

# Rabo Capital Securities Limited

Annual Report – 31 December 2010



*Rabobank*



## Contents

Directory	2
Companies Act 1993 disclosures	3
Directors' responsibilities statement	5
Shareholders' information	6
Financial Statements	
Statement of Comprehensive Income	8
Statement of Financial Position	9
Statement of Changes in Equity	10
Statement of Cash Flows	11
Notes to the Financial Statements	12-26
Auditor's Report	27

## Directory

### Registered office

Rabo Capital Securities Limited  
Level 12  
80 The Terrace  
Wellington 6011

### Directors

Patrick Mitchell  
John McLean  
Ben Russell

### Trustee for PIE Securities

Public Trust  
Level 10  
141 Willis Street  
Wellington 6011

### Auditor

Ernst & Young  
41 Shortland Street  
Auckland 1010

### Solicitors

Russell McVeagh  
Vero Centre  
Shortland Street  
P O Box 8  
Auckland 1140

### Share registrar

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

### Managing your shareholding online:

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

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 the Trustee, Public Trust at the above address.  
All correspondence and enquiries to Rabo Capital Securities Limited should be addressed to the above registered office address.

## Companies Act 1993 disclosures

Your directors submit their annual report for the year ended 31 December 2010.

### Directors

The names and details of the Rabo Capital Securities Limited (the "Company") directors in office during the financial year ended 31 December 2010 and until the date of this report are as follows.

Patrick Mitchell (Chairman)  
BCom (UNSW), MCom(UNSW)

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

Ben Russell  
BSc (Hons), PhD (UNSW)

### Principal activities

The principal activities during the year were the following:

1. Maintain 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. Maintain subscription holdings of NZ\$1 Perpetual Non-Cumulative Capital Securities issued by Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. ("Rabobank Nederland"); and
3. Do all other things reasonably incidental to the activities referred to in subparagraphs (1) and (2) above.

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

### Significant changes in the state of affairs

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 Nederland. The Company is a wholly owned subsidiary of Rabobank Nederland.

The Company is an issuer for the purposes of the Financial Reporting Act 1993. On 27 May 2009 the Company issued \$280,000,000 of perpetual non-cumulative non-voting preference shares and acquired \$280,000,000 NZ\$1 Perpetual non-cumulative Capital Securities issued by Rabobank Nederland.

### Directors' interest in transactions

At 31 December 2010 John McLean held 30,000 (2009: 30,000) preference shares. The directors have no other interests in the Company or in any other transactions undertaken by the Company during the financial year.

### Indemnification and insurance of directors and officers

Under the Company's constitution, it 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 Nederland has paid insurance premium in respect of directors' liability, and legal expense insurance contracts for the Company's directors.

**Directors' remuneration**

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

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

The Company had no employees during the year.

**Donations**

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

**Audit fees**

The Company paid \$39,375 to Ernst & Young as audit fees.

**Directors' responsibilities statement**

The Financial Reporting Act 1993 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 Reporting Act 1993. 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 2010.

The board of directors of the Company authorised these financial statements for issue on 23 February 2011.

For and on behalf of the directors:



.....  
Director – Patrick Mitchell  
23 February 2011



.....  
Director – John McLean  
23 February 2011

## 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 Securities Commission'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 2010.

### Structure of the board

The skills, experience and expertise relevant to the position of directors held by each director in office at the date of the annual report are included in the Directors' Report.

### Substantial security holders

The following information is given pursuant to section 26 of the Securities Markets Act 1988.

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 Nederland. Rabobank Nederland 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 carry the right to quarterly dividends based on an annual rate of 8.7864%. This rate is reviewable on 18 June 2014. 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

### Year ended 31 December 2010

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

<b>31 December 2010</b>	
<b>\$'000</b>	
18 March 2010	4,305
18 June 2010	4,305
18 September 2010	4,305
18 December 2010	4,305

