



General Disclosure Statement

Number 38

For the six months ended 31 December 2010

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General matters

Details of incorporation

Kiwibank Limited ("Kiwibank") is a company domiciled in New Zealand and was incorporated in New Zealand under the Companies Act 1993 on 4 May 2001 as a wholly owned subsidiary of New Zealand Post Limited ("NZP"). On 29 November 2001, Kiwibank was registered as a bank under the Reserve Bank of New Zealand Act 1989 and was required to comply with the conditions of registration as laid down by the Reserve Bank of New Zealand ("RBNZ") from that date onwards.

This General Disclosure Statement has been issued by Kiwibank for the six months ended 31 December 2010, in accordance with the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008 (the "Order"). Words and phrases defined by the Order have the same meanings when used in this General Disclosure Statement.

Address for service

The address for service is: Kiwibank Limited, Level 6, Radio New Zealand House, 155 The Terrace, Wellington 6011, New Zealand.

Ultimate holding company

The ultimate holding company of Kiwibank is NZP whose address for service is: New Zealand Post House, Level 12, 7-27 Waterloo Quay, Wellington 6011, New Zealand. On 26 June 2009, Kiwi Group Holdings Limited, a wholly owned subsidiary of NZP, acquired Kiwibank Limited, with the approval of the RBNZ.

Voting securities and power to appoint directors

There are 310 million voting securities of Kiwibank. Kiwi Group Holdings Limited is the registered and beneficial holder of all those voting securities. NZP and the Crown (being those ministers who hold shares in NZP on behalf of the Crown) are the only holders of a direct or indirect qualifying interest in the voting securities of Kiwibank. Although the Crown is not the registered or beneficial holder of any of the voting securities of Kiwibank, it has a relevant interest in all of such securities by virtue of subsection 5(B) - (2) of the Securities Markets Act 1988.

Kiwi Group Holdings Limited has the ability to directly appoint 100% of the board of directors of Kiwibank. NZP, as the immediate parent of Kiwi Group Holdings Limited and the ultimate holding company of Kiwibank, has the ability to indirectly appoint 100% of the board of directors of Kiwibank. No appointment of any director, chief executive officer, or executive, who reports or is accountable directly to the chief executive officer, shall be made in respect of Kiwibank unless:

1. the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
2. the Reserve Bank has advised that it has no objection to that appointment.

Other material matters

Kiwibank's directors are of the opinion that there are no matters relating to the business or affairs of Kiwibank, which would, if disclosed in this General Disclosure Statement, materially adversely affect the decision of a person to subscribe for debt securities of which Kiwibank is the issuer.

Pending proceedings or arbitration

Kiwibank's directors are of the opinion that there are no pending legal proceedings or arbitration concerning Kiwibank, whether in New Zealand or elsewhere, that may have a material adverse effect on Kiwibank.

Credit ratings

On 29 November 2001, Standard & Poor's (Australia) Pty Limited granted Kiwibank a credit rating of AA- for long-term senior unsecured obligations payable in New Zealand, in New Zealand dollars. There have been no changes made to the rating in the two years preceding 31 December 2010. This credit rating was reaffirmed on 29 December 2010 as AA- stable.

NZP has a credit rating of AA- and has given Kiwibank a deed poll guarantee.

Standard & Poor's (Australia) Pty Limited credit rating scale definitions

AAA rated corporations have an extremely strong capacity for timely repayment of debt obligations.

AA rated corporations have a very strong capacity for timely repayment of debt obligations. They differ only from AAA status because margins of protection may not be as large or because protection elements may be subject to greater fluctuation.

A rated corporations have a strong capacity to meet debt obligations in a timely manner. Such corporations may be somewhat more susceptible to adverse changes in their environment, or margins of protection for the lender may be lower than for more highly rated corporations.

BBB rated corporations have a satisfactory capacity to meet debt obligations. Protection levels are more likely to be weakened by adverse changes in circumstances and economic conditions than for borrowers in more highly rated categories.

BB rated corporations' ability to pay interest and repay principal is only adequate and is likely to be affected over time by adverse economic changes.

B rated corporations are not highly protected as to their ability to pay interest and repay principal when due.

CCC rated corporations have poor protection levels. There is uncertainty with regard to the corporation's industry or some other feature of its business. Speculative characteristics exist and debt is not well safe guarded.

CC is typically applied to debt subordinated to senior debt that is assigned an actual or implied CCC rating.

C is assigned where there is a high risk of default, or where default may have occurred.

D rated corporations are in default.

The ratings from **AA** to **CCC** may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Guarantees

As at the date the directors signed this General Disclosure Statement, the payment obligations of Kiwibank have the benefit of certain guarantees: a deed poll guarantee by Kiwibank's ultimate holding company NZP (the "NZP Guarantee") and (in relation to the fixed rate bonds issued by Kiwibank on 20 October 2009) a Crown deed of guarantee entered into by the New Zealand Government under the New Zealand wholesale funding guarantee scheme (the "Crown Wholesale Guarantee"). Details of each guarantee are set out below.

NZP Guarantee

NZP supports Kiwibank as a registered bank. By way of example, NZP has contracted with Kiwibank to offer banking services through NZP's existing retail network for an unlimited period.

All payment obligations (excluding any payment obligations, the terms of which expressly provide that they do not have the benefit of the NZP Guarantee) of Kiwibank are guaranteed pursuant to the NZP Guarantee. The following is a summary of the features of the NZP Guarantee as at 31 December 2010:

- i. The address for service of NZP is New Zealand Post House, Level 12, 7-27 Waterloo Quay, Wellington, New Zealand.
 - ii. NZP is not a member of the Kiwibank Banking Group (as that term is defined in the Order).
 - iii. The NZP Guarantee is an unsecured guarantee of the payment obligations (excluding any payment obligations, the terms of which expressly provide that they do not have the benefit of the NZP Guarantee) of Kiwibank. The NZP Guarantee can be terminated on not less than three month's notice by NZP to creditors (as that term is defined in the NZP Guarantee). Any such termination does not affect any existing payment obligations owed under the NZP Guarantee at the termination date. The NZP Guarantee has no expiry date.
 - iv. There are no limits on the amount of the undisputed payment obligations guaranteed.
 - v. There are no material conditions applying to the NZP Guarantee other than non-performance by the principal obligor.
 - vi. There are no material legislative or regulatory restrictions, which would have the effect of subordinating the claims under the NZP Guarantee of any of the creditors of Kiwibank on the assets of NZP, to other claims on NZP, in a winding up of NZP.
- The net tangible assets of NZP were \$997m as recorded in NZP's most recent Annual Report for the financial year ended 30 June 2010. There were no qualifications in the audit report accompanying the Annual Report.
- NZP has a credit rating applicable to its long term unsecured obligations payable in New Zealand, in New Zealand dollars, from Standard & Poor's (Australia) Pty Limited of AA-. There have been no changes made to the rating in the two years preceding 31 December 2010. For an explanation of Standard & Poor's (Australia) Pty Limited's credit rating scale see the Crown Wholesale Guarantee section below.

Crown Retail Guarantee

The Crown Retail Guarantee expired at 12:01am on 12 October 2010. No claims have been made, nor are anticipated to be made, by Kiwibank under the terms of the Crown Retail Guarantee scheme.

Guarantees continued

Crown Wholesale Guarantee

On 1 November 2008 the New Zealand Government announced details of a wholesale funding guarantee facility ("the Facility") to investment-grade financial institutions that have substantial New Zealand borrowing and lending operations, giving institutions the ability to opt-in to the guarantee either by institution or by instrument. The credit ratings applicable to the Crown are set out below.

On 24 March 2009, Kiwibank was accepted into the scheme by the New Zealand Government by the issue of a Guarantee Eligibility Certificate.

On 30 April 2010 the Crown wholesale funding guarantee scheme was withdrawn by the New Zealand Government. However, the Crown Wholesale Guarantee still applies in relation to fixed rate bonds issued by Kiwibank on 20 October 2009.

A guarantee fee was charged for each guarantee issued under the Facility, differentiated by the credit rating of the issuer and the term of the security being guaranteed. The maximum term of securities guaranteed is five years. The following is a summary of the features of the Crown Wholesale Guarantee.

- a) The guarantor under the Crown Wholesale Guarantee is Her Majesty the Queen in right of New Zealand acting by and through the Minister of Finance (the "Crown").
- b) The Crown's address for service is 1 The Terrace, Wellington 6011, New Zealand.
- c) The Crown guarantees the payment by Kiwibank of any liability of Kiwibank to pay principal and interest in respect of the debt securities for which the Crown has issued a Guarantee Eligibility Certificate; and
- d) Undertakes that if Kiwibank does not pay any such liability on the date on which it becomes due, the Crown shall within 5 business days of a demand being made in accordance with the Crown Wholesale Guarantee and following the expiry of any applicable grace period, pay such liability.
- e) The Crown Wholesale Guarantee does not extend to debt securities held by related parties. Related parties of Kiwibank include Kiwibank's subsidiaries and its ultimate parent, NZP.
- f) Additional information on the Crown Wholesale Guarantee scheme and the Crown's most recent audited financial statements are available, free of charge and at all reasonable times, on New Zealand Treasury's website: www.treasury.govt.nz.
- g) The Crown has the following credit ratings applicable to its long term obligations payable in New Zealand dollars:
 - Standard & Poor's (Australia) Pty Limited: AAA
 - Fitch Ratings Limited: AAA
 - Moody's Investors Services: Aaa
- h) There are no material conditions applicable to the guarantee other than non-performance by the principal obliger.

Guarantees continued

There have been no changes made to the rating in the two years preceding 31 December 2010. The following table describes the steps in the applicable rating scales for each rating agency:

	Standard & Poor's	Moody's Investors Services	Fitch Ratings
Highest credit quality – ability to repay debt obligations is extremely strong	AAA	Aaa	AAA
High quality, low credit risk – ability to repay debt obligations is very strong	AA	Aa	AA
High quality -- ability to repay is strong although may be susceptible to adverse changes in circumstances or in economic conditions	A	A	A
Low credit risk – satisfactory ability to repay debt obligations though changes in circumstances or in economic conditions are likely to impair this capacity	BBB	Baa	BBB
Ability to repay debt obligations is only adequate and likely to be affected by adverse economic change which might affect timeliness of repayment	BB	Ba	BB
Risk of default due to greater vulnerability	B	B	B
Significant risk of default. Repayment of debt obligations requires favourable financial conditions	CCC	Caa	CCC
Poor protection, highest risk of default	CC to C	Ca to C	CC to C
Obligations currently in default	D	-	RD to D

Credit ratings between AA – CCC by Standard & Poor's and Fitch Ratings may be modified by the addition of a plus or minus sign (signalling higher and lower end of the scale respectively). Moody's Investors Services applies numeric modifiers 1, 2 and 3 to each generic rating classification with a 1 indicating a higher rating and a 3 indicating a lower rating within that generic rating category.

The above information is a brief summary only. The full contracts relating to the Crown Wholesale Guarantee and the Facility are contained in Kiwibank's Supplemental Disclosure Statement and should be reviewed by any person intending to rely on the guarantee to ensure they understand how it will apply to their circumstances.

A copy of Kiwibank's most recent Supplemental Disclosure Statement, containing a copy of the full guarantee contracts for the NZP Guarantee, and the Crown Wholesale Guarantee will be provided immediately at no charge to any person requesting a copy from Kiwibank's Head Office at Level 6, Radio New Zealand House, 155 The Terrace, Wellington 6011, New Zealand or at any branch of Kiwibank, within five working days of a request for a copy having been made. It is also available at www.kiwibank.co.nz.

Conditions of registration

The conditions of registration imposed on Kiwibank by the Reserve Bank of New Zealand ("RBNZ") applicable from 15 October 2010 (and which apply as at the date on which this General Disclosure Statement is signed by or on behalf of all directors) are:

1. That the Banking Group complies with the following requirements:
 - i. The total capital ratio of the Banking Group is not less than 8 percent;
 - ii. The tier one capital ratio of the Banking Group is not less than 4 percent; and
 - iii. The capital of the Banking Group is not less than NZ\$30 million.

For the purposes of this condition of registration, capital, the total capital ratio and the tier one capital ratio must be calculated in accordance with the RBNZ document entitled "Capital Adequacy Framework (Standardised Approach)" (BSZA) dated October 2010.

1a. That:

- a) the bank has an internal capital adequacy assessment process ("CAAP") that accords with the requirements set out in the document "Guidelines on a bank's internal capital adequacy assessment process ("CAAP")" (BS12) dated December 2007;
 - b) under its ICAAP, the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of tier one and total capital ratios under the requirements set out in the document "Capital Adequacy Framework (Standardised Approach)" (BSZA) dated October 2010; and
 - c) the bank determines an internal capital allocation for each identified and measured "other material risk".
2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities, where the term material is based on generally accepted accounting practice, as defined in the Financial Reporting Act 1993.
 3. That the Banking Group's insurance business is not greater than 1% of its total consolidated assets. For the purposes of this condition:
 - i. Insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Ratings and Inspections) Act 1994 (including those to which the Act is disappplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;
 - ii. In measuring the size of the Banking Group's insurance business:
 - a. where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:
 - the total consolidated assets of the group headed by that entity;
 - or if the entity is a subsidiary of another entity whose business predominantly consists of insurance business, the total consolidated assets of the group headed by the latter entity;
 - b. otherwise, the size of each insurance business conducted by any entity within the Banking Group shall equal the total liabilities relating to that insurance business, plus the equity retained by the entity to meet the solvency or financial soundness needs of the insurance business;
 - c. the amounts measured in relation to parts (a) and (b) shall be summed and compared to the total consolidated assets of the Banking Group. All amounts in parts (a) and (b) shall relate to on statement of financial position items only, and shall be determined in accordance with generally accepted accounting practice, as defined in the Financial Reporting Act 1993;
 - d. where products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets shall be considered part of the insurance business.

Conditions of registration continued

4. That aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the Banking Group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

Credit Rating of the registered bank	Connected exposure limit (% of the Banking Group's Tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
AA/2	40
A-/A3	30
BBB+/Baa1 and below	15

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15 percent of the Banking Group's tier 1 capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the RBNZ document entitled "Connected Exposure Policy" (BS8) dated October 2010.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.
6. That the board of the registered bank contains at least two independent directors. In this context an independent director is a director who is not an employee of the registered bank, and who is not a director, trustee or employee of any holding company of the registered bank, or any other entity capable of controlling or significantly influencing the registered bank.
7. That the chairperson of the bank's board is not an employee of the registered bank.
8. That the bank's constitution does not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).
9. That no appointment of any director, chief executive officer, or executive, who reports or is accountable directly to the chief executive officer, shall be made in respect of the bank unless:
 - (i) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
 - (ii) the Reserve Bank has advised that it has no objection to that appointment.
10. That a substantial proportion of the bank's business is conducted in and from New Zealand.
11. That the banking group complies with the following quantitative requirements for liquidity-risk management with effect from 1 April 2010:
 - (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
 - (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
 - (c) the one-year core funding ratio of the banking group is not less than 65 per cent at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated March 2010 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated March 2010.

Conditions of registration continued

12. That, with effect from 1 April 2010, the registered bank has an internal framework for liquidity risk management that is adequate in the registered bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:
- (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
 - (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
 - (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
 - (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

For the purposes of these conditions of registration, the term "Banking Group" means Kiwibank Limited's financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993).

Directorate

Independent non-executive director, chair*

Ian Robert Fitzgerald

BA, MA (Hons)

Company director

Country of residence: New Zealand

Director, Burlleigh Ewatt Limited, Burlleigh Ewatt Holdings Limited, Burlleigh Ewatt Consulting Limited, Burlleigh Ewatt Investments Limited, Wellington Archdiocese Board of Administration, Real Journeys Limited, Te Anau Developments Limited.

* Appointed 1 November 2010

Non-executive directors

Hon. Dr. Michael John Cullen

MA, Ph.D

Company director

Country of residence: New Zealand

Chair, New Zealand Post Limited, Express Couriers Limited Alternate Director, Parcel Direct Group Pty Limited, Chair, New Zealand Post Superannuation Plan Principal Treaty claims Negotiator, Tuwharetoa Chief Adviser to the Chief Executive, Waikato-Tainui Chief Claims Negotiator, Mana Ahuriri Incorporated Chair, Tuhoë Investment Committee.

Brian Joseph Roche

BCA CA

Company director

Country of residence: New Zealand

Director, Datam Limited, Datacom Group Limited, Kiwi Group Holdings Limited, Express Couriers Limited, The ECN Group Limited, Parcel Direct Group Pty Limited, New Zealand Post Australia Holdings Pty Limited, New Zealand Post Group Finance Limited, Rugby New Zealand 2011 Limited, Valley Road Forest Limited, Localist Limited.

Independent non-executive directors

Allison Rosemary Gerry

BMS (Hons), MAppFin

Company director

Country of residence: New Zealand

Director, Lindis Crossing Vineyard Limited, Glendora Holdings Limited, Glendora Avocados Limited, Queenstown Airport Corporation Limited, Rarom Walk Limited, Pioneer Generation Limited, Television New Zealand Limited*.

* Appointed 1 January 2011

Murray Ian David Gribben

BA (Hons) Econ, MBA

Company director

Country of residence: New Zealand

Director, New Zealand Post Limited, Ruapehu Alpine Lifts Limited, WBGP (Developments) Limited*.

* Appointed 2 December 2010

David Stephen Willis

BCA, CA (NZ), ICA (Australia)

Company director

Country of residence: Australia

Director, New Zealand Post Limited, Bank of Queensland Pty Ltd, Co-operative Bulk Handling Pty Limited, Parcel Direct Group Pty Limited, Advisor, Bain and Company (Australia), Ernst and Young (Australia), Gen-i (Australia and New Zealand).

Richard Gordon Alexander Westlake

MA

Company director

Country of residence: New Zealand

Director, Westlake Consulting Limited, Homesick-Kiwi Limited, Dairy Goat Co-operative (NZ) Limited
Chair, Telecommunications Carriers' Forum, Community Support Services ITO Limited (T/A Careerforce), Interger Limited, GZ2 Holdings Limited.

Directorate continued

Finance, Audit and Risk Committee Members

Richard Gordon Alexander Westlake (Chair)	Independent non-executive director
Ian Robert Fitzgerald	Independent non-executive director
Alison Gerry	Independent non-executive director

The charter of the Finance, Audit and Risk Committee provides that the membership of the Committee shall be not less than two independent non-executive directors.

Executive directors

None of the directorate are executive directors of Kiwibank.

Communications with directors

Communications addressed to the directors and responsible persons may be sent to Level 12, New Zealand Post House, 7 Waterloo Quay, Wellington 6011, New Zealand.

Policy for avoiding and dealing with conflicts of interests

The policy and current practice of the board of directors of Kiwibank for avoiding or dealing with conflicts of interest which may arise from the personal, professional or business interests of the directors or any of them, is that, where a director's judgement could potentially be impaired, because a conflict of interest exists between the director's business affairs and the business affairs of Kiwibank, then that director must declare that the conflict of interest exists and leave the meeting for the duration of the board's discussion and voting on that relevant matter.

The Companies Act 1993 requires each director to cause to be entered in the interests register and disclosed to the board of Kiwibank:

- a. the nature and monetary value of the director's interest in a transaction or proposed transaction if its monetary value is able to be quantified; or
- b. the nature and extent of the director's interest in a transaction or proposed transaction if its monetary value is not able to be quantified.

Directors' benefits

There is no transaction which any director or immediate relative or close business associate of any director has with Kiwibank which either has been entered into on terms other than those which would, in the ordinary course of business of Kiwibank, be given to any other person of like circumstances or means, or could otherwise be reasonably likely to influence materially the exercise of that director's duties.

Auditors

The auditor whose report is referred to in this General Disclosure Statement is Karen Shires assisted by PwC, acting as agent on behalf of the Office of the Auditor-General. Her address for service is PwC, 113-119 The Terrace, Wellington, New Zealand.

Directors' statement

Each director of Kiwibank after due enquiry by them, believes that:

1. As at the date on which the Disclosure Statement is signed:
 - i. the Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008; and
 - ii. the Disclosure Statement is not false or misleading.
2. During the six months ended 31 December 2010:
 - i. Kiwibank has complied with the conditions of registration applicable during the period;
 - ii. credit exposures to connected persons were not contrary to the interests of the Banking Group;
 - iii. Kiwibank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

Signed by Ian Fitzgerald and Richard Westlake as directors and responsible persons on behalf of all the directors listed in the Directorate section of this Disclosure Statement:



24 February 2011

Interim financial statements

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Interim financial statements
Statements of comprehensive income
For six months ended 31 December 2010

	The Banking Group		Kiwibank Limited			
	Unaudited 6 months ended	Unaudited 6 months ended	Audited 12 months ended	Unaudited 6 months ended	Unaudited 6 months ended	Audited 12 months ended
	31/12/10	31/12/09	30/06/10	31/12/10	31/12/09	30/06/10
Dollars in thousands	Note					
Interest income	2	348,498	268,334	563,886	359,459	278,398
Interest expense	2	(259,125)	(201,977)	(430,496)	(270,088)	(214,041)
Net interest income		89,373	66,357	133,390	89,371	64,357
Gains on financial instruments at fair value	3	7,301	20,787	36,323	7,301	20,787
Other income	4	72,715	66,967	131,729	74,499	68,694
Total operating income		169,389	154,111	301,442	171,171	153,838
Operating expenses	5	(118,478)	(111,098)	(218,902)	(120,267)	(110,839)
Impairment losses on loans and advances	24	(31,007)	(9,731)	(17,860)	(31,007)	(9,731)
Profit before taxation		19,904	33,282	64,680	19,897	33,268
Income tax expense	6	(5,996)	(9,733)	(18,832)	(5,996)	(9,733)
Profit after taxation		13,908	23,549	45,848	13,901	23,535
Other comprehensive income						
Available-for-sale reserve						
Loss from changes in reserve	23	(3,895)	(8,017)	(4,846)	(3,895)	(8,017)
Cash flow hedge reserve						
Gain from changes in reserve	23	6,657	46,331	37,344	6,657	46,331
Income tax expense relating to components of other comprehensive income		(828)	(11,494)	(9,749)	(828)	(11,494)
Other comprehensive income for the period		1,934	26,820	22,749	1,934	26,820
Total comprehensive income for the period		15,842	50,369	68,597	15,835	50,355
Attributable to:						
Owners of the parent		15,842	50,369	68,597	15,835	50,355
Non controlling interest		-	-	-	-	-

The notes on pages 20 to 118 form part of these interim financial statements

Interim financial statements

Statement of changes in equity

Banking Group	Note	Fully Paid Ordinary Shares						Total
		Retained Earnings	Available For Sale Reserve	Cash Flow Hedge Reserve	Non controlling interest			
Balance at 1 July 2009		295,000	128,366	3,814	(72,014)	-	355,166	
Six months ended 31 December 2009		-	23,549	-	-	-	23,549	
Profit for the period		-	23,549	-	-	-	23,549	
Other comprehensive income		-	-	-	-	-	-	
Available for sale financial assets		-	-	(5,612)	-	-	(5,612)	
Cash flow hedges		-	-	-	32,432	-	32,432	
Total other comprehensive income		-	-	(5,612)	32,432	-	26,820	
Total comprehensive income		-	23,549	(5,612)	32,432	-	50,369	
Transactions with owners		-	-	-	-	-	-	
Issuance of ordinary share capital		15,000	-	-	-	-	15,000	
Balance at 31 December 2009 (unaudited)		310,000	151,915	(1,798)	(39,582)	-	420,535	
Year ended 30 June 2010		-	45,848	-	-	-	45,848	
Profit for the period		-	45,848	-	-	-	45,848	
Other comprehensive income		-	-	(3,392)	-	-	(3,392)	
Available for sale financial assets		-	-	(3,392)	-	-	(3,392)	
Cash flow hedges		-	-	-	26,141	-	26,141	
Total other comprehensive income		-	-	(3,392)	26,141	-	22,749	
Total comprehensive income		-	45,848	(3,392)	26,141	-	68,597	
Transactions with owners		-	-	-	-	-	-	
Issuance of ordinary share capital		15,000	-	-	-	3,361	18,361	
Issuance of perpetual preference shares		-	-	-	-	150,000	150,000	
Issuance costs		-	-	-	-	(3,361)	(3,361)	
Balance at 30 June 2010 (audited)		310,000	174,214	422	(45,873)	150,000	588,763	
Comprehensive income		-	13,908	-	-	-	13,908	
Six months ended 31 December 2010		-	13,908	-	-	-	13,908	
Profit for the period		-	13,908	-	-	-	13,908	
Other comprehensive income		-	-	(2,726)	-	-	(2,726)	
Available for sale financial assets		-	-	(2,726)	-	-	(2,726)	
Cash flow hedges		-	-	-	4,660	-	4,660	
Total other comprehensive income		-	-	(2,726)	4,660	-	1,934	
Total comprehensive income		-	13,908	(2,726)	4,660	-	15,842	
Transactions with owners		-	-	-	-	-	-	
Dividends paid		-	(4,279)	-	-	-	(4,279)	
Balance at 31 December 2010 (unaudited)		310,000	183,843	(2,304)	(41,213)	150,000	600,326	

The notes on pages 20 to 118 form part of these interim financial statements.

Interim financial statements
Statement of changes in equity
For the six months ended 31 December 2010

Kiwibank Limited	Note	Fully Paid Ordinary Shares	Retained Earnings	Available For Sale Reserve	Cash Flow Hedge Reserve	Perpetual Preference Shares	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2009		295,000	128,364	3,814	(72,014)	-	355,164
Six months ended 31 December 2009							
Profit for the period		-	23,535	-	-	-	23,535
Other comprehensive income							
Available for sale financial assets		-	-	(5,612)	-	-	(5,612)
Cash flow hedges		-	-	-	32,432	-	32,432
Total other comprehensive income		-	-	(5,612)	32,432	-	26,820
Total comprehensive income		-	23,535	(5,612)	32,432	-	50,355
Transactions with owners							
Issuance of ordinary share capital		15,000	-	-	-	-	15,000
Balance at 31 December 2009 (unaudited)		310,000	151,899	(1,798)	(39,582)	-	420,519
Year ended 30 June 2010							
Profit for the period		-	45,848	-	-	-	45,848
Other comprehensive income							
Available for sale financial assets		-	-	(3,392)	-	-	(3,392)
Cash flow hedges		-	-	-	26,141	-	26,141
Total other comprehensive income		-	-	(3,392)	26,141	-	22,749
Total comprehensive income		-	45,848	(3,392)	26,141	-	68,597
Transactions with owners							
Issuance of ordinary share capital		15,000	-	-	-	-	15,000
Issuance of perpetual preference shares		-	-	-	-	150,000	150,000
Balance at 30 June 2010 (audited)		310,000	174,212	422	(45,873)	150,000	588,761
Comprehensive income							
Six months ended 31 December 2010							
Profit for the period		-	13,901	-	-	-	13,901
Other comprehensive income							
Available for sale financial assets		-	-	(2,726)	-	-	(2,726)
Cash flow hedges		-	-	-	4,660	-	4,660
Total other comprehensive income		-	-	(2,726)	4,660	-	1,934
Total comprehensive income		-	13,901	(2,726)	4,660	-	15,835
Transactions with owners							
Dividends paid		-	(4,279)	-	-	-	(4,279)
Balance at 31 December 2010 (unaudited)		310,000	183,834	(2,304)	(41,213)	150,000	600,317

The notes on pages 20 to 118 form part of these interim financial statements.

Interim financial statements

Statements of financial position

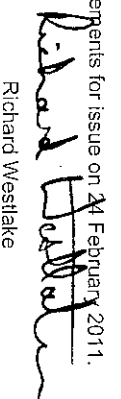
As at 31 December 2010

	The Banking Group		Kiwibank Limited			
	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10
Dollars in thousands	Note					
Assets						
Cash and cash equivalents	8	335,266	363,592	303,866	335,046	362,727
Due from NZP related parties	25	-	-	-	601,184	600,928
Due from other financial institutions	9	77,966	18,705	156,871	77,966	18,705
Financial assets held for trading	10	700,284	875,873	671,152	700,284	875,873
Available-for-sale assets	11	757,040	893,247	544,453	757,040	893,247
Loans and advances	12	10,933,415	9,726,420	10,418,502	10,933,415	9,726,420
Derivative financial instruments	13	58,393	51,639	46,320	58,393	51,639
Property, plant and equipment	15	19,412	18,065	20,182	19,412	18,065
Intangible assets	16	48,061	44,318	47,505	48,061	44,318
Deferred taxation	7	26,762	17,280	20,813	26,762	17,280
Other assets	17	12,026	8,804	8,711	11,992	9,799
Total assets		12,968,625	12,017,943	12,238,375	13,569,555	12,619,001
<i>Interest bearing assets</i>		<i>12,907,826</i>	<i>11,944,920</i>	<i>12,160,670</i>	<i>13,508,790</i>	<i>12,544,983</i>
Liabilities						
Due to other financial institutions	18	25,341	580,952	164,051	25,341	580,952
Due to NZP related parties	25	21,069	(1,100)	12,114	622,132	600,043
Deposits and other borrowings	20	11,140,720	9,740,311	10,295,325	11,140,720	9,740,311
Derivative financial instruments	13	155,398	215,692	202,588	155,398	215,692
Debt securities issued	21	839,392	884,436	795,237	839,392	884,436
Current taxation	7	2,928	2,254	4,636	2,899	2,254
Other liabilities	22	40,430	32,745	32,362	40,335	32,676
Term subordinated debt	19	143,021	142,118	143,299	143,021	142,118
Total liabilities		12,368,299	11,597,408	11,649,612	12,969,238	12,198,482
<i>Interest bearing liabilities</i>		<i>12,323,872</i>	<i>11,563,509</i>	<i>11,610,500</i>	<i>12,924,910</i>	<i>12,211,582</i>
Equity						
Share capital	23	310,000	310,000	310,000	460,000	310,000
Reserves		140,326	110,535	128,763	140,317	110,519
Total equity attributable to owners of the parent	23	450,326	420,535	438,763	600,317	420,519
Non controlling interest	23	150,000	-	150,000	-	-
Total equity		600,326	420,535	588,763	600,317	420,519
Total liabilities and shareholder's equity		12,968,625	12,017,943	12,238,375	13,569,555	12,619,001

The notes on pages 20 to 118 form part of these interim financial statements.

The board of directors of Kiwibank Limited authorised these financial statements for issue on 24 February 2011.

