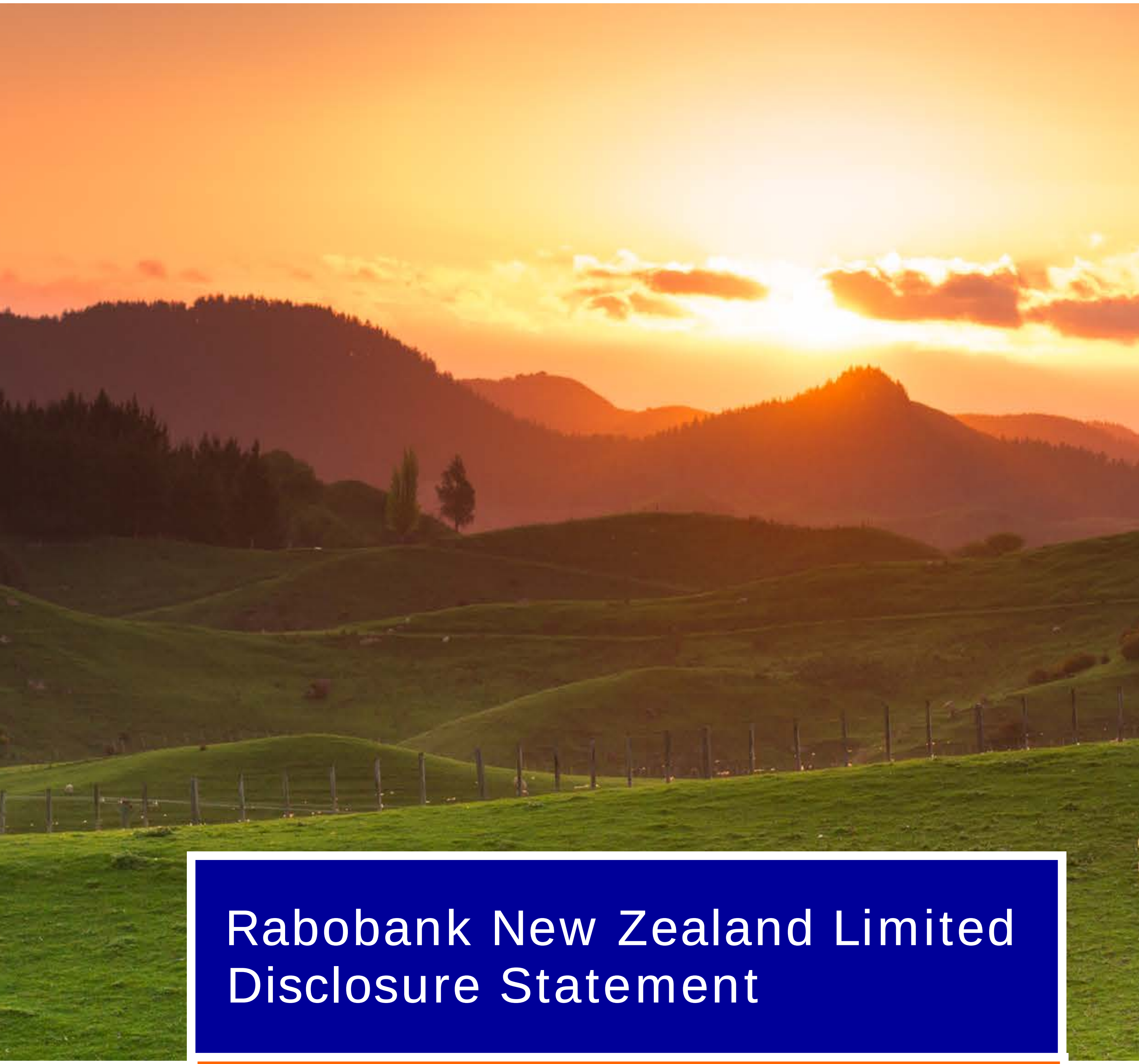
Rabobank



Rabobank New Zealand Limited Disclosure Statement

For the six months ended 30 June 2016

Contents

General Disclosures

General information and definitions

The information contained in this Disclosure Statement is as required by section 81 of the Reserve Bank of New Zealand Act 1989 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.

General matters

Composition of the Board of directors

There have been the following changes in the composition of the Bank's board of directors since 31 December 2015:

- Franciscus Nicolaas Maria Van Heyningen resigned as a member of the Board with effect on 31 March 2016.
- Jan Alexander Pruijs was appointed as a member of the Board with effect on 24 May 2016.
- Theodorus Henny Lambertus Johannes Maria Gieskes resigned as a member of the Board with effect on 1 July 2016.
- Peter James Knoblanche was appointed as a member of the Board with effect on 1 July 2016.

Signing of the disclosure statement

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

- John Leonard Palmer (Chairman)
- Geerten Battjes
- Anne Bernadette Brennan
- William Patrick Gurry
- Peter James Knoblanche
- Bernardus Jacobus Marttin
- Jan Alexander Pruijs
- Sir Henricus (Henry) Wilhelmus van der Heyden

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.

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

Guarantee arrangements

Under a series of guarantees, the Rabobank group parent entity guaranteed all the Bank's obligations. Each such guarantee has now expired. The last guarantee expired on 30 April 2015. The earlier guarantees expired on 17 February 2008, 17 February 2010, 17 February 2012, 17 February 2013, 17 February 2014, 17 February 2015 and 30 April 2015.

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

General Disclosures

Guarantee arrangements (continued)

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 23
157 Lambton Quay
Wellington
New Zealand

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

Rabobank has the following credit ratings applicable to its long term senior unsecured obligations payable in the currency of its incorporation (The Netherlands).

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

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.

Further information about the guarantees

The Bank's most recent full year disclosure statement contains further information about the above guarantees. The Bank's most recent full year disclosure statement is available immediately, if the request is made at the Bank's head office, or within five working days if a request is made at any branch or agency of the Bank. Alternatively, it can also be accessed at the Bank's internet address www.rabobank.co.nz.

Material cross guarantee

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

Insurance business

The Banking Group does not conduct any insurance business.

General Disclosures

Pending proceedings or arbitration

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

Conditions of registration

There have been no changes to the Conditions of Registration between 31 March 2016 and 30 June 2016.

Risk management policies

Since 31 March 2016:

- there has been no material change in the Banking Group's policies for managing credit, currency, interest rate, liquidity, operational, and other material business risks (the Banking Group does not take any equity risk); and
- the Banking Group has not become exposed to a new category of risk to which the Banking Group was not previously exposed.

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

The Banking Group has no involvement in the origination of securitised assets, the marketing or servicing of securitisation schemes or the marketing and distribution of insurance products.

