank 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 2022. Refer to note 3.15 for further details.

2.5 Significant accounting judgments and estimates

The preparation of the financial statements requires the use of judgment, 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 for the Bank. This primarily concerns the determination of loan impairment. This involves an assessment of the situations, based on the financial data and information available. Although these assessments are made based on the best estimate by the management of current events and actions, actual results may vary from these estimates. If different assumptions or estimates were applied, the resulting value would change, impacting the net assets and income of the Bank.

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

Notes to the Financial Statements

2. Basis of preparation (continued)

2.5.1 Impairment of financial assets

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

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

- Significant increase in credit risk: judgement is required to transfer assets from stage 1 to stage 2.
- Forward-looking information: the estimation of expected credit losses for each stage and the assessment of significant increases in credit risk consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions (forward looking information). The estimation of forward-looking information may require significant judgement.
- Macro-economic scenarios: The Bank uses three global macroeconomic scenarios to determine the expected credit losses which reflect information available on current conditions and forecasts of future economic conditions. These forward-looking macroeconomic forecasts require judgment and are partly based on internal Rabobank research.
- Measurement of expected credit losses: The probability of default (PD) x loss given default (LGD) x exposure at default (EAD) inputs are used to estimate expected credit losses. These inputs require estimates in the following way:
 - PD - The probability of default is an estimate of the likelihood of default over a given time horizon.
 - EAD - The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after reporting date.
 - LGD - The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that Rabobank would expect to receive, including cash flows expected from collateral and other credit enhancements.
- Measurement of individually assessed financial asset: For credit-impaired financial assets that are assessed on an individual basis, a discounted cash flow calculation is performed. In many cases, judgement is required for the estimation of the expected future cash flows and the weighting of the three scenarios.

While pervasive across the financial statements, the estimation uncertainty is predominantly related to expected credit losses (ECL) where the Bank recognised a credit impairment expense of \$103 thousand pre-tax in the December 2022 full year (31 December 2021: \$16,571 thousand).

Note 16 "Loans and advances" provides an overview of the exposures and impairment allowances per stage.

2.6 Change in comparatives

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. Refer to Notes 22, 30.1.2. and 32 for details of restatement relating to prior year's presentation.

3. Significant accounting policies

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

3.1 Revenue and expense recognition

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

3.1.1 Interest income and expense

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

3.1.2 Fee and commission income and expense

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

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

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

3.1.3 Other expenses

Operating expenses are recognised on an accrual basis.

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

3.2 Foreign currency

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

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

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

3.3 Income tax

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

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

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

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

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

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

3.4 Financial assets

3.4.1 Classification of financial assets

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

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

The classification depends on:

1. Business model assessment:

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

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

2. Contractual cash flow assessment:

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

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

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

The Bank does not hold equity instruments.

3.4.2 Measurement of financial assets

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

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

3.4.3 Loans and advances

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

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

3.4.4 Cash and cash equivalents

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

3.4.5 Derivative financial instruments

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

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

All derivative financial instruments are included under assets if their fair value is positive and under liabilities if their fair value is negative. This fair value hierarchy is described in more detail in note 32.

3.4.6 Financial assets at fair value through other comprehensive income

Investments in debt instruments are measured at FVOCI 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)

3.4.7 Leases

The Bank as Lessee

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

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

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

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

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

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

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

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

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

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

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

The Bank 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.

Notes to the Financial Statements

3. Significant accounting policies (continued)

3.4.8 Offsetting

Offsetting of income and expenses

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

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

Offsetting assets and liabilities

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

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

3.4.9 Regular way purchase and sale of financial assets

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

3.4.10 Derecognition of financial assets

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

3.5 Impairment of financial assets

Impairment allowances apply to financial assets at amortised cost and financial assets at FVOCI, 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.

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).

3.5.1 Methodology to determine expected credit losses

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

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.

3.5.2 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, the Bank uses criteria, such as days past due status, special asset management status and deterioration of the PD since origination.

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

Significant increases in credit risk (SICR)

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

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

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

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 recognised by collectively considering comprehensive credit risk information, which not only incorporates past due information but also all relevant credit information (including forward-looking macroeconomic information) to approximate the result of recognizing lifetime ECL when there has been a SICR since initial recognition on an individual instrument level.

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

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

3.5.3 Past due loans

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

3.5.4 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 than the Bank's average cost of funds at the date of restructuring.

3.6 Property, plant and equipment

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

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

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

3.7 Intangible assets

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

3.8 Other assets

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

3.9 Impairment of non-financial assets

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

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

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

3.10 Financial liabilities

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

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

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

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

They are brought to account at fair value 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.

3.10.2 Other liabilities

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

3.10.3 Derecognition of financial liabilities

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

3.10.4 Contingent liabilities

Contingent liabilities mainly include financial guarantees and lending commitments.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Lending commitments are defined amounts (unutilised credit lines or undrawn portions of credit lines) against which clients can borrow money under defined terms and conditions.

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

3.11 Provisions

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

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

3.12 Employee benefits

3.12.1 Wages and salaries and annual leave

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

3.12.2 Long service leave

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

3.13 Equity

3.13.1 Contributed equity

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

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

3.13.2 Reserves

Fair value through other comprehensive income (FVOCI) financial assets revaluation reserve

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

3.14 Goods and services tax

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

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

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

3.15 Accounting standards not early adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the Bank. These standards are not expected to have a material impact on the Bank in the current or future reporting periods and on foreseeable future transactions.

Notes to the Financial Statements

4. Interest income

	2022	2021
in thousands of NZD		
Loans and advances	598,292	437,065
Related entities	12,632	515
Financial assets at fair value through other comprehensive income	11,716	4,591
Finance lease income	1,796	2,042
Cash and balances with central bank	17,841	1,544
Due from other financial institutions	1,489	38
Total interest income	643,766	445,795

5. Interest expense

	2022	2021
in thousands of NZD		
Deposits	114,166	57,729
Related entities	161,124	57,228
Payable to central bank	2,903	-
Other	305	234
Total interest expense	278,498	115,191

6. Other income

	2022	2021
in thousands of NZD		
Transaction related commission income	2,713	2,553
Other income	-	1
Total other income	2,713	2,554

7. Other expense

	2022	2021
in thousands of NZD		
Commission and fee expense	375	454
Total other expense	375	454

8. Other operating losses

	2022	2021
in thousands of NZD		
Net trading (losses) / gains on derivatives	(6,889)	(254)
Losses on disposal/write off of property, plant and equipment and intangibles	(77)	(462)
Loss on disposal of FVOCI financial assets	(254)	-
Foreign exchange gains / (losses)	127	53
Total other operating losses	(7,093)	(663)

Notes to the Financial Statements

9. Operating expenses

	<u>2022</u>	<u>2021</u>
in thousands of NZD		
Advertising and marketing	2,959	2,456
Professional fees	3,680	3,320
Computer charges	567	371
Depreciation and amortisation	5,213	5,192
Management expenses and recharge costs	58,606	57,399
Personnel	73,813	70,849
Rental charges payable under operating leases	2,335	1,924
Telecommunication	1,012	1,235
Travel and lodging	4,171	2,904
Office supplies	779	697
Other	2,874	1,537
Total operating expenses	<u>156,009</u>	<u>147,884</u>

10. Impairment benefits/(losses)

	<u>2022</u>	<u>2021</u>
in thousands of NZD		
Collective provision charges/(releases)	2,078	(15,635)
Specific provision (releases)/charges	(1,975)	(936)
Total impairment losses/(releases)	<u>103</u>	<u>(16,571)</u>

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

	<u>2022</u>	<u>2021</u>
in whole NZD		
Audit and/or review of the financial statements of the Bank	389,634	359,228
Total auditor's remuneration	<u>389,634</u>	<u>359,228</u>

12. Income tax

12.1 Income tax expense

	<u>2022</u>	<u>2021</u>
in thousands of NZD		
Current income tax	55,293	50,326
Decrease in net deferred tax assets	1,987	6,004
(Over)/Under provided in prior years relating to deferred tax	(310)	-
(Over)/Under provision in current tax liabilities	324	(53)
Total income tax expense	<u>57,294</u>	<u>56,277</u>

Notes to the Financial Statements

12. Income tax (continued)

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

	<u>2022</u>	<u>2021</u>
in thousands of NZD		
Profit before income tax	204,401	200,728
Taxation @28% (2021: 28%)	57,233	56,205
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income :		
Non-deductible expenses	47	75
(Over) provided in prior years relating to deferred tax	(310)	(3)
Under provision in current tax liabilities	324	-
Income tax expense	<u>57,294</u>	<u>56,277</u>

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

12.3 Net deferred tax assets

	<u>2022</u>	<u>2021</u>
in thousands of NZD		
The balance comprises temporary differences attributable to:		
Accruals	(187)	409
Depreciation	849	1,004
Impairment provisions	6,357	6,298
Employee benefits	767	2,436
Others	706	23
Provision for long service leave	1,126	1,128
FVOCI financial assets revaluation reserve	6,101	1,662
Total net deferred tax assets	<u>15,719</u>	<u>12,960</u>

Movements:

	<u>2022</u>	<u>2021</u>
in thousands of NZD		
Opening balance	12,960	16,054
Credited / (charged) to statement of comprehensive income:		
Accruals	(596)	(1,064)
Depreciation	(155)	129
Impairment provisions	59	(5,789)
Employee benefits	(1,669)	839
Others	684	(61)
Provision for long service leave	(3)	(58)
Debited to equity reserve:		
FVOCI financial assets revaluation reserve	4,439	2,910
Total movement	<u>2,759</u>	<u>(3,094)</u>
Closing balance	<u>15,719</u>	<u>12,960</u>

Net deferred tax assets are non current.

12.4 Imputation credit account

	<u>2022</u>	<u>2021</u>
in thousands of NZD		
Imputation credit	<u>617,602</u>	<u>554,349</u>

Notes to the Financial Statements

13. Cash and short-term deposits

	<u>2022</u>	<u>2021</u>
in thousands of NZD		
Cash at banks	160,632	105,260
Balances with Central Bank	<u>824,321</u>	<u>560,316</u>
Total cash and cash equivalents	<u>984,953</u>	<u>665,576</u>

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

Notes to the Financial Statements

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 part of its asset and liability management activities.

