



Rabobank

Rabobank New Zealand Limited Disclosure Statement

For the nine months ended 30 September 2016

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General Disclosures

General information and definitions

The information contained in this Disclosure Statement is as required by section 81 of the Reserve Bank of New Zealand Act 1989 and the Registered Bank Disclosure Statements (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.
- John Leonard Palmer resigned as a member (and thereby also as chairman) of the Board with effect on 2 November 2016.
- Andrew James Borland was appointed as a member of the Board with effect on 2 November 2016.
- Sir Henricus (Henry) Wilhelmus van der Heyden was appointed chairman of the Board with effect on 10 November 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:

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

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, 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

General Disclosures

Guarantee arrangements (continued)

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 (negative)
Fitch	AA- (stable)

On 24 November 2016, Moody's changed its rating of the Registered Bank from Aa2 (stable) to Aa2 (negative).

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.

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.

General Disclosures

Conditions of registration

There were no changes to the Conditions of Registration between 30 June 2016 and 30 September 2016. With effect on and after 1 October 2016 the Conditions of Registration were changed to include new conditions of registration relating to residential mortgage lending, to reflect changes to the Reserve Bank Supervision Handbook document entitled "Framework for restrictions on High-LVR Residential Mortgage Lending" (BS19). The conditions allow only a small (5%) flow of investor mortgage lending with loan-to-valuation ratios greater than 60%, and a 10% flow of non-property investor lending with loan-to-valuation ratios above 80%.

Risk management policies

Since 30 June 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 30 June 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 nine month period ended 30 September 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 nine month period ended 30 September 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

Farm gate milk prices have increased from the very low 2015/16 season. Fonterra is currently forecasting a 35% lift in milk price for the 2016/17 season. However, the potential for increasing loan loss provisions in the Bank's dairy portfolio remains if milk prices fall and remain low for an extended period.

Other than the matter 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 nine month period ended 30 September 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.



.....
Daryl Johnson

Dated: 25 November 2016

Statement of Comprehensive Income

in thousands of NZD	Note	Unaudited 9 months to 30/09/2016	Unaudited 9 months to 30/09/2015	Audited Year to 31/12/2015
Statement of income				
Interest income		432,215	468,863	623,398
Interest expense		(242,431)	(285,182)	(378,472)
Net interest income		189,784	183,681	244,926
Other income / (expense)	3	42	(585)	(669)
Other operating gains / (losses)	4	982	(182)	270
Non-interest income / (expense)		1,024	(767)	(399)
Operating income		190,808	182,914	244,527
Operating expenses		(78,295)	(78,011)	(105,525)
Impairment releases / (losses)	5	(13,881)	(969)	5,561
Profit before income tax		98,632	103,934	144,563
Income tax expense		(28,249)	(29,143)	(40,516)
Profit after income tax		70,383	74,791	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	4,456	1,790	712
Income tax credit / (expense) relating to changes in AFS financial assets revaluation reserve	13.2	(1,248)	(501)	(199)
Total items that may be reclassified subsequently to profit or loss		3,208	1,289	513
Total items that will not be reclassified to profit or loss		-	-	-
Total other comprehensive income for the period/year		3,208	1,289	513
Total comprehensive income attributable to members of Rabobank New Zealand Limited		73,591	76,080	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	Note	Unaudited At 30/09/2016	Unaudited At 30/09/2015	Audited At 31/12/2015
Assets				
Cash and cash equivalents		210,274	244,856	207,650
Derivative financial instruments		5,943	5,906	3,688
Available-for-sale financial assets	6	687,629	638,794	645,161
Loans and advances	7	9,599,718	9,393,124	9,434,581
Due from related entities	9	578,644	892,441	441,760
Income tax receivable		319	15,178	8,226
Other assets		13,372	9,860	12,099
Net deferred tax assets		16,291	14,126	14,007
Property, plant and equipment		5,059	5,377	5,489
Intangible assets		139	73	91
Total assets		11,117,388	11,219,735	10,772,752
Liabilities				
Derivative financial instruments		6,083	6,056	3,825
Deposits	10	3,924,093	3,776,460	3,785,809
Due to related entities	11	5,498,547	5,846,417	5,364,685
Subordinated debt	12	300,000	300,000	300,000
Other liabilities		35,581	40,172	39,219
Provisions		3,064	2,681	2,785
Total liabilities		9,767,368	9,971,786	9,496,323
Net assets		1,350,020	1,247,949	1,276,429
Equity				
Contributed equity	13.1	551,200	551,200	551,200
Reserves	13.2	3,323	891	115
Retained earnings		795,497	695,858	725,114
Total equity		1,350,020	1,247,949	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	-	74,791	-	74,791
Total other comprehensive income:				
Revaluation reserve - AFS financial assets	-	-	1,289	1,289
At 30 September 2015 (Unaudited)	551,200	695,858	891	1,247,949
At 1 January 2015	551,200	621,067	(398)	1,171,869
Net profit	-	104,047	-	104,047
Total 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	-	70,383	-	70,383
Total other comprehensive income:				
Revaluation reserve - AFS financial assets	-	-	3,208	3,208
At 30 September 2016 (Unaudited)	551,200	795,497	3,323	1,350,020