Since 31 March 2016, there have been no material changes in:

- the nature of the Banking Group's involvement in the establishment, marketing, or sponsorship of trust, custodial, funds management, or other fiduciary activities; or
- any arrangements which have been put in place to ensure that difficulties arising from those activities would not impact adversely on the Banking Group.

Over the six month period ended 30 June 2016, no services have been provided, other than on arm's length terms and conditions and at fair value, by the Banking Group to any entity involved in the establishment, marketing, or sponsorship of trust, custodial, funds management, or other fiduciary activities.

Over the six month period ended 30 June 2016, no assets have been purchased, other than on arms length terms and conditions and at fair value, by the Banking Group from any entity involved in the establishment, marketing, or sponsorship of trust, custodial, funds management, or other fiduciary activities.

Other material matters

On 13 July 2016, Daryl Johnson replaced Crawford Taylor as the Bank's Chief Executive Officer.

Farm gate milk prices have lifted modestly from low levels reached in 2015 but remain at low levels. Very low prices for an extended period would likely to increase dairy farm loan defaults and the potential for higher loan loss provisions in the Bank's dairy portfolio. Loans to dairy farmers make up more than 50% of the Bank's overall loan portfolio.

Other than the matters disclosed above, there have been no other material matters relating to the business or affairs of the Bank that:

(i) are not contained elsewhere in this Disclosure Statement; and
(ii) would, if disclosed, materially affect the decision of a person to subscribe for debt securities of which the Bank is the issuer.

Auditor for the Bank

Ashley Wood
PricewaterhouseCoopers
Darling Park, Tower 2
201 Sussex Street
Sydney NSW 2000 Australia

Directors' Statement

After due enquiry, each director believes that:

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

- The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended); and

- The Disclosure Statement is not false or misleading; and

(ii) over the six month period ended 30 June 2016:

- The Bank has complied with all Conditions of Registration that applied during that period;

- Credit exposures to connected persons (if any) were not contrary to the interests of the Banking Group; and

- The Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, 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 Daryl Johnson, Chief Executive Officer, under an authority from each of the directors.

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Daryl Johnson

Dated: 23 August 2016

Statement of Comprehensive Income

In thousands of NZD	Notes	Unaudited 6 months to 30/06/2016	Unaudited 6 months to 30/06/2015	Audited Year to 31/12/2015
Income statement				
Interest income		**290,438**	309,113	623,398
Interest expense		**(163,295)**	(187,794)	(378,472)
Net interest income		**127,143**	121,319	244,926
Other income / (expense)	3	**(40)**	(457)	(669)
Other operating gains / (losses)	4	**676**	(157)	270
Non-interest income / (expense)		**636**	(614)	(399)
Operating income		**127,779**	120,705	244,527
Operating expenses		**(52,674)**	(50,549)	(105,525)
Impairment (losses) / releases	5	**(10,303)**	(834)	5,561
Profit before income tax		**64,802**	69,322	144,563
Income tax expense		**(18,360)**	(19,439)	(40,516)
Profit after income tax		**46,442**	49,883	104,047
Other comprehensive income for the period / year				
Items that may be reclassified subsequently to profit or loss				
Changes in AFS financial assets revaluation reserve	13.2	**3,660**	1,223	712
Income tax credit / (expense) relating to changes in AFS financial assets revaluation reserve	13.2	**(1,025)**	(342)	(199)
Total items that may be reclassified subsequently to profit or loss		**2,635**	881	513
Items that will not be reclassified to profit or loss				
Other reserves		**-**	-	-
Total items that will not be reclassified to profit or loss		**-**	-	-
Total other comprehensive income for the period / year		**2,635**	881	513
Total comprehensive income attributable to members of Rabobank New Zealand Limited		**49,077**	50,764	104,560

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

Statement of Financial Position

In thousands of NZD	Notes	Unaudited At 30/06/2016	Unaudited At 30/06/2015	Audited At 31/12/2015
Assets				
Cash and cash equivalents		**196,587**	165,278	207,650
Derivative financial instruments		**5,431**	5,160	3,688
Available-for-sale financial assets	6	**755,428**	602,219	645,161
Loans and advances	7	**9,497,972**	9,249,886	9,434,581
Due from related entities	9	**587,024**	585,974	441,760
Other assets		**11,200**	9,907	12,099
Income tax receivable		**-**	-	8,226
Net deferred tax assets		**15,481**	35,397	14,007
Property, plant and equipment		**5,332**	5,640	5,489
Intangible assets		**150**	79	91
Total assets		**11,074,605**	10,659,540	10,772,752
Liabilities				
Derivative financial instruments		**5,567**	5,225	3,825
Deposits	10	**3,888,098**	3,759,743	3,785,809
Due to related entities	11	**5,517,380**	5,321,207	5,364,685
Subordinated debt	12	**300,000**	300,000	300,000
Current tax payable		**633**	6,231	-
Other liabilities		**34,571**	41,918	39,219
Provisions		**2,850**	2,583	2,785
Total liabilities		**9,749,099**	9,436,907	9,496,323
Net assets		**1,325,506**	1,222,633	1,276,429
Equity				
Contributed equity	13.1	**551,200**	551,200	551,200
Reserves	13.2	**2,750**	483	115
Retained earnings		**771,556**	670,950	725,114
Total equity		**1,325,506**	1,222,633	1,276,429

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

Statement of Changes in Equity

In thousands of NZD	Contributed equity	Retained earnings	Reserves	Total
At 1 January 2015	551,200	621,067	(398)	1,171,869
Net profit	-	49,883	-	49,883
Other comprehensive income:				
Revaluation reserve - AFS financial assets	-	-	881	881
At 30 June 2015 (Unaudited)	551,200	670,950	483	1,222,633
At 1 January 2015	551,200	621,067	(398)	1,171,869
Net profit	-	104,047	-	104,047
Other comprehensive income:				
Revaluation reserve - AFS financial assets	-	-	513	513
At 31 December 2015 (Audited)	551,200	725,114	115	1,276,429
At 1 January 2016	551,200	725,114	115	1,276,429
Net profit	-	46,442	-	46,442
Other comprehensive income:				
Revaluation reserve - AFS financial assets	-	-	2,635	2,635
At 30 June 2016 (Unaudited)	551,200	771,556	2,750	1,325,506

