



Rabobank



Rabo Capital Securities Limited

Annual Report – 31 December 2018

Annual Report 2018

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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 2018 ("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)

Pratik Keshav
BCOM (Hons) (UOA), CFA (CFAI)

Todd Charteris (appointed 16 November 2018)
BCOM (UOO) University of Otago

Carl Grant (resigned 16 November 2018)
BMS (Hons) (UOW), ACA (NZICA)

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.

General enquiries can be directed to:

- 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 2018.

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 2018, John McLean held 30,000 (2017: 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.

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:

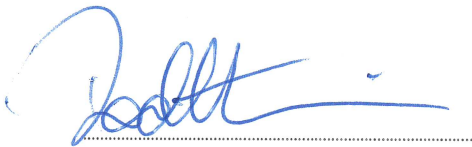
- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent; and
- State whether applicable accounting standards have been followed, subject to any material departure disclosed and explained in the financial statements.

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 2018.

The board of directors of the Company authorised these financial statements for issue on 22 March 2019.

For and on behalf of the directors:



Director – Todd Charteris
22 March 2019



Director – John McLean
22 March 2019

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 2018.

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 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 interest payments made during the year were as follows:

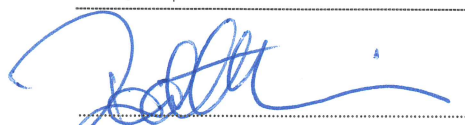
In thousands of NZD	
19 March 2018	4,205
18 June 2018	4,205
18 September 2018	4,205
18 December 2018	4,205

Twenty Largest Preference Shareholders at 31 December 2018

Name of Shareholder	Number of Holdings	%
Forsyth Barr Custodians Limited <1-Custody>	22,294,000	7.96
FNZ Custodians Limited	20,303,000	7.25
Investment Custodial Services Limited <A/C C>	15,648,000	5.58
Custodial Services Limited <A/C 4>	8,477,000	3.02
JBWere (NZ) Nominees Limited <NZ Resident A/C>	8,354,000	2.98
Custodial Services Limited <A/C 3>	7,295,000	2.6
Custodial Services Limited <A/C 2>	5,016,000	1.79
BNP Paribas Nominees (NZ) Limited - NZCSD <BPSS40>	4,971,000	1.77
FNZ Custodians Limited <DRP NZ A/C>	3,246,000	1.15
Augustine Finance Limited	3,000,000	1.07
Custodial Services Limited <A/C 18>	2,618,000	0.93
ASB Nominees Limited <A/C 538291>	2,000,000	0.71
Estate Raywyn Alice Ramage Deceased	1,500,000	0.53
Custodial Services Limited <A/C 1>	1,458,000	0.52
Forsyth Barr Custodians Limited <A/C 1 E>	1,434,000	0.51
Picton Holdings Limited	1,350,000	0.48
Alexander Bannatyne Stewart & James Colin Stewart <Stewart Partnership A/C>	1,250,000	0.44
Sierra Investments Limited	1,105,000	0.39
Moira Eileen Bell	1,015,000	0.36
Kia Investments Limited	1,000,000	0.35

Spread of Preference Shareholders at 31 December 2018

Range of Shareholding	Number of Holders	Total Shares Held	%
500 to 999	1	666	0.00
2,000 to 4,999	-	-	-
5,000 to 9,999	432	2,412,000	0.86
10,000 to 49,999	2,393	49,343,001	17.62
50,000 to 99,999	592	33,286,333	11.89
100,000 to 499,999	440	65,685,000	23.46
500,000 plus	44	129,273,000	46.17


 Director – Todd Charteris
 22 March 2019


 Director – John McLean
 22 March 2019

Statement of Comprehensive Income

in thousands of NZD	Note	For the year ended 31 December	
		2018	2017
Interest income	4	23,375	23,367
Interest expense	5	(16,846)	(16,836)
Net interest income		6,529	6,531
Other income	6	182	236
Operating income		6,711	6,767
Operating expenses	7	(170)	(226)
Profit before income tax		6,541	6,541
Income tax expense	8	(6,541)	(6,541)
Net profit for the year		-	-
Net profit attributable to members of Rabo Capital Securities Limited		-	-
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss		-	-
Items that will not be reclassified to profit or loss		-	-
Total other comprehensive income for the year		-	-
Total comprehensive income attributable to members of Rabo Capital Securities Limited		-	-
Earnings Per Share			
Basic and diluted earnings per Ordinary Share	9	-	-

