



Rabobank



# Rabo Capital Securities Limited

*Annual Report – 31 December 2017*

# Annual Report 2017

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# Directors' Report

## Directory

### Registered office

Rabo Capital Securities Limited  
Level 23  
157 Lambton Quay  
Wellington 6011

### Postal address

Rabo Capital Securities Limited  
PO Box 38396  
Wellington Mail Centre  
Lower Hutt 5045

### Directors

The names and details of the directors of Rabo Capital Securities Limited (the "Company") in office during the financial year ended 31 December 2017 ("financial year") and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

John McLean, Chairman  
LLB (Hons) (VUW), BCA (VUW)

Julien Jai Anderson (resigned 14 July 2017)  
BEc (USYD), MBA (AGSM)

Carl Grant  
BMS (Hons) (UOW), ACA (NZICA)

Pratik Keshav (appointed 10 August 2017)  
BCOM (Hons) (UOA), CFA (CFAI)

### Trustee for PIE Securities

Public Trust  
Ground Floor  
100 Molesworth Street  
Wellington 6011

### Auditor

PricewaterhouseCoopers  
One International Towers  
Watermans Quay  
Barangaroo NSW 2000 Australia

### Solicitors

Russell McVeagh  
Vero Centre  
48 Shortland Street  
PO Box 8  
Auckland 1140

### Share registrar

Computershare Investor Services Limited  
Private Bag 92119  
Auckland 1142  
159 Hurstmere Road  
Takapuna, Auckland 0622

# Directors' Report

## Managing your shareholding online:

To change your address, update your payment instructions and view your investment portfolio including transactions, please visit [www.investorcentre.com/nz](http://www.investorcentre.com/nz).

General enquiries can be directed to:

- [enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz)
- Private bag 92119, Auckland 1142
- Telephone +64 9 488 8777 Facsimile +64 9 488 8787

Please assist our registrar by quoting your CSN or shareholder number.

## Correspondence

All correspondence and enquiries to the Trustee should be addressed to Public Trust at the above address.

All correspondence and enquiries to the Company should be addressed to the above postal address.

## Disclosures under the Companies Act 1993 and the NZX Debt Market (NZDX) Listing Rules

The directors of the Company submit their annual report for the year ended 31 December 2017.

## Principal activities

The principal activities during the year were the following:

1. Maintained in existence preference shares, referred to as PIE Capital Securities, including listing (and maintaining a listing) of those shares on the NZDX, the New Zealand market for trading debt securities;
2. Maintained subscription holdings of \$1 Perpetual Non-Cumulative Capital Securities issued by Rabobank; and
3. Administered and executed all other matters that were reasonably incidental to the activities referred to in 1 and 2 above.

The Company has no power to carry on any business or activity other than those described above.

All amounts referred to in this annual report are in New Zealand dollars (alternatively 'NZD' or '\$'), unless otherwise stated.

## State of affairs of Company

The Company is a limited liability company incorporated in New Zealand under the Companies Act 1993 on 15 April 2009.

On 15 April 2009, the Company issued 1,000 ordinary shares to Rabobank. The Company is a wholly owned subsidiary of Coöperatieve Rabobank U.A. ("Rabobank"), previously known as Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.

The Company is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013. On 27 May 2009, the Company issued \$280,000,000 of perpetual non-cumulative non-voting preference shares and acquired 280,000,000 of \$1 perpetual non-cumulative capital securities issued by Rabobank.

On 1 December 2016 the Company transitioned its Capital Preference Shares to the regime contained in the Financial Markets Conduct Act 2013 (FMCA). This process was assisted by the Financial Markets Authority granting an exemption under which the Company was exempted from having to enter into a trust deed compliant with the FMCA.

The conditions of the exemption include the Company being bound by the obligations in subpart 3 of Part 4 of the FMCA as if the 2009 security trust deed between the Company, Coöperatieve Rabobank U.A. and Public Trust was an FMCA compliant trust deed, and the Company and Public Trust entering into a supplemental trust deed confirming their respective obligations under the exemption.

The Company has written to holders of the Capital Preference Shares as required under the FMCA.

# Directors' Report

## Directors' interest in transactions

At 31 December 2017, John McLean held 30,000 (2016: 30,000) PIE Capital Securities. The directors had no other interests in the Company or in any other transactions undertaken by the Company during the financial year. No entries in the interests register were made during the financial year.

## Credit rating

The current Standard & Poor's credit rating for the Company's preference shares is BBB-.

## New Zealand Exchange (NZX) Waivers

The Company has relied upon the following rulings and waivers in the 12 month period preceding the date 2 months before the date of publication of this annual report:

- A Ruling under Listing Rule 1.1.2 that the PIE Capital Securities are Debt Securities rather than Equity Securities for the purposes of the NZDX Listing Rules.
- A Waiver from the requirements of Listing Rules 10.4.1(b) and 10.5.2 to announce half-year preliminary results to the market and submit half-year reports to NZX.
- A Waiver from the requirements of Listing Rule 11.1.1 to allow the terms and conditions of the PIE Capital Securities to contain certain restrictions on the issue, acquisition and transfer of PIE Capital Securities such as to enable the Company to maintain its tax status as a Portfolio Investment Entity (PIE) and Portfolio Listed Company (PLC).

## Indemnification and insurance of directors and officers

Under the Company's constitution, the Company must indemnify the current and past directors against all liabilities to other persons that may arise from their duties as directors of the Company, except where the liability arises out of conduct involving a lack of good faith or other limitations set out in the Company's constitution.

During the financial year, Rabobank has paid insurance premiums in respect of directors' liability, and legal expense insurance contracts for the Company's directors.

## Directors' remuneration

During the financial year, the directors received no remuneration from the Company.

## Number of employees whose remuneration exceeds \$100,000

The Company had no employees during the financial year.

## Donations

The Company did not make any donations during the financial year.

## Audit fees

The Company paid \$16,871 to PricewaterhouseCoopers as audit fees during the financial year. In addition, \$6,900 was paid by the Company to EY (formerly Ernst & Young) in respect of tax compliance services during the financial year.

# Directors' Responsibilities Statement

The Financial Markets Conduct Act 2013 requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company and of the financial performance and cash flows for that year.