#### Twenty Largest Preference Shareholders at 31 December 2010

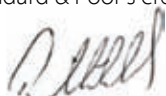
	<b>Number of Holdings</b>	<b>%</b>
Investment Custodial Services Limited (A/c C)	29,963,000	10.70
Forsyth Barr Custodians Limited (Account 1 M)	9,019,000	3.22
FNZ Custodians Limited	8,546,000	3.05
Forsyth Barr Custodians Limited (Account 1 L)	6,182,000	2.20
Custodial Services Limited (A/c 3)	4,016,500	1.43
Forsyth Barr Custodians Limited (Account 1 H)	3,927,000	1.40
Tax Management New Zealand Limited	3,000,000	1.07
Lynette Therese Erceg & Darryl Edward Gregory & Catherine Agnes Quinn (Saint Jude's A/c)	2,763,000	0.98
AMI Insurance Limited	2,000,000	0.71
Ardmore Farms Limited	2,000,000	0.71
ASB Nominees Limited (A/c 538291)	2,000,000	0.71
Custodial Services Limited (A/c 2)	1,704,500	0.60
NZPT Custodians (Grosvenor) Limited - NZCSD	1,625,000	0.58
Raywyn Alice Ramage	1,500,000	0.53
Custodial Services Limited (A/c 4)	1,387,000	0.49
Custodial Services Limited (A/c 18)	1,364,000	0.48
Picton Holdings Limited	1,350,000	0.48
Forsyth Barr Custodians Limited (Account 1-28)	1,315,000	0.46
Alex Stewart & James Stewart (Stewart Partnership A/c)	1,250,000	0.44
FNZ Custodians Limited (DRP NZ A/c)	1,240,000	0.44

#### Spread of Preference Shareholders at 31 December 2010

<b>Range of Shareholding</b>	<b>Number of Holders</b>	<b>Total Shares Held</b>	<b>%</b>
5,000 to 9,999	566	3,080,000	1.10
10,000 to 49,999	2,983	58,891,000	21.02
50,000 to 99,999	643	35,242,000	12.59
100,000 to 499,999	502	73,094,000	26.11
500,000 plus	54	109,693,000	39.18

#### Credit rating

The Standard & Poor's credit rating for the Company's preference shares as at 31 December 2010 was AA-.



Director – Patrick Mitchell  
23 February 2011



Director – John McLean  
23 February 2011

## Statement of Comprehensive Income

Year ended 31 December 2010

	Notes	Period 15 April 2009 to	
		2010	31 December 2009
		\$000	\$000
Interest income	4	24,612	14,767
Interest expense	5	(17,221)	(10,333)
<b>Net interest income</b>		<b>7,391</b>	<b>4,434</b>
Other revenue	6	260	196
<b>Total net operating income</b>		<b>7,651</b>	<b>4,630</b>
Operating expenses	7	(270)	(200)
<b>Profit / (loss) before income tax</b>		<b>7,381</b>	<b>4,430</b>
Income tax expense	8	(7,381)	(4,429)
<b>Profit / (loss) after income tax</b>		<b>-</b>	<b>1</b>
Other comprehensive income after tax		-	-
<b>Total comprehensive income / (loss) after tax attributable to the Company</b>		<b>-</b>	<b>1</b>
<b>Earnings Per Share</b>			
Basic and diluted earnings per Ordinary Share	9	-	1

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

# Statement of Financial Position

As at 31 December 2010

	Notes	2010 \$000	2009 \$000
<b>Assets</b>			
Due from other financial institutions	10	2,260	1,987
Rabobank Nederland capital securities	11	280,000	280,000
Other assets	12	1,038	1,038
<b>Total assets</b>		<b>283,298</b>	<b>283,025</b>
<b>Liabilities</b>			
Other liabilities	13	3,296	3,023
Preference shares	14	280,000	280,000
<b>Total liabilities</b>		<b>283,296</b>	<b>283,023</b>
<b>Net assets / (liabilities)</b>		<b>2</b>	<b>2</b>
<b>Equity</b>			
Contributed equity	15	1	1
Retained earnings		1	1
<b>Total equity</b>		<b>2</b>	<b>2</b>

Signed for and on behalf of the Directors of the Company, who authorised the issue of the Financial Statements on 23 February 2011.



