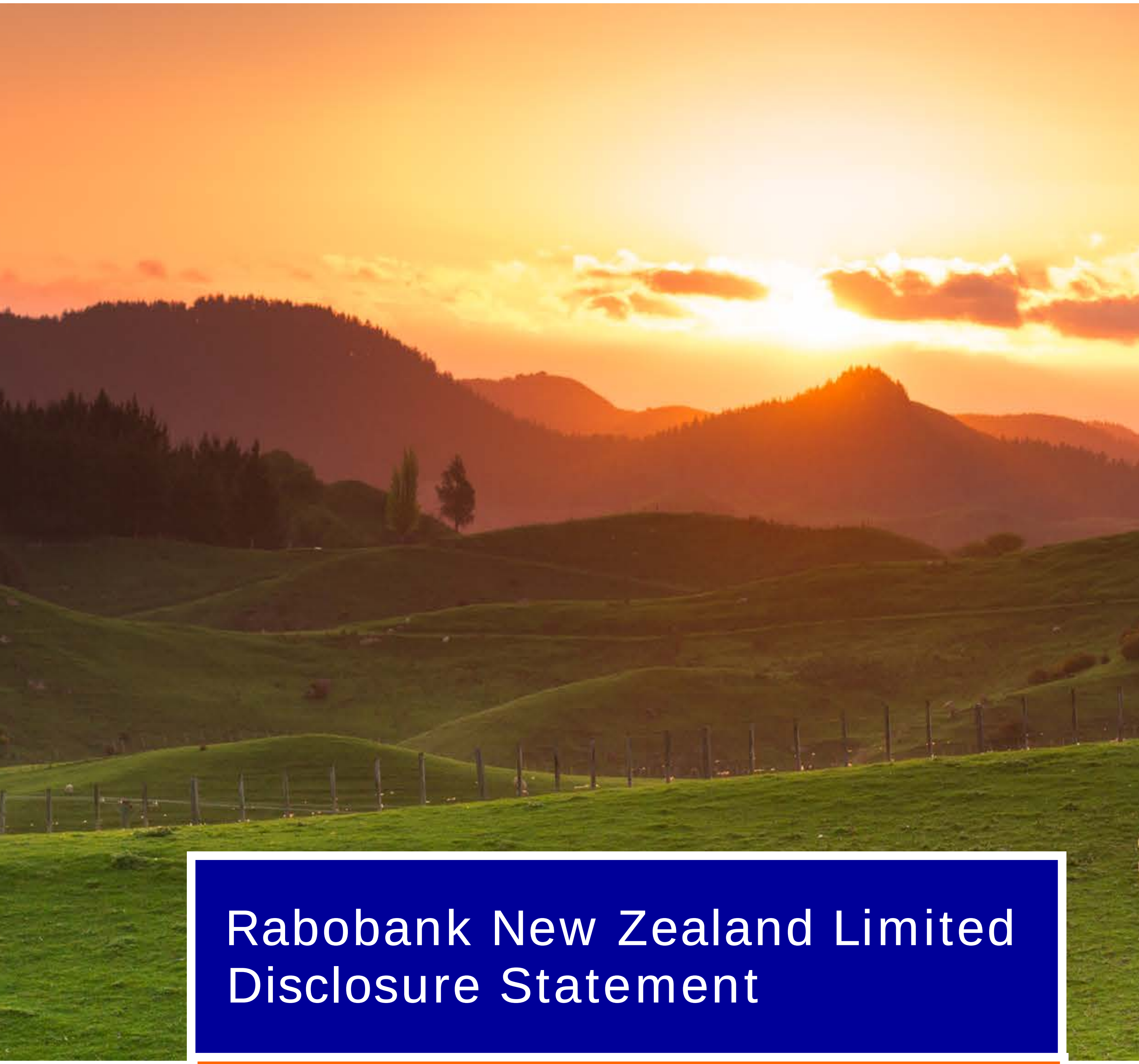

Rabobank New Zealand Limited Disclosure Statement

For the six months ended 30 June 2018

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

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

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

General matters

Composition of the Board of directors

There have been changes in the composition of the Bank's board of directors since 31 December 2017:

- William Patrick Gurry ceased to be a member of the Board on 12 March 2018.
- Jillian Shirley Segal was appointed as a member of the Board with effect on and from 12 March 2018.

Signing of the Disclosure Statement

Todd Charteris, 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
- Andrew James Borland
- Anne Bernadette Brennan
- Jillian Shirley Segal
- Peter James Knoblanche
- Bernardus Jacobus Marttin
- Jan Alexander Pruijs

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.

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

Auditors for the Bank

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

Guarantee arrangements

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

General Disclosures

Guarantee arrangements (continued)

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
Rabobank 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+ (positive)
Moody's	Aa3 (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.

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 changes to the Bank's Conditions of Registration between 31 December 2017 and 30 June 2018.

General Disclosures

Conditions of registration (continued)

With effect on and after 1 January 2018, changes were made to the Conditions of Registration. The changes are related to the Reserve Bank's loan-to-valuation ratio (LVR) requirements and allow a 5% flow of investor mortgage lending with LVRs greater than 65%, a 15% flow of non-property investor lending with LVRs above 80% and some additional loans to meet the criteria for the combined collateral exemption.

With effect on and after 1 October 2018, the Conditions of Registration will be further changed to refer to a revised version of "Liquidity Policy Annex" (BS13A) containing some minor and technical changes.

The Bank has complied with all its Conditions of Registration in the six month period ended 30 June 2018.

Risk management policies

Since 31 December 2017:

- 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.

The Bank has ceased offering managed funds through RaboDirect, an online banking and investment service. This decision includes the Cash Advantage Fund (CAF) and Term Advantage Fund (TAF). RaboDirect managed funds customers (excluding the CAF and TAF) were offered the option to shift their fund holdings to another distributor of third party managed funds, InvestNow Saving and Investment Service Limited, and most such customers took that option.

Since 31 December 2017, there have been no other 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 2018, 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 2018, no assets have been purchased, other than on arm's 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.

General Disclosures

Other material matters

With effect on 29 January 2018, Todd Charteris was appointed chief executive officer of the Bank and of Rabobank's New Zealand branch, as the permanent replacement for former chief executive officer Daryl Johnson.

The Bank operates as part of the global Rabobank co-operative group, with operations in 38 countries, including New Zealand and Australia. The Bank has a network of 32 offices in New Zealand and employs over 300 people. Two of its independent directors and its CEO are resident in New Zealand. The Bank has an outsourcing arrangement in place that governs certain operational services provided by its Australian affiliate. Having regard to Rabobank's regional and global links and at the request of the Reserve Bank of New Zealand, Rabobank has commissioned an independent report to consider aspects of its governance and management frameworks and their operation, the extent of their independence from other parts of the Rabobank group and their consistency with the current expectations of the Reserve Bank of New Zealand.

There have been no other 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.

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 2018:

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

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Todd Charteris

Dated: 31 August 2018

Statement of Comprehensive Income

In thousands of NZD	Notes	Unaudited 6 months to 30/06/2018	Unaudited 6 months to 30/06/2017	Audited Year to 31/12/2017
Income statement				
Interest income		**269,356**	269,789	547,492
Interest expense		**(143,945)**	(147,154)	(296,904)
Net interest income		**125,411**	122,635	250,588
Other income	3	**994**	1,356	2,286
Other expense	4	**(329)**	(442)	(825)
Other operating gains / (losses)	5	**226**	(284)	268
Non-interest income / (expense)		**891**	630	1,729
Operating income		**126,302**	123,265	252,317
Operating expenses		**(48,605)**	(48,757)	(101,650)
Impairment (losses) / releases	6	**31**	(777)	(211)
Profit before income tax		**77,728**	73,731	150,456
Income tax expense		**(21,869)**	(20,845)	(42,344)
Profit after income tax		**55,859**	52,886	108,112
Other comprehensive income for the period / year				
Items that may be reclassified subsequently to profit or loss				
Changes in FVOCI financial assets revaluation reserve (gross)	14.2	**400**	1,031	1,276
Changes in FVOCI financial assets revaluation reserve (deferred tax)	14.2	**(112)**	(289)	(357)
Total items that may be reclassified subsequently to profit or loss		**288**	742	919
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		**288**	742	919
Total comprehensive income attributable to members of Rabobank New Zealand Limited		**56,147**	53,628	109,031

30 June 2018 results reflect adoption of NZ IFRS 9. Prior periods have not been restated. Refer to Note 2 - Principal accounting policies for further information.