	Notional amount	2022 Fair value assets	Fair value liabilities	Notional amount	2021 Fair value assets	Fair value liabilities
in thousands of NZD						
Held for trading derivatives						
Interest rate derivatives						
Swaps (related entities)*	1,469,276	7,065	9,563	179,746	1,264	1,299
Swaps (non-related entities)	114,276	-	5,243	109,746	1,047	1,181
Foreign exchange derivatives						
Swaps (related entities)*	157	-	1	306	13	13
Swaps (non-related entities)	158	1	-	-	-	-
Forwards (related entities)*	496	24	3	-	-	-
Forwards (non-related entities)	474	3	24	-	-	-
Commodities derivatives						
Commodities (related entities)*	112,857	8,821	1,338	69,735	36	8,645
Commodities (non-related entities)	112,857	1,240	8,821	69,735	8,447	36
Total derivatives	<u>1,810,551</u>	<u>17,154</u>	<u>24,993</u>	<u>429,268</u>	<u>10,807</u>	<u>11,174</u>
Amounts due for settlement within 12 months		8,821	11,620		8,156	8,368
Amounts due for settlement over 12 months		8,333	13,373		2,651	2,806
Total derivatives		<u>17,154</u>	<u>24,993</u>		<u>10,807</u>	<u>11,174</u>

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

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

Notes to the Financial Statements

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

	2022	2021
in thousands of NZD		
New Zealand Government Securities	287,744	412,089
Other debt securities (Kauri)	343,642	155,798
Total financial assets FVOCI	631,386	567,887
Amounts due for settlement within 12 months	294,396	452,887
Amounts due for settlement over 12 months	336,990	115,000
Total financial assets FVOCI	631,386	567,887

The impairment allowance relating to financial assets at fair value through other comprehensive income was \$1 thousand (2021: \$5 thousand).

16. Loans and advances

	2022	2021
in thousands of NZD		
Lending	12,717,173	11,869,625
Finance leases (note 16.1)	37,759	43,047
Gross loans and advances	12,754,932	11,912,672
Accrued interest	16,445	8,619
Provisions for impairment		
Stage 3B	(1,772)	(3,639)
Stage 3A	(1,802)	(3,017)
Stage 2	(4,573)	(6,689)
Stage 1	(14,270)	(9,100)
Total provisions	(22,417)	(22,445)
Net loans and advances (note 16)	12,748,960	11,898,846
Amounts due for settlement within 12 months	4,466,538	3,952,642
Amounts due for settlement over 12 months	8,282,422	7,946,204
Net loans and advances	12,748,960	11,898,846

16.1 Finance leases

	2022			Minimum
in thousands of NZD	Net investments	Unearned income	Unguaranteed residuals	lease payments
One year or less	18,307	1,595	-	19,902
Between one and two years	11,034	827	-	11,861
Between two and five years	8,418	570	-	8,988
Total finance leases	37,759	2,992	-	40,751

Notes to the Financial Statements

16. Loans and advances (continued)

	2021			Minimum
	Net investment	Unearned income	Unguaranteed residuals	lease payments
in thousands of NZD				
One year or less	20,160	1,408	-	21,568
Between one and two years	13,816	675	-	14,491
Between two and five years	9,071	293	-	9,364
Total finance leases	43,047	2,376	-	45,423

Leasing arrangements

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

17. Due from related entities

	2022	2021
in thousands of NZD		
Current account balances - wholly owned group*	2,310	1,562
Advances - wholly owned group*	605,895	113,634
Accrued interest receivable - wholly owned group*	3,631	464
Stage 1 provision for impairment (note 18.6)	(287)	(47)
Total due from related entities	611,549	115,613
Amounts due for settlement within 12 months	30,549	10,613
Amounts due for settlement over 12 months	581,000	105,000
Total due from related entities	611,549	115,613

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

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

Notes to the Financial Statements

18. Credit quality, impaired assets and provision for impairment

18.1 Individually impaired assets

Individually impaired assets include all loans that have been assessed as credit impaired in accordance with NZ IFRS9 (chapter 5.5). Rabobank classifies loans as individually impaired regardless of whether a specific provision is recognised. i.e. even loans where full recovery is expected are treated as individually impaired if a credit impairment event has occurred.

As at 31 December 2022, out of \$194,346 thousand of individually impaired assets \$17,326 thousand had specific provision of \$1,772 thousand recognised (2021: \$43,258 thousand had specific provision of \$3,639 thousand recognised).

	2022			Total
	Residential mortgages	Corporate	Retail*	
in thousands of NZD				
Opening balance	-	-	270,921	270,921
Additions	-	-	153,605	153,605
Amounts written off	-	-	-	-
Returned to performing or repaid	-	-	(230,180)	(230,180)
Closing balance	-	-	194,346	194,346
Aggregate amount of undrawn balances on lending commitments on impaired assets	-	-	5,195	5,195
Analysis of individually impaired assets				
Gross non-performing assets	-	-	194,346	194,346
Specific provision against non-performing assets (note 18.5)	-	-	(1,772)	(1,772)
Net non-performing assets	-	-	192,574	192,574
Restructured assets	-	-	-	-
Specific provision against restructured assets (note 18.5)	-	-	-	-
Net restructured assets	-	-	-	-

Notes to the Financial Statements

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

	2021			Total
	Residential mortgages	Corporate	Retail*	
in thousands of NZD				
Opening balance	-	-	375,998	375,998
Additions	-	-	202,676	202,676
Amounts written off	-	-	(4,377)	(4,377)
Returned to performing or repaid	-	-	(303,376)	(303,376)
Closing balance	-	-	270,921	270,921
Aggregate amount of undrawn balances on lending commitments on impaired assets	-	-	14,230	14,230
Analysis of individually impaired assets				
Gross non-performing assets	-	-	270,921	270,921
Specific provision against non-performing assets (note 18.5)	-	-	(3,639)	(3,639)
Net non-performing assets	-	-	267,282	267,282
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.

18.2 Past due assets but not impaired

	2022			Total
	Residential mortgage	Corporate	Retail*	
in thousands of NZD				
Less than 30 days past due	-	-	32,431	32,431
At least 30 days but less than 60 days past due	-	-	-	-
At least 60 days but less than 90 days past due	-	-	-	-
At least 90 days past due (note 18.3)	-	-	-	-
Closing balance	-	-	32,431	32,431

	2021			Total
	Residential mortgages	Corporate	Retail*	
in thousands of NZD				
Less than 30 days past due	-	-	28,131	28,131
At least 30 days but less than 60 days past due	-	-	-	-
At least 60 days but less than 90 days past due	-	-	-	-
At least 90 days past due (note 18.3)	-	-	-	-
Closing balance	-	-	28,131	28,131

Notes to the Financial Statements

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

18.3 At least 90 days past due assets

There are no exposures that are more than 90 days past due as at 31 December 2022 (31 December 2021: nil).

18.4 Other assets under administration

Assets with a book value of \$1,702 thousand were under administration as at 31 December 2022 (2021: nil).

18.5 Provision for impairment on loans and advances

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

	Stage 1	Stage 2	2022 Stage 3A	Stage 3B	Total
in thousands of NZD					
Retail					
Opening balance	7,805	6,423	3,004	3,639	20,871
Charge / (Benefit) to statement of comprehensive income (note 10)	4,724	(2,120)	(1,203)	(2,439)	(1,038)
Amounts written off	-	-	-	-	-
Other movements	(2)	2	(1)	108	107
Closing balance retail	12,527	4,305	1,800	1,308	19,940

	Stage 1	2021 Stage 2	Stage 3A	Stage 3B	Total
in thousands of NZD					
Retail					
Opening balance	13,168	8,424	11,251	8,621	41,464
Charge / (Benefit) to statement of comprehensive income	(5,363)	(2,000)	(8,247)	(880)	(16,490)
Amounts written off	-	-	-	(4,377)	(4,377)
Other movements	-	(1)	-	275	274
Total	7,805	6,423	3,004	3,639	20,871

Provisions for impairment on loans and advances (excluding commitments and financial guarantees) relate only to retail exposures which 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

	Stage 1	Stage 2	2022 Stage 3A	Stage 3B	Total
in thousands of NZD					
Opening balance	1,295	266	13	-	1,574
Charge / (Benefit) to statement of comprehensive income (note 10)	448	2	(11)	464	903
Other movements	-	-	-	-	-
Closing balance on loan commitments and financial guarantees	1,743	268	2	464	2,477

	Stage 1	Stage 2	2021 Stage 3A	Stage 3B	Total
in thousands of NZD					
Opening balance	1,406	187	3	56	1,652
Charge / (Benefit) to statement of comprehensive income (note 10)	(111)	79	10	(56)	(78)
Closing balance on loan commitments and financial guarantees	1,295	266	13	-	1,574

Provisions for impairment on commitments and financial guarantees relate only to retail exposures which 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)

18.5.3 Total provisions for impairment on loans advances

	Stage 1	Stage 2	2022 Stage 3A	Stage 3B	Total
in thousands of NZD					
Opening balance	9,100	6,689	3,017	3,639	22,445
Charge / (Benefit) to statement of comprehensive income (note 10)	5,172	(2,118)	(1,214)	(1,975)	(135)
Amounts written off	-	-	-	-	-
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	(2)	2	(1)	108	107
Closing balance on loans and advances and loan commitments and financial guarantees	14,270	4,573	1,802	1,772	22,417

	Stage 1	Stage 2	2021 Stage 3A	Stage 3B	Total
in thousands of NZD					
Opening balance	14,574	8,611	11,254	8,677	43,116
Charge / (Benefit) to statement of comprehensive income (note 10)	(5,474)	(1,921)	(8,237)	(936)	(16,568)
Amounts written off	-	-	-	(4,377)	(4,377)
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	(1)	-	275	274
Closing balance on loans and advances and loan commitments and financial guarantees	9,100	6,689	3,017	3,639	22,445

18.6 Provision for impairment due from related entities

18.6.1 Impairment allowances on due from related entities

	Stage 1	Stage 2	2022 Stage 3A	Stage 3B	Total
in thousands of NZD					
Opening balance	47	-	-	-	47
Charge / (Benefit) to statement of comprehensive income (note 10)	240	-	-	-	240
Amounts written off	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	-	-
Closing balance related parties	287	-	-	-	287

Notes to the Financial Statements

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

	Stage 1	Stage 2	2021 Stage 3A	Stage 3B	Total
in thousands of NZD					
Opening balance	50	-	-	-	50
Charge / (Benefit) to statement of comprehensive income (note 10)	(3)	-	-	-	(3)
Amounts written off	-	-	-	-	-
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	-	-
Closing balance on loans and advances and loan commitments and financial guarantees	47	-	-	-	47

The provision is a requirement under NZ IFRS 9 to recognise impairment allowance for Stage 1, it is not a determination of credit quality or collectability.