In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent; and
- State whether applicable accounting standards have been followed, subject to any material departure disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Financial Markets Conduct Act 2013. They are also responsible for safeguarding the assets of the Company and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors present the following financial statements for the year ended 31 December 2017.

The board of directors of the Company authorised these financial statements for issue on 5 March 2018.

For and on behalf of the directors:



Director – Carl Grant  
5 March 2018



Director – John McLean  
5 March 2018

# Shareholders' Information

## Shareholders' information

The board of directors of the Company is responsible for the corporate governance of the Company. The board guides and monitors the business and affairs of the Company on behalf of the shareholder by whom they are elected and to whom they are accountable.

The Company's Corporate Governance Statement is structured with reference to nine principles of good corporate governance, as stated in New Zealand Financial Market Authority's Corporate Governance in New Zealand Principles and Guidelines, which are as follows:

Principle 1	Directors should observe and foster high ethical standards.
Principle 2	There should be a balance of independence, skills and knowledge, experience, and perspective among directors so that the board works effectively.
Principle 3	The board should use committees where this would enhance its effectiveness in key areas while retaining board responsibility.
Principle 4	The board should demand integrity both in financial reporting and in the timeliness and balance of disclosures on Company affairs.
Principle 5	The remuneration of directors and executives should be transparent, fair, and reasonable.
Principle 6	The board should regularly verify that the Company has appropriate processes that identify and manage potential and relevant risk.
Principle 7	The board should ensure the quality and independence of the external audit process.
Principle 8	The board should foster constructive relationships with shareholders that encourage them to engage with the Company.
Principle 9	The board should respect the interest of stakeholders within the context of the Company's ownership type and its fundamental purpose.

The Company's corporate governance practices were in place throughout the year ended 31 December 2017.

## Substantial security holders

The following information is given pursuant to section 293 of the Financial Markets Conduct Act 2013.

The Company is a limited liability company incorporated on 15 April 2009 under the Companies Act 1993 with 1,000 ordinary shares, all of which are held by Rabobank. Rabobank is a cooperative entity incorporated under Dutch law and is a tax resident in the Netherlands. The ordinary shares carry all the voting rights in the Company but the holder of the ordinary shares is not, by virtue of that holding, entitled to participate in any dividend or distribution (including by way of a return of capital) made by the Company.

## Preference shares

On 27 May 2009, the Company issued 280,000,000 perpetual non-cumulative non-voting preference shares. The issue price was \$1 per share. The Company has the option to redeem the preference shares in certain circumstances (including from the First Call Date (18 June 2019) or on any Dividend Payment Date thereafter subject to terms of the preference shares), and has undertaken to exercise its option to redeem the preference shares on the first Conditional Call Date (18 June 2039). The shares are listed on the NZDX, the New Zealand market for trading debt securities.

The preference shares carried the rights to quarterly dividends based on an annual rate of 8.7864% until 17 June 2014. The rate was reset for a further 5 years on 18 June 2014 at 8.3425% per annum. From 18 June 2019, the rate will be reviewed and set based on the 90-day bank bill swap interest rate plus an annual 3.75% mark-up. For the purpose of the financial statements prepared under the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), the preference shares are classified as debt instruments and dividends are treated as interest expense.

# Shareholders' Information

The dividend/interest payments made during the year were as follows:

In thousands of NZD	
20 March 2017	4,205
19 June 2017	4,205
18 September 2017	4,205
18 December 2017	4,205

## Twenty Largest Preference Shareholders at 31 December 2017

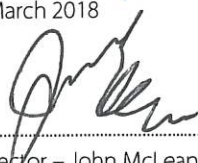
Name of Shareholder	Number of Holdings	%
Forsyth Barr Custodians Limited <1-Custody>	28,217,000	10.07
FNZ Custodians Limited	19,612,000	7.00
Investment Custodial Services Limited <A/C C>	14,412,000	5.14
JBWere (NZ) Nominees Limited <NZ Resident A/C>	7,722,000	2.75
Custodial Services Limited <A/C 3>	7,174,000	2.56
Custodial Services Limited <A/C 4>	6,497,000	2.32
Custodial Services Limited <A/C 2>	3,926,000	1.40
FNZ Custodians Limited <DRP NZ A/C>	3,453,000	1.23
Augustine Finance Limited	3,000,000	1.07
Custodial Services Limited <A/C 18>	2,064,000	0.73
ASB Nominees Limited <A/C 538291>	2,000,000	0.71
Raywyn Alice Ramage	1,500,000	0.53
Picton Holdings Limited	1,350,000	0.48
Custodial Services Limited <A/C 1>	1,258,000	0.44
Alexander Bannatyne Stewart & James Colin Stewart <Stewart Partnership A/C>	1,250,000	0.44
Moira Eileen Bell	1,015,000	0.36
Kia Investments Limited	1,000,000	0.35
Diane Theresa Koopman	1,000,000	0.35
Andrew Thomas Taylor	1,000,000	0.35
Chilcotin Investments Limited	950,000	0.33

## Spread of Preference Shareholders at 31 December 2017

Range of Shareholding	Number of Holders	Total Shares Held	%
500 to 999	1	666	0.00
2,000 to 4,999	2	5,000	0.00
5,000 to 9,999	448	2,518,000	0.90
10,000 to 49,999	2,498	51,336,001	18.33
50,000 to 99,999	603	33,815,333	12.08
100,000 to 499,999	456	68,469,000	24.45
500,000 plus	45	123,856,000	44.24



Director – Carl Grant  
5 March 2018



Director – John McLean  
5 March 2018



# Statement of Comprehensive Income

in thousands of NZD	Note	For the year ended 31 December	
		2017	2016
Interest income	4	23,367	23,363
Interest expense	5	(16,836)	(16,827)
<b>Net interest income</b>		<b>6,531</b>	<b>6,536</b>
Other income	6	236	282
<b>Operating income</b>		<b>6,767</b>	<b>6,818</b>
Operating expenses	7	(226)	(277)
<b>Profit before income tax</b>		<b>6,541</b>	<b>6,541</b>
Income tax expense	8	(6,541)	(6,541)
<b>Net profit for the year</b>		<b>-</b>	<b>-</b>
<b>Net profit attributable to members of Rabo Capital Securities Limited</b>		<b>-</b>	<b>-</b>
<b>Other comprehensive income for the year</b>			
Items that may be reclassified subsequently to profit or loss		-	-
Items that will not be reclassified to profit or loss		-	-
<b>Total other comprehensive income for the year</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income attributable to members of Rabo Capital Securities Limited</b>		<b>-</b>	<b>-</b>
<b>Earnings Per Share</b>			
<b>Basic and diluted earnings per Ordinary Share</b>	9	<b>-</b>	<b>-</b>