Ian Fitzgerald

Richard Westlake

Interim financial statements

Cash flow statements

For six months ended 31 December 2010

	The Banking Group				Kiwibank Limited			
	Unaudited	Unaudited	Audited	Unaudited	Unaudited	Unaudited	Audited	
	6 months	6 months	12 months	6 months	6 months	6 months	12 months	
	ended	ended	ended	ended	ended	ended	ended	
Dollars in thousands	Note	31/12/10	31/12/09	30/06/10	31/12/10	31/12/09	30/06/10	
Cash flows from operating activities								
Interest received		347,916	260,125	553,565	356,877	270,189	573,218	
Fees and other income		76,434	66,967	131,729	74,499	68,694	135,303	
Operating expenses paid		(104,043)	(105,237)	(199,524)	(101,878)	(104,637)	(203,189)	
Interest paid		(233,743)	(174,334)	(403,395)	(244,706)	(186,398)	(423,129)	
Net taxes paid		(14,482)	(9,806)	(18,311)	(14,511)	(9,806)	(18,311)	
Net cash flows from operating activities before changes in operating assets and liabilities		72,082	37,715	64,064	72,281	38,042	63,892	
Net changes in operating assets and liabilities:								
(Increase)/decrease in financial assets held for trading		(28,667)	(149,381)	51,026	(28,667)	(149,381)	51,026	
(Increase)/decrease in available-for-sale assets		(208,132)	(189,330)	138,751	(208,132)	(189,330)	138,751	
Increase in loans and advances		(602,425)	(1,260,775)	(1,933,045)	(602,425)	(1,260,775)	(1,933,045)	
Increase in amounts due from related parties		-	-	-	-	(657)	(645)	
Decrease/(increase) in balances due from other financial institutions		78,905	(18,705)	(156,871)	78,905	(18,705)	(156,871)	
Increase in deposits and other borrowings		819,942	1,447,092	2,002,648	819,942	1,447,092	2,002,648	
Increase/(decrease) in balances due to related parties - term		10,000	(38,672)	(25,000)	9,643	(39,205)	(24,243)	
(Decrease)/increase in balances due to other financial institutions		(138,710)	264,304	(152,597)	(138,710)	264,304	(152,597)	
Net cash flows from operating activities		2,995	92,248	(11,024)	2,837	91,385	(11,084)	
Cash flows from investing activities								
Purchase of property, plant and equipment		(3,118)	(3,144)	(8,701)	(3,118)	(3,144)	(8,701)	
Purchase of intangible software assets		(8,353)	(6,213)	(17,911)	(8,353)	(6,213)	(17,911)	
Net cash flows from investing activities		(11,471)	(9,357)	(26,612)	(11,471)	(9,357)	(26,612)	
Cash flows from financing activities								
Issue of ordinary shares		-	15,000	18,361	-	15,000	15,000	
Issue of perpetual preference shares		-	-	150,000	-	-	150,000	
Issuance costs of perpetual preference shares		-	-	(3,361)	-	-	-	
Increase/(decrease) in debt securities issued		44,155	(28,104)	(117,303)	44,155	(28,104)	(117,303)	
Dividend paid		(4,279)	-	-	(4,279)	-	-	
Net cash flows from financing activities		39,876	(13,104)	47,697	39,876	(13,104)	47,697	
Increase in cash and cash equivalents		31,400	69,787	10,061	31,242	68,924	10,001	
Cash and cash equivalents at beginning of the period	8	303,866	293,805	293,805	303,804	293,803	293,803	
Cash and cash equivalents at end of the period	8	335,266	363,592	303,866	335,046	362,727	303,804	

The notes on pages 20 to 118 form part of these interim financial statements.

Cash flow statements

For six months ended 31 December 2010

	The Banking Group				Kiwibank Limited			
	Unaudited 6 months ended 31/12/10	Unaudited 6 months ended 31/12/09	Audited 12 months ended 30/06/10	Unaudited 6 months ended 31/12/10	Unaudited 6 months ended 31/12/09	Audited 12 months ended 30/06/10	Unaudited 6 months ended 31/12/09	Audited 12 months ended 30/06/10
Reconciliation of net profit after taxation to net cash flows from operating activities								
Profit after taxation	13,908	23,549	45,848	13,901	23,535	45,848		
Non cash movements:								
Unrealised fair value adjustments	(3,582)	(15,833)	(35,305)	(3,582)	(15,833)	(35,305)		
Depreciation	3,819	3,006	6,621	3,819	3,006	6,621		
Amortisation of intangibles	7,649	6,433	12,617	7,649	6,433	12,617		
Lending losses written off	5,050	6,497	10,562	5,050	6,497	10,562		
Non lending losses written off	692	-	2,720	692	-	2,720		
Increase in provision for impairment	25,956	3,236	7,298	25,956	3,236	7,298		
Increase in deferred expenditure	(378)	(3,626)	(5,082)	(378)	(3,626)	(5,082)		
Increase in deferred taxation	(7,946)	(1,375)	(1,105)	(7,946)	(1,375)	(1,105)		
(Decrease)/increase in operating assets and liabilities								
(Increase)/decrease in financial assets held for trading	(28,667)	(149,381)	51,026	(28,667)	(149,381)	51,026		
(Increase)/decrease in available-for-sale assets	(208,132)	(189,330)	138,751	(208,132)	(189,330)	138,751		
Increase in loans and advances	(602,425)	(1,260,775)	(1,933,045)	(602,425)	(1,260,775)	(1,933,045)		
Increase in balances due from related parties	-	-	-	-	(657)	(645)		
Decrease/(increase) in balances due from other financial institutions	78,905	(18,705)	(156,871)	78,905	(18,705)	(156,871)		
Increase in deposits and other borrowings	819,942	1,447,092	2,002,648	819,942	1,447,092	2,002,648		
Increase/(decrease) in balances due to related parties	8,955	(38,672)	(25,458)	8,623	(39,205)	(24,693)		
(Decrease)/increase in balances due to other financial institutions	(138,710)	264,304	(152,597)	(138,710)	264,304	(152,597)		
Increase in accrued operating expenses	6,563	1,092	709	6,553	2,428	686		
Increase in interest payable	25,453	27,643	27,101	25,453	27,643	27,101		
Increase in interest receivable	(204)	(8,209)	(5,239)	(204)	(8,209)	(5,239)		
(Decrease)/increase in current taxation	(540)	(1,773)	609	(540)	(1,773)	609		
Increase in other assets	(3,313)	(2,925)	(2,832)	(3,122)	(3,920)	(2,989)		
Net cash flows from operating activities	2,995	92,248	(11,024)	2,837	91,385	(11,084)		

The notes on pages 20 to 118 form part of these interim financial statements.

Notes to the interim financial statements

1. Statement of accounting policies

Reporting entity and statutory base

In these interim financial statements, the reporting entity is Kiwibank Limited ("Kiwibank"). The Banking Group consists of Kiwibank and its subsidiaries (as set out in note 14). Kiwibank is registered under the Companies Act 1993 and is registered as a bank under the Reserve Bank of New Zealand Act 1989.

The principal activity of the Banking Group is the provision of retail and banking products and services to individuals and small to medium-sized businesses.

These interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand.

They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit oriented entities, and the Registered Bank Disclosure Statement (Full and Half - Year – New Zealand Incorporated (Registered Banks) Order 2008. The interim financial statements comply with International Financial Reporting Standards.

These interim financial statements have been approved for issue by the Board of Directors on 24 February 2011. The preparation of these interim financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Although Kiwibank has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. It is not anticipated that such differences would be material.

The following new standards, amendments or interpretations to existing standards that are not yet effective and have not been early adopted by the Banking Group:

NZ IFRS 9 - Financial Instruments

NZ IFRS 9 (released and approved in November 2009 and 2010) represents the beginning of re-writing the current financial instruments standard, NZ IAS 39. It reduces the classifications and measurement methods available for financial assets from four to two, being amortised cost or fair value through profit or loss and revises financial liability requirements. Further amendments to policies applied under NZ IAS 39 are expected but not yet finalised. NZ IFRS 9 will be mandatory for the accounting period beginning 1 July 2013. The implications of the financial asset and liability classification and measurement changes are being investigated by the Banking Group. At this stage it is too early to quantify the impact on the Banking Group's financial statements.

Measurement base

These interim financial statements are based on the general principles of historic cost accounting, modified by the application of fair value measurements for available-for-sale financial assets, financial instruments held at fair value through profit or loss and all derivative contracts. The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2010.

Currency of presentation

All amounts are expressed in New Zealand dollars, unless otherwise stated.

Notes to the interim financial statements continued

1. Statement of accounting policies continued

Specific accounting policies

Basis of consolidation

The Banking Group's interim financial statements consolidate the interim financial statements of Kiwibank Limited and its subsidiaries, using the purchase method. Subsidiaries are entities that are controlled, either directly or indirectly, by Kiwibank. Control exists where the Banking Group has the power to govern the financial and operating policies of an entity. The results and financial position of subsidiaries are included in the consolidated financial statements, from the date control is gained up to the date control ceases. At the time of acquisition of a subsidiary, identifiable assets and liabilities acquired are initially measured at fair value on acquisition date. The excess of the cost of acquisition over the fair value of the Banking Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Banking Group's share of the net assets acquired the difference is recognised directly in the statement of comprehensive income.

Transactions between subsidiaries or between Kiwibank and subsidiaries are eliminated on consolidation.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Kiwibank Limited. A reportable business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

Shares in entities

Shares in entities are stated at original cost less any necessary provision for diminution in value, or at directors' valuation. Unrealised losses relating to diminution in the value of shares in entities are recognised in the statement of comprehensive income.

Foreign currency translation

The functional currency and presentation currency of Kiwibank and the Banking Group is New Zealand Dollars.

Transactions in foreign currencies are translated into the functional currency at the exchange rate ruling at the date of the transaction.

Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the statement of comprehensive income. At reporting period date, foreign denominated monetary assets and liabilities are translated at the closing exchange rate, with exchange variations arising from these translations being recognised in the statement of comprehensive income.

Financial Instruments

Designation of financial assets and financial liabilities into instrument categories is determined by the business purpose of the financial instruments, policies and practices for their management, their relationship with other instruments and the reporting costs and benefits associated with each designation.

Notes to the interim financial statements continued

1. Statement of accounting policies

Financial assets

Financial assets are classified in the following categories: financial assets at fair value through profit or loss; loans and receivables; and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss (FVTPL)

- This category has two sub-classes: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Management has designated the Kiwibank retail fixed rate loan portfolio, originated prior to 1 January 2008, as financial assets at fair value through profit or loss, as this significantly reduces an accounting mismatch, which would arise if such loans were carried at amortised cost, and the derivatives, which have been entered into to offset the interest rate risk on the retail fixed rate loans are held for trading. Derivatives are categorised as held for trading unless they are designated as hedges. Financial assets at fair value through profit or loss are recognised initially at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the statement of comprehensive income in the period in which they arise. Gains and losses exclude interest and dividends. Transaction costs are expensed as they are incurred.

Loans and receivables

- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that Kiwibank designates as at "fair value through profit or loss". Loans and receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. Loans and receivables issued with duration less than 12 months are recognised at cost less impairment. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired. Interest, impairment losses and foreign exchange gains and losses are recognised in the statement of comprehensive income. Loans and receivables include loans and advances not at fair value through profit or loss, amounts due from other financial institutions and other assets.

Available-for-sale financial assets

- Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are initially recorded at fair value plus transaction costs. They are subsequently recorded at fair value with any resultant fair value gains or losses recognised directly in equity except for impairment losses, any interest calculated using the effective interest method and, in the case of monetary items (such as debt securities), foreign exchange gains and losses which are all recognised in the statement of comprehensive income. For non-monetary available-for-sale financial assets (e.g. equity instruments) the fair value movements recognised in equity include any related foreign exchange component. On derecognition the cumulative fair value gain or loss previously recognised directly in equity is recognised in the statement of comprehensive income.

Purchases and sales of financial assets at fair value through profit or loss and available-for-sale are recognised on trade-date – the date on which the Banking Group or Kiwibank commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Banking Group or Kiwibank has transferred substantially all risks and rewards of ownership. The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), fair value is established by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Notes to the interim financial statements continued

1. Statement of accounting policies

Financial Instruments continued

Financial liabilities

Financial liabilities are classified as either fair value through profit or loss or at amortised cost. Financial liabilities held for trading and financial liabilities designated at fair value through profit or loss are recorded at fair value with any realised and unrealised gains or losses recognised in the statement of comprehensive income. Transactions costs are expensed as they are incurred.

Other financial liabilities, including borrowings, are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. Amortisation and foreign exchange gains and losses, are recognised in the statement of comprehensive income as is any gain or loss when the liability is derecognised.

European Commercial Paper issued is designated at fair value through profit or loss. Financial liabilities held for trading are derivatives and a portion of registered certificates of deposits. All other financial liabilities are at amortised cost.

Derivative financial instruments and hedge accounting

KiwiBank uses derivatives as part of its asset and liability management activities to manage exposures to interest rate and foreign currency, including exposures arising from forecast transactions. These derivatives include swaps, futures, forwards, options and other contingent or exchange traded contracts in the interest rate and foreign exchange markets.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. KiwiBank designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or, (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

KiwiBank documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. KiwiBank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of comprehensive income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to statement of comprehensive income over the period to maturity.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income. Amounts accumulated in equity are recycled to the statement of comprehensive income in the periods in which the hedged item will affect profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of comprehensive income.

Notes to the interim financial statements continued

1. Statement of accounting policies continued Financial instruments continued

Derivatives at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting. These include derivatives transacted as part of the trading activity of Kiwibank, as well as derivatives transacted as economic hedges but not qualifying for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the statement of comprehensive income.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of comprehensive income.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase are retained within the relevant financial asset category and accounted for accordingly. Liability accounts are used to record the obligation to repurchase. The difference between the sale and repurchase price represents interest expense and is recognised in the statement of comprehensive income over the term of the repurchase agreement. Securities held under reverse repurchase agreements are recorded as receivables. The difference between the purchase and sale price represents interest income and is recognised in the statement of comprehensive income over the term of the reverse repurchase agreement.

Impairment of financial assets

At each end of reporting period date an assessment is made as to whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Assets carried at fair value

Financial assets at fair value through profit or loss, including Kiwibank's retail fixed rate loan portfolio originated prior to 1 January 2008, are assessed for impairment by reference to the remaining maturities on the loan portfolio. The risk associated with this particular portfolio is mitigated by the fact that it contains only secured retail home loans and therefore excludes commercial lending.

Assets classified as available-for-sale

In the case of financial assets classified as available-for-sale, when a decline in the fair value has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the statement of comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

Notes to the interim financial statements continued

1. Statement of accounting policies continued

Impairment of financial assets continued

Assets carried at amortised cost

Management assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Banking Group's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Kiwibank uses loan mortgage insurance on origination of loans where the loan to value ratio is > 80%. Kiwibank assesses the maturity of a loan against current credit spreads and revalues credit spreads on new business.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal, not exceeding what the amortised cost would have been had the impairment not been recognised, is recognised in the statement of comprehensive income.

Asset quality

Impaired assets consist of restructured assets, assets acquired through the enforcement of security and other impaired assets.

"Restructured asset" means any credit exposure for which:

- a) The original terms have been changed to grant the counterparty a concession that would not have otherwise been available, due to the counterparty's difficulties in complying with the original terms;
- b) The revised terms of the facility are not comparable with the terms of new facilities with comparable risks; and
- c) The yield on the asset following restructuring is equal to, or greater than, the institution's average cost of funds, or that a loss is not otherwise expected to be incurred.

Assets acquired through security enforcement are those assets (primarily real estate) acquired through actual foreclosure or in full or partial satisfaction of a debt. Other impaired assets refers to any credit exposure for which an impairment loss is recognised in accordance with NZ IAS 39 – Financial Instruments: Recognition and Measurement.

Notes to the interim financial statements continued

1. Statement of accounting policies continued

Asset quality continued

A 90 day past due asset is any loan which has not been operated by the borrower within its key terms for at least 90 days and which is not an impaired asset. Although not classified as impaired assets or past due assets, assets in which the counter-party is in receivership, liquidation, bankruptcy, statutory management or any form of administration are reported separately. These are classified as "other assets under administration".

Property, plant and equipment

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred in bringing the assets to the location and condition necessary for their intended service.

Property, plant and equipment is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation on plant and equipment is calculated on a straight-line basis so as to expense the cost of the assets, less any estimated residual values, over their estimated useful lives:

Asset classes	Estimated useful lives
Furniture and fittings	10 years
Motor vehicles	5 to 10 years
Computer hardware	3 to 5 years
Other data processing equipment	3 to 7 years

Profit or loss on sale of property, plant and equipment which is determined as the difference between the carrying amount of property, plant and equipment at the time of disposal and the sale proceeds, is treated as other income or expense.

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount which is the higher of the asset's fair value less selling costs or the asset's value in use.

Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use. These costs are amortised over the estimated useful lives of the licences (being 3 to 5 years). Developed software assets expected to generate net economic benefits beyond 12 months are recognised as intangible assets. The cost of developed software assets includes the cost of all materials used in construction, direct labour on the project, and an appropriate proportion of variable and fixed overheads. Developed software intangible assets are amortised over their estimated useful lives (being 3 to 5 years).

Customer relationships

Acquired customer relationships that are expected to generate net economic benefits beyond 12 months are recognised as intangible assets. Acquired customer relationships have finite lives and are amortised to the statement of comprehensive income on a straight-line basis over their estimated useful lives which is currently five years.

Dividend distribution

Dividend distributed in respect of equity instruments are recognised as a liability in the financial statements in the reporting period in which the dividend distribution is approved.

Notes to the interim financial statements continued

1. Statement of accounting policies continued

Impairment of non-financial assets

Intangible assets with indefinite useful lives are impairment tested at least annually at reporting period date, and whenever there are indicators of impairment. Where the asset's recoverable amount is less than its carrying amount an impairment loss is recognised in the statement of comprehensive income for the difference. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The carrying amounts of all other non-financial assets, including intangible assets with finite useful lives, are reviewed at least annually to determine if there is any indication of impairment. Where such an indication exists the asset is impairment tested, with any impairment losses being recognised in the statement of comprehensive income. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Taxation

The income tax expense charged to the statement of comprehensive income includes both current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period using tax rates enacted or substantively enacted at reporting period date after taking advantage of all allowable deductions under current taxation legislation and any adjustment to tax payable in previous years.

Deferred tax is provided in full, using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at reporting period date. A deferred taxation benefit is recognised only to the extent that it is probable that a future taxable profit will be available against which the temporary differences can be utilised.

Leased assets

Operating leases

Payments made under operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in the statement of comprehensive income in a systematic manner over the term of the lease. Leasehold improvements are capitalised and the cost is amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is shorter. Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense.

Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Banking Group and that revenue can be reliably measured. The principal sources of revenue are interest income and fees.

For financial instruments measured at amortised cost, the effective interest method is used to measure the interest income or expense recognised in the statement of comprehensive income.

For financial instruments measured at fair value, interest income or expense is recognised on an accrual basis on a yield to maturity basis.

Fees are generally recognised on an accrual basis when the service has been provided. New commission is recognised as revenue on loan settlement.

Recognition of loan related fees and costs for loans not at fair value through profit or loss

Loan origination fees, if material, are recognised as income over the life of the loan as an adjustment of yield. Commitment fees are deferred, and if the commitment is exercised, recognised in income over the life of the loan as an adjustment of yield or, if unexercised, recognised in income upon expiration of the commitment. Where commitment fees are retrospectively determined and nominal in relation to market interest rates on related loans, commitment fees are recognised in income when charged.

Notes to the interim financial statements continued

1. Statement of accounting policies continued

Revenue recognition continued

Recognition of loan related fees and costs for loans not at fair value through profit or loss

Where the likelihood of exercise of the commitment is remote, commitment fees are recognised in income over the commitment period. If material, loan related administration and service fees are recognised in income over the period of service.

Direct loan origination costs, if material, are netted against loan origination fees and the net amount recognised in income over the life of the loan as an adjustment of yield. All other loan related costs are expensed as incurred.

Prepayment penalty fees are estimated over the life of a loan as an adjustment of yield. To the extent actual prepayment penalty fees differ from original estimation, an adjustment is made and recorded in interest income immediately.

Superannuation and employee entitlements

Employees are not entitled to any superannuation or long service entitlements. Annual leave is accrued and provided for based on an employee's base remuneration package. The Banking Group makes employer contributions to the KiwiSaver scheme.

Equity

Ordinary shares and perpetual preference shares are recognised in the statement of financial position at the amount of consideration received, net of issue costs. Non-controlling interest represents the share in the net assets of subsidiaries attributable to equity interests not owned directly or indirectly by the Banking Group.

Securitisation

Securitised assets are derecognised when the right to receive cash flows have expired or the Banking Group has transferred substantially all the risks and rewards of ownership (see note 40).

Cash flow statements

The following are definitions of the terms used in the cash flow statements:

- i. Cash and cash equivalents is considered to be cash on hand, current accounts in banks, overnight bank deposits, net of bank overdrafts and inter-bank balances arising from the daily RBNZ settlement process.
- ii. Investing activities are those relating to the acquisition, holding and disposal of property, plant and equipment, intangibles, equity or debt instruments of other entities and other long-term assets.
- iii. Financing activities are those activities which result in changes in the size and composition of the capital structure of the Banking Group. This includes both equity and debt not falling within the definition of cash.
- iv. Operating activities include all transactions and other events that are not investing or financing activities.
- v. Certain cash flows have been netted to provide more meaningful disclosure, including changes in loans and advances to customers, deposits held by customers, balances with other banks, debt securities issued, available-for-sale assets and financial assets held for trading. Many of the cash flows are received and disbursed on behalf of customers and reflect the activities of the customers rather than those of the Banking Group.

Accounting period

The unaudited interim financial statements are for the six months ended 31 December 2010.

Comparative amounts

Comparative amounts are from the unaudited interim financial statements for the six months ended 31 December 2009 and the audited financial statements for the financial year ended 30 June 2010.

Notes to the interim financial statements continued

Critical estimates and judgements used in applying accounting policies

These financial statements are prepared in accordance with NZ IFRS. There are a number of critical accounting treatments which include subjective judgements and estimates that may affect the reported assets and liabilities in the interim financial statements. An explanation of the judgements and estimates made by the Banking Group having the most significant effect on the amounts recognised in the interim financial statements are set out below.

Fair value estimation

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, trading and available-for-sale securities) is based on quoted market prices at the reporting period date. The quoted market price used for financial assets held is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not quoted in an active market, including Kiwibank's retail fixed rate loan portfolio originated prior to 1 January 2008, and over-the-counter derivatives, is determined by using valuation techniques. Kiwibank uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting period date.

The fair value of Kiwibank's retail fixed rate loan portfolio originated prior to 1 January 2008 is determined by discounting estimated cash flows expected to be received. Expected cash flows are after allowance for amortisation and are discounted at current market rates including an adjustment for credit risk. An amortisation rate of 3.5% is applied (31 December 2009: 3.3%; 30 June 2010: 3.1%). Only scheduled repayments or contractual lump sum repayments are taken into account in calculating the amortisation rate. Prepayment risk associated with unscheduled repayments or loan terminations have been disregarded as application of Kiwibank's break fees ensures that no mark-to-market impact needs to be considered. The curve against which each loan is discounted is constructed using the end of period NZ Wholesale curve as the benchmark rate to develop a zero curve which is then adjusted by an assessed market credit spread component.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

Asset backed securities not traded in active markets are valued by deriving an implied spread from broker quotes, having taken into consideration observable market credit spreads on securities with similar collateral characteristics.

Impairment losses on loans and advances not held at fair value through profit or loss

Loan portfolios are assessed for impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, judgements are made as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Notes to the interim financial statements continued

	The Banking Group		Kiwibank Limited			
Dollars in thousands	Unaudited 6 months ended 31/12/10	Unaudited 6 months ended 31/12/09	Audited 12 months ended 30/06/10	Unaudited 6 months ended 31/12/10	Unaudited 6 months ended 31/12/09	Audited 12 months ended 30/06/10

2. Interest

Interest income

Loans and advances at fair value through profit or loss	29,645	65,393	116,076	29,645	65,393	116,076
Loans and advances at amortised cost	276,237	205,403	448,491	276,237	205,403	448,491
Government and local authority securities	14,369	9,084	23,336	14,369	9,084	23,336
Balances with NZP related parties	31	28	32	31	28	32
Other securities*	26,041	(13,313)	(27,742)	37,004	(3,245)	(8,008)
Cash and liquid assets	2,174	1,739	3,691	2,172	1,735	3,670
Income from restructured assets	1	-	2	1	-	2
Total interest income	348,498	268,334	563,886	359,459	278,398	583,599

Interest expense

Deposits by customers	159,930	131,866	276,928	159,930	131,866	276,928
Debt securities issued	98,808	68,832	152,790	98,808	68,832	152,790
Balances with NZP related parties	387	1,279	778	11,350	13,343	20,512
Total interest expense	259,125	201,977	430,496	270,088	214,041	450,230

*Interest income from other securities can be shown as a debit balance above. This is because it includes the net income and expenses on interest rate swaps, amounting to a debit of \$53.4m for the six months ended 31 December 2010. (December 2009: \$92.7m debit; June 2010: \$176.6m debit).

3. Net gains on financial instruments at fair value

Financial assets designated at fair value through profit or loss upon initial recognition	(8,651)	(34,131)	(41,550)	(8,651)	(34,131)	(41,550)
Derivative financial instruments held for trading	16,216	42,828	60,150	16,216	42,828	60,150
Financial liabilities designated at fair value through profit or loss upon initial recognition	207	1,791	464	207	1,791	464
Financial assets held for trading	465	(291)	4,314	465	(291)	4,314
Net ineffectiveness on qualifying cash flow hedges	109	555	57	109	555	57
Net ineffectiveness on qualifying fair value hedges	(8)	(252)	(267)	(8)	(252)	(267)
Cumulative gain transferred from the available-for-sale reserve	3,609	11,038	17,735	3,609	11,038	17,735
Cumulative loss transferred from the cash flow hedge reserve	(5,026)	(1,476)	(5,610)	(5,026)	(1,476)	(5,610)
Net foreign exchange gains	380	725	1,030	380	725	1,030
Net gains on financial instruments	7,301	20,787	36,323	7,301	20,787	36,323

Notes to the interim financial statements continued

	The Banking Group		Kiwibank Limited			
	Unaudited 6 months ended 31/12/10	Unaudited 6 months ended 31/12/09	Audited 12 months ended 30/06/10	Unaudited 6 months ended 31/12/10	Unaudited 6 months ended 31/12/09	Audited 12 months ended 30/06/10
Dollars in thousands						
4. Other income						
Banking and lending fee income	43,048	39,737	77,054	44,832	41,464	80,628
Payment services fee income (related party)	20,829	19,934	39,129	20,829	19,934	39,129
Payment services other fee income	8,838	7,296	15,546	8,838	7,296	15,546
Total other income	72,715	66,967	131,729	74,499	68,694	135,303

5. Operating expenses

Included in operating expenses are the following items:

Operating lease and rental costs	5,468	4,701	10,128	5,468	4,701	10,101
Transaction costs	28,124	27,888	56,957	28,124	27,888	56,957
Depreciation	3,819	3,006	6,621	3,819	3,006	6,621
Amortisation of intangibles	7,649	6,433	12,617	7,649	6,433	12,617
Auditor's remuneration						
Audit fees	71	69	359	71	69	299
Assurance services	29	39	126	29	21	126
Other advisory services	-	15	29	-	15	29
Tax advisory services	-	76	127	-	76	127
Directors' fees	159	145	293	159	145	293
Salaries and wages	41,227	37,855	74,033	41,227	37,855	74,033
Computer and office costs	9,196	8,674	18,245	9,196	8,674	18,245
Intangible asset write off	148	2,121	2,628	148	2,121	2,628
Termination payments	197	50	288	197	50	288

Notes to the interim financial statements continued

	The Banking Group				Kiwibank Limited			
	Unaudited 6 months ended 31/12/10	Unaudited 6 months ended 31/12/09	Audited 12 months ended 30/06/10	Unaudited 6 months ended 31/12/10	Unaudited 6 months ended 31/12/09	Audited 12 months ended 30/06/10		
6. Taxation								
Profit before taxation	19,904	33,282	64,680	19,897	33,268	64,680		
Tax calculated at a tax rate of 30%	(5,971)	(9,985)	(19,404)	(5,969)	(9,980)	(19,404)		
Tax effect of change in tax rate ¹	-	-	341	-	-	341		
Income not subject to tax	2	3	-	-	-	-		
Expenses not subject to tax	(27)	(23)	(42)	(27)	(25)	(42)		
Prior period adjustment	-	272	273	-	272	273		
Tax charge per the statement of comprehensive income	(5,996)	(9,733)	(18,832)	(5,996)	(9,733)	(18,832)		
Represented by:								
Prior period adjustment	-	272	273	-	272	273		
Current income tax	(13,942)	(11,380)	(20,529)	(13,942)	(11,380)	(20,529)		
Deferred income tax	7,946	1,375	1,424	7,946	1,375	1,424		
Tax charge per the statement of comprehensive income	(5,996)	(9,733)	(18,832)	(5,996)	(9,733)	(18,832)		
The deferred tax charge in the statement of comprehensive income comprises the following temporary differences:								
Accelerated tax depreciation	(691)	(543)	(958)	(691)	(543)	(958)		
Allowances for credit impairment losses	7,992	866	1,700	7,992	866	1,700		
Other provisions	645	1,052	341	645	1,052	341		
Tax effect of change in tax rate ¹	-	-	341	-	-	341		
Total temporary differences	7,946	1,375	1,424	7,946	1,375	1,424		

¹ In May 2010, legislation was passed to reduce the New Zealand corporate tax rate from 30% to 28%, effective for the 2012 income tax year. The tax effect shown above is the impact on the value of deferred tax assets and liabilities as a result of the reduction in the corporate tax rate for the financial year commencing 1 July 2011.

Notes to the interim financial statements continued

	The Banking Group		Kiwibank Limited			
	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10
Dollars in thousands						
7. Current and deferred taxation						
Current income tax (payable)/ receivable						
Balance at beginning of period	(4,636)	(4,027)	(4,027)	(4,636)	(4,027)	(4,027)
Prior period adjustment	-	942	155	-	942	155
Current period profit	(13,942)	(11,380)	(20,529)	(13,942)	(11,380)	(20,529)
Tax on losses taken to reserves	1,168	2,405	1,454	1,168	2,405	1,454
Tax losses purchased –related party	-	-	-	1,834	-	-
Net tax paid	14,482	9,806	18,311	12,677	9,806	18,311
Balance at end of period	(2,926)	(2,254)	(4,636)	(2,899)	(2,254)	(4,636)
Deferred tax						
Balance at beginning of period	20,813	30,474	30,474	20,813	30,474	30,474
Prior period adjustment	-	(670)	118	-	(670)	118
Temporary differences for the period	7,946	1,375	1,083	7,946	1,375	1,083
Tax effect of change in tax rate ¹	-	-	341	-	-	341
Tax on profits taken to reserves	(1,997)	(13,899)	(11,203)	(1,997)	(13,899)	(11,203)
Balance at end of period	26,762	17,280	20,813	26,762	17,280	20,813
Deferred income tax assets						
Cash flow hedges	17,663	16,964	19,660	17,663	16,964	19,660
Other provisions and accruals	2,100	1,375	1,455	2,100	1,375	1,455
Allowance for loan impairment	13,736	4,910	5,744	13,736	4,910	5,744
Total assets	33,499	23,249	26,859	33,499	23,249	26,859
Deferred income tax liabilities						
Accelerated tax depreciation	(6,737)	(5,969)	(6,046)	(6,737)	(5,969)	(6,046)
Total liabilities	(6,737)	(5,969)	(6,046)	(6,737)	(5,969)	(6,046)
Net deferred taxation	26,762	17,280	20,813	26,762	17,280	20,813
Recoverable within twelve months	32,825	22,055	25,923	32,825	22,055	25,923
Recoverable after twelve months	(6,063)	(4,775)	(5,110)	(6,063)	(4,775)	(5,110)

¹ The future reduction in the corporate tax rate from 30% to 28% in the 2012 income tax year has been taken into account in calculating the value of deferred tax assets and liabilities at 30 June 2010.