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	Note	Unaudited 9 months to 30/09/2016	Unaudited 9 months to 30/09/2015	Audited Year to 31/12/2015
Cash flows from operating activities				
Interest received		426,381	466,857	620,563
Interest paid		(253,405)	(288,560)	(382,174)
Other cash inflows provided by operating activities		1,872	815	1,435
Other cash outflows used in operating activities		(102,857)	(103,038)	(133,076)
Cash flows from operating activities before changes in operating assets and liabilities		71,991	76,074	106,748
Net changes in operating assets and liabilities		(349,895)	(1,157,837)	(750,952)
Net cash flows from / (used in) operating activities	16	(277,904)	(1,081,763)	(644,204)
Cash flows from investing activities				
Cash outflows used in investing activities		(463)	(362)	(807)
Net cash flows from / (used in) investing activities		(463)	(362)	(807)
Cash flows from financing activities				
Net changes in financing liabilities		280,991	1,137,608	663,288
Net cash flows from / (used in) financing activities		280,991	1,137,608	663,288
Net change in cash and cash equivalents				
		2,624	55,483	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		210,274	244,856	207,650
Cash and cash equivalents at the end of the period / year comprise:				
Cash at bank and on hand		210,274	244,856	207,650
Cash and cash equivalents at the end of the period / year		210,274	244,856	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 nine months ended 30 September 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 nine 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 9 months to 30/09/2016	Unaudited 9 months to 30/09/2015	Audited Year to 31/12/2015
Lending and credit facility related fee income	846	794	1,043
Commission and fee expense*	(831)	(1,387)	(1,720)
Other income	27	8	8
Total other income / (expense)	42	(585)	(669)

* Balance relates to fee charged by Rabobank for the obligations incurred before the guarantee expired still remain guaranteed. Refer to note 21 for further information on the guarantees.

4 Other operating gains/ (losses)

in thousands of NZD	Unaudited 9 months to 30/09/2016	Unaudited 9 months to 30/09/2015	Audited Year to 31/12/2015
Net trading gains / (losses) on derivatives	231	(20)	135
Losses on disposal/write off of property, plant and equipment	(2)	-	(2)
Foreign exchange gains / (losses)	753	(162)	137
Total other operating gains / (losses)	982	(182)	270

5 Impairment (losses) / releases

in thousands of NZD	Unaudited 9 months to 30/09/2016	Unaudited 9 months to 30/09/2015	Audited Year to 31/12/2015
Collective (provision) / releases	(10,929)	(693)	(3,775)
Specific (provision) / releases	(2,964)	(289)	12,107
Other losses	-	-	(2,789)
Bad debt recovery	12	13	18
Total impairment (losses) / releases	(13,881)	(969)	5,561

