Rabobank New Zealand Limited

Disclosure Statement - 30 June 2020

Rabobank

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 the following changes in the composition of the Bank’s board of directors since 31 December 2019, with each change having taken effect on 1 April 2020:

- Sir Henry van der Heyden resigned as a director of the Bank and was replaced as the Chair of the Bank by Andrew Borland;
- Peter Knoblanche resigned as a director of the Bank;
- Jillian Segal resigned as a director of the Bank; and
- Brent Goldsack was appointed as a director of the Bank.

Signing of the Disclosure Statement

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

- Andrew James Borland (Chairman)
- Geerten Battjes
- Brent Goldsack
- Anne Bernadette Brennan
- 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.

Rating Agency	Current Credit Rating
Standard & Poor’s	A (negative)

Auditors of 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+ (negative)
Moody's	Aa3 (stable)
Fitch	AA- (negative)

Details of guaranteed obligations

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

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

Further information about the guarantees

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

Material cross guarantee

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

Insurance business

The Banking Group does not conduct any insurance business.

Pending proceedings or arbitration

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

Conditions of registration

There have been the following changes to the Bank's Conditions of Registration between 31 December 2019 and 30 June 2020:

General Disclosures

Conditions of registration (continued)

- With effect on and after 2 April 2020, the Bank's Conditions of Registration were changed to provide that the Bank must make no distributions other than discretionary payments to holders of Additional Tier 1 capital instruments to the extent permitted by the Conditions of Registration, and also to reduce the Bank's Core Funding Ratio from 75% to 50%.
- With effect on and after 1 May 2020, the Bank's Conditions of Registration were changed to remove residential mortgage loan-to-valuation ratio restrictions

The Bank has complied with all its Conditions of Registration in the six month period ended 30 June 2020.

Risk management policies

Since 31 December 2019:

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

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

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

Since 31 December 2019, there have been no material changes in:

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

Over the six month period ended 30 June 2020, 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 2020, 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.

Other material matters

Since 31 December 2019, there have been no 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 2020:

- The Bank has complied with all Conditions of Registration that applied during the 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.

Todd Charteris

Dated: 28 August 2020

Statement of Comprehensive Income

In thousands of NZD	Note	Unaudited 6 months to 30/06/2020	Unaudited 6 months to 30/06/2019	Audited Year to 31/12/2019
Income Statement				
Interest income		247,878	277,661	545,651
Interest expense		(112,535)	(148,890)	(283,536)
Net interest income		**135,343**	**128,771**	**262,115**
Other income	3	479	565	1,090
Other expense	4	(252)	(255)	(448)
Other operating gains/(losses)	5	742	75	538
Non-interest income		**969**	**385**	**1,180**
Operating income		**136,312**	**129,156**	**263,295**
Operating expenses		(63,319)	(56,638)	(126,434)
Impairment (losses)/releases	6	(15,560)	(17,669)	(13,398)
Profit before income tax		**57,433**	**54,849**	**123,463**
Income tax expense		(16,162)	(15,338)	(34,123)
Profit after income tax		**41,271**	**39,511**	**89,340**
Other comprehensive income for the period / year				
Items that may be reclassified subsequently to profit or loss				
Changes in the fair value of financial assets at fair value through other comprehensive income (gross)	15.2	2,458	2,110	585
Changes in the fair value of financial assets through other comprehensive income (deferred tax)	15.2	(688)	(591)	(164)
Total items that may be reclassified subsequently to profit or loss		**1,770**	**1,519**	**421**
Items that will not be reclassified subsequently to profit or loss				
Total items that will not be reclassified subsequently to profit or loss		-	-	-
Total other comprehensive income for the period / year		**1,770**	**1,519**	**421**
Total comprehensive income attributable to members of Rabobank New Zealand Limited		**43,041**	**41,030**	**89,761**

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

Statement of Financial Position

In thousands of NZD	Note	Unaudited At 30/06/2020	Unaudited At 30/06/2019	Audited At 31/12/2019
Assets				
Cash and cash equivalents		134,602	675,427	344,353
Derivative financial instruments		10,584	6,262	7,163
Financial assets at fair value through other comprehensive income	7	892,928	578,637	732,631
Loans and advances	8	11,288,337	10,964,983	11,175,124
Due from related entities	10	130,770	248,313	251,758
Other assets		4,047	3,718	4,859
Net deferred tax assets		19,541	21,899	14,564
Property, plant and equipment	11	10,446	19,943	12,019
Intangible assets		928	970	1,057
Total assets		**12,492,183**	**12,520,152**	**12,543,528**
Liabilities				
Derivative financial instruments		10,804	6,368	7,241
Deposits	12	5,376,666	4,965,942	4,944,744
Due to related entities	13	5,371,839	5,893,456	5,891,702
Current tax payable		1,264	6,542	6,835
Other liabilities	14	16,187	24,691	20,802
Provisions		3,971	3,473	3,793
Total liabilities		**10,780,731**	**10,900,472**	**10,875,117**
Net Assets		**1,711,452**	**1,619,680**	**1,668,411**
Equity				
Contributed equity	15.1	551,200	551,200	551,200
Reserves	15.2	3,997	3,325	2,227
Retained earnings		1,156,255	1,065,155	1,114,984
Total equity		**1,711,452**	**1,619,680**	**1,668,411**

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
Opening balance as at 1 January 2019 (Audited)	**551,200**	**1,025,644**	**1,806**	**1,578,650**
Net profit	-	39,511	-	39,511
Other comprehensive income:				
Revaluation reserve - FVOCI financial assets	-	-	1,519	1,519
Closing balance as at 30 June 2019 (Unaudited)	**551,200**	**1,065,155**	**3,325**	**1,619,680**
Opening balance as at 1 January 2019 (Audited)	**551,200**	**1,025,644**	**1,806**	**1,578,650**
Net profit	-	89,340	-	89,340
Other comprehensive income:				
Revaluation reserve - FVOCI financial assets	-	-	421	421
Closing balance as at 31 December 2019 (Audited)	**551,200**	**1,114,984**	**2,227**	**1,668,411**
Opening balance as at 1 January 2020	**551,200**	**1,114,984**	**2,227**	**1,668,411**
Net profit	-	41,271	-	41,271
Other comprehensive income:				
Revaluation reserve - FVOCI financial assets	-	-	1,770	1,770
Closing balance as at 30 June 2020 (Unaudited)	**551,200**	**1,156,255**	**3,997**	**1,711,452**