Notes to the interim financial statements continued

	The Banking Group		Kiwibank Limited			
Dollars in thousands	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10
8. Cash and cash equivalents						
Cash in hand	79,204	71,188	44,372	79,204	71,188	44,372
Cash with central banks	218,631	254,283	220,625	218,631	254,283	220,625
Call and overnight advances to financial institutions	37,431	38,121	38,869	37,211	37,256	38,807
Total cash and cash equivalents - current	335,266	363,592	303,866	335,046	362,727	303,804

9. Due from other financial institutions						
Unsettled receivables	930	18,705	17,046	930	18,705	17,046
Short term advances due from other financial institutions	35,193	-	86,007	35,193	-	86,007
Collateralised loans	41,843	17,400	53,818	41,843	17,400	53,818
Total amount due from other financial institutions	77,966	18,705	156,871	77,966	18,705	156,871
Current	77,966	18,705	156,871	77,966	18,705	156,871

As at 31 December 2010, included within the balance above, is \$41.8m of collateral pledged by Kiwibank in respect of its credit support annex obligations to derivative counterparties. (30 June 2010: \$53.8m).

10. Financial assets held for trading						
Bank bills	208,885	407,810	189,288	208,885	407,810	189,288
Other securities	491,399	468,063	481,864	491,399	468,063	481,864
Total financial assets held for trading	700,284	875,873	671,152	700,284	875,873	671,152
Current	240,232	563,745	249,512	240,232	563,745	249,512
Non-current	460,052	312,128	421,640	460,052	312,128	421,640

11. Available-for-sale assets						
Government stock and multilateral development banks	571,774	658,544	350,068	571,774	658,544	350,068
Local authority securities	71,973	36,179	18,927	71,973	36,179	18,927
Other debt securities	113,293	198,524	175,458	113,293	198,524	175,458
Total available-for-sale assets	757,040	893,247	544,453	757,040	893,247	544,453
Current	303,958	274,281	147,084	303,958	274,281	147,084
Non-current	453,082	618,966	397,369	453,082	618,966	397,369

12. Loans and advances						
Loans and advances designated upon initial recognition at fair value through profit or loss	542,165	1,539,045	1,235,764	542,165	1,539,045	1,235,764
Loans and advances at amortised cost	10,436,712	8,202,819	9,202,244	10,436,712	8,202,819	9,202,244
Allowance for impairment losses (note 24)	(45,462)	(15,444)	(19,506)	(45,462)	(15,444)	(19,506)
Total net loans and advances	10,933,415	9,726,420	10,418,502	10,933,415	9,726,420	10,418,502
Current	1,001,619	827,693	908,415	1,001,619	827,693	908,415
Non-current	9,931,796	8,898,727	9,510,087	9,931,796	8,898,727	9,510,087
The cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value	325	923	741	325	923	741

The above changes in the fair value of the loans and advances that is attributable to changes in the credit risk of the financial asset is determined as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk.

Notes to the interim financial statements continued

13 Derivative financial instruments

Derivatives

The Banking Group uses the following derivative instruments for both hedging and non-hedging purposes.

- Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.
- Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.
- Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Banking Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Banking Group assesses counterparties using the same techniques as for its lending activities.
- Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Banking Group and a customer over the counter (OTC). The Banking Group is exposed to credit risk on purchased options only and only to the extent of their carrying amount, which is their fair value.
- The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Banking Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair value of derivative instruments is set out below.

Notes to the interim financial statements continued

13. Derivative financial instruments continued

The Banking Group and Kiwibank Limited

Dollars in thousands	Notional Principal Amount	Credit Equivalent Amount	Fair values Assets	Liabilities
Unaudited 31/12/10				
Derivatives held for trading				
<i>Foreign exchange derivatives</i>				
Forward contracts	148,890	2,557	1,068	(1,425)
Swap agreements	434,724	44,850	24,063	(5,969)
Total	583,614	47,407	25,131	(7,394)
<i>Interest rate derivatives</i>				
Forward rate agreements	435,000	220	220	(37)
Swap agreements	3,281,178	31,001	18,291	(59,452)
Futures contracts	624,000	-	25	(1,189)
Total	4,340,178	31,221	18,536	(60,678)
Total derivatives held for trading	4,923,792	78,628	43,667	(68,072)
Derivatives held for hedging				
Designated as cash flow hedges				
<i>Interest rate derivatives</i>				
Swap agreements	3,252,000	15,357	5,694	(86,408)
Total derivatives designated as cash flow hedges	3,252,000	15,357	5,694	(86,408)
Designated as fair value hedges				
<i>Interest rate derivatives</i>				
Swap agreements	451,680	11,290	9,032	(918)
Total derivatives designated as fair value hedges	451,680	11,290	9,032	(918)
Total derivatives held for hedging	3,703,680	26,647	14,726	(87,326)
Total derivative financial instruments	8,627,472	105,275	58,393	(155,398)

Notes to the interim financial statements continued

13 Derivative financial instruments continued

		The Banking Group and Kiwibank Limited			
Dollars in thousands		Notional Principal Amount	Credit Equivalent Amount	Fair values Assets	Liabilities
Unaudited 31/12/09					
Derivatives held for trading					
<i>Foreign exchange derivatives</i>					
Forward contracts		363,437	4,616	976	(247)
Swap agreements		450,198	30,829	13,515	(7,841)
Total		813,635	35,445	14,491	(8,088)
<i>Interest rate derivatives</i>					
Forward contracts		1,440,000	623	623	(3)
Swap agreements		3,514,940	22,232	15,295	(107,905)
Futures contracts		716,870	-	191	(242)
Total		5,671,810	22,855	16,109	(108,150)
Total derivatives held for trading		6,485,445	58,300	30,600	(116,238)
Derivatives held for hedging					
Designated as cash flow hedges					
<i>Interest rate derivatives</i>					
Swap agreements		4,395,000	26,879	14,079	(98,483)
Total derivatives designated as cash flow hedges		4,395,000	26,879	14,079	(98,483)
Designated as fair value hedges					
<i>Interest rate derivatives</i>					
Swap agreements		423,210	9,076	6,960	(971)
Total derivatives designated as fair value hedges		423,210	9,076	6,960	(971)
Total derivatives held for hedging		4,818,210	35,955	21,039	(99,454)
Total derivative financial instruments		11,303,655	94,255	51,639	(215,692)

Notes to the interim financial statements continued

13. Derivative financial instruments continued

The Banking Group and Kiwibank Limited

Dollars in thousands	Notional Principal Amount	Credit Equivalent Amount	Fair values Assets	Liabilities
Audited 30/06/10				
Derivatives held for trading				
<i>Foreign exchange derivatives</i>				
Forward contracts	118,373	1,442	244	(3,867)
Swap agreements	396,864	25,891	8,007	(7,195)
Total	515,237	27,333	8,251	(11,062)
<i>Interest rate derivatives</i>				
Forward rate agreements	1,000,000	146	146	(50)
Swap agreements	3,505,794	24,246	15,667	(89,822)
Futures contracts	1,087,459	0	7	(581)
Total	5,593,253	24,392	15,820	(90,453)
Total derivatives held for trading	6,108,490	51,725	24,071	(101,515)
Derivatives held for hedging				
Designated as cash flow hedges				
<i>Interest rate derivatives</i>				
Swap agreements	3,900,500	19,809	6,747	(99,925)
Total derivatives designated as cash flow hedges	3,900,500	19,809	6,747	(99,925)
Designated as fair value hedges				
<i>Interest rate derivatives</i>				
Swap agreements	441,313	17,708	15,502	(1,148)
Total derivatives designated as fair value hedges	441,313	17,708	15,502	(1,148)
Total derivatives held for hedging	4,341,813	37,517	22,249	(101,073)
Total derivative financial instruments	10,450,303	89,242	46,320	(202,588)

Notes to the interim financial statements continued

13 Derivative financial instruments continued

Fair value hedges

The Banking Group has entered into asset interest rate swaps to hedge interest rate risk resulting from any potential change or movement in the fair value of fixed rate coupon bonds. The Banking Group hedges this risk through the use of pay fixed interest rate swaps. The designated hedging relationships result in fair value gains and losses on the fixed rate assets and interest rate swaps. The fair value gains and losses are recorded through the statement of comprehensive income as incurred. When a fair value hedging relationship is de-designated, the fair value adjustments to the carrying statement of financial position value are amortised to the statement of comprehensive income over the remaining period to the maturity date of the fixed rate asset.

The Banking Group also partially hedges the interest rate risk arising from any potential change in the fair value of fixed rate subordinated debt issuances. The Banking Group hedges this risk through the use of receive fixed interest rate swaps. The designated hedging relationships result in fair value gains and losses on the fixed rate liability and interest rate swap. The fair value gains and losses are recorded through the statement of comprehensive income as incurred. When a fair value hedging relationship is de-designated, the fair value adjustments to the carrying statement of financial position value are amortised to the statement of comprehensive income over the remaining period to the maturity date of the fixed rate liability.

Cash flow hedges

The Banking Group hedges the short term future reissuance of fixed rate customers and future retail term deposits through the use of interest rate swaps. Previously the Banking Group also hedged the cash flows from variable rate loan assets and liabilities. All underlying hedged cash flows are expected to be recognised in the statement of comprehensive income in the period in which they occur which is anticipated to take place over the next ten years.

14 Investment in subsidiaries

KiwiBank's investment in subsidiaries comprises shares at cost. The subsidiaries comprise:

Name of entity	Principal activity	Interest held by Parent		
		31/12/10	31/12/09	30/06/10
KiwiBank Nominees Limited	Provision of custodial services to customers in respect of assets that are beneficially owned by those customers	100%	100%	100%
New Zealand Home Lending Limited	Agency services for mortgage lending through The New Zealand Home Loan Company Limited	100%	100%	100%
AMP Home Loans Limited	Agency services for mortgage lending through the AMP Advisor network	100%	100%	100%
KiwiBank Investment Management Limited	Provision of investment management services	100%	100%	100%
KB Custodial Services Limited	Funds management	100%	100%	100%
Kiwi Asset Finance Limited	Asset finance leasing	100%	-	-
Kiwi Capital Management Limited*	Issuance management company	-	-	-
Kiwi Capital Securities Limited*	Issuer of perpetual preference shares	-	-	-
KiwiBank Portfolio Investment Entity Unit Trust * (PIE Unit Trust)	Provision of investment management services	-	-	-
KiwiBank RMBS Trust Series 2009-1*	Securitisation finance entity	-	-	-

All subsidiary entities have a reporting period date of 30 June and are incorporated in New Zealand.

* The Banking Group consolidates the Trusts, Kiwi Capital Management Limited and Kiwi Capital Securities Limited on the basis that KiwiBank is deemed to control these entities as their activities are conducted on behalf of KiwiBank according to KiwiBank's specific business needs.

Notes to the interim financial statements continued

	The Banking Group		Kiwibank Limited			
	Unaudited	Unaudited	Audited	Unaudited	Unaudited	Audited
	31/12/10	31/12/09	30/06/10	31/12/10	31/12/09	30/06/10
15. Property, plant and equipment						
Dollars in thousands						
Furniture and fittings	3,936	3,568	4,042	3,936	3,568	4,042
Motor vehicles	6	9	7	6	9	7
Computer hardware	13,822	13,416	14,710	13,822	13,416	14,710
Computer hardware work in progress	1,648	1,072	1,423	1,648	1,072	1,423
Total property, plant and equipment	19,412	18,065	20,182	19,412	18,065	20,182
Furniture and fittings						
Cost brought forward	6,082	4,601	4,601	6,082	4,601	4,601
Accumulated depreciation brought forward	(2,040)	(1,453)	(1,453)	(2,040)	(1,453)	(1,453)
Opening net book value	4,042	3,148	3,148	4,042	3,148	3,148
Additions	246	690	1,481	246	690	1,481
Amortisation	(352)	(270)	(587)	(352)	(270)	(587)
Closing net book value	3,936	3,568	4,042	3,936	3,568	4,042
Cost	6,328	5,291	6,082	6,328	5,291	6,082
Accumulated depreciation	(2,392)	(1,723)	(2,040)	(2,392)	(1,723)	(2,040)
Closing net book value	3,936	3,568	4,042	3,936	3,568	4,042
Motor vehicles						
Cost brought forward	19	19	19	19	19	19
Accumulated depreciation brought forward	(12)	(9)	(9)	(12)	(9)	(9)
Opening net book value	7	10	10	7	10	10
Additions	-	-	-	-	-	-
Amortisation	(1)	(1)	(3)	(1)	(1)	(3)
Closing net book value	6	9	7	6	9	7
Cost	19	19	19	19	19	19
Accumulated depreciation	(13)	(10)	(12)	(13)	(10)	(12)
Closing net book value	6	9	7	6	9	7
Computer hardware						
Cost brought forward	38,969	32,045	32,045	38,969	32,045	32,045
Accumulated depreciation brought forward	(24,259)	(18,302)	(18,302)	(24,259)	(18,302)	(18,302)
Opening net book value	14,710	13,743	13,743	14,710	13,743	13,743
Additions	1,659	1,777	6,304	1,659	1,777	6,304
Transfers from computer hardware work in progress	919	677	741	919	677	741
Disposals	(475)	(46)	(47)	(475)	(46)	(47)
Accumulated depreciation on disposals	475	-	-	475	-	-
Amortisation	(3,466)	(2,735)	(6,031)	(3,466)	(2,735)	(6,031)
Closing net book value	13,822	13,416	14,710	13,822	13,416	14,710
Cost	41,071	34,379	38,969	41,071	34,379	38,969
Accumulated depreciation	(27,249)	(20,963)	(24,259)	(27,249)	(20,963)	(24,259)
Closing net book value	13,822	13,416	14,710	13,822	13,416	14,710

Notes to the interim financial statements continued

	The Banking Group		Kiwibank Limited			
	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10
Computer hardware work in progress						
Balance brought forward	1,423	2,952	2,952	1,423	2,952	2,952
Additions	1,213	206	916	1,213	206	916
Transfers to computer software work in progress	-	(1,363)	(1,658)	-	(1,363)	(1,658)
Transfers to computer hardware	(919)	(677)	(741)	(919)	(677)	(741)
Write offs	(69)	(46)	(46)	(69)	(46)	(46)
Balance carried forward	1,648	1,072	1,423	1,648	1,072	1,423
16. Intangible assets						
Computer software						
Computer software	38,992	26,481	33,092	38,992	26,481	33,092
Acquired customer relationships	2,589	4,315	3,452	2,589	4,315	3,452
Computer software work in progress (internally developed)	6,480	13,522	10,961	6,480	13,522	10,961
Total intangible assets	48,061	44,318	47,505	48,061	44,318	47,505
Computer software (internally developed)						
Cost brought forward	78,434	60,289	60,289	78,434	60,289	60,289
Accumulated amortisation brought forward	(45,342)	(34,559)	(34,559)	(45,342)	(34,559)	(34,559)
Opening net book value	33,092	25,730	25,730	33,092	25,730	25,730
Transfers from computer software work in progress	12,197	6,032	14,956	12,197	6,032	14,956
Additions	489	181	3,189	489	181	3,189
Amortisation	(6,786)	(5,462)	(10,783)	(6,786)	(5,462)	(10,783)
Closing net book value	38,992	26,481	33,092	38,992	26,481	33,092
Cost	91,120	66,502	78,434	91,120	66,502	78,434
Accumulated amortisation	(52,128)	(40,021)	(45,342)	(52,128)	(40,021)	(45,342)
Closing net book value	38,992	26,481	33,092	38,992	26,481	33,092
Acquired customer relationships						
Cost brought forward	12,749	12,749	12,749	12,749	12,749	12,749
Accumulated amortisation brought forward	(9,297)	(7,463)	(7,463)	(9,297)	(7,463)	(7,463)
Opening net book value	3,452	5,286	5,286	3,452	5,286	5,286
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Amortisation	(863)	(971)	(1,834)	(863)	(971)	(1,834)
Closing net book value	2,589	4,315	3,452	2,589	4,315	3,452
Cost	12,749	12,749	12,749	12,749	12,749	12,749
Accumulated amortisation	(10,160)	(8,434)	(9,297)	(10,160)	(8,434)	(9,297)
Closing net book value	2,589	4,315	3,452	2,589	4,315	3,452

Notes to the interim financial statements continued

	The Banking Group		Kiwibank Limited			
Dollars in thousands	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10

16. Intangible assets continued

Computer software work in progress						
Balance brought forward	10,961	12,165	12,165	10,961	12,165	12,165
Additions	7,864	10,873	14,722	7,864	10,873	14,722
Transfers to computer software	(12,197)	(6,032)	(14,956)	(12,197)	(6,032)	(14,956)
Transfers from computer hardware work in progress	-	(1,363)	1,658	-	(1,363)	1,658
Write offs	(148)	(2,121)	(2,628)	(148)	(2,121)	(2,628)
Balance carried forward	6,480	13,522	10,961	6,480	13,522	10,961

17. Other assets

Prepayments	2,273	4,168	3,127	2,273	4,168	3,127
Trade and other receivables	9,753	4,636	5,584	9,719	5,631	5,741
Total other assets	12,026	8,804	8,711	11,992	9,799	8,868
Current	11,979	8,804	8,711	11,945	9,799	8,868
Non-current	47	-	-	47	-	-

18. Due to other financial institutions

Repurchase agreements	-	578,290	100,247	-	578,290	100,247
Cash collateral pledged	22,500	-	61,566	22,500	-	61,566
ATM cash at other banks	2,841	2,662	2,238	2,841	2,662	2,238
Total due to other financial institutions - current	25,341	580,952	164,051	25,341	580,952	164,051

19. Term subordinated debt

Face value	135,000	135,000	135,000	135,000	135,000	135,000
Interest accrued	2,996	2,996	2,947	2,996	2,996	2,947
Premium	(272)	(398)	(337)	(272)	(398)	(337)
Fair value hedge adjustment	5,297	4,520	5,689	5,297	4,520	5,689
Total term subordinated debt	143,021	142,118	143,299	143,021	142,118	143,299

The terms and conditions of these term subordinated debt issues are as follows:

Issue date	Amount \$000's	Coupon rate	Call date	Maturity date
20 March 2007	75,000	7.72%	20 March 2012	20 March 2017
30 September 2008	60,000	8.75%	30 September 2013	30 September 2018

The term subordinated debt issues are subordinate to all other general liabilities of the Banking Group and are denominated in New Zealand dollars. The debt carried an A+ credit rating from Standard and Poor's Pty Limited as at reporting period date.

All the term subordinated debt qualifies as lower tier two capital for Capital Adequacy calculation purposes. The contractual terms of the term subordinated debt expressly provide that they do not have the benefit of the deed poll guarantee ("the Guarantee") provided by the Banking Group's parent company, (NZP). The debt is also not covered by the Crown Guarantee scheme.

Kiwibank has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period, (periods ended 31 December 2009 and 30 June 2010; same).

Notes to the interim financial statements continued

Dollars in thousands	The Banking Group		Kiwibank Limited		
	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10	Unaudited 31/12/10	Unaudited 31/12/09

20. Deposits and other borrowings

Retail deposits	7,621,197	6,890,762	6,911,909	5,815,315	5,807,124	5,743,029
Wholesale deposits	3,519,523	2,849,549	3,383,416	3,519,523	2,849,549	3,383,416
Deposits with PIE Unit Trust	-	-	-	1,805,882	1,083,638	1,168,880
Total	11,140,720	9,740,311	10,295,325	11,140,720	9,740,311	10,295,325
New Zealand	10,904,467	9,523,257	10,075,666	10,904,467	9,523,257	10,075,666
Overseas	236,253	217,054	219,659	236,253	217,054	219,659
Total deposits and other borrowings at amortised cost	11,140,720	9,740,311	10,295,325	11,140,720	9,740,311	10,295,325
Current	10,931,126	9,477,466	9,994,985	10,931,126	9,477,466	9,994,985
Non-current	209,594	262,845	300,340	209,594	262,845	300,340

In the event of the liquidation of Kiwibank, deposit holders will rank equally with all other creditors but ahead of subordinated debt holders and share holders. In addition, all payment obligations of Kiwibank, excluding any payment obligations, the terms of which expressly provide that they do not have the benefit of the guarantee, are guaranteed under a deed poll guarantee (the "Guarantee") provided by Kiwibank's ultimate parent company, NZP.

The Kiwibank PIE Unit Trust, established under the Unit Trusts Act 1960 in May 2008, operates three funds: the PIE Term Deposit Fund, the PIE Notice Call account and PIE Online Call Fund. Kiwibank Investment Management Limited is the issuer and manager of the Unit Trust. Trustees Executors Limited is the trustee of the Unit Trust. Kiwibank is the promoter of the Trust. Units in the Trust do not directly represent deposits or liabilities of Kiwibank, however the Unit Trust is invested exclusively in term and call deposits with Kiwibank. Kiwibank guarantees the payment obligations of the manager and any amounts owing to Unit Holders under the Trust Deed in respect of their Units and agrees to pay to Unit Holders any shortfall between the amount they may receive on redeeming their Units or in the winding up of the Trust and the balance of their Unit Accounts.

21. Debt securities issued

Certificates of deposit	325,695	494,725	378,465	325,695	494,725	378,465
Other debt securities	513,697	389,711	416,772	513,697	389,711	416,772
Total debt securities issued	839,392	884,436	795,237	839,392	884,436	795,237
Current	392,156	494,725	403,619	392,156	494,725	403,619
Non-current	447,236	389,711	391,618	447,236	389,711	391,618

Notes to the interim financial statements continued

Dollars in thousands	The Banking Group		Kiwibank Limited		
	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10	Unaudited 31/12/10	Unaudited 31/12/09

22. Other liabilities

Trade and other payables	13,064	8,366	12,933	12,969	8,297	12,822
Employee entitlements	11,479	10,292	9,738	11,479	10,292	9,738
Related parties	-	-	298	-	-	298
Other liabilities	15,887	14,087	9,393	15,887	14,087	9,390
Total other liabilities	40,430	32,745	32,362	40,335	32,676	32,248
Current	40,430	32,745	32,362	40,335	32,676	32,248

In the event of liquidation, creditors within this class rank in priority to subordinated debt holders and shareholders and will rank equally with deposit holders and other borrowers.

23. Equity

The total authorised number of ordinary shares at reporting period date was 310 million for the Banking Group and 310 million for Kiwibank (31 December 2009: 310 million; 30 June 2010: 310 million for the Banking Group and Kiwibank). All issued shares are fully paid. All ordinary shares have equal voting rights and share equally in dividends and surpluses on winding up. Ordinary shares do not have a par value. The whole of the issued ordinary share capital is owned by Kiwi Group Holdings Limited, which is incorporated in New Zealand.

On 21 December 2009 15,000,000 ordinary shares were issued for cash at \$1 per share to Kiwi Group Holdings Limited. On 4 May 2010 3,361,000 ordinary shares were issued for cash at \$1 per share to Kiwi Group Holdings Limited by Kiwi Capital Management Limited.

Banking Group

On 4 May 2010 150,000,000 perpetual callable non-cumulative preference shares were issued for cash at \$1 per share by Kiwi Capital Securities Limited. All issued shares were fully paid as at reporting period date. The perpetual preference shares are non-redeemable and carry no voting rights. Dividends are paid quarterly in arrears at the discretion of the directors. The costs associated with this share issue have been netted against the perpetual preference share capital in the statement of financial position. On 4 August 2010 and 4 November 2010, net dividend payments of \$4,279k were made (periods ended 31 December 2009 and 30 June 2010: \$nil).

Kiwibank Limited

On 4 May 2010 150,000,000 perpetual callable non-cumulative preference shares were issued for cash at \$1 per share by Kiwibank to Kiwi Capital Management Limited. All issued shares were fully paid as at reporting period date. The perpetual preference shares are non-redeemable and carry no voting rights. Dividends are paid quarterly in arrears at the discretion of the directors.

Equity	Banking Group		Kiwibank Limited			
	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10
310,000,000 ordinary shares fully paid	310,000	310,000	310,000	310,000	310,000	310,000
150,000,000 perpetual preference shares	-	-	-	150,000	-	150,000
Non controlling interest	150,000	-	150,000	-	-	-
Retained earnings	183,843	151,915	174,214	183,834	151,899	174,212
Cash flow hedge reserve	(41,213)	(39,582)	(45,873)	(41,213)	(39,582)	(45,873)
Available-for-sale reserve	(2,304)	(1,798)	422	(2,304)	(1,798)	422
Total equity	600,326	420,535	588,763	600,317	420,519	588,761

Notes to the interim financial statements continued

	The Banking Group		Kiwibank Limited			
	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10
Dollars in thousands						
23. Equity continued						
Share capital						
Balance at beginning of the period	310,000	295,000	295,000	310,000	295,000	295,000
Issues in period	-	15,000	15,000	-	15,000	15,000
Balance at end of the period	310,000	310,000	310,000	310,000	310,000	310,000
Non controlling interest						
Balance at beginning of the period	150,000	-	-	-	-	-
Ordinary share capital issued in the period	-	-	3,361	-	-	-
Perpetual preference share capital issued in the year	-	-	150,000	-	-	-
Perpetual preference share issuance costs	-	-	(3,361)	-	-	-
Total perpetual preference share capital	-	-	146,639	-	-	-
Balance at end of the period	150,000	-	150,000	-	-	-
Perpetual preference shares						
Balance at beginning of the period	-	-	-	150,000	-	-
Issues in period	-	-	-	-	-	150,000
Balance at end of the period	-	-	-	150,000	-	150,000
Retained earnings						
Balance at beginning of the period	174,214	128,366	128,366	174,212	128,364	128,364
Net profit for the period	13,908	23,549	45,848	13,901	23,535	45,848
Dividends paid	(4,279)	-	-	(4,279)	-	-
Balance at end of the period	183,843	151,915	174,214	183,834	151,899	174,212
Cash flow hedge reserve						
Balance at beginning of the period	(45,873)	(72,014)	(72,014)	(45,873)	(72,014)	(72,014)
Gross gains from changes in fair value	1,631	44,856	31,734	1,631	44,856	31,734
Tax effect on gross gains from changes in fair value	(489)	(13,457)	(9,520)	(489)	(13,457)	(9,520)
Cumulative loss transferred to the statement of comprehensive income on disposal of financial assets	5,026	1,476	5,610	5,026	1,476	5,610
Tax effect of items transferred to statement of comprehensive income	(1,508)	(443)	(1,683)	(1,508)	(443)	(1,683)
Balance at end of the period	(41,213)	(39,582)	(45,873)	(41,213)	(39,582)	(45,873)
Available-for-sale reserve						
Balance at beginning of the period	422	3,814	3,814	422	3,814	3,814
Gross (losses)/gains from changes in fair value	(286)	3,021	12,889	(286)	3,021	12,889
Tax effect on gross losses/(gains) from changes in fair value	86	(906)	(3,867)	86	(906)	(3,867)
Cumulative gain transferred to the statement of comprehensive income on disposal of financial assets	(3,609)	(11,038)	(17,735)	(3,609)	(11,038)	(17,735)
Tax effect of items transferred to statement of comprehensive income	1,083	3,311	5,321	1,083	3,311	5,321
Balance at end of the period	(2,304)	(1,798)	422	(2,304)	(1,798)	422

Notes to the interim financial statements continued

24. Asset quality Summary of lending

		The Banking Group and Kiwibank		
		31 December 2010		
		Unaudited		
		Loans and advances to retail customers	Loans and advances to corporate and institutional customers	Total
Dollars in thousands				
Neither past due nor impaired (a)		9,231,861	1,473,615	10,705,476
Past due but not impaired (b)		181,582	27,916	209,498
Impaired (d)		29,590	34,313	63,903
Gross		9,443,033	1,535,844	10,978,877
Collective allowance for impairment		(8,722)	(5,113)	(13,835)
Individual allowance for impairment		(8,846)	(22,781)	(31,627)
Net loans and advances		9,425,465	1,507,950	10,933,415
31 December 2009				
Unaudited				
		Loans and advances to retail customers	Loans and advances to corporate and institutional customers	Total
Neither past due nor impaired (a)		8,143,019	1,343,435	9,486,454
Past due but not impaired (b)		185,750	38,046	223,796
Impaired (d)		20,529	11,085	31,614
Gross		8,349,298	1,392,566	9,741,864
Collective allowance for impairment		(7,028)	(2,576)	(9,604)
Individual allowance for impairment		(1,565)	(4,275)	(5,840)
Net loans and advances		8,340,705	1,385,715	9,726,420

Notes to the interim financial statements continued

24. Asset quality

		The Banking Group and Kiwibank	
		30 June 2010	
		Audited	
	Loans and advances to retail customers	Loans and advances to corporate and institutional customers	Total
Dollars in thousands			
Neither past due nor impaired (a)	8,795,319	1,386,977	10,182,296
Past due but not impaired (b)	174,356	43,580	217,936
Impaired (d)	26,500	11,276	37,776
Gross	8,996,175	1,441,833	10,438,008
Collective allowance for impairment	(6,408)	(3,135)	(9,543)
Individual allowance for impairment	(1,003)	(8,960)	(9,963)
Net loans and advances	8,988,764	1,429,738	10,418,502

Interest revenue forgone on impaired assets is calculated using actual interest written off and interest suspended during the interim financial period. This amounts to \$1.8m (31 December 2009: \$0.7m; 30 June 2010: \$1.2m). There are no real estate or other assets acquired through the enforcement of security held at 31 December 2010 (31 December 2009: nil; 30 June 2010: nil). There are no assets under administration as at 31 December 2010 (31 December 2009: nil; 30 June 2010: nil). There are no unrecognised impaired assets as at 31 December 2010 (31 December 2009: nil; 30 June 2010: nil). The aggregate amount of undrawn balances on lending commitments to counterparties for whom drawn balances are 90 days past due is nil at 31 December 2010 (31 December 2009: nil; 30 June 2010: nil).

Notes to the interim financial statements continued

24. Asset quality continued

a: Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Kiwibank. The definitions used in the table below (excellent, good and moderate) correspond directly to the RBNZ terminology for asset monitoring (i.e. standard, special and sub-standard) respectively and are described as follows:

- **Excellent credit quality** – customer represents a low credit risk and typically operated successfully over several market cycles. The customer financial position is sound with an ability to respond to changes.
- **Good credit quality** – customer is assessed to be of moderate risk and may have manifested some historic symptoms of non performance such as a payment default.
- **Moderate credit quality** - customer is assessed to be higher risk, operating in a high risk environment and typically have a weaker financial position and will have some historic symptoms of non performance such as a payment default.