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 30/06/2018	Unaudited At 30/06/2017	Audited At 31/12/2017
Assets				
Cash and cash equivalents		**284,388**	229,898	338,506
Derivative financial instruments		**3,906**	3,989	3,859
Available-for-sale financial assets	7	**-**	754,837	595,315
Financial assets at fair value through other comprehensive income	7	**651,382**	-	-
Loans and advances	8	**10,109,730**	9,789,242	9,995,242
Due from related entities	10	**438,503**	512,090	365,904
Other assets		**5,856**	4,914	4,853
Net deferred tax assets		**12,783**	12,467	13,077
Property, plant and equipment		**3,563**	4,256	4,075
Intangible assets		**66**	108	87
Total assets		**11,510,177**	11,311,801	11,320,918
Liabilities				
Derivative financial instruments		**3,972**	4,055	3,922
Deposits	11	**4,004,675**	4,017,125	4,007,844
Due to related entities	12	**5,952,520**	5,788,696	5,732,753
Subordinated debt	13	**-**	60,693	60,859
Current tax payable		**8,788**	11,743	27,540
Other liabilities		**6,224**	6,204	9,293
Provisions		**3,342**	3,071	3,090
Total liabilities		**9,979,521**	9,891,587	9,845,301
Net assets		**1,530,656**	1,420,214	1,475,617
Equity				
Contributed equity	14.1	**551,200**	551,200	551,200
Reserves	14.2	**2,010**	1,545	1,722
Retained earnings		**977,446**	867,469	922,695
Total equity		**1,530,656**	1,420,214	1,475,617

The financial position as at 30 June 2018 reflects adoption of NZ IFRS 9. Prior periods have not been restated. Refer to Note 2 - Principal accounting policies for further information.

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 2017	551,200	814,583	803	1,366,586
Net profit	-	52,886	-	52,886
Other comprehensive income:				
Revaluation reserve - AFS financial assets	-	-	742	742
At 30 June 2017 (Unaudited)	551,200	867,469	1,545	1,420,214
At 1 January 2017	551,200	814,583	803	1,366,586
Net profit	-	108,112	-	108,112
Other comprehensive income:				
Revaluation reserve - AFS financial assets	-	-	919	919
At 31 December 2017 (Audited)	551,200	922,695	1,722	1,475,617
At 1 January 2018	551,200	922,695	1,722	1,475,617
impact of adoption of NZ IFRS 9				
Restated opening balance under NZ IFRS 9	-	(1,108)	-	(1,108)
Net profit	-	55,859	-	55,859
Other comprehensive income:				
Revaluation reserve - FVOCI financial assets	-	-	288	288
At 30 June 2018 (Unaudited)	551,200	977,446	2,010	1,530,656

30 June 2018 results reflect adoption of NZ IFRS 9. Prior periods have not been restated. Refer to Note 2 - Principal accounting policies for further information.

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 30/06/2018	Unaudited 6 months to 30/06/2017	Audited Year to 31/12/2017
Cash flows from operating activities				
Interest received		**269,818**	267,021	536,996
Interest paid		**(139,886)**	(153,168)	(301,530)
Other cash inflows provided by operating activities		**1,223**	1,362	2,464
Other cash outflows used in operating activities		**(91,381)**	(65,696)	(120,538)
Cash flows from operating activities before changes in operating assets and liabilities		**39,774**	49,519	117,392
Net changes in operating assets and liabilities		**(253,031)**	(180,656)	(82,892)
Net cash flows from / (used in) operating activities	17	**(213,257)**	(131,137)	34,500
Cash flows from investing activities				
Net changes in investing activities		**(42)**	2	(408)
Net cash flows from / (used in) investing activities		**(42)**	2	(408)
Cash flows from financing activities				
Net changes in financing liabilities		**159,181**	77,445	20,826
Net cash flows from financing activities		**159,181**	77,445	20,826
Net change in cash and cash equivalents		**(54,118)**	(53,690)	54,918
Cash and cash equivalents at the beginning of the period / year		**338,506**	283,588	283,588
Cash and cash equivalents at the end of the period / year		**284,388**	229,898	338,506
Cash and cash equivalents at the end of the period / year comprise:				
Cash at bank and on hand		**284,388**	229,898	338,506
Bank overdraft		**-**	-	-
Cash and cash equivalents at the end of the period / year		**284,388**	229,898	338,506

30 June 2018 results reflect adoption of NZ IFRS 9. Prior periods have not been restated. Refer to Note 2 - Principal accounting policies for further information.

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 is the reporting entity and incorporated in New Zealand.

The interim financial statements of the Bank are presented as at and for the six months ended 30 June 2018. The Bank is primarily involved in the provision of secured loans predominantly to borrowers in the rural industry, and in raising 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 2017. 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 2017.

2.2 Basis of measurement

These interim financial statements have been prepared under the historical cost convention, except for derivative financial instruments and financial assets at fair value through other comprehensive income 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 2017.

2.4 Principal accounting policies

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 2017. Other amendments to NZ IFRS effective for 2018 did not have a material effect except for the adoption of NZ IFRS 9 ' Financial Instruments' ('NZ IFRS 9') on 1 January 2018.

NZ IFRS 9 replaces NZ IAS 39 'Financial Instruments: Recognition and Measurement' ('NZ IAS 39') for annual periods on or after 1 January 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of NZ IFRS 9, as permitted by accounting standards. Therefore, the comparative information for 2017 is reported under NZ IAS 39 and is not comparable to the information presented for 2018. For futher information refer to note 2.7.

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.

2.7 Changes in accounting principles and presentation

NZ IFRS 15 Revenue from Contracts with Customers

NZ IFRS 15 applied but has no material impact on the revenue recognition for the Bank. This is because the majority of Bank's revenues are recognised in accordance with NZ IFRS 9 (previously NZ IAS 39).

Notes to the Financial Statements

2. Basis of preparation (continued)

2.7 Changes in accounting principles and presentation (continued)

NZ IFRS 9 Financial Instruments

Classification

From 1 January 2018, the Bank classifies its financial assets in the following measurement categories:

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

The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows:

- Business model assessment: Assessment how the business is managed and how the business is seen from a strategic point of view. Also the frequency and size of the sales are taken into account. This assessment results in a classification:

  - Hold to collect: where the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; or

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

  - Other business model.

- Type of contractual cash flows: Assessment of the financial assets whether the cash flows are solely payment of principal and interest.

The business model assessment can be made on a portfolio basis, whereas the contractual cashflow assessment is assessed for each individual financial asset.

A debt instrument that is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at amortised cost unless the asset is designated at fair value through profit or loss.

A debt instrument that meets the cash flow characteristics test and is not designated at fair value through profit or loss is measured at fair value with fair value adjustments recognised in other comprehensive income if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and sell financial assets. All other debt instruments are measured at fair value through profit or loss. The Bank reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

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

Subsequent measurement of debt instruments depends on the Bank's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Bank classifies its debt instruments:

- Amortised cost (AC)

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost and presented as 'Loans and advances to banks' and 'Loans and advances to customers'. Interest income from these financial assets is included in net interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in Gains/ (losses) arising from the derecognition of financial assets measured at amortised cost. Impairment losses are included in 'Impairment charges on financial assets' in the statement of comprehensive income.

Notes to the Financial Statements

2. Basis of preparation (continued)

2.7 Changes in accounting principles and presentation (continued)

- Fair value through other comprehensive income (FVOCI)

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income and presented as 'Financial assets at fair value through other comprehensive income'. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest from these financial assets is included in net interest income using the effective interest rate method. Impairment losses are included in 'Impairment charges on financial assets' in the statement of comprehensive income.

- Fair value through profit or loss (FVPL) is applicable to the following asset categories:

  - Financial assets that do not meet the criteria for amortised cost or FVOCI are mandatorily measured at FVPL and presented as 'Financial assets mandatorily at fair value'; or
  - Financial assets that are irrevocably included as 'Financial assets designated at fair value' at inception if the use of the designation removes or significantly reduces an accounting mismatch; or
  - Financial assets that are held for trading.

A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within gains/ (losses) on financial assets and liabilities at fair value through profit or loss in the period in which it arises.

Impairment allowances on financial assets

The rules governing impairments apply to financial assets at amortised cost and financial assets at fair value through OCI, as well as to lease receivables, certain loan commitments and financial guarantees. At initial recognition, an allowance is formed for the amount of the expected credit losses from possible defaults in the coming 12 months ('12-months expected credit loss' (ECL)). If credit risk increased significantly since origination (but remains non-credit-impaired), an allowance will be required for the amount that equals the expected credit losses stemming from possible defaults during the expected lifetime of the financial asset ('Lifetime ECL'). If the financial instrument becomes credit-impaired the allowance will remain at the Lifetime ECL. However, for these instruments the interest income will be recognised by applying the effective interest rate on the net carrying amount (including the allowance). Financial instruments become credit-impaired when one or more events have occurred that had a detrimental impact on estimated future cash flows.