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

Condensed Statement of Cash Flows

In thousands of NZD	Note	Unaudited 6 months to 30/06/2020	Unaudited 6 months to 30/06/2019	Audited Year to 31/12/2019
Cash flows from operating activities				
Interest income		250,511	283,143	550,450
Interest paid		(114,350)	(142,490)	(278,387)
Other cash inflows provided by operating activities		1,363	557	1,530
Other cash outflows used in operating activities		(89,705)	(88,818)	(159,573)
Net changes in operating assets and liabilities		274,263	574,124	193,187
Net cash flows from operating activities	18	**322,082**	**626,516**	**307,207**
Cash flows from Investing activities				
Net changes in investing activities		(2,041)	(1,044)	(4,928)
Net cash flows used in investing activities		**(2,041)**	**(1,044)**	**(4,928)**
Cash flows from financing activities				
Principal elements of lease payments		(2,032)	(1,736)	(3,321)
Net changes in other financing liabilities		(527,760)	(215,200)	(221,496)
Net cash flows used in financing activities		**(529,792)**	**(216,936)**	**(224,817)**
Net change in cash and cash equivalents		(209,751)	408,536	77,462
Cash and cash equivalents at the beginning of the period / year		344,353	266,891	266,891
Cash and cash equivalents at the end of the period / year		**134,602**	**675,427**	**344,353**

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 is incorporated in New Zealand.

The interim financial statements of the Bank are presented as at and for the six months ended 30 June 2020. 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 equivalent to International Accounting Standard ('NZ IAS') 34 'Interim Financial Reporting'. 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 2019. These financial statements also comply with IAS 34 'Interim Financial Reporting'.

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 (FVOCI assets) which have been measured at fair value. The going concern concept and the accrual basis of accounting have been adopted.

2.3 Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies. In preparing these interim financial statements, the significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those applied to the financial statements as at and for the year ended 31 December 2019.

The Bank has applied accounting estimates in the financial statements based on the forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2020 about future events that directors believe are reasonable in circumstances. There is a considerable degree of judgement involved in preparing the forecasts. The underlying assumptions are also subject to uncertainties which are often outside of the control of the Bank. Accordingly, actual economic conditions are likely to be different from those forecasts since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in the financial statements. The significant accounting estimates impacted by these forecasts and associated uncertainties are related to expected credit losses calculations.

Accounting treatment of the impacts from the COVID-19 pandemic

General

The impact of the COVID-19 pandemic has been assessed since the first quarter of 2020 and remains an area of judgement regarding the accounting treatment. Management and particularly risk management continue to monitor the lock down measures taken by the government, the macro economic scenarios and assessing the impact specifically relative to RNZL and the industry. As a result this has impacted the credit quality of the Bank's credit exposure and via model based provisioning also increased the collective impairment levels of the loan portfolio. Specific individual provisions as at June 2020 are immaterial. Assessments will continue throughout the second half of the year as the outlook and impacts change or materialise.

Impact of COVID-19 on NZ IFRS 9 impairment allowances

A large part of the impact on the expected credit losses resulting from the COVID-19 pandemic relates to changes to the forward-looking information that have an upward effect on NZ IFRS 9 Stage 1 and 2 impairment allowances, resulting in higher levels of impairment charges. Note 8 "Loans and advances" provides an overview of the exposures and impairment allowances per stage.

Notes to the financial statements

2. Basis of preparation (continued)

The macroeconomic scenarios applied in the first half of 2020 differ to those applied in 2019 and reflect current estimated economic conditions. The base case scenario reflects a downturn in 2020 followed by a recovery in 2021 as the Bank sees a significant mitigating effect from the financial support packages being introduced by the New Zealand government. The base case scenario is considered the most likely scenario with a likelihood of 70% while the downside and upside scenario each have a likelihood of 15% each. Further information on the macroeconomic scenarios and forward-looking information can be found in note 9 "Credit quality, impaired assets and provision for impairment".

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 2019. 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 period.

Notes to the financial statements

3. Other income

In thousands of NZD	Unaudited 6 months to 30/06/2020	Unaudited 6 months to 30/06/2019	Audited Year to 31/12/2019
Lending and credit facility related fee income	479	565	1,090
Total other income	**479**	**565**	**1,090**

4. Other expense

In thousands of NZD	Unaudited 6 months to 30/06/2020	Unaudited 6 months to 30/06/2019	Audited Year to 31/12/2019
Commission and fee expense	(252)	(255)	(448)
Total other expense	**(252)**	**(255)**	**(448)**

Balance relates to fees charged for the obligations guarantees provided by Rabobank. Refer to note 26 for further information on guarantees.

5. Other operating gains / (losses)

In thousands of NZD	Unaudited 6 months to 30/06/2020	Unaudited 6 months to 30/06/2019	Audited Year to 31/12/2019
Net trading gains / (losses) on derivatives	672	98	509
Losses on disposal/write off of property, plant and equipment	-	-	(3)
Gain on disposal of FVOCI financial assets	-	84	84
Foreign exchange gains / (losses)	70	(107)	(52)
Total other operating gains / (losses)	**742**	**75**	**538**

6. Impairment (losses) / releases

In thousands of NZD	Unaudited 6 months to 30/06/2020	Unaudited 6 months to 30/06/2019	Audited Year to 31/12/2019
Collective provisions releases / (charges)	(15,604)	(7,414)	(1,388)
Specific provisions releases / (charges)	44	(10,255)	(12,020)
Bad debt recovery	-	-	10
Total impairment releases / (losses)	**(15,560)**	**(17,669)**	**(13,398)**

In accordance with NZ IFRS 9, collective provisions consist of collective provision 12-Month ECL (stage 1), collective provision lifetime ECL not credit impaired (stage 2) and collective provision lifetime ECL credit impaired (stage 3A). Specific provisions consist of specific provision lifetime ECL credit impaired (Stage 3B).

Notes to the financial statements

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

In thousands of NZD	Unaudited At 30/06/2020	Unaudited At 30/06/2019	Audited At 31/12/2019
New Zealand Government Securities	717,734	420,604	541,092
Other debt securities (Kauri)	175,194	158,033	191,539
Total Financial assets FVOCI	**892,928**	**578,637**	**732,631**

The impairment allowance relating to financial assets at fair value through profit and loss is $10 thousand (31 December 2019: $3 thousand).