The Banking Group and Kiwibank Limited

Loans and advances to customers	Retail	Residential	Corporate	Total loans and
	unsecured lending	mortgage loans	exposures	advances
31 December 2010				
Unaudited				
Grades				
Excellent credit quality	269,014	8,935,897	1,323,805	10,528,716
Good credit quality	-	25,650	139,907	165,557
Moderate credit quality	-	1,300	9,903	11,203
Total	269,014	8,962,847	1,473,615	10,705,476
31 December 2009				
Unaudited				
Grades				
Excellent credit quality	199,095	7,917,530	1,219,776	9,336,401
Good credit quality	-	24,502	122,015	146,517
Moderate credit quality	-	1,891	1,645	3,536
Total	199,095	7,943,923	1,343,436	9,486,454
30 June 2010				
Audited				
Grades				
Excellent credit quality	235,790	8,531,671	1,254,127	10,021,588
Good credit quality	-	26,253	128,190	154,443
Moderate credit quality	-	1,605	4,660	6,265
Total	235,790	8,559,529	1,386,977	10,182,296

Notes to the interim financial statements continued

24 Asset quality continued

b: Loans and advances past due but not impaired

		The Banking Group and Kiwibank Limited			
Loans and advances to customers		Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Dollars in thousands					
31 December 2010					
Unaudited					
Past due up to 30 days		20,204	94,679	7,016	121,899
Past due 30 – 60 days		12,962	18,349	11,351	42,662
Past due 60 – 90 days		2,675	5,698	1,834	10,207
Past due > 90 days		2,815	24,200	7,715	34,730
Total		38,656	142,926	27,916	209,498
Fair value of collateral		-	158,806	31,019	189,825
31 December 2009					
Unaudited					
Past due up to 30 days		19,735	94,738	23,300	137,773
Past due 30 – 60 days		4,414	27,984	10,011	42,409
Past due 60 – 90 days		2,204	19,728	601	22,533
Past due > 90 days		1,821	15,126	4,134	21,081
Total		28,174	157,576	38,046	223,796
Fair value of collateral		-	175,084	42,273	217,357
30 June 2010					
Audited					
Past due up to 30 days		20,346	94,956	12,137	127,439
Past due 30 – 60 days		6,290	22,924	10,067	39,281
Past due 60 – 90 days		2,881	5,271	13,395	21,547
Past due > 90 days		2,536	19,152	7,981	29,669
Total		32,053	142,303	43,580	217,936
Fair value of collateral		-	158,114	48,422	206,536

Notes to the interim financial statements continued

24 Asset quality continued

The breakdown of the gross amount of loans and advances > 90 days past due by class is as follows:

c: Past due assets > 90 days

Dollars in thousands	The Banking Group		Kiwibank Limited			
	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10
<u>Past due assets > 90 days – retail unsecured lending</u>						
Balance at beginning of the period	2,536	2,015	2,015	2,536	2,015	2,015
Transfers to past due assets	3,607	3,432	6,168	3,607	3,432	6,168
Transfers from past due assets	(3,328)	(3,626)	(5,647)	(3,328)	(3,626)	(5,647)
Amounts written off	-	-	-	-	-	-
Gross balance at end of period	2,815	1,821	2,536	2,815	1,821	2,536

Past due assets > 90 days – residential mortgage loans

Balance at beginning of the period	19,152	11,797	11,797	19,152	11,797	11,797
Transfers to past due assets	34,296	42,007	99,242	34,296	42,007	99,242
Transfers from past due assets	(29,248)	(38,678)	(91,887)	(29,248)	(38,678)	(91,887)
Amounts written off	-	-	-	-	-	-
Gross balance at end of period	24,200	15,126	19,152	24,200	15,126	19,152

Past due assets > 90 days –

corporate exposures

Balance at beginning of the period	7,981	9,434	9,434	7,981	9,434	9,434
Transfers to past due assets	29,223	20,846	22,295	29,223	20,846	22,295
Transfers from past due assets	(29,489)	(26,146)	(23,748)	(29,489)	(26,146)	(23,748)
Amounts written off	-	-	-	-	-	-
Gross balance at end of period	7,715	4,134	7,981	7,715	4,134	7,981
Total past due assets > 90 days	34,730	21,081	29,669	34,730	21,081	29,669

Comparatives for 30 June 2010 for transfers to and from past due assets, in respect of residential mortgage loans and corporate exposures have been changed to ensure consistency of presentation with the other periods presented. There is no impact on the opening or closing gross balances for 30 June 2010.

Notes to the interim financial statements continued

24. Asset quality continued

The breakdown of the gross amount of individually impaired loans and advances by class and restructured loans is as follows:

d. Impaired assets

	The Banking Group		Kiwibank Limited			
	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10
Dollars in thousands						
<u>Impaired assets – unsecured retail lending</u>						
Balance at beginning of the period	179	227	227	179	227	227
Transfers from productive	1,576	2,030	3,766	1,576	2,030	3,766
Transfers to productive	(90)	(91)	(227)	(90)	(91)	(227)
Amounts written off	(1,451)	(1,991)	(3,587)	(1,451)	(1,991)	(3,587)
Balance at end of period	214	175	179	214	175	179
<u>Impaired assets – residential mortgage loans</u>						
Balance at beginning of the period	26,321	5,588	5,588	26,321	5,588	5,588
Transfers from productive	5,687	15,898	24,370	5,687	15,898	24,370
Transfers to productive	(308)	-	-	(308)	-	-
Amounts written off	(2,324)	(1,132)	(3,637)	(2,324)	(1,132)	(3,637)
Balance at end of period	29,376	20,354	26,321	29,376	20,354	26,321
<u>Impaired assets – corporate exposure</u>						
Balance at beginning of the period	11,276	13,517	13,517	11,276	13,517	13,517
Transfers from productive	23,507	7,739	12,106	23,507	7,739	12,106
Transfers to productive	(3)	(6,797)	(10,017)	(3)	(6,797)	(10,017)
Amounts written off	(467)	(3,374)	(4,330)	(467)	(3,374)	(4,330)
Balance at end of period	34,313	11,085	11,276	34,313	11,085	11,276
Total gross impaired assets						
Individual allowance for impairment	63,903	31,614	37,776	63,903	31,614	37,776
	(31,627)	(5,840)	(9,963)	(31,627)	(5,840)	(9,963)
Total net impaired assets	32,276	25,774	27,813	32,276	25,774	27,813

Comparatives for 30 June 2010 for transfers to and from past due assets, in respect of residential mortgage loans and corporate exposures have been changed to ensure consistency of presentation with the other periods presented. There is no impact on the opening or closing gross balances for 30 June 2010.

Notes to the interim financial statements continued

24. Asset quality continued

e: Individual allowance for impairment losses

The reconciliation of the individual allowance account for losses on loans and advances by class is as follows:

	The Banking Group and Kiwibank Limited			
	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Dollars in thousands				
Individual allowance for impairment losses				
Unaudited 6 months ended 31/12/10				
Balance at beginning of the period	179	824	8,960	9,963
Impairment losses on loans not at fair value through profit or loss	40	10,132	14,288	24,460
Advances written off	(5)	(2,324)	(467)	(2,796)
Total individual allowance for impairment losses	214	8,632	22,781	31,627
Unaudited 6 months ended 31/12/09				
Balance at beginning of the period	227	1,056	3,642	4,925
Impairment losses on loans not at fair value through profit or loss	176	1,466	4,007	5,649
Advances written off	(228)	(1,132)	(3,374)	(4,734)
Total individual allowance for impairment losses	175	1,390	4,275	5,840
Audited 12 months ended 30/06/10				
Balance at beginning of the period	227	1,056	3,642	4,925
Impairment losses on loans not at fair value through profit or loss	179	7,735	5,318	13,232
Advances written off	(227)	(7,967)	-	(8,194)
Total individual allowance for impairment losses	179	824	8,960	9,963

Notes to the interim financial statements continued

24. Asset quality continued

f. Collective allowance for impairment losses

The reconciliation of the collective allowance account for losses on loans and advances by class is as follows:

	The Banking Group and Kiwibank Limited			
	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Collective allowance for impairment losses				
Dollars in thousands				
Unaudited 6 months ended 31/12/10				
Balance at beginning of the period	3,824	2,584	3,135	9,543
Impairment losses on loans not at fair value through profit or loss	1,273	2,487	1,978	5,738
Advances written off	(1,446)	-	-	(1,446)
Total collective allowance for impairment losses	3,651	5,071	5,113	13,835
Unaudited 6 months ended 31/12/09				
Balance at beginning of the period	3,190	1,734	2,359	7,283
Impairment losses on loans not at fair value through profit or loss	3,322	545	217	4,084
Advances written off	(1,763)	-	-	(1,763)
Total collective allowance for impairment losses	4,749	2,279	2,576	9,604
Audited 12 months ended 30/06/10				
Balance at beginning of the period	3,190	1,734	2,359	7,283
Impairment losses on loans not at fair value through profit or loss	3,994	850	776	5,620
Advances written off	(3,360)	-	-	(3,360)
Total collective allowance for impairment losses	3,824	2,584	3,135	9,543

Notes to the interim financial statements continued

24. Asset quality continued

g. Allowance for impairment losses

	The Banking Group		Kiwibank Limited			
	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10
Dollars in thousands						
Allowance for impairment losses in statement of financial position						
Collective allowance for impairment losses	13,835	9,604	9,543	13,835	9,604	9,543
Individually impaired assets	31,627	5,840	9,963	31,627	5,840	9,963
Allowance for impairment losses	45,462	15,444	19,506	45,462	15,444	19,506
The cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value						
	325	923	741	325	923	741
Total allowance for impairment losses	45,787	16,367	20,247	45,787	16,367	20,247
Impairment losses per statement of comprehensive income						
Impairment losses on loans not at fair value through profit or loss	6,360	4,312	5,846	6,360	4,312	5,846
Charge to statement of comprehensive income for individually impaired assets	24,647	5,419	12,014	24,647	5,419	12,014
Total impairment losses per statement of comprehensive income	31,007	9,731	17,860	31,007	9,731	17,860

Notes to the interim financial statements continued

24. Asset quality continued

h: Restructured assets

Restructuring activities include extended payment plans, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review.

Details of restructured assets as at 31 December 2010 are set out below. Restructured assets at 31 December 2009 were nil. There were no undrawn balances on lending commitments to counterparties within the restructured assets category (30 December 2009: nil; 30 June 2010: nil).

	Retail unsecured lending			Residential mortgage loans		Corporate exposures	Total
Dollars in thousands							
Restructured assets							
Unaudited 6 months ended 31/12/10							
Balance at beginning of the period	32	-	-	-	-	-	32
Transfers to restructured assets	-	-	-	-	-	-	-
Transfers from restructured assets	(6)	-	-	-	-	-	(6)
Balance at end of the period	26	-	-	-	-	-	26
Audited 12 months ended 30/06/10							
Balance at beginning of the period	-	-	-	-	-	-	-
Transfers to restructured assets	32	-	-	-	86	-	118
Transfers from restructured assets	-	-	-	-	(86)	-	(86)
Balance at end of the period	32	-	-	-	-	-	32

Notes to the interim financial statements continued

25. Related party transactions

Dollars in thousands	The Banking Group		Kiwibank Limited			
	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10
Key management personnel						
Salaries and short-term employee benefits	2,756	2,600	5,657	2,756	2,600	5,657
Total compensation of key management personnel	2,452	2,600	5,657	2,452	2,600	5,657
Loans to key management personnel	2,181	1,714	1,693	2,181	1,714	1,693
Deposits from key management personnel	1,200	2,054	2,144	1,200	2,054	2,144

Loans made to and deposits held by key management personnel (including personally related parties) are made in the ordinary course of business on normal commercial terms and conditions, no more favourable than those given to other employees or customers. Loans are on terms of repayment that range between fixed and variable, all of which have been made in accordance with the Banking Group's lending policies. No provision for credit impairment has been recognised for loans made to key management personnel (31 December 2009: \$nil; 30 June 2010: \$nil).

Key management personnel is defined as those persons having authority and responsibility for planning directing and controlling the activities of the entity, directly or indirectly, including directors.

Revenue									
NZP	21,016	27,414	55,019	21,016	27,414	55,019			
Other controlled entities of Kiwibank	-	-	-	32,791	31,650	61,634			
Other subsidiaries within the NZP Group	535	245	908	535	531	908			
Expenditure									
NZP	27,222	23,591	49,477	27,222	23,591	49,477			
Other controlled entities of Kiwibank	-	-	-	65,194	56,923	110,683			
Other subsidiaries within the NZP Group	6,086	4,862	11,784	6,086	4,862	11,784			
Associates of the NZP Group	4,162	3,526	6,042	4,162	3,526	6,042			
Payables									
NZP	21,023	1,139	12,264	21,023	1,139	12,264			
Other subsidiaries within the NZP Group	454	522	298	454	522	298			
Other controlled entities of Kiwibank	-	-	-	25	42	(45)			
RMBS Trust (note 40)	-	-	-	601,038	601,102	601,082			
PIE Unit Trust (note 20)	-	-	-	1,805,882	1,083,638	1,168,880			
NZP Electoral Enrolment Centre (deposits)	2,747	2,109	2,109	2,747	2,109	2,109			
NZP Superannuation Plan (deposits)	15,646	14,382	16,155	15,646	14,382	16,155			
Total	39,870	18,152	30,826	2,446,815	1,702,934	1,800,743			
Receivables									
RMBS Trust	-	-	-	601,148	600,928	600,916			
Other controlled entities of Kiwibank	-	-	-	2,193	180	1,225			
Other subsidiaries within the NZP Group	2,910	2,869	1,716	2,910	2,869	1,716			
Total	2,910	2,869	1,716	606,251	603,977	603,857			

Notes to the interim financial statements continued

25. Related party transactions continued

Related parties comprise companies within the NZP group. In addition to the NZP group, the ultimate shareholder of Kiwibank is the Crown. Kiwibank undertakes some transactions with other State-Owned Enterprises and Government departments, which are carried out on an arm's length basis and in the normal course of business.

As at 31 December 2010, 50,000 of the non-cumulative perpetual preference share capital of Kiwi Capital Securities Limited (in substance a subsidiary of Kiwibank Limited) are held by related parties of the Banking Group (31 December 2009: nil; 30 June 2010: 55,000).

Kiwibank settles transactions with other New Zealand registered banks by way of the payment and settlement system operated by the Reserve Bank of New Zealand in its capacity as the central bank of New Zealand.

All payment obligations of Kiwibank, excluding any payment obligations, the terms of which expressly provide that they do not have the benefit of the guarantee, are guaranteed under a deed poll guarantee ("the Guarantee") provided by Kiwibank's ultimate parent company, NZP. No consideration is paid to the ultimate parent company for the guarantee.

Payment Services' fee revenue and expenditure are included in Kiwibank under a management agreement whereby Kiwibank manages the Payment Services activity of NZP. Payment Services' activity consists of collection agency business.

Kiwibank received remuneration of \$156k for the period (31 December 2009: \$156k; 30 June 2010: \$312k) from NZP for Treasury services provided to the group under a service level agreement. NZP holds a number of property leases on behalf of Kiwibank. Kiwibank reimburses NZP for the lease charges but has no contractual lease commitments for property charges.

Included in Kiwibank's operating expenditure are related party amounts paid for data processing, IT support, and marketing logistics. These amounts have been paid to Datam Limited, a fellow subsidiary company and Datacom Systems (Mgt) Limited and Express Couriers Limited, NZP associate companies.

Kiwibank held deposits from NZP, the New Zealand Post Superannuation Plan and the New Zealand Post Electoral Enrolment Centre (a division of NZP) during the period (see below). Certain shared service activities have been provided to Kiwibank in common with other NZP group companies. The remuneration for these services has been agreed in service level agreements and is consistent with amounts charged to other group companies. Kiwibank utilises NZP's retail network in its provision of retail banking services to customers.

Remuneration is paid for this service based upon activity and a mutually agreed service level agreement.

At reporting period date 31.6% of Kiwibank's total operating expenditure was paid to NZP group companies (31 December 2009: 25.2%; 30 June 2010: 24.3%). Part of this amount relates to the reimbursement of Payment Services expenditure, which includes personnel, property, IT support, marketing and other administrative costs.

During the period ended 31 December 2010, Kiwibank Limited paid a dividend of \$6,113k to Kiwi Capital Management Limited (periods ended 31 December 2009 and 30 June 2010: \$nil).

NZP has a credit facility with the Banking Group allowing it to drawdown up to \$35m at any one time. When loans are drawn down the transaction is undertaken on an arm's length basis at market interest rates. As at 31 December 2010 the amount owed by the NZP Group to the Banking Group was \$nil (31 December 2009: \$nil; 30 June 2010: \$nil). The table above shows amounts due to individual companies within the NZP group and other related parties as at reporting period date.

Kiwibank is part of the NZP consolidated tax group. During the period ended 31 December 2010, Kiwibank Limited purchased \$1.8m of tax losses from Kiwi Capital Management Limited (note 7).

At 31 December 2010, \$1,806m of PIE funds under management (note 20) were invested in Kiwibank's own products or securities (30 December 2009: \$1,084m; 30 June 2010: \$1,169m).

Notes to the interim financial statements continued

26. Concentration of credit risk

Concentrations of credit risk arise where the Banking Group and Kiwibank are exposed to risk in activities or industries of a similar nature. An analysis of financial assets by industry sector at reporting period date is as follows:

	The Banking Group		Kiwibank Limited			
	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10
Dollars in thousands						
New Zealand						
Government, local authorities and services	836,338	1,090,563	780,754	836,338	1,090,563	780,754
Finance, investment and insurance	638,830	639,227	713,377	1,239,794	1,239,291	1,314,231
Households	9,443,034	8,349,298	8,996,176	9,443,034	8,349,298	8,996,176
Transport and storage	29,083	20,454	17,637	29,083	20,454	17,637
Communications	5,863	-	24,058	5,863	-	24,058
Electricity, gas and water	3,829	33,868	27,820	3,829	33,868	27,820
Construction	62,356	55,118	59,734	62,356	55,118	59,734
Property services	1,052,620	977,362	1,021,922	1,052,620	977,362	1,021,922
Agriculture	27,361	16,072	23,245	27,361	16,072	23,245
Health and community services	40,852	24,898	30,923	40,852	24,898	30,923
Personal and other services	111,442	86,417	86,798	111,442	86,417	86,798
Retail and wholesale trade	62,773	51,656	60,096	62,773	51,656	60,096
Food & other manufacturing	110,342	156,325	115,232	110,342	156,324	115,232
Overseas						
Finance, investment and insurance	483,103	443,662	202,898	483,103	443,662	202,898
Total financial assets (interest earning)	12,907,826	11,944,920	12,160,670	13,508,790	12,544,983	12,761,524
Less allowance for impairment losses	(45,462)	(15,444)	(19,506)	(45,462)	(15,444)	(19,506)
Other financial assets	9,753	8,804	5,584	9,719	9,799	5,741
Total financial assets	12,872,117	11,938,280	12,146,748	13,473,047	12,539,338	12,747,759
An analysis of financial assets by geographical sector at reporting period date is as follows:						
New Zealand						
Upper North Island	4,728,588	4,226,861	4,505,936	4,728,588	4,226,861	4,505,936
Lower North Island	3,396,852	2,971,315	3,219,352	3,396,852	2,971,315	3,219,352
South Island	2,312,996	2,045,049	2,226,102	2,312,996	2,045,049	2,226,102
Overseas	483,103	443,662	202,898	483,103	443,662	202,898
Exposures not classified by geographical sector**	1,950,578	2,251,393	1,992,460	2,551,508	2,852,451	2,593,471
Total financial assets	12,872,117	11,938,280	12,146,748	13,473,047	12,539,338	12,747,759

** Exposures not classified by geographical sector relates to investment securities which can not be meaningfully allocated to a geographic location

Notes to the interim financial statements continued

26. Concentration of credit risk

Maximum exposure to credit risk before collateral held or other credit enhancements

	The Banking Group		Kiwibank Limited			
	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10
Dollars in thousands						
Credit risk relating to statement of financial position assets						
Fixed rate mortgages at fair value through profit or loss	542,165	1,539,045	1,235,764	542,165	1,539,045	1,235,764
Fixed rate mortgages at amortised cost	4,623,872	5,111,227	4,998,841	4,623,872	5,111,227	4,998,841
Variable rate mortgages	5,543,826	2,864,147	3,967,613	5,543,826	2,864,147	3,967,613
Unsecured lending	269,014	227,445	235,790	269,014	227,445	235,790
Balances with related parties	-	-	-	601,184	600,928	600,916
Due from other financial institutions	77,966	18,705	156,871	77,966	18,705	156,871
Derivative financial instruments	58,393	51,639	46,320	58,393	51,639	46,320
Financial assets held for trading	700,284	875,873	671,152	700,284	875,873	671,152
Available-for-sale assets	757,040	893,247	544,453	757,040	893,247	544,453
Cash and cash equivalents	335,266	363,592	303,866	335,046	362,727	303,804
Other assets	9,753	8,804	5,584	9,719	9,799	5,741
Total gross financial assets	12,917,579	11,953,724	12,166,254	13,518,509	12,554,782	12,767,265
Allowance for impairment losses	(45,462)	(15,444)	(19,506)	(45,462)	(15,444)	(19,506)
Total net financial assets	12,872,117	11,938,280	12,146,748	13,473,047	12,539,338	12,747,759

The above table represents a worst case scenario of credit risk exposure to Kiwibank Limited and the Banking Group at 31 December 2010, 31 December 2009 and 30 June 2010, without taking account of any collateral held or other credit enhancements attached. For statement of financial position assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 85% of the total maximum exposure is derived from loans and advances to retail and corporate customers (31 December 2009: 81%; 30 June 2010: 86%). Management is confident in its ability to continue to control and sustain minimal exposure of credit risk resulting from both its loan and advances portfolio and its wholesale assets.

Notes to the interim financial statements continued

27. Concentration of funding

Concentrations of funding arise where the Banking Group and Kiwibank are funded by industries of a similar nature or in particular geographies. An analysis of financial liabilities by industry sector and geography at reporting period date is as follows:

	The Banking Group				Kiwibank Limited			
	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10	Unaudited 31/12/09	Audited 30/06/10
Dollars in thousands								
Analysis by industry sector								
New Zealand								
Transport and storage	205,776	254,987	204,714	205,776	254,987	204,714	205,776	254,987
Financing, investment and insurance	3,197,780	3,119,037	2,978,704	3,798,818	3,720,139	3,579,786	3,197,780	3,119,037
Electricity, gas and water	4,883	5,311	3,938	4,883	5,311	3,938	4,883	5,311
Food & other manufacturing	77,531	42,327	91,220	77,531	42,327	91,220	77,531	42,327
Construction	22,918	21,719	19,773	22,918	21,719	19,773	22,918	21,719
Government, local authorities and services	562,347	686,488	685,236	562,347	686,488	685,236	562,347	686,488
Agriculture	33,431	32,495	45,488	33,431	32,495	45,488	33,431	32,495
Health and community services	161,007	186,823	198,474	161,007	186,823	198,474	161,007	186,823
Personal and other services	126,761	117,089	107,141	126,761	117,089	107,141	126,761	117,089
Communications	6,593	4,367	5,034	6,593	4,367	5,034	6,593	4,367
Property and business services	432,569	310,086	363,782	432,569	310,086	363,782	432,569	310,086
Education	148,573	127,465	234,400	148,573	127,465	234,400	148,573	127,465
Retail and wholesale trade	74,829	56,129	69,795	74,829	56,129	69,795	74,829	56,129
Households	6,707,471	6,080,477	6,074,930	6,707,471	6,080,477	6,074,930	6,707,471	6,080,477
Overseas								
Financing, investment and insurance	325,150	301,655	308,212	325,150	301,655	308,212	325,150	301,655
Households - Australia	35,925	35,616	37,647	35,925	35,616	37,647	35,925	35,616
Households - rest of world	200,328	181,438	182,012	200,328	181,438	182,012	200,328	181,438
Total financial liabilities (interest bearing)								
Other financial liabilities	41,499	31,645	34,476	41,429	31,617	34,407	41,499	31,645
Total financial liabilities	12,365,371	11,595,154	11,644,976	12,966,339	12,196,228	12,245,989	12,365,371	11,595,154

Notes to the interim financial statements continued

28. Segment analysis

	The Banking Group		Kiwibank Limited			
	Unaudited 6 months ended 31/12/10	Unaudited 6 months ended 31/12/09	Audited 12 months ended 30/06/10	Audited 6 months ended 31/12/10	Unaudited 6 months ended 31/12/09	Audited 12 months ended 30/06/10
Dollars in thousands						
Primary reporting - business segments						
Personal banking						
External net interest income	147,490	129,817	276,190	147,490	127,817	276,190
Net intersegment interest	(88,695)	(74,051)	(180,032)	(88,695)	(74,051)	(180,032)
Net interest income	58,795	55,766	96,158	58,795	53,766	96,158
Other external operating income	44,466	43,900	95,432	44,466	43,900	95,432
Segmental revenue	103,261	99,666	191,590	103,261	97,666	191,590
Profit before taxation	19,807	19,968	34,569	19,807	19,968	34,569
Total assets	9,465,576	8,391,773	9,038,366	10,066,506	8,993,694	9,639,436
Total liabilities	7,653,158	6,914,664	6,941,659	8,254,097	7,515,738	7,542,672
Acquisition of intangible assets	3,643	3,242	9,186	3,643	3,242	9,186
Amortisation expense	(5,531)	(4,118)	(8,657)	(5,531)	(4,118)	(8,657)
Acquisition of property, plant and equipment	2,298	2,168	4,768	2,298	2,168	4,768
Depreciation expense	(3,155)	(2,319)	(5,249)	(3,155)	(2,319)	(5,249)
Impairment losses on loans and advances	(2,935)	(3,952)	(5,971)	(2,935)	(3,952)	(5,971)

Notes to the interim financial statements continued

28. Segment analysis continued

Dollars in thousands	The Banking Group				Kiwibank Limited			
	Unaudited	Unaudited	Audited	Unaudited	Unaudited	Unaudited	Audited	Audited
	6 months ended 31/12/10	6 months ended 31/12/09	12 months ended 30/06/10	6 months ended 31/12/10	6 months ended 31/12/09	12 months ended 30/06/10	12 months ended 30/06/10	
Payment services								
External net interest income	-	-	-	-	-	-	-	-
Net intersegment interest	144	94	204	144	94	204	144	204
Net interest income	144	94	204	144	94	204	144	204
Other external operating income	29,523	27,230	54,675	29,523	27,230	54,675	29,523	54,675
Segmental revenue	29,667	27,324	54,879	29,667	27,324	54,879	29,667	54,879
Profit before taxation	7,816	7,066	14,174	7,816	7,066	14,174	7,816	14,174
Total assets	7,444	6,633	6,633	7,444	6,633	6,633	7,444	6,633
Total liabilities	9,534	7,743	4,714	9,534	7,743	4,714	9,534	4,714
Acquisition of intangible assets	2,538	705	1,410	2,538	705	1,410	2,538	1,410
Amortisation expense	(594)	(340)	(680)	(594)	(340)	(680)	(594)	(680)
Acquisition of property, plant and equipment	-	417	1,551	-	417	1,551	-	1,551
Depreciation expense	(4)	(6)	(12)	(4)	(6)	(12)	(4)	(12)
Impairment losses on loans and advances	-	-	-	-	-	-	-	-

Corporate and institutional banking

External net interest income	(58,117)	(63,460)	(142,800)	(58,119)	(63,460)	(142,821)	(58,117)	(63,460)	(142,821)
Net intersegment interest	88,551	73,957	179,828	88,551	73,957	179,828	88,551	73,957	179,828
Net interest income	30,434	10,497	37,028	30,432	10,497	37,007	30,434	10,497	37,007
Other external operating income	6,027	16,624	17,945	7,811	18,351	21,519	6,027	16,624	21,519
Segmental revenue	36,461	27,121	54,973	38,243	28,848	58,526	36,461	27,121	58,526
(Loss)/profit before taxation	(7,719)	6,248	15,937	(7,726)	6,234	15,937	(7,719)	6,248	15,937
Total assets	3,495,605	3,619,537	3,193,376	3,495,605	3,618,674	3,193,317	3,495,605	3,619,537	3,193,317
Total liabilities	4,705,607	4,675,001	4,703,239	4,705,607	4,675,001	4,703,239	4,705,607	4,675,001	4,703,239
Acquisition of intangible assets	2,172	2,266	7,315	2,172	2,266	7,315	2,172	2,266	7,315
Amortisation expense	(1,524)	(991)	(3,280)	(1,524)	(991)	(3,280)	(1,524)	(991)	(3,280)
Acquisition of property, plant and equipment	820	559	2,382	820	559	2,382	820	559	2,382
Depreciation expense	(660)	(321)	(1,360)	(660)	(321)	(1,360)	(660)	(321)	(1,360)
Impairment losses on loans and advances	(28,072)	(5,779)	(11,889)	(28,072)	(5,779)	(11,889)	(28,072)	(5,779)	(11,889)

Notes to the interim financial statements continued

28. Segment analysis continued

	The Banking Group		Kiwibank Limited			
	Unaudited 6 months ended	Unaudited 6 months ended	Audited 12 months ended	Unaudited 6 months ended	Unaudited 6 months ended	Audited 12 months ended
Dollars in thousands	31/12/10	31/12/09	30/06/10	31/12/10	31/12/09	30/06/10
Total						
External net interest income	89,373	66,357	133,390	89,371	64,357	133,369
Net intersegment interest	-	-	-	-	-	-
Net interest income	89,373	66,357	133,390	89,371	64,357	133,369
Other external operating income	80,016	87,754	168,052	81,800	89,481	171,626
Total revenue	169,389	154,111	301,442	171,171	153,838	304,995
Profit before taxation	19,904	33,282	64,680	19,897	33,268	64,680
Income tax expense	(5,996)	(9,733)	(18,832)	(5,996)	(9,733)	(18,832)
Profit after taxation	13,908	23,549	45,848	13,901	23,535	45,848
Total assets	12,968,625	12,017,943	12,238,375	13,569,555	12,619,001	12,839,386
Total liabilities	12,368,299	11,597,408	11,649,612	12,969,238	12,198,482	12,250,625
Acquisition of intangible assets	8,353	6,213	17,911	8,353	6,213	17,911
Amortisation expense	(7,649)	(6,433)	(12,617)	(7,649)	(6,433)	(12,617)
Acquisition of property, plant and equipment	3,118	3,144	8,701	3,118	3,144	8,701
Depreciation expense	(3,819)	(3,006)	(6,621)	(3,819)	(3,006)	(6,621)
Impairment losses on loans and advances	(31,007)	(9,731)	(17,860)	(31,007)	(9,731)	(17,860)

For the purposes of this note, the chief operating decision-maker has been identified as the Board of Kiwibank Limited. The Board reviews the Banking Group's internal reporting pack on a monthly basis to assess performance and to allocate resources. Within the pack, operating segments have primarily been determined with reference to differences in products and services.

Operating segments have been aggregated for reporting purposes where the following criteria have been met:

- a) Aggregation is consistent with the core principle of NZ IFRS 8 *Operating Segments*
- b) Segments have similar economic characteristics
- c) Segments are similar in each of the following respects:
 - nature of the product and services
 - nature of production process
 - type or class of customer for their products and services
 - methods used to distribute their products or provide their services
 - nature of the regulatory environment.

Notes to the interim financial statements continued

28. Segment analysis continued

The Board assesses the performance of the operating segments based on a measure of profit before tax. This measurement basis includes a reallocation of internal overhead expenses from non-income generating cost centres of the business. The overheads are allocated directly to the relevant segments where directly attributable, otherwise they are generally allocated based on headcount. Net interest income at a segmental level includes an allocation for internal transfer pricing which eliminates to zero at a Group reporting level. Transfer pricing is allocated on a basis which reflects intersegment funding arrangements. Transactions between the business segments are on normal commercial terms and conditions.

For the purposes of this note, a segment is a distinguishable part of the Banking Group, engaged in providing products and services which are subject to risks and returns that are different from those of other business segments. The business segments are defined by the customers that they service and the services they provide.