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

# Statement of Financial Position

in thousands of NZD	Note	At 31 December 2017	At 31 December 2016
<b>Assets</b>			
Cash and cash equivalents	10	198	2,002
Rabobank capital securities	11	280,000	280,000
Other assets	12	1,029	1,001
<b>Total assets</b>		<b>281,227</b>	<b>283,003</b>
<b>Liabilities</b>			
Current tax payable	13	383	2,187
Other liabilities	14	842	814
Preference shares	15	280,000	280,000
<b>Total liabilities</b>		<b>281,225</b>	<b>283,001</b>
<b>Net assets</b>		<b>2</b>	<b>2</b>
<b>Equity</b>			
Contributed equity	16	1	1
Retained earnings		1	1
<b>Total equity</b>		<b>2</b>	<b>2</b>

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

# Statement of Changes in Equity

For the year ended 31 December 2017 in thousands of NZD	Contributed equity	Retained earnings	Total
At 1 January 2016	1	1	2
Net profit	-	-	-
Total comprehensive income after tax	-	-	-
<b>At 31 December 2016</b>	<b>1</b>	<b>1</b>	<b>2</b>
At 1 January 2017	1	1	2
Net profit	-	-	-
Total comprehensive income after tax	-	-	-
<b>At 31 December 2017</b>	<b>1</b>	<b>1</b>	<b>2</b>

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

# Statement of Cash Flows

in thousands of NZD	Note	For the year ended 31 December	
		2017	2016
<b>Cash flows from operating activities</b>			
Cash was provided from:			
Interest income		23,368	23,363
Other income		206	260
Cash was applied to:			
Operating expenses		(198)	(206)
Interest expense		(16,835)	(16,827)
Tax payments		(8,345)	(6,530)
<b>Net cash flows from operating activities</b>	23	<b>(1,804)</b>	<b>60</b>
<b>Cash flows from investing activities</b>			
Cash was applied to:			
Purchase of Rabobank capital securities		-	-
<b>Net cash flows from investing activities</b>		<b>-</b>	<b>-</b>
<b>Cash flows from financing activities</b>			
Cash was provided from:			
Issue of preference shares		-	-
Issue of ordinary shares		-	-
<b>Net cash flows from financing activities</b>		<b>-</b>	<b>-</b>
<b>Net change in cash and cash equivalents</b>		<b>(1,804)</b>	<b>60</b>
Cash and cash equivalents at beginning of the year		2,002	1,942
<b>Cash and cash equivalents at end of the year</b>		<b>198</b>	<b>2,002</b>
Cash and cash equivalents at the end of the year comprise of:			
Cash at bank other than Reserve Bank		198	2,002
<b>Cash and cash equivalents at end of the year</b>	10	<b>198</b>	<b>2,002</b>

The above statement of cash flows should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

## 1 Reporting entity

Rabo Capital Securities Limited (the “Company”) is a limited liability company incorporated in New Zealand under the Companies Act 1993 on 15 April 2009, with company registration number 2221873. It was set up by Cooperatieve Rabobank U.A. (“Rabobank”) in order to issue perpetual non-cumulative non-voting preference shares under the Portfolio Investment Entity Tax regime. The Company is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013.

The Company’s registered office is Level 23, 157 Lambton Quay, Wellington, New Zealand.

The Company is a wholly owned subsidiary of Rabobank which is also the ultimate parent company.

The Company is a Portfolio Listed Company and its preference shares are listed on the NZDX.

The financial statements cover the year ended 31 December 2017.

## 2 Basis of preparation

### (a) Statement of compliance

The financial statements of the Company have been prepared and presented in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

They conform to New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate for a for-profit entity. They also meet the requirements of the Financial Reporting Act 2013 and Financial Markets Conduct Act 2013.

These financial statements were approved and authorised for issue by the board of directors on 5 March 2018.

### (b) Basis of measurement

These financial statements have been prepared under the historical cost convention. The going concern assumption and the accrual basis of accounting have been adopted.

### (c) Functional and presentation currency

The Company considers the New Zealand dollar (NZD) the currency that most accurately represents the economic effect of its underlying transactions, events and conditions. The NZD is the currency in which the Company measures its performance and reports its results, as well as the currency in which it receives subscriptions from its shareholders and preference shareholders. Therefore the functional and presentation currency for the Company is the NZD.

All financial information presented in NZD has been rounded to the nearest thousand unless otherwise stated.

### (d) Significant accounting judgments and estimates

In the process of applying the Company’s accounting policies, management has exercised judgment and used estimates in determining the amounts recognised in the financial statements. The most significant uses of judgment and estimates are as follows:

#### (i) Impairment of financial assets

Loan impairment allowances are recognised if there is objective evidence that Rabobank will not be able to collect all amounts due under the original terms of the contract. Determining a provision requires a significant degree of judgement formulation, based on the evaluation by the management of the risks in the loan portfolio, the current economic circumstances, credit losses over the previous years, as well as developments in financial credits, business sectors, business concentrations and geopolitics. Changes in judgement formulation as well as further analyses may lead to changes in the magnitude of loan impairment allowance over time.

Determining objective evidence for decreased creditworthiness and determining the magnitude of the recoverable amount form part of the processes that are surrounded by inherent uncertainty and which involve various assumptions and factors regarding the creditworthiness of the borrowers, expected future cash flows and the value of collateral.

# Notes to the Financial Statements

## 3 Significant accounting policies

The principal accounting policies applied in preparation of these financial statements are set out below. These policies have been consistently applied throughout the year.

### (a) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before income is recognised.

#### (i) Interest income and interest expense

Interest income or expense are recognised in the Statement of Comprehensive Income using the effective interest method. The effective interest method calculates the amortised cost of a financial instrument and allocates the interest income or interest expense over the relevant period. The effective interest rate (EIR) is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, a shorter period, where appropriate) to the net carrying amount of the financial asset or liability.