18.7 Impact of changes in gross financial assets on loss allowance

	Stage 1	Stage 2	2022 Stage 3A	Stage 3B	Total
in thousands of NZD					
Opening balance	11,015,446	626,291	14	270,921	11,912,672
Additions	8,824,969	405,290	-	153,605	9,383,864
Amount written off	-	-	-	-	-
Deletions	(7,846,150)	(477,489)	-	(217,965)	(8,541,604)
Changes due to transfer between ECL stages	(22,166)	34,395	(14)	(12,215)	-
Closing balance	11,972,099	588,487	-	194,346	12,754,932
Provisions for impairment	(14,270)	(4,573)	(1,802)	(1,772)	(22,417)
Net loans and advances	11,957,829	583,914	(1,802)	192,574	12,732,515

	Stage 1	Stage 2	2021 Stage 3A	Stage 3B	Total
in thousands of NZD					
Opening balance	10,258,650	973,429	1,949	375,998	11,610,026
Additions	7,898,104	443,795	-	176,364	8,518,263
Amount written off	-	-	-	(4,377)	(4,377)
Deletions	(7,188,154)	(717,770)	(1,940)	(303,376)	(8,211,240)
Changes due to transfer between ECL stages	46,846	(73,163)	5	26,312	-
Closing balance	11,015,446	626,291	14	270,921	11,912,672
Provisions for impairment	(9,100)	(6,689)	(3,017)	(3,639)	(22,445)
Net loans and advances	11,006,346	619,602	(3,003)	267,282	11,890,227

Impact of changes in gross financial assets relate to retail exposures which 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)

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

18.8 Forward-looking information and macro-economic scenarios (MES)

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 uncertainty around the impact of economic conditions. 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.

Rabobank uses a statistical simulation method from the National Institute Global Econometric Model (NiGEM) to generate its plus and minus scenarios. The procedure for the formulation involves three steps:

1. Application of the stochastic function of NiGEM to run 1,000 scenarios where the plus and minus scenarios may differ from the baseline. NiGEM uses historical residuals (randomly chosen) from the model equations that results in shocks during the forecast period (Monte Carlo simulation). The result is a distribution of possible macroeconomic outcomes. The impact of these scenarios on the volume of world trade is used in step 2.
2. Look up the two scenarios which represent the 20% plus scenarios and the 20% minus scenarios of the distribution.
3. At the end of 2022, due to the high uncertainties in the macro-economic environment, management has decided to apply a more conservative weighting of these scenarios by applying a weighting of 30% to the resulting minus scenario and 10% to the plus scenario.

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.

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		2023	2024	2025	ECL unweighted In thousands of NZD	Probability	Weighted ECL in thousands of NZD
							31 December 2022
Plus	GDP per capita	1%	0%	1%	12,276	10%	
	Private sector investments	-5%	-6%	-3%			
	Exports of Goods & Services	16%	7%	4%			
Baseline	GDP per capita	0%	-1%	1%			
	Private sector investments	-8%	-10%	-3%	15,588	60%	16,445
	Exports of Goods & Services	13%	5%	5%			
Minus	GDP per capita	0%	-2%	0%			
	Private sector investments	-10%	-14%	-3%	19,549	30%	
	Exports of Goods & Services	11%	3%	5%			

Portfolio overlays

Portfolio overlays are used to address areas of potential risk, including significant uncertainty, not captured in the underlying modelled ECL. Determination of portfolio overlays requires expert judgement and is documented and subject to internal governance and oversight. If the risk of delayed losses is judged to have dissipated, the overlay will be removed or reduced.

The total portfolio overlays as at 31 December 2022 were \$4,027 thousand (2021: \$4,084 thousand) and all were relating to delayed defaults.

COVID-19 had an adverse impact on the economy which was captured in macroeconomic scenarios for 2020 and 2021. In 2022, macroeconomic forecasts swung to significant recovery with warnings of inflationary pressures within the economy. There were ongoing secondary effects from COVID-19 including logistics disruption and labour availability, and consequently inflationary pressures coupled with the rising interest rate environment and the ongoing Russia/Ukraine conflict, created further uncertainty. Therefore, the overlay associated with delayed defaults was retained as at 31 December 2022.

19. Other assets

	2022	2021
in thousands of NZD		
Accrued interest receivable	5,001	2,683
GST receivable	502	1,033
Others	3	520
Prepayments	646	757
Property, plant and equipment in course of construction	2,864	5,655
Total other assets	9,016	10,648

All other assets are due for settlement within 12 months.

Notes to the Financial Statements

20. Property, plant and equipment

	Right-of-use asset	Office Fixtures & Fittings	Office Equipment	Computer Hardware	Total
in thousands of NZD					
Balance as at 31 December 2021					
Cost	18,752	10,751	170	1,391	31,064
Accumulated depreciation	(8,328)	(9,739)	(125)	(1,335)	(19,527)
Net book value	10,424	1,012	45	56	11,537

Balance as at 31 December 2022					
Cost	19,790	13,274	566	464	34,094
Accumulated depreciation	(10,037)	(8,452)	(222)	(426)	(19,137)
Net book value	9,753	4,822	344	38	14,957

Reconciliation

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

	Right-of-use asset	Office Fixtures & Fittings	Office Equipment	Computer Hardware	Total
Balance as at 1 January 2021	6,788	1,717	74	64	8,643
Acquisitions	7,419	36	-	8	7,463
Depreciation	(3,783)	(741)	(29)	(16)	(4,569)
Balance as at 31 December 2021	10,424	1,012	45	56	11,537
Acquisitions	3,032	4,754	436	11	8,233
Disposals / write-off	(3,703)	-	(4)	(8)	(3,715)
Depreciation	-	(944)	(133)	(21)	(1,098)
Balances as at 31 December 2022	9,753	4,822	344	38	14,957

Leases

Bank as a lessee

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

	2022	2021
Right of use assets		
Properties	7,380	8,641
Motor vehicles	2,373	1,783
Total right of use assets	9,753	10,424

Notes to the Financial Statements

20. Property, plant and equipment (continued)

Bank as a lessee (continued)

	<u>2022</u>	<u>2021</u>
Lease liabilities		
Current lease liabilities	2,744	3,152
Non-current lease liabilities	6,999	7,178
Total lease liabilities	<u><u>9,743</u></u>	<u><u>10,330</u></u>

The following are the amounts recognised in profit or loss:

	<u>2022</u>	<u>2021</u>
in thousands of NZD		
Depreciation expense of right-of-use assets	3,703	3,784
Interest expense on lease liabilities	305	234
Variable lease payments (included in cost of sales)	571	576
Total amount recognised in profit or loss	<u><u>4,579</u></u>	<u><u>4,594</u></u>

The total cash outflow for leases in 2022 was \$3,924 thousand (2021: was \$3,874 thousand). All property, plant and equipment assets are non current.

21. Intangible assets

	<u>2022</u>	<u>2021</u>
in thousands NZD		
Opening balance as at 1 January		
At cost	2,277	3,069
Less accumulated amortisation	(859)	(765)
Net book value - opening	<u><u>1,418</u></u>	<u><u>2,304</u></u>
Closing balance as at 31 December		
At cost	2,481	2,277
Less accumulated amortisation	(1,278)	(859)
Net book value - closing	<u><u>1,203</u></u>	<u><u>1,418</u></u>

Reconciliation

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

	<u>2022</u>	<u>2021</u>
in thousands of NZD		
Opening Balance	1,418	2,304
Acquisitions	311	201
Write-off	(66)	(462)
Amortisation	(460)	(625)
Closing balance	<u><u>1,203</u></u>	<u><u>1,418</u></u>

All intangible assets are non current.

Notes to the Financial Statements

22. Deposits

	2022	2021
in thousands of NZD		
Call deposits	2,446,426	2,511,268
Term deposits	3,088,184	2,556,724
Accrued interest on call deposits	12	6
Accrued interest on term deposits	34,712	13,737
Total deposits	5,569,334	5,081,735
Amounts due for settlement within 12 months	1,648,877	1,426,897
Amounts due for settlement over 12 months	3,920,457	3,654,838
Total deposits	5,569,334	5,081,735

Assumptions used for expected maturity have been revised for 2021 disclosures to align with the Funds Transfer Pricing Product Methodology for one product. Comparatives information has been revised to conform to current period's presentation. The correction has been applied by restating each of the affected financial statement line items for the prior periods. The following tables summarise the line items that have been impacted by this change on the Bank's financial statements. As a result, some of the sub-totals and totals disclosed have also been revised. There was no impact to net assets, total comprehensive income after tax, or cash and cash equivalents arising from these disclosure changes.

in thousands of NZD	At 31 December 2021	Change	At 31 December 2021
Amounts due for settlement within 12 months	1,434,588	(7,691)	1,426,897
Amounts due for settlements over 12 months	3,647,147	7,691	3,654,838
Total deposits	5,081,735	-	5,081,735

23. Due to related entities

	2022	2021
in thousands of NZD		
Current account balances - wholly owned group	41,056	11,742
Borrowings - wholly owned group	7,103,843	6,229,079
Accrued interest payable - wholly owned group	40,476	7,304
Total due to related entities	7,185,375	6,248,125
Amounts due for settlement within 12 months	3,494,375	2,641,125
Amounts due for settlement over 12 months	3,691,000	3,607,000
Total due to related entities	7,185,375	6,248,125

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

Notes to the Financial Statements

24. Other liabilities

	<u>2022</u>	<u>2021</u>
in thousands of NZD		
Lease liabilities	9,743	10,330
Sundry creditors	8,378	4,557
Accrued expenses	13,521	10,866
Total other liabilities	<u>31,642</u>	<u>25,753</u>

\$2,744 thousand (2021: \$3,152 thousand) of lease liabilities is expected to be settled within 12 months and \$6,999 thousand (2021: \$7,178 thousand) of lease liabilities is expected to be settled over 12 months. All other liabilities are due for settlement within 12 months.