A summarised description of each business unit is shown below:

- Personal banking - Provides banking products and services to the personal banking segment via the Banking Group and NZP distribution channels and the bank's funding reserves.
- Corporate and institutional banking – Provides banking products and services to the business sector, via the Banking Group and NZP distribution channels. Included within the Corporate and Institutional banking segment is Business Banking and Treasury services.
- Payment services – Provides collection agency services for corporate segment, prepaid and scheme debit cards (including Prezzy and Visa debit cards) and international payment services.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Banking Group's total revenue.

The Banking Group operates predominantly within New Zealand.

Notes to the interim financial statements continued

29. Lease commitments

Leases for property occupied by Kiwibank are managed by NZP.

As at reporting period date commitments under non cancellable operating leases in respect of payments due to be made were:

	The Banking Group		Kiwibank Limited		Audited 30/06/10
	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10	Unaudited 31/12/10	
Dollars in thousands					
Less than one year	423	435	420	423	435
Between one and two years	177	348	310	177	348
Between two and five years	35	116	44	35	116
Greater than five years	-	-	-	-	-
Total lease commitments	635	899	774	635	899

30. Capital expenditure commitments

Capital expenditure commitments contracted for as at 31 December 2010, but not provided for in these financial statements, total \$1.5m. (31 December 2009: \$3.8m; 30 June 2010: \$2.8m). All such commitments are due no later than one year from reporting period date.

31. Contingent liabilities

There are no material contingent liabilities as at 31 December 2010 other than as separately disclosed in these financial statements.

32. Events subsequent to reporting period date

On 22nd February 2011, an aftershock of 6.3 on the Richter scale impacted the Christchurch area with the consequent loss of life and significant property damage. The financial consequences of this disaster have not been quantified and no additional provision has been made in the General Disclosure Statement.

Apart from this, no other material events occurred subsequent to reporting period date, that require recognition of, or additional disclosure in these financial statements.

Notes to the interim financial statements continued

33. Interest repricing

	Kiwibank Limited						
	31/12/10						
	Total	Interest insensitive	Within 6 months	Between 6 months & 1 year	Between 1 & 2 years	Between 2 & 5 years	Over 5 years
Financial assets							
Cash and cash equivalents	335,046	335,046	-	-	-	-	-
Due from other financial institutions	77,966	77,966	-	-	-	-	-
Financial assets held for trading	700,284	-	370,769	2,365	24,865	277,059	25,226
Available-for-sale assets	757,040	-	229,466	103,641	49,833	311,975	62,125
Loans and advances	10,933,415	(29,216)	7,405,590	661,581	2,205,462	689,998	-
Derivative financial instruments	58,393	58,393	-	-	-	-	-
Balances with related parties	601,184	-	601,184	-	-	-	-
Other financial assets	9,719	9,719	-	-	-	-	-
Total financial assets	13,473,047	451,908	8,607,009	767,587	2,280,160	1,279,032	87,351
Financial liabilities							
Due to other financial institutions	25,341	25,341	-	-	-	-	-
Deposits and other borrowings	11,140,720	641,365	9,563,440	720,133	85,736	130,046	-
Derivative financial instruments	155,398	155,398	-	-	-	-	-
Debt securities issued	839,392	-	428,415	46,261	10,303	354,413	-
Term subordinated debt	143,021	-	-	-	76,551	66,470	-
Balances with related parties	622,132	1,094	621,038	-	-	-	-
Other financial liabilities	40,335	40,335	-	-	-	-	-
Total financial liabilities	12,966,339	863,533	10,612,893	766,394	172,590	550,929	-
On-balance sheet gap	506,708	(411,625)	(2,005,884)	1,193	2,107,570	728,103	87,351
Net derivative notional principals	-	-	3,301,820	(1,449,500)	(1,332,186)	(494,334)	(25,800)
Net effective interest rate gap	506,708	(411,625)	1,295,936	(1,448,307)	775,384	233,769	61,551

Notes to the interim financial statements continued

33. Interest repricing

Dollars in thousands (unaudited)	The Banking Group						
	31/12/09						
	Total	Interest insensitive	Within 6 months	Between 6 months & 1 year	Between 1 & 2 years	Between 2 & 5 years	Over 5 years
Financial assets							
Cash and cash equivalents	363,592	71,187	292,405	-	-	-	-
Due from other financial institutions	18,705	18,705	-	-	-	-	-
Financial assets held for trading	875,873	-	586,581	-	151,864	137,428	-
Available-for-sale assets	893,247	-	294,506	33,562	336,509	228,670	-
Loans and advances	9,726,420	1,016	4,299,495	2,132,411	1,817,683	1,475,815	-
Derivative financial instruments	51,639	51,639	-	-	-	-	-
Other financial assets	8,804	8,804	-	-	-	-	-
Total financial assets	11,938,280	151,351	5,472,987	2,165,973	2,306,056	1,841,913	-
Financial liabilities							
Due to other financial institutions	580,952	2,660	578,292	-	-	-	-
Deposits and other borrowings	9,740,311	547,434	8,250,045	679,986	185,909	76,937	-
Derivative financial instruments	215,692	215,692	-	-	-	-	-
Debt securities issued	884,436	-	551,999	-	20,519	311,918	-
Term subordinated debt	142,118	-	-	-	-	142,118	-
Other financial liabilities	31,645	31,645	-	-	-	-	-
Total financial liabilities	11,595,154	797,431	9,380,336	679,986	206,428	530,973	-
On-balance sheet gap	343,126	(646,080)	(3,907,349)	1,485,987	2,099,628	1,310,940	-
Net derivative notional principals	-	-	4,234,499	(1,429,447)	(1,639,419)	(1,165,633)	-
Net effective interest rate gap	343,126	(646,080)	327,150	56,540	460,209	145,307	-

Notes to the interim financial statements continued

33. Interest repricing

		Kiwibank Limited						
		31/12/09						
Dollars in thousands(unaudited)		Total	Interest insensitive	Within 6 months	Between 6 months & 1 year	Between 1 & 2 years	Between 2 & 5 years	Over 5 years
Financial assets								
Cash and cash equivalents	362,727	71,188	291,539	-	-	-	-	-
Due from other financial institutions	18,705	18,705	-	-	-	-	-	-
Financial assets held for trading	875,873	-	586,581	-	-	151,864	137,428	-
Available-for-sale assets	893,247	-	294,506	33,562	336,509	228,670	-	-
Loans and advances	9,726,420	1,016	4,299,495	2,132,411	1,817,683	1,475,815	-	-
Balances with related parties	600,928	-	600,928	-	-	-	-	-
Derivative financial instruments	51,639	51,639	-	-	-	-	-	-
Other financial assets	9,799	9,799	-	-	-	-	-	-
Total financial assets	12,539,338	152,347	6,073,049	2,165,973	2,306,056	1,841,913	-	-
Financial liabilities								
Due to other financial institutions	580,952	2,660	578,292	-	-	-	-	-
Deposits and other borrowings	9,740,311	547,434	8,250,045	679,986	185,909	76,937	-	-
Derivative financial instruments	215,692	215,692	-	-	-	-	-	-
Debt securities issued	884,436	-	551,999	-	20,519	311,918	-	-
Term subordinated debt	142,118	-	-	-	-	-	142,118	-
Balances with related parties	601,102	-	601,102	-	-	-	-	-
Other financial liabilities	31,617	31,617	-	-	-	-	-	-
Total financial liabilities	12,196,228	797,403	9,981,438	679,986	206,428	530,973	-	-
On-balance sheet gap	343,110	(645,056)	(3,908,389)	1,485,987	2,099,628	1,310,940	-	-
Net derivative notional principals	-	-	4,234,499	(1,429,447)	(1,639,419)	(1,165,633)	-	-
Net effective interest rate gap	343,110	(645,056)	326,110	56,540	460,209	145,307	-	-

Notes to the interim financial statements continued

33. Interest repricing

Dollars in thousands (audited)	The Banking Group						
	30/06/10						
	Total	Interest insensitive	Within 6 months	Between 6 months & 1 year	Between 1 & 2 years	Between 2 & 5 years	Over 5 years
Financial assets							
Cash and cash equivalents	303,866	303,866	-	-	-	-	-
Due from other financial institutions	156,871	156,871	-	-	-	-	-
Financial assets held for trading	671,152	-	241,718	44,043	211,927	173,464	-
Available-for-sale assets	544,453	-	141,736	44,875	80,652	277,190	-
Loans and advances	10,418,502	(1,519)	6,252,528	1,204,621	2,150,934	811,938	-
Derivative financial instruments	46,320	46,320	-	-	-	-	-
Other financial assets	5,584	5,584	-	-	-	-	-
Total financial assets	12,146,748	511,122	6,635,982	1,293,539	2,443,513	1,262,592	-
Financial liabilities							
Due to other financial institutions	164,051	2,238	161,813	-	-	-	-
Deposits and other borrowings	10,295,325	559,736	8,136,514	1,395,909	108,824	94,342	-
Derivative financial instruments	202,588	202,588	-	-	-	-	-
Debt securities issued	795,237	-	422,926	9,798	20,510	342,003	-
Term subordinated debt	143,299	-	-	-	76,483	66,816	-
Balances with related parties	12,114	2,114	10,000	-	-	-	-
Other financial liabilities	32,362	32,362	-	-	-	-	-
Total financial liabilities	11,644,976	799,038	8,731,253	1,405,707	205,817	503,161	-
On-balance sheet gap	501,772	(287,916)	(2,095,271)	(112,168)	2,237,696	759,431	-
Net derivative notional principals	-	-	3,543,094	(308,000)	(2,710,233)	(524,861)	-
Net effective Interest rate gap	501,772	(287,916)	1,447,823	(420,168)	(472,537)	234,570	-

Notes to the interim financial statements continued

33. Interest repricing continued

Dollars in thousands(audited)	Kiwibank Limited				
	30/06/10				
	Total	Interest insensitive	Between 6 months & 1 year	Between 1 & 2 years	Between 2 & 5 years Over 5 years
Financial assets					
Cash and cash equivalents	303,804	303,804	-	-	-
Due to other financial institutions	156,871	156,871	-	-	-
Financial assets held for trading	671,152	-	241,718	44,043	211,927
Available-for-sale assets	544,453	-	141,736	44,875	80,652
Loans and advances	10,418,502	(1,519)	6,252,528	1,204,621	2,150,934
Derivative financial instruments	46,320	46,320	-	-	-
Balances with related parties	600,916	-	600,916	-	-
Other financial assets	5,741	5,741	-	-	-
Total financial assets	12,747,759	511,217	7,236,898	1,293,539	2,443,513
Financial liabilities					
Due to other financial institutions	164,051	2,238	161,813	-	-
Deposits and other borrowings	10,295,325	559,736	8,136,514	1,395,909	108,824
Derivative financial instruments	202,588	202,588	-	-	-
Debt securities issued	795,237	-	422,926	9,798	20,510
Term subordinated debt	143,299	-	-	-	76,483
Balances with related parties	613,241	2,159	611,082	-	-
Other financial liabilities	32,248	32,248	-	-	-
Total financial liabilities	12,245,989	798,969	9,332,335	1,405,707	205,817
On-balance sheet gap	501,770	(287,752)	(2,095,437)	(112,168)	2,237,696
Net derivative notional principals	-	-	3,543,094	(308,000)	(2,710,233)
Net effective interest rate gap	501,770	(287,752)	1,447,657	(420,168)	(472,537)
					234,570
					-

Notes to the interim financial statements continued

34. Financial instruments by category

Unaudited 31/12/10 Dollars in thousands	Kiwibank Limited					
	Loans and receivables	Available-for-sale	Assets at fair value through profit or loss		Derivatives used for hedging	Total
			Held for trading	Designated at FVTPL		
Cash and cash equivalents	335,046	-	-	-	-	335,046
Due from other financial institutions	77,966	-	-	-	-	77,966
Financial assets held for trading	-	-	700,284	-	-	700,284
Available-for-sale assets	-	757,040	-	-	-	757,040
Loans and advances	10,391,250	-	542,165	-	-	10,933,415
Balances with NZP related parties	601,184	-	-	-	-	601,184
Derivative financial instruments	-	-	43,667	-	14,726	58,393
Other financial assets	9,719	-	-	-	-	9,719
Total financial assets	11,415,165	757,040	743,951	542,165	14,726	13,473,047
	Liabilities at fair value through profit or loss	Derivatives used for hedging	Other financial liabilities at amortised cost			Total
Due to other financial institutions	-	-	-	25,341	-	25,341
Deposits and other borrowings	-	-	-	11,140,720	-	11,140,720
Derivative financial instruments	68,072	-	87,326	-	-	155,398
Debt securities issued	188,796	53,606	-	596,990	-	839,392
Term subordinated debt	-	-	-	143,021	-	143,021
Balances with NZP related parties	-	-	-	622,132	-	622,132
Other financial liabilities	-	-	-	40,335	-	40,335
Total financial liabilities	256,868	53,606	87,326	12,568,539	-	12,966,339

Notes to the interim financial statements continued

34. Financial instruments by category

Unaudited 31/12/09 Dollars in thousands	Kiwibank Limited					Total
	Loans and receivables	Available-for-sale	Assets at fair value through profit or loss	Derivatives used for hedging	Derivatives used for hedging	
			Held for trading	Designated at FVTPL		
Cash and cash equivalents	362,727	-	-	-	-	362,727
Due from other financial institutions	18,705	-	-	-	-	18,705
Financial assets held for trading	-	-	875,873	-	-	875,873
Available-for-sale assets	-	893,247	-	-	-	893,247
Loans and advances	8,187,375	-	-	1,539,045	-	9,726,420
Balances with NZP related parties	600,928	-	30,600	-	-	600,928
Derivative financial instruments	-	-	-	-	21,039	51,639
Other financial assets	9,799	-	-	-	-	9,799
Total financial assets	9,179,534	893,247	906,473	1,539,045	21,039	12,539,338
			Liabilities at fair value through profit or loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
Due to other financial institutions	-	-	-	-	580,952	580,952
Deposits and other borrowings	-	-	-	-	9,740,311	9,740,311
Derivative financial instruments	116,238	-	99,454	-	-	215,692
Debt securities issued	138,335	-	-	-	746,101	884,436
Term subordinated debt	-	-	-	-	142,118	142,118
Balances with NZP related parties	-	-	-	-	600,043	600,043
Other financial liabilities	-	-	-	-	32,676	32,676
Total financial liabilities	254,573	-	99,454	11,842,201	-	12,196,228

Notes to the interim financial statements continued

34. Financial instruments by category

Audited 30/06/10	The Banking Group					
	Loans and receivables	Available-for-sale	Assets at fair value through profit or loss	Derivatives used for hedging	Total	
Dollars in thousands						
			Held for trading	Designated at FVTPL		
Cash and cash equivalents	303,866	-	-	-	303,866	
Due from other financial institutions	156,871	-	-	-	156,871	
Financial assets held for trading	-	-	671,152	-	671,152	
Available-for-sale assets	-	544,453	-	-	544,453	
Loans and advances	9,182,738	-	-	1,235,764	10,418,502	
Derivative financial instruments	-	-	24,071	-	22,249	
Other financial assets	5,584	-	-	-	5,584	
Total financial assets	9,649,059	544,453	695,223	1,235,764	22,249	
					12,146,748	
			Liabilities at fair value through profit or loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
Due to other financial institutions	-	-	-	-	164,051	164,051
Deposits and other borrowings	-	-	-	10,295,325	-	10,295,325
Derivative financial instruments	101,515	-	101,073	-	-	202,588
Debt securities issued	199,116	-	-	596,121	-	795,237
Term subordinated debt	-	-	-	143,299	-	143,299
Balances with related parties	-	-	-	12,114	-	12,114
Other financial liabilities	-	-	-	32,362	-	32,362
Total financial liabilities	300,631	-	101,073	11,243,272	-	11,644,976

Notes to the interim financial statements continued

35. Foreign exchange risk

The Banking Group and Kiwibank take on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for overnight positions, which are monitored daily. The table below summarises the Banking Group's exposure to foreign currency exchange rate risk as at period end. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

As at 31 December 2010	The Banking Group						
	Unaudited						
Dollars in thousands	GBP	JPY	EUR	NZD	AUD	USD	Total
Assets							
Cash and cash equivalents	9,844	692	5,870	301,253	2,793	14,814	335,266
Due from other financial institutions	-	-	-	77,966	-	-	77,966
Financial assets held for trading	-	-	74,245	551,910	66,757	7,372	700,284
Available-for-sale assets	-	-	-	685,655	71,385	-	757,040
Loans and advances	-	-	-	10,933,415	-	-	10,933,415
Derivative financial instruments	-	-	(771,252)	(170,938)	310,797	(10,214)	58,393
Other financial assets	-	-	-	9,753	-	-	9,753
Total financial assets	9,844	692	8,863	12,389,014	451,732	11,972	12,872,117
Liabilities							
Due to other financial institutions	-	-	-	25,341	-	-	25,341
Deposits and other borrowings	9,794	692	5,533	11,108,473	1,725	14,503	11,140,720
Derivative financial instruments	-	-	3,073	48,020	112,297	(7,992)	155,398
Debt securities issued	-	-	-	505,347	334,045	-	839,392
Term subordinated debt	-	-	-	143,021	-	-	143,021
Balances with related parties	-	-	-	21,069	-	-	21,069
Other financial liabilities	-	-	-	40,430	-	-	40,430
Total financial liabilities	9,794	692	8,606	11,891,701	448,067	6,511	12,365,371
Net on balance sheet financial position	50	-	257	497,313	3,665	5,461	506,746

Notes to the interim financial statements continued

35. Foreign exchange risk continued

		Kiwibank Limited						
As at 31 December 2010								
Unaudited								
Dollars in thousands		GBP	JPY	EUR	NZD	AUD	USD	Total
Assets								
Cash and cash equivalents	9,844	692	5,870	301,033	2,793	14,814	335,046	
Due from other financial institutions	-	-	-	77,966	-	-	77,966	
Financial assets held for trading	-	-	74,245	551,910	66,757	7,372	700,284	
Available-for-sale assets	-	-	-	685,655	71,385	-	757,040	
Loans and advances	-	-	-	10,933,415	-	-	10,933,415	
Balances with related parties	-	-	-	601,184	-	-	601,184	
Derivative financial instruments	-	-	(71,252)	(170,938)	310,797	(10,214)	58,393	
Other financial assets	-	-	-	9,719	-	-	9,719	
Total financial assets	9,844	692	8,863	12,989,944	451,732	11,972	13,473,047	
Liabilities								
Due to other financial institutions	-	-	-	25,341	-	-	25,341	
Deposits and other borrowings	9,794	692	5,533	11,108,473	1,725	14,503	11,140,720	
Derivative financial instruments	-	-	3,073	48,020	112,297	(7,992)	155,398	
Debt securities issued	-	-	-	505,347	334,045	-	839,392	
Term subordinated debt	-	-	-	143,021	-	-	143,021	
Balances with related parties	-	-	-	622,132	-	-	622,132	
Other financial liabilities	-	-	-	40,335	-	-	40,335	
Total financial liabilities	9,794	692	8,606	12,492,669	448,067	6,511	12,966,339	
Net on balance sheet financial position	50	-	257	497,275	3,665	5,461	506,708	

Notes to the interim financial statements continued

35. Foreign exchange risk continued

As at 31 December 2009 Unaudited	The Banking Group					Total
	Dollars in thousands	GBP	EUR	NZD	AUD	
Assets						
Cash and cash equivalents	6,827	2,371	328,364	10,756	15,274	363,592
Due from other financial institutions	-	-	17,437	1,268	-	18,705
Financial assets held for trading	-	91,043	713,221	50,087	21,522	875,873
Available-for-sale assets	-	-	804,409	88,838	-	893,247
Loans and advances	-	-	9,726,420	-	-	9,726,420
Derivative financial instruments	-	(90,731)	(104,038)	260,394	(13,986)	51,639
Other financial assets	-	-	8,804	-	-	8,804
Total financial assets	6,827	2,683	11,494,617	411,343	22,810	11,938,280
Liabilities						
Due to other financial institutions	-	-	580,952	-	-	580,952
Deposits and other borrowings	6,827	1,555	9,713,456	5,834	12,639	9,740,311
Derivative financial instruments	-	1,030	117,590	89,724	7,348	215,692
Debt securities issued	-	-	571,108	313,328	-	884,436
Term subordinated debt	-	-	142,118	-	-	142,118
Other financial liabilities	-	-	31,645	-	-	31,645
Total financial liabilities	6,827	2,585	11,156,869	408,886	19,987	11,595,154
Net on balance sheet financial position	-	98	337,748	2,457	2,823	343,126

Notes to the interim financial statements continued

35. Foreign exchange risk continued

As at 31 December 2009 Unaudited	Kiwibank Limited						
	Dollars in thousands	GBP	EUR	NZD	AUD	USD	Total
Assets							
Cash and cash equivalents	6,827	2,371	327,499	10,756	15,274	362,727	
Due from other financial institutions	-	-	17,437	1,268	-	18,705	
Financial assets held for trading	-	91,043	713,221	50,087	21,522	875,873	
Available-for-sale assets	-	-	804,409	88,838	-	893,247	
Loans and advances	-	-	9,726,420	-	-	9,726,420	
Balances with related parties	-	-	600,928	-	-	600,928	
Derivative financial instruments	-	(90,731)	(104,038)	260,394	(13,986)	51,639	
Other financial assets	-	-	9,799	-	-	9,799	
Total financial assets	6,827	2,683	12,095,675	411,343	22,810	12,539,338	
Liabilities							
Due to other financial institutions	-	-	580,952	-	-	580,952	
Deposits and other borrowings	6,827	1,555	9,713,456	5,834	12,639	9,740,311	
Derivative financial instruments	-	1,030	117,590	89,724	7,348	215,692	
Debt securities issued	-	-	571,108	313,328	-	884,436	
Term subordinated debt	-	-	142,118	-	-	142,118	
Balances with related parties	-	-	601,102	-	-	601,102	
Other financial liabilities	-	-	31,617	-	-	31,617	
Total financial liabilities	6,827	2,585	11,757,943	408,886	19,987	12,196,228	
Net on balance sheet financial position	-	98	337,732	2,457	2,823	343,110	

Notes to the interim financial statements continued

35. Foreign exchange risk continued

As at 30 June 2010 Audited	The Banking Group							
	Dollars in thousands	GBP	JPY	EUR	NZD	AUD	USD	Total
Assets								
Cash and cash equivalents	8,528	698	1,933	266,729	4,517	21,461	303,866	
Due from other financial institutions	-	-	-	156,871	-	-	156,871	
Financial assets held for trading	-	-	21,431	544,125	58,820	46,776	671,152	
Available-for-sale assets	-	-	-	473,845	70,608	-	544,453	
Loans and advances	-	-	-	10,418,502	-	-	10,418,502	
Derivative financial instruments	-	-	(20,702)	78,194	3,403	(14,575)	46,320	
Other financial assets	-	-	-	5,584	-	-	5,584	
Total financial assets	8,528	698	2,662	11,943,850	137,348	53,662	12,146,748	
Liabilities								
Due to other financial institutions	-	-	-	164,051	-	-	164,051	
Deposits and other borrowings	8,528	698	1,685	10,268,018	2,427	13,969	10,295,325	
Derivative financial instruments	-	-	992	355,155	(186,625)	33,066	202,588	
Debt securities issued	-	-	-	483,899	311,338	-	795,237	
Term subordinated debt	-	-	-	143,299	-	-	143,299	
Balances with related parties	-	-	-	12,114	-	-	12,114	
Other financial liabilities	-	-	-	32,362	-	-	32,362	
Total financial liabilities	8,528	698	2,677	11,458,898	127,140	47,035	11,644,976	
Net on balance sheet financial position	-	-	(15)	484,952	10,208	6,627	501,772	

Notes to the interim financial statements continued

35. Foreign exchange risk continued

As at 30 June 2010 Audited	Kiwibank Limited							
	Dollars in thousands	GBP	JPY	EUR	NZD	AUD	USD	Total
Assets								
Cash and cash equivalents	8,528	698	1,933	266,667	4,517	21,461	303,804	
Due from other financial institutions	-	-	-	156,871	-	-	156,871	
Financial assets held for trading	-	-	21,431	544,125	58,820	46,776	671,152	
Available-for-sale assets	-	-	-	473,845	70,608	-	544,453	
Loans and advances	-	-	-	10,418,502	-	-	10,418,502	
Derivative financial instruments	-	-	(20,702)	78,194	3,403	(14,575)	46,320	
Balances with related parties	-	-	-	600,916	-	-	600,916	
Other financial assets	-	-	-	5,741	-	-	5,741	
Total financial assets	8,528	698	2,662	12,544,861	137,348	2,662	12,747,759	
Liabilities								
Due to other financial institutions	-	-	-	164,051	-	-	164,051	
Deposits and other borrowings	8,528	698	1,685	10,268,018	2,427	13,969	10,295,325	
Derivative financial instruments	-	-	992	355,155	(186,625)	33,066	202,588	
Debt securities issued	-	-	-	483,899	311,338	-	795,237	
Term subordinated debt	-	-	-	143,299	-	-	143,299	
Balances with related parties	-	-	-	613,241	-	-	613,241	
Other financial liabilities	-	-	-	32,248	-	-	32,248	
Total financial liabilities	8,528	698	2,677	12,059,911	127,140	47,035	12,245,989	
Net on balance sheet financial position	-	-	(15)	484,950	10,208	6,627	501,770	

Notes to the interim financial statements continued

36. Liquidity risk

The Group Liquidity Policy is approved by the Board and defines the core principles for measuring, managing and monitoring liquidity risk across the Group. Further details of the Banking Group's policies for managing liquidity are set out in note 41.

Liquidity risk management process

The Banking Group's liquidity management responsibilities include:

- Day-to-day liquidity requirements. RBNZ liquidity ratios (PLR) are calculated and monitored daily to ensure that the Group:
 - is compliant with part 11 of the Conditions of Registration and the RBNZ "Liquidity policy" (BS13).
 - maintains a prudent level of cash and highly liquid assets (primary liquid assets") and marketable assets of limited credit risk ("secondary liquid assets") to meet anticipated wholesale and retail outflows over a one week, one month and one year period as well as provide adequate cover against funding stress or unexpected run-of risk.
- Securing an appropriately matched profile of future cash flows from maturing assets and liabilities.
- Implementing the bank's funding plan which includes the development of sustainable wholesale funding capacity.
- Stress testing the bank's funding and liquidity position with a range of adverse events covering:
 - a Kiwibank name crisis
 - An international credit crisis
 - A macro economic events
 - A significant earning loss

Up to 31 March 2010 the Banking Group used its internal PLR ratio to monitor liquidity on a daily basis, with management oversight by ALCO. From 1 April 2010 onwards the RBNZ liquidity ratios have been used.

The table below shows the liquidity ratio for the Banking Group and for Kiwibank Limited as at 31 December 2009 using the PLR ratio and also discloses the ranges calculated for the RBNZ ratios for the period from 1 April 2010 to 31 December 2010.

Dollars in thousands

31/12/09

PLR ratios – 10 working days basis

NZD stock – primary liquidity

723,174

Wholesale NZD outflows

298,089

NZD retail deposit outflow

148,677

Committed lines granted by the bank

71,752

518,518

PLR Basis 1

208%

PLR Basis 2

207%

PLR ratio (minimum of Basis 1 and 2)

207%

RBNZ mismatch ratio

The RBNZ quantitative requirements for liquidity-risk management with effect from 1 April 2010 are as follows:

- the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
- the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
- the one-year core funding ratio of the banking group is not less than 65 per cent at the end of each business day.

Kiwibank's core funding ratio has remained stable within a 6% range of 80-86% in the period ending 31 December 2010. Kiwibank's mismatch ratio has ranged within a 8% variance, with the one week ratio being within a range of 4-11% and 1 month mismatch ratio operating within a 2-10% range

Notes to the interim financial statements continued

36. Liquidity risk continued

In the period since adoption of BS13 to 30 June 2010, Kiwibank's core funding ratio has remained stable within a 1% range of 79-80%. Kiwibank's mismatch ratio has ranged within a 4% variance, with the one week ratio being within a range of 8-11% and 1 month mismatch ratio operating within a 7-10% range

Non-derivative cash flows

The tables below summarise the cash flows payable by the Banking Group and Kiwibank Limited under non-derivative financial liabilities by remaining contractual maturities at the reporting period date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the inherent liquidity risk is managed using the PLR measure.

Derivative cash flows

(a) Derivatives settled on a net basis

The table below analyses the Banking Group's and Kiwibank's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows using forward rates.

(b) Derivatives settled on a gross basis

The table below analyses the Banking Group's and Kiwibank's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting period date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows using forward rates.