The ECLs on an instrument should be based on an unbiased probability-weighted amount that is determined by evaluating a range of possible and reasonable outcomes and should reflect information available on current conditions and forecasts of future economic conditions, such as e.g. gross domestic product growth, unemployment rates and interest rates.

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

Methodology to determine expected credit losses

In order to determine ECLs the Bank utilises Probability of Default (PD) x Loss Given Default (LGD) x Exposure at Default (EAD) models for the majority of the portfolio in scope. Specific NZ IFRS 9 models have been developed that are structured similar to Rabobank's Advanced Internal Rating Based Approach (A-IRB) models for regulatory purposes, but based on point in time estimates, lifetime parameters and excluding prudential elements and downturn elements. Furthermore, forecasts of multiple future economic conditions (macroeconomic scenarios) are incorporated into the ECL models and probability weighted in order to determine the eventual expected credit losses. The Bank utilises three global macroeconomic scenarios, a baseline scenario, a baseline minus and a baseline plus, which are probability weighted. When unexpected external developments are not sufficiently covered by the ECL models a top level adjustment will be made.

Stage determination criteria

In order to allocate financial instruments in scope between the categories 12-month ECL (stage 1), Lifetime ECL Non-Credit-Impaired (stage 2) and Lifetime ECL Credit-Impaired (stage 3) a framework of qualitative and quantitative factors has been developed. As the definition of credit-impaired used for NZ IFRS 9 purposes is aligned with the default definition used for regulatory purposes, the stage 3 portfolio equals the defaulted portfolio. The criteria for allocating a financial instrument to stage 3 are therefore fully aligned with

Notes to the Financial Statements

2. Basis of preparation (continued)

2.7 Changes in accounting principles and presentation (continued)

the criteria for assigning a defaulted status, for example 90 days past due status, or if a debtor is likely to become unable to pay its credit obligations without liquidation of collateral by the bank. In order to allocate financial instruments between stages 1 and 2, we use criteria that are currently applied in the credit process, such as days past due status and special asset management status. Also, the quantitative criteria used are related to the probability of default (PD), where a financial instrument is allocated to stage 2 when an increase in the weighted average PD since origination exceeds a predefined threshold.

Hedge accounting

As the Bank does not currently apply hedge accounting, there is no impact from the hedge accounting changes in NZ IFRS 9.

Changes in presentation of interest income

As a result of a change in NZ IAS 1 due to the implementation of NZ IFRS 9, interest income on financial assets using the effective interest method should be presented separately in the statement of comprehensive income. Interest income on financial assets using the effective interest method includes interest income on 'Loans and advances to banks', 'Loans and advances to customers' and 'Financial assets at fair value through other comprehensive income'. The Bank does not derive interest income on financial assets that do not use the effective interest method and as a result this change does not apply.

Notes to the Financial Statements

2 Basis of preparation (continued)

2.7 Changes in accounting principles and presentation (continued)

Key impacts of the implemenation of NZ IFRS 9

The implementation of NZ IFRS 9 resulted in an increase of the impairment allowance of financial assets of NZD 1.5 million as a result of the new expected credit loss impairment model. Of this, NZD 1.5 million relates to financial assets at amortised cost. This movement and all other movements due to the NZ IFRS 9 implementation are disclosed in the following table which shows a reconciliation between the statement of financial position as reported per 31 December 2017 under NZ IAS 39 and the restated amounts per 1 January 2018 under NZ IFRS 9.

Statement of Financial Position

In thousands of NZD	Note	Audited At 31/12/2017 NZ IAS 39	Reclassification	Remeasurement (ECL)	Unaudited 1/01/2018 NZ IFRS 9
Assets					
Cash and cash equivalents		338,506	-	-	338,506
Derivative financial instruments		3,859	-	-	3,859
Available-for-sale financial assets		595,315	(595,315)	-	-
Financial assets at fair value through other comprehensive income		-	595,315	-	595,315
Loans and advances		9,995,242	-	(1,366)	9,993,876
Due from related entities		365,904	-	(173)	365,731
Other assets		4,853	-	-	4,853
Income tax receivable		-	-	-	-
Net deferred tax assets		13,077	-	431	13,508
Property, plant and equipment		4,075	-	-	4,075
Intangible assets		87	-	-	87
Total assets		**11,320,918**	**-**	**(1,108)**	**11,319,810**
Liabilities					
Due to other financial institutions		-	-	-	-
Derivative financial instruments		3,922	-	-	3,922
Deposits		4,007,844	-	-	4,007,844
Due to related entities		5,732,753	-	-	5,732,753
Subordinated debt		60,859	-	-	60,859
Current tax payable		27,540	-	-	27,540
Other liabilities		9,293	-	-	9,293
Provisions		3,090	-	-	3,090
Total liabilities		**9,845,301**	**-**	-	**9,845,301**
Net assets		**1,475,617**	**-**	**(1,108)**	**1,474,509**
Equity					
Contributed equity		551,200	-	-	551,200
Reserves		1,722	-	-	1,722
Retained earnings		922,695	-	(1,108)	921,587
Total equity		**1,475,617**	**-**	**(1,108)**	**1,474,509**

Notes to the Financial Statements

2 Basis of preparation (continued)

2.7 Changes in accounting principles and presentation (continued)

Classification and measurement

The following table summarises the impact on classification and measurements to the Bank's financial assets and liabilities on 1 January 2018:

In thousands of NZD	Note	Measurement Category under NZ IAS 39	Measurement Category under NZ IFRS 9	As at 1 January 2018 Carrying amount under NZ IAS 39	Carrying amount under NZ IFRS 9
Financial Assets					
Cash and cash equivalents		Loans and receivables	Amortised cost	338,506	338,506
Derivative financial instruments		Fair value through profit or loss	Fair value through profit or loss	3,859	3,859
Available-for-sale financial assets	(a)	Available for sale	Fair value through other comprehensive income	595,315	595,315
Loans and advances		Loans and receivables	Amortised cost	9,995,242	9,993,876
Due from related entities		Loans and receivables	Amortised cost	365,904	365,731
Other assets		Loans and receivables	Amortised cost	4,853	4,853

There were no changes in the classification and measurement of financial liabilities of the Bank.

(a) Debt instruments that were previously classified as available for sale financial assets and carried at fair value through other comprehensive income (FVOCI) were assessed to have a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and accordingly, are classified at FVOCI under NZ IFRS 9 and included in "financial assets at fair value through other comprehensive income' in the statement of financial position as at 1 January 2018.

Reconciliation of impairment allowances

The following table reconciles the impairment allowances determined in accordance with NZ IAS 39 as at 31 December 2017 to the impairment allowances in accordance with NZ IFRS 9 as per 1 January 2018. The NZ IAS 39 impairment methodology was based on an 'incurred loss' model, meaning that an allowance is determined when an instrument is credit-impaired, that is, when a loss event has occurred that had a detrimental impact on estimated future cash flows. This will generally align with the stage 3 category of NZ IFRS 9. However, within the expected credit loss framework of NZ IFRS 9 the entire portfolio of financial instruments will be assigned an impairment allowance through the additions of the 12-month ECL category (stage 1) and the Lifetime ECL Non-Credit-Impaired (stage 2), generally leading to increases in overall allowances.

