kiwibank

General Disclosure Statement & Annual Report

Number 36

For the year ended 30 June 2010

Contents

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 year ended 30 June 2010, in accordance with the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008 (the "Order") and with the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008 (Government Guarantee) Amendment Order 2008. 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, 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 310,000,000 voting securities of Kiwibank. Kiwi Group Holdings Limited is the registered and beneficial holder of all those voting securities, following their acquisition of Kiwibank Limited on 26 June 2009. 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(2)(a) of the Securities Markets Act 1988.

NZP has the power under Kiwibank's constitution to appoint any person as a director of Kiwibank either to fill a casual vacancy or as an additional director or to remove any person from the office of director by giving written notice to 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 30 June 2010. On 21 August 2008, this credit rating was reaffirmed as AA- and the outlook was revised from negative (27 April 2007) to stable. This credit rating was reaffirmed on 10 March 2009 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"), a Crown deed of guarantee entered into by the New Zealand Government and Kiwibank under the New Zealand retail deposit guarantee scheme (the "Crown Retail 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 30 June 2010:

The address for service of NZP is New Zealand Post House, Level 12, 7-27 Waterloo Quay, Wellington, New Zealand.

NZP is not a member of the Kiwibank Banking Group (as that term is defined in the Order).

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.

There are no limits on the amount of the undisputed payment obligations guaranteed.

There are no material conditions applying to the NZP Guarantee other than non-performance by the principal obligor.

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 30 June 2010. On 21 August 2008, this credit rating was reaffirmed as AA- and the outlook was revised from negative (10 April 2007) to stable. This credit rating was reaffirmed on 10 March 2009 as AA- stable. For an explanation of Standard & Poor's (Australia) Pty Limited's credit rating scale see the Crown Retail Guarantee section below.

Crown Retail Guarantee

The following is a summary of the features of the Crown Retail Guarantee:

i. The guarantor under the Crown Retail Guarantee is Her Majesty the Queen in right of New Zealand acting by and through the Minister of Finance (the "Crown").

ii. The Crown's address for service is 1 The Terrace, Wellington 6011, New Zealand.

iii. The Crown guarantees the payment by Kiwibank of money owing under "debt securities" to "creditors" (as those terms are defined in the Crown Retail Guarantee). This includes retail deposits held by Kiwibank plus deposits held on behalf of the Kiwibank PIE Unit Trust. Debt securities issued to (including retail deposits held by) related parties of Kiwibank and financial institutions are excluded. Related parties of Kiwibank include Kiwibank's subsidiaries and its ultimate parent, NZP.

iv. The Crown Retail Guarantee expires at 12:01am on 12 October 2010. The Government has extended the Crown Retail Guarantee to 31 December 2011 and Kiwibank could apply for an extension of the Crown Retail Guarantee. As at the date on which this General Disclosure Statement is signed, the Banking Group does not intend to apply to be covered under the extended scheme.

Guarantees continued

v. The maximum liability of the Crown under the Crown Retail Guarantee is one million New Zealand dollars ($1,000,000) in aggregate to each creditor or such other amount as may, in respect of a "nominated beneficiary" (as defined in the Crown Retail Guarantee), be specified in or determined in accordance with the relevant "nomination" (as those terms are defined in the Crown Retail Guarantee).

The Crown Retail Guarantee provides that in the event Kiwibank defaults on its payment obligations, Kiwibank must use all reasonable endeavours to ensure that all creditors claim under any other applicable guarantee before the Crown Retail Guarantee.

Other than this provision, there are no material conditions applying to the Crown Retail Guarantee other than non-performance by the principal obligor.

Additional information on the Crown Retail 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.

As at 30 June 2010 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

There have been no changes made to the rating in the two years preceding 30 June 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 Investor Services applies numeric modifies 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.

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 in part i of the Crown Retail Guarantee section.

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 ugarantee 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

There have been no changes made to the rating in the two years preceding 30 June 2010. The table on page 6 above describes the steps in the applicable rating scales for each rating agency:

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 and the Crown Retail 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 at no charge to any person 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 30 March 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" (BS2A) dated November 2007.

1a. That:

   vi. the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a bank's internal capital adequacy assessment process ("ICAAP")" (BS12) dated December 2007;

   vii. 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)" (BS2A) dated November 2007; and

viii. 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 disapplied 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 balance sheet 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	Connected exposure limit (% of the Banking Group's Tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	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 March 2008.