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 2018	At 31 December 2017
Assets			
Cash and cash equivalents	10	1,762	198
Rabobank capital securities	11	280,000	280,000
Other assets	12	948	1,029
Total assets		282,710	281,227
Liabilities			
Due to related parties		1,500	-
Current tax payable	13	383	383
Other liabilities	14	825	842
Preference shares	15	280,000	280,000
Total liabilities		282,708	281,225
Net assets		2	2
Equity			
Contributed equity	16	1	1
Retained earnings		1	1
Total equity		2	2

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 2018 in thousands of NZD	Contributed equity	Retained earnings	Total
At 1 January 2017	1	1	2
Net profit	-	-	-
Total comprehensive income after tax	-	-	-
At 31 December 2017	1	1	2
At 1 January 2018	1	1	2
Net profit	-	-	-
Total comprehensive income after tax	-	-	-
At 31 December 2018	1	1	2

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	
		2018	2017
Cash flows from operating activities			
Cash was provided from:			
Interest income		23,375	23,368
Other income		263	206
Cash was applied to:			
Operating expenses		(187)	(198)
Interest expense		(16,846)	(16,835)
Tax payments		(6,541)	(8,345)
Net cash flows from operating activities		64	(1,804)
Cash flows from investing activities			
Cash was applied to:			
Purchase of Rabobank capital securities		-	-
Net cash flows from investing activities		-	-
Cash flows from financing activities			
Cash was provided from:			
Issue of preference shares		-	-
Issue of ordinary shares		-	-
Due to related parties		1,500	-
Net cash flows from financing activities		1,500	-
Net change in cash and cash equivalents	23	1,564	(1,804)
Cash and cash equivalents at beginning of the year		198	2,002
Cash and cash equivalents at end of the year		1,762	198
Cash and cash equivalents at the end of the year comprise of:			
Cash at bank other than Reserve Bank		1,762	198
Cash and cash equivalents at end of the year	10	1,762	198

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 2018.

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 22 March 2019.

(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

The Company applies the three-stage expected credit loss impairment models for measuring and recognising expected credit losses which involve a significant degree of management judgement. The impairment methodology results in the recognition of allowances measured at an amount equal to 12-month expected credit losses (stage 1); allowances measured at an amount equal to lifetime expected credit losses for financial assets for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets (stage 2); and financial assets that are credit-impaired (stage 3). The Company uses estimates and management judgement in the determination of the expected credit loss for the following attributes:

- Significant increase in credit risk: judgement is required to transfer assets from stage 1 to stage 2.
- Forward-looking information: the estimation of expected credit losses for each stage and the assessment of significant increases in credit risk consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions (forward looking information). The estimation of forward-looking information may require significant judgement.
- Macro-economic scenarios: The Company uses three global macroeconomic scenarios (consisting of a baseline, a baseline minus and a baseline plus scenario, which are probability weighted) in their ECL models to determine the

Notes to the Financial Statements

2 Basis of preparation

(d) Significant accounting judgments and estimates

expected credit losses. The expected credit loss on a financial asset should be based on an unbiased probability-weighted amount that is determined by evaluating a range of possible and reasonable outcomes and should reflect information available on current conditions and forecasts of future economic conditions, such as gross domestic product growth, unemployment rates and interest rates. These forward-looking macroeconomic forecasts require judgment and are partly based on internal Rabobank research.

- Measurement of expected credit losses: The probability of default (PD) x loss given default (LGD) x exposure at default (EAD) inputs are used to estimate expected credit losses. These inputs require estimates in the following way:

PD – The probability of default is an estimate of the likelihood of default over a given time horizon.

EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after reporting date.

LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that Rabobank would expect to receive, including cash flows expected from collateral and other credit enhancements.

- Measurement of individually assessed financial asset: For credit-impaired financial assets that are assessed on an individual basis, a discounted cash flow calculation is performed. In many cases, judgement is required for the estimation of the expected future cash flows and the weighting of the three scenarios.

(e) Changes in accounting policies

The Company has adopted two changes in accounting policies during the year being NZ IFRS 15 and NZ IFRS 9.

NZ IFRS 15 Revenue from Contracts with Customers

NZ IFRS 15 was adopted (replacing NZ IAS 18) from 1 January 2018 and provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. The standard does not apply to financial instruments, insurance contracts or lease contracts and has had no material impact on the revenue recognition for the Company. This is because the majority of Company's revenues (being interest income) is outside of the scope of NZ IFRS 15. Interest income is recognised in accordance with NZ IFRS 9. The Company has no trail commission income.