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 30/06/2020	Unaudited At 30/06/2019	Audited At 31/12/2019
Lending	11,288,100	10,954,055	11,153,434
Finance leases	50,306	56,430	54,352
Gross loans and advances	**11,338,406**	**11,010,485**	**11,207,786**
Accrued interest	6,976	8,075	7,944
Provisions for impairment			
Stage 3B	(12,563)	(18,719)	(11,768)
Stage 3A	(6,284)	(15,524)	(13,674)
Stage 2	(17,793)	(8,918)	(7,012)
Stage 1	(20,405)	(10,416)	(8,152)
Net loans and advances	**11,288,337**	**10,964,983**	**11,175,124**

9. Credit quality, impaired assets and provision for impairment

9.1 Individually impaired assets

	At 30 June 2020 (Unaudited)			
in thousands of NZD	Residential mortgages	Corporate	Retail*	Toal
Opening balance	-	-	414,299	414,299
Additions	-	-	108,711	108,711
Amounts written off	-	-	(30)	(30)
Returned to performing or repaid	-	-	(157,566)	(157,566)
Closing balance	**-**	**-**	**365,414**	**365,414**

Notes to the financial statements

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

9.2 Past due assets but not impaired

in thousands of NZD	At 30/06/2020 (Unaudited)			
	Residential mortgages	Corporate	Retail*	Total
Less than 30 days past due	-	-	19,113	19,113
At least 30 days but less than 60 days past due	-	-	1,831	1,831
At least 60 days but less than 90 days past due	-	-	436	436
At least 90 days past due	-	-	-	-
Closing balance	**-**	**-**	**21,380**	**21,380**

9.3 Other asset quality information

Aggregate amount of undrawn balances on lending commitments on impaired assets as at 30 June 2020 is $13,398 thousand.

There were no assets under administration as at 30 June 2020. (2019: Nil).

9.4 Provision for impairment loans and advances

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

In thousands of NZD	At 30/06/2020 (Unaudited)				
	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
Residential mortgages					
Opening balance	-	-	-	-	-
Charge to statement of comprehensive income	-	-	-	-	-
Amounts written off	-	-	-	-	-
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	-	-
Closing balance residential mortgages	**-**	**-**	**-**	**-**	**-**

In thousands of NZD	At 30/06/2020 (Unaudited)				
	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
Corporate					
Opening balance	-	-	-	-	-
Changes due to change in credit risk	-	-	-	-	-
Charge to statement of comprehensive income	-	-	-	-	-
Amounts written off	-	-	-	-	-
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	-	-
Closing balance corporate	**-**	**-**	**-**	**-**	**-**

Notes to the financial statements

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

In thousands of NZD	At 30/06/2020 (Unaudited)				
	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
Retail*					
Opening balance	7,163	6,891	13,673	11,768	39,495
Charge to statement of comprehensive income	9,589	9,370	(7,389)	(91)	11,479
Amounts written off	-	-	-	(30)	(30)
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	(7)	-	869	862
Closing balance retail	**16,752**	**16,254**	**6,284**	**12,516**	**51,806**

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

9.5 Provision for impairment loans and advances

9.5.1 Provision for impairment on commitments and financial guarantees associated with loans and advances

In thousands of NZD	At 30/06/2020 (Unaudited)				
	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
Opening balance	989	121	1	-	1,111
Charge to statement of comprehensive income	2,664	1,418	(1)	47	4,128
Amounts written off	-	-	-	-	-
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	-	-
Closing balance on loan commitments and financial guarantees	**3,653**	**1,539**	**-**	**47**	**5,239**

9.5.2 Total provisions for impairment on loans and advances

In thousands of NZD	At 30/06/2020 (Unaudited)				
	Stage 1	Stage 2	Stage 3A	Stage 3B	Total
Opening balance	8,152	7,012	13,674	11,768	40,606
Charge to statement of comprehensive income	12,253	10,788	(7,390)	(44)	15,607
Amounts written off	-	-	-	(30)	(30)
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	(7)	-	869	862
Closing balance on loans and advances and loan commitments and financial guarantees	**20,405**	**17,793**	**6,284**	**12,563**	**57,045**

Notes to the financial statements

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

9.6 Provision for impairment due from related entities

Impairment allowances on due from related entities

	At 30/06/2020 (Unaudited)				
In thousands of NZD	**Stage 1**	**Stage 2**	**Stage 3A**	**Stage 3B**	**Total**
Opening balance	112	-	-	-	112
Charge to statement of comprehensive income	(47)	-	-	-	(47)
Amounts written off	-	-	-	-	-
Recoveries	-	-	-	-	-
Reversals	-	-	-	-	-
Other movements	-	-	-	-	-
Closing balance related parties	**65**	**-**	**-**	**-**	**65**

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

9.7 Impact of changes in gross financial assets on loss allowance

The following explains how significant changes in the gross carrying amount of financial assets during the period have contributed to the changes in the provision for doubtful debts. Provision for doubtful debts reflects ECL measured using the three-stage approach under NZ IFRS 9.

Overall, the net increase in the total provision for doubtful debts since 31 December 2019 was driven by increases in provisioning across stages 1 and 2.

Collective provision 12-months ECL (Stage 1) and collective provision lifetime ECL - not credit impaired (Stage 2) increased by $12,253 thousand and $10,781 thousand respectively, mainly due to the updated Macro Economic Scenario (MES) which includes the COVID-19 Pandemic outlook as at 30 June 2020. The net movement in originated and repaid loans did not have a significant impact on movement in provision.

Collective provision lifetime ECL - credit impaired (Stage 3A) decreased by $7,390 thousand, mainly due to the movement from Stage 3A to Stages 2 and 3B.

Specific provision lifetime ECL- credit impaired (Stage 3B) increased by $795 thousand, reflecting an increase in credit risk which is offset by reduction in impaired assets.

9.8 Forward-looking information and macro-economic scenarios

The estimation of ECL for each stage and the assessment of significant increases in credit risk consider information about past events and current conditions as well as forecasts of future events and economic conditions (forward looking information). There is a considerable degree of judgement involved in preparing these forecasts due to the uncertainly around impact of COVID-19. The Bank uses three, probability-weighted, macroeconomic scenarios (consisting of a baseline, a baseline minus and a baseline plus scenario) in the ECL models to determine the expected credit losses. Important variables are gross domestic product growth, private sector investments and exports of goods and services. These forward looking macroeconomic forecasts require judgment and are largely based on internal Rabobank research.
An analysis on the sensitivity of key forward-looking macroeconomic inputs used in the ECL modelling process for stage 1 and stage 2 provisioning and the probability-weights applied to each of the three scenarios is presented below.

Notes to the financial statements

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

New Zealand		***2020***	***2021***	***2022***	***ECL unweighted In thousands of NZD***	***Probability***	**Weighted ECL in thousands of NZD** ***30 June 2020***	**Weighted ECL in thousands of NZD** ***31 December 2019***
Plus	GDP per capita	-9.1%	4.8%	2.2%	29,192	15%		
	Private sector investments	-13.5%	-1.9%	4.2%				
	Exports of Goods & Services	-6.5%	7.1%	4.7%				
Baseline	GDP per capita	-9.2%	3.5%	1.8%				
	Private sector investments	-14.6%	-5.1%	3.9%	31,982	70%	32,417	9,205
	Exports of Goods & Services	-7.0%	4.0%	4.5%				
Minus	GDP per capita	-9.3%	1.4%	0.9%				
	Private sector investments	-16.3%	-10.4%	3.4%	37,568	15%		
	Exports of Goods & Services	-7.7%	-0.9%	4.3%				

10. Due from related entities

In thousands of NZD	**Unaudited At 30/06/2020**	**Unaudited At 30/06/2019**	**Audited At 31/12/2019**
Current account balances - wholly owned group*	7,455	8,137	3,769
Advances - wholly owned group*	123,325	239,573	247,660
Accrued interest receivable - wholly owned group*	54	709	441
Stage 1 provision for impairment (note 9.6)	(64)	(106)	(112)
Total due from related entities	**130,770**	**248,313**	**251,758**

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

* The wholly owned group refers to other Rabobank related entities. Refer to note 26 for further information on related party disclosures.