25. Provisions

	<u>2022</u>	<u>2021</u>
in thousands of NZD		
Employee benefits	4,016	4,030
Employee remediation provisions	423	2,050
Make good provision	425	425
Other provision	-	125
Total provisions	<u>4,864</u>	<u>6,630</u>

Changes in provisions were as follows:

	<u>2022</u>	<u>2021</u>
in thousands of NZD		
Opening balance	6,630	7,138
Additions	15,108	13,869
Used	(2,599)	(3,219)
Releases	(14,275)	(11,158)
Closing balance	<u>4,864</u>	<u>6,630</u>

26. Equity

	<u>2022</u>	<u>2021</u>
in thousands of NZD		
Contributed equity (note 26.1)	551,200	551,200
Reserves (note 26.2)	(15,689)	(4,275)
Retained earnings (note 26.3)	1,505,883	1,358,776
Total equity	<u>2,041,394</u>	<u>1,905,701</u>

26.1 Contributed equity

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

	<u>2022</u>	<u>2021</u>
in thousands of NZD		
Opening balance	551,200	551,200
Closing balance	<u>551,200</u>	<u>551,200</u>

Notes to the Financial Statements

26. Equity (continued)

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

As at 31 December 2022, total authorised and paid up capital comprised 275,600,000 ordinary shares fully paid ranking equally as to dividends, voting rights and rights to share in any surplus on winding up (31 December 2021: 275,600,000). Each share was issued at \$2 and has no par value. The ordinary share capital qualifies as Common Equity Tier 1 capital for capital adequacy purposes.

26.2 Reserves

	2022	2021
in thousands of NZD		
Opening balance	(4,275)	3,210
Changes in FVOCI financial assets revaluation reserve (gross)	(15,853)	(10,396)
Changes in FVOCI financial assets revaluation reserve (deferred tax)	4,439	2,911
Closing balance	(15,689)	(4,275)

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

26.3 Retained earnings

	2022	2021
in thousands of NZD		
Opening balance	1,358,776	1,214,325
Net profit for the year	147,107	144,451
Closing balance	1,505,883	1,358,776

27. Contingent liabilities

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

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

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

	2022	2021
in thousands of NZD		
Guarantees	5,135	7,022
Lending commitments		
Irrevocable lending commitments	51,353	80,771
Revocable lending commitments	1,903,311	1,915,087
Total contingent liabilities	1,959,799	2,002,880

Notes to the Financial Statements

27. Contingent liabilities (continued)

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

28. Expenditure commitments

28.1 Capital expenditure commitments

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

	2022	2021
in thousands of NZD		
Total capital expenditure commitments	<u>-</u>	<u>-</u>

28.2 Operating lease commitments

	2022	2021
in thousands of NZD		
One year or less	852	1,056
Between one and two years	615	542
Between two and five years	749	605
Over five years	452	562
Total operating lease commitments	<u>2,668</u>	<u>2,765</u>

Operating lease commitments include short-term leases and service portion of lease payments under operating leases.

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

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

30. Risk arising from financial instruments

Rabobank New Zealand Limited has an integrated framework of responsibilities and functions driven from the Board level down to operational levels, covering all material risks such as credit, market, liquidity, operational and compliance risk. The Rabobank New Zealand Limited Board are ultimately responsible for the organisational strategy and business plan and ultimately responsible for the risk management framework and is responsible for the oversight of its operation by management.

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

30.1 Liquidity risk

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

Notes to the Financial Statements

30. Risk arising from financial instruments (continued)

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

For the Bank, liquidity management frameworks are in place where maturity transformation is used to manage the mismatch between assets and liabilities, according to the Board's risk appetite and in line with the RBNZ Banking Supervision BS13:

- The long term liquidity management measures the mismatch of core assets and liabilities with expected maturities greater than one year, which is maintained for the principle of having stable assets funded by stable funding for the Bank.
- The short term liquidity management focuses on the net cash outflow on 1 day, 7 day and 30 day horizon. It considers both contractual and expected maturity of all assets and liabilities.

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

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

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

Liquidity portfolio

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

	Note	2022	2021
in thousands of NZD			
Cash at banks	13	160,632	105,260
Balances with Central Bank	13	824,321	560,316
New Zealand Government Securities	15	287,744	412,089
Other debt securities (Kauri)	15	343,642	155,798
Total liquid assets		1,616,339	1,233,463

Notes to the Financial Statements

30. Risk arising from financial instruments (continued)

30.1.1 Contractual maturity

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

in thousands of NZD	Total	On Demand	Up to 6 months	Up to 6 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 5 years	Over 5 years
At 31 December 2022							
Financial assets							
Cash and cash equivalents	984,953	984,953	-	-	-	-	-
Derivative financial instruments	19,329	-	49	9,216	2,526	6,642	896
Financial assets at fair value through other comprehensive income	689,894	-	306,084	8,584	79,072	296,154	-
Loans and advances	13,776,413	-	2,288,372	3,594,945	4,648,298	2,973,966	270,832
Due from related entities	761,773	2,309	42,492	14,329	28,424	348,974	325,245
Other financial assets	5,506	-	5,506	-	-	-	-
Total financial assets	16,237,868	987,262	2,642,503	3,627,074	4,758,320	3,625,736	596,973
Financial liabilities							
Derivative financial instruments	28,587	-	691	11,491	2,516	13,008	881
Deposits	5,676,999	2,446,425	1,693,298	1,147,941	217,756	171,579	-
Due to related entities	7,668,873	41,057	1,947,993	1,790,368	3,215,236	348,974	325,245
Payables due to central bank	183,897	-	7,054	4,197	8,326	164,320	-
Other liabilities	32,487	-	23,566	1,313	1,904	3,304	2,400
Total financial liabilities	13,590,843	2,487,482	3,672,602	2,955,310	3,445,738	701,185	328,526
Contingent liabilities							
Guarantees	5,135	5,135	-	-	-	-	-
Lending commitments	1,954,664	1,903,310	317	248	9,153	8,020	33,616
Total contingent liabilities	1,959,799	1,908,445	317	248	9,153	8,020	33,616

Notes to the Financial Statements

30. Risk arising from financial instruments (continued)

in thousands of NZD	Total	On Demand	Up to 6 months	Over 6 months and over 1 year	Over 1 year and up to 2 years	Over 2 years and up to 5 years	Over 5 years
At 31 December 2021							
Financial assets							
Cash and cash equivalents	665,576	665,576	-	-	-	-	-
Derivative financial instruments	11,154	-	13	8,285	1,332	1,279	245
Financial assets at fair value through other comprehensive income	582,733	-	292,502	3,233	167,450	119,548	-
Loans and advances	12,337,204	-	1,489,797	3,190,573	4,138,007	3,311,919	206,908
Due from related entities	127,839	1,561	10,380	1,342	2,662	111,894	-
Other financial assets	3,751	-	3,751	-	-	-	-
Total financial assets	13,728,257	667,137	1,796,443	3,203,433	4,309,451	3,544,640	207,153
Financial liabilities							
Derivative financial instruments	11,550	-	13	8,496	1,332	1,187	522
Deposits	5,113,764	2,511,267	1,599,244	628,238	176,926	198,075	14
Due to related entities	6,405,457	11,742	1,218,479	1,513,938	3,198,484	462,814	-
Other liabilities	26,687	-	17,188	1,626	2,196	2,637	3,040
Total financial liabilities	11,557,458	2,523,009	2,834,924	2,152,298	3,378,938	664,713	3,576
Contingent liabilities							
Guarantees	7,022	7,022	-	-	-	-	-
Lending commitments	1,995,858	1,915,087	1,358	211	393	38,198	40,611
Total contingent liabilities	2,002,880	1,922,109	1,358	211	393	38,198	40,611

Notes to the Financial Statements

30. Risk arising from financial instruments (continued)

30.1.2 Expected maturity

The Bank actively monitors and manages the mismatch between assets and liabilities as part of standard banking operations. The management of the mismatch between assets and liabilities is based on expected flows arising from the repayment behaviour of assets and liabilities which are not aligned to the contractual maturity. The Bank has access to various sources of short and long term funding via its retail and small to medium-sized enterprise deposit portfolio, and intercompany funding arrangements with Rabobank. These funding options support the renewal of maturing liabilities. Key assumptions regarding the expected maturity dates in the long term framework are applied to both the Rural asset portfolio.

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

in thousands of NZD	Total	Up to 6 months	Over 6 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 5 years	Over 5 years
At 31 December 2022						
Financial assets						
Cash and cash equivalents	984,953	984,953	-	-	-	-
Derivative financial instruments	19,302	49	9,216	2,499	6,642	896
Financial assets at fair value through other comprehensive income	689,894	306,084	8,584	79,072	296,154	-
Loans and advances	13,876,237	2,254,369	2,323,616	4,840,101	4,458,151	-
Due from related entities	761,773	44,801	14,329	28,424	348,974	325,245
Other financial assets	5,506	5,506	-	-	-	-
Total financial assets	16,337,665	3,595,762	2,355,745	4,950,096	5,109,921	326,141
Financial liabilities						
Derivative financial instruments	28,574	691	11,491	2,488	13,008	896
Deposits	6,194,940	1,302,498	374,603	968,639	3,549,200	-
Due to related entities	7,668,199	1,988,882	1,790,199	3,064,899	498,974	325,245
Payable due to central bank	183,897	7,054	4,197	8,326	164,320	-
Other liabilities	32,487	23,566	1,313	1,904	3,304	2,400
Total financial liabilities	14,108,097	3,322,691	2,181,803	4,046,256	4,228,806	328,541

Notes to the Financial Statements

30. Risk arising from financial instruments (continued)

in thousands of NZD	Total	Up to 6 months	Over 6 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 5 years	Over 5 years
At 31 December 2021						
Financial assets						
Cash and cash equivalents	665,576	665,576	-	-	-	-
Derivative financial instruments	11,154	13	8,285	1,332	1,279	245
Financial assets at fair value through other comprehensive income	582,733	292,502	3,233	167,450	119,548	-
Loans and advances	12,397,686	1,972,835	2,010,795	4,103,553	4,308,486	2,017
Due from related entities	127,839	11,941	1,342	2,662	111,894	-
Other financial assets	3,751	3,751	-	-	-	-
Total financial assets	<u>13,788,739</u>	<u>2,946,618</u>	<u>2,023,655</u>	<u>4,274,997</u>	<u>4,541,207</u>	<u>2,262</u>
Financial liabilities						
Derivative financial instruments	11,550	13	8,496	1,332	1,187	522
Deposits	5,352,881	1,118,083	315,973	857,612	3,061,213	-
Due to related entities	6,405,459	1,230,223	1,513,938	3,198,484	462,814	-
Other liabilities	26,687	17,188	1,626	2,196	2,637	3,040
Total financial liabilities	<u>11,796,577</u>	<u>2,365,507</u>	<u>1,840,033</u>	<u>4,059,624</u>	<u>3,527,851</u>	<u>3,562</u>

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.