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

Condensed Statement of Cash Flows

In thousands of NZD	Notes	Unaudited 6 months to 30/06/2016	Unaudited 6 months to 30/06/2015	Audited Year to 31/12/2015
Cash flows from operating activities				
Interest received		**288,315**	307,633	620,563
Interest paid		**(171,739)**	(190,692)	(382,174)
Other cash inflows provided by operating activities		**1,247**	538	1,435
Other cash outflows used in operating activities		**(65,837)**	(61,399)	(133,076)
Cash flows from operating activities before changes in operating assets and liabilities		**51,986**	56,080	106,748
Net changes in operating assets and liabilities		**(323,229)**	(672,547)	(750,952)
Net cash flows from / (used in) operating activities	16	**(271,243)**	(616,467)	(644,204)
Cash flows from investing activities				
Cash outflows used in investing activities		**(466)**	(361)	(807)
Net cash flows from / (used in) investing activities		**(466)**	(361)	(807)
Cash flows from financing activities				
Net changes in financing liabilities		**260,646**	592,733	663,288
Net cash flows from financing activities		**260,646**	592,733	663,288
Net change in cash and cash equivalents		**(11,063)**	(24,095)	18,277
Cash and cash equivalents at the beginning of the period / year		**207,650**	189,373	189,373
Cash and cash equivalents at the end of the period / year		**196,587**	165,278	207,650
Cash and cash equivalents at the end of the period / year comprise:				
Cash at bank and on hand		**196,587**	165,278	207,650
Bank overdraft		**-**	-	-
Cash and cash equivalents at the end of the period / year		**196,587**	165,278	207,650

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' and 'Banking Group') is domiciled in New Zealand.

The interim financial statements of the Bank are presented as at and for the six months ended 30 June 2016. The Bank primarily is involved in the provision of secured loans predominantly to borrowers in the rural industry and the raising of retail deposits. There were no significant changes during the six month period in the nature of the activities of the Bank.

2. Basis of preparation

2.1 Statement of compliance

These interim financial statements have been prepared and presented in accordance with the requirements of the Order and the Reserve Bank Act, and in accordance with the requirements of New Zealand equivalent to International Accounting Standard ('NZ IAS') 34 'Interim Financial Reporting' and should be read in conjunction with the Bank's financial statements for the year ended 31 December 2015. These interim financial statements do not include all the information and disclosures required in annual financial statements and should therefore be read in conjunction with the financial statements for the year ended 31 December 2015.

2.2 Basis of measurement

These interim financial statements have been prepared under the historical cost convention, except for derivative financial instruments and available-for-sale financial assets which have been measured at fair value. The going concern concept and the accrual basis of accounting have been adopted.

2.3 Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies. In preparing these interim financial statements, the significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation of uncertainty were the same as those applied to the financial statements as at and for the year ended 31 December 2015.

2.4 Principal accounting policies

There have been no material changes in accounting policies during the interim financial period. The accounting policies used in the preparation of these interim financial statements are consistent with the accounting policies used in the preparation of the Bank's financial statements for the year ended 31 December 2015.

The Bank has not early adopted any NZ equivalents to International Financial Reporting Standards ('NZ IFRS') that are not yet in effect.

2.5 Functional and presentation currency

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

2.6 Comparative figures

Comparative information has been revised where appropriate to enhance comparability. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. During the current period, there has been no material restatement of prior period amounts.

Notes to the Financial Statements

3 Other income / (expense)

In thousands of NZD	Unaudited 6 months to 30/06/2016	Unaudited 6 months to 30/06/2015	Audited Year to 31/12/2015
Lending and credit facility related fee income	**532**	530	1,043
Commission and fee expense *	**(600)**	(995)	(1,720)
Other income	**28**	8	8
Total other income	**(40)**	(457)	(669)

* Balance relates to fees charged for the obligations guarantees provided by Rabobank. Refer to note 22 for further information on guarantees.

4 Other operating gains / (losses)

In thousands of NZD	Unaudited 6 months to 30/06/2016	Unaudited 6 months to 30/06/2015	Audited Year to 31/12/2015
Net trading gains / (losses) on derivatives	**(7)**	120	135
Losses on disposal/write off of property, plant and equipment	**-**	-	(2)
Foreign exchange gains / (losses)	**683**	(277)	137
Total other operating gains / (losses)	**676**	(157)	270

5 Impairment losses / (releases)

In thousands of NZD	Unaudited 6 months to 30/06/2016	Unaudited 6 months to 30/06/2015	Audited Year to 31/12/2015
Collective provisions / (releases)	**7,587**	693	3,775
Specific provisions / (releases)	**2,728**	154	(12,107)
Other losses	**-**	-	2,789
Bad debt recovery	**(12)**	(13)	(18)
Total impairment losses / (releases)	**10,303**	834	(5,561)

6 Available-for-sale (AFS) financial assets

In thousands of NZD	Unaudited At 30/06/2016	Unaudited At 30/06/2015	Audited At 31/12/2015
New Zealand government securities	611,063	540,822	535,276
Other debt securities (Kauri)	144,365	61,397	109,885
Total AFS financial assets	**755,428**	602,219	645,161

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 requirements.

7 Loans and advances

In thousands of NZD	Unaudited At 30/06/2016	Unaudited At 30/06/2015	Audited At 31/12/2015
Lending	**9,469,937**	9,250,285	9,391,140
Finance leases	**57,540**	63,350	64,332
Gross loans and advances	**9,527,477**	9,313,635	9,455,472
Provisions for doubtful debts:			
Collective	**(21,585)**	(10,916)	(13,998)
Specific	**(7,920)**	(52,833)	(6,893)
Net loans and advances	**9,497,972**	9,249,886	9,434,581

Notes to the Financial Statements

8 Credit quality, impaired assets and provision for impairment

8.1 Individually impaired assets

	At 30/06/2016 (Unaudited)			
In thousands of NZD	Residential mortgages	Corporate	Retail*	Total
Opening balance	-	-	49,187	49,187
Additions	-	-	43,696	43,696
Amounts written off	-	-	(118)	(118)
Returned to performing or repaid	-	-	(11,501)	(11,501)
Closing balance	**-**	**-**	**81,264**	**81,264**
Aggregate amount of undrawn balances on lending commitments on impaired assets	-	-	8,247	8,247

8.2 Past due assets but not impaired

	At 30/06/2016 (Unaudited)			
In thousands of NZD	Residential mortgages	Corporate	Retail*	Total
Less than 30 days past due	-	-	31,322	31,322
At least 30 days but less than 60 days past due	-	-	12,738	12,738
At least 60 days but less than 90 days past due	-	-	5,973	5,973
At least 90 days past due		-	16,475	16,475
Total past due assets	**-**	**-**	**66,508**	**66,508**

8.3 Provision for impairment

	At 30/06/2016 (Unaudited)			
In thousands of NZD	Residential mortgages	Corporate	Retail*	Total
Collective provision				
Opening balance	-	-	13,998	13,998
Charge / (release) to statement of comprehensive income (note 5)	-	-	7,587	7,587
Other movements	-	-	-	-
Closing balance	**-**	**-**	**21,585**	**21,585**
Specific provision				
Opening balance	-	-	6,893	6,893
Charge / (release) to statement of comprehensive income (note 5)	-	-	2,728	2,728
Amounts written off	-	-	(118)	(118)
Recoveries	-	-	-	-
Reversals	-	-	-	-
Other movements	-	-	149	149
Discount unwind**	-	-	(1,732)	(1,732)
Closing balance	**-**	**-**	**7,920**	**7,920**

* Retail exposures include lending to rural clients together with all other lending to small and medium businesses.
** The impairment loss on an impaired asset is calculated as the difference between the asset's carrying amount and the estimated future cash flows discounted to its present value using the original effective interest rate for the asset. The discount unwinds over the period the asset is held as interest income.