In thousands of NZD	
Total impairment allowances NZ IAS 39 as at 31 December 2017	**32,785**
Reclassifications of financial assets at amortised cost	2,497
Remeasurements	1,539
Total impairment allowances NZ IFRS 9 as at 1 January 2018	**36,821**

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to banks	173	-	-	173
Loans and advances to customers	7,920	7,891	19,903	35,714
Credit related contingent liabilities	838	96	-	934
Total impairment allowances NZ IFRS 9 as at 1 January 2018				**36,821**

Notes to the Financial Statements

2 Basis of preparation (continued)

2.7 Changes in accounting principles and presentation (continued)

Impact on regulatory capital

The following table shows regulatory capital and solvency ratiosn as reported per 31 December 2017 under NZ IAS 39 and the restated amounts per 1 January 2018 under NZ IFRS9:

In thousands of NZD	1/01/2018 NZ IFRS 9	31/12/2017 NZ IAS 39
Common Equity Tier 1 ("CET1") capital		
Paid-up ordinary shares issued by the Bank plus related share premium	551,200	551,200
Retained earnings	921,587	922,695
Accumulated other comprehensive income and other disclosed reserves	1,722	1,722
Less deductions from CET1 capital:	-	-
Deferred tax assets	(13,508)	(13,077)
Goodwill and other intangible assets	(87)	(87)
Subtotal CET1 capital	**1,460,914**	**1,462,453**
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	**1,460,914**	**1,462,453**
Tier 2 capital		
Term subordinated debt subject to phase-out transitional arrangements	60,000	60,000
Revaluation reserves	**-**	**-**
Total Tier 2 capital	**60,000**	**60,000**
Total capital	**1,520,914**	**1,522,453**
Risk-weighted assets	**11,166,518**	**11,168,057**
Common equity Tier 1 capital ratio	13.08%	13.09%
Tier 1 capital ratio	13.08%	13.09%
Total capital ratio	**13.62%**	**13.63%**

Notes to the Financial Statements

3 Other income

In thousands of NZD	Unaudited 6 months to 30/06/2018	Unaudited 6 months to 30/06/2017	Audited Year to 31/12/2017
Lending and credit facility related fee income	**700**	771	1,568
Other income	**294**	585	718
Total other income	**994**	1,356	2,286

4 Other expense

In thousands of NZD	Unaudited 6 months to 30/06/2018	Unaudited 6 months to 30/06/2017	Audited Year to 31/12/2017
Commission and fee expense *	**(329)**	(442)	(825)
Total other income	**(329)**	(442)	(825)

* Balance relates to fees charged for the obligations guarantees provided by Rabobank. Refer to note 25 for further information on guarantees.

5 Other operating gains / (losses)

In thousands of NZD	Unaudited 6 months to 30/06/2018	Unaudited 6 months to 30/06/2017	Audited Year to 31/12/2017
Net trading gains / (losses) on derivatives	**265**	152	693
Losses on disposal / write off of available-for-sale financial assets	**-**	-	75
Foreign exchange gains / (losses)	**(39)**	(436)	(500)
Total other operating gains / (losses)	**226**	(284)	268

6 Impairment (losses) / releases

In thousands of NZD	Unaudited 6 months to 30/06/2018	Unaudited 6 months to 30/06/2017	Audited Year to 31/12/2017
Collective (provisions) / releases	**(2,136)**	1,362	5,883
Specific (provisions) / releases	**2,167**	(2,139)	(6,104)
Bad debt recovery	**-**	-	10
Total impairment (losses) / releases	**31**	(777)	(211)

7 Available-for-sale (AFS) financial assets/ Financial assets at fair value through other comprehensive income (FVOCI)

In thousands of NZD	Unaudited 30/06/2018	Unaudited 30/06/2017	Audited 31/12/2017
New Zealand government securities	468,529	569,166	426,955
Other debt securities (Kauri)	182,853	185,671	168,360
Total AFS financial assets/Financial assets FVOCI	**651,382**	754,837	595,315

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.

8 Loans and advances

In thousands of NZD	Unaudited At 30/06/2018	Unaudited At 30/06/2017	Audited At 31/12/2017
Lending	**10,082,594**	9,760,985	9,958,691
Finance leases	**57,112**	56,247	60,938
Gross loans and advances	**10,139,706**	9,817,232	10,019,629
Accrued interest	**7,670**	7,445	8,398
Provisions for doubtful debts:			
Collective	**(29,211)**	(30,832)	(26,311)
Specific	**(8,435)**	(4,603)	(6,474)
Net loans and advances	**10,109,730**	9,789,242	9,995,242

Notes to the Financial Statements

9 Credit quality, impaired assets and provision for impairment

9 Individually impaired assets

In thousands of NZD	Related parties	Residential mortgages	Corporate	Retail*	Total
	At 30/06/2018 (Unaudited)				
Opening balance	-	-	-	293,116	293,116
Additions	-	-	-	29,272	29,272
Amounts written off	-	-	-	-	-
Returned to performing or repaid	-	-	-	(43,662)	(43,662)
Closing balance	**-**	**-**	**-**	**278,726**	**278,726**
Aggregate amount of undrawn balances on lending commitments on impaired assets	-	-	-	10,263	10,263

There have been no other significant changes in the gross carrying amount of loans and receivables during the period that have contributed to the changes in provision for credit impairment under the expected loss model.

9.2 Past due assets but not impaired

In thousands of NZD	Related parties	Residential mortgages	Corporate	Retail*	Total
	At 30/06/2018 (Unaudited)				
Less than 30 days past due	-	-	-	20,316	20,316
At least 30 days but less than 60 days past due	-	-	-	81	81
At least 60 days but less than 90 days past due	-	-	-	353	353
At least 90 days past due	-	-	-	1,810	1,810
Total past due assets	**-**	**-**	**-**	**22,560**	**22,560**

9.3 Provision for impairment

In thousands of NZD	Related parties	Residential mortgages	Corporate	Retail*	Total
	At 30/06/2018 (Unaudited)				
Collective provision					
Opening balance	-	-	-	26,311	26,311
Restated for adoption of new accounting standards	174	-	-	799	973
Charge / (release) to statement of comprehensive income - 12 month ECL (note 6)	35	-	-	1,101	1,136
Charge / (release) to statement of comprehensive income - lifetime ECL (note 6)	-	-	-	1,000	1,000
Other movements	-	-	-	-	-
Closing balance	**209**	**-**	**-**	**29,211**	**29,420**

The collective provision measured under NZ IFRS 9 is now presented as 12 months and lifetime expected credit losses following adoption of NZ IFRS 9.

Specific provision					
Opening balance	-	-	-	6,474	6,474
Reclassifications of financial assets at amortised cost	-	-	-	2,497	2,497
Restated for adoption of new accounting standards				566	566
Charge / (release) to statement of comprehensive income (note 6)	-	-	-	(2,167)	(2,167)
Amounts written off	-	-	-	-	-
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	-	-
Discount unwind**	-	-	-	1,065	1,065
Closing balance	**-**	**-**	**-**	**8,435**	**8,435**

* 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.

9.4 Other assets under administration

There are no other assets under administration as at 30 June 2018 (2017: Nil).

Notes to the Financial Statements

10 Due from related entities

In thousands of NZD	Unaudited At 30/06/2018	Unaudited At 30/06/2017	Audited At 31/12/2017
Current account balances - wholly owned group*	**13,539**	4,705	4,680
Advances - wholly owned group*	**424,547**	506,712	360,692
Accrued interest receivable - wholly owned group*	**626**	673	532
Collective provision for doubtful debts (note 9.3)	**(209)**	-	-
Total due from related entities	**438,503**	512,090	365,904

* The wholly owned group refers to other Rabobank related entities. Refer to note 25 for further information on related party disclosures.

11 Deposits

In thousands of NZD	Unaudited At 30/06/2018	Unaudited At 30/06/2017	Audited At 31/12/2017
Call deposits	**1,751,379**	1,874,114	1,691,343
Term deposits	**2,223,025**	2,117,618	2,290,562
Accrued interest on call deposits	**63**	58	53
Accrued interest on term deposits	**30,208**	25,335	25,886
Total deposits	**4,004,675**	4,017,125	4,007,844

12 Due to related entities

In thousands of NZD	Unaudited At 30/06/2018	Unaudited At 30/06/2017	Audited At 31/12/2017
Current account balances - wholly owned group*	**9,264**	4,866	10,243
Advances - wholly owned group*	**5,908,103**	5,749,940	5,687,943
Accrued interest payable - wholly owned group*	**35,153**	33,890	34,567
Total due to related entities	**5,952,520**	5,788,696	5,732,753

* The wholly owned group refers to other Rabobank related entities. Refer to note 25 for further information on related party disclosures.

13 Subordinated debt

In thousands of NZD	Unaudited At 30/06/2018	Unaudited At 30/06/2017	Audited At 31/12/2017
Due to wholly owned group*	**-**	60,000	60,000
Accrued interest payable - wholly owned group*	**-**	693	859
Total subordinated debt	-	60,693	60,859

* The wholly owned group refers to other Rabobank related entities. Refer to note 25 for further information on related party disclosures.

The Bank issued to Rabobank (New Zealand Branch) perpetual subordinated debt with a principal amount of NZ$300,000,000, and a base rate (i.e. BKBM FRA rate) plus a margin of 2.25 per cent per annum. During 2017, subordinated debt of $240,000,000 was redeemed, leaving outstanding principal of $60,000,000. During 2018, subordinated debt of $60,000,000 was redeemed, leaving no outstanding balance. Interest was 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. As at 30 June 2018 the subordinated debt balance is nil (31 December 2017: $60 million, 30 June 2017: $60million).