Notes to the financial statements

11. Property, plant and equipment

In thousands of NZD	Right-of-use asset - Property	Right-of-use asset - Cars	Office Fixtures & Fittings	Office Equipment	Computer Hardware	Total
Balance as at 30 June 2019 (Unaudited)						
Cost	16,360	2,895	10,699	162	1,443	31,559
Accumulated depreciation	(1,422)	(467)	(8,403)	(55)	(1,269)	(11,616)
Net book value	**14,938**	**2,428**	**2,296**	**107**	**174**	**19,943**
Balance as at 31 December 2019 (Audited)						
Cost	10,123	3,263	10,733	162	1,442	25,723
Accumulated depreciation	(2,503)	(1,019)	(8,780)	(69)	(1,333)	(13,704)
Net book value	**7,620**	**2,244**	**1,953**	**93**	**109**	**12,019**
Balance as at 30 June 2020 (Unaudited)						
Cost	10,542	3,639	10,751	162	1,443	26,537
Accumulated depreciation	(3,986)	(1,485)	(9,162)	(82)	(1,376)	(16,091)
Net book value	**6,556**	**2,154**	**1,589**	**80**	**67**	**10,446**

In respect of Right-of-use asset, refer to Note 17.2 for further information on the nature of leasing contracts.

For the six months ended 30 June 2020, the Depreciation Charge on the Right-of-use assets was $ 1,467 thousand for properties, and $586 thousand for cars. There were additions of $814 thousand for the Right-of-use assets.

Notes to the financial statements

12. Deposits

In thousands of NZD	Unaudited At 30/06/2020	Unaudited At 30/06/2019	Audited At 31/12/2019
Call deposits	1,941,945	1,715,190	1,744,662
Term deposits	3,401,194	3,214,188	3,156,843
Accrued interest	33,527	36,564	43,239
Total deposits	**5,376,666**	**4,965,942**	**4,944,744**

13. Due to related entities

In thousands of NZD	Unaudited At 30/06/2020	Unaudited At 30/06/2019	Audited At 31/12/2019
Current account balances - wholly owned group*	50,382	26,876	24,853
Borrowings - wholly owned group*	5,291,835	5,836,929	5,845,124
Accrued interest payable - wholly owned group*	29,622	29,651	21,725
Total due to related entities	**5,371,839**	**5,893,456**	**5,891,702**

* The wholly owned group refers to other Rabobank related entities. Refer to note 26 for further information on related party disclosures.

14. Other liabilities

In thousands of NZD	Unaudited At 30/06/2020	Unaudited At 30/06/2019	Audited At 31/12/2019
Lease liabilities	8,914	17,520	10,073
Sundry creditors	2,522	3,987	2,801
Accrued expenses	4,751	3,184	7,928
Total other liabilities	**16,187**	**24,691**	**20,802**

Interest expense on lease liabilities amounted to $161 thousand for the six months ended 30 June 2020, and is included within 'Interest Operating expense' in the Statement of Other Comprehensive Income.

15. Contributed equity, Reserves and Capital management

15.1 Contributed equity

In thousands of NZD	Unaudited At 30/06/2020	Unaudited At 30/06/2019	Unaudited At 31/12/2019
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 2020, total authorised and paid up capital comprises 275,600,000 ordinary shares fully paid ranking equally as to dividends, voting rights and rights to share in any surplus on winding up (31 December 2019: 275,600,000; 30 June 2019: 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.

Notes to the financial statements

15. Contributed equity, Reserves and Capital management (continued)

15.2 Reserves

In thousands of NZD	Unaudited At 30/06/2020	Unaudited At 30/06/2019	Audited At 31/12/2019
FVOCI financial assets reserve			
Opening balance	2,227	1,806	1,806
Changes in FVOCI financial assets revaluation reserve (gross)	2,458	2,110	585
Changes in FVOCI financial assets revaluation reserve (deferred tax)	(688)	(591)	(164)
Total FVOCI reserve	**3,997**	**3,325**	**2,227**

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

15.3 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 2019 financial year and during the 2020 half year period.

16. Contingent liabilities and credit related commitments

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.

During 2020 the Bank completed a review of its compliance with the Holidays Act 2003. This review has identified that there are some areas of non-compliance and some areas of possible non-compliance with the requirements of the Holidays Act 2003. There is some uncertainty as to whether certain “discretionary payments” ought to be included, or excluded, from the rate at which staff holiday entitlements are accrued and paid. The Bank has notified MBIE of its intention to complete the analysis necessary to complete any necessary remediation. Work has commenced subsequent to 30 June 2020 to clarify any liability the Bank has. It is not possible to make a reliable estimate of the quantum of any potential liability.

Notes to the financial statements

16. Contingent liabilities and credit related commitments (continued)

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 credit related commitments:

In thousands of NZD	Unaudited At 30/06/2020	Unaudited At 30/06/2019	Audited At 31/12/2019
Guarantees	5,893	5,875	5,776
Lending commitments			
Irrevocable lending commitments	60,760	71,616	63,785
Revocable lending commitments	1,535,123	1,410,751	1,491,888
Total contingent liabilities	**1,601,776**	**1,488,242**	**1,561,449**

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.

17. Expenditure Commitments

17.1 Capital expenditure commitments

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

In thousands of NZD	Unaudited At 30/06/2020	Unaudited At 30/06/2019	Audited At 31/12/2019
One year or less	194	-	733
Total capital expenditure commitments	**194**	**-**	**733**

17.2 Non-cancellable operating lease commitments

In thousands of NZD	Unaudited At 30/06/2020	Unaudited At 30/06/2019	Audited At 31/12/2019
One year or less	818	962	916
Between one and two years	534	695	582
Between two and five years	2,100	567	490
Over five years	4,177	24	-
Total operating lease commitments	**7,629**	**2,248**	**1,988**

Operating lease commitments include short-term leases, service portion of lease payments under operating leases and leases entered into by the Bank before lease commencement date.

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

Notes to the financial statements

17. Expenditure Commitments (continued)

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.