Patrick Mitchell  
Director

Date: 23 February 2011



John McLean  
Director

Date: 23 February 2011

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

## Statement of Changes in Equity

Year ended 31 December 2010

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		Contributed equity	Retained earnings	Total
	Notes	\$000	\$000	\$000
Total equity at 15 April 2009		-	-	-
Issued during the period	15	1	-	1
Total comprehensive (loss) / income after tax		-	1	1
<b>Total equity at 31 December 2009</b>		<b>1</b>	<b>1</b>	<b>2</b>
Total comprehensive (loss) / income after tax		-	-	-
<b>Total equity at 31 December 2010</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

Year ended 31 December 2010

		2010	Period 15 April 2009 to 31 December 2009
	Notes	\$000	\$000
<b>Cash flows from operating activities</b>			
Cash was provided from:			
Interest income		24,614	13,788
Other income		258	137
Cash was applied to:			
Operating expenses		(221)	(98)
Interest expense		(17,221)	(9,649)
Tax payments		(7,157)	(2,192)
<b>Net cash flow provided by / (used in) operating activities</b>	22	<b>273</b>	<b>1,986</b>
<b>Cash flows from investing activities</b>			
Cash was applied to:			
Purchase of Rabobank Nederland capital securities		-	(280,000)
<b>Net cash flow provided by / (used in) investing activities</b>		<b>-</b>	<b>(280,000)</b>
<b>Cash flows from financing activities</b>			
Cash was provided from:			
Issue of preference shares		-	280,000
Issue of ordinary shares		-	1
<b>Net cash flow provided by / (used in) financing activities</b>		<b>-</b>	<b>280,001</b>
<b>Net increase / (decrease) in cash and cash equivalents for the year / period</b>		<b>273</b>	<b>1,987</b>
Cash and cash equivalents at beginning of the year / period		1,987	-
<b>Cash and cash equivalents at end of the year / period</b>		<b>2,260</b>	<b>1,987</b>
Cash and cash equivalents at the end of the year / period comprise of:			
Cash at bank other than Reserve Bank		2,260	1,987
<b>Cash and cash equivalents at end of the year / period</b>	10	<b>2,260</b>	<b>1,987</b>

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

## Contents

1. Reporting entity	13
2. Basis of preparation	13
3. Significant accounting policies	14
4. Interest income	17
5. Interest expense	17
6. Other revenue	17
7. Operating expenses	17
8. Income tax	17
9. Earnings per share	18
10. Due from other financial institutions	18
11. Loans and advances	18
12. Other assets	18
13. Other liabilities	18
14. Preference shares	18
15. Share capital	19
16. Financial risk management	19
17. Fair value of financial instruments	23
18. Classification of financial instruments	23
19. Maturity analysis	24
20. Segment information	24
21. Related party disclosures	25
22. Reconciliation of profit/(loss) after tax to net cash flow from operating activities	25
23. Personnel	26
24. Directors interest	26
25. Post balance sheet events	26

## 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 Centrale Raiffeisen-Boerenleenbank B.A. ("Rabobank Nederland") in order to issue perpetual non-cumulative non-voting preference shares under the Portfolio Investment Entity Tax regime. The Company is an issuer for the purposes of the Financial Reporting Act 1993.

The Company's registered office is Level 12, 80 The Terrace, Wellington, New Zealand.

The Company is a wholly owned subsidiary of Rabobank Nederland 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 2010.

## 2 Basis of preparation

### (a) Statement of compliance

The financial statements of the Company have been prepared 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 profit-oriented entity. They also meet the requirements of the Financial Reporting Act 1993.

These financial statements were authorised for issue by the board of directors on 23 February 2011.

### (b) Basis of measurement

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

### (c) Functional and presentation currency

The functional currency of the Rabobank Nederland group of companies is the Euro. However the Company considers the New Zealand dollar the currency that most accurately represents the economic effect of its underlying transactions, events and conditions. The New Zealand dollar 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 reporting currency for the Company is the New Zealand dollar.

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

### (d) Significant accounting judgments and estimates

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

(i) Going concern

The Company's Board has made an assessment of the Company's ability to continue as a going concern and is satisfied the Company has the resources to continue in business for the foreseeable future. Furthermore, the Board is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(ii) Determination of fair value

The fair value for financial instruments traded in active markets at the Statement of Financial Position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques.