6 Available-for-sale (AFS) financial assets

in thousands of NZD	Unaudited At 30/09/2016	Unaudited At 30/09/2015	Audited At 31/12/2015
New Zealand Government Securities	525,862	546,291	535,276
Other debt securities (Kauri)	161,767	92,503	109,885
Total available-for-sale financial assets	687,629	638,794	645,161

7 Loans and advances

in thousands of NZD	Unaudited At 30/09/2016	Unaudited At 30/09/2015	Audited At 31/12/2015
Lending	9,570,469	9,365,258	9,391,140
Finance leases	60,564	65,573	64,332
Gross loans and advances	9,631,033	9,430,831	9,455,472
Provisions for doubtful debts:			
Collective	(24,927)	(10,916)	(13,998)
Specific	(6,388)	(26,791)	(6,893)
Net loans and advances	9,599,718	9,393,124	9,434,581

Notes to the Financial Statements

8 Credit quality, impaired assets and provision for impairment

in thousands of NZD	At 30/09/2016 (Unaudited)			Total
	Residential mortgages	Corporate	Retail*	
End-period balances				
Individually impaired assets	-	-	98,321	98,321
Assets that are at least 90 days past due but not impaired	-	-	16,913	16,913
Specific provision	-	-	6,388	6,388
Collective provision	-	-	24,927	24,927
Charges to the Statement of Comprehensive Income				
Specific provision charges	-	-	(2,964)	(2,964)
Collective provision charges	-	-	(10,929)	(10,929)

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

9 Due from related entities

in thousands of NZD	Unaudited At 30/09/2016	Unaudited At 30/09/2015	Audited At 31/12/2015
Current account balances - wholly owned group*	86,689	207,116	128,394
Advances - wholly owned group*	491,006	684,528	313,305
Accrued interest receivable - wholly owned group*	949	797	61
Total due from related entities	578,644	892,441	441,760

* The wholly owned group refers to other Rabobank related entities. Refer to note 21 for further information on related party disclosures.

10 Deposits

in thousands of NZD	Unaudited At 30/09/2016	Unaudited At 30/09/2015	Audited At 31/12/2015
Call deposits	1,884,767	1,956,401	1,980,988
Term deposits	2,039,326	1,820,059	1,804,821
Total deposits	3,924,093	3,776,460	3,785,809

11 Due to related entities

in thousands of NZD	Unaudited At 30/09/2016	Unaudited At 30/09/2015	Audited At 31/12/2015
Current account balances - wholly owned group*	5,522	187,644	4,797
Advances - wholly owned group*	5,463,778	5,622,618	5,321,796
Accrued interest payable - wholly owned group*	29,247	36,155	38,092
Total due to related entities	5,498,547	5,846,417	5,364,685

* The wholly owned group refers to other Rabobank related entities. Refer to note 21 for further information on related party disclosures.

Notes to the Financial Statements

12 Subordinated debt

in thousands of NZD	Unaudited At 30/09/2016	Unaudited At 30/09/2015	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 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 currently qualifies as Tier 2 capital for capital adequacy purposes as at 30 September 2016 amounts to NZ\$120 million (31 December 2015: \$180 million, 30 September 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

* The wholly owned group refers to other Rabobank related entities. Refer to note 21 for further information on related party disclosures.

13 Equity

13.1 Contributed equity

in thousands of NZD	Unaudited At 30/09/2016	Unaudited At 30/09/2015	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 September 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 September 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 30/09/2016	Unaudited At 30/09/2015	Audited At 31/12/2015
AFS financial assets reserve			
Opening balance	115	(398)	(398)
Changes in AFS financial assets revaluation reserve (gross)	4,456	1,790	712
Changes in AFS financial assets revaluation reserve (deferred tax)	(1,248)	(501)	(199)
Total AFS financial assets reserve	3,323	891	115