NZ IFRS 9 Financial Instruments

The standard contains new accounting requirements for financial assets and liabilities, including classification and measurement, impairment 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 are 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 main impacts of the adoption of NZ IFRS 9 are as follows:

- 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.
- There was 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 Company 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 IAS 39. The financial assets of the company comprise cash and cash equivalents as well as Rabobank capital securities. These financial assets were classified in stage 1 and no impairment allowance was recognised on transition to NZ IFRS 9.
- As the Company does not currently apply hedge accounting, there is no impact from the hedge accounting changes in NZ IFRS 9.

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 financial assets at amortised cost. Preference shares are classified as financial liabilities at amortised cost.

(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.

Notes to the Financial Statements

3 Significant accounting policies (continued)

(d) Financial instruments (continued)

(iii) Measurement (continued)

Impairment allowances apply to financial assets at amortised cost and financial assets at fair value through OCI, as well as to lease receivables, contract assets, trade receivables, certain loan commitments and financial guarantees. At initial recognition, an allowance is recognised for the amount of the expected credit losses from possible defaults in the coming 12 months (stage 1). If credit risk increased significantly since origination (but remains non-credit-impaired), an allowance will be required for the amount that equals the expected credit losses from possible defaults during the expected lifetime of the financial asset (stage 2). If the financial instrument becomes credit-impaired the allowance will remain at the Lifetime ECL (stage 3). For these instruments the interest income will be recognised by applying the effective interest rate on the net carrying amount (including the allowance). Financial instruments become credit-impaired when one or more events have occurred that had an adverse impact on estimated future cash flows. Refer to note 2(d) for significant estimates and assumptions involved in determining impairment allowance.

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) Due to related parties

Due to related parties include term deposits, savings deposits and other demand deposits. Due to related entities includes deposits and settlement account balances due to related parties.

They are brought to account at fair value plus directly attributable transaction costs at inception, and are subsequently measured at amortised cost. Interest expense and yield related fees are taken to the statement of comprehensive income using the effective interest method.

(i) 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.

(j) 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)

(k) Accounting standards not early adopted

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted.

NZ IFRS 16 Leases did not have impact on the Company since there are no leasing arrangements in place.

None of other standards that are not yet effective is expected to have a material impact on the Company's financial statements in the period of initial application.

Notes to the Financial Statements

4 Interest income

in thousands of NZD	2018	2017
Due from other financial institutions	16	8
Rabobank capital securities	23,359	23,359
Total interest income	23,375	23,367

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	2018	2017
Interest due to related parties	28	18
Interest on preference shares	16,818	16,818
Total interest expense	16,846	16,836

The preference shares accrued interest of 8.3425% per annum, less an allowance for imputation credits deducted based on a 28% tax rate (2017: 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 \$181,622 (2016: \$235,668) from Rabobank to assist with the general expenses incurred.

7 Operating expenses

in thousands of NZD	2018	2017
Other operating expenses including the following:		
Audit fees	17	17
NZDX fees	25	26
Administration fees	17	15
Registry fees	60	50
Trustee fees	23	22
Other expenses	28	96
Total operating expenses	170	226

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

8 Income tax

(a) Income tax expense

in thousands of NZD	2018	2017
Current income tax	6,541	6,541
Total income tax expense	6,541	6,541

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

in thousands of NZD	2018	2017
Profit before income tax	6,541	6,541
Taxation @ 28% (2017: 28%)	1,831	1,831
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible interest expense	4,710	4,710
Income tax expense	6,541	6,541

Notes to the Financial Statements

8 Income tax (continued)

(c) Imputation credit account

in thousands of NZD	2018	2017
Imputation credit	261	(122)

Imputation credits available for use in subsequent reporting periods are in a benefit position as at 31 January 2019, following the payment of the provisional tax which was paid on 25 January 2019.

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	2018	2017
Profit after tax attributable to the ordinary shares	-	-
Weighted average number of shares	1,000 shares	1,000 shares
Earnings per share	-	-

10 Cash and cash equivalents

in thousands of NZD	2018	2017
Cash at bank other than Reserve Bank	1,762	198
Total cash and cash equivalents	1,762	198

11 Rabobank capital securities

in thousands of NZD	2018	2017
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. No impairment is recognised as at reporting date since the amount is immaterial (2017: nil since its immaterial).

12 Other assets

in thousands of NZD	2018	2017
Accrued interest income	927	927
Other assets*	21	102
Total other assets	948	1,029

* Other assets represent amount due from Rabobank in respect of expense reimbursement. There are no past due or impaired receivables at 31 December 2018 (2017: Nil).