### (b) Operating expenses

Operating expenses are recognised in the Statement of Comprehensive Income on an accrual basis as the relevant service is rendered or once a liability is incurred.

### (c) Taxation

#### (i) Income taxation

The Company is a Portfolio Listed Company under the Portfolio Investment Entity (PIE) regime for the purposes of the Income Tax Act 2007. Under current taxation law, the Company pays income tax on the taxable income of the Company.

However, when a portfolio listed company makes a distribution, to the extent that imputation credits are available, the distribution must be imputed to the maximum extent possible. Imputed dividends paid to resident shareholders who are individuals are excluded income and are not taxable unless the shareholder elects to include the dividend on their income tax return.

### (d) Financial instruments

#### (i) Classification

The Company classifies its investment in debt financial instruments (Rabobank capital securities) as loans and receivables. Preference shares are classified as financial liabilities at amortised cost.

Financial assets classified as loans and receivables are those with fixed or determinable payments that are not quoted in an active market.

#### (ii) Recognition

The Company recognises a financial asset and a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument.

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation and convention in the marketplace are recognised on the trade date – the date on which the Company commits to purchase or sell the asset.

#### (iii) Measurement

Financial assets which are not measured at fair value through profit and loss are initially recognised at fair value plus directly attributable transaction costs. Financial assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment where there is objective evidence that an impairment loss on the loans and receivables has been incurred.

# Notes to the Financial Statements

## 3 Significant accounting policies (continued)

### (d) Financial instruments (continued)

#### (iii) Measurement (continued)

At the reporting date the Company assesses whether a financial asset classified as loans and receivable is impaired. Evidence of impairment may include indications that the debtor is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the assets original effective interest rate. In the event of an impairment loss, the carrying value of the asset is reduced through use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income as impairment loss expense.

Financial liabilities which are not measured at fair value through profit and loss are initially recognised at fair value, including directly attributable transaction costs. Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest rate method.

#### (e) Cash and cash equivalents

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

#### (f) Other assets

Other assets which are short term in nature do not carry any interest and are accordingly stated at their nominal value and where appropriate reduced by an allowance for estimated irrecoverable amounts.

#### (g) Other liabilities

Other liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Company, and include accrued interest on preference shares. After initial recognition, other liabilities are measured at amortised cost using the effective interest method.

#### (h) Ordinary share capital

The Company's ordinary share capital consists of issued ordinary shares. Ordinary shares are recognised at the amount paid up per ordinary share net of directly attributable issue costs.

The ordinary shares are voting but are not entitled to receive or participate in any dividend or distribution made by the Company.

#### (i) Preference shares

The Company has issued perpetual non-cumulative non-voting preference shares. The preference shares are direct, unsecured and subordinated obligations of the Company. The Company has undertaken to redeem the shares at a specified date. As the preference shares pay a non-discretionary dividend and are redeemable on a specific date, these are classified as financial liabilities and included under Subordinated debt. The distributions on these preferred shares are recognised in profit or loss as an interest expense based on amortised cost using the effective interest rate method.

In accordance with the Company's accounting policy on the Measurement of Financial Instruments the preference shares are stated at amortised cost.

# Notes to the Financial Statements

## 3 Significant accounting policies (continued)

### (j) Accounting standards not early adopted

The following standards and amendments were available for early adoption but have not been applied by the Company in these financial statements. The Company currently does not intend to apply any of these pronouncements until their effective date.

#### *NZ IFRS 15 Revenue from Contracts with Customers*

The standard provides a single comprehensive model for revenue recognition. The standard is mandatory from 1 January 2018 and will be effective for the 31 December 2018 financial year. It supersedes current recognition and related interpretations. The application of NZ IFRS 15 is not expected to have a material impact on the Company.

#### *NZ IFRS 9 Financial Instruments*

The standard contains new accounting requirements for financial assets and liabilities, including classification and measurement and general hedge accounting. It specifies a simpler methodology for classifying and measuring financial assets, with two primary measurement categories: amortised cost and fair value. The general hedge accounting provisions have been finalised with the new requirements being more principle based, allowing closer alignment between accounting and risk management practices. The standard also requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

The standard will be effective for the 31 December 2018 financial year end. The Company has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

- The financial assets held by the Company (including cash and cash equivalents, and loans and receivables) have been assessed to meet the conditions for classification at amortised cost under NZ IFRS 9. Accordingly, the Company does not expect the new guidance to affect the classification and measurement of these financial assets.
- There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Bank does not have any such liabilities.
- The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only on incurred credit losses, as is the case under NZ IFRS 39. Based on the assessments undertaken to date, the Company expects an increase in the provisions for impairment by approximately 0.02% in relation to loans and receivables.
- NZ IFRS 9 also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and increase the extent of the Company's disclosures about its financial instruments, particularly in the year of the adoption of the new standard.
- NZ IFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Company will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.



# Notes to the Financial Statements

## 4 Interest income

in thousands of NZD	2017	2016
Due from other financial institutions	8	4
Rabobank capital securities	23,359	23,359
<b>Total interest income</b>	<b>23,367</b>	<b>23,363</b>

The capital securities earned interest of 8.3425% per annum. This rate was reset from 8.7864% to 8.3425% from 18 June 2014 and is fixed until 18 June 2019. Interest is received quarterly in arrears.

## 5 Interest expense

in thousands of NZD	2017	2016
Interest due to related parties	18	9
Interest on preference shares	16,818	16,818
<b>Total interest expense</b>	<b>16,836</b>	<b>16,827</b>

The preference shares accrued interest of 8.3425% per annum, less an allowance for imputation credits deducted based on a 28% tax rate (2016: 28% tax rate). This rate was reset from 8.7864% to 8.3425% per annum on 18 June 2014 and is fixed until 18 June 2019 (less the allowance for imputation credits mentioned above). Interest is paid quarterly in arrears.

## 6 Other income

During the year, the Company received reimbursements of \$235,668 (2016: \$281,895) from Rabobank to assist with the general expenses incurred.