### 3 Significant accounting policies

The principal accounting policies applied in the 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 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.

##### *Interest revenue*

Interest revenue is recognised as the interest accrues (using the effective interest rate method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

#### (b) Financial Instruments

##### *Classification*

The Company classifies its investment in debt financial instruments (Rabobank Nederland capital securities) as loans and receivables. Financial liabilities (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.

##### *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.

##### *Measurement*

Financial assets 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 an allowance for impairment where there is objective evidence that an impairment loss on the loans and receivables has been incurred.

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 cash flows, discounted using the asset's 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 profit or loss as Credit Loss Expense.

Financial liabilities are initially recognised at fair value. Financial liabilities are subsequently measured at amortised cost.

#### (c) Expenses

All expenses are recognised in profit or loss on an accrual basis.

### **(d) Receivables**

Receivables 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.

### **(e) 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.

### **(f) Taxation**

#### ***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.

#### ***Goods and services tax (GST)***

All revenues and expenses are recognised net of goods and services tax (GST). Receivables and payables are recognised inclusive of any applicable GST.

### **(g) Share Capital**

The Company's share capital consists of issued ordinary shares.

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

### **(h) 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. As the Company has agreed a date when it will redeem the shares they are classified as debt instruments.

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

### **(i) Due from other financial institutions**

Due from other financial institutions in the Statement of Financial Position comprise cash at bank, demand deposits and advances with an original maturity of three months or less.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### **(j) Accounting standards available for early adoption**

The following standards, amendments to standards, and interpretations have been identified as those which may impact the Company in the period of initial application. They are available for early adoption at 31 December 2010, but have not been applied in preparing these financial statements.

(i) ***NZ IFRS 9 Financial Instruments***

NZ IFRS 9 Financial Instruments includes requirements for the classification and measurement of financial assets and financial liabilities resulting from the first part of Phase 1 of the project to replace NZ IAS 39 Financial Instruments: Recognition and Measurement.

NZ IFRS 9 will become mandatory for the Company's 31 December 2013 financial statements. The Company has not yet determined the potential effect of the standard.

(ii) ***NZ IAS 24 Related Party Disclosures (revised December 2009)***

NZIAS 24 Related Party Disclosures (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for the Company's 31 December 2011 financial statements, are not expected to have a material impact on the financial statements.

**(k) Comparative figures**

Where necessary, comparative figures have been adjusted to conform with changes in classification in these financial statements.

# Notes to the Financial Statements

Year ended 31 December 2010

	2010	Period 15 April 2009 to 31 December 2009
	\$000	\$000
<b>4 Interest income</b>		
Due from other financial institutions	10	6
Rabobank Nederland capital securities	24,602	14,761
Total interest income	<u>24,612</u>	<u>14,767</u>

Interest on the Rabobank Nederland capital securities is accrued on a daily basis at a rate of 8.7864% per annum. Interest is received quarterly in arrears.

## 5 Interest expense

Interest on preference shares	17,221	10,333
Total interest expense	<u>17,221</u>	<u>10,333</u>

Interest on preference shares is accrued on a daily basis at a rate of 8.7864% per annum less an allowance for imputation credits deducted based on a 30% tax rate. Interest is paid quarterly in arrears.

## 6 Other revenue

During the year, the Company received revenue of \$260,071 (2009: \$196,449) from Rabobank Nederland to assist with the general expenses incurred.

## 7 Operating expenses

Other operating expenses including the following:

Audit fees paid to Ernst & Young for the audit of the financial statements	39	41
NZDX fees	20	14
Administration fees	17	21
Registry fees	44	47
Trustee fees	26	13
Other expenses	124	64
Total operating expenses	<u>270</u>	<u>200</u>

For further information on Trustee and Administration fees refer to Note 21.

## 8 Income tax

### (a) Income tax expense

Current income tax	7,381	4,429
Under / (over) provided in prior periods	-	-
Total income tax (benefit) / expense	<u>7,381</u>	<u>4,429</u>

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

Profit / (Loss) before income tax	7,381	4,430
Taxation @ 30%	2,214	1,329
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible interest expenses	5,167	3,100
Under / (over) provision in prior years	-	-
Income tax (benefit) / expense	<u>7,381</u>	<u>4,429</u>

On 27 May 2010 legislation was enacted changing the income tax rate from 30% to 28%, effective from 1 January 2011.