13 Current tax payable

in thousands of NZD	2018	2017
Current tax payable	383	383

14 Other liabilities

in thousands of NZD	2018	2017
Interest payable on preference shares	666	666
Other payables	159	176
Total other liabilities	825	842

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 (2017: 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	2018	2017
Preference shares issued at beginning of year	280,000	280,000
Issued during the year	-	-
Preference shares issued at end of year	280,000	280,000

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 2018 and the movements during the period are as follows:

in thousands of NZD	2018	2017
Ordinary shares issued at beginning of year	1	1
Issued during the year	-	-
Ordinary shares issued at end of year	1	1

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
At 31 December 2018					
Financial assets					
Cash and cash equivalents	1,762	-	-	-	1,762
Rabobank capital securities	280,000	-	-	-	280,000
Total financial assets	281,762	-	-	-	281,762
Financial liabilities					
Preference shares	280,000	-	-	-	280,000
Due to related parties	1,500	-	-	-	1,500
Total financial liabilities	281,500	-	-	-	281,500
in thousands of NZD	Within 6 months	Between 6 to 12 months	Between 1 to 5 years	Over 5 years	Total
At 31 December 2017					
Financial assets					
Cash and cash equivalents	198	-	-	-	198
Rabobank capital securities	-	-	280,000	-	280,000
Total financial assets	198	-	280,000	-	280,198
Financial liabilities					
Preference shares	-	-	280,000	-	280,000
Total financial liabilities	-	-	280,000	-	280,000

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 2018.

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
At 31 December 2018				
Due from other financial institutions	18	(18)	18	(18)
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
At 31 December 2017				
Due from other financial institutions	2	(2)	2	(2)

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. All financial assets are measured in Stage 1 for ECL assessment.

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
At 31 December 2018					
Cash and cash equivalents	1,762	-	-	-	1,762
Rabobank capital securities	-	-	280,000	-	280,000
Other assets	-	948	-	-	948
Total financial assets	1,762	948	280,000	-	282,710
in thousands of NZD	AAA to AA-	A+ to A-	BBB+ to B-	Not rated	Total
At 31 December 2017					
Cash and cash equivalents	198	-	-	-	198
Rabobank capital securities	-	-	280,000	-	280,000
Other assets	-	1,029	-	-	1,029
Total financial assets	198	1,029	280,000	-	281,227

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
At 31 December 2018			
New Zealand	1,762	-	1,762
The Netherlands	-	280,948	280,948
Total credit exposures	1,762	280,948	282,710
in thousands of NZD	Due from other financial institutions	Loans and receivables	Total
At 31 December 2017			
New Zealand	198	-	198
The Netherlands	-	281,029	281,029
Total credit exposures	198	281,029	281,227

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	2018	2017
Percentage band		
> 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
At 31 December 2018								
Financial assets								
Cash and cash equivalents	1,762	1,762	1,762	-	-	-	-	-
Rabobank capital securities	280,000	291,680	-	-	291,680	-	-	-
Other assets	948	948	-	21	927	-	-	-
Total financial assets	282,710	294,390	1,762	21	292,607	-	-	-
Financial liabilities								
Preference shares	280,000	288,409	-	-	288,409	-	-	-
Due to related parties	1,500	1,500	-	-	1,500	-	-	-
Other liabilities	825	825	-	159	666	-	-	-
Total financial liabilities	282,325	290,734	-	159	290,575	-	-	-
At 31 December 2017								
Financial assets								
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	-	-	-
Total financial assets	281,227	316,267	198	102	12,607	11,680	291,680	-
Financial liabilities								
Preference shares	280,000	305,227	-	-	8,409	8,409	288,409	-
Other liabilities	842	842	-	176	666	-	-	-
Total financial liabilities	280,842	306,069	-	176	9,075	8,409	288,409	-

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	2018		2017	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Rabobank capital securities	280,000	284,200	280,000	299,880
Financial liabilities				
Preference shares	280,000	284,200	280,000	299,880
Due to related parties	1,500	1,500	-	-

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

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.

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).

The Company does not have financial instruments measured at fair value.