## 7 Operating expenses

in thousands of NZD	2017	2016
Other operating expenses including the following:		
Audit fees paid to external auditors for the audit of the financial statements	17	17
NZDX fees	26	25
Administration fees	15	15
Registry fees	50	58
Trustee fees	22	22
Other expenses	96	140
<b>Total operating expenses</b>	<b>226</b>	<b>277</b>

For further information on Trustee and Administration fees refer to Note 22.

## 8 Income tax

### (a) Income tax expense

in thousands of NZD	2017	2016
Current income tax	6,541	6,541
<b>Total income tax expense</b>	<b>6,541</b>	<b>6,541</b>

### (b) Numerical reconciliation of income tax expense to prima facie tax payable

in thousands of NZD	2017	2016
Profit before income tax	6,541	6,541
<b>Taxation @ 28% (2016: 28%)</b>	<b>1,831</b>	<b>1,831</b>
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible interest expense	4,710	4,710
<b>Income tax expense</b>	<b>6,541</b>	<b>6,541</b>

# Notes to the Financial Statements

## 8 Income tax (continued)

### (c) Imputation credit account

in thousands of NZD	2017	2016
Imputation credit	(122)	(1,906)

Imputation credits available for use in subsequent reporting periods are in a benefit position as at 31 January 2018, following the payment of the provisional tax which was paid on 25 January 2018.

## 9 Earnings per share

Basic earnings per share (EPS) is calculated by dividing the net profit attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

The Company's diluted EPS is the same as the basic EPS since the Company has not issued any instruments with dilutive potential.

in thousands of NZD	2017	2016
Profit after tax attributable to the ordinary shares	-	-
Weighted average number of shares	1,000 shares	1,000 shares
<b>Earnings per share</b>	<b>-</b>	<b>-</b>

## 10 Cash and cash equivalents

in thousands of NZD	2017	2016
Cash at bank other than Reserve Bank	198	2,002
<b>Total cash and cash equivalents</b>	<b>198</b>	<b>2,002</b>

## 11 Rabobank capital securities

in thousands of NZD	2017	2016
Classified as loans and receivables at amortised cost		
Rabobank capital securities	280,000	280,000

Capital securities are debt obligations of Rabobank. The capital securities earned interest of 8.3425% per annum. This rate was reset from 8.7864% per annum on 18 June 2014 and is fixed until 18 June 2019. The capital securities are not transferable and the scheduled repayment date is 18 June 2039. They are unsecured. All interest payments have been collected on the due date and there is no observable data that would indicate that an allowance for impairment is required.

## 12 Other assets

in thousands of NZD	2017	2016
Accrued interest income	927	928
Other assets*	102	73
<b>Total other assets</b>	<b>1,029</b>	<b>1,001</b>

\* Other assets represent amount due from Rabobank in respect of expense reimbursement. There are no past due or impaired receivables at 31 December 2017 (2016: Nil).

## 13 Current tax payable

in thousands of NZD	2017	2016
Current tax payable	383	2,187

## 14 Other liabilities

in thousands of NZD	2017	2016
Interest payable on preference shares	666	666
Other payables	176	148
<b>Total other liabilities</b>	<b>842</b>	<b>814</b>

# Notes to the Financial Statements

## 15 Preference shares

On 27 May 2009, the Company issued 280,000,000 perpetual non-cumulative non-voting preference shares. The issue price was NZD1 per share. The preference shares carry the right to a quarterly distribution, which equals the five-year swap interest plus an annual 3.75% mark-up, less an allowance for imputation credits deducted based on a 28% tax rate (2016: 28% tax rate) and was reset at 8.7864% per annum on 25 May 2009. As from the issue date (27 May 2009), the distribution is made payable every quarter in arrears, for the first time on 18 June 2009 (short first interest period) until 18 June 2014. The rate was reset at 8.3425% per annum on 18 June 2014 and the distribution is made payable every quarter in arrears until 18 June 2019 (less the allowance for imputation credits mentioned above). From 18 June 2019, the distribution will be made payable every quarter based on the 90-day bank bill swap interest rate plus an annual 3.75% mark-up (less allowance for imputation).

The Company has the option to redeem the preference shares in certain circumstances (including from the First Call Date (18 June 2019) or on any dividend payment date thereafter subject to the terms of the preference shares), and has undertaken to exercise its option to redeem the preference shares on the first Conditional Call Date (18 June 2039). The shares are listed on the NZDX.

The preference shares are direct, unsecured and subordinated obligations of the Company.

in thousands of NZD	2017	2016
Preference shares issued at beginning of year	280,000	280,000
Issued during the year	-	-
<b>Preference shares issued at end of year</b>	<b>280,000</b>	<b>280,000</b>

The Market Surveillance Panel of the NZX granted the Company a waiver from the requirements of Listing Rules 10.4 (relating to the provision of preliminary announcements of half yearly and annual results to the NZX) and 10.5 (relating to preparing and providing a copy of half yearly and annual reports to the NZX).

## 16 Contributed equity

On 15 April 2009, the Company issued 1,000 ordinary shares of NZD1 each to Rabobank. Ordinary shares are voting but are not entitled to receive or participate in any dividend or distribution made by the Company.

The authorised ordinary share capital of the Company is divided into 1,000 ordinary shares of NZD1 per share. The shares have no par value. The shares on issue at 31 December 2017 and the movements during the period are as follows:

in thousands of NZD	2017	2016
Ordinary shares issued at beginning of year	1	1
Issued during the year	-	-
<b>Ordinary shares issued at end of year</b>	<b>1</b>	<b>1</b>

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the numbers of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

### Capital Management

For the purposes of capital management, the Company considers both ordinary shares and preference shares as its capital. When managing capital, management's objective is to ensure the Company continues as a going concern and to maintain the returns to the preference shareholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the Company.

Management has no current plans to issue further shares into the market.

## 17 Financial risk management

### Strategy in Using Financial Instruments

The Company's activities expose it to a variety of financial risks: market risk (including interest rate risk and currency risk), credit risk, and liquidity risk. The Company's overall risk management program is the application of risk controlled strategies appropriate to the specific risks faced by the Company given its capital structure and the nature of its investments.

#### (a) Market risk

Market risk is defined as the risk that the fair value or future cash flows of a financial instrument may fluctuate because of changes in market prices. The main types of market risk exposures for the Company relate to interest rate risk and currency risk.