### (c) Imputation credit account

Opening balance	(1,943)	-
Net tax payment	7,157	2,192
Imputation credits attached to dividends paid	(7,381)	(4,135)
Closing balance	<u>(2,167)</u>	<u>(1,943)</u>

The imputation credit account is in a benefit position as at 31 January 2011, following the payment of the provisional tax which was due on 28 January 2011.

# Notes to the Financial Statements

Year ended 31 December 2010

## 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.

	2010	Period 15 April 2009 to 31 December 2009
	\$000	\$000
Profit for the year/ period attributable to the ordinary shares	-	1
Weighted average number of shares	1	1

## 10 Due from other financial institutions

Cash at bank other than Reserve Bank	2,260	1,987
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## 11 Rabobank Nederland capital securities

Classified as loans and receivables at amortised cost

Rabobank Nederland capital securities	280,000	280,000
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Capital securities are debt obligations of Rabobank Nederland. The capital securities currently earn interest of 8.7864% per annum. This rate is fixed until 18 June 2014. The capital securities are not transferable and the scheduled repayment date is 18 June 2039. They are unsecured. All interest payments have been made on the due date and there is no observable data that would indicate that an allowance for impairment is required.

## 12 Other assets

Accrued interest income	977	979
Other assets	61	59
Total other assets	1,038	1,038

Other assets represent amount due from Rabobank Nederland in respect of expense reimbursement. There are no past due or impaired receivables at 31 December 2010 (2009: Nil).

## 13 Other liabilities

Interest payable on preference shares	684	684
Current tax payable	2,460	2,237
Other payables	152	102
Total other liabilities	3,296	3,023

## 14 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 preference shares carry the right to quarterly interest based on an annual interest rate of 8.7864%. This rate is reviewable on 18 June 2014. 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.

Preference shares issued at beginning of year / period	280,000	-
Issued during the year/period	-	280,000
Preference shares issued at end of year / period	280,000	280,000

# Notes to the Financial Statements

Year ended 31 December 2010

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## 15 Share capital

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

The authorised share capital of the Company is divided into 1,000 ordinary shares of \$1 per share. The shares have no par value. The shares on issue at 31 December 2010 and the movements during the period are as follows:

	2010	2009
	\$000	\$000
Ordinary shares issued at beginning of year / period	1	-
Issued during the year / period	-	1
Ordinary shares issued at end of year / period	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 entity 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.

## 16 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.

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 balance date.

# Notes to the Financial Statements

Year ended 31 December 2010

## 16 Financial risk management (continued)

31 December 2010	Within 6 months \$000	Between 6 to 12 months \$000	Between 1 to 5 years \$000	Over 5 years \$000	Total \$000
<b>Assets</b>					
Due from other financial institutions	2,260	-	-	-	2,260
Rabobank Nederland capital securities	-	-	-	280,000	280,000
<b>Total Financial Assets subject to Interest Rate Risk</b>	<b>2,260</b>	<b>-</b>	<b>-</b>	<b>280,000</b>	<b>282,260</b>
<b>Liabilities</b>					
Preference shares	-	-	-	280,000	280,000
<b>Total Financial Liabilities subject to Interest Rate Risk</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>280,000</b>	<b>280,000</b>
<b>31 December 2009</b>					
31 December 2009	Within 6 months \$000	Between 6 to 12 months \$000	Between 1 to 5 years \$000	Over 5 years \$000	Total \$000
<b>Assets</b>					
Due from other financial institutions	1,987	-	-	-	1,987
Rabobank Nederland capital securities	-	-	-	280,000	280,000
<b>Total Financial Assets subject to Interest Rate Risk</b>	<b>1,987</b>	<b>-</b>	<b>-</b>	<b>280,000</b>	<b>281,987</b>
<b>Liabilities</b>					
Preference shares	-	-	-	280,000	280,000
<b>Total Financial Liabilities subject to Interest Rate Risk</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>280,000</b>	<b>280,000</b>

The interest receivable from the Rabobank Nederland capital securities and the interest payable on the preference shares is fixed until 2014 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 2010.