8.4 Other assets under administration

There are no other assets under administration as at 30 June 2016 (2015: Nil).

Notes to the Financial Statements

9 Due from related entities

In thousands of NZD	Unaudited At 30/06/2016	Unaudited At 30/06/2015	Audited At 31/12/2015
Current account balances - wholly owned group*	**114,060**	215,792	128,394
Advances - wholly owned group*	**472,287**	369,289	313,305
Accrued interest receivable - wholly owned group*	**677**	893	61
Total due from related entities	**587,024**	585,974	441,760

* The wholly owned group refers to other Rabobank related entities. Refer to note 22 for further information on related party disclosures.

10 Deposits

In thousands of NZD	Unaudited At 30/06/2016	Unaudited At 30/06/2015	Audited At 31/12/2015
Call deposits	**1,983,760**	2,063,089	1,980,988
Term deposits	**1,904,338**	1,696,654	1,804,821
Total deposits	**3,888,098**	3,759,743	3,785,809

11 Due to related entities

In thousands of NZD	Unaudited At 30/06/2016	Unaudited At 30/06/2015	Audited At 31/12/2015
Current account balances - wholly owned group*	**7,671**	3,436	4,797
Advances - wholly owned group*	**5,477,279**	5,278,668	5,321,796
Accrued interest payable - wholly owned group*	**32,430**	39,103	38,092
Total due to related entities	**5,517,380**	5,321,207	5,364,685

* The wholly owned group refers to other Rabobank related entities. Refer to note 22 for further information on related party disclosures.

12 Subordinated debt

In thousands of NZD	Unaudited At 30/06/2016	Unaudited At 30/06/2015	Audited At 31/12/2015
Due to wholly owned group*	**300,000**	300,000	300,000
Total subordinated debt	**300,000**	300,000	300,000

* The wholly owned group refers to other Rabobank related entities. Refer to note 22 for further information on related party disclosures.

The Bank has issued to Rabobank (New Zealand Branch) perpetual subordinated debt with a principal amount of NZ$300,000,000, and a based rate (i.e. BKBM FRA rate) plus a margin of 2.25 per cent per annum. Interest is payable semi-annually on the last days of February and August respectively. The subordinated debt was issued on 13 August 2010 and is subordinated in rights of payment in the event of liquidation or wind up to the claims of depositors and all creditors of the Bank. The debt is repayable on any date at the option of the Bank, subject to a Bank directors' resolution that repayment is in the best interest of the Bank, and the Bank giving at least 10 business days' irrevocable notice to the holder. Under the Basel III and RBNZ capital adequacy requirements, the perpetual subordinated debt progressively cease to be eligible Tier 2 capital for capital adequacy purposes as set out in table below. The subordinated debt instrument that qualifies as Tier 2 Capital for capital adequacy purposes as at 30 June 2016 amounts to NZ$120 million (31 December 2015: $180 million; 30 June 2015: $180 million).

Year commencing	Percentage of instruments that may be included in regulatory capital
1 January 2014	80
1 January 2015	60
1 January 2016	40
1 January 2017	20
1 January 2018	0

Notes to the Financial Statements

13 Contributed equity, Reserves and Capital management

13.1 Contributed equity

In thousands of NZD	Unaudited At 30/06/2016	Unaudited At 30/06/2015	Audited At 31/12/2015
Ordinary share capital	**551,200**	551,200	551,200
Total contributed equity	**551,200**	551,200	551,200

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

As at 30 June 2016, total authorised and paid up capital comprises 275,600,000 ordinary shares fully paid ranking equally as to dividends, voting rights and rights to share in any surplus on winding up (31 December 2015: 275,600,000; 30 June 2015: 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.

13.2 Reserves

In thousands of NZD	Unaudited At 30/06/2016	Unaudited At 30/06/2015	Audited At 31/12/2015
AFS financial asset reserve			
Opening balance	**115**	(398)	(398)
Changes in AFS financial assets revaluation reserve (gross)	**3,660**	1,223	712
Changes in AFS financial assets revaluation reserve (deferred tax)	**(1,025)**	(342)	(199)
Total AFS reserve	**2,750**	483	115

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

13.3 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 rating and healthy capital ratios in order to support its business.

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

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

The Bank's Common Equity Tier One capital includes paid up ordinary shares, retained earnings, AFS 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 it is exposed to will be managed.

The Bank has complied in full with all of its externally imposed capital requirements during the 2015 financial year and during the 2016 half year period.

Notes to the Financial Statements

14 Contingent liabilities

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

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

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

In thousands of NZD	Unaudited At 30/06/2016	Unaudited At 30/06/2015	Audited At 31/12/2015
Guarantees	**4,081**	15,766	4,345
Lending commitments			
Irrevocable lending commitments	**108,498**	130,492	113,205
Revocable lending commitments	**1,250,614**	1,289,093	1,188,730
Total contingent liabilities	**1,363,193**	1,435,351	1,306,280

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.

15 Expenditure Commitments

15.1 Capital expenditure commitments

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

In thousands of NZD	Unaudited At 30/06/2016	Unaudited At 30/06/2015	Audited At 31/12/2015
One year or less	**-**	1,011	602
Total capital expenditure commitments	**-**	1,011	602

15.2 Operating lease commitments

In thousands of NZD	Unaudited At 30/06/2016	Unaudited At 30/06/2015	Audited At 31/12/2015
One year or less	**4,670**	4,500	4,565
Between one and two years	**3,640**	4,136	4,037
Between two and five years	**5,749**	7,290	6,654
Over five years	**1,852**	3,160	2,642
Total operating lease commitments	**15,911**	19,086	17,898

Lease arrangements entered into by the Bank are for the purpose of accommodating the Bank's needs. These include operating lease arrangements over premises, motor vehicles used by staff in conducting business and office equipment such as photocopiers and printers.

Leases may be over commercial and residential premises and reflect the needs of the occupying business and market conditions. All leases are negotiated with external professional property advisors acting for the 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.