18. Reconciliation of net cash flows from operating activities

In thousands of NZD	Unaudited 6 months to 30/06/2020	Unaudited 6 months to 30/06/2019	Audited Year to 31/12/2019
Net profit after tax	41,271	39,511	89,340
Non-cash items	19,233	18,507	18,242
Deferrals or accruals of past or future operating cash receipts or payments			
Change in net operating assets and liabilities	274,263	574,124	193,187
Change in interest receivable/payable	818	11,883	9,948
Change in other deferrals or accruals	(13,503)	(17,509)	(3,510)
Net cash flows from / (used in) operating activities	**322,082**	**626,516**	**307,207**

19. Risks arising from financial instruments

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

19.1 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.

Notes to the financial statements

19. Risks arising from financial instruments (continued)

19.1.1 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 June 2020 (Unaudited)							
Financial assets							
Cash and cash equivalents	134,602	134,602	-	-	-	-	-
Derivative financial instruments	10,669	-	1,557	453	2,101	6,414	144
Financial assets at fair value through other comprehensive income	894,427	-	623,917	131,628	344	138,538	-
Loans and advances	11,360,569	-	2,206,739	2,624,881	3,346,830	2,575,729	606,390
Due from related entities	131,105	7,455	48,414	30,071	104	45,061	-
Other financial assets	2,953	-	2,953	-	-	-	-
Total financial assets	**12,534,325**	**142,057**	**2,883,580**	**2,787,033**	**3,349,379**	**2,765,742**	**606,534**
Financial liabilities							
Derivative financial instruments	10,886	-	1,560	450	2,321	6,411	144
Deposits	5,382,930	1,941,944	2,342,452	518,282	290,037	290,170	45
Due to related entities	5,381,778	50,379	1,669,730	1,463,325	2,153,283	45,061	-
Other liabilities	16,662	-	9,417	2,015	2,786	2,426	18
Total financial liabilities	**10,792,256**	**1,992,323**	**4,023,159**	**1,984,072**	**2,448,427**	**344,068**	**207**
Contingent liabilities							
Guarantees	5,893	5,873	-	-	-	-	20
Lending commitments	1,595,883	1,589,487	60	151	1,772	1,006	3,407
Total contingent liabilities	**1,601,776**	**1,595,360**	**60**	**151**	**1,772**	**1,006**	**3,427**

Notes to the financial statements

19. Risks arising from financial instruments (continued)

19.2 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 June 2020 (Unaudited)							
Financial assets							
Cash and cash equivalents	134,602	134,602	-	-	-	-	-
Derivative financial instruments	10,584	-	-	-	-	-	10,584
Financial assets at fair value through	892,928	507,778	104,972	131,346	10,635	138,197	-
Loans and advances	11,288,337	5,649,376	757,543	1,598,670	2,511,288	764,229	7,231
Due from related entities	130,770	130,713	-	-	-	-	57
Other financial assets	2,953	-	-	-	-	-	2,953
Total financial assets	**12,460,174**	**6,422,469**	**862,515**	**1,730,016**	**2,521,923**	**902,426**	**20,825**
Other assets	1,094	-	-	-	-	-	1,094
Net deferred tax assets	19,541	-	-	-	-	-	19,541
Property, plant and equipment	10,446	-	-	-	-	-	10,446
Intangible assets	928	-	-	-	-	-	928
Total non-financial assets	**32,009**	**-**	**-**	**-**	**-**	**-**	**32,009**
Total assets	**12,492,183**	**6,422,469**	**862,515**	**1,730,016**	**2,521,923**	**902,426**	**52,834**
Financial liabilities							
Derivative financial instruments	10,804	-	-	-	-	-	10,804
Deposits	5,376,666	3,228,238	1,045,082	500,010	281,469	288,340	33,527
Due to related entities	5,371,839	1,821,379	702,000	1,099,000	1,667,000	45,000	37,460
Other liabilities	16,187	1,001	1,008	1,885	2,660	2,361	7,272
Total financial liabilities	**10,775,496**	**5,050,618**	**1,748,090**	**1,600,895**	**1,951,129**	**335,701**	**89,063**
Current tax payable	1,264	-	-	-	-	-	1,264
Provisions	3,971	-	-	-	-	-	3,971
Total non-financial liabilities	**5,235**	**-**	**-**	**-**	**-**	**-**	**5,235**
Total liabilities	**10,780,731**	**5,050,618**	**1,748,090**	**1,600,895**	**1,951,129**	**335,701**	**94,298**
Swaps	-	77,246	35,000	(5,000)	(16,700)	(90,546)	
Repricing gap (interest bearing assets and liabilities)	1,752,916	1,449,097	(850,575)	124,121	554,094	476,179	
Cumulative mismatch	**1,752,916**	**1,449,097**	**598,522**	**722,644**	**1,276,738**	**1,752,917**	

Notes to the financial statements

19. Risks arising from financial instruments (continued)

19.3 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.

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

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

Credit exposures consist of:

In thousands of NZD	30 June At 30/06/2020
Cash and cash equivalents	134,602
Financial assets at fair value through other comprehensive income	892,928
Loans and advances	11,288,337
Due from related entities	130,770
Other financial assets	2,953
Derivative financial instruments	10,584
Commitment and guarantees (note 16)	1,601,776
Total credit exposures	**14,061,950**

Analysis of credit exposures by industry:

In thousands of NZD	30 June At 30/06/2020
Agriculture	12,634,684
Finance and insurance	393,369
Forestry and fishery	34,717
Government	772,141
Property and business services	74,328
Other	152,711
Total credit exposures	**14,061,950**

Analysis of credit exposures by geographical areas:

In thousands of NZD	30 June At 30/06/2020
New Zealand	13,869,191
Australia	8,396
Finland	73,254
Germany	33,962
Philippines	32,260
United States of America	31,859
The Netherlands	2,315
Luxembourg	10,713
Total credit exposures	**14,061,950**

Notes to the financial statements

19. Risks arising from financial instruments (continued)

19.3.2 Concentration of credit exposures to individual counterparties

	Unaudited	
	At 30 June 2020	Peak for the period
Number of bank counterparties:		
Percentage of Common equity Tier 1 capital		
10-15%	-	-
15-20%	-	-
20%-25%	-	1
25%-30%	-	-
30%-35%	-	-
Number of non-bank counterparties:		
Percentage of Common equity Tier 1 capital		
10-15%	-	-
15-20%	-	-
20-25%	-	-
25-30%	-	-

All bank counterparties disclosed in the table above have a long-term credit rating of A- or A3 or above.