31 December 2010	Sensitivity of interest income		Impact on total equity	
	100 basis points increase \$000	100 basis points decrease \$000	100 basis points increase \$000	100 basis points decrease \$000
Due from other financial institutions	23	(23)	23	(23)
<b>31 December 2009</b>				
31 December 2009	100 basis points increase \$000	100 basis points decrease \$000	100 basis points increase \$000	100 basis points decrease \$000
Due from other financial institutions	20	(20)	20	(20)

# Notes to the Financial Statements

Year ended 31 December 2010

## (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.

With respect to credit risk arising from the financial assets of the Company 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 as at:

31 December 2010	AAA to AA-	A+ to A-	BBB+ to B-	Not rated	Total
	\$000	\$000	\$000	\$000	\$000
Due from other financial institutions	2,260	-	-	-	2,260
Rabobank Nederland capital securities	280,000	-	-	-	280,000
Other assets	1,038	-	-	-	1,038
	283,298	-	-	-	283,298

31 December 2009	AAA to AA-	A+ to A-	BBB+ to B-	Not rated	Total
	\$000	\$000	\$000	\$000	\$000
Due from other financial institutions	1,987	-	-	-	1,987
Rabobank Nederland capital securities	280,000	-	-	-	280,000
Other assets	1,038	-	-	-	1,038
	283,025	-	-	-	283,025

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

31 December 2010	Due from other financial institutions	Loans and receivables	Total
	\$000	\$000	\$000
New Zealand	2,260	-	2,260
The Netherlands	-	281,038	281,038
	2,260	281,038	283,298

31 December 2009	Due from other financial institutions	Loans and receivables	Total
	\$000	\$000	\$000
New Zealand	1,987	-	1,987
The Netherlands	-	281,038	281,038
	1,987	281,038	283,025

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

Percentage band	2010	2009
91% - 100%	1	1

# Notes to the Financial Statements

Year ended 31 December 2010

## 16 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 cashflows in respect of the Rabobank Nederland capital securities and the preference shares include the quarterly interest payments. The contractual cashflows for receivables and payables exclude interest.

31 December	2010							
	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
\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Assets</b>								
Due from other financial institutions	2,260	2,260	2,260	-	-	-	-	-
Rabobank Nederland capital securities	280,000	981,100	-	-	12,300	12,300	98,400	858,100
Other assets	1,038	60	-	60	-	-	-	-
<b>Total undiscounted financial assets</b>	<b>283,298</b>	<b>983,420</b>	<b>2,260</b>	<b>60</b>	<b>12,300</b>	<b>12,300</b>	<b>98,400</b>	<b>858,100</b>
<b>Liabilities</b>								
Preference shares	280,000	784,792	-	-	8,856	8,856	70,848	696,232
Other liabilities*	836	836	-	152	684	-	-	-
<b>Total undiscounted financial liabilities</b>	<b>280,836</b>	<b>785,628</b>	<b>-</b>	<b>152</b>	<b>9,540</b>	<b>8,856</b>	<b>70,848</b>	<b>696,232</b>
<b>31 December</b>								
2009								
	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
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Assets</b>								
Due from other financial institutions	1,987	1,987	1,987	-	-	-	-	-
Rabobank Nederland capital securities	280,000	1,005,700	-	-	12,300	12,300	98,400	882,700
Other assets	1,038	59	-	59	-	-	-	-
<b>Total undiscounted financial assets</b>	<b>283,025</b>	<b>1,007,746</b>	<b>1,987</b>	<b>59</b>	<b>12,300</b>	<b>12,300</b>	<b>98,400</b>	<b>882,700</b>
<b>Liabilities</b>								
Preference shares	280,000	787,990	-	-	8,610	8,610	68,880	701,890
Other liabilities*	786	786	-	102	684	-	-	-
<b>Total undiscounted financial liabilities</b>	<b>280,786</b>	<b>788,776</b>	<b>-</b>	<b>102</b>	<b>9,294</b>	<b>8,610</b>	<b>68,880</b>	<b>701,890</b>

\* Other liabilities include interest payable on preference shares and other fees payables, but exclude tax payable.