##### (i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows.

The Company's investments in debt instruments expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

# Notes to the Financial Statements

## 17 Financial risk management (continued)

### (a) Market risk (continued)

#### (i) Interest rate risk (continued)

The table below summarises the Company's exposure to interest rate risk. The following analysis has been prepared on the basis of the remaining period to contractual repricing or maturity dates (which ever dates are earlier) as at reporting date.

in thousands of NZD	Within 6 months	Between 6 to 12 months	Between 1 to 5 years	Over 5 years	Total
<b>At 31 December 2017</b>					
<b>Financial assets</b>					
Cash and cash equivalents	198	-	-	-	198
Rabobank capital securities	-	-	280,000	-	280,000
<b>Total financial assets</b>	<b>198</b>	<b>-</b>	<b>280,000</b>	<b>-</b>	<b>280,198</b>
<b>Financial liabilities</b>					
Preference shares	-	-	280,000	-	280,000
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>280,000</b>	<b>-</b>	<b>280,000</b>
<b>At 31 December 2016</b>					
<b>Financial assets</b>					
Cash and cash equivalents	2,002	-	-	-	2,002
Rabobank capital securities	-	-	280,000	-	280,000
<b>Total financial assets</b>	<b>2,002</b>	<b>-</b>	<b>280,000</b>	<b>-</b>	<b>282,002</b>
<b>Financial liabilities</b>					
Preference shares	-	-	280,000	-	280,000
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>280,000</b>	<b>-</b>	<b>280,000</b>

The interest receivable from the Rabobank capital securities and the interest payable on the preference shares was reset on 18 June 2014 and is fixed until 18 June 2019, and therefore the interest received and paid will not fluctuate when interest rates change.

The table below shows the sensitivity of the Company's income to a reasonably possible change in interest rates with all other variables remaining constant. The sensitivity of the income statement is the effect of the assumed changes in interest rates on the interest income for one year based on floating rate financial assets held at 31 December 2017.

in thousands of NZD	Sensitivity of interest income		Impact on total equity	
	100 basis points increase	100 basis points decrease	100 basis points increase	100 basis points decrease
<b>At 31 December 2017</b>				
Due from other financial institutions	2	(2)	2	(2)
<b>At 31 December 2016</b>				
Due from other financial institutions	20	(20)	20	(20)

# Notes to the Financial Statements

## 17 Financial risk management (continued)

### (a) Market risk (continued)

#### (ii) Currency Risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Company does not hold financial instruments and other monetary assets and liabilities denominated in currencies other than the New Zealand dollar. It is therefore not significantly exposed to currency risk.

### (b) Credit Risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Company to incur a financial loss.

The Company's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the value of these instruments as disclosed in the Statement of Financial Position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

The Company holds no collateral as security or any other credit enhancements. There are no financial assets that are past due or impaired, or would otherwise be past due or impaired except for the terms having been renegotiated.

Credit risk is considered to be significant to the Company in relation to investments in debt financial instruments.

The Company does not use credit derivatives to mitigate credit risk.

The table below shows the Standard and Poor's long term credit rating grade of each class of the Company's financial assets:

in thousands of NZD	AAA to AA-	A+ to A-	BBB+ to B-	Not rated	Total
<b>At 31 December 2017</b>					
Cash and cash equivalents	198	-	-	-	198
Rabobank capital securities	-	-	280,000	-	280,000
Other assets	-	1,029	-	-	1,029
<b>Total financial assets</b>	<b>198</b>	<b>1,029</b>	<b>280,000</b>	<b>-</b>	<b>281,227</b>
in thousands of NZD	AAA to AA-	A+ to A-	BBB+ to B-	Not rated	Total
<b>At 31 December 2016</b>					
Cash and cash equivalents	2,002	-	-	-	2,002
Rabobank capital securities	-	-	280,000	-	280,000
Other assets	-	1,001	-	-	1,001
<b>Total financial assets</b>	<b>2,002</b>	<b>1,001</b>	<b>280,000</b>	<b>-</b>	<b>283,003</b>

The analysis of credit exposures by country is as set out below:

in thousands of NZD	Due from other financial institutions	Loans and receivables	Total
<b>At 31 December 2017</b>			
New Zealand	198	-	198
The Netherlands	-	281,029	281,029
<b>Total credit exposures</b>	<b>198</b>	<b>281,029</b>	<b>281,227</b>
in thousands of NZD	Due from other financial institutions	Loans and receivables	Total
<b>At 31 December 2016</b>			
New Zealand	2,002	-	2,002
The Netherlands	-	281,001	281,001
<b>Total credit exposures</b>	<b>2,002</b>	<b>281,001</b>	<b>283,003</b>

The number of counterparties to which the Company had exposures of more than 10% of total equity plus preference shares was as follows as at 31 December:

Number of counterparties	2017	2016
<b>Percentage band</b>		
> 100%	1	1

# Notes to the Financial Statements

## 17 Financial risk management (continued)

### (c) Liquidity risk

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities. Liquidity risk arises because of the possibility the Company could be required to pay its liabilities earlier than expected.

The table below analyses the Company's financial assets and liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. The contractual cash flows in respect of the Rabobank capital securities and the preference shares include the quarterly interest payments.