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

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

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

20. Fair values 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:

Notes to the financial statements

20. Fair values of financial instruments (continued)

	Unaudited At 30 June 2020		Unaudited At 30 June 2019		Audited At 31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
In thousands of NZD						
Financial assets						
Cash and cash equivalents	134,602	134,602	675,427	675,427	344,353	344,353
Derivative financial instruments	10,584	10,584	6,262	6,262	7,163	7,163
Financial assets at fair value through other comprehensive income	892,928	892,928	578,637	578,637	732,631	732,631
Loans and advances	11,288,337	11,580,903	10,964,983	11,182,344	11,175,124	11,397,943
Due from related entities	130,770	129,874	248,313	249,944	251,758	250,751
Other financial assets	2,953	2,953	2,376	2,376	4,111	4,111
Total financial assets	**12,460,174**	**12,751,844**	**12,475,998**	**12,694,990**	**12,515,140**	**12,736,952**
Financial liabilities						
Derivative financial instruments	10,804	10,804	6,368	6,368	7,241	7,241
Deposits	5,376,666	5,455,867	4,965,942	5,042,006	4,944,744	5,017,905
Due to related entities	5,371,839	5,411,728	5,893,456	5,934,670	5,891,702	5,925,105
Other financial liabilities	16,186	16,186	24,691	24,691	20,802	20,802
Total financial liabilities	**10,775,495**	**10,894,585**	**10,890,457**	**11,007,735**	**10,864,489**	**10,971,053**

Notes to the financial statements

20. Fair values of financial instruments (continued)

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 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).

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 2020 (Unaudited)				
Financial assets				
Derivative financial instruments	-	10,584	-	10,584
Financial assets at fair value through other comprehensive income	892,928	-	-	892,928
Financial liabilities				
Derivative financial instruments	-	10,804	-	10,804

In thousands of NZD	Level 1	Level 2	Level 3	Total
At 30 June 2019 (Unaudited)				
Financial assets				
Derivative financial instruments	-	6,262	-	6,262
Financial assets at fair value through other comprehensive income	578,637	-	-	578,637
Financial liabilities				
Derivative financial instruments	-	6,368	-	6,368

Notes to the financial statements

20. Fair values of financial instruments (continued)

In thousands of NZD	Level 1	Level 2	Level 3	Total
At 31 December 2019 (Unaudited)				
Financial assets				
Derivative financial instruments	-	7,163	-	7,163
Financial assets at fair value through other comprehensive income	732,631	-	-	732,631
Financial liabilities				
Derivative financial instruments	-	7,241	-	7,241

Transfers in and transfers out of fair value hierarchy levels are reported using the end-of-period fair values. There were no transfers between fair value hierarchy levels during the period.

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.

Notes to the financial statements

21. 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 June 2020 (Unaudited)			At 30 June 2019 (Unaudited)		
	Current	Non-Current	Total	Current	Non-Current	Total
In thousands of NZD						
Assets						
Cash and cash equivalents	134,602	-	134,602	675,427	-	675,427
Derivative financial instruments	2,010	8,574	10,584	30	6,232	6,262
FVOCI financial assets	754,730	138,198	892,928	480,447	98,190	578,637
Loans and advances	5,595,837	5,692,500	11,288,337	5,434,996	5,529,987	10,964,983
Due from related entities	85,770	45,000	130,770	173,313	75,000	248,313
Other assets	4,047	-	4,047	3,718	-	3,718
Net deferred tax assets	-	19,541	19,541	-	21,899	21,899
Property, plant and equipment	-	10,446	10,446	-	19,943	19,943
Intangible assets	-	928	928	-	970	970
Total Assets	**6,576,996**	**5,915,187**	**12,492,183**	**6,767,931**	**5,752,221**	**12,520,152**
Liabilities						
Derivative financial instruments	2,503	8,301	10,804	132	6,236	6,368
Deposits	3,974,209	1,402,457	5,376,666	3,647,649	1,318,293	4,965,942
Due to related entities	3,174,839	2,197,000	5,371,839	2,423,456	3,470,000	5,893,456
Current tax payable	1,264	-	1,264	6,542	-	6,542
Other liabilities	3,893	12,294	16,187	10,492	14,199	24,691
Provisions	1,692	2,279	3,971	1,447	2,026	3,473
Total Liabilities	**7,158,400**	**3,622,331**	**10,780,731**	**6,089,718**	**4,810,754**	**10,900,472**

Notes to the financial statements

22. Capital adequacy under the standardised approach and regulatory liquidity ratio

22.1 Capital

In thousands of NZD	Unaudited 30 June At 30/06/2020
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)	1,156,255
Accumulated other comprehensive income and other disclosed reserves	3,997
Less deductions from CET1 capital:	
Deferred tax assets	(19,541)
Goodwill and other intangible assets	(928)
Subtotal CET1 capital	**1,690,983**
Additional Tier 1 ("ATI") capital	
Subtotal AT1 capital	**-**
Total Tier 1 capital	**1,690,983**
Tier 2 capital	
Total Tier 2 capital	**-**
Total capital	**1,690,983**

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 15 for information about material terms and conditions of each instrument disclosed above.

Notes to the financial statements

22. Capital adequacy under the standardised approach and regulatory liquidity ratio (continued)

22.2 Credit risk

22.2.1 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 30/06/2020 (Unaudited)				
Cash and gold bullion	-	0%	-	-
Sovereigns and central banks	829,539	0%	-	-
Multilateral development banks and other international organisations	83,038	0%	-	-
Multilateral development banks and other international organisations	33,711	20%	6,742	539
Banks	81,249	20%	16,250	1,300
Banks - related party[1]	6,039	20%	1,208	97
Public sector entities	-	20%	-	-
Corporate	-	50%	-	-
Residential mortgages not past due - LVR does not exceed 80%	25,543	35%	8,940	715
Residential mortgages not past due - LVR between 80% and 90%	693	50%	347	28
Residential mortgages not past due - LVR between 90% and 100%	-	75%	-	-
Past due residential mortgages	-	100%	-	-
Other past due assets[2]	346,688	150%	520,032	41,603
Equity holdings (not deducted from capital) that are publicity traded	-	300%	-	-
All other equity holdings (not deducted from capital)	-	400%	-	-
Other[3]	273	0%	-	-
Other[4]	10,929,628	100%	10,929,628	874,370
Non-risk weighted assets[5]	31,053	N/A	-	-
Total on-balance sheet exposures	**12,367,454**		**11,483,147**	**918,652**

[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 22.3 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

22. Capital adequacy under the standardised approach and regulatory liquidity ratio (continued)

22.2.2 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 June 2020 (Unaudited)						
Direct credit substitutes	5,893	100%	5,893	100%	5,893	471
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	60,760	50%	30,380	100%	30,380	2,430
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	1,535,123	0%	-	100%	-	-
Market related contracts*						
Foreign exchange forwards - related entities	633	N/A	13	20%	3	-
Foreign exchange forwards	312	N/A	10	100%	10	1
Foreign exchange forwards - related entities	86	N/A	1	20%	-	-
Foreign exchange forwards	89	N/A	1	100%	1	-
Interest rate swaps - related entities	157,246	N/A	611	20%	122	10
Interest rate swaps	157,246	N/A	8,121	100%	8,121	650
Commodity swaps - related entities	58,493	N/A	6,800	20%	1,360	109
Commodity swaps	58,493	N/A	9,124	100%	9,124	730
Other - Credit valuation adjustment	-	N/A	-	2.0%	9,938	795
Other - Credit valuation adjustment	-	N/A	-	0.8%	1,225	98
Total off-balance sheet exposures	**2,034,374**		**60,954**		**66,177**	**5,294**