# Notes to the Financial Statements

Year ended 31 December 2010

	2010 Carrying value \$000	2010 Fair value \$000	2009 Carrying value \$000	2009 Fair value \$000
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## 17 Fair value of financial instruments

The following table shows the fair values of the Company's financial instruments as at 31 December 2010.

### Fair Value

#### Financial assets

Rabobank Nederland capital securities	280,000	296,800	280,000	289,800
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#### Financial liabilities

Preference shares	280,000	296,800	280,000	289,800
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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 Nederland capital securities is deemed to be equal to the fair value of the preference shares as:

- the issue price of both incorporated consideration of Rabobank Nederland'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 their short term nature of due from other financial institutions, other assets and other liabilities, these are stated in the Statement of Financial Position at their fair values which is deemed equivalent to their carrying value.

## 18 Classification of financial instruments

31 December 2010	Loans and receivables \$000	Financial liabilities at amortised cost \$000	Total \$000
<b>Assets</b>			
Due from other financial institutions	2,260	-	2,260
Rabobank Nederland capital securities	280,000	-	280,000
Other assets*	1,038	-	1,038
<b>Total Assets</b>	<b>283,298</b>	<b>-</b>	<b>283,298</b>
<b>Liabilities</b>			
Preference shares	-	280,000	280,000
Other liabilities**	-	836	836
<b>Total Liabilities</b>	<b>-</b>	<b>280,836</b>	<b>280,836</b>
<b>31 December 2009</b>			
	Loans and receivables \$000	Financial liabilities at amortised cost \$000	Total \$000
<b>Assets</b>			
Due from other financial institutions	1,987	-	1,987
Rabobank Nederland capital securities	280,000	-	280,000
Other assets*	1,038	-	1,038
<b>Total Assets</b>	<b>283,025</b>	<b>-</b>	<b>283,025</b>
<b>Liabilities</b>			
Preference shares	-	280,000	280,000
Other liabilities**	-	786	786
<b>Total Liabilities</b>	<b>-</b>	<b>280,786</b>	<b>280,786</b>

\* Other assets include interest accrued on the Rabobank Nederland capital securities and other assets.

\*\* Other liabilities include interest payable on preference shares and other fees payables, but exclude tax payable.

# Notes to the Financial Statements

Year ended 31 December 2010

## 19 Maturity analysis

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

31 December 2010	Within 12 months	Over 12 months	Total
	\$000	\$000	\$000
<b>Assets</b>			
Due from other financial institutions	2,260	-	2,260
Rabobank Nederland capital securities	-	280,000	280,000
Other assets	1,038	-	1,038
<b>Total Assets</b>	<b>3,298</b>	<b>280,000</b>	<b>283,298</b>
<b>Liabilities</b>			
Preference shares	-	280,000	280,000
Other liabilities	3,296	-	3,296
<b>Total Liabilities</b>	<b>3,296</b>	<b>280,000</b>	<b>283,296</b>

31 December 2009	Within 12 months	Over 12 months	Total
	\$000	\$000	\$000
<b>Assets</b>			
Due from other financial institutions	1,987	-	1,987
Rabobank Nederland capital securities	-	280,000	280,000
Other assets	1,038	-	1,038
<b>Total Assets</b>	<b>3,025</b>	<b>280,000</b>	<b>283,025</b>
<b>Liabilities</b>			
Preference shares	-	280,000	280,000
Other liabilities	3,023	-	3,023
<b>Total Liabilities</b>	<b>3,023</b>	<b>280,000</b>	<b>283,023</b>

## 20 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 income per geographical location. The basis for attributing the operating income is the place of incorporation of the equity or the instrument's counterparty.