Assumptions used for expected maturity have been revised for 2021 disclosures to align with the Funds Transfer Pricing Product Methodology for one product. Comparatives information has been revised to conform to current period's presentation. The correction has been applied by restating each of the affected financial statement line items for the prior periods. The following tables summarise the line items that have been impacted by this change on the Bank's financial statements. As a result, some of the sub-totals and totals disclosed have also been revised. There was no impact to net assets, total comprehensive income after tax, or cash and cash equivalents arising from these disclosure changes.

Notes to the Financial Statements

30. Risk arising from financial instruments (continued)

in thousands of NZD	Up to 6 months	Over 6 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 5 years	Over 5 years
At 31 December 2021					
Deposits	1,078,664	363,083	951,832	2,959,302	
Change	39,419	(47,110)	(94,220)	101,911	
Deposits	1,118,083	315,973	857,612	3,061,213	-
Total financial liabilities	2,326,088	1,887,143	4,153,844	3,425,940	
Change	39,419	(47,110)	(94,220)	101,911	
Total financial liabilities	2,365,507	1,840,033	4,059,624	3,527,851	

Notes to the Financial Statements

30. Risk arising from financial instruments (continued)

30.2 Market risk

Market risk is defined as the risk that the fair value or future cash flows of a financial instrument that fluctuate because of changes in market prices. The Bank's main types of market risk relate to interest rate and currency risks from non trading activities that arise from the banking book. The Bank's market risk is governed by the policies and procedures agreed by the Board. The policies serve a two-fold purpose: to protect the capital and earnings of the Bank, and to allow the Bank to benefit from movements in market risk without unduly compromising the Bank's capital or the stability of its' earnings. The market risk policy and procedures are regularly updated in line with business developments. No material changes were made to the objectives, policies or processes impacting the Bank 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 Bank result from the maturity mismatch of asset and liabilities giving rise to interest rate and foreign exchange risks. Since client activity is almost entirely in local currency, and funding is broadly sourced from local markets, there is only residual exposure to foreign exchange risk for the Bank. The Bank has no exposure to market risk for equities and commodities.

Structural interest rate risk that arises from the investment on the large capital base of the Bank 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.

The Bank measures interest rate risk in the 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 Bank's report use the measures of Basis Point Value (BPV), Modified Duration (MD) and Earnings at Risk (EaR).

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).

Modified Duration indicates by what percentage the economic value of the 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.

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.

Earnings-at-risk is calculated once a month based on a standard interest-rate-sensitivity analysis. This analysis shows the projected interest income over the next 12 months triggered by a set of four scenarios. The upward and downward parallel scenarios assume the yield curve move parallelly where each currency receives its own size of shock and the shock is based on historical analysis. The other two scenarios assume 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.

	2022	2021
in thousands NZD		
BPV at year end	(566)	(555)
EaR at year end	(3,918)	(4,915)
	2022	2021
in %		
Modified duration	2.22	2.27

Notes to the Financial Statements

30. Risk arising from financial instruments (continued)

30.2.1 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	Up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years	Non-Interest bearing
At 31 December 2022							
Financial assets							
Cash and cash equivalents	984,953	984,953	-	-	-	-	-
Derivative financial instruments	17,154	-	-	-	-	-	17,154
Financial assets at fair value through	631,386	109,396	185,000	-	64,790	272,200	-
Loans and advances	12,748,960	8,662,958	1,322,524	863,719	1,012,420	870,653	16,686
Due from related entities	611,549	126,918	-	-	-	481,000	3,631
Other financial assets	5,506	-	-	-	-	-	5,506
Total financial assets	14,999,508	9,884,225	1,507,524	863,719	1,077,210	1,623,853	42,977
Other assets	3,510	-	-	-	-	-	3,510
Net deferred tax assets	15,719	-	-	-	-	-	15,719
Property, plant and equipment	14,957	-	-	-	-	-	14,957
Intangible assets	1,203	-	-	-	-	-	1,203
Total non-financial assets	35,389	-	-	-	-	-	35,389
Total assets	15,034,897	9,884,225	1,507,524	863,719	1,077,210	1,623,853	78,366
Financial liabilities							
Derivative financial instruments	24,993	-	-	-	-	-	24,993
Deposits	5,569,334	3,339,478	705,325	1,123,402	204,710	161,698	34,721
Due to related entities	7,185,375	5,399,692	475,000	400,000	770,000	100,000	40,683
Payables due to central bank	163,902	161,000	-	-	-	-	2,902
Other liabilities	31,642	849	692	1,204	1,736	5,263	21,898
Total financial liabilities	12,975,246	8,901,019	1,181,017	1,524,606	976,446	266,961	125,197

Notes to the Financial Statements

30. Risk arising from financial instruments (continued)

in thousands of NZD	Total	Up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years	Non-Interest bearing
Current tax payable	13,393	-	-	-	-	-	13,393
Provisions	4,864	-	-	-	-	-	4,864
Total non-financial liabilities	18,257	-	-	-	-	-	18,257
Total liabilities	12,993,503	8,901,019	1,181,017	1,524,606	976,446	266,961	143,454

in thousands of NZD	Total	Up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years	Non-Interest bearing
At 31 December 2022							
Interest rate derivatives							
Swaps	-	(883,224)	424,000	516,500	(7,200)	(50,076)	-
Repricing gap (interest bearing assets and liabilities)	2,106,484	99,985	750,507	(144,387)	93,564	1,306,815	-
Cumulative mismatch	2,106,484	99,985	850,492	706,105	799,669	2,106,484	-

Notes to the Financial Statements

30. Risk arising from financial instruments (continued)

in thousands of NZD	Total	Up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years	Non-Interest bearing
At 31 December 2021							
Financial assets							
Cash and cash equivalents	665,576	665,576	-	-	-	-	-
Derivative financial instruments	10,807	-	-	-	-	-	10,807
Financial assets at fair value through	567,887	228,887	60,000	-	164,000	115,000	-
Loans and advances	11,898,846	6,347,702	1,131,672	1,494,319	1,683,760	1,232,597	8,796
Due from related entities	115,613	2,332	-	-	-	105,000	8,281
Other financial assets	3,751	-	-	-	-	-	3,751
Total financial assets	13,262,480	7,244,497	1,191,672	1,494,319	1,847,760	1,452,597	31,635
Other assets	6,897	-	-	-	-	-	6,897
Net deferred tax assets	12,960	-	-	-	-	-	12,960
Property, plant and equipment	11,537	-	-	-	-	-	11,537
Intangible assets	1,418	-	-	-	-	-	1,418
Total non-financial assets	32,812	-	-	-	-	-	32,812
Total assets	13,295,292	7,244,497	1,191,672	1,494,319	1,847,760	1,452,597	64,447
Financial liabilities							
Derivative financial instruments	11,174	-	-	-	-	-	11,174
Deposits	5,081,735	3,365,089	734,057	606,363	168,357	194,130	13,739
Due to related entities	6,248,125	3,664,746	495,000	1,131,000	600,000	350,000	7,379
Other liabilities	25,753	822	810	1,519	2,028	5,150	15,424
Total financial liabilities	11,366,787	7,030,657	1,229,867	1,738,882	770,385	549,280	47,716

Notes to the Financial Statements

30. Risk arising from financial instruments (continued)

in thousands of NZD	Total	Up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years	Non-Interest bearing
Current tax payable	16,174	-	-	-	-	-	16,174
Provisions	6,630	-	-	-	-	-	6,630
Total non-financial liabilities	22,804	-	-	-	-	-	22,804
Total liabilities	11,389,591	7,030,657	1,229,867	1,738,882	770,385	549,280	70,520

in thousands of NZD	Total	Up to 3 months	Over 3 months and up to 1 year	Over 6 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years	Non-Interest bearing
At 31 December 2021							
Interest rate derivatives							
Swaps	-	29,746	-	(20,970)	(35,000)	26,224	
Repricing gap (interest bearing assets and liabilities)	1,911,776	243,588	(38,195)	(265,533)	1,042,375	929,541	
Cumulative mismatch	1,911,776	243,588	205,393	(60,140)	982,235	1,911,776	

Notes to the Financial Statements

30. Risk arising from financial instruments (continued)

30.3 Credit Risk

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

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

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

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

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

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

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

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

Credit exposures consist of:

	2022	2021
in thousands of NZD		
Cash and cash equivalents	984,953	665,576
Financial assets at fair value through other comprehensive income	631,386	567,887
Loans and advances	12,748,960	11,898,846
Due from related entities	611,549	115,613
Other financial assets	5,506	3,751
Derivative financial instruments	17,154	10,807
Commitment and guarantees (note 27)	1,959,799	2,002,880
Total credit exposures	<u>16,959,307</u>	<u>15,265,360</u>

Credit exposures analysed by industry type:

	2022	2021
in thousands of NZD		
Agriculture	14,042,250	13,320,990
Finance and insurance	1,135,095	379,742
Forestry and fishery	20,280	27,849
Government	1,116,176	973,323
Property and business services	235,765	170,410
Other	409,741	393,046
Total credit exposures	<u>16,959,307</u>	<u>15,265,360</u>

Notes to the Financial Statements

30. Risk arising from financial instruments (continued)

Credit exposure analysed by geographical areas:

	2022	2021
in thousands NZD		
New Zealand	16,525,422	15,087,018
Australia	9,056	4,269
Finland	56,078	50,293
Germany	40,072	21,563
Philippines	96,396	30,788
United States of America	149,157	49,695
The Netherlands	73,064	11,513
Luxembourg	10,060	10,221
Belgium	2	-
Total credit exposures	<u>16,959,307</u>	<u>15,265,360</u>