Notes to the Financial Statements

16 Reconciliation of net cash flows from operating activities

in thousands of NZD	Unaudited 6 months to 30/06/2016	Unaudited 6 months to 30/06/2015	Audited Year to 31/12/2015
Net profit after tax	**46,442**	49,883	104,047
Non-cash items	**12,831**	2,542	(4,047)
Deferrals or accruals of past or future operating cash receipts or payments:			
Change in net operating assets and liabilities	**(323,229)**	(672,547)	(750,952)
Change in interest receivable/payable	**(10,567)**	(4,378)	(6,537)
Change in other deferrals or accruals	**3,280**	8,033	13,285
Net cash flows from / (used in) operating activities	**(271,243)**	(616,467)	(644,204)

17 Risks arising from financial instruments

The major types of risk the Bank is exposed to are liquidity risk, market risk and credit risk.

17.1 Liquidity risk

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

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

17.1.1 Maturity analysis of financial assets and financial liabilities and contingent liabilities by contractual maturity based on undiscounted cash flows (principal and interest)

In thousands of NZD	Total	On Demand	Less than 6 months	6-12 months	12-24 months	24-60 months	Over 60 months
At 30/06/2016 (Unaudited)							
Financial assets							
Cash and cash equivalents	196,587	196,587					
Derivative financial instruments	6,097	-	118	13	-	5,208	758
Available-for-sale financial assets	776,067	-	313,170	49,803	267,794	145,300	-
Loans and advances	10,073,664	-	954,151	1,989,913	2,616,485	3,239,277	1,273,838
Due from related entities	611,468	114,060	15,878	25,087	266,927	148,609	40,907
Other financial assets	11,141	-	11,141	-	-	-	-
Total financial assets	11,675,024	310,647	1,294,458	2,064,816	3,151,206	3,538,394	1,315,503
Financial liabilities							
Derivative financial instruments	6,233	-	118	12	-	5,345	758
Deposits	3,921,637	1,983,760	954,615	594,822	210,234	178,124	82
Due to related entities	5,740,177	7,671	288,349	1,263,012	2,363,474	1,817,671	-
Subordinated debt	477,225	-	3,984	4,005	8,011	23,967	437,258
Other liabilities	34,571	-	34,571	-	-	-	-
Total financial liabilities	10,179,843	1,991,431	1,281,637	1,861,851	2,581,719	2,025,107	438,098
Contingent liabilities							
Guarantees	4,081	4,081	-	-	-	-	-
Lending commitments	1,359,112	1,329,430	1,902	1,956	5,852	10,925	9,047
Total contingent liabilities	1,363,193	1,333,511	1,902	1,956	5,852	10,925	9,047

Notes to the Financial Statements

17 Risks arising from financial instruments (continued)

17.2 Market risk

Repricing analysis

The table below shows the repricing of assets and liabilities based on the earlier of repricing and contractual maturity date.

In thousands of NZD	Total	Call-3 months	3-6 months	6-12 months	12-24 months	Over 24 months	Non-interest bearing
At 30/06/2016 (Unaudited)							
Financial assets							
Cash and cash equivalents	196,587	196,587	-	-	-	-	-
Derivative financial instruments	5,431	-	-	-	-	-	5,431
Available-for-sale financial assets	755,428	150,726	138,880	44,785	271,536	149,501	-
Loans and advances	9,497,972	5,048,389	706,546	1,807,900	1,122,678	812,432	27
Due from related entities	587,024	546,201	136	-	-	40,000	687
Other financial assets	11,141	-	-	-	-	-	11,141
Total financial assets	11,053,583	5,941,903	845,562	1,852,685	1,394,214	1,001,933	17,286
Other assets	59	-	-	-	-	-	59
Net deferred tax assets	15,481	-	-	-	-	-	15,481
Property, plant and equipment	5,332	-	-	-	-	-	5,332
Intangible assets	150	-	-	-	-	-	150
Total non-financial assets	21,022	-	-	-	-	-	21,022
Total assets	11,074,605	5,941,903	845,562	1,852,685	1,394,214	1,001,933	38,308
Financial liabilities							
Derivative financial instruments	5,567	-	-	-	-	-	5,567
Deposits	3,888,098	2,497,141	421,180	598,067	198,255	173,455	-
Due to related entities	5,517,380	3,503,671	192,593	268,000	805,000	709,300	38,816
Subordinated debt	300,000	300,000	-	-	-	-	-
Other liabilities	34,571	-	-	-	-	-	34,571
Total financial liabilities	9,745,616	6,300,812	613,773	866,067	1,003,255	882,755	78,954
Current tax payable	633	-	-	-	-	-	633
Provisions	2,850	-	-	-	-	-	2,850
Total non-financial liabilities	3,483	-	-	-	-	-	3,483
Total liabilities	9,749,099	6,300,812	613,773	866,067	1,003,255	882,755	82,437
Interest rate derivatives							
Swaps	-	-	-	-	-	-	
Repricing gap (interest bearing assets and liabilities)	1,369,635	(358,909)	231,789	986,618	390,959	119,178	
Cumulative mismatch	1,369,635	(358,909)	(127,120)	859,498	1,250,457	1,369,635	

Notes to the Financial Statements

17 Risks arising from financial instruments (continued)

17.3 Credit risk

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

Concentration of credit risk is determined by management by industry sector. Industry sectors are determined by reference to the Australian and New Zealand Standard Industrial Classification (ANZSIC) codes.

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

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

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

Credit exposures consist of :

In thousands of NZD	Unaudited At 30/06/2016
Cash and cash equivalents	196,587
Derivative financial instruments	5,431
Available-for-sale financial assets	755,428
Loans and advances	9,497,972
Due from related entities	587,024
Other financial assets	11,141
Commitments and guarantees (note 14)	1,363,193
Total credit exposures	**12,416,776**

Analysis of credit exposures by industry:

In thousands of NZD	Unaudited At 30/06/2016
Agriculture	10,387,057
Finance and insurance	907,514
Forestry and fishery	42,898
Government	778,551
Property and business services	135,358
Other	165,398
Total credit exposures	**12,416,776**

Analysis of credit exposures by geographical areas:

In thousands of NZD	Unaudited At 30/06/2016
New Zealand	12,269,792
Australia	1,012
Germany	94,647
Finland	51,318
The Netherlands	7
Total credit exposures	**12,416,776**

Notes to the Financial Statements

17 Risks arising from financial instruments (continued)

17.3 Credit risk (continued)

17.3.2 Concentration of credit exposures to individual counterparties

	Unaudited	
	At 30/06/2016	Peak for the quarter
Number of bank counterparties:		
Percentage of shareholders' equity		
10-15%	-	-
15-20%	-	-
Number of non-bank counterparties:		
Percentage of shareholders' equity		
10-15%	-	-
15-20%	-	-
20-25%	-	-
25-30%	-	-

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 of any country with a long-term credit rating of A- or A3 or above, or its equivalent, and credit exposures to any bank 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 quarter and dividing it by the Banking Group's equity as at the end of the quarter.