	Period 15 April 2009 to	
	2010	31 December 2009
	\$000	\$000
New Zealand	10	6
The Netherlands	24,862	14,957
	<b>24,872</b>	<b>14,963</b>

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

	2010	2010	Period 15 April 2009 to	Period 15 April 2009 to
	\$000	%	31 December 2009	31 December 2009
			\$000	%
Rabobank Nederland capital securities	24,862	99.96	14,957	99.96
Due from other financial institutions	10	0.04	6	0.04
	<b>24,872</b>	<b>100.00</b>	<b>14,963</b>	<b>100.00</b>

# Notes to the Financial Statements

Year ended 31 December 2010

## 21 Related party transactions

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

### Trustee and administration fees

The Trustee for the preference shares is the 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 \$20,000 plus GST (2009: \$20,000 plus GST). In addition Public Trust receives fees of \$32,500 per annum for administration, tax and other supplementary services (2009: \$36,100). The total trustee fees for the year ended 31 December 2010 amounted to \$52,500 (2009: \$56,100).

### Due from related parties

The Company does not hold shares in the parent company or any other company within the Rabobank group of companies. At 31 December 2010, the amounts due including interest receivable from the parent company and movements during the year ended 31 December 2010 were as follows:

31 December 2010	Value	Acquired during the year	Repaid during the year	Interest received during the year
	\$000	\$000	\$000	\$000
<i>Members of the Rabobank Nederland Group</i>				
Rabobank Nederland	280,977	-	-	24,602

31 December 2009	Value	Acquired during the period	Repaid during the period	Interest received during the period
	\$000	\$000	\$000	\$000
<i>Members of the Rabobank Nederland Group</i>				
Rabobank Nederland	280,979	280,979	-	14,761

### 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 during the year ended 31 December 2010 were as follows:

31 December 2010	Share Class	Shares	Interest held	Shares acquired during the year	Shares disposed during the year
		\$000	%	\$000	\$000
<i>Members of the Rabobank Nederland Group</i>					
Rabobank Nederland	Ordinary shares	1	100	-	-

31 December 2009	Share Class	Shares	Interest held	Shares acquired during the period	Shares disposed during the period
		\$000	%	\$000	\$000
<i>Members of the Rabobank Nederland Group</i>					
Rabobank Nederland	Ordinary shares	1	100	1	-

## 22 Reconciliation of profit / (loss) after tax to net cash flow from operating activities

	Period 15 April 2009 to	
	2010	31 December 2009
	\$000	\$000
Net profit / (loss) after tax	-	1
<b>Add / (deduct) movements in other working capital items:</b>		
Increase / (decrease) in other liabilities	273	3,023
(Increase) / decrease in other assets	-	(1,038)
Net cash inflow provided by / (used in) operating activities	273	1,986

# Notes to the Financial Statements

Year ended 31 December 2010

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## **23 Personnel**

The Company had no employees during the year ended 31 December 2010 (2009: Nil).

## **24 Directors' interests**

No directors fees were paid during the period and no fees were outstanding as at 31 December 2010 (2009: Nil). At 31 December 2010 John McLean held 30,000 (2009: 30,000) preference shares. The directors have no other interests in the Company's ordinary or preference shares.

## **25 Post balance date events**

Since 31 December 2010 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

#### Report on the Financial Statements

We have audited the financial statements of Rabo Capital Securities Limited on pages 8 to 26, which comprise the statement of financial position of Rabo Capital Securities Limited as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters 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.

#### Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of the financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, 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.

#### Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected, depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the entity's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

Other than in our capacity as auditor we have no relationship with, or interest in Rabo Capital Securities Limited.

#### Opinion

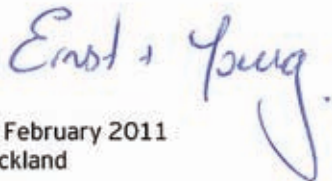
In our opinion, the financial statements on pages 8 to 26:

- ▶ comply with generally accepted accounting practice in New Zealand;
- ▶ comply with International Financial Reporting Standards; and
- ▶ give a true and fair view of the financial position of Rabo Capital Securities Limited as at 31 December 2010 and the financial performance and cash flows for the year then ended.

#### Report on Other Legal and Regulatory Requirements

We have obtained all the information and explanations we have required.

In our opinion proper accounting records have been kept by Rabo Capital Securities Limited as far as appears from our examination of those records.



23 February 2011  
Auckland