Notes to the interim financial statements continued

36. Liquidity risk continued

The Banking Group

31/12/10 - unaudited

Dollars in thousands	Up to 3 months	3 to 12 months	Between 1 & 5 years	More than 5 years	Total
Non derivative cash flows					
Liabilities					
Due to other financial institutions	(25,341)	-	-	-	(25,341)
Deposits and other borrowings	(7,905,738)	(3,128,229)	(262,343)	-	(11,296,310)
Debt securities issued	(330,237)	(99,727)	(517,043)	-	(947,007)
Term subordinated debt	(5,520)	(5,520)	(148,395)	-	(159,435)
Other financial liabilities	(40,430)	-	-	-	(40,430)
Total financial liabilities	(8,307,266)	(3,233,476)	(927,781)	-	(12,468,523)
Assets					
Cash and cash equivalents	335,266	-	-	-	335,266
Due from other financial institutions	77,966	-	-	-	77,966
Financial assets held for trading	224,663	42,869	474,197	28,550	770,279
Available-for-sale assets	154,909	163,529	451,358	67,200	836,996
Loans and advances	465,061	781,780	2,872,231	20,765,422	24,884,494
Other financial assets	9,451	-	-	-	9,451
Total financial assets	1,267,316	988,178	3,797,786	20,861,172	26,914,452
Net non derivative cash flows	(7,039,950)	(2,245,298)	2,870,005	20,861,172	14,445,929
Derivative cash flows - net					
Interest rate derivatives	(20,333)	(55,289)	(41,726)	752	(116,596)
Total	(20,333)	(55,289)	(41,726)	752	(116,596)
Derivative cash flows - gross					
Foreign exchange derivatives					
Inflow	173,781	46,999	469,182	-	689,962
Outflow	(171,959)	(43,583)	(441,325)	-	(656,867)
Total	1,822	3,416	27,857	-	33,095

Off statement of financial position

cash flows

Capital commitments	(1,498)	-	-	-	(1,498)
Loan commitments	(1,028,948)	-	-	-	(1,028,948)
Lease commitments	(106)	(317)	(212)	-	(635)
Total	(1,030,552)	(317)	(212)	-	(1,031,081)

Net cash flows	(8,089,013)	(2,297,488)	2,855,924	20,861,924	13,331,347
Cumulative net cash flows	(8,089,013)	(10,386,501)	(7,530,577)	13,331,347	13,331,347

Notes to the interim financial statements continued

36. Liquidity risk continued

	Kiwibank Limited				
	31/12/10 - unaudited				
Dollars in thousands	Up to 3 months	3 to 12 months	Between 1 & 5 years	More than 5 years	Total
Non derivative cash flows					
Liabilities					
Due to other financial institutions	(25,341)	-	-	-	(25,341)
Balances with NZP related parties	(6,365)	(20,464)	(149,075)	(2,128,793)	(2,304,697)
Deposits and other borrowings	(7,905,738)	(3,128,229)	(262,343)	-	(11,296,310)
Debt securities issued	(330,237)	(99,727)	(517,043)	-	(947,007)
Term subordinated debt	(5,520)	(5,520)	(148,395)	-	(159,435)
Other financial liabilities	(40,335)	-	-	-	(40,335)
Total financial liabilities	(8,313,536)	(3,253,940)	(1,076,856)	(2,128,793)	(14,773,125)
Assets					
Cash and cash equivalents	303,804	-	-	-	303,804
Due from other financial institutions	77,966	-	-	-	77,966
Financial assets held for trading	224,663	42,869	474,197	28,550	770,279
Available-for-sale assets	154,909	163,529	451,358	67,200	836,996
Loans and advances	465,061	781,780	2,872,231	20,765,422	24,884,494
Balances with NZP related parties	5,393	17,493	133,302	1,992,656	2,148,844
Other financial assets	9,583	-	-	-	9,583
Total financial assets	1,241,379	1,005,671	3,931,088	22,853,828	29,031,966
Net non derivative cash flows	(7,072,157)	(2,248,269)	2,854,232	20,725,035	14,258,841
Derivative cash flows - net					
Interest rate derivatives	(20,333)	(55,289)	(41,726)	752	(116,596)
Total	(20,333)	(55,289)	(41,726)	752	(116,596)
Derivative cash flows - gross					
Foreign exchange derivatives	173,781	46,999	469,182	-	689,962
Inflow	(171,959)	(43,583)	(441,325)	-	(656,867)
Outflow	1,822	3,416	27,857	-	33,095
Total	1,822	3,416	27,857	-	33,095
Off statement of financial position cash flows					
Capital commitments	(1,498)	-	-	-	(1,498)
Loan commitments	(1,028,948)	-	-	-	(1,028,948)
Lease commitments	(106)	(317)	(212)	-	(635)
Total	(1,030,552)	(317)	(212)	-	(1,031,081)
Net cash flows	(8,121,220)	(2,300,459)	2,840,151	20,725,787	13,144,259
Cumulative net cash flows	(8,121,220)	(10,421,679)	(7,582,528)	13,144,259	13,144,259

Notes to the interim financial statements continued

36. Liquidity risk continued

	The Banking Group				
	31/12/09 - unaudited				
	Up to 3 months	3 to 12 months	Between 1 & 5 years	More than 5 years	Total
Non derivative cash flows					
Liabilities					
Due to other financial institutions	580,239	-	-	-	580,239
Deposits and other borrowings	6,644,347	2,904,630	311,103	-	9,860,080
Debt securities issued	294,461	227,561	484,843	-	1,006,865
Term subordinated debt	5,520	5,520	159,435	-	170,475
Other financial liabilities	32,745	-	-	-	32,745
Total financial liabilities	7,557,312	3,137,711	955,381	-	11,650,404
Assets					
Cash and cash equivalents	363,592	-	-	-	363,592
Financial assets held for trading	486,224	98,696	334,347	-	919,267
Available-for-sale assets	232,158	84,114	646,324	5,900	968,496
Loans and advances	443,388	721,552	2,764,719	19,395,679	23,325,338
Balances with related parties	-	-	-	-	-
Other financial assets	8,804	-	-	-	8,804
Total financial assets	1,534,166	904,362	3,745,390	19,401,579	25,585,497
Net non derivative cash flows	(6,023,146)	(2,233,349)	2,790,009	19,401,579	13,935,093
Derivative cash flows - net					
Interest rate derivatives	(55,735)	(93,151)	(25,390)	-	(174,276)
Total	(55,735)	(93,151)	(25,390)	-	(174,276)
Derivative cash flows - gross					
Foreign exchange derivatives	-	-	-	-	-
Inflow	639,935	114,247	396,488	-	1,150,670
Outflow	(639,739)	(100,609)	(399,173)	-	(1,139,521)
Total	196	13,638	(2,685)	-	11,149
Off statement of financial position cash flows					
Capital commitments	(3,825)	-	-	-	(3,825)
Loan commitments	(948,463)	-	-	-	(948,463)
Lease commitments	(109)	(326)	(464)	-	(899)
Total	(952,397)	(326)	(464)	-	(953,187)
Net cash flows					
	(7,031,082)	(2,313,188)	2,761,470	19,401,579	12,818,779
Cumulative net cash flows					
	(7,031,082)	(9,344,270)	(6,582,800)	12,818,779	12,818,779

Notes to the interim financial statements continued

36. Liquidity risk continued

	Kiwibank Limited				
	31/12/09 - unaudited				
Dollars in thousands	Up to 3 months	3 to 12 months	Between 1 & 5 years	More than 5 years	Total
Non derivative cash flows					
Liabilities					
Due to other financial institutions	580,239	-	-	-	580,239
Balances with NZP related parties	5,852	22,250	173,042	2,265,851	2,466,995
Deposits and other borrowings	6,644,347	2,904,630	311,103	-	9,860,080
Debt securities issued	294,461	227,561	484,843	-	1,006,865
Term subordinated debt	5,520	5,520	159,435	-	170,475
Other financial liabilities	32,676	-	-	-	32,676
Total financial liabilities	7,563,095	3,159,961	1,128,423	2,265,851	14,117,330
Assets					
Cash and cash equivalents	362,727	-	-	-	362,727
Financial assets held for trading	486,224	98,696	334,347	-	919,267
Available-for-sale assets	232,158	84,114	646,324	5,900	968,496
Loans and advances	443,388	721,552	2,764,719	19,395,679	23,325,338
Balances with NZP related parties	4,878	19,274	157,232	2,125,233	2,306,617
Other financial assets	9,799	-	-	-	9,799
Total financial assets	1,539,174	923,636	3,902,622	21,526,812	27,892,244
Net non derivative cash flows	(6,023,921)	(2,236,325)	2,774,199	19,260,961	13,774,914
Derivative cash flows - net					
Interest rate derivatives	(55,735)	(93,151)	(25,390)	-	(174,276)
Total	(55,735)	(93,151)	(25,390)	-	(174,276)
Derivative cash flows - gross					
Foreign exchange derivatives					
Inflow	639,935	114,247	396,488	-	1,150,670
Outflow	(639,739)	(100,609)	(399,173)	-	(1,139,521)
Total	196	13,638	(2,685)	-	11,149
Off statement of financial position cash flows					
Capital commitments	(3,825)	-	-	-	(3,825)
Loan commitments	(948,463)	-	-	-	(948,463)
Lease commitments	(109)	(326)	(464)	-	(899)
Total	(952,397)	(326)	(464)	-	(953,187)
Net cash flows	(7,031,857)	(2,316,164)	2,745,660	19,260,961	12,658,600
Cumulative net cash flows	(7,031,857)	(9,348,021)	(6,602,361)	12,658,600	12,658,600

Notes to the interim financial statements continued

36. Liquidity risk continued

	The Banking Group				
	30/06/10 - audited				
Dollars in thousands	Up to 3 months	3 to 12 months	Between 1 & 5 years	More than 5 years	Total
Non derivative cash flows					
Liabilities					
Due to other financial institutions	164,051	-	-	-	164,051
Deposits and other borrowings	6,711,617	3,486,467	252,132	-	10,450,216
Debt securities issued	325,805	104,771	466,388	-	896,964
Term subordinated debt	5,520	5,520	153,915	-	164,955
Other financial liabilities	32,362	-	-	-	32,362
Total financial liabilities	7,239,355	3,596,758	872,435	-	11,708,548
Assets					
Cash and cash equivalents	303,866	-	-	-	303,866
Due from other financial institutions	156,871	-	-	-	156,871
Financial assets held for trading	178,673	97,853	437,449	-	713,975
Available-for-sale assets	30,466	111,676	461,475	39,120	642,737
Loans and advances	398,470	755,030	2,764,703	19,821,868	23,740,071
Other financial assets	5,584	-	-	-	5,584
Total financial assets	1,073,930	964,559	3,663,627	19,860,988	25,563,104
Net non derivative cash flows	(6,165,425)	(2,632,199)	2,791,192	19,860,988	13,854,556
Derivative cash flows - net					
Interest rate derivatives	(45,646)	(61,649)	(49,549)	-	(156,844)
Total	(45,646)	(61,649)	(49,549)	-	(156,844)
Derivative cash flows - gross					
Foreign exchange derivatives					
Inflow	120,187	67,364	397,246	-	584,797
Outflow	(122,500)	(59,877)	(398,468)	-	(580,845)
Total	(2,313)	7,487	(1,222)	-	3,952
Off statement of financial position cash flows					
Capital commitments	(2,756)	-	-	-	(2,756)
Loan commitments	(863,888)	-	-	-	(863,888)
Lease commitments	(105)	(315)	(354)	-	(774)
Total	(866,749)	(315)	(354)	-	(867,418)
Net cash flows	(7,080,133)	(2,686,676)	2,740,067	19,860,988	12,834,246
Cumulative net cash flows	(7,080,133)	(9,766,809)	(7,026,742)	12,834,246	12,834,246

Notes to the interim financial statements continued

36. Liquidity risk continued

	30/06/10 - audited			
	Up to 3 months	3 to 12 months	Between 1 & 5 years	More than 5 years
Dollars in thousands	Total			
Kiwibank Limited				
30/06/10 - audited				
Non derivative cash flows				
Liabilities				
Due to other financial institutions	164,051	-	-	-
Balances with related parties	6,367	22,279	148,124	2,293,392
Deposits and other borrowings	6,711,617	3,486,467	252,132	-
Debt securities issued	325,805	104,771	466,388	-
Term subordinated debt	5,520	5,520	153,915	-
Other financial liabilities	32,248	-	-	-
Total financial liabilities	7,245,608	3,619,037	1,020,559	2,293,392
Assets				
Cash and cash equivalents	303,804	-	-	-
Due from other financial institutions	156,871	-	-	-
Financial assets held for trading	178,673	97,853	437,449	-
Available-for-sale assets	30,466	111,676	461,475	39,120
Loans and advances	398,470	755,030	2,764,703	19,821,868
Balances with related parties	5,371	19,324	132,311	2,154,713
Other financial assets	5,741	-	-	-
Total financial assets	1,079,396	983,883	3,795,938	22,015,701
Net non derivative cash flows	(6,166,212)	(2,635,154)	2,775,379	19,722,309
Derivative cash flows - net				
Interest rate derivatives	(45,646)	(61,649)	(49,549)	-
Total	(45,646)	(61,649)	(49,549)	(156,844)
Derivative cash flows - gross				
Foreign exchange derivatives				
Inflow	120,187	67,364	397,246	-
Outflow	(122,500)	(59,877)	(398,468)	-
Total	(2,313)	7,487	(1,222)	-
Off statement of financial position cash flows				
Capital commitments	(2,756)	-	-	-
Loan commitments	(863,888)	-	-	-
Lease commitments	(105)	(315)	(354)	-
Total	(866,749)	(315)	(354)	-
Net cash flows	(7,080,920)	(2,689,631)	2,724,254	19,722,309
Cumulative net cash flows	(7,080,920)	(9,770,551)	(7,046,297)	12,676,012

Notes to the interim financial statements continued

37. Sensitivity analysis

The tables below summarise the pre-tax sensitivity of financial assets and liabilities to changes in two risk variables, interest rate and currency risks, using a reasonable possible change in these rates. The market value of the assets and liabilities were used as the basis for the analysis and financial modelling was used to determine the impact on those values of changes in each risk scenario.

31 December 2010 - unaudited	Carrying amounts	Interest rate risk			
		-1%	+1%	-1%	+1%
Dollars in thousands		Net profit	Net profit	Equity	Equity
Banking Group					
Financial assets					
Cash and cash equivalents	335,266	-	-	-	-
Due from other financial institutions	77,966	-	-	-	-
Financial assets held for trading	700,284	10,612	(10,201)	10,612	(10,201)
Available-for-sale assets	757,040	-	-	14,530	(13,964)
Loans and advances	10,933,415	21,237	(21,020)	21,237	(21,020)
Derivative financial instruments	58,393	29,273	(28,389)	31,897	(30,929)
Other financial assets	9,753	-	-	-	-
Total financial assets	12,872,117	61,122	(59,610)	78,276	(76,114)
Financial liabilities					
Due to other financial institutions	25,341	-	-	-	-
Deposits and other borrowings	11,140,720	(3,018)	3,010	(3,018)	3,010
Derivative financial instruments	155,398	(30,632)	29,799	(70,272)	68,512
Debt securities issued	839,392	(13,323)	12,068	(13,323)	12,068
Term subordinated debt	143,021	(1,553)	1,516	(1,553)	1,516
Balances with NZP related parties	21,069	-	-	-	-
Other financial liabilities	40,430	-	-	-	-
Total financial liabilities	12,365,371	(48,526)	46,393	(88,166)	85,106

Notes to the interim financial statements continued

37. Sensitivity analysis continued

31 December 2010 - unaudited	Currency risk			
	-10%	+10%	-10%	+10%
Banking Group				
Dollars in thousands	Carrying amounts	Net profit	Net profit	Equity
Financial assets				
Cash and cash equivalents	335,266	3,779	(3,092)	3,779
Due from other financial institutions	77,966	-	-	-
Financial assets held for trading	700,284	16,486	(13,488)	16,486
Available-for-sale assets	757,040	-	-	7,932
Loans and advances	10,933,415	-	-	-
Derivative financial instruments	58,393	25,481	(20,848)	25,481
Other financial assets	9,753	-	-	-
Total financial assets	12,872,117	45,746	(37,428)	53,678
Financial liabilities				
Due to other financial institutions	25,341	-	-	-
Deposits and other borrowings	11,140,720	(4,390)	3,592	(4,390)
Derivative financial instruments	155,398	(11,931)	9,762	(11,931)
Debt securities issued	839,392	(37,233)	30,464	(37,233)
Term subordinated debt	143,021	-	-	-
Balances with NZP related parties	21,069	-	-	-
Other financial liabilities	40,430	-	-	-
Total financial liabilities	12,365,371	(53,554)	43,818	(53,554)
				43,818

Notes to the interim financial statements continued

37. Sensitivity analysis continued

31 December 2010 - unaudited Kiwibank Limited	Carrying amounts	Interest rate risk			
		Net profit -1%	Net profit +1%	Equity -1%	Equity +1%
Financial assets					
Cash and cash equivalents	335,046	-	-	-	-
Due from other financial institutions	77,966	-	-	-	-
Financial assets held for trading	700,284	10,612	(10,201)	10,612	(10,201)
Available-for-sale assets	757,040	-	-	14,530	(13,964)
Loans and advances	10,933,415	21,237	(21,020)	21,237	(21,020)
Derivative financial instruments	58,393	29,273	(28,389)	31,897	(30,929)
Balances with NZP related parties	601,184	587	(527)	587	(527)
Other financial assets	9,719	-	-	-	-
Total financial assets	13,473,047	61,709	(60,137)	78,863	(76,641)
Financial liabilities					
Due to other financial institutions	25,341	-	-	-	-
Deposits and other borrowings	11,140,720	(3,018)	3,010	(3,018)	3,010
Derivative financial instruments	155,398	(30,632)	29,799	(70,272)	68,512
Debt securities issued	839,392	(13,323)	12,068	(13,323)	12,068
Term subordinated debt	143,021	(1,553)	1,516	(1,553)	1,516
Balances with NZP related parties	622,132	(262)	262	(262)	262
Other financial liabilities	40,335	-	-	-	-
Total financial liabilities	12,966,339	(48,788)	46,655	(88,428)	85,368

Notes to the interim financial statements continued

37. Sensitivity analysis continued

31 December 2010 - unaudited	KiwiBank Limited	Dollars in thousands	Carrying amounts	Currency risk			
				-10%	+10%	-10%	+10%
			Net profit	Net profit	Equity	Equity	
Financial assets							
Cash and cash equivalents	335,046	3,779	(3,092)	3,779	(3,092)		
Balances with NZP related parties	601,184	-	-	-	-	-	
Due from other financial institutions	77,966	-	-	-	-	-	
Financial assets held for trading	700,284	16,486	(13,488)	16,486	(13,488)		
Available-for-sale assets	757,040	-	-	7,932	(6,490)		
Loans and advances	10,933,415	-	-	-	-	-	
Derivative financial instruments	58,393	25,481	(20,848)	25,481	(20,848)		
Other financial assets	9,719	-	-	-	-	-	
Total financial assets	13,473,047	45,746	(37,428)	53,678	(43,918)		
Financial liabilities							
Due to other financial institutions	25,341	-	-	-	-	-	
Deposits and other borrowings	11,140,720	(4,390)	3,592	(4,390)	3,592		
Derivative financial instruments	155,398	(11,931)	9,762	(11,931)	9,762		
Debt securities issued	839,392	(37,233)	30,464	(37,233)	30,464		
Term subordinated debt	143,021	-	-	-	-	-	
Balances with NZP related parties	622,132	-	-	-	-	-	
Other financial liabilities	40,335	-	-	-	-	-	
Total financial liabilities	12,966,339	(53,554)	43,818	(53,554)	43,818		

Notes to the interim financial statements continued

37. Sensitivity analysis continued

31 December 2009 - unaudited	Carrying amounts	Interest rate risk			
		-1%	+1%	-1%	+1%
Banking Group					
Dollars in thousands		Net profit	Net profit	Equity	Equity
Financial assets					
Cash and cash equivalents	363,592	-	-	-	-
Due from other financial institutions	18,705	-	-	-	-
Financial assets held for trading	875,873	7,919	(7,734)	7,919	(7,734)
Available-for-sale assets	893,247	-	-	13,018	(12,680)
Loans and advances	9,726,420	25,051	(24,593)	25,051	(24,593)
Derivative financial instruments	51,639	27,541	(26,563)	13,083	(12,683)
Other financial assets	8,804	-	-	-	-
Total financial assets	11,938,280	60,511	(58,890)	59,071	(57,690)
Financial liabilities					
Due to other financial institutions	580,952	(253)	253	(253)	253
Deposits and other borrowings	9,740,311	(3,433)	3,424	(3,433)	3,424
Derivative financial instruments	215,692	(31,682)	30,994	(71,992)	70,316
Debt securities issued	884,436	(14,768)	14,116	(14,768)	14,116
Term subordinated debt	142,118	(2,327)	2,251	(2,327)	2,251
Balances with NZP related parties	(1,100)	-	-	-	-
Other financial liabilities	32,745	-	-	-	-
Total financial liabilities	11,595,154	(52,463)	51,038	(92,773)	90,360

Notes to the interim financial statements continued

37. Sensitivity analysis continued

31 December 2009 - unaudited	Currency risk			
	-10%	+10%	-10%	+10%
Banking Group				
Dollars in thousands	Carrying amounts	Net profit	Net profit	Equity
Financial assets				Equity
Cash and cash equivalents	363,592	3,914	(3,203)	3,914
Balances with NZP related parties	-	-	-	-
Due from other financial institutions	18,705	-	-	-
Financial assets held for trading	875,873	18,072	(14,786)	18,072
Available-for-sale assets	893,247	-	-	9,871
Loans and advances	9,726,420	-	-	-
Derivative financial instruments	51,639	17,297	(14,152)	17,297
Other financial assets	8,804	-	-	-
Total financial assets	11,938,280	39,283	(32,141)	49,154
Financial liabilities				
Due to other financial institutions	580,952	-	-	-
Deposits and other borrowings	9,740,311	(2,843)	2,326	(2,843)
Derivative financial instruments	215,692	(10,900)	8,918	(10,900)
Debt securities issued	884,436	(34,799)	28,472	(34,799)
Term subordinated debt	142,118	-	-	-
Balances with NZP related parties	(1,100)	-	-	-
Other financial liabilities	32,745	-	-	-
Total financial liabilities	11,595,154	(48,542)	39,716	(48,542)
				39,716

Notes to the interim financial statements continued

37. Sensitivity analysis continued

31 December 2009 - unaudited	KiwiBank Limited	Dollars in thousands	Carrying amounts	Interest rate risk				
				Net profit	Net profit	Equity	Equity	
				-1%	+1%	-1%	+1%	
Financial assets								
Cash and cash equivalents	362,727	-	-	-	-	-	-	-
Balances with NZP related parties	600,928	545	(488)	545	(488)	-	(488)	-
Due from other financial institutions	18,705	-	-	-	-	-	-	-
Financial assets held for trading	875,873	7,919	(7,734)	7,919	(7,734)	7,919	(7,734)	-
Available-for-sale assets	893,247	-	-	-	-	13,018	(12,680)	-
Loans and advances	9,726,420	25,051	(24,593)	25,051	(24,593)	25,051	(24,593)	-
Derivative financial instruments	51,639	27,541	(26,563)	27,541	(26,563)	13,083	(12,683)	-
Other financial assets	9,799	-	-	-	-	-	-	-
Total financial assets	12,539,338	61,056	(59,378)	59,616	(58,178)	59,616	(58,178)	-
Financial liabilities								
Due to other financial institutions	580,952	(253)	253	(253)	253	(253)	253	-
Deposits and other borrowings	9,740,311	(3,433)	3,424	(3,433)	3,424	(3,433)	3,424	-
Derivative financial instruments	215,692	(31,682)	30,994	(71,992)	70,316	(71,992)	70,316	-
Debt securities issued	884,436	(14,768)	14,116	(14,768)	14,116	(14,768)	14,116	-
Term subordinated debt	142,118	(2,327)	2,251	(2,327)	2,251	(2,327)	2,251	-
Balances with NZP related parties	600,043	(337)	337	(337)	337	(337)	337	-
Other financial liabilities	32,676	-	-	-	-	-	-	-
Total financial liabilities	12,196,228	(52,800)	51,375	(93,110)	90,697	(93,110)	90,697	-

Notes to the interim financial statements continued

37. Sensitivity analysis continued

31 December 2009 - unaudited	KiwiBank Limited	Dollars in thousands	Currency risk			
			Carrying amounts	Net profit	Net profit	Equity
			-10%	+10%	-10%	+10%
Financial assets						
Cash and cash equivalents	362,727	3,914	(3,203)	3,914	(3,203)	
Balances with NZP related parties	600,928	-	-	-	-	-
Due from other financial institutions	18,705	-	-	-	-	-
Financial assets held for trading	875,873	18,072	(14,786)	18,072	(14,786)	
Available-for-sale assets	893,247	-	-	9,871	(8,076)	
Loans and advances	9,726,420	-	-	-	-	-
Derivative financial instruments	51,639	17,297	(14,152)	17,297	(14,152)	
Other financial assets	9,799	-	-	-	-	-
Total financial assets	12,539,338	39,283	(32,141)	49,154	(40,217)	
Financial liabilities						
Due to other financial institutions	580,952	-	-	-	-	-
Deposits and other borrowings	9,740,311	(2,843)	2,326	(2,843)	2,326	
Derivative financial instruments	215,692	(10,900)	8,918	(10,900)	8,918	
Debt securities issued	884,436	(34,799)	28,472	(34,799)	28,472	
Term subordinated debt	142,118	-	-	-	-	-
Balances with NZP related parties	600,043	-	-	-	-	-
Other financial liabilities	32,676	-	-	-	-	-
Total financial liabilities	12,196,228	(48,542)	39,716	(48,542)	39,716	

Notes to the interim financial statements continued

37. Sensitivity analysis continued

30 June 2010 - audited	Banking Group	Dollars in thousands	Carrying amounts	Interest rate risk			
				Net profit	Net profit	Equity	Equity
				-1%	+1%	-1%	+1%
Cash and cash equivalents			303,866	-	-	-	-
Due from other financial institutions			156,871	-	-	-	-
Financial assets held for trading			671,152	8,417	(8,246)	8,417	(8,246)
Available-for-sale assets			544,453	-	-	14,928	(14,209)
Loans and advances			10,418,502	21,532	(21,224)	21,532	(21,224)
Derivative financial instruments			46,320	24,759	(23,853)	27,461	(26,474)
Other financial assets			5,584	-	-	-	-
Total financial assets			12,146,748	54,708	(53,323)	72,338	(70,153)
Financial liabilities							
Due to other financial institutions			164,051	209	(200)	209	(200)
Deposits and other borrowings			10,295,325	(3,238)	3,229	(3,238)	3,229
Derivative financial instruments			202,588	(29,006)	28,411	(76,429)	74,591
Debt securities issued			795,237	(13,762)	13,201	(13,762)	13,201
Term subordinated debt			143,299	(1,984)	1,929	(1,984)	1,929
Balances with related parties			12,114	-	-	-	-
Other financial liabilities			32,362	-	-	-	-
Total financial liabilities			11,644,976	(47,781)	46,570	(95,204)	92,750

Notes to the interim financial statements continued

37. Sensitivity analysis continued

30 June 2010 - audited	Currency risk			
	Banking Group		-10%	+10%
Dollars in thousands	Carrying amounts	Net profit	Net profit	Equity
Financial assets				
Cash and cash equivalents	303,866	4,014	(3,284)	4,014
Due from other financial institutions	156,871	-	-	-
Financial assets held for trading	671,152	14,114	(11,548)	14,114
Available-for-sale assets	544,453	-	-	7,845
Loans and advances	10,418,502	-	-	-
Derivative financial instruments	46,320	(3,542)	2,898	(3,542)
Other financial assets	5,584	-	-	-
Total financial assets	12,146,748	14,586	(11,934)	22,431
Financial liabilities				
Due to other financial institutions	164,051	-	-	-
Deposits and other borrowings	10,295,325	(3,734)	3,055	(3,734)
Derivative financial instruments	202,588	16,952	(13,870)	16,952
Debt securities issued	795,237	(35,380)	28,948	(35,380)
Term subordinated debt	143,299	-	-	-
Balances with related parties	12,114	-	-	-
Other financial liabilities	32,362	-	-	-
Total financial liabilities	11,644,976	(22,162)	18,133	(22,162)
				18,133

Notes to the interim financial statements continued

37. Sensitivity analysis continued

30 June 2010 - audited	Kiwibank Limited	Dollars in thousands	Carrying amounts	Interest rate risk			
				Net profit	Net profit	Equity	Equity
				-1%	+1%	-1%	+1%
Financial assets							
Cash and cash equivalents			303,804	-	-	-	-
Due from other financial institutions			156,871	-	-	-	-
Financial assets held for trading			671,152	8,417	(8,246)	8,417	(8,246)
Available-for-sale assets			544,453	-	-	14,928	(14,209)
Loans and advances			10,418,502	21,532	(21,224)	21,532	(21,224)
Derivative financial instruments			46,320	24,759	(23,853)	27,461	(26,474)
Balances with related parties			600,916	552	(491)	552	(491)
Other financial assets			5,741	-	-	-	-
Total financial assets			12,747,759	55,260	(53,814)	72,890	(70,644)
Financial liabilities							
Due to other financial institutions			164,051	209	(200)	209	(200)
Deposits and other borrowings			10,295,325	(3,238)	3,229	(3,238)	3,229
Derivative financial instruments			202,588	(29,006)	28,411	(76,429)	74,591
Debt securities issued			795,237	(13,762)	13,201	(13,762)	13,201
Term subordinated debt			143,299	(1,984)	1,929	(1,984)	1,929
Balances with related parties			613,241	(230)	230	(230)	230
Other financial liabilities			32,248	-	-	-	-
Total financial liabilities			12,245,989	(48,011)	46,800	(95,434)	92,980

Notes to the interim financial statements continued

37. Sensitivity analysis continued

30 June 2010 - audited Kiwibank Limited	Dollars in thousands	Currency risk			
		-10%	+10%	-10%	+10%
	Carrying amounts	Net profit	Net profit	Equity	Equity
Financial assets					
Cash and cash equivalents	303,804	4,014	(3,284)	4,014	(3,284)
Due from other financial institutions	156,871	-	-	-	-
Financial assets held for trading	671,152	14,114	(11,548)	14,114	(11,548)
Available-for-sale assets	544,453	-	-	7,845	(6,419)
Loans and advances	10,418,502	-	-	-	-
Derivative financial instruments	46,320	(3,542)	2,898	(3,542)	2,898
Balances with related parties	600,916	-	-	-	-
Other financial assets	5,741	-	-	-	-
Total financial assets	12,747,759	14,586	(11,934)	22,431	(18,353)
Financial liabilities					
Due to other financial institutions	164,051	-	-	-	-
Deposits and other borrowings	10,295,325	(3,734)	3,055	(3,734)	3,055
Derivative financial instruments	202,588	16,952	(13,870)	16,952	(13,870)
Debt securities issued	795,237	(35,380)	28,948	(35,380)	28,948
Term subordinated debt	143,299	-	-	-	-
Balances with related parties	613,241	-	-	-	-
Other financial liabilities	32,248	-	-	-	-
Total financial liabilities	12,245,989	(22,162)	18,133	(22,162)	18,133

Notes to the interim financial statements continued

38. Fair Value of Financial Instruments

	The Banking Group					
	Unaudited		Unaudited		Audited	
	31/12/10	31/12/09	31/12/09	30/06/10	30/06/10	30/06/10
Dollars in thousands						
Assets						
Cash and cash equivalents	335,266	335,266	363,592	363,592	303,866	303,866
Due from other financial institutions	77,966	77,966	18,705	18,705	156,871	156,871
Financial assets held for trading	700,284	700,284	875,873	875,873	671,152	671,152
Available-for-sale assets	757,040	757,040	893,247	893,247	544,453	544,453
Loans and advances	10,933,415	10,983,599	9,726,420	9,741,083	10,418,502	10,453,603
Derivative financial instruments	58,393	58,393	51,639	51,639	46,320	46,320
Other financial assets	9,753	9,753	8,804	8,804	5,584	5,584
Total financial assets	12,872,117	12,922,301	11,938,280	11,952,943	12,146,748	12,181,849
Liabilities						
Due to other financial institutions	25,341	25,341	580,952	580,968	164,051	164,051
Deposits and other borrowings	11,140,720	11,157,556	9,740,311	9,752,369	10,295,325	10,305,234
Derivative financial instruments	155,398	155,398	215,692	215,692	202,588	202,588
Debt securities issued	839,392	841,272	884,436	886,434	795,237	797,433
Term subordinated debt	143,021	143,793	142,118	139,484	143,299	144,190
Balances with NZP related parties	21,069	21,069	(1,100)	(1,100)	12,114	12,114
Other financial liabilities	40,430	40,430	32,745	32,745	32,362	32,362
Total financial liabilities	12,365,371	12,384,859	11,595,154	11,606,592	11,644,976	11,657,972

Notes to the interim financial statements continued

38. Fair Value of Financial Instruments continued

	Kiwibank Limited					
	Unaudited		Unaudited		Audited	
	31/12/10	31/12/09	31/12/09	31/12/08	30/06/10	30/06/09
Dollars in thousands	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets						
Cash and cash equivalents	335,046	335,046	362,727	362,727	303,804	303,804
Balances with NZP related parties	601,184	603,508	600,928	603,338	600,916	603,309
Due from other financial institutions	77,966	77,966	18,705	18,705	156,871	156,871
Financial assets held for trading	700,284	700,284	875,873	875,873	671,152	671,152
Available-for-sale assets	757,040	757,040	893,247	893,247	544,453	544,453
Loans and advances	10,933,415	10,983,599	9,726,420	9,741,083	10,418,502	10,453,603
Derivative financial instruments	58,393	58,393	51,639	51,639	46,320	46,320
Other financial assets	9,719	9,719	9,799	9,799	5,741	5,741
Total financial assets	13,473,047	13,525,555	12,539,338	12,556,411	12,747,759	12,785,253
Liabilities						
Due to other financial institutions	25,341	25,341	580,952	580,988	164,051	164,051
Deposits and other borrowings	11,140,720	11,157,556	9,740,311	9,752,369	10,295,325	10,305,234
Derivative financial instruments	155,398	155,398	215,692	215,692	202,588	202,588
Debt securities issued	839,392	841,272	884,436	886,434	795,237	797,433
Term subordinated debt	143,021	143,793	142,118	139,484	143,299	144,190
Balances with NZP related parties	622,132	628,633	600,043	606,544	613,241	619,760
Other financial liabilities	40,335	40,335	32,676	32,676	32,248	32,248
Total financial liabilities	12,966,339	12,992,328	12,196,228	12,214,167	12,245,989	12,265,504

Fair value estimation

Quoted market prices, when available, are used as the measure of fair values for financial instruments. However, for some of Kiwibank's financial instruments, quoted market prices do not exist. For such financial instruments, fair values presented are estimates derived using present value or other market accepted valuation techniques. These techniques involve uncertainties and are affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values.