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

14 Contributed equity, Reserves and Capital management

14.1 Contributed equity

In thousands of NZD	Unaudited At 30/06/2018	Unaudited At 30/06/2017	Audited At 31/12/2017
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 2018, 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 2017: 275,600,000; 30 June 2017: 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.

14.2 Reserves

In thousands of NZD	Unaudited At 30/06/2018	Unaudited At 30/06/2017	Audited At 31/12/2017
FVOCI financial assets reserve			
Opening balance	**1,722**	803	803
Changes in FVOCI financial assets revaluation reserve (gross)	**400**	1,031	1,276
Changes in FVOCI financial assets revaluation reserve (deferred tax)	**(112)**	(289)	(357)
Total FVOCI reserve	**2,010**	1,545	1,722

The nature and purpose of the FVOCI financial assets revaluation reserve (AFS financial assets reserve under NZ IAS 39) is to record the unrealised gains or losses arising from changes in the fair value of FVOCI financial assets. The FVOCI financial assets revaluation reserve qualifies as Common Equity Tier One capital for capital adequacy purposes.

14.3 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, FVOCI reserve, less certain deductions. The Bank does not have any additional Tier One capital.

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 2017 financial year and during the 2018 half year period.

Notes to the Financial Statements

15 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 30/06/2018	Unaudited At 30/06/2017	Audited At 31/12/2017
Guarantees	**5,363**	4,826	5,329
Lending commitments			
Irrevocable lending commitments	**83,619**	95,193	84,494
Revocable lending commitments	**1,473,563**	1,292,530	1,336,328
Total contingent liabilities	**1,562,545**	1,392,549	1,426,151

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.

16 Expenditure Commitments

16.1 Capital expenditure commitments

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

In thousands of NZD	Unaudited At 30/06/2018	Unaudited At 30/06/2017	Audited At 31/12/2017
One year or less	**-**	-	-
Total capital expenditure commitments	**-**	-	-

16.2 Operating lease commitments

In thousands of NZD	Unaudited At 30/06/2018	Unaudited At 30/06/2017	Audited At 31/12/2017
One year or less	**4,019**	3,879	4,151
Between one and two years	**3,039**	2,814	2,934
Between two and five years	**3,797**	4,135	3,967
Over five years	**583**	1,080	735
Total operating lease commitments	**11,438**	11,908	11,787

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

17 Reconciliation of net cash flows from operating activities

in thousands of NZD	Unaudited 6 months to 30/06/2018	Unaudited 6 months to 30/06/2017	Audited Year to 31/12/2017
Net profit after tax	**55,859**	52,886	108,112
Non-cash items	**583**	2,507	1,885
Deferrals or accruals of past or future operating cash receipts or payments:			
Change in net operating assets and liabilities	**(253,031)**	(180,656)	(82,892)
Change in interest receivable/payable	**4,521**	(5,007)	(15,122)
Change in other deferrals or accruals	**(21,189)**	(867)	22,517
Net cash flows from / (used in) operating activities	**(213,257)**	(131,137)	34,500

18 Risks arising from financial instruments

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

18.1 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.

18.1.1 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 30/06/2018 (Unaudited)							
Financial assets							
Cash and cash equivalents	284,388	284,388	-	-	-	-	-
Derivative financial instruments	4,252	-	13	110	-	4,023	106
FVOCI financial assets	665,845	-	244,355	288,563	53,573	79,354	-
Loans and advances	10,650,714	-	4,182,387	88,591	4,486,709	835,345	1,057,682
Due from related entities	455,081	13,539	7,188	260,352	53,612	120,390	-
Other financial assets	5,546	-	5,546	-	-	-	-
Total financial assets	12,065,826	297,927	4,439,489	637,616	4,593,894	1,039,112	1,057,788
Financial liabilities							
Derivative financial instruments	4,318	-	6	179	5	4,022	106
Deposits	4,043,460	1,751,379	1,276,044	414,958	429,420	171,648	11
Due to related entities	6,237,414	9,245	596,162	1,109,084	1,638,063	2,884,860	-
Other liabilities	6,224	-	6,224	-	-	-	-
Total financial liabilities	10,291,416	1,760,624	1,878,436	1,524,221	2,067,488	3,060,530	117
Contingent liabilities							
Guarantees	5,363	5,343	-	-	-	-	20
Lending commitments	1,557,182	1,542,397	280	747	2,646	2,713	8,399
Total contingent liabilities	1,562,545	1,547,740	280	747	2,646	2,713	8,419

Notes to the Financial Statements

18 Risks arising from financial instruments (continued)

18.2 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 30/06/2018 (Unaudited)							
Financial assets							
Cash and cash equivalents	284,388	284,388	-	-	-	-	-
Derivative financial instruments	3,906	-	-	-	-	-	3,906
FVOCI financial assets	651,382	136,980	96,066	285,857	56,662	75,817	-
Loans and advances	10,109,730	5,325,430	1,227,753	1,401,640	1,359,669	787,306	7,932
Due from related entities	438,503	397,877	-	-	-	40,000	626
Other financial assets	5,546	-	-	-	-	-	5,546
Total financial assets	11,493,455	6,144,675	1,323,819	1,687,497	1,416,331	903,123	18,010
Other assets	310	-	-	-	-	-	310
Net deferred tax assets	12,783	-	-	-	-	-	12,783
Property, plant and equipment	3,563	-	-	-	-	-	3,563
Intangible assets	66	-	-	-	-	-	66
Total non-financial assets	16,722	-	-	-	-	-	16,722
Total assets	11,510,177	6,144,675	1,323,819	1,687,497	1,416,331	903,123	34,732
Financial liabilities							
Derivative financial instruments	3,972	-	-	-	-	-	3,972
Deposits	4,004,675	2,415,026	564,842	413,325	413,686	167,525	30,271
Due to related entities	5,952,520	3,819,246	-	777,300	885,000	427,000	43,974
Other liabilities	6,224	-	-	-	-	-	6,224
Total financial liabilities	9,967,391	6,234,272	564,842	1,190,625	1,298,686	594,525	84,441
Current tax payable	8,788	-	-	-	-	-	8,788
Provisions	3,342	-	-	-	-	-	3,342
Total non-financial liabilities	12,130	-	-	-	-	-	12,130
Total liabilities	9,979,521	6,234,272	564,842	1,190,625	1,298,686	594,525	96,571
Interest rate derivatives							
Swaps	-	115,746	-	(10,000)	5,000	(110,746)	
Repricing gap (interest bearing assets and liabilities)	1,592,495	26,149	758,977	486,872	122,645	197,852	
Cumulative mismatch	1,592,495	26,149	785,126	1,271,998	1,394,643	1,592,495	

Notes to the Financial Statements

18 Risks arising from financial instruments (continued)

18.3 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.

18.3.1 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 30/06/2018
Cash and cash equivalents	284,388
Derivative financial instruments	3,906
FVOCI financial assets	651,382
Loans and advances	10,109,730
Due from related entities	438,503
Other financial assets	5,546
Commitments and guarantees (note 15)	1,562,545
Total credit exposures	**13,056,000**

Analysis of credit exposures by industry:

In thousands of NZD	Unaudited At 30/06/2018
Agriculture	11,460,842
Finance and insurance	754,434
Forestry and fishery	2,801
Government	634,136
Property and business services	66,381
Other	137,406
Total credit exposures	**13,056,000**

Analysis of credit exposures by geographical areas:

In thousands of NZD	Unaudited At 30/06/2018
New Zealand	12,849,679
Australia	16,275
Germany	118,606
Finland	56,237
United States of America	5,116
Luxembourg	10,087
Total credit exposures	**13,056,000**

Notes to the Financial Statements

18 Risks arising from financial instruments (continued)

18.3 Credit risk (continued)

18.3.2 Concentration of credit exposures to individual counterparties

	Unaudited	
	At 30/06/2018	Peak for the quarter
Number of bank counterparties:		
Percentage of Common equity Tier 1 capital		
10-15%	-	-
15-20%	-	-
Number of non-bank counterparties:		
Percentage of Common equity Tier 1 capital		
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 or central bank of any country with a long-term credit rating of A- or A3 or above, or its equivalent, and credit exposures to any supranational or quasi-sovereign agency with a long-term credit rating of A- or A3 or above, or its equivalent.