in thousands of NZD	Statement of Financial Position	Contractual cash flows	On demand	Less than 1 month	1 to 6 months	6 to 12 months	1 to 5 years	Over 5 years
<b>At 31 December 2017</b>								
<b>Financial assets</b>								
Cash and cash equivalents	198	198	198	-	-	-	-	-
Rabobank capital securities	280,000	315,040	-	-	11,680	11,680	291,680	-
Other assets	1,029	1,029	-	102	927	-	-	-
<b>Total financial assets</b>	<b>281,227</b>	<b>316,267</b>	<b>198</b>	<b>102</b>	<b>12,607</b>	<b>11,680</b>	<b>291,680</b>	<b>-</b>
<b>Financial liabilities</b>								
Preference shares	280,000	305,227	-	-	8,409	8,409	288,409	-
Other liabilities	842	842	-	176	666	-	-	-
<b>Total financial liabilities</b>	<b>280,842</b>	<b>306,069</b>	<b>-</b>	<b>176</b>	<b>9,075</b>	<b>8,409</b>	<b>288,409</b>	<b>-</b>
<b>At 31 December 2016</b>								
<b>Financial assets</b>								
Cash and cash equivalents	2,002	2,002	2,002	-	-	-	-	-
Rabobank capital securities	280,000	338,400	-	-	11,680	11,680	315,040	-
Other assets	1,001	1,001	-	73	928	-	-	-
<b>Total financial assets</b>	<b>283,003</b>	<b>341,403</b>	<b>2,002</b>	<b>73</b>	<b>12,608</b>	<b>11,680</b>	<b>315,040</b>	<b>-</b>
<b>Financial liabilities</b>								
Preference shares <sup>1</sup>	280,000	322,045	-	-	8,409	8,409	305,227	-
Other liabilities	814	814	-	148	666	-	-	-
<b>Total financial liabilities</b>	<b>280,814</b>	<b>322,859</b>	<b>-</b>	<b>148</b>	<b>9,075</b>	<b>8,409</b>	<b>305,227</b>	<b>-</b>

<sup>1</sup>The comparatives for maturity disclosure of the Company's capital securities and preference shares have been restated to use the First Call Date (18 June 2019) as the maturity date instead of the First Conditional Call Date (18 June 2039).

# Notes to the Financial Statements

## 18 Fair value of financial instruments

The following table shows the fair values of the Company's financial instruments:

in thousands of NZD	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>				
Rabobank capital securities	280,000	299,880	280,000	294,000
<b>Financial liabilities</b>				
Preference shares	280,000	299,880	280,000	294,000

The methods used to determine the fair value for each class of financial instruments are detailed below:

### Capital Securities and Preference Shares

The fair value of the preference shares is based on the NZDX closing price at the reporting date. The fair value of the Rabobank capital securities is deemed to be equal to the fair value of the preference shares because:

- the issue price of both incorporated consideration of Rabobank's credit and exposure to Dutch credit risk; and
- the value of the preference shares is almost wholly dependent on the value of the capital securities.

Due to the short term nature of amounts due from other financial institutions, other assets and other liabilities, these are stated in the Statement of Financial Position at their fair values which are deemed equivalent to their carrying value.

### Fair Value hierarchy

The Company 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 financial liability, either directly or indirectly.

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

### Valuation methodology

#### Financial assets and financial liabilities measured at amortised cost:

For financial assets and financial liabilities carried at amortised cost, an estimate of the fair value has been derived using the level 1 hierarchy.

## 19 Classification of financial instruments

in thousands of NZD	Loans and receivables	Financial liabilities at amortised cost	Total
<b>At 31 December 2017</b>			
<b>Financial assets</b>			
Cash and cash equivalents	198	-	198
Rabobank capital securities	280,000	-	280,000
Other assets	1,029	-	1,029
<b>Total financial assets</b>	<b>281,227</b>	<b>-</b>	<b>281,227</b>
<b>Financial liabilities</b>			
Preference shares	-	280,000	280,000
Other liabilities	-	842	842
<b>Total financial liabilities</b>	<b>-</b>	<b>280,842</b>	<b>280,842</b>

# Notes to the Financial Statements

## 19 Classification of financial instruments (continued)

in thousands of NZD	Loans and receivables	Financial liabilities at amortised cost	Total
<b>At 31 December 2016</b>			
<b>Financial assets</b>			
Cash and cash equivalents	2,002	-	2,002
Rabobank capital securities	280,000	-	280,000
Other assets	1,001	-	1,001
<b>Total financial assets</b>	<b>283,003</b>	<b>-</b>	<b>283,003</b>
<b>Financial liabilities</b>			
Preference shares	-	280,000	280,000
Other liabilities	-	814	814
<b>Total financial liabilities</b>	<b>-</b>	<b>280,814</b>	<b>280,814</b>

## 20 Maturity analysis

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

in thousands of NZD	Within 12 months	Over 12 months	Total
<b>At 31 December 2017</b>			
<b>Assets</b>			
Cash and cash equivalents	198	-	198
Rabobank capital securities	-	280,000	280,000
Other assets	1,029	-	1,029
<b>Total assets</b>	<b>1,227</b>	<b>280,000</b>	<b>281,227</b>
<b>Liabilities</b>			
Preference shares	-	280,000	280,000
Current tax payable	383	-	383
Other liabilities	842	-	842
<b>Total liabilities</b>	<b>1,225</b>	<b>280,000</b>	<b>281,225</b>
<b>At 31 December 2016</b>			
<b>Assets</b>			
Cash and cash equivalents	2,002	-	2,002
Rabobank capital securities	-	280,000	280,000
Other assets	1,001	-	1,001
<b>Total assets</b>	<b>3,003</b>	<b>280,000</b>	<b>283,003</b>
<b>Liabilities</b>			
Preference shares	-	280,000	280,000
Current tax payable	2,187	-	2,187
Other liabilities	814	-	814
<b>Total liabilities</b>	<b>3,001</b>	<b>280,000</b>	<b>283,001</b>



# Notes to the Financial Statements

## 21 Segment information

The Company operates solely in the business of investment management in New Zealand.

For management purposes, the Company is organised into one main operating segment. All of the Company's activities are interrelated, and each activity is dependent on the others. Accordingly, all significant operation decisions are based upon an analysis of the Company as one segment. The financial results from this segment are equivalent to the financial statements of the Company as a whole.

The table below analyses the Company's operating revenue per geographical location. The basis for attributing the operating income is the place of incorporation of the equity or the instrument's counterparty.

in thousands of NZD	2017	2016
New Zealand	8	4
The Netherlands	23,595	23,641
<b>Total operating revenue*</b>	<b>23,603</b>	<b>23,645</b>

\* Operating revenue includes interest income and other income.

The table below analyses the Company's operating revenue per instrument type.

	In thousands of NZD		In percentage	
	2017	2016	2017	2016
Rabobank capital securities	23,359	23,359	98.97	98.79
Other*	236	282	1.00	1.19
Due from other financial institutions	8	4	0.03	0.02
<b>Total operating revenue</b>	<b>23,603</b>	<b>23,645</b>	<b>100.00</b>	<b>100.00</b>

\* Expense reimbursements due from Rabobank.