The fair value estimates were determined by application of the methods and assumptions described below.

Notes to the interim financial statements continued

38. Fair value of financial instruments continued

Cash and cash equivalents

For cash assets, the carrying amount is equivalent to the fair value. For short term liquid assets, estimated fair values are based on quoted market prices.

Held for trading securities

For held for trading securities, estimated fair values are based on quoted market prices.

Available-for-sale securities

For available-for-sale securities, estimated fair values are based on quoted market prices.

Loans and advances

For variable rate loans and advances, the carrying amount is a reasonable estimate of fair value. For fixed rate loans and advances, fair values have been estimated using a discounted cash flow model with reference to market interest rates, prepayment rates and rates of estimated credit losses.

Other financial assets

For other financial assets, the carrying amount is approximately equal to the fair value.

Deposits by customers

For fixed term deposits by customers, fair values have been estimated using a discounted cash flow model with reference to market interest rates. For other deposits by customers, the carrying amount is a reasonable estimate of fair value.

Other financial liabilities

For other financial liabilities, the carrying amount is equivalent to the fair value.

Impaired and past due assets

For non-accrual and restructured impaired assets as well as past due loans, the fair values are estimated by discounting the estimated future cash flows using current market interest rates incorporating an appropriate risk factor or, where such loans are collateralised and have been written down to the current market value of the collateral, the estimated fair value is based on the written down carrying value.

Interest rate contracts

For interest rate contracts, fair values were obtained from quoted market prices, discounted cash flow models or option-pricing models as appropriate. Where such techniques are not appropriate, a cash basis has been adopted.

Foreign exchange contracts

For foreign exchange contracts, fair values were obtained from quoted market prices, discounted cash flow models or option-pricing models as appropriate. Where such techniques are not appropriate, a cash basis has been adopted.

Notes to the interim financial statements continued

38. Fair Value of Financial Instruments continued

		Banking Group and Kiwibank Limited			
		Level 1	Level 2	Level 3	Total
Unaudited 31/12/10					
Dollars in thousands					
Financial assets					
Derivative financial assets					
Interest rate swaps	-	33,016	-	-	33,016
Currency swaps	-	24,063	-	-	24,063
Forward foreign exchange contracts	-	1,069	-	-	1,069
Futures contracts	25	-	-	-	25
Forward rate agreements	-	220	-	-	220
Total	25	58,368	-	-	58,393
Other financial assets held for trading					
Bank bills	-	208,885	-	-	208,885
Other securities	110,593	380,806	-	-	491,399
Total	110,593	589,691	-	-	700,284
Available-for-sale assets					
Government stock and multilateral development banks	503,578	68,197	-	-	571,775
Local authority securities	-	66,976	-	-	66,976
Other debt securities	-	118,289	-	-	118,289
Total	503,578	253,462	-	-	757,040
Financial assets designated at FVTPL					
Loans and advances	-	-	542,165	-	542,165
Total financial assets	614,196	901,521	542,165	-	2,057,882
Financial liabilities					
Derivative financial liabilities					
Interest rate swaps	-	146,778	-	-	146,778
Currency swaps	-	5,969	-	-	5,969
Forward foreign exchange contracts	-	1,425	-	-	1,425
Futures contracts	1,189	-	-	-	1,189
Forward rate agreements	-	37	-	-	37
Total	1,189	154,209	-	-	155,398
Debt securities issued					
Total financial liabilities	-	242,402	-	-	242,402
	1,189	396,611	-	-	397,800

Notes to the interim financial statements continued

38. Fair Value of Financial Instruments continued

Fair value hierarchy

KiwiBank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: Techniques using inputs which have a significant effect on the recorded fair value and which are not based on observable market data.

Loans and receivables designated at fair value through profit or loss

For loans and receivables designated at fair value through profit or loss, a discounted cash-flow model is used based on various assumptions, including current and expected future credit losses, market rates of interest, prepayment rates and assumptions regarding market liquidity, where relevant. At reporting period date, a one basis point movement in credit spread or underlying interest rate would impact the statement of comprehensive income by \$52k (31 December: \$158k; 30 June 2010: \$99k).

The following table presents the changes in level 3 instruments for the period ended 31 December 2010.

	Total losses recorded in statement of comprehensive income		Loan repayments	At 31 December 2010
Dollars in thousands	At 1 July 2010	2010	At 31 December 2010	
Financial assets at FVTPL				
Loans and advances	1,235,764	(8,651)	(684,949)	542,165

There were no transfers in or out of level 3, or between levels 1 and 2, during the period.

Notes to the interim financial statements continued

39. Credit exposure concentrations

Credit exposure to individual counterparties

Credit exposure concentrations are disclosed on the basis of actual exposures and gross of set-offs. Peak end-of-day aggregate credit exposures have been calculated using the Banking Group's tier one capital at the end of the period.

The number of individual counterparties, excluding connected persons and the central government of any country with a long-term credit rating of A- or A3 above, or its equivalent, where the period end and peak end-of-day aggregate actual credit exposures, net of individual credit impairment allowances (which were nil), equalled or exceeded 10% of the Banking Group's shareholder's equity as at reporting period date are:

As at reporting period date	The Banking Group					
	Unaudited		Unaudited		Audited	
	3 months ended 31/12/10	Bank	Non-Bank	3 months ended 31/12/09	Bank	Non-Bank
10% - 19%	-	-	1	2	-	4
20% - 29%	-	4	-	-	-	1
30% - 39%	-	-	-	2	-	-
40% - 49%	-	-	-	1	-	-
50% - 59%	-	-	-	-	-	-
60% - 69%	-	-	-	-	-	-
70% - 79%	-	-	-	-	-	-
80% - 89%	-	-	-	-	-	-
Peak exposure						
10% - 19%	-	1	1	2	1	3
20% - 29%	-	2	-	-	-	2
30% - 39%	-	2	-	1	-	-
40% - 49%	-	-	-	2	-	1
50% - 59%	-	-	-	-	-	-
60% - 69%	-	-	-	-	-	-
70% - 79%	-	-	-	1	-	-
80% - 89%	-	-	-	-	-	-
90% - 99%	-	-	-	-	-	-
100% - 110%	-	-	-	-	-	-

Notes to the interim financial statements continued

39. Credit exposure concentrations continued

Credit exposure by credit rating

The following table presents the Banking Group's credit exposure based on the credit rating of the issuer. Credit exposure concentrations are disclosed on the basis of actual credit exposures and calculated on a gross basis, (net of specific provisions and excluding advances of a capital nature). An investment grade credit rating means a credit rating of BBB- or Baa3 or above, or its equivalent. The amount and percentage of the Banking Group's credit exposure, excluding connected persons and OECD governments, where the period end aggregate exposure equalled or exceeded 10% of the Banking Group's shareholder's equity, as at reporting period date are:

Dollars in thousands	Amount	% of total credit exposure	Unaudited		Amount	% of total credit exposure
			3 months ended 31/12/10	3 months ended 31/12/09		
Bank counterparties						
Investment grade credit rating	505,561	100%	617,365	100%	490,534	100%
Below investment grade credit rating	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Total credit exposure	505,561	100%	617,365	100%	490,534	100%
Non-bank counterparties						
Investment grade credit rating	-	100%	67,277	100%	-	100%
Below investment grade credit rating	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Total credit exposure	-	100%	67,277	100%	-	100%

Credit exposures to connected persons

Credit exposure concentrations are disclosed on the basis of actual credit exposures and calculated on a gross basis, (net of individual credit impairment allowance and excluding advances of a capital nature). The information on credit exposure to connected persons has been derived in accordance with the Banking Group's Conditions of Registration. The Banking Group does not have credit exposures to connected persons other than non-bank connected persons. Peak end-of-day credit exposures to non-bank connected persons have been calculated using the Banking Group's tier one capital at the end of the period. The rating-contingent limit, which is applicable to the Banking Group as at reporting period date, is 70%. There have been no rating-contingent limit changes during the last quarter. Within the rating-contingent limit there is a sub-limit of 15%, which applies to non-bank connected persons. All limits on aggregate credit exposure to all connected persons and non-bank connected persons in the Banking Group's Conditions of Registration have been compiled with at all times over the last quarter. The limit is 125% of the Banking Group's Tier One Capital in respect of the gross amount of aggregate credit exposure to connected persons that can be netted off in determining the net exposure. There are no individual impairment credit allowances against credit exposures to non-bank connected persons nor are there any contingent exposures arising from risk lay-off arrangements to connected persons as at 31 December 2010 (31 December 2009: nil; 30 June 2010: nil).

Dollars in thousands	The Banking Group		
	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10
Credit exposures to non-bank connected persons at period end	25	13	39
Credit exposures to non-bank connected persons at period end expressed as a percentage of total tier one capital	0.0%	0.0%	0.0%
Peak credit exposures to non-bank connected persons during the period	16,052	13,020	2,541
Peak credit exposures to non-bank connected persons during the period expressed as a percentage of total tier one capital	2.7%	3.1%	0.4%

Notes to the interim financial statements continued

40. Fiduciary activities

Custodial services

KiwiBank's subsidiary, KiwiBank Nominees Limited, provides custodial services to customers in respect of assets that are beneficially owned by those customers.

Securitised assets

In May 2008 the RBNZ expanded the range of acceptable collateral that the banks can pledge and borrow against as part of its changes to its liquidity management programme, designed to help ensure adequate liquidity for New Zealand financial institutions. From 31 July 2008, acceptable collateral includes residential mortgage backed securities (RMBS) that satisfy RBNZ criteria.

On 26 June 2009 the Banking Group established an in-house RMBS facility in order to issue securities that meet the RBNZ criteria. This has resulted in KiwiBank recognising in its financial statements a payable and receivable of RMBS securities of equal amount totalling \$600m to KiwiBank RMBS Trust Series 2009-1 (The Trust), a newly established consolidated entity. These assets and liabilities do not qualify for derecognition as the Banking Group retains a continuing involvement in the transferred assets, therefore the consolidated accounts of the Banking Group do not change as a result of establishing these facilities.

Funds Management

The KiwiBank KiwiSaver Scheme, the issuer of which is Trustees Executors Superannuation Limited and the promoter of which is KiwiBank Investment Management Limited, KiwiBank Limited and their directors, commenced accepting members and subscriptions on 1 July 2010. AMP Capital has been engaged to manage the funds available through KiwiBank KiwiSaver, with the exception of the Cash Fund which is managed by KiwiBank Treasury. The total amount of funds managed at 31 December 2010 is \$18.6m.

As at 31 December 2009 and 30 June 2010, KiwiBank did not administer superannuation bonds or superannuation plans.

A subsidiary of KiwiBank acts as the manager for a unit trust. The Banking Group is not responsible for any decline in performance of the underlying assets of the investors due to market forces.

Some funds under management are invested in products of KiwiBank and are recorded as liabilities in the statement of financial position. At 31 December 2010, \$1,806m of funds under management (note 20) were invested in KiwiBank's own products or securities (30 December 2009: \$1,084m; 30 June 2010: \$1,169m).

Provision of financial services

Financial services provided by KiwiBank to entities which are involved in trust, custodial, funds management and other fiduciary activities, are provided on arm's length terms and conditions and at fair value, except that KiwiBank does not charge KiwiBank Investment Management Limited, the Manager of the KiwiBank PIE Unit Trust, any bank fees. Further, the KiwiBank PIE Unit Trust bank account used for tax payments does not earn interest. Any assets purchased from such entities have been purchased on an arm's length basis and at fair value.

The Banking Group has not provided any funding to entities which conduct any of the following activities: trust, custodial, funds management or other fiduciary activities established, marketed and/or sponsored by a member of the Banking Group; marketing and distribution of insurance products during the periods ended 31 December 2010, 31 December 2009 and 30 June 2010.

Risk Management

With regards to the activities identified above, the Banking Group has in place policies and procedures to ensure that those activities are conducted in an appropriate manner. Should adverse conditions arise, it is considered that these policies and procedures will minimise the possibility that these conditions will adversely impact the Banking Group. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management and auditors.

Notes to the interim financial statements continued

41. Risk management policies

Risk management

The Banking Group's exposure to risk arises primarily from its business activities as a financial intermediary and financial markets participant. Kiwibank recognises the importance of effective risk management to its business success and to its customers. Risk management enables Kiwibank to both increase its financial and organisational growth opportunities and mitigate potential loss or damage.

Organisational perspective

Kiwibank approaches the management of risk using an organisational framework that is characterised by:

- The Board providing leadership and direction through setting formal risk appetites and strategies, and monitoring progress.
- Through approval, delegation and limit structures responsibility is delegated to the CEO and executive management for managing the various elements of risk.
- Business unit level accountability for the management of risks in accordance with agreed strategies and the Bank's risk management framework.
- Independent oversight of business unit risk management to i) provide regular risk evaluation and reporting; and ii) assess the adequacy and effectiveness of management's control of risk.

The directors of Kiwibank are explicitly responsible for the stewardship of Kiwibank. To help discharge this obligation, the Board has established the Finance, Audit and Risk Committee (which includes members who have appropriate financial experience and understanding of the banking industry in which Kiwibank operates), which is responsible for:

- Review and approval of Kiwibank's frameworks and policies for managing business, credit, market and operational risk and maintaining an effective risk management framework.
- Monitoring the bank's risk profile, performance, exposures against limits, capital levels and management of Kiwibank's risks.
- Monitoring anticipated changes in the economic and business environment and other factors relevant to Kiwibank's risk profile.
- Review and approval of limits and conditions that apply to risk taking including the authorities delegated to the CEO and executive team.
- Review of internal audit activities and significant audit issues.

The CEO and executive management team are responsible for implementing the risk management framework approved by the Board and for developing appropriate strategies, policies, controls, processes and procedures for identifying, measuring and managing risk.

Three specialised management committees have been formed to ensure bank-wide input and appropriate focus on specific risk matters, namely i) the Asset-Liability Committee (ALCO -which is concerned with statement of financial position structure, capital, funding and market risk); ii) the Credit Committee (focused on credit risk); and iii) the Project Governance Board (which considers certain risks associated with the Bank's information technology capabilities).

Independent Credit and Market risk-control units operate alongside the bank's lending business units and Treasury unit. These risk-control functions are accountable for identifying and quantifying credit and market risks, respectively, and for working with the lending and Treasury business units to implement appropriate policies, procedures and controls to manage those risks.

Kiwibank's Risk Management Unit has been assigned the role of internal monitor. The Risk Management Unit is tasked with ensuring that risk based reporting of financial and non-financial threats to Kiwibank is undertaken on a regular basis. The unit provides an independent appraisal of business units' risk positions and the overall control environment, submitting reports on the bank's risk profile to the Board Finance, Audit and Risk Committee.

Notes to the interim financial statements continued

41. Risk management policies continued

Kiwibank has an independent internal audit function, which has no direct authority over the activities of management. Internal audit undertake an annual review programme, the scope of which is determined by risk-based analysis, and results in operational, compliance, financial and systems audits over the business activities and support functions within Kiwibank. Internal audit provides independent assurance as to the effectiveness of the Bank's management systems and internal controls to the Board Finance, Audit and Risk Committee. The head of internal audit has unfettered access to the Board Finance, Audit and Risk Committee.

Risk management framework

Kiwibank's risk management framework revolves around four key functions. Namely:

- **Strategic risk management** – A framework and set of processes that the bank uses to plan, organise, lead and control risk management activities in an effort to minimise the effects and impacts of risk events on the bank's capital and earnings. This reflects the Basel 2 accord requirements for a properly framed structure from which risk management strategies and policy can be developed. This framework provides:
 - i) A high level "risk structure" for the classification/categorisation of all risks deemed material to the Bank, which forms the basis of reporting the bank's risk profile.
 - ii) Risk appetite – a formal statement of the bank's willingness to take on financial risks and a basic operational pre-requisite for the establishment of consistent risk limits.
 - iii) Risk policy statements - these explicitly articulate the bank's fundamental attitude towards risk and risk management. The risk policy statements are intended to ensure employees understanding of the bank's risk management goals throughout the organisation.
 - iv) Risk principles – these are central rules for risk management decision-making and form the basis for maximum uniformity in risk management decision-making.

- **Capital management and capital adequacy** – Kiwibank's capital management strategy seeks to ensure the Bank is adequately capitalised while recognising capital is often an expensive form of funding or insurance. The Bank seeks to maintain and acquire capital in an economically effective manner so as to i) support future development and growth aspirations; ii) comply at all times with regulatory capital requirements; iii) maintain a strong internal capital base to cover all material inherent risks; and iv) maintain an investment grade credit rating.

The Bank undertakes a programme of activities designed to ensure that it has sufficient financial resources to continue as a going concern even if it suffers a material unforeseen or unexpected risk event(s). This programme, called the Internal Capital Adequacy Assessment Programme (ICAAP), deals primarily with assessing the bank's capacity to absorb risk based on i) identification and quantification of its immediate risks, and ii) comparison of those risks with its financial capital (that may have to be sacrificed if these risks materialise).

The Board of Directors has ultimate responsibility for capital adequacy and approves capital policy and minimum internal capital levels and limits.

In ensuring that Kiwibank has adequate overall capital in relation to its risk profile, a mixture of risk capital estimates and judgement based estimates have been made relating to all material risks, even where they are hard to quantify. Included in these estimates is also a trade-off between the importance of allocating capital to such risks and the robustness of the bank's approach to mitigating and managing these risks.

Kiwibank monitors its risk profile and internal and regulatory capital adequacy, and reports this on a regular basis to the Board. In the event of large, unexpected losses, the bank is committed to restoring its capital position. Management have developed plans accordingly.

Notes to the interim financial statements continued

41. Risk management policies continued

- **Risk assessment and risk prioritisation** – This function administered by the Risk Management Unit is designed to identify and assess the real risks facing the bank. The prioritisation process is intended to ensure that management focus and appropriate resources are directed at isolating, reducing or controlling expected (probable) risk events. The risk prioritisation process involves assessing the probability and severity of losses using (where possible) quantitative risk and control data.
- **Operations risk management** – Irrespective of their relative significance, the majority of risk situations facing the bank occur in the day-to-day operations of the business. These risks (referred to as operations risks - as they arise from operating the business) are not confined to formal risk domains (i.e. credit, market, or operational risk) or business lines. As it is considered desirable to manage risk in a consistent and comprehensive manner across the whole of Kiwibank, a decision support model exists for any manager needing to make a risk management decision about a specific risk matter arising in their current or proposed operations (i.e. day-to-day business activities).

Kiwibank's high level "risk structure" recognises four main types of risk (or risk domains). Specifically:

- **Credit risk** – the risk of financial loss arising from the failure of a customer or counterparty to honour any financial or contractual obligation.
- **Market risk** – the potential for losses arising from adverse movements in the level and volatility of market factors, such as interest rates and foreign exchange rates. This risk domain also includes the risk that Kiwibank will not have sufficient funds available to meet financial and transactional cash-flow obligations.
- **Operational risk** – the risk of direct or indirect losses resulting from inadequate or failed internal processes, people, and systems, or from external events. This risk domain includes legal risks (i.e. loss resulting from the failure to comply with laws) as well as prudent ethical standards and contractual obligations. It also includes exposure to litigation from all aspects of the Bank's activities.
- **Business risk** – events that impede or prevent the bank achieving its stated business goals or strategies, including missed opportunities and potential losses/damage arising from a poor strategic business decisions.

Credit risk

The Banking Group's credit risks arise from lending to customers and from inter-bank, treasury, international and capital market activities. The Group has clearly defined credit policies and frameworks for the approval and management of credit risk.

Key elements of the Credit risk management framework are:

- **Strategy and organisational structure** – The Board requires sound lending growth for appropriate returns. The Banking Group pursues this objective in a structured manner, managing credit risk through the formulation of high-level credit policies, application of credit underwriting standards, delegated authorities, a robust control environment, monitoring of the portfolios, review of all major credit risks and risk concentrations. The Board employs a structure of delegated authorities to implement and monitor the multiple facets of credit risk management.

Kiwibank's Credit Committee (comprising of executive management) is tasked with producing robust credit policies, credit management processes and asset writing strategies; examining portfolio standards, concentrations of lending, asset impairment; and monitoring compliance with policy.

An independent credit management function staffed by credit risk specialists exists to i) provide independent credit decisions; ii) support front-line lending staff in the application of sound credit practices; iii) provide centralised remedial management of arrears; and iv) undertake portfolio monitoring and loan asset quality analysis and reporting.

The integrity and effectiveness of the bank's credit risk management practices and asset quality is supported by independent assessments by the Risk Management Unit and Internal Audit function.

Notes to the interim financial statements continued

41. Risk management policies continued

- **Portfolio structure and monitoring** – The Banking Group's credit portfolio is divided into two segments, Personal (Consumer), and Corporate and Institutional.

The Personal segment is comprised of housing loan, credit card and personal loan facilities. This segment is managed on a delinquency band approach.

The Corporate segment consists of lending to small and medium sized businesses. Each exposure is assigned an internal risk rating that is based on an assessment of the risk of default. These exposures are generally required to be reviewed on an annual basis, unless they are small facilities that are managed on a behavioural basis after their initial rating at origination.

The Institutional portfolio is comprised of commercial exposures, including bank and government exposures. Exposures in the Institutional portfolio are all individually rated and are of minimum investment grade or equivalent quality.

The overall composition and quality of the credit portfolios is monitored taking into account the potential changes in economic conditions.

- **Credit approval standards** – Kiwibank has clearly defined credit underwriting policies and standards for all lending, which incorporate income/repayment capacity, acceptable terms, security, and loan documentation criteria. In the first instance, Kiwibank relies on the assessed integrity of the debtor or counterparty and their ability to meet their financial obligations for repayment.

Longer term Consumer lending is generally secured against real estate, while short term revolving consumer credit (personal lending) is generally unsecured. Kiwibank requires adequate and sustainable loan servicing capability, and may also require security cover within loan to security valuation as set down in Kiwibank's credit policy.

Collateral security in the form of real property is generally taken for Business credit except for government, bank and corporate counterparties of strong financial standing. The Bank uses ISDA agreements to document derivative activities and limit exposures to credit losses. Under ISDA protocols, in the event of default, all contracts with the counterparty are terminated and settled on a net basis.

Larger credit facilities are approved through a hierarchy of delegated approval authorities that reflect the skill and experience of lending management.

- **Problem credit facility management** – Credit exposures are monitored regularly through the examination of irregular and delinquent accounts. This enables doubtful debts to be immediately identified so that specific provisions for potential losses can be established as early as possible. Problem credit facilities are monitored to ensure workout and collection/recovery strategies are established and enacted. Kiwibank will seek additional collateral from a customer or counterparty if impairment is evident on individual loans and advances.

Credit risk portfolios are regularly assessed for objective evidence of impairment. Kiwibank creates portfolio impairment provisions where there is objective evidence that the portfolio contains probable losses that will be identified in future periods. Kiwibank also creates an individually assessed provision against specific credit exposures when there is objective evidence that it will not be able to collect all amounts due.

Notes to the interim financial statements continued

41. Risk management policies continued

- **Operations control environment** – Operationally, credit risk is controlled through a combination of approvals, limits, monitoring and review procedures. Functions are segregated so that no one person is in a position to control all significant stages of processing a credit transaction, thereby reducing the chance of error or defalcation escaping detection. Preparation of formal lending documentation only occurs after an independent officer in the operations area has ensured that the credit has been approved and the facility documentation matches the terms of the credit approval.

Market risk

Market risk arises from the mismatch between assets and liabilities in the banking business and from controlled trading undertaken in the pursuit of profit. In order to manage its own exposure to market risk, Kiwibank trades diverse financial instruments including interest rates, foreign currencies and transacts in derivative instruments such as swaps, options, futures and forward rate agreements. These activities are managed using structural limits (including volume and basis point value limits) in conjunction with scenario analysis.

Market risk limits are allocated based on business strategies, modelling and experience, in addition to market liquidity and risk concentration analysis.

Key elements of Kiwibank's Market risk management framework are:

- **Interest rate risk management** – The Board expects reasonable stability in Kiwibank's net interest income over time. Kiwibank's Treasury function has been tasked with managing the sensitivity of net income to changes in wholesale market interest rates. This sensitivity (known as structural interest rate risk) arises from the bank's lending and deposit taking activities and investment of capital and other liabilities. The provision of loans and accepting deposits at both fixed and variable rates gives rise to the risk that Kiwibank could have unmatched positions leading to material exposures in a shifting interest rate environment. Other activities such as current account facilities and employing financial instruments such as swaps, options and forward rate agreements also incur interest rate risks.

The main objective of the management of interest rate risk is to achieve a balance between reducing risk to earnings from the adverse effect of interest rate movements and enhancing net interest income through the correct anticipation of the direction and extent of interest rate changes.

Kiwibank's ALCO (comprising of executive management) is responsible for implementing and monitoring interest rate risk management policies within Board defined policy guidelines and limits. Interest rate risk is managed by Kiwibank's Treasury unit within pre-approved limits.

Interest rate risk is measured in terms of Kiwibank's notional exposure to potential shifts in future interest rates relative to the timescale within which assets and liabilities can be re-priced. A separate independent Market Risk Management unit is responsible for the daily measurement and monitoring of market risk exposures.

Kiwibank reduces interest rate risk by seeking to match the re-pricing of assets and liabilities. A substantial portion of customer deposits and lending is at variable rates, which are periodically adjusted to reflect market movements. Where natural hedging still leaves a resultant interest rate mismatch, the residual risks are hedged within predefined limits through the use of physical financial instruments, interest rate swaps and other derivative financial instruments.

Notes to the interim financial statements continued

41. Risk management policies continued

- **Currency risk management** – Currency risk results from the mismatch of foreign currency assets and liabilities. These mismatches can arise from the day-to-day purchase and sale of foreign currency and from deposit and lending activity in foreign currencies. Kiwibank has a policy of hedging all foreign currency borrowing into New Zealand dollars. Foreign currency denominated revenue and expense flows are forecast and hedged on a proportional basis determined by the ALCO. Residual currency risks are monitored in terms of open positions in each currency. Currency risks are monitored daily.

- **Liquidity and funding risk management** – Liquidity risk is the risk that Kiwibank will not have sufficient funds available to meet its financial and transactional cash flow obligations.

Management of liquidity risk is designed to ensure that Kiwibank has the ability to generate or obtain sufficient cash in a timely manner and at a reasonable price to meet its financial commitments on a daily basis. Responsibility for liquidity management is delegated to the Bank's Treasury function, under oversight of the ALCO.

Kiwibank monitors this risk daily, primarily by forecasting future cash requirements, both under normal conditions and during crisis situations. Kiwibank manages this by i) holding readily tradable, investment assets and deposits on call with high credit quality counterparties to provide for any unexpected patterns in cash movements; and ii) by seeking a stable funding base.

Kiwibank maintains a stock of prime liquid assets. Some assets classified as investment securities in the statement of financial positions fit the definition of liquid assets for this purpose.

Kiwibank maintains liquidity crisis contingency plans defining an approach for responding to liquidity threatening events.

Funding risk is allied to liquidity risk, but is concerned with the Bank's capacity to fund increases in assets while meeting its payment obligations, including repaying depositors and maturing wholesale debt.

Kiwibank employs asset and liability cash flow modelling to determine appropriate statement of financial position liquidity and funding strategies. This modelling helps ensure that an appropriate portion of the Banking Group's assets are funded by customer liabilities, bank borrowing, and equity. This approach also recognises the favourable liquidity characteristics of long term customer liabilities and wholesale debt funding, in reducing the impact or volatility of short term funding.

Under normal business conditions, Kiwibank seeks to satisfy the majority of its funding needs from retail liabilities. Kiwibank's borrowing capacity is an estimate of the amount of funding that can be raised in the wholesale markets. Kiwibank's funding strategy is designed to deliver a sustainable portfolio of wholesale funds.

Treasury (under oversight of the ALCO) is responsible for monitoring Kiwibank's funding base and ensuring that this base is prudently maintained and adequately diversified.

- **Equity risk** – Equity risk results from the re-pricing of equity investments. Kiwibank does not undertake equity trading and there are no significant exposures to equity instruments.

Notes to the interim financial statements continued

41. Risk management policies continued

Operational risk

Operational risk is the potential exposure to financial and other damage arising from the way in which Kiwibank pursues its business objectives. While operational risk can never be eliminated, Kiwibank endeavours to minimise the impact of operational incidents by ensuring that the appropriate risk management methodologies, controls, systems, staff and processes are in place.

The key sources of operational risk included in the Bank's operational risk measurement framework are i) internal fraud; ii) external fraud; iii) acts inconsistent with workplace employment, health and safety laws; iv) unintentional or negligent failure to meet professional obligations to specific customers (including fiduciary and suitability requirements) or from the design of a product; v) failed transaction processing or process management; vi) disruption to business or system failures; and vii) loss or damage to physical assets from natural disaster or other events.

Operational risk management within Kiwibank is based on the following core elements:

- Senior management are accountable to the Board for maintaining an adequate and effective control environment that is commensurate with Kiwibank's risk appetite and business objectives.
 - Business units are responsible for the management of their operational risks. Each business area is responsible for the identification, measurement, monitoring and mitigation of operational risk in their areas of responsibility.
 - A central Risk Management Unit supports business units with operational risk identification, measurement and prioritisation. This unit also includes the Bank's legal function, which assists business units with legal and legislative compliance. The Risk Management Unit undertakes elementary quantitative operational risk measurements (using internal loss and potential loss data) across the Bank and reports quarterly to the Board Finance Audit and Risk Committee on Kiwibank's overall operational risk profile.
 - An independent Internal Audit function, which appraises the adequacy and effectiveness of the internal control environment, and reports results to both management and the Board Finance Audit and Risk Committee.
- Key management and control techniques employed by Kiwibank, include clear delegation of authority, segregation of duties, sound project management, change control disciplines and business continuity planning. These techniques are enhanced by a focus on staff competency and supervision. Where appropriate these management practices are augmented by risk transfer mechanisms such as insurance, and by regular risk and control assessments.

Business risk

There are numerous external and internal uncertainties that may derail the business strategies or goals of Kiwibank. Success in managing business risk is intrinsically more difficult than managing financial risks (i.e. credit, market and operational risks).

It is only through sound business strategies and skilful execution of these business strategies that Kiwibank's business goals/objectives will be achieved. Risk management strategies are not a substitute for good business strategies but aid in the selection of appropriate strategies and in their successful execution.

Kiwibank has three core business risk management strategies aimed at supporting the business strategies of the Bank. Specifically:

- Establishment and maintenance of an internal organisational environment in which Business risk can meaningfully be managed.
- Establishment and maintenance of formal conceptual structures, measurement basis and risk management processes for the evaluation and management of business risks.
- Building intelligent and sustainable capability within Kiwibank to enable both the pursuit of opportunities and mitigation of vulnerabilities.