30.3.2 Collateral and other credit enhancements

The main types of collateral obtained are as follows:

Asset class	Collateral type
Cash and cash equivalents	These exposures are mainly to relatively low risk banks (rated A+, AA- or better). These balances are not collateralised.
Derivative financial instruments	Exposures of food and agribusiness banking clients under derivative transactions are generally fully secured or partially secured by the same security that secures the loan of these clients. Security is typically taken under general security agreements and specific security arrangements over agricultural or commercial properties (i.e. the farm), business assets, inventories or other assets. Other forms of credit protection may also be sought or taken out if warranted. The security is usually linked to derivative close-out netting arrangements which govern such transactions. Exposures to related parties under derivative transactions are generally considered to be low risk due to the nature of the counterparties, and there are typically no collateral or other credit enhancements obtained.
Financial assets at fair value through other comprehensive income	These exposures are with the New Zealand government and other financial institutions (supranationals). Collateral is not sought directly with respect to these exposures.
Loans and advances	The food and agribusiness banking loans are fully secured or partially secured. These lending exposures will generally have a significant level of collateralisation depending on the nature of the product. Security is typically taken in the form of mortgages over water rights, rural and non-rural properties, commercial properties, and some residential properties; General Security Agreements over all present and after-acquired property; Specific Security Agreements over specific personal property; and Borrower group guarantees; as well as guarantees from some directors and principals. For some clients, security is taken in the form of General Security Agreements over all present and after-acquired property of the Borrower Group, specific real property mortgages and Borrower Group guarantees. As at 31 December 2021, average loan to valuation ratio is 44.6%. (2021: 45.7%).
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.

Notes to the Financial Statements

30. Risk arising from financial instruments (continued)

It is the Bank policy to dispose of repossessed assets in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. The Bank does not use or take repossessed properties for business use. During the year ended 31 December 2022, the Bank did not assume ownership of any repossessed properties (31 December 2021: nil).

The Bank writes off loans when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The Bank may write-off loans that are still subject to enforcement activity. The outstanding contractual amounts of partly or wholly written off assets during 2022 was nil.

30.3.3 Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system. The external ratings referenced in the table below are Standard & Poor's. 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 2022					
R0-R7 (AAA-A)	984,953	-	-	-	984,953
R8-R10 (BBB)	-	-	-	-	-
R11-R14 (BB-B+)	-	-	-	-	-
R15-R20 (B+-CCC)	-	-	-	-	-
D1-D4 (Default)	-	-	-	-	-
Total	984,953	-	-	-	984,953

	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
in thousands of NZD					
At 31 December 2021					
R0-R7 (AAA-A)	665,576	-	-	-	665,576
R8-R10 (BBB)	-	-	-	-	-
R11-R14 (BB-B+)	-	-	-	-	-
R15-R20 (B+-CCC)	-	-	-	-	-
D1-D4 (Default)	-	-	-	-	-
Total	665,576	-	-	-	665,576

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 2022					
R0-R7 (AAA-A)	631,386	-	-	-	631,386
R8-R10 (BBB)	-	-	-	-	-
R11-R14 (BB-B+)	-	-	-	-	-
R15-R20 (B+-CCC)	-	-	-	-	-
D1-D4 (Default)	-	-	-	-	-
Total	631,386	-	-	-	631,386

Notes to the Financial Statements

30. Risk arising from financial instruments (continued)

	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
in thousands of NZD					
At 31 December 2021					
R0-R7 (AAA-A)	567,887	-	-	-	567,887
R8-R10 (BBB)	-	-	-	-	-
R11-R14 (BB-B+)	-	-	-	-	-
R15-R20 (B+-CCC)	-	-	-	-	-
D1-D4 (Default)	-	-	-	-	-
Total	567,887	-	-	-	567,887

	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
Loans and advances					
in thousands of NZD					
At 31 December 2022					
R0-R7 (AAA-A+)	50,781	-	-	-	50,781
R8-R10 (BBB)	1,204,585	4,571	-	-	1,209,156
R11-R14 (BB-B+)	9,390,649	190,950	-	-	9,581,599
R15-R20 (B+-CCC)	1,326,083	392,967	-	-	1,719,050
D1-D4 (Default)	-	-	-	194,346	194,346
Total	11,972,098	588,488	-	194,346	12,754,932

	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
in thousands of NZD					
At 31 December 2021					
R0-R7 (AAA-A+)	67,927	-	-	-	67,927
R8-R10 (BBB)	877,926	9,317	-	-	887,243
R11-R14 (BB-B+)	8,333,143	156,593	-	-	8,489,736
R15-R20 (B+-CCC)	1,736,450	460,381	-	-	2,196,831
D1-D4 (Default)	-	-	14	270,921	270,935
Total	11,015,446	626,291	14	270,921	11,912,672

Gross loans and advances exclude provisions for doubtful debts.

	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
Contingent liabilities					
in thousands of NZD					
At 31 December 2022					
R0-R7	87,264	-	-	-	87,264
R8-R10	508,397	624	-	-	509,021
R11-R14	1,216,215	10,153	-	-	1,226,368
R15-R20	115,562	16,389	-	-	131,951
D1-D4	-	-	-	5,195	5,195
Total	1,927,438	27,166	-	5,195	1,959,799

Notes to the Financial Statements

30. Risk arising from financial instruments (continued)

	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
in thousands of NZD					
At 31 December 2021					
R0-R7	76,206	-	-	-	76,206
R8-R10	411,585	2,298	-	-	413,883
R11-R14	1,313,019	25,670	-	-	1,338,689
R15-R20	138,961	20,850	-	-	159,811
D1-D4	-	-	61	14,230	14,291
Total	1,939,771	48,818	61	14,230	2,002,880

Credit ratings and descriptions

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

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

30.3.4 Modified assets

The risk of default of modified assets is assessed at the reporting date and compared with the risk under the original terms at initial recognition. Rabobank monitors the subsequent performance of these forbore 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 2022 was \$228,449 thousand (2021: \$46,846 thousand). Amortised cost before modification of financial assets with lifetime ECL whose cash flows were modified during the period was \$63,196 thousand (2021: \$99,508 thousand).

30.3.5 Estimated fair value of collateral on impaired loans

	2022	2021
in thousands of NZD		
Fair value of collateral held**	192,575	267,282
Total impaired assets (note 18.1)	194,346	270,921

** 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.

Notes to the Financial Statements

30. Risk arising from financial instruments (continued)

30.3.6 Concentration of credit exposures to individual counterparties

	2022		2021	
	December	Peak for the period	December	Peak for the period
Bank counterparties:				
Percentage of Common equity Tier 1 capital				
10-15%	-	1	-	1
15-20%	-	-	-	-
Non-bank counterparties:				
Percentage of Common equity Tier 1 capital				
10-15%	-	-	-	-
15-20%	-	-	-	-
20-25%	-	-	-	-

All bank counterparties disclosed in the table above have a long-term rating of A- or A3, or above. All non-bank counterparties disclosed in the table above do not have a long-term credit rating.

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

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

30.3.7 Concentration of credit exposure with related counterparties

	2022	2021
Number of groups of closely related counterparties		
Percentage of Common equity Tier 1 capital		
20-25%	-	-
25-30%	-	-
30-35%	-	-
35-40%	-	-

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

30.4 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 failure to comply with any legal or regulatory obligations. This includes the risk of impairment of Rabobank's integrity, which can damage the rights and interests of our clients as well as the reputation and trustworthiness of Rabobank, leading to legal claims or regulatory sanctions and/or financial loss.

The Bank'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 Bank 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.

Notes to the Financial Statements

30. Risk arising from financial instruments (continued)

In the 2nd line of responsibility the Operational Risk and Compliance teams are responsible for advising the Board on setting risk appetite, 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 Rabobank 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 CTF, AML and Sanctions Committee (CAMS). The mandate of the RMC extends to providing oversight of all material risk categories across Rabobank. Reporting on operational risk and compliance as well as insights are, in turn, provided to the BRCC and Board regularly and if material matters are identified.

31. Concentration of funding of financial liabilities

Analysis of funding by product:

	<u>2022</u>	<u>2021</u>
in thousands of NZD		
Deposits	5,569,334	5,081,735
Due to related entities	7,185,375	6,248,125
Payable due to central bank	163,902	-
Other liabilities	31,642	25,753
Total funding	<u>12,950,253</u>	<u>11,355,613</u>

Due to related entities represents mainly balances with New Zealand Branch of Rabobank. These amounts have been included as exposure in New Zealand. The ultimate controlling party if Rabobank and is located in Netherlands.

Analysis of funding by industry:

	<u>2022</u>	<u>2021</u>
in thousands of NZD		
Agriculture	707,668	682,394
Finance and insurance	7,340,576	6,854,655
Personal and other services	4,305,437	3,343,714
Other	596,572	474,850
Total funding	<u>12,950,253</u>	<u>11,355,613</u>

Analysis of funding concentration by geographical areas:

	<u>2022</u>	<u>2021</u>
in thousands of NZD		
New Zealand	12,852,482	11,281,156
Australia	53,255	27,383
United States of America	11,654	12,832
United Kingdom	9,975	10,990
The Netherlands	5,108	2,927
All other countries	17,779	20,325
Total funding	<u>12,950,253</u>	<u>11,355,613</u>

Notes to the Financial Statements

32. Fair value of financial instruments

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or amortised cost, in accordance with accounting policies described in note 3.4 and NZ IFRS 13 'Fair Value Measurement' requires the Bank to disclose the fair value of those financial instruments not already carried at fair value in the Statement of Financial Position.

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

	2022		2021	
	Carrying amount	Fair value	Carrying amount	Fair value
in thousands of NZD				
Financial assets				
Cash and cash equivalents	984,953	984,953	665,576	665,577
Derivative financial instruments	17,154	17,154	10,807	10,807
Financial assets at fair value through other comprehensive income	631,386	631,386	567,887	567,887
Loans and advances	12,748,960	12,646,079	11,898,846	11,852,725
Due from related entities	611,549	573,450	115,613	112,078
Other financial assets	5,506	5,506	3,751	3,751
Total financial assets	14,999,508	14,858,528	13,262,480	13,212,825
Financial liabilities				
Derivative financial instruments	24,993	24,993	11,174	11,174
Deposits	5,569,334	5,574,589	5,081,735	5,123,293
Due to related entities	7,185,375	7,163,460	6,248,125	6,245,182
Payables to central bank*	163,902	168,335	-	-
Other financial liabilities	31,642	31,642	25,753	25,753
Total financial liabilities	12,975,246	12,963,019	11,366,787	11,405,402

Prior year fair value of loans and advances have been restated as this better reflects the used valuation techniques. The impact of this restatement is reduction in fair value of \$204,685 thousand.