## 22 Related party transactions

The Company is a wholly owned subsidiary of Rabobank, a company registered in the Netherlands, which is also the ultimate parent company.

### (a) Trustee and administration fees

The Trustee for the preference shares is Public Trust. The Trustee is entitled to be paid a fee by way of remuneration for its services. GST is payable on the trustee fees. The annual trustee fee is \$21,800 (2016: \$21,800). In addition Public Trust receives fees of \$13,500 per annum for administration, tax and other supplementary services (2016: \$29,977). The total trustee fees for the year ended 31 December 2017 amounted to \$35,300 (2016: \$51,777).

### (b) Due from/(to) related parties

The Company does not hold shares in the parent company or any other company within the Rabobank group of companies. The amounts due including interest receivable and expense reimbursements from the parent company and movements during the year were as follows:

in thousands of NZD	Value	Acquired during the year	Repaid during the year	Interest received during the year
<b>At 31 December 2017</b>				
<b>Members of the Rabobank Group</b>				
Rabobank	281,029	(6,509)	6,509	23,342

in thousands of NZD	Value	Acquired during the year	Repaid during the year	Interest received during the year
<b>At 31 December 2016</b>				
<b>Members of the Rabobank Group</b>				
Rabobank	281,001	(2,500)	2,500	23,350

# Notes to the Financial Statements

## 22 Related party transactions (continued)

### (c) Investment by related parties

The parent invested into the Company's ordinary shares. No other companies in the Rabobank group of Companies invested into the Company. The holdings and movements were as follows:

in thousands of NZD	Share Class	Shares	Interest held	Shares acquired during the year	Shares disposed during the year
At 31 December 2017					

#### Members of the Rabobank Group

Rabobank	Ordinary shares	1	100%	-	-
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in thousands of NZD	Share Class	Shares	Interest held	Shares acquired during the year	Shares disposed during the year
At 31 December 2016					

#### Members of the Rabobank Group

Rabobank	Ordinary shares	1	100%	-	-
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## 23 Reconciliation of profit for the year to net cash flows from operating activities

in thousands of NZD	2017	2016
Net profit for the year	-	-
<b>Changes in working capital</b>		
Changes in other liabilities	28	71
Changes in current tax payable	(1,804)	11
Changes in other assets	(28)	(22)
<b>Net cash inflow provided by / (used in) operating activities</b>	<b>(1,804)</b>	<b>60</b>

## 24 Personnel

The Company had no employees during the year ended 31 December 2017 (2016: Nil).

## 25 Directors' interests

No directors fees were paid during the period and no fees were outstanding as at 31 December 2017 (2016: Nil). At 31 December 2017, John McLean held 30,000 (2016: 30,000) preference shares. The directors have no other interests in the Company's ordinary or preference shares.

## 26 Post balance date events

Since 31 December 2017, there have been no matters or circumstances not otherwise dealt with in the Financial Statements that may have significantly affected the Company.



## ***Independent auditor's report***

To the Shareholders of Rabo Capital Securities Limited

The financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

### ***Our opinion***

In our opinion, the financial statements of Rabo Capital Securities Limited (the Company), present fairly, in all material respects, the financial position of the Company as at 31 December 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

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### ***Basis for opinion***

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

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

We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor we have no relationship with, or interest in, the Company.

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***PricewaterhouseCoopers, ABN 52 780 433 757***

*One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001  
T: +61 2 8266 0000, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)*

*Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124  
T: +61 2 9659 2476, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)*

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## Our audit approach

### Overview



#### **Materiality**

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall materiality: \$2.8 million, which represents 1% of total assets.

The Company is a financing entity in that it maintains preference shares, referred to as PIE Capital Securities, including listing (and maintaining a listing) of those shares on the New Zealand Debt Exchange (NZDX) and lends the funds within the Rabobank Group. In performing these activities it makes (\$nil) net profit each year and has minimal (\$2 thousand) net assets. Based on our professional judgement, total assets is considered the most appropriate benchmark.

#### **Key audit matters**

- Rabobank Capital Securities
- Preference Shares

### Materiality

The scope of our audit was influenced by our application of materiality.

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

### Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.



### *Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p><i>Rabobank Capital Securities</i></p> <p>Using the funds received from the issuance of \$280 million perpetual non-cumulative non-voting preference shares @NZ\$1 per share, the Company lent Cooperatieve Rabobank U.A, by way of Capital Securities, an amount of \$280 million at a fixed rate of 8.3425% until 18 June 2019. The Capital Securities mature on 18 June 2039.</p> <p>There has been no movement in the Capital Securities since they were issued in 2009.</p> <p>We considered the existence of the Capital Securities to be a key audit matter because of the relative size of the balance in the Company's statement of financial position.</p> <p>Refer to Note 11 for further details.</p>	<p>We reviewed minutes of meetings and bank statements for any evidence to contradict the nil movement within the Capital Securities balance during the year.</p> <p>We obtained counterparty confirmations to confirm the existence of the Capital Securities at year end.</p>
<p><i>Preference shares</i></p> <p>In 2009, the Company issued 280,000,000 perpetual non-cumulative non-voting preference shares at an issue price of NZD1 per share. These shares are listed on the New Zealand Debt Exchange (NZDX). The Company has the option to redeem the preference shares in certain circumstances.</p> <p>There has been no movement in the Preference Shares since they were issued in 2009.</p> <p>We considered the completeness of the Preference Shares to be a key audit matter because of the relative size of the balance in the Company's statement of financial position.</p> <p>Refer to Note 15 for further details.</p>	<p>We reviewed minutes of meetings and bank statements for any evidence to contradict the nil movement within the Preference Shares balance during the year.</p> <p>We agreed the unit amount and number of Preference Shares held at year end to the New Zealand Debt Market (NZDX) registry.</p>



### *Information other than the financial statements and auditor's report*

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *Responsibilities of the Directors for the financial statements*

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, 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 preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

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

This description forms part of our auditor's report.



*Who we report to*

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

The engagement partner on the audit resulting in this independent auditor's report is Ashley Wood.

A handwritten signature in blue ink that reads 'Ashley Wood'. The signature is written in a cursive style with a long horizontal stroke at the end.

Ashley Wood

Chartered Accountants  
5 March 2018

Sydney