Historical summary of financial statements

	Unaudited NZ IFRS 6 months ended 31/12/10	Audited NZ IFRS 12 months ended 30/06/10	Audited NZ IFRS 12 months ended 30/06/09	Audited NZ IFRS 12 months ended 30/06/08	Audited NZ IFRS 12 months ended 30/06/07	Audited NZ IFRS 12 months ended 30/06/06
Financial performance						
Interest income	348,498	563,886	648,891	559,105	318,963	188,157
Interest expense	(259,125)	(430,496)	(485,478)	(444,004)	(239,965)	(136,222)
Gains/(losses) on financial instruments at fair value	7,301	36,323	(4,625)	(6,116)	4,163	-
Other operating income	72,715	131,729	142,953	129,113	120,395	98,373
Gain on sale of subsidiary	-	-	11,140	-	-	-
Operating expenses	(118,478)	(218,902)	(214,946)	(179,432)	(158,414)	(125,155)
Impairment losses on loans and advances	(31,007)	(17,860)	(14,345)	(4,097)	(460)	(1,892)
Profit before taxation	19,904	64,680	83,590	54,569	44,682	23,261
Income tax expense	(5,996)	(18,832)	(19,975)	(17,748)	(13,830)	(7,490)
Profit after taxation	13,908	45,848	63,615	36,821	30,852	15,771
Financial position						
	Unaudited 31/12/10	Audited 30/06/10	Audited 30/06/09	Audited 30/06/08	Audited 30/06/07	Audited 30/06/06
Total assets	12,968,625	12,238,375	10,371,035	7,219,228	4,760,290	3,072,982
Gross impaired assets	63,903	37,776	19,332	4,067	64	60
Total liabilities	12,368,299	11,649,612	10,015,869	6,893,251	4,510,934	2,900,559
Equity	600,326	588,763	355,166	325,977	249,356	172,423

On 1 July 2007, the Banking Group adopted New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). In accordance with NZ IFRS, comparative information was restated using the new accounting standards from 1 July 2006.

On 26 June 2009 Kiwibank sold its investment in Kiwi Insurance Limited and The New Zealand Home Loan Company Limited to a wholly owned subsidiary of NZP.

The amounts specified above have been taken from previous audited financial statements.

Capital adequacy

KiwiBank is subject to the capital adequacy requirements for registered banks as specified by the Reserve Bank of New Zealand (RBNZ). Following an Internationally agreed framework (commonly known as Basel 2) developed by the Basel committee on Banking supervision, the RBNZ has set minimum acceptable regulatory capital requirements and provided methods for estimating or measuring the risks incurred by the Bank. As a bank adopting a standardised approach under the Basel 2 regime, KiwiBank applies the RBNZ's BS12 - Guidelines on Internal Capital Adequacy Assessment Process (ICAAP) as a basis for estimating adequate prudential capital and BS2A -Capital Adequacy Framework, Standardised Approach for calculating regulatory capital requirements.

Regulatory capital adequacy ratios are calculated by expressing capital as a percentage of risk weighted exposures. As a condition of registration, the Bank must comply with the following minimum capital requirements set by the RBNZ:

- Total regulatory capital must not be less than 8% of risk weighted exposures.
- Tier One capital ratio must not be less than 4% of risk weighted exposures.
- Capital must not be less than NZ\$30m.

Regulatory capital

Regulatory capital consists of Tier One and Tier Two capital. Tier One capital consists primarily of Shareholder's Equity less intangible assets. Tier Two Capital is comprised primarily of subordinated debt.

The ordinary shares, which are fully paid, are included within Tier One capital. The material terms and conditions of the ordinary shares are:

- a) each share contains a single right to vote;
- b) there are no redemption, conversion or capital repayment options/facilities;
- c) there is no predetermined dividend rate;
- d) there is no maturity date; and
- e) there are no options to be granted pursuant to any agreement.

The perpetual preference shares, which are fully paid, are included within Tier One capital. The material terms and conditions of these shares are:

- a) there are no redemption, conversion or capital repayment options/facilities;
- b) dividends are paid quarterly in arrears at the discretion of the directors
- c) there is a predetermined dividend rate of 8-15%.
- d) there is no maturity date
- e) all issued shares are fully paid as at reporting period date.

Risk exposures

Risk weighted exposures are derived by assigning risk weight percentages to certain material risk categories of exposures. These exposures are measured or estimated from i) selected statement of financial position assets; ii) off statement of financial position exposures and market contracts; and iii) business unit net income.

The Bank's current prudential capital requirements based on assessments of its material risk classes can be summarised as follows:

Material risks with capital allocations (commonly referred to as "Pillar 1" risk classes under Basel 2):

- Credit risk - The vulnerability of the Banking Group's lending and investment portfolios to systemic counterparty default. The risk based capital allocation is computed based on RBNZ standardised approach Credit Risk methodology (BS2A).
- Interest rate risk in the banking book - The vulnerability of earnings to movements in interest rates and currency volatility. The risk based capital allocation is computed based on RBNZ standardised approach to Interest Rate Risk (BS2A).
- Operational risk - The risk of loss, resulting from inadequate or failed internal processes (including legal risks), people and systems and from external events. The risk based capital allocation is computed based on RBNZ standardised approach to Operational Risk methodology (BS2A).

Capital adequacy continued

The Basel 2 capital adequacy regime intends to ensure that banks have adequate capital to support all material risk inherent in their business activities. Consequently, banks are required to maintain an ICAAP for assessing overall capital adequacy in relation to their risk profile. Kiwibank's ICAAP methodology requires it to hold capital against the following "other material risks" (Pillar 2 risks).

- Earnings risk – The current or prospective risk to earnings and growth targets arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment.
- Access to capital: – The risk to the Banking Group's earnings and business objectives arising from an imbalanced internal capital structure in relation to the nature and size of the Bank, or from difficulties with raising additional capital in a timely manner.

Kiwibank's Board is ultimately responsible for capital adequacy and approves capital plans and establishes minimum internal capital levels and limits. These are typically higher than the regulatory minimum.

The capital adequacy tables set out below summarise the composition of regulatory capital and capital adequacy ratios for the period ended 31 December 2010. Throughout the period Kiwibank and the Banking Group complied with both regulatory and internal capital adequacy requirements.

	The Banking Group		Kiwibank Limited			
	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10	Unaudited 31/12/10	Unaudited 31/12/09	Audited 30/06/10
Tier One capital						
Issued and fully paid up share capital	310,000	310,000	310,000	310,000	310,000	310,000
Perpetual fully paid up non-cumulative preference shares	146,639	-	146,639	147,823	-	145,708
Revenue and similar reserves	126,418	86,986	82,915	126,416	86,984	82,913
Current period's retained earnings	13,908	23,549	45,848	13,901	23,535	45,848
Tier one minority interest	3,361	-	3,361	-	-	-
Less: Deductions from Tier One capital						
Intangible assets	(48,061)	(44,318)	(47,505)	(48,061)	(44,318)	(47,505)
Cash-flow hedge reserve	41,213	39,582	45,873	41,213	39,582	45,873
Total Tier One capital	593,478	415,799	587,131	591,292	415,783	582,837
Tier two capital - upper level tier two capital						
Perpetual fully paid up non-cumulative preference shares	-	-	-	2,177	-	4,292
Tier Two capital - lower level Tier Two capital						
Term subordinated debt	135,000	135,000	135,000	135,000	135,000	135,000
Total Tier Two capital	135,000	135,000	135,000	137,177	135,000	139,292
Capital	728,478	550,799	722,131	728,469	550,783	722,129
Capital adequacy ratios						
Total Tier One capital expressed as a percentage of total risk weighted exposures	9.5%	7.4%	9.8%	9.3%	7.2%	9.5%
Total Capital (Pillar 1) expressed as a percentage of total risk weighted exposures	11.7%	9.8%	12.0%	11.5%	9.6%	11.8%
Capital ratio (Pillar I and II) expressed as a percentage of total risk weighted exposures	11.4%	9.6%	11.7%	11.2%	9.4%	11.5%

Capital adequacy continued

		The Banking Group			
	Principal amount 31/12/10	Risk weighting 31/12/10	Risk weighted exposure 31/12/10	Minimum Pillar One Capital Requirement 31/12/10	
On-statement of financial position exposures					
Dollars in thousands					
Cash and gold bullion	79,204	0%	-	-	
Sovereigns and central banks	833,759	0%	-	-	
Multilateral development banks	68,059	0%	-	-	
		20%			
Claims on public sector entities	80,933	20%	16,187	1,295	
	12,969	50%	6,485	519	
Claims on other banks	575,693	20%	115,139	9,211	
	114,744	50%	57,372	4,590	
Corporate	76,142	20%	15,228	1,218	
	49,810	50%	24,905	1,992	
	2,573	100%	2,573	206	
Residential mortgages	8,124,656	35%	2,843,630	227,490	
	1,414,979	50%	707,490	56,599	
	533,158	75%	399,869	31,990	
	7,839	100%	7,839	627	
Impaired assets	63,903	100%	63,903	5,112	
Past due residential mortgages > 90days	24,200	100%	24,200	1,936	
Other past due assets > 90 days	10,531	100%	10,531	842	
Other assets	834,481	100%	834,481	66,758	
Non risk weighted assets	60,992	-	-	-	
Total statement of financial position exposures	12,968,625	-	5,129,832	410,385	

Capital adequacy continued

	The Banking Group						
Dollars in thousands	Total exposure 31/12/10	Credit conversion factor 31/12/10	Credit equivalent amount 31/12/10	Average risk weighting 31/12/10	Risk weighted exposure 31/12/10	Minimum Pillar One Capital Requirement 31/12/10	
Off-statement of financial position exposures and market related contracts							
Direct credit substitutes	2,157	100%	2,157	100%	2,157	173	
Asset sale with recourse		100%		0%			
Commitments with certain drawdown	48,296	100%	48,296	100%	48,296	3,864	
Note issuance facility		50%		0%			
Revolving credit facilities	88,157	0%	-	40.3%	-	-	
Revolving credit facilities	298,409	20%	59,682	40.3%	24,052	1,924	
Revolving credit facilities	370,130	50%	185,065	40.3%	74,581	5,966	
Performance related contingency	2,870	50%	1,435	100%	1,435	115	
Trade related contingency		20%		0%			
Placements of forward deposits		100%		0%			
Other commitments greater than one year	147,238	50%	73,619	40.3%	29,668	2,373	
Other commitments less than or equal to one year	1,500	20%	300	20%	60	5	
Other commitments less than or equal to one year	72,348	20%	14,470	100%	14,470	1,158	
Other commitments that cancel automatically	358,415	0%	-	0%	-	-	
Interest rate contracts	8,043,857	-	57,868	20%	11,574	926	
Foreign exchange contracts	583,615	-	47,407	20%	9,481	758	
Total off-statement of financial position exposures and market related contracts	10,016,992		490,299		215,774	17,262	
Credit Risk Mitigation							
Total value of on- and off-statement of financial position exposures covered by eligible collateral (after haircutting)	(8,064)	-	-	-	(8,064)	(645)	
Total value of on- and off-statement of financial position exposures covered by guarantees or credit derivatives	-	-	-	-	-	-	
Operational Risk	n/a	-	-	-	696,707	55,737	
Market Risk							
Interest rate risk	n/a	-	-	-	176,941	14,155	
Foreign currency risk	n/a	-	-	-	9,235	739	
Equity risk	n/a	-	-	-	-	-	
Total risk weighted exposures	22,977,553	-	-	-	6,220,425	497,633	
Other material risk	n/a	-	-	-	162,147	12,972	

• Kiwibank uses the current exposure method to calculate the credit risk on these contracts

Capital adequacy continued

KiwiBank Limited

	Principal amount 31/12/10	Risk weighting 31/12/10	Risk weighted exposure 31/12/10	Minimum Pillar One Capital Requirement 31/12/10
On-statement of financial position exposures				
Dollars in thousands				
Cash and gold bullion	79,204	0%	-	-
Sovereigns and central banks	833,765	0%	-	-
Multilateral development banks	68,059	0%	-	-
Claims on public sector entities	80,933	20%	16,187	1,295
	12,969	50%	6,485	519
Claims on other banks	575,453	20%	115,091	9,207
	114,744	50%	57,372	4,590
Corporate	661,142	20%	132,228	10,578
	49,810	50%	24,905	1,992
	17,573	100%	17,573	1,406
Residential mortgages	8,124,656	35%	2,843,630	227,490
	1,414,979	50%	707,490	56,599
	533,158	75%	399,869	31,990
	7,839	100%	7,839	627
Impaired assets	63,903	100%	63,903	5,112
Past due residential mortgages > 90days	24,200	100%	24,200	1,936
Other past due assets > 90 days	10,530	100%	10,530	842
Other assets	835,646	100%	835,646	66,852
Non risk weighted assets	60,992	-	-	-
Total statement of financial position exposures	13,569,555	-	5,262,948	421,035

Capital adequacy continued

KiwiBank Limited

	Total exposure 31/12/10	Credit conversion factor 31/12/10	Credit equivalent amount 31/12/10	Average risk weighting 31/12/10	Risk weighted exposure 31/12/10	Minimum Pillar One Capital Requirement 31/12/10
Off-statement of financial position exposures and market related contracts						
Dollars in thousands						
Direct credit substitutes	2,157	100%	2,157	100%	2,157	173
Asset sale with recourse	-	100%	-	0%	-	-
Commitments with certain drawdown	48,296	100%	48,296	100%	48,296	3,864
Note issuance facility	-	50%	-	0%	-	-
Revolving credit facilities	88,157	0%	-	40.3%	-	-
Revolving credit facilities	298,409	20%	59,682	40.3%	24,052	1,924
Revolving credit facilities	370,130	50%	185,065	40.3%	74,581	5,966
Performance related contingency	2,870	50%	1,435	100%	1,435	115
Trade related contingency	-	20%	-	0%	-	-
Placements of forward deposits	-	100%	-	0%	-	-
Other commitments greater than one year	147,238	50%	73,619	40.3%	29,668	2,373
Other commitments less than or equal to one year	72,348	20%	14,470	100%	14,470	1,158
Other commitments less than or equal to one year	1,500	20%	300	20%	60	5
Other commitments that cancel automatically	358,415	0%	-	0%	-	-
Interest rate contracts	8,043,857	-	57,868	20%	11,574	926
Foreign exchange contracts	583,615	-	47,407	20%	9,481	758
Total off-statement of financial position exposures and market related contracts	10,016,992		490,299		215,774	17,262
Credit Risk Mitigation						
Total value of on- and off-statement of financial position exposures covered by eligible collateral (after haircutting)	(8,064)	-	-	-	(8,064)	(645)
Total value of on- and off-statement of financial position exposures covered by guarantees or credit derivatives	-	-	-	-	-	-
Operational Risk	n/a	-	-	-	696,707	55,737
Market Risk						
Interest rate risk	n/a	-	-	-	176,941	14,155
Foreign currency risk	n/a	-	-	-	9,235	739
Equity risk	n/a	-	-	-	-	-
Total risk weighted exposures	23,578,483	-	-	-	6,353,541	508,283
Other material risk	n/a	-	-	-	162,147	12,972

o KiwiBank uses the current exposure method to calculate the credit risk on these contracts

Capital adequacy continued

		The Banking Group			
	Principal amount 31/12/09	Risk weighting 31/12/09	Risk weighted exposure 31/12/09	Minimum Pillar One Capital Requirement 31/12/09	
On-statement of financial position exposures					
Dollars in thousands					
Cash and gold bullion	71,188	0%	-	-	
Sovereigns and central banks	1,014,055	0%	-	-	
Multilateral development banks	56,294	0%	-	-	
	37,759	20%	7,552	604	
Claims on public sector entities	106,213	20%	21,243	1,699	
Claims on other banks	457,350	20%	91,470	7,318	
	255,668	50%	127,834	10,227	
Corporate	107,670	20%	21,534	1,723	
	78,685	50%	39,343	3,147	
Residential mortgages	7,112,078	35%	2,489,227	199,138	
	1,085,466	50%	542,733	43,419	
	702,993	75%	527,245	42,180	
	48,574	100%	48,574	3,886	
Impaired assets	31,614	100%	31,614	2,529	
Past due residential mortgages > 90days	15,126	100%	15,126	1,210	
Other past due assets > 90 days	5,955	100%	5,955	476	
Other assets	750,742	100%	750,742	60,059	
Non risk weighted assets	80,513	-	-	-	
Total statement of financial position exposures	12,017,943	-	4,720,192	377,615	

Capital adequacy continued

		The Banking Group					Minimum Pillar One Capital Requirement 31/12/09
Dollars in thousands		Total exposure 31/12/09	Credit conversion factor 31/12/09	Credit equivalent amount 31/12/09	Average risk weighting 31/12/09	Risk weighted exposure 31/12/09	
Off-statement of financial position exposures and market related contracts							
Direct credit substitutes		1,186	100%	1,186	100%	1,186	95
Asset sale with recourse		-	100%	-	0%	-	-
Commitments with certain drawdown		16,704	100%	16,704	100%	16,704	1,336
Note issuance facility		-	50%	-	0%	-	-
Revolving credit facilities		75,334	0%	-	41%	-	-
Revolving credit facilities		258,632	20%	51,726	41%	21,208	1,697
Revolving credit facilities		309,148	50%	154,574	41%	63,375	5,070
Performance related contingency		2,043	50%	1,022	100%	1,022	82
Trade related contingency		-	20%	-	0%	-	-
Placements of forward deposits		-	100%	-	0%	-	-
Other commitments greater than one year		183,085	50%	91,543	41%	37,533	3,003
Other commitments less than or equal to one year		29,000	20%	5,800	20%	1,160	92
Other commitments less than or equal to one year		74,517	20%	14,903	100%	14,903	1,192
Other commitments that cancel automatically		284,115	0%	-	0%	-	-
Interest rate contracts		10,490,020	-	58,810	20%	11,762	941
Foreign exchange contracts		813,635	-	35,445	20%	7,089	567
Total off-statement of financial position exposures and market related contracts		12,537,419		431,713		175,942	14,075
Credit Risk Mitigation							
Total value of on- and off-statement of financial position exposures covered by eligible collateral (after haircutting)		(9,794)	-	-	-	(9,794)	(784)
Total value of on- and off-statement of financial position exposures covered by guarantees or credit derivatives		-	-	-	-	-	-
Operational Risk		n/a	-	-	-	547,129	43,770
Market Risk							
Interest rate risk		n/a	-	-	-	170,925	13,674
Foreign currency risk		n/a	-	-	-	2,676	214
Equity risk		n/a	-	-	-	-	-
Total risk weighted exposures		24,545,568				5,607,070	448,564
Other material risk		n/a	-	-	-	136,496	10,920

• Kiwibank uses the current exposure method to calculate the credit risk on these contracts

Capital adequacy continued

KiwiBank Limited

	Principal amount 31/12/09	Risk weighting 31/12/09	Risk weighted exposure 31/12/09	Minimum Pillar One Capital Requirement 31/12/09
On-statement of financial position exposures				
Dollars in thousands				
Cash and gold bullion	71,188	0%	-	-
Sovereigns and central banks	1,014,055	0%	-	-
Multilateral development banks	56,294	0%	-	-
	37,759	20%	7,552	604
Claims on public sector entities	106,213	20%	21,243	1,699
Claims on other banks	456,484	20%	91,297	7,304
	255,669	50%	127,835	10,227
Corporate	696,987	20%	139,197	11,136
	78,685	50%	39,343	3,147
	15,000	100%	15,000	1,200
Residential mortgages	7,112,078	35%	2,489,227	199,138
	1,085,466	50%	542,733	43,419
	702,993	75%	527,245	42,180
	48,574	100%	48,574	3,886
Impaired assets	31,614	100%	31,614	2,529
Past due residential mortgages > 90days	15,126	100%	15,126	1,210
Other past due assets > 90 days	5,955	100%	5,955	476
Other assets	749,348	100%	749,348	59,948
Non risk weighted assets	80,513	-	-	-
Total statement of financial position exposures	12,619,001	-	4,851,289	388,103

Capital adequacy continued

KiwiBank Limited

	Dollars in thousands						Minimum Pillar One Capital Requirement 31/12/09
	Total exposure 31/12/09	Credit conversion factor 31/12/09	Credit equivalent amount 31/12/09	Average risk weighting 31/12/09	Risk weighted exposure 31/12/09		
Off-statement of financial position exposures and market related contracts							
Direct credit substitutes	1,186	100%	1,186	100%	1,186		95
Asset sale with recourse	-	100%	-	0%	-		-
Commitments with certain drawdown	16,704	100%	16,704	100%	16,704		1,336
Note issuance facility	-	50%	-	0%	-		-
Revolving credit facilities	75,334	0%	-	41%	-		-
Revolving credit facilities	258,632	20%	51,726	41%	21,208		1,697
Revolving credit facilities	309,148	50%	154,574	41%	63,375		5,070
Performance related contingency	2,043	50%	1,022	100%	1,022		82
Trade related contingency	-	20%	-	0%	-		-
Placements of forward deposits	-	100%	-	0%	-		-
Other commitments greater than one year	183,085	50%	91,543	41%	37,533		3,003
Other commitments less than or equal to one year	74,517	20%	14,903	100%	14,903		1,192
Other commitments less than or equal to one year	29,000	20%	5,800	20%	1,160		93
Other commitments that cancel automatically	284,115	0%	-	0%	-		-
Interest rate contracts	10,490,020	-	58,810	20%	11,762		941
Foreign exchange contracts	813,635	-	35,445	20%	7,089		567
Total off-statement of financial position exposures and market related contracts	12,537,419		431,713		175,942		14,076
Credit Risk Mitigation							
Total value of on- and off-statement of financial position exposures covered by eligible collateral (after haircutting)	(9,794)	-	-	-	(9,794)		(784)
Total value of on- and off-statement of financial position exposures covered by guarantees or credit derivatives	-	-	-	-	-		-
Operational Risk	n/a	-	-	-	547,129		43,770
Market Risk							
Interest rate risk	n/a	-	-	-	170,925		13,674
Foreign currency risk	n/a	-	-	-	2,676		214
Equity risk	n/a	-	-	-	-		-
Total risk weighted exposures	25,146,626	-	-	-	5,738,167		459,053
Other material risk	n/a	-	-	-	136,496		10,920

• KiwiBank uses the current exposure method to calculate the credit risk on these contracts

Capital adequacy continued

		The Banking Group			
	Principal amount 30/06/10	Risk weighting 30/06/10	Risk weighted exposure 30/06/10	Minimum Pillar One Capital Requirement 30/06/10	
On-statement of financial position exposures					
Dollars in thousands					
Cash and gold bullion	44,372	0%	-	-	
Sovereigns and central banks	720,287	0%	-	-	
Multilateral development banks	52,693	0%	-	-	
	35,837	20%	7,167	574	
Claims on public sector entities	75,076	20%	15,015	1,201	
Claims on other banks	480,234	20%	96,047	7,684	
	99,090	50%	49,545	3,963	
Corporate	69,464	20%	13,893	1,111	
	35,595	50%	17,798	1,424	
	16,002	100%	16,002	1,280	
Residential mortgages	7,650,017	35%	2,677,506	214,201	
	1,297,099	50%	648,550	51,884	
	653,055	75%	489,791	39,183	
	3,532	100%	3,532	283	
Impaired assets	37,776	100%	37,776	3,022	
Past due residential mortgages > 90 days	19,152	100%	19,152	1,532	
Other past due assets > 90 days	10,517	100%	10,517	841	
Other assets	864,258	100%	864,258	69,141	
Non risk weighted assets	74,319	-	-	-	
Total statement of financial position exposures	12,238,375	-	4,966,549	397,324	

Capital adequacy continued

	The Banking Group					
	Total exposure 30/06/10	Credit conversion factor 30/06/10	Credit equivalent amount 30/06/10	Average risk weighting 30/06/10	Risk weighted exposure 30/06/10	Minimum Pillar One Capital Requirement 30/06/10
Off-statement of financial position exposures and market related contracts						
Dollars in thousands						
Direct credit substitutes	1,473	100%	1,473	100%	1,473	118
Asset sale with recourse	-	100%	-	0%	-	-
Commitments with certain drawdown	9,494	100%	9,494	100%	9,494	760
Note issuance facility		50%		0%		
Revolving credit facilities	55,950	0%	-	40.5%	-	-
Revolving credit facilities	271,466	20%	54,293	40.5%	21,989	1,759
Revolving credit facilities	333,013	50%	166,507	40.5%	67,435	5,395
Performance related contingency	2,236	50%	1,118	100%	1,118	89
Trade related contingency		20%		0%		
Other commitments greater than one year	139,007	50%	69,504	40.5%	28,149	2,252
Other commitments less than or equal to one year	31,722	20%	6,344	100%	6,344	508
Other commitments less than or equal to one year	21,000	20%	4,200	20%	840	67
Other commitments that cancel automatically	331,757	0%	-	0%	-	-
Market related contracts: o	-	-	-	0%	-	-
Interest rate contracts	9,935,066		61,909	20%	12,382	991
Foreign exchange contracts	515,237		27,333	20%	5,467	437
Total off-statement of financial position exposures	11,647,421		402,175		154,691	12,376
Total value of on- and off-statement of financial position exposures covered by eligible collateral (after haircutting)	(8,516)	-	-	-	(8,516)	(681)
Total value of on- and off-statement of financial position exposures covered by guarantees or credit derivatives	-	-	-	-	-	-
Operational Risk	n/a	-	-	-	623,663	49,893
Market Risk						
Interest rate risk	n/a	-	-	-	254,733	20,379
Foreign currency risk	n/a	-	-	-	6,306	505
Equity risk	n/a	-	-	-	-	-
Total risk weighted exposures	23,877,280	-	-	-	5,997,426	479,796
Other material risk (Pillar II)	n/a				159,370	12,750

o Kiwibank uses the current exposure method to calculate the credit risk on these contracts

Capital adequacy continued

Kiwibank Limited				
	Principal amount 30/06/10	Risk weighting 30/06/10	Risk weighted exposure 30/06/10	Minimum Pillar One Capital Requirement 30/06/10
On-statement of financial position exposures				
Dollars in thousands				
Cash and gold bullion	44,372	0%	-	-
Sovereigns and central banks	720,287	0%	-	-
Multilateral development banks	52,693	0%	-	-
	35,837	20%	7,167	573
Claims on public sector entities	75,076	20%	15,015	1,201
Claims on other banks	480,172	20%	96,034	7,683
	99,090	50%	49,545	3,963
Corporate	657,682	20%	131,536	10,523
	35,595	50%	17,798	1,424
	31,002	100%	31,002	2,480
Residential mortgages	7,650,017	35%	2,677,506	214,201
	1,297,099	50%	648,550	51,884
	653,055	75%	489,791	39,183
	3,532	100%	3,532	283
Impaired assets	37,776	100%	37,776	3,022
Past due residential mortgages > 90 days	19,152	100%	19,152	1,532
Other past due assets > 90 days	10,517	100%	10,517	841
Other assets	862,113	100%	862,113	68,969
Non risk weighted assets	74,319	-	-	-
Total statement of financial position exposures	12,839,386	-	5,097,034	407,762

Capital adequacy continued

Kiwibank Limited						
Dollars in thousands	Total exposure 30/06/10	Credit conversion factor 30/06/10	Credit equivalent amount 30/06/10	Average risk weighting 30/06/10	Risk weighted exposure 30/06/10	Minimum Pillar One Capital Requirement 30/06/10
Off-statement of financial position exposures and market related contracts						
Direct credit substitutes	1,473	100%	1,473	0%	1,473	118
Asset sale with recourse	-	100%	-	0%	-	-
Commitments with certain drawdown	9,494	100%	9,494	100%	9,494	760
Note issuance facility		50%		0%		
Revolving credit facilities	55,950	0%	-	40.5%	-	-
Revolving credit facilities	271,466	20%	54,293	40.5%	21,989	1,759
Revolving credit facilities	333,013	50%	166,507	40.5%	67,435	5,395
Performance related contingency	2,236	50%	1,118	100%	1,118	89
Trade related contingency		20%		0%		
Other commitments greater than one year	139,007	50%	69,504	40.5%	28,149	2,252
Other commitments less than or equal to one year	31,722	20%	6,344	100%	6,344	508
Other commitments less than or equal to one year	21,000	20%	4,200	20%	840	67
Other commitments that cancel automatically	331,757	0%	-	0%	-	-
Market related contracts: ①	-	-	-	0%	-	-
Interest rate contracts	9,935,066		61,909	20%	12,382	991
Foreign exchange contracts	515,237		27,333	20%	5,467	437
Total off-statement of financial position exposures	11,647,421		402,175		154,691	12,376
Total value of on- and off-statement of financial position exposures covered by eligible collateral (after haircutting)	(8,516)	-	-	-	(8,516)	(681)
Total value of on- and off-statement of financial position exposures covered by guarantees or credit derivatives	-	-	-	-	-	-
Operational Risk	n/a	-	-	-	623,663	49,893
Market Risk						
Interest rate risk	n/a	-	-	-	254,733	20,379
Foreign currency risk	n/a	-	-	-	6,306	505
Equity risk	n/a	-	-	-	-	-
Total risk weighted exposures	24,478,291	-	-	-	6,127,911	490,234
Other material risk (Pillar II)	n/a				159,370	12,750

① Kiwibank uses the current exposure method to calculate the credit risk on these contracts

Residential mortgages by loan-to-value ratio

The Banking Group	Unaudited as at 31/12/10	Unaudited as at 31/12/09	Audited as at 30/06/10
Dollars in thousands			
LVR 0%-80%	8,124,656	7,071,277	7,650,017
LVR 80%-90%	1,414,979	1,048,339	1,297,099
LVR 90% +	540,997	829,495	656,857

At 31 December 2010, of the LVR 90%, + balance above, \$347m relates to "Welcome Home" loans, whose credit risk is mitigated by the Crown. Of the other loans > LVR 80% and LVR 90%+, loan mortgage insurance is used to mitigate credit risk.

Market risk exposures

Market risk exposures have been calculated in accordance with the methodology detailed in Part 10 of the RBNZ's BS2A Capital Adequacy Framework, and Schedule 4A of the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008. Peak exposures are calculated using the Banking Group's shareholder's equity at the end of the quarter.

	The Banking Group					
	Unaudited As at 31/12/10	Unaudited As at 31/12/09	Audited As at 30/06/10	Unaudited Peak for 3 months ended 31/12/10	Unaudited Peak for 3 months ended 31/12/09	Audited Peak for 3 months ended 30/06/10
Dollars in thousands						
Interest rate exposures						
Aggregate interest rate exposures	14,155	13,674	20,379	17,996	17,701	22,202
Aggregate interest rate exposures expressed as a percentage of the Banking Group's shareholder's equity	2.4%	3.3%	3.5%	3.0%	4.2%	3.8%
Implied interest rate risk weighted exposure	176,938	170,925	254,738	224,950	221,263	277,525
Foreign currency exposures						
Aggregate foreign currency exposures	739	149	524	1,272	671	654
Aggregate foreign currency exposures expressed as a percentage of the Banking Group's shareholder's equity	0.1%	0.0%	0.1%	0.2%	0.2%	0.1%
Implied interest rate risk weighted exposure	9,238	1,863	6,550	15,900	8,388	8,175

The Banking Group holds no equity instruments.