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

Notes to the financial statements

22. Capital adequacy under the standardised approach and regulatory liquidity ratio (continued)

22.2.3 Additional residential mortgages information

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

In thousands of NZD	At 30 June 2020 (Unaudited) Drawn	Undrawn	Total
LVR range			
Do not exceed 80%	25,543	8,951	34,494
Exceeds 80% and not 90%	693	668	1,361
Exceeds 90%	-	-	-
Total value of residential mortgage exposures	**26,236**	**9,619**	**35,855**

Reconciliation of mortgage related accounts

In thousands of NZD	Unaudited 30 June At 30/06/2020
Loans and advances - loans with residential mortgages	26,236
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	26,236
Off-balance sheet residential mortgages exposures subject to the standardised approach	9,619
Total residential mortgage exposures subject to the standardised approach (as per LVR analysis)	**35,855**

22.3 Credit risk mitigation

In thousands of NZD	At 30/06/2020 (Unaudited) 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*	130,768	-
Corporate	-	-
Residential mortgage	-	-
Other	-	-
Total gross-exposure basis	**130,768**	**-**
Total net-exposure basis (note 22.2.1*)	**6,039**	**-**

* 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.

Notes to the financial statements

22. Capital adequacy under the standardised approach and regulatory liquidity ratio (continued)

22.4 Operational risk

Operational risk capital requirement

	At 30/06/2020 (Unaudited)	
In thousands of NZD	**Implied risk weighted exposure**	**Total operational risk capital requirement**
Operational risk	790,063	63,205
Total	**790,063**	**63,205**

22.5 Market risk period-end capital charges

	At 30/06/2020 (Unaudited)	
In thousands of NZD	**Implied risk weighted exposure**	**Aggregate capital charges**
Interest rate risk	345,250	27,620
Foreign currency risk	22,500	1,800
Total	**367,750**	**29,420**

The bank does not take any equity risk.

22.6 Market risk peak end-of-day capital charges

	At 30/06/2020 (Unaudited)	
In thousands of NZD	**Implied risk weighted exposure**	**Aggregate capital charges**
Interest rate risk	399,500	31,960
Foreign currency risk	29,500	2,360
Total	**429,000**	**34,320**

The bank does not take any equity risk.

22.7 Method for delivering peak end-of-day aggregate capital charge

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

Notes to the financial statements

22. Capital adequacy under the standardised approach and regulatory liquidity ratio (continued)

22.8 Total capital requirements

	At 30/06/2020 (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	14,401,828	11,549,324	923,946
Operational risk	N/A	790,063	63,205
Market risk	N/A	367,750	29,420
Total	**14,401,828**	**12,707,137**	**1,016,571**

22.9 Capital ratios

	At 30 June 2020 (Unaudited)		At 30 June 2019 (Unaudited)	
In percentage (%)	**Ratio**	**Minimum ratio requirement**	**Ratio**	**Minimum ratio requirement**
Common Equity Tier 1 capital ratio	13.31%	4.50%	13.03%	4.50%
Tier 1 capital ratio	13.31%	6.00%	13.03%	6.00%
Total capital ratio	**13.31%**	**8.00%**	**13.03%**	**8.00%**

22.10 Buffer ratio

In percentage (%)	**At 30 June 2020 (Unaudited)**	**At 30 June 2019 (Unaudited)**
Buffer ratio* (in excess of the minimum tier 1 capital ratio requirement)	5.31%	5.03%
Buffer ratio requirement	2.50%	2.50%

22.11 Solo capital adequacy

In percentage (%)	**At 30 June 2020 (Unaudited)**	**At 30 June 2019 (Unaudited)**
Total capital ratio	13.31%	13.03%
Common equity tier 1 (CET1) capital ratio	13.31%	13.03%
Tier 1 capital ratio	13.31%	13.03%

*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).

22.12 Pillar 2 capital for other material risks

In thousands of NZD	**At 30 June 2020 (Unaudited)**	**At 30 June 2019 (Unaudited)**
Internal capital allocation for other material risks	50,829	49,010

Notes to the financial statements

22. Capital adequacy under the standardised approach and regulatory liquidity ratio (continued)

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

(i) 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, size of exposures, etc.
(ii) Liquidity risk: Liquidity risk is defined as the risk that the Bank fails to have sufficient liquidity to meet financial obligations as they fall due (funding liquidity risk) across a wide range of operating circumstances; and that liquidity in financial markets may reduce significantly which results in a shortfall of market liquidity risk.
(iii) Reputation risk: Reputation risk is defined as the potential that negative publicity, perception and/or loss of confidence regarding RNZL'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 defined as the risk of legal or regulatory sanctions, material financial loss,or loss of reputation that Rabobank New Zealand may suffer as a result of its failure to comply with key legislation, regulatory standards, industry codes and internal policies applicable to its financial services activities.

The Bank has completed an internal assessment of all the material risks focused by the Bank. This is described in the ICAAP document. The result show that no individual Pillar 2 risk would require a high capital allocation. However, in line with the Bank's prudent capital management, it believes that an internal capital allocation of 5% of Pillar 1 capital for Pillar 2 would provide a sufficient capital measure given the current risk profile of the Bank. 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.

22.13 Capital adequacy of the ultimate parent bank

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

	2020 %	2019 %
At 30 June (Unaudited)		
Common equity Tier 1 capital ratio	16.60%	15.80%
Tier 1 capital ratio	18.40%	17.80%
Total capital ratio	**24.30%**	**24.40%**

Minimum capital requirements

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

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

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

Rabobank's Capital Adequacy and Risk Management Report (pillar 3) are publicly available on https://www.rabobank.com/en/images/pillar-3-report-2019.pdf

Notes to the financial statements

22. Capital adequacy under the standardised approach and regulatory liquidity ratio (continued)

22.14 Regulatory liquidity ratios

	30 June 3 months to 31/03/2020	30 June 3 months to 30/06/2020
Capital ratios		
Quarterly average core funding ratio	83.1%	82.4%
Quarterly average one-month mismatch ratio	7.0%	10.2%
Quarterly average one-week mismatch ratio	6.8%	9.6%

23. 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 2020 and 30 June 2019. The column 'net amount' shows the impact on the bank's balance sheet if all set-off rights were exercised.