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

18.3.3 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				Past due but not impaired	Individually impaired	
In thousands of NZD	R0-R7	R8-R10	R11-R14	R15-R20			Total
At 30/06/2018 (Unaudited)							
Cash and cash equivalents	284,388	-	-	-	-	-	284,388
Financial assets FVOCI (note 7)	651,382	-	-	-	-	-	651,382
Gross loans and advances* (note 8)	86,033	884,792	6,495,820	2,371,775	22,560	278,726	10,139,706
Total	**1,021,803**	**884,792**	**6,495,820**	**2,371,775**	**22,560**	**278,726**	**11,075,476**

*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

19 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 Statement of Financial Position.

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

	Unaudited At 30/06/2018		Unaudited At 30/06/2017		Audited At 31/12/2017	
In thousands of NZD	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Cash and cash equivalents	284,388	284,388	229,898	229,898	338,506	338,506
Derivative financial instruments	3,906	3,906	3,989	3,989	3,859	3,859
AFS financial assets/FVOCI financial assets	651,382	651,382	754,837	754,837	595,315	595,315
Loans and advances	10,109,730	10,287,270	9,789,242	9,981,993	9,995,242	10,177,149
Due from related entities	438,503	434,792	512,090	507,046	365,904	362,367
Other financial assets	5,546	5,546	4,546	4,546	4,417	4,417
Total financial assets	11,493,455	11,667,284	11,294,602	11,482,309	11,303,243	11,481,613
Financial liabilities						
Derivative financial instruments	3,972	3,972	4,055	4,055	3,922	3,922
Deposits	4,004,675	4,052,614	4,017,125	4,062,765	4,007,844	4,053,162
Due to related entities	5,952,520	6,021,733	5,788,696	5,852,815	5,732,753	5,804,439
Subordinated debt	-	-	60,693	74,497	60,859	70,798
Other liabilities	6,224	6,224	6,204	6,204	9,293	9,293
Total financial liabilities	9,967,391	10,084,543	9,876,773	10,000,336	9,814,671	9,941,614

Fair value hierarchy

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

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

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

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

Valuation methodology

Financial assets and financial liabilities carried at fair value

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

Derivative financial instruments and FVOCI financial assets

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

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

Notes to the Financial Statements

19 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 2018 (Unaudited)				
Financial assets				
Derivative financial instruments	-	3,906	-	3,906
FVOCI financial assets	651,382	-	-	651,382
Financial liabilities				
Derivative financial instruments	-	3,972	-	3,972

In thousands of NZD	Level 1	Level 2	Level 3	Total
At 30 June 2017 (Unaudited)				
Financial assets				
Derivative financial instruments	-	3,989	-	3,989
Available-for-sale financial assets	754,837	-	-	754,837
Financial liabilities				
Derivative financial instruments	-	4,055	-	4,055

In thousands of NZD	Level 1	Level 2	Level 3	Total
At 31 December 2017 (Audited)				
Financial assets				
Derivative financial instruments	-	3,859	-	3,859
Available-for-sale financial assets	595,315	-	-	595,315
Financial liabilities				
Derivative financial instruments	-	3,922	-	3,922

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

Financial assets and financial liabilities carried at amortised cost

For financial assets and financial liabilities carried at amortised cost, an estimate of the fair value has been derived as follows, and are categorised as level 3 (with the exception of cash and cash equivalents which are level 1, and due from other financial institutions and deposits which are level 2).

Cash and cash equivalents

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

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

20 Maturity analysis of assets and liabilities

The table below shows a maturity analysis of assets and liabilities analysed according to when they are expected to be recovered or settled within 12 months (current) and greater than 12 months (non-current).

	At 30/06/2018			At 30/06/2017		
in thousands of NZD	Current	Non-Current	Total	Current	Non-Current	Total
Assets						
Cash and cash equivalents	284,388	-	284,388	229,898	-	229,898
Derivative financial instruments	120	3,786	3,906	16	3,973	3,989
AFS financial assets/FVOCI financial assets	524,670	126,712	651,382	538,315	216,522	754,837
Loans and advances	5,012,798	5,096,932	10,109,730	4,870,802	4,918,440	9,789,242
Due from related entities	273,503	165,000	438,503	472,090	40,000	512,090
Other assets	5,856	-	5,856	4,914	-	4,914
Net deferred tax assets		12,783	12,783	-	12,467	12,467
Property, plant and equipment	-	3,563	3,563	-	4,256	4,256
Intangible assets	-	66	66	-	108	108
Total Assets	**6,101,335**	**5,408,842**	**11,510,177**	**6,116,035**	**5,195,766**	**11,311,801**
Liabilities						
Derivative financial instruments	182	3,790	3,972	16	4,039	4,055
Deposits	2,666,350	1,338,325	4,004,675	2,842,010	1,175,115	4,017,125
Due to related entities	1,594,520	4,358,000	5,952,520	1,179,396	4,609,300	5,788,696
Subordinated debt	-	-	-	693	60,000	60,693
Current tax payable	8,788	-	8,788	11,743	-	11,743
Other liabilities	6,224	-	6,224	6,204	-	6,204
Provisions	1,466	1,876	3,342	1,219	1,852	3,071
Total Liabilities	**4,277,530**	**5,701,991**	**9,979,521**	**4,041,281**	**5,850,306**	**9,891,587**

Notes to the Financial Statements

21 Capital adequacy under the standardised approach and regulatory liquidity ratios

21.1 Capital

In thousands of NZD	Unaudited At 30/06/2018
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)	977,446
Accumulated other comprehensive income and other disclosed reserves	2,010
Less deductions from CET1 capital:	
Deferred tax assets	(12,783)
Goodwill and other intangible assets	(66)
Subtotal CET1 capital	**1,517,807**
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	**1,517,807**
Tier 2 capital	
Total Tier 2 capital	**-**
Total capital	**1,517,807**

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).

Refer to note 13 and note 14 for information about material terms and conditions of each instrument disclosed above.

Notes to the Financial Statements

21 Capital adequacy under the standardised approach and regulatory liquidity ratios (continued)

21.2 Credit risk

21.2.1 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 30/06/2018 (Unaudited)				
Cash and gold bullion	-	0%	-	-
Sovereigns and central banks	640,696	0%	-	-
Multilateral development banks and other international organisations	55,586	0%	-	-
Multilateral development banks and other international organisations	117,268	20%	23,454	1,876
Banks	122,221	20%	24,444	1,956
Banks - related party[1]	7,717	20%	1,543	123
Public sector entities	-	20%	-	-
Corporate	-	50%	-	-
Residential mortgages not past due - LVR does not exceed 80%	31,447	35%	11,006	880
Residential mortgages not past due - LVR between 80% and 90%	4,244	50%	2,122	170
Residential mortgages not past due - LVR between 90% and 100%	-	75%	-	-
Past due residential mortgages	-	100%	-	-
Other past due assets[2]	268,577	150%	402,866	32,229
Equity holdings (not deducted from capital) that are publicity traded	-	300%	-	-
All other equity holdings (not deducted from capital)	-	400%	-	-
Other[3]	65	0%	-	-
Other[4]	9,814,820	100%	9,814,820	785,186
Non-risk weighted assets[5]	16,754	N/A	-	-
Total on-balance sheet exposures	**11,079,395**		**10,280,255**	**822,420**

[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 21.3 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

21 Capital adequacy under the standardised approach and regulatory liquidity ratios (continued)

21.2 Credit risk (continued)

21.2.2 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 30/06/2018 (Unaudited)						
Direct credit substitutes	5,363	100%	5,363	100%	5,363	429
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	83,796	50%	41,898	100%	41,898	3,352
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	1,473,385	0%	-	100%	-	-
Market related contracts*						
Foreign exchange forwards - related entities	109	N/A	1	20%	-	-
Foreign exchange forwards	109	N/A	1	100%	1	-
Foreign exchange forwards - related entities	1,464	N/A	27	20%	5	-
Foreign exchange forwards	1,473	N/A	32	100%	32	3
Interest rate swaps - related entities	120,746	N/A	675	20%	135	11
Interest rate swaps	120,746	N/A	4,453	100%	4,453	356
Other - Credit valuation adjustment	N/A	N/A	N/A	2.0%	5,025	402
Other - Credit valuation adjustment	N/A	N/A	N/A	0.8%	450	36
Total off-balance sheet exposures	**1,807,191**		**52,450**		**57,362**	**4,589**

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

21.2.3 Additional residential mortgages information

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

	At 30/06/2018 (Unaudited)		
In thousands of NZD	Drawn	Undrawn	Total
LVR range			
Do not exceed 80%	31,447	9,220	40,667
Exceeds 80% and not 90%	4,244	632	4,876
Exceeds 90%	-	-	-
Total value of residential mortgage exposures	**35,691**	**9,852**	**45,543**

Notes to the Financial Statements

21 Capital adequacy under the standardised approach and regulatory liquidity ratios (continued)

21.2.3 Additional residential mortgages information (continued)

Reconciliation of mortgage related amounts In thousands of NZD	Unaudited At 30/06/2018
Loans and advances - loans with residential mortgages	35,691
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	35,691
Off-balance sheet residential mortgage exposures subject to the standardised approach	9,852
Total residential mortgage exposures subject to the standardised approach (as per LVR analysis)	**45,543**

21.3 Credit risk mitigation

	At 30/06/2018 (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*	438,500	-
Corporate	-	-
Residential mortgage	-	-
Other	-	-
Total gross-exposure basis	**438,500**	-
Total net-exposure basis (note 21.2.1.)	**7,717**	-

* On 2 April 2015, Reserve Bank of New Zealand advised that it has no objection to RNZL measuring connected party exposures on a net-exposure basis, as described in BS8. As described in "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.