* The fair value of collateral pledged under the RBNZ's Funding for Lending Program (FLP) as at 31 December 2022 was \$168,334 thousand.

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

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

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 2022				
Financial assets				
Derivative financial instruments	-	17,154	-	17,154
Financial assets at fair value through other comprehensive income	572,583	58,803	-	631,386
Financial liabilities				
Derivative financial instruments	-	24,993	-	24,993
	Level 1	Level 2	Level 3	Total

in thousands of NZD **At 31 December 2021**

Financial assets				
Derivative financial instruments	-	10,807	-	10,807
Financial assets at fair value through other comprehensive income	567,887	-	-	567,887
Financial liabilities				
Derivative financial instruments	-	11,174	-	11,174

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 2 (with the exception of cash and cash equivalents which are level 1, and loans and advances which are level 3). Prior disclosures of some assets and liabilities carried at amortised cost have been reclassified between fair value levels as this better reflects the used valuation techniques.

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 credit and maturity profiles.

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.

Notes to the Financial Statements

32. Fair value of financial instruments (continued)

Deposits and Due to related entities

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

Notes to the Financial Statements

33. Offsetting financial assets and financial liabilities

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

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 31 December 2022 and 31 December 2021. 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 statement of financial position			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
2022						
in thousands of NZD						
Financial Assets						
Derivative financial instruments	17,154	-	17,154	(8,919)	-	8,235
Total financial assets	17,154	-	17,154	(8,919)	-	8,235
Financial Liabilities						
Derivative financial instruments	24,993	-	24,993	(8,919)	-	16,074
Total financial liabilities	24,993	-	24,993	(8,919)	-	16,074

Notes to the Financial Statements

33. Offsetting financial assets and financial liabilities (continued)

	Effects of offsetting on the statement of financial position			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
2021						
in thousands of NZD						
Financial Assets						
Derivative financial instruments	10,807	-	10,807	(434)	-	10,373
Total financial assets	10,807	-	10,807	(434)	-	10,373
Financial Liabilities						
Derivative financial instruments	11,174	-	11,174	(434)	-	10,740
Total financial liabilities	11,174	-	11,174	(434)	-	10,740

Notes to the Financial Statements

34. Reconciliation of cash flows

34.1 Reconciliation of net cash flows from operating activities

	2022	2021
in thousands of NZD		
Net profit for the year	147,107	144,451
Non-cash items:		
Depreciation	4,802	4,576
Amortisation of intangible assets	460	625
Impairment losses	103	(16,571)
Foreign exchange losses/(gains)	(127)	(53)
Write off of property, plant and equipment and intangible assets	66	462
Changes in operating assets or operating liabilities:		
Change in derivative financial instruments	7,472	273
Change in financial assets at fair value through other comprehensive income	(79,605)	78,077
Change in loans and advances	(842,155)	(307,023)
Change in due from related entities	(493,006)	(1,727)
Change in other assets	7,696	(2,346)
Change in other liabilities	6,559	4,773
Change in due to related parties	29,314	(57,955)
Change in income tax payable	(2,781)	9,928
Change in accrued interest receivable	(13,311)	(196)
Change in accrued interest payable	54,116	(10,943)
Change in deposits	466,617	(9,273)
Change in net deferred tax assets	1,934	6,005
Change in employee entitlements	(1,766)	(508)
Change in payables to central bank	163,902	-
Net cash flows used in operating activities	(542,603)	(157,425)

34.2 Reconciliation of liabilities arising from cash flows from financing activities

At 31 December 2021		
Due to related entities (borrowings and accrued interest)		6,236,383
Cash flows - principal		874,764
Cash flows - interest		33,172
Non-cash movements		-
At 31 December 2022		
Due to related entities (borrowings and accrued interest)		7,144,319
At 31 December 2020		
Due to related entities (borrowings and accrued interest)		5,745,611
Cash flows - principal		494,028
Cash flows - interest		(3,256)
Non-cash movements		-
At 31 December 2021		
Due to related entities (borrowings and accrued interest)		6,236,383

35. Related party disclosures

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

Notes to the Financial Statements

35. Related party disclosures (continued)

35.1 Transactions with related parties

35.1.1 Guarantees

The first period

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

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

The second period

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

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

The third period

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

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

The fourth period

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

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

The fifth period

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

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

The sixth period

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

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

The seventh period

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

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

Notes to the Financial Statements

35. Related party disclosures (continued)

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

35.1.2 Commission and fee expense

A fee of \$0.28 million was charged to the Bank by Rabobank in consideration for providing the obligations guarantees for 2022 (2021: \$0.34 million).

35.1.3 Management expenses

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

a) Expenses that are related to provision of administrative and management services to the Bank (e.g. employee expenses, rent, professional fees) incurred by Australia Branch of Rabobank are recharged as per service level agreements. In total, management expenses and recharge costs of \$47 million were charged by the Australia Branch of Rabobank in 2022 (2021: \$48 million).

b) 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). \$17 million (2021: \$17 million) were charged to the Bank by the Rabobank Head Office.

The Bank re-charged \$5 million (2021: \$7 million) of expenses that related to provision of administrative and management services to New Zealand Branch of Rabobank.

The Bank re-charged \$nil (2021: \$0.28 million) of expenses to Rabobank Australia Limited.

35.1.4 Other transactions

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

	2022	2021
in thousands of NZD		
Interest income due from related entities	12,632	515
Interest expense due to related entities	161,124	57,228
Due from related entities	611,549	115,613
Due to related entities	7,185,375	6,248,125

Derivatives with a combined notional of \$1.58 billion and a net fair value asset position of \$5 million (2021: \$250 million and net fair value liability (\$8.6 million) respectively) are held with the New Zealand Branch of Rabobank and with Rabobank.

35.1.5 Working capital facilities

A loan facility of EUR 4.95 billion (2021: EUR 4.3 billion) was granted from the New Zealand Branch of Rabobank to the Bank. The unused amount at 31 December 2022 was EUR 0.7 billion (2021: EUR 0.5 billion).

35.2 Terms and conditions of transactions with related parties

All transactions with related parties are made in the ordinary course of business on normal commercial terms and conditions. These transactions are normally entered into on terms equivalent to those that prevail on an arm's length basis.

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

Notes to the Financial Statements

35. Related party disclosures (continued)

35.3 Provision for impairment

For the year ended 31 December 2022, the Bank has not made any provision for impairment relating to amounts owed by related parties (2021: nil). Provision has not been recognised on grounds of it being minimal and immaterial. The Bank recognises collective impairment allowance relating to amounts owned by related parties in accordance with expected credit loss impairment model.

36. Key management personnel

36.1 Compensation of key management personnel (KMP)

The information disclosed below includes benefits paid to Rabobank New Zealand Limited executives together with any benefits paid to the directors for the services they provided to other entities within Rabobank New Zealand including the New Zealand Branch of Rabobank. Compensation is not apportioned for the time spent on entities outside of the Bank. The full compensation paid to executives and directors for their services in relation to all entities within the Rabobank New Zealand is disclosed in table below.

	2022	2021
in whole NZD		
Short term employee benefits	3,893,964	4,092,699
Post employment benefits	146,256	116,282
Other long term benefits	325,533	322,627
Total KMP compensation	4,365,753	4,531,608

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

The following tables provide the total amount of loans and deposit with key management personnel. Outstanding loan balances at 31 December 2022 are secured. Provision has not been recognised on grounds of it being minimal and immaterial.

	2022	2021
in whole NZD		
Loans outstanding at the beginning of the year	-	-
Net loan movements during the year	-	-
Loans outstanding at the end of the year	-	-

	2022	2021
in whole NZD		
Deposits outstanding at the beginning of the year	81,213	79,228
Net deposit movements during the year	17,191	1,985
Deposits outstanding at the end of the year	98,404	81,213

37. Subsequent events

The recent stressed conditions in the US and European banking sectors are being closely monitored by the Bank. At the time of signing the financial accounts, the impact on the Bank's financial statements is immaterial.

The adverse weather events over the summer of 2022/2023 with particular reference to cyclones that have caused damage to properties mainly in the North Island and potential interruptions to supply chain have been assessed by the Bank. As at the date of signing the financial statements, the impact on the Bank's financial statements is immaterial.

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

Notes to the Financial Statements

38. Dividend

No dividend was proposed or paid by the Bank for 2022 (2021: nil).

39. Capital management

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

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

The Bank's conditions of registration require capital adequacy ratios to be calculated in accordance with the Reserve Bank's Banking Prudential Requirements. For regulatory capital adequacy purposes, total regulatory capital is defined as the sum of Common Equity Tier One capital, Additional Tier One capital and Tier Two capital. Tier One capital is defined as the sum of Common Equity Tier One capital and Additional Tier One capital.

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

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

The Bank maintained a strong capital position with its capital ratio well in excess of the regulatory minimum capital adequacy requirements and the Board approved capital target level at all times throughout the year ended 2022. The Bank has complied in full with all of its imposed capital requirements during the 2022 and 2021 financial years.

39.1 Capital (unaudited)

	<u>2022</u>	<u>2021</u>
in thousands of NZD		
Common Equity Tier 1 ("CET1") capital		
Paid-up ordinary shares issued by the Bank plus related share premium	551,200	551,200
Retained earnings (net of appropriations)	1,505,883	1,358,776
Accumulated other comprehensive income and other disclosed reserves (Note 13)	(15,689)	(4,275)
Less deductions from CET1 capital:		
Tax deductions	(15,719)	(12,960)
Goodwill and other intangible assets	(1,203)	(1,418)
Subtotal CET1 capital	<u>2,024,472</u>	<u>1,891,323</u>
Additional Tier ("AT1") capital		
Instruments issued by the Bank (or a SPV of the Bank)	-	-
Share premium resulting from the issue of instruments included in AT1 capital	-	-
Regulatory adjustments applied to AT1 capital	-	-
Subtotal AT1 capital	<u>-</u>	<u>-</u>
Total Tier 1 capital	<u>2,024,472</u>	<u>1,891,323</u>
Tier 2 capital		
Term subordinated debt subject to phase-out transitional arrangements	-	-
Revaluation reserve	-	-

Notes to the Financial Statements

39. Capital management (continued)

	<u>2022</u>	<u>2021</u>
Total Tier 2 capital	-	-
Total capital	<u>2,024,472</u>	<u>1,891,323</u>

The above balances are derived in accordance with the conditions of registration relating to capital adequacy and the Reserve Bank's Banking Prudential Requirements.