19 Classification of financial instruments

in thousands of NZD	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
At 31 December 2018			
Financial assets			
Cash and cash equivalents	1,762	-	1,762
Rabobank capital securities	280,000	-	280,000
Other assets	948	-	948
Total financial assets	282,710	-	282,710
Financial liabilities			
Preference shares	-	280,000	280,000
Due to related parties	-	1,500	1,500
Other liabilities	-	825	825
Total financial liabilities	-	282,325	282,325

Notes to the Financial Statements

19 Classification of financial instruments (continued)

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

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
At 31 December 2018			
Assets			
Cash and cash equivalents	1,762	-	1,762
Rabobank capital securities	280,000	-	280,000
Other assets	948	-	948
Total assets	282,710	-	282,710
Liabilities			
Preference shares	280,000	-	280,000
Due to related parties	1,500	-	1,500
Current tax payable	383	-	383
Other liabilities	825	-	825
Total liabilities	282,708	-	282,708
At 31 December 2017			
Assets			
Cash and cash equivalents	198	-	198
Rabobank capital securities	-	280,000	280,000
Other assets	1,029	-	1,029
Total assets	1,227	280,000	281,227
Liabilities			
Preference shares	-	280,000	280,000
Current tax payable	383	-	383
Other liabilities	842	-	842
Total liabilities	1,225	280,000	281,225

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 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	2018	2017
New Zealand	16	8
The Netherlands	23,541	23,595
Total operating revenue*	23,557	23,603

* 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	
	2018	2017	2018	2017
Rabobank capital securities	23,359	23,359	98.97	98.97
Other*	182	236	1.00	1.00
Due from other financial institutions	16	8	0.03	0.03
Total operating revenue	23,557	23,603	100.00	100.00

* 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 \$22,500 (2017: \$21,800). In addition Public Trust receives fees of \$17,500 per annum for administration, tax and other supplementary services (2017: \$13,500). The total trustee fees for the year ended 31 December 2018 amounted to \$40,000 (2017: \$35,300).

(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
At 31 December 2018				
Members of the Rabobank Group				
Rabobank	280,948	(4,926)	6,400	23,331
in thousands of NZD	Value	Acquired during the year	Repaid during the year	Interest received during the year
At 31 December 2017				
Members of the Rabobank Group				
Rabobank	281,029	(6,509)	6,509	23,342

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 2018					
Members of the Rabobank Group					
Rabobank	Ordinary shares	1	100%	-	-
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%	-	-

23 Reconciliation of profit for the year to net cash flows from operating activities

in thousands of NZD	2018	2017
Net profit for the year	-	-
Changes in working capital		
Changes in due to related parties	1,500	-
Changes in other liabilities	(17)	28
Changes in current tax payable	-	(1,804)
Changes in other assets	81	(28)
Net cash inflow provided by / (used in) operating activities	1,564	(1,804)

24 Personnel

The Company had no employees during the year ended 31 December 2018 (2017: Nil).

25 Directors' interests

No directors fees were paid during the period and no fees were outstanding as at 31 December 2018 (2017: Nil). At 31 December 2018, John McLean held 30,000 (2017: 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 2018, 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 shareholder of Rabo Capital Securities Limited

The financial statements comprise:

- the statement of financial position as at 31 December 2018;
- 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 2018, 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).

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 interests in, the Company.

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Our audit approach

Overview

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

Overall materiality is \$2.8 million, which represents approximately 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 NZX Debt Market (NZDX) and lends the funds to Cooperative Rabobank U.A. 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.

We chose 1% based on our professional judgement, noting that it is within the range of commonly accepted thresholds.

We have determined that there are two 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.

Key audit matter

How our audit addressed the key audit matter

Rabobank Capital Securities

Using the funds received from the issuance of \$280 million perpetual non-cumulative non-voting preference shares at NZ\$1 per share, the Company lent Cooperatieve Rabobank U.A, by way of Rabobank Capital Securities, an amount of \$280 million. The Rabobank Capital Securities mature on 18 June 2039.

There has been no movement in the Rabobank Capital Securities since they were issued in 2009.

We considered the existence of the Rabobank Capital Securities to be a key audit matter because of the relative size of the balance in the Company's statement of financial position.

Refer to Note 11 for further details.

We reviewed minutes of meetings and bank statements for any evidence to contradict the nil movement within the Rabobank Capital Securities balance during the year.

We obtained counterparty confirmations to confirm the existence of the Rabobank Capital Securities at year end.

Preference Shares

In 2009, the Company issued 280,000,000 perpetual non-cumulative non-voting preference shares at an issue price of NZD\$1 per share. These shares are listed on the NZX Debt Market (NZDX). The Company has the option to redeem the Preference Shares in certain circumstances.

There has been no movement in the Preference Shares since they were issued in 2009.

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.

Refer to Note 15 for further details.

We reviewed minutes of meetings and bank statements for any evidence to contradict the nil movement within the Preference Shares balance during the year.

We agreed the unit amount and number of Preference Shares held at year end to the NZX Debt Market (NZDX) registry.



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.

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 shareholder. 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 shareholder, 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.

For and on behalf of:

Princewaterhouse Coopers
Ashley Wood

Chartered Accountants
22 March 2019

Sydney