17.3.3 Credit quality per class of financial assets

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

	Neither past due nor impaired						
In thousands of NZD	R0-R7	R8-R10	R11-R14	R15-R20	Past due but not impaired	Individually impaired	Total
At 30/06/2016 (Unaudited)							
Cash and cash equivalents	196,587	-	-	-	-	-	196,587
Available-for-sale financial assets (note 6)	755,428	-	-	-	-	-	755,428
Gross loans and advances* (note 7)	97,726	935,132	5,849,116	2,497,731	66,508	81,264	9,527,477
Total	**1,049,741**	**935,132**	**5,849,116**	**2,497,731**	**66,508**	**81,264**	**10,479,492**

*Gross loans and advances exclude provisions for doubtful debts.

Credit rating descriptions

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

Notes to the Financial Statements

18 Fair value of financial instruments

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

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

	Unaudited At 30/06/2016		Unaudited At 30/06/2015		Audited At 31/12/2015	
In thousands of NZD	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Cash and cash equivalents	196,587	196,587	165,278	165,278	207,650	207,650
Derivative financial instruments	5,431	5,431	5,160	5,160	3,688	3,688
Available-for-sale financial assets	755,428	755,428	602,219	602,219	645,161	645,161
Loans and advances	9,497,972	9,678,477	9,249,886	9,502,400	9,434,581	9,617,255
Due from related entities	587,024	577,565	585,974	586,172	441,760	441,760
Other financial assets	11,141	11,141	8,776	8,776	11,510	11,510
Total financial assets	11,053,583	11,224,629	10,617,293	10,870,005	10,744,350	10,927,024
Financial liabilities						
Derivative financial instruments	5,567	5,567	5,225	5,225	3,825	3,825
Deposits	3,888,098	3,880,521	3,759,743	3,754,010	3,785,809	3,771,732
Due to related entities	5,517,380	5,542,197	5,321,207	5,357,144	5,364,685	5,395,815
Subordinated debt	300,000	316,746	300,000	321,808	300,000	332,046
Other liabilities	34,571	34,571	41,918	41,918	39,219	39,219
Total financial liabilities	9,745,616	9,779,602	9,428,093	9,480,105	9,493,538	9,542,637

Fair value hierarchy

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

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

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

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

Valuation methodology

Financial assets and financial liabilities carried at fair value

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

Derivative financial instruments and Available-for-sale financial assets

Fair values are based on quoted market prices. Where a quoted price is not available, fair values are estimated using quoted market prices for securities with similar credit, maturity and yield characteristics, or market accepted valuation models as appropriate (including discounted cash flow models) based on current market yields for similar types of instruments and the maturity of each instrument.

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

Notes to the Financial Statements

18 Fair value of financial instruments (continued)

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

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

In thousands of NZD	Level 1	Level 2	Level 3	Total
At 30 June 2016 (Unaudited)				
Financial assets				
Derivative financial instruments	-	5,431	-	5,431
Available-for-sale financial assets	755,428	-	-	755,428
Financial liabilities				
Derivative financial instruments	-	5,567	-	5,567

In thousands of NZD	Level 1	Level 2	Level 3	Total
At 30 June 2015 (Unaudited)				
Financial assets				
Derivative financial instruments	-	5,160	-	5,160
Available-for-sale financial assets	602,219	-	-	602,219
Financial liabilities				
Derivative financial instruments	-	5,225	-	5,225

In thousands of NZD	Level 1	Level 2	Level 3	Total
At 31 December 2015 (Audited)				
Financial assets				
Derivative financial instruments	-	3,688	-	3,688
Available-for-sale financial assets	645,161	-	-	645,161
Financial liabilities				
Derivative financial instruments	-	3,825	-	3,825

Financial assets and financial liabilities carried at amortised cost

For financial assets and financial liabilities carried at amortised cost, an estimate of the fair value has been derived as follows, and are categorised as Level 3 investments:

Cash and cash equivalents

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

Loans and advances and Due from related entities

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

Other financial assets and Other financial liabilities

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

Due to financial institutions, Deposits and Due to related entities

Fair value of call and variable rate deposits approximate their carrying value as they are short term in nature or payable on demand.

Fair value of term deposits are estimated using discounted cash flows, applying market rates offered for deposits of similar remaining maturities.

Subordinated debt

Fair values are calculated using discounted cash flow models based on repricing dates, with discount rates at current interest rates for instruments with similar maturity.

Notes to the Financial Statements

19 Capital adequacy under the standardised approach

19.1 Capital

In thousands of NZD	Unaudited At 30/06/2016
Common Equity Tier 1 ("CET1") capital	
Paid-up ordinary shares issued by the Bank plus related share premium	551,200
Retained earnings (net of appropriations)	771,556
Accumulated other comprehensive income and other disclosed reserves	2,750
Less deductions from CET1 capital:	
Deferred tax assets	(15,481)
Goodwill and other intangible assets	(150)
Subtotal CET1 capital	**1,309,875**
Additional Tier 1 ("AT1") capital	
Instruments issued by the Bank (or an SPV of the Bank)	-
Share premium resulting from the issue of instruments included in AT1 capital	-
Regulatory adjustments applied to AT1 capital	-
Subtotal AT1 capital	-
Total Tier 1 capital	**1,309,875**
Tier 2 capital	
Term subordinated debt subject to phase-out transitional arrangements	120,000
Revaluation reserves	-
Total Tier 2 capital	**120,000**
Total capital	**1,429,875**

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

Refer to note 12 and note 13 for information about material terms and conditions of each instrument disclosed above.

Notes to the Financial Statements

19 Capital adequacy under the standardised approach (continued)

19.2 Credit risk

19.2.1 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
At 30/06/2016 (Unaudited)				
Cash and gold bullion	-	0%	-	-
Sovereigns and central banks	776,631	0%	-	-
Multilateral development banks and other international organisations	50,637	0%	-	-
Multilateral development banks and other international organisations	93,729	20%	18,746	1,500
Banks	31,018	20%	6,204	496
Banks - related party[1]	1,528	20%	306	24
Public sector entities	-	20%	-	-
Corporate	-	50%	-	-
Residential mortgages not past due - LVR does not exceed 80%	33,797	35%	11,829	946
Residential mortgages not past due - LVR between 80% and 90%	6,785	50%	3,393	271
Residential mortgages not past due - LVR between 90% and 100%	-	75%	-	-
Past due residential mortgages	-	100%	-	-
Other past due assets[2]	88,783	150%	133,175	10,654
Equity holdings (not deducted from capital) that are publicity traded	-	300%	-	-
All other equity holdings (not deducted from capital)	-	400%	-	-
Other[3]	128	0%	-	-
Other[4]	9,385,014	100%	9,385,014	750,801
Non-risk weighted assets[5]	21,062	N/A	-	-
Total on-balance sheet exposures	**10,489,112**		**9,558,667**	**764,692**

[1] The related party exposure disclosed above is the net exposure after credit risk mitigation tools have been applied in accordance with BS8 and BS2A. Refer to note 19.3 for more information.