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

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 30/09/2016	Unaudited At 30/09/2015	Audited At 31/12/2015
Guarantees	4,021	5,333	4,345
Lending commitments			
Irrevocable lending commitments	94,567	112,983	113,205
Revocable lending commitments	1,154,334	1,125,684	1,188,730
Total contingent liabilities	1,252,922	1,244,000	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 letter of offers 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 30/09/2016	Unaudited At 30/09/2015	Audited At 31/12/2015
One year or less	-	822	602
Total capital expenditure commitments	-	822	602

15.2 Operating lease commitments

in thousands of NZD	Unaudited At 30/09/2016	Unaudited At 30/09/2015	Audited At 31/12/2015
One year or less	4,566	4,454	4,565
Between one and two years	3,316	4,017	4,037
Between two and five years	5,247	6,336	6,654
Over five years	1,636	3,148	2,642
Total operating lease commitments	14,765	17,955	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 9 months to 30/09/2016	Unaudited 9 months to 30/09/2015	Audited Year to 31/12/2015
Net profit after tax	70,383	74,791	104,047
Non-cash items	16,556	3,238	(4,047)
Deferrals or accruals of past or future operating cash receipts or payments			
Change in net operating assets and liabilities	(349,895)	(1,157,837)	(750,952)
Change in interest receivable/payable	(16,808)	(5,384)	(6,537)
Change in other deferrals or accruals	1,860	3,429	13,285
Net cash flows from / (used in) operating activities	(277,904)	(1,081,763)	(644,204)

17 Concentration of credit exposures to individual counterparties

	Unaudited	
	As 30/09/2016	Peak for the quarter
Number of bank counterparties:		
Percentage of bank's equity		
10-15%	-	-
15-20%	-	-
20-25%	-	-
Number of non-bank counterparties:		
Percentage of bank's equity		
10-15%	-	-
15-20%	-	-

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

Credit exposure is calculated on the basis of actual exposure net of individual credit impairment provision and 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 Bank's equity as at the end of the quarter.

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

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

In thousands of NZD	Unaudited At 30/09/2016		Unaudited At 30/09/2015		Audited At 31/12/2015	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Cash and cash equivalents	210,274	210,274	244,856	244,856	207,650	207,650
Derivative financial instruments	5,943	5,943	5,906	5,906	3,688	3,688
Available-for-sale financial assets	687,629	687,629	638,794	638,794	645,161	645,161
Loans and advances	9,599,718	9,788,260	9,393,124	9,523,413	9,434,581	9,617,255
Due from related entities	578,644	571,352	892,441	892,462	441,760	441,760
Other financial assets	13,169	13,169	8,773	8,773	11,510	11,510
Total financial assets	11,095,377	11,276,627	11,183,894	11,314,204	10,744,350	10,927,024
Financial liabilities						
Derivative financial instruments	6,083	6,083	6,056	6,056	3,825	3,825
Deposits	3,924,093	3,978,628	3,776,460	3,774,614	3,785,809	3,771,732
Due to related entities	5,498,547	5,543,979	5,846,417	5,882,121	5,364,685	5,395,815
Subordinated debt	300,000	331,818	300,000	320,481	300,000	332,046
Other liabilities	35,581	35,581	40,172	40,172	39,219	39,219
Total financial liabilities	9,764,304	9,896,089	9,969,105	10,023,444	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 table categorise financial assets and financial liabilities that are recognised and measured at fair value according to the three levels of hierarchy.

in thousands of NZD	Level 1	Level 2	Level 3	Total
At 30 September 2016 (Unaudited)				
Financial assets				
Derivative financial instruments	-	5,943	-	5,943
Available-for-sale financial assets	687,629	-	-	687,629
Financial liabilities				
Derivative financial instruments	-	6,083	-	6,083

in thousands of NZD	Level 1	Level 2	Level 3	Total
At 30 September 2015 (Unaudited)				
Financial assets				
Derivative financial instruments	-	5,906	-	5,906
Available-for-sale financial assets	638,794	-	-	638,794
Financial liabilities				
Derivative financial instruments	-	6,056	-	6,056

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 instruments:

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 30/09/2016
Tier 1 capital, which consists of:	
Common Equity Tier 1 capital	1,333,590
Additional Tier 1 capital	-
Tier 2 capital	120,000
Total Capital	1,453,590