39.2 Capital Adequacy (unaudited)

	<u>2022</u>	<u>2021</u>
in thousands of NZD		
Risk weighted exposure	14,348,606	13,555,394
Common Equity Tier 1 capital ratio	14.11%	13.95%
Tier 1 capital ratio	14.11%	13.95%
Total capital ratio	14.11%	13.95%
Minimum regulatory capital ratios		
Minimum Common Equity Tier 1 capital ratio	4.50%	4.50%
Minimum Tier 1 capital ratio	6.00%	6.00%
Minimum capital ratio	8.00%	8.00%
Buffer ratio		
Buffer ratio	6.11%	5.95%
Buffer ratio requirement	2.50%	2.50%

Directors' Declaration

The directors of Rabobank New Zealand Limited ("the Bank") submit the annual report of the Bank for the year ended 31 December 2022.

The Shareholders of the Bank have agreed to apply the reporting concessions available under section 211 (3) of the Companies Act 1993. Accordingly, there is no information required to be included in the Annual Report other than the financial statements for the year ended 31 December 2022, which are enclosed.

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

(a) the financial report and notes of the Bank comply with the applicable accounting standards, are in accordance with the requirements of the Financial Markets Conduct Act 2013, and the Companies Act 1993 and give a true and fair view of the Bank's financial position as at 31 December 2022 and its performance for the year ended 31 December 2022; and

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

Signed in accordance with a resolution of the directors.



CHRISTOPHER JOHN BLACK
Chairman

21 March 2023



ANNE BRENNAN
Director

21 March 2023



Independent auditor's report

To the shareholder of Rabobank New Zealand Limited

Our opinion

In our opinion, the accompanying:

- financial statements, excluding the information disclosed in accordance with Schedules 4, 7, 9, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order"), of Rabobank New Zealand Limited (the "Bank"), present fairly, in all material respects, the financial position of the Bank as at 31 December 2022, 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"); and
- information disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order (the "Supplementary Information"), in all material respects:
 - presents fairly the matters to which it relates;
 - is disclosed in accordance with those schedules; and
 - has been prepared in accordance with any conditions of registration relating to disclosure requirements imposed under section 74(4)(c) of the Banking (Prudential Supervision) Act 1989.

What we have audited

- The Bank's financial statements (the "Financial Statements") required by clause 24 of the Order, comprising:
 - the statement of financial position as at 31 December 2022;
 - the statement of comprehensive income for the year then ended;
 - the statement of changes in equity for the year then ended;
 - the statement of cash flows for the year then ended; and
 - the notes to the Financial Statements, excluding the information disclosed in accordance with Schedules 4, 7, 9, 13, 14, 15 and 17 and included below the Statement of Financial Position as Interest earning and discount bearing assets and liabilities, and in Notes 18, 30 and 39 of Appendix 1, which includes significant accounting policies and other explanatory information.
- The Supplementary Information included in the Risk management policies section on pages 6 to 8, section 2.3 – Reconciliation of mortgage related accounts on page 24, Credit exposures to connected persons on page 29, Interest earning and discount bearing assets and liabilities included below the Statement of Financial Position, and in Notes 18 and 30 of Appendix 1.

We have not audited the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order on pages 21 to 28 inclusive (excluding section 2.3 - Reconciliation of mortgage related accounts on page 24) and in Note 39 of Appendix 1 and our opinion does not extend to this information.

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Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the Financial Statements and the Supplementary Information* section of our report.

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

Independence

We are independent of the Bank in accordance with Professional and Ethical Standard 1 *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 auditors and providers of other related assurance services we have no relationship with, or interests in, the Bank. Certain partners and employees of our firm may deal with the Bank on normal terms within the ordinary course of trading activities of the Bank. The provision of these other services and these relationships have not impaired our independence as auditor of the Bank.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements and the Supplementary Information of the current year. These matters were addressed in the context of our audit of the Financial Statements and the Supplementary Information 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
<p><i>Provisions for impairment on loans and advances (Refer to Notes 10, 16 and 18 of the Financial Statements)</i></p> <p>Provisions for impairment on loans and advances was a key audit matter because of the subjective and complex judgements made by the Bank in determining the necessity for, and then estimating the size of, provisions for impairment on loans and advances.</p> <p>NZ IFRS requires an expected credit loss (“ECL”) model to take into account forward looking information reflecting the Bank’s view on potential</p>	<p>We assessed the design effectiveness and tested the operating effectiveness of relevant key controls over the provisioning for impairment on loans and advances under NZ IFRS.</p> <p>The relevant key controls included:</p> <ul style="list-style-type: none"> • Governance over the development, validation and approval of the Bank’s ECL models to assess compliance with NZ IFRS. • Review and approval of key judgements, assumptions, macroeconomic scenarios and forward looking information used in the ECL models.



future economic events. This requires considerable judgement to estimate ECL provision against financial instruments.

The Bank uses judgements in the determination of ECL for the following key attributes:

- significant increase in credit risk (SICR);
- forward looking information including probability of default (PD), loss given default (LGD) and exposure at default (EAD);
- macroeconomic scenarios and weightings applied to each macroeconomic scenario;
- portfolio overlay adjustments required to address those elements not captured by the ECL models; and
- key assumptions including expected future cash flows and weighting of the scenarios used in measuring specific provisions.

- 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 portfolio overlays that are applied to the modelled outputs.

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

Collective Provision (Stage 1, 2, 3A)

- Consideration of the methodology inherent within the models against the requirement of NZ IFRS.
- Consideration of the appropriateness of assumptions in the ECL models, including SICR, PD, LGD and EAD. This procedure included using specialists and experts in our assessment.
- Consideration of the appropriateness of significant macroeconomic assumptions used within the ECL models and weightings applied to each macroeconomic scenario. Experts were involved to understand the macroeconomic scenarios and model provisioning methodology.
- On a sample basis, tested the accuracy of the key data inputs used in the ECL models by comparing them to the relevant supporting documents.
- For a sample of customer credit files across the loan portfolio, we reviewed management's latest credit review assessment.
- Consideration of the potential for the ECL provisions to be affected by events not captured by the Bank's ECL models and assessing whether the portfolio overlays were appropriate.

Specific Provision (Stage 3B)

- For a sample of individually assessed loans and advances, we assessed the appropriateness of the Bank's cash flow forecasts (including forecasts arising from the underlying collateral) supporting the impairment calculation and the



	<p>weightings applied to different scenarios in light of the requirements of NZ IFRS. We assessed the appropriateness of judgements (in particular the amount and timing of recoveries) made by the Bank in the context of the borrowers' circumstances based on the counterparty information known by the Bank.</p> <p>We considered the impacts of events occurring subsequent to balance date on the loan provisions.</p> <p>We also evaluated the reasonableness of the Bank's disclosures in the context of the applicable financial reporting framework.</p>
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Our audit approach

Overview

Materiality	<p>The overall Bank materiality is \$9.05 million, which represents approximately 5% of the three year average profit before tax.</p> <p>In our view, profit before tax is the benchmark against which the performance of the Bank is most commonly measured by users and is a generally accepted benchmark. We chose the three year average profit before tax due to fluctuations in profit and loss arising from the accounting policy for derivatives.</p>
Key audit matters	<p>As reported above, we have one key audit matter, being:</p> <ul style="list-style-type: none"> • Provision for impairment on loans and advances

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the Financial Statements and the Supplementary Information. 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 Financial Statements and the Supplementary Information 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 Financial Statements and the Supplementary Information.

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

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the Financial Statements and the Supplementary Information, as a whole, taking into account the structure of the Bank, the financial reporting processes and controls, and the industry in which the Bank operates.

Certain operational processes which are critical to financial reporting for the Bank are undertaken outside of Australia. We worked with PwC network firms engaged in the Coöperatieve Rabobank U.A. group audit to understand and examine processes, test controls and perform other substantive audit procedures that supported material balances, classes of transactions and disclosures within the Bank's financial statements. This enabled us to evaluate the effectiveness of those processes and consider the implications for the remainder of our audit work.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Disclosure Statement presented in accordance with Schedule 2 of the Order on pages 1 to 17 inclusive (excluding the Risk management policies section on pages 6 to 8) and the Directors' Declaration on page 67 of Appendix 1, and the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order on pages 21 to 28 inclusive (excluding section 2.3 - Reconciliation of mortgage related accounts on page 24) and in Note 39 of Appendix 1, but does not include the Financial Statements, the Supplementary Information and our auditor's report thereon.

Our opinion on the Financial Statements and the Supplementary Information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon. We issue a separate limited assurance report on the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order.

In connection with our audit of the Financial Statements and the Supplementary Information, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements and the Supplementary Information 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 Disclosure Statement

The Directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the Financial Statements in accordance with clause 24 of the Order, NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements and the Supplementary Information that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the Disclosure Statement which includes:

- all of the information prescribed in Schedule 2 of the Order; and
- the information prescribed in Schedules 4, 7, 9, 13, 14, 15 and 17 of the Order.

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

Auditor's responsibilities for the audit of the Financial Statements and the Supplementary Information

Our objectives are to obtain reasonable assurance about whether the Financial Statements and the Supplementary Information, 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 the Financial Statements and the Supplementary Information.

A further description of our responsibilities for the audit of the Financial Statements and the Supplementary Information is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards/assurance-standards/auditors-responsibilities/audit-report-2/>

This description forms part of our auditor's report.



Who we report to

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

The engagement partner on the engagement resulting in this independent auditor's report is Sam Hinchliffe.

For and on behalf of:

A handwritten signature in black ink that reads "Private-Hero Cooper". The signature is written in a cursive, flowing style.

Chartered Accountants
21 March 2023

Sydney