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

[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.

Notes to the Financial Statements

19 Capital adequacy under the standardised approach (continued)

19.2 Credit risk (continued)

19.2.2 Calculation of off-balance sheet exposures

In thousands of NZD	Total exposure	Credit conversion factor %	Credit equivalent amount	Average risk weight %	Risk weighted exposure	Minimum pillar 1 capital requirement
At 30/06/2016 (Unaudited)						
Direct credit substitutes	4,081	100%	4,081	100%	4,081	326
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	108,498	50%	54,249	100%	54,249	4,340
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	1,250,614	0%	-	100%	-	-
Market related contracts*						
Foreign exchange forwards - related entities	1,316	N/A	23	20%	5	-
Foreign exchange forwards	1,280	N/A	40	100%	40	3
Interest rate swaps - related entities	75,000	N/A	425	20%	85	7
Interest rate swaps	75,000	N/A	5,766	100%	5,766	461
Other - Credit valuation adjustment	N/A	N/A	N/A	2.0%	9,525	762
Other - Credit valuation adjustment	N/A	N/A	N/A	0.8%	363	29
Total off-balance sheet exposures	**1,515,789**		**64,584**		**74,114**	**5,928**

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

19.2.3 Additional residential mortgages information

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

	At 30/06/2016 (Unaudited)		
In thousands of NZD	Drawn	Undrawn	Total
LVR range			
Do not exceed 80%	33,796	9,168	42,964
Exceeds 80% and not 90%	6,786	1,300	8,086
Exceeds 90%	-	-	-
Total value of residential mortgage exposures	**40,582**	**10,468**	**51,050**

Notes to the Financial Statements

19 Capital adequacy under the standardised approach (continued)

19.2.3 Additional residential mortgages information (continued)

Reconciliation of mortgage related amounts In thousands of NZD	Unaudited At 30/06/2016
Loans and advances - loans with residential mortgages	40,582
Plus short term residential mortgage classified as overdrafts	-
Less housing loans made to corporate customers	-
On-balance sheet residential mortgage exposures subject to the standardised approach	40,582
Off-balance sheet residential mortgage exposures subject to the standardised approach	10,468
Total residential mortgage exposures subject to the standardised approach (as per LVR analysis)	**51,050**

19.3 Credit risk mitigation

	At 30/06/2016 (Unaudited)	
In thousands of NZD	Total value of on- and off-balance sheet exposures covered by eligible collateral (after haircutting)	Total value of on- and off-balance sheet exposures covered by guarantees or credit derivatives
Sovereign or central bank	-	-
Multilateral development bank	-	-
Public sector entities	-	-
Banks - related party*	587,021	-
Corporate	-	-
Residential mortgage	-	-
Other	-	-
Total gross-exposure basis	**587,021**	-
Total net-exposure basis (note 19.2.1.)	**1,528**	-

* On 2 April 2015, Reserve Bank of New Zealand has advised that it has no objection to RNZL measuring connected party exposures on a net-exposure basis, as described in BS8. As described in "Capital Adequacy Framework" (Standardised Approach) (BS2A), the exposure value for bilateral on-balance sheet netting of loans and deposits is calculated by treating loans as exposures and deposits as cash collateral.

19.4 Operational risk

Operational risk capital requirement

	At 30/06/2016 (Unaudited)	
In thousands of NZD	Implied risk weighted exposure	Total operational risk capital requirement
Operational risk	673,613	53,889
Total	**673,613**	**53,889**

19.5 Market risk period-end capital charges

	At 30/06/2016 (Unaudited)	
In thousands of NZD	Implied risk weighted exposure	Aggregate capital charges
Interest rate risk	263,250	21,060
Foreign currency risk	6,000	480
Total	**269,250**	**21,540**

The bank does not take any equity risk.

19.6 Market risk peak end-of-day capital charges

	At 30/06/2016 (Unaudited)	
In thousands of NZD	Implied risk weighted exposure	Aggregate capital charges
Interest rate risk	361,250	28,900
Foreign currency risk	6,000	480
Total	**367,250**	**29,380**

The bank does not take any equity risk.

Notes to the Financial Statements

19 Capital adequacy under the standardised approach (continued)

19.7 Method for deriving 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 "Capital Adequacy Framework" (Standardised Approach) (BS2A).

19.8 Total capital requirements

	At 30/06/2016 (Unaudited)		
In thousands of NZD	Total exposure after credit risk mitigation	Risk weighted exposure or implied risk weighted exposure	Total capital requirement
Total credit risk	12,004,901	9,632,781	770,620
Operational risk	N/A	673,613	53,889
Market risk	N/A	269,250	21,540
Total	**12,004,901**	**10,575,644**	**846,049**

19.9 Capital ratios

	At 30/06/2016 (Unaudited)		At 30/06/2015 (Unaudited)	
In percentage (%)	Ratio	Minimum ratio requirement	Ratio	Minimum ratio requirement
Common Equity Tier 1 capital ratio	**12.39%**	**4.50%**	11.50%	4.50%
Tier 1 capital ratio	**12.39%**	**6.00%**	11.50%	6.00%
Total capital ratio	**13.52%**	**8.00%**	13.25%	8.00%

19.10 Buffer ratio

In percentage (%)	Unaudited At 30/06/2016	Unaudited At 30/06/2015
Buffer ratio* (in excess of the minimum tier 1 capital ratio requirement)	**5.52%**	5.25%
Buffer ratio requirement**	**2.50%**	2.50%

19.11 Solo capital adequacy

In percentage (%)	Unaudited Ratio At 30/06/2016	Unaudited Ratio At 30/06/2015
Common Equity Tier 1 capital ratio*	**12.39%**	11.50%
Tier 1 capital ratio*	**12.39%**	11.50%
Total capital ratio*	**13.52%**	13.25%

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

Notes to the Financial Statements

19 Capital adequacy under the standardised approach (continued)

19.12 Pillar 2 capital for other material risks

In thousands of NZD	Unaudited At 30/06/2016	Unaudited At 30/06/2015
Internal capital allocation for other material risks	**42,302**	41,283