19.2 Deductions included in calculation of capital

in thousands of NZD	Unaudited At 30/09/2016
Deductions from Common Equity Tier 1 capital	(16,430)
Deductions from Additional Tier 1 capital	-
Deductions from Tier 2 capital	-

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

19.3 Pillar 1 capital requirements

in thousands of NZD	Unaudited At 30/09/2016 Pillar 1 capital requirement
On-balance sheet credit risk:	
Residential mortgages (including past due)	1,202
Corporate	-
Claims on banks	2,492
Claims on banks - related entities	28
Other	770,579
Total on-balance sheet credit risk	774,301
Other capital requirements:	
Off-balance sheet credit exposures	5,532
Operational risk	54,558
Market risk	25,460
Total other capital requirements	85,550
Total Pillar 1 capital requirements	859,851

19.4 Residential mortgages

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

in thousands of NZD	30/09/2016 (Unaudited)		Total
	Drawn amounts	Undrawn amounts	
LVR range			
Does not exceed 80%	34,155	8,684	42,839
Exceeds 80% and not 90%	6,162	1,316	7,478
Exceeds 90%	-	-	-
Total	40,317	10,000	50,317

Notes to the Financial Statements

19 Capital adequacy under the standardised approach (continued)

19.5 Capital ratios

	30/09/2016 (Unaudited)	
	Ratio	Minimum ratio requirement
	%	%
Common Equity Tier 1 capital ratio	12.41%	4.50%
Tier 1 capital ratio	12.41%	6.00%
Total capital ratio	13.52%	8.00%

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

19.6 Buffer ratio

	Unaudited 30/09/2016 %
Buffer ratio	5.52%
Buffer ratio requirement	2.50%

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

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

19.7 Pillar 2 capital for other material risks

in thousands of NZD	Unaudited 30/09/2016
Internal capital allocation for other material risks	42,993

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.

Notes to the Financial Statements

20 Additional information on statement of financial position

in thousands of NZD	Unaudited 30/09/2016
Total interest earning and discount bearing assets	11,075,306
Total interest and discount bearing liabilities	9,684,598
Financial assets pledged as collateral	Nil

21 Related party disclosures

The Bank's parent entity is Rabobank International Holding B.V. The ultimate controlling entity 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 lending, funding, deposits and derivative transactions.

21.1 Transactions with related parties

(i) Commission and fee expense

A fee of \$0.83 million was charged to the Bank by Rabobank in consideration for providing the obligations guarantees for the nine month period ended 30 September 2016 (December 2015: \$1.7 million; September 2015: \$1.39 million).

(ii) 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.

Notes to the Financial Statements

21.1 Transactions with related parties (continued)

(ii) Guarantees (continued)

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.

(iii) Management fees

A management fee of \$27.8 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 (December 2015: \$34.5 million; September 2015: \$23.9 million).

A management fee of \$8.4 million was charged to the Bank by the Rabobank Head Office in the Netherlands for the provision of administrative and management services (December 2015: 13.8 million; September 2015: \$11.3 million).

\$1.5 million management fee (31 December 2015: \$1.2 million; 30 September 2015: nil) was charged to NZ Branch of Rabobank by the Bank for the provision of administrative and management services.

(iv) Other transactions

The Bank enters into a number of transactions with other related entities within the Rabobank Group of 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 and derivative transactions. The interest income earned on related entities transactions was \$8 million (December 2015: \$18.1 million; September 2015: \$13.1 million), and the interest expense paid on related entities transactions was \$153.4 million (December 2015: \$236.6 million; September 2015: \$176.6 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.

21.2 Terms and conditions of transactions with related parties

All transactions with related parties are made in the ordinary course of business at arm's length terms and conditions.

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

21.3 Provision for impairment

For the period ended 30 September 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.

22 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.

23 Dividend

No dividend was proposed or paid by the Bank for the nine month period ended 30 September 2016 (2015: Nil).