	Effects of offsetting on the balance sheet			Related amounts not offset		
30/06/2020 (Unaudited)	**Gross amounts**	**Gross amounts set off in the balance sheet**	**Net amounts presented in the balance sheet**	**Amounts subject master agreements**	**Financial instrument collateral**	**Net amount**
In thousands of NZD						
Financial Assets						
Cash and cash equivalents	134,602	-	134,602	-	-	134,602
Derivative financial instruments	10,584	-	10,584	-	-	10,584
Total financial assets	**145,186**	**-**	**145,186**	**-**	**-**	**145,186**
Financial Liabilities						
Derivative financial instruments	10,804	-	10,804	-	-	10,804

Notes to the financial statements

23. Offsetting financial assets and financial liabilities (continued)

30/06/2019 (Unaudited)	Effects of offsetting on the balance sheet			Related amounts not offset		
	Gross amounts	Gross amounts set off in the balance sheet	Net amounts presented in the balance sheet	Amounts subject master agreements	Financial instrument collateral	Net amount
In thousands of NZD						
Financial Assets						
Cash and cash equivalents	675,427	-	675,427	-	-	675,427
Derivative financial instruments	6,262	-	6,262	-	-	6,262
Total financial assets	**681,689**	**-**	**681,689**	**-**	**-**	**681,689**
Financial Liabilities						
Derivative financial instruments	6,368	-	6,368	-	-	6,368

24. Concentration of funding

24.1 Total funding comprised

In thousands of NZD	30 June At 30/06/2020
Deposits	5,376,666
Due to related entities	5,371,839
Other liabilities	16,186
Total funding	**10,764,691**

24.2 Analysis of funding by industry

In thousands of NZD	30 June At 30/06/2020
Agriculture	750,324
Finance and Insurance	6,511,105
Personal and other services	3,231,509
Other	271,753
Total funding	**10,764,691**

Notes to the financial statements

24. Concentration of funding (continued)

24.3 Analysis of funding by geographical areas

In thousands of NZD	30 June At 30/06/2020
New Zealand	10,642,596
Australia	59,234
The Netherlands	10,405
United Kingdom	16,358
United States of America	9,609
All other countries	26,489
Total funding	**10,764,691**

25. Additional information on statement of financial position

In thousands of NZD	30 June At 30/06/2020
Total interest earning and discount bearing assets	**12,439,349**
Total interest and discount bearing liabilities	**10,686,432**
Financial assets pledged as collateral	**-**

26. 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.

26.1 Transactions with related parties

26.1.1 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”).

Notes to the financial statements

26. Related party disclosures (continued)

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 to17 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.rabobank.co.nz.

26.1.2 Guarantee fees

A fee of $0.25 million was charged to the Bank by Rabobank in consideration for providing the obligations guarantees for the six month period ended 30 June 2020 (twelve month period ended December 2019: $0.45 million; six month period June 2019: $0.26 million).

26.1.3 Management fees

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

Expenses that are related to provision of administrative and management services to the Bank (e.g. employee expenses, rent, professional fees) incurred by the Australian Branch of Rabobank are recharged as per service level agreements. In total, management expenses and recharge costs of $19.2 million were charged by the Australian Branch of Rabobank (twelve month period December 2019: $43.1 million; six month period June 2019: $16.9 million).

A management fee of $5.8 million (twelve month period December 2019: $14 million; six month period June 2019: $7.6 million) was charged to the Bank by the Rabobank Head Office for the provision of administrative and management services.

Notes to the financial statements

26. Related party disclosures (continued)

A management fee of $1.9 million (twelve month period 31 December 2019: $6 million; six month period June 2019: $1.9 million) was charged to NZ Branch of Rabobank by the Bank for the provision of administrative and management services.

26.1.4 Other transactions

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

In thousands of NZD	Unaudited 30 June 2020	Unaudited 6 months to 30/06/2020	Unaudited 30 June 2019	Unaudited 6 months to 30/06/2019	Audited 31 December 2019	Audited Year to 31/12/2019
Interest income due from related entities	-	965	-	3,184	-	4,873
Interest expense due to related entities	-	54,152	-	87,301	-	152,144
Due from related entities	130,770	-	248,313	-	251,758	-
Due to related entities	5,371,839	-	5,893,456	-	5,891,702	-

Derivatives with a combined notional of $216.5 million and a net fair value liability position of ($10 million) (December 2019: $175 million; June 2019: $139.9 million and December 2019: ($7 million); June 2019: ($6.3 million) respectively) are held with the New Zealand Branch of Rabobank and with Rabobank.

Working capital facilities
A loan facility of EUR 4.5 billion was granted by the New Zealand Branch of Rabobank to the Bank. The unused amount at 30 June 2020 was EUR1.46 billion (31 December 2019: EUR 0.83 billion; 30 June 2019: EUR 0.9 billion).

26.2 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.

26.3 Provision for impairment

For the period ended 30 June 2020, the Bank has not made any specific provision for impairment relating to amounts owed by related parties (2019: Nil). Provision has not been recognised on grounds of it being minimal and immaterial. The Bank recognises collective impairment allowance relating to amounts owned by related parties in accordance with expected credit loss impairment model. The Bank recognised stage 1 impairment allowance relating to amounts owned by related parties of $0.05 million as at 30 June 2020 (31 December 2019 $0.1 million; 30 June 2019: $0.1 million).

27. 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.

28. Dividend

No dividend was proposed or paid by the Bank for the six months period ended 30 June 2020 (2019: Nil).

Independent review report

To the shareholder of Rabobank New Zealand Limited

Report on the Disclosure Statement

We have reviewed pages 5 to 41 of the Disclosure Statement for the six months ended 30 June 2020 (the 'Disclosure Statement') of Rabobank New Zealand Limited (the 'Bank') which includes the financial statements (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 2020, the statement of comprehensive income, the statement of changes in equity and the condensed statement of cash flows for the six months then ended, and the notes to the financial statements that include the basis of preparation and selected explanatory notes.

Directors' responsibility for the Disclosure Statement

The Directors of the Bank (the 'Directors') are responsible on behalf of the Bank for the preparation and fair presentation of the Disclosure Statement, which includes financial statements prepared in accordance with Clause 25 of the Order and for such internal control as the Directors determine is 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 fair 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 the following conclusions on the financial statements and the supplementary information presented by the Directors based on our review:

- 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 respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* (NZ IAS 34) and International Accounting Standard 34: *Interim Financial Reporting* (IAS 34);
- 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
- 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 on 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 5 to 41 (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 that is 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 that is required to be disclosed under Schedule 9 of the Order, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

Who we report to

This report is made solely to the Bank's shareholder. Our review work has been undertaken so that we might state to the Bank's shareholder those matters which we are required to state to them in our 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 shareholder for our review procedures, for this report, or for the conclusions we have formed.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
28 August 2020

Sydney, Australia