21.4 Operational risk

Operational risk capital requirement

	At 30/06/2018 (Unaudited)	
In thousands of NZD	Implied risk weighted exposure	Total operational risk capital requirement
Operational risk	735,888	58,871
Total	**735,888**	**58,871**

21.5 Market risk period-end capital charges

	At 30/06/2018 (Unaudited)	
In thousands of NZD	Implied risk weighted exposure	Aggregate capital charges
Interest rate risk	237,375	18,990
Foreign currency risk	15,375	1,230
Total	**252,750**	**20,220**

The bank does not take any equity risk.

21.6 Market risk peak end-of-day capital charges

	At 30/06/2018 (Unaudited)	
In thousands of NZD	Implied risk weighted exposure	Aggregate capital charges
Interest rate risk	247,000	19,760
Foreign currency risk	15,375	1,230
Total	**262,375**	**20,990**

The bank does not take any equity risk.

Notes to the Financial Statements

21 Capital adequacy under the standardised approach and regulatory liquidity ratios (continued)

21.7 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).

21.8 Total capital requirements

	At 30/06/2018 (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	12,886,586	10,337,617	827,009
Operational risk	N/A	735,888	58,871
Market risk	N/A	252,750	20,220
Total	**12,886,586**	**11,326,255**	**906,100**

21.9 Capital ratios

	At 30/06/2018 (Unaudited)		At 30/06/2017 (Unaudited)	
In percentage (%)	Ratio	Minimum ratio requirement	Ratio	Minimum ratio requirement
Common Equity Tier 1 capital ratio	**13.40%**	**4.50%**	12.89%	4.50%
Tier 1 capital ratio	**13.40%**	**6.00%**	12.89%	6.00%
Total capital ratio	**13.40%**	**8.00%**	13.44%	8.00%

21.10 Buffer ratio

In percentage (%)	Unaudited At 30/06/2018	Unaudited At 30/06/2017
Buffer ratio* (in excess of the minimum tier 1 capital ratio requirement)	**5.40%**	5.44%
Buffer ratio requirement**	**2.50%**	2.50%

21.11 Solo capital adequacy

In percentage (%)	Unaudited Ratio At 30/06/2018	Unaudited Ratio At 30/06/2017
Common Equity Tier 1 capital ratio*	**13.40%**	12.89%
Tier 1 capital ratio*	**13.40%**	12.89%
Total capital ratio*	**13.40%**	13.44%

*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

21 Capital adequacy under the standardised approach and regulatory liquidity ratios (continued)

21.12 Pillar 2 capital for other material risks

In thousands of NZD	Unaudited At 30/06/2018	Unaudited At 30/06/2017
Internal capital allocation for other material risks	45,305	43,677

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

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

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

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

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

(v) Compliance risk: Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or reputational damage an

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

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

21.13 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)	2017 %	2016 %
Common equity Tier 1 capital ratio	15.80%	14.00%
Tier 1 capital ratio	18.80%	17.60%
Total capital ratio	**26.20%**	**25.00%**

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/annual-report-2017.pdf

21.14 Regulatory liquidity ratios

Capital ratios	Unaudited 3 months to 31/03/2018	Unaudited 3 months to 30/06/2018
Quarterly average core funding ratio	93.2%	93.5%
Quarterly average one-month mismatch ratio	6.7%	6.4%
Quarterly average one-week mismatch ratio	6.7%	6.3%

Notes to the Financial Statements

22 Offsetting financial assets and financial liabilities

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

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 30 June 2018 and 30 June 2017. The column 'net amount' shows the impact on the bank's balance sheet if all set-off rights were exercised.

30/06/2018 in thousands of NZD	Effects of offsetting on the balance sheet Gross amounts	 Gross amounts set off in the balance sheet	 **Net amounts presented in the balance sheet**	Related amounts not offset Amounts subject master agreements	 Financial instrument collateral	 **Net amount**
Financial Assets						
Cash and cash equivalents	284,388	-	284,388	-	-	284,388
Derivative financial instruments	3,906	-	3,906	-	-	3,906
Total financial assets	**288,294**	**-**	**288,294**	**-**	**-**	**288,294**
Financial Liabilities						
Due to financial institutions	-	-	-	-	-	-
Derivative financial instruments	3,972	-	3,972	-	-	3,972
Total financial liabilities	**3,972**	**-**	**3,972**	**-**	**-**	**3,972**

30/06/2017 in thousands of NZD	Effects of offsetting on the balance sheet Gross amounts	 Gross amounts set off in the balance sheet	 **Net amounts presented in the balance sheet**	Related amounts not offset Amounts subject master agreements	 Financial instrument collateral	 **Net amount**
Financial Assets						
Cash and cash equivalents	231,925	(2,027)	229,898	-	-	229,898
Derivative financial instruments	3,989	-	3,989	-	-	3,989
Total financial assets	**235,914**	**(2,027)**	**233,887**	**-**	**-**	**233,887**
Financial Liabilities						
Due to financial institutions	2,027	(2,027)	-	-	-	-
Derivative financial instruments	4,055	-	4,055	-	-	4,055
Total financial liabilities	**6,082**	**(2,027)**	**4,055**	**-**	**-**	**4,055**

Notes to the Financial Statements

23 Concentration of funding

Total funding comprised:

In thousands of NZD	Unaudited At 30/06/2018
Deposits	4,004,675
Due to related entities	5,952,520
Subordinated debt	-
Other liabilities	6,224
Total funding	**9,963,419**

Analysis of funding by industry:

In thousands of NZD	Unaudited At 30/06/2018
Agriculture	781,547
Finance and insurance	6,241,629
Personal and other services	2,625,492
Other	314,751
Total funding	**9,963,419**

Analysis of funding concentration by geographical areas:

In thousands of NZD	Unaudited At 30/06/2018
New Zealand	9,907,801
Australia	6,912
The Netherlands	10,020
United Kingdom	8,520
United States of America	9,453
All other countries	20,713
Total funding	**9,963,419**

24 Additional information on statement of financial position

In thousands of NZD	Unaudited At 30/06/2018
Total interest earning and discount bearing assets	11,475,445
Total interest and discount bearing liabilities	9,882,950
Financial assets pledged as collateral	-

Notes to the Financial Statements

25 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.

25.1 Transactions with related parties

25.1.1 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.

25.1.2 Commission and fee expense

A fee of $0.33 million was charged to the Bank by Rabobank in consideration for providing the obligations guarantees for the six month period ended 30 June 2018 (December 2017: $0.8 million; June 2017: $0.44 million).

25.1.3 Management fees

A management fee of $13.6 million (December 2017: $32 million; June 2017: $17.3 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 $7.4 million (December 2017: $11 million; June 2017: $4.5 million) was charged to the Bank by the Rabobank Head Office for the provision of administrative and management services.

A management fee of $0.8 million (31 December 2017: $0.9 million; June 2017: $0.5 million) was charged to NZ Branch of Rabobank by the Bank for the provision of administrative and management services.

25.1.4 Other transactions

The Bank enters into a number of transactions with other related entities within the Rabobank related entities, but mainly with New Zealand Branch of Rabobank (Refer to notes 10, 12 and 13 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 $3.8 million (December 2017: $11.0 million; June 2017: $5.7 million), and the interest expense paid on related entities transactions was $91.2 million (December 2017: $184.2 million; June 2017: $91.9 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.

(v) Working capital facilities

A loan facility of EUR 4.75 billion was granted by the New Zealand Branch of Rabobank to the Bank on 21 December 2016. The unused amount at 30 June 2018 was EUR 1.3 billion.