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

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

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

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

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

19.13 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 (Audited)	2015 %	2014 %
Common equity Tier 1 capital ratio	13.50%	13.60%
Tier 1 capital ratio	16.40%	16.00%
Total capital ratio	**23.20%**	**21.30%**

Minimum Capital Requirements

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

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

Rabobank's Capital Adequacy and Risk Management Report (pillar 3) are publicly available on
https://www.rabobank.com/en/images/rabobank-annual-report-2015.pdf

Notes to the Financial Statements

20 Concentration of funding

Total funding comprised:

In thousands of NZD	Unaudited At 30/06/2016
Deposits	3,888,098
Due to related entities	5,517,380
Subordinated debt	300,000
Other liabilities	34,571
Total funding	**9,740,049**

Analysis of funding by industry:

In thousands of NZD	Unaudited At 30/06/2016
Agriculture	547,742
Finance and insurance	5,850,070
Personal and other services	3,100,177
Other	242,060
Total funding	**9,740,049**

Analysis of funding concentration by geographical areas:

In thousands of NZD	Unaudited At 30/06/2016
New Zealand	9,687,634
Australia	14,031
The Netherlands	7,523
United Kingdom	7,780
United States of America	6,993
All other countries	16,088
Total funding	**9,740,049**

21 Additional information on statement of financial position

In thousands of NZD	Unaudited At 30/06/2016
Total interest earning and discount bearing assets	11,036,297
Total interest and discount bearing liabilities	9,666,662
Financial assets pledged as collateral	-

Notes to the Financial Statements

22 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 with the parent and ultimate controlling entity include funding and derivative transactions.

22.1 Transactions with related parties

22.1.1 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.

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

Notes to the Financial Statements

22.1.2 Commission and fee expense

A fee of $0.60 million was charged to the Bank by Rabobank in consideration for providing the obligations guarantees for the six month period ended 30 June 2016 (December 2015: $1.7 million; June 2015: $0.99 million).

22.1.3 Management fees

A management fee of $19.1 million (December 2015: $34.5 million; June 2015: $15.5 million) was charged to the Bank by the Australia Branch of Rabobank for the provision of administrative and management services. Some operating expenses of the Bank are paid and re-charged to the Bank by this related entity.

A management fee of $5.7 million (December 2015: $13.8 million; June 2015: $6.5 million) was charged to the Bank by the Rabobank Head Office for the provision of administrative and management services.

22.1.4 Other transactions

The Bank enters into a number of transactions with other related entities within the Rabobank related entities, but mainly with the Australia and New Zealand Branches of Rabobank (Refer to notes 9, 11 and 12 for period ending balances). These include funding, deposits and derivative transactions to manage market risk exposures. The interest income earned on related entities transactions was $4.3 million (December 2015: $18.1 million; June 2015: $7.3 million), and the interest expense paid on related entities transactions was $103.2 million (December 2015: $236.6 million; June 2015: $114.1 million). The principal amounts of due from and due to the related entities are separately disclosed in the statement of financial position and the accompanying notes to the financial statements.

A management fee of $0.7 million (December 2015: $1.2million; June 2015: nil) was charged to NZ Branch of Rabobank by the bank for the provision of administrative and management services.

22.2 Terms and conditions of transactions with related parties

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

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

22.3 Provision for impairment

For the period ended 30 June 2016, the Bank has not made any provision for impairment relating to amounts owed by related parties as the payment history has been excellent (2015: Nil). An impairment assessment is undertaken at each period end by examining the financial position of the related party and the market in which the related party operates to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, the Bank recognises a provision for impairment.

23 Subsequent events

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

24 Dividend

No dividend was proposed or paid by the Bank for the six months period ended 30 June 2016 (2015: Nil).

Independent Review Report

To the Shareholders/Members and Directors of Rabobank New Zealand Limited

Report on the Financial Statements

We have reviewed pages 1 to 29 of the half year Disclosure Statement prepared by Rabobank New Zealand Limited (the "Bank") which includes interim financial statements required by Clause 25 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and the supplementary information required by Schedules 3, 5, 7, 9, 13, 16 and 18 of the Order. The interim financial statements comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, the statement of changes in equity and the condensed cash flow statement for the six month then ended, and the notes to the financial statements that include the statement of accounting policies and selected explanatory information for the Bank.

Directors' Responsibility for the Financial Statements

The Directors of the Bank (the "Directors") are responsible on behalf of the Bank, for the preparation and fair presentation of the half year Disclosure Statement, which includes interim financial statements prepared in accordance with Clause 25 of the Order. The Directors are also responsible, on behalf of the Bank, for such internal controls as the Directors determine are necessary to enable the preparation of interim financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are also responsible on behalf of the Bank, for:

- including the supplementary information in the half year Disclosure Statement which complies with Schedules 3, 5, 7, 13, 16 and 18 of the Order; and
- for the preparation of the supplementary information relating to capital adequacy that is prepared in accordance with the Bank's conditions of registration and disclosed in accordance with Schedule 9 of the Order.

Our Responsibility

Our responsibility is to express a conclusion on the accompanying interim financial statements and the supplementary information, disclosed in accordance with Clause 25 and Schedules 3, 5, 7, 9, 13, 16 and 18 of the Order, presented by the Directors, based on our review.

We conducted our review in accordance with the New Zealand Standard of Review Engagements 2410: Review of Financial Statements Performed by the Independent Auditor of the Entity ("NZ SRE 2410").). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that:

- the interim financial statements (excluding the supplementary information) have not been prepared, in all material respect, in accordance with New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting;
- the supplementary information does not fairly state the matters to which it relates in accordance with Schedules 3, 5, 7, 13, 16 and 18 of the Order; and
- that the supplementary information relating to capital adequacy is not in all material respects:
  a) prepared in accordance with the Bank's Conditions of Registration; and
  b) disclosed in accordance with Schedule 9 of the Order.

As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on this half year Disclosure Statement.

We are independent of the Bank. We provide other audit-related services for the Bank. In addition, certain partners and employees of our firm may deal with the Bank on normal terms within the ordinary course of business. These matters have not impaired our independence. We have no other interest in the Bank.

Conclusion

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

a) the interim financial statements on pages 5 to 29 (excluding the supplementary information) have not been prepared in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting;

b) the supplementary information (excluding the supplementary information relating to capital adequacy) prescribed by Schedules 3, 5, 7, 13, 16 and 18 of the Order, does not fairly state the matters to which it relates in accordance with those Schedules; and

c) the supplementary information relating to capital adequacy prescribed by Schedule 9 of the Order, is not in all material respects:
   i. prepared in accordance with the Bank's Conditions of Registration; and
   ii. disclosed in accordance with Schedule 9 of the Order.

Restriction on Use of Our Report

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

Ashley Wood

A.S. Wood
PricewaterhouseCoopers Australia
23 August 2016