25.2 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.

25.3 Provision for impairment

For the period ended 30 June 2018, the Bank has not made any specific provision for impairment relating to amounts owed by related parties as the payment history has been excellent (2017: 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.. The implementation of NZ IFRS 9 resulted in recognition of the impairment allowance relating to amounts owned by related parties of $0.2 million as a result of the new expected credit loss impairment model. (Refer to note 2.7 for key impacts of the implemenation of NZ IFRS 9 and note 10 for period end balances).

26 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.

27 Dividend

No dividend was proposed or paid by the Bank for the six months period ended 30 June 2018 (2017: Nil).

Independent Auditor's Review Report

To the Shareholders of Rabobank New Zealand Limited

Report on the financial statements and supplementary information

We have reviewed pages 6 to 38 of the Disclosure Statement for the six-months ended 30 June 2018 (the "Disclosure Statement") of Rabobank New Zealand Limited (the "Bank") which includes the 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 5, 7, 9, 13, 16 and 18 of the Order. The financial statements comprise the statement of financial position as at 30 June 2018, the statement of comprehensive income, the statement of changes in equity and the condensed statement of cash flows for the six month then ended, and the notes to the financial statements that include the basis of preparation and selected explanatory information for the Bank.

Directors' responsibility

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

In addition, the Directors are responsible on behalf of the Bank, for the preparation and presentation of supplementary information in the Disclosure Statement which complies with Schedules 3, 5, 7, 9, 13, 16 and 18 of the Order.

Our responsibility

Our responsibility is to express a conclusion on the financial statements and the supplementary information presented by the Directors based on our review:

- in relation to the financial statements (excluding the supplementary information) whether in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the financial statements have not been prepared, in all material respect, in accordance with New Zealand Equivalent to International Accounting Standard 34 (NZ IAS 34): *Interim Financial Reporting* and International Accounting Standard 34: *Interim Financial Reporting* (IAS 34).
- in relation to the supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements) whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order; and

Independent Auditor's Review Report *(continued)*

- in relation to the supplementary information relating to capital adequacy and regulatory liquidity requirements whether in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information is not, in all material respects, disclosed in accordance with Schedule 9 of the order.

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"). As the auditor of the Bank, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review 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) and International Standards on Auditing. Accordingly we do not express an audit opinion on the financial statements and supplementary information.

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

Conclusion

We have examined the financial statements and supplementary information and based on our review, nothing has come to our attention that causes us to believe that:

a) the financial statements on pages 6 to 38 (excluding the supplementary information) have not been prepared in all material respects, in accordance with NZ IAS 34 and IAS 34;

b) the supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements) required to be disclosed under Schedules 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 and regulatory liquidity requirements required to be disclosed under Schedule 9 of the Order, is not, in all material respect, disclosed in accordance with Schedule 9 of the Order.

pwc

Independent Auditor's Review Report (continued)

Who we report to

This report is made solely to the Bank's Shareholders. Our review work has been undertaken so that we might state to the Bank's 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 and the Bank's Shareholders, for our review procedures, for this report, or for the conclusions we have formed.

For and on behalf of:

Ashley Wood

PricewaterhouseCoopers

Chartered Accountants
31 August 2018

Sydney, Australia

Bank Financial Strength Dashboard

Reconciliation of Disclosure Statement to Dashboard

This section does not form part of the Disclosure Statement and contains the information in respect of the Banking Group included on the Bank Financial Strength Dashboard (Dashboard) published on the RBNZ's website. Amounts below may differ slightly from those published by the RBNZ due to rounding differences. The tables below include reconciliations to amounts included in the Disclosure Statement where there are classification differences between the financial statements and the Dashboard.

Credit Ratings

	Unaudited At 30/06/2018
S&P Global	A

Capital Adequacy

Capital ratios	Unaudited At 30/06/2018
Total capital ratio	13.40%
Common equity tier 1 (CET1) capital ratio	13.40%
Tier 1 capital ratio	13.40%
Buffer ratio	5.40%
Total capital ratio regulatory minimum	8.00%

in millions of NZD Capital	Unaudited At 30/06/2018
CET1 capital	1,531
CET1 deductions	13
Net CET1 capital	**1,518**
Total additional tier 1 capital	-
Total tier 1 capital	**1,518**
Total capital	**1,518**

Reconciliation of Disclosure Statement to Dashboard

Capital Adequacy (continued)

Risk weighted assets

At 30/06/2018 (Unaudited) in millions of NZD	Dashboard	Classification difference*	Disclosure Statement
Sovereign / quasi-sovereign	23	-	23
Public sector entities	-	-	-
Registered banks	26	-	26
Corporates	7,024	(7,024)	-
Retail / Residential mortgages	13	-	13
Other retail	-	-	-
Specialised lending exposures subject to slotting approach	-	-	-
Exposures subject to standardised approach	-	-	-
Problem loans	415	(12)	403
Equity holdings	-	-	-
Credit risk supervisory adjustment	-	-	-
All other assets	2,779	7,036	9,815
Commitments & contingent items	47	-	47
CCR for market-related contracts	10	-	10
Credit risk	10,337	-	10,337
Market risk	736	-	736
Operational risk	253	-	253
Total risk weighted assets	**11,326**	**-**	**11,326**

* Exposure categories, all at 100% risk weight

Asset Quality

At 30/06/2018 (Unaudited) in millions of NZD	Housing	Consumer	Business	Agriculture	All other	Total
Total loans	32	15	272	9,829	2	10,150
Impaired loans	-	-	9	270	-	279
Loans 90 days past due but not impaire	-	-	-	2	-	2
Total non-performing loans	**-**	**-**	**9**	**272**	**-**	**281**
Non-performing loans ratio (%)	0%	0%	3%	3%	0%	3%
Individual provisions	-	-	-	8	-	8
Collective provisions	-	-	-	29	-	29
On-balance sheet residential mortgage exposures with LVRs that:						
On-balance sheet residential mortgage exposures with LVRs that:						
Exceeds 80% and not 90%						12
Exceeds 90%						-

Reconciliation of Disclosure Statement to Dashboard

Profitability / Performance

in millions of NZD	Dashboard Unaudited 3 months to 31/03/2018	Dashboard Unaudited 3 months to 30/06/2018	Classification differences	Disclosure Statement Unaudited 6 months to 30/06/2018
Total interest income	134	136	-	270
Total interest expense	(72)	(72)	-	(144)
Net interest income	**62**	**64**	**-**	**126**
Gains/losses on trading and hedging	-	-	-	-
Fee and commission income	-	1	-	1
All other income	-	-	-	-
Operating expenses	(25)	(24)	-	(49)
Impaired asset expense	3	(3)	-	-
Profit before tax	**40**	**38**	**-**	**78**
Tax expense	(12)	(10)	-	(22)
Profit after tax	**28**	**28**	**-**	**56**
Return on assets (%)	1.1%	0.9%		1.0%
Return on equity (%)	8.0%	7.0%		7.4%
Net interest margin (%)	2.2%	2.2%		2.2%

Financial Position

At 30/06/2018 (Unaudited) in millions of NZD	Dashboard	Classification differences	Disclosure Statement
Cash and bank deposits	720	(436)	284
Debt securities held	651	-	651
Net loans and advances	10,112	(2)	10,110
Derivatives in an asset position	4	-	4
All other assets	23	(1)	22
Due from related entities	(included above)	439	439
Total assets	**11,510**	**-**	**11,510**
Deposits	4,005	-	4,005
Debt securities issued	-	-	-
Other borrowings	5,953	-	5,953
Derivatives in a liability position	4	-	4
All other liabilities	18	-	18
Total liabilities	**9,980**	**-**	**9,980**
Equity	**1,530**	**-**	**1,530**

Liquidity

Capital ratios	Dashboard / Disclosure Statement Unaudited 3 months to 31/03/2018	Dashboard / Disclosure Statement Unaudited 3 months to 30/06/2018
Quarterly average core funding ratio	93.2%	93.5%
Quarterly average one-month mismatch ratio	6.7%	6.4%
Quarterly average one-week mismatch ratio	6.7%	6.3%

Large Exposures

	Unaudited At 30/06/2018
Top 5 credit exposures to non-bank counterparties (ie corporates) as a ratio of CET1 capital	21.2%
Credit exposures to non-bank counterparties (ie corporates) that are greater than 10% of CET1 capital	-
Top 5 credit exposures to banks as a ratio of CET1 capital	5.1%
Credit exposures to banks that are greater than 10% of CET1 capital	-