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

Non-executive director, chair
Rt. Hon. James Brendan Bolger
ONZ, Hon D Lit
Company director
Country of residence: New Zealand
Chair, New Zealand Post Limited, *Kiwirail Group of Companies, Gas Industry Company Limited, Trustees Executors Limited, Express Couriers Limited, Parcel Direct Group Pty Limited, Ian Axford Foundation, New Zealand – United States Council. Shareholder ,Hollow Lands Limited Chancellor of Waikato University.
* Resigned 1 May 2010

Non-executive directors
David 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
Advisor, Bain and Company (Australia), Ernst and Young (Australia), Gen-i (Australia and New Zealand).
* Appointed 21 July 2010

Murray Gribben
BA (Hons) Econ, MBA
Company director*
Country of residence: New Zealand
Director, New Zealand Post Limited, Ruapehu Alpine Lifts Limited**
Trustee, New Zealand Post Superannuation Plan***
* Appointed 21 June 2010
** Appointed 18 May 2010
*** Appointed 1 May 2010

Hon. Dr. Michael John Cullen
MA, Ph.D
Company director*
Country of residence: New Zealand
Director and Deputy Chair, New Zealand Post Limited
Trustee and Chair, New Zealand Post Superannuation Plan**.
Chair, Tuhoe Investment Committee
Principal Treaty Claims Negotiator, Tuwharetoa.
Chief Adviser to the Chief Executive, Waikato-Tainui.
Chief Claims Negotiator, Mana Ahuriri Incorporated
* Appointed 13 July 2009
** Appointed 1 November 2009

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**, NZP Group Holdings Limited***, Rugby New Zealand 2011 Limited, Valley Road Forest Limited.
Chair New Zealand Transport Authority (resigned 31 March 2010)
* Appointed 3 February 2010, ** Appointed 18 January 2010
*** Appointed 6 July 2010

Independent non-executive directors
Richard Gordon Alexander Westlake
MA
Company director
Country of residence: New Zealand
Director, Westlake Consulting Limited, Homesick-Kiwi Limited, Intergen Limited, GZ2 Holdings Limited, Dairy Goat Co-operative (NZ) Limited. Community Support Services ITO Limited*
Chair, Standards Council of New Zealand, Telecommunications Carriers' Forum Inc. Independent Chairman, Better Border Bio-Security, (to 16 March 2010)
* Appointed 30 July 2010

Ian Robert Fitzgerald
BA, MA (Hons)
Company director
Country of residence: New Zealand
Director, Burleigh Evatt Limited, Burleigh Evatt Holdings Limited, Burleigh Evatt Consulting Limited, Burleigh Evatt Investments Limited, Real Journeys Limited*, Te Anau Developments Limited**, Wellington Archdiocese Board of Administration.
* Appointed 18 December 2009
** Appointed 13 January 2010

Directorate continued

Alison Rosemary Gerry
BMS (Hons), MAppFin
Company director
Country of residence: New Zealand
Director, Lindis Crossing Vineyard Limited, Glendora Holdings Limited, Glendora Avocados Limited, Random Walk (2010) Limited*, Queenstown Airport Corporation Limited**, Pioneer Generation Limited***.

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 PricewaterhouseCoopers, acting as agent on behalf of the Office of the Auditor-General. Her address for service is PricewaterhouseCoopers, 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 year ended 30 June 2010:
   - i. Kiwibank has complied with the conditions of registration applicable during the year;
   - 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 the Rt Hon. James Bolger and Richard Westlake as directors and responsible persons on behalf of all the directors listed on page 11 of this Disclosure Statement:

17 August 2010

Financial statements

Financial statements

Statements of comprehensive income

For the year ended 30 June 2010

		The Banking Group		Kiwibank Limited	
Dollars in thousands	Note	**12 months ended 30/06/10**	12 months ended 30/06/09	**12 months ended 30/06/10**	12 months ended 30/06/09
Interest income	2	**563,886**	648,891	**583,599**	648,001
Interest expense	2	**(430,496)**	(485,478)	**(450,230)**	(485,803)
Net interest income		**133,390**	163,413	**133,369**	162,198
Gains/(losses) on financial instruments at fair value	3	**36,323**	(4,625)	**36,323**	(4,625)
Other income	4	**131,729**	154,093	**135,303**	142,451
Total operating income		**301,442**	312,881	**304,995**	300,024
Operating expenses	5	**(218,902)**	(214,946)	**(222,455)**	(199,322)
Impairment losses on loans and advances	24	**(17,860)**	(14,345)	**(17,860)**	(14,345)
Profit before taxation		**64,680**	83,590	**64,680**	86,357
Income tax expense	6	**(18,832)**	(19,975)	**(18,832)**	(20,612)
Profit after taxation		**45,848**	63,615	**45,848**	65,745
Other comprehensive income					
Available-for-sale reserve					
Net (loss)/gain from changes in reserve	23	**(4,846)**	10,853	**(4,846)**	10,853
Cash flow hedge reserve					
Net gain/(loss) from changes in reserve	23	**37,344**	(88,604)	**37,344**	(88,604)
Income tax (expense)/credit relating to components of other comprehensive income		**(9,749)**	23,325	**(9,749)**	23,325
Other comprehensive income for the year		**22,749**	(54,426)	**22,749**	(54,426)
Total comprehensive income for the year		**68,597**	9,189	**68,597**	11,319
Attributable to:					
Owners of the parent		**68,597**	9,189	**68,597**	11,319
Non controlling interest		**-**	-		

The notes on pages 21 to 102 form part of these financial statements.

Financial statements

Consolidated statements of changes in equity

The Banking Group	Note	Fully Paid Ordinary Shares	Retained Earnings	Available For Sale Reserve	Cash Flow Hedge Reserve	Non controlling interest	Total
		$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2008		275,000	64,751	(3,783)	(9,991)	-	325,977
Comprehensive income							
Profit for the year		-	63,615	-	-	-	63,615
Other comprehensive income							
Available for sale financial assets		-	-	7,597	-	-	7,597
Cash flow hedges		-	-	-	(62,023)	-	(62,023)
Total other comprehensive income		-	-	7,597	(62,023)	-	(54,426)
Total comprehensive income		-	63,615	7,597	(62,023)	-	9,189
Issuance of ordinary share capital		20,000	-	-	-	-	20,000
Balance at 30 June 2009		**295,000**	**128,366**	**3,814**	**(72,014)**	**-**	**355,166**
Comprehensive income							
Profit for the year		-	**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**
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		**310,000**	**174,214**	**422**	**(45,873)**	**150,000**	**588,763**

The notes on pages 21 to 102 form part of these financial statements.

Financial statements
Consolidated statements of changes in equity

Kiwibank Limited	Note	Fully Paid Ordinary Shares $'000	Perpetual Preference Shares $'000	Retained Earnings $'000	Available For Sale Reserve $'000	Cash Flow Hedge Reserve $'000	Total $'000
Balance at 1 July 2008		275,000	-	62,619	(3,783)	(9,991)	323,845
Comprehensive income							
Profit for the year		-	-	65,745	-	-	65,745
Other comprehensive income							
Available for sale financial assets		-	-	-	7,597	-	7,597
Cash flow hedges		-	-	-	-	(62,023)	(62,023)
Total other comprehensive income		-	-	-	7,597	(62,023)	(54,426)
Total comprehensive income		-	-	65,745	7,597	(62,023)	11,319
Issuance of ordinary share capital		20,000	-	-	-	-	20,000
Balance at 30 June 2009		**295,000**	-	**128,364**	**3,814**	**(72,014)**	**355,164**
Comprehensive income							
Profit for the year		-	-	**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**
Issuance of ordinary share capital		**15,000**	-	-	-	-	**15,000**
Issuance of perpetual preference shares		-	**150,000**	-	-	-	**150,000**
Balance at 30 June 2010		**310,000**	**150,000**	**174,212**	**422**	**(45,873)**	**588,761**

The notes on pages 21 to 102 form part of these financial statements.

Financial statements continued

Statements of financial position

As at 30 June 2010

Dollars in thousands	Note	The Banking Group **12 months ended 30/06/10**	The Banking Group 12 months ended 30/06/09	Kiwibank Limited **12 months ended 30/06/10**	Kiwibank Limited 12 months ended 30/06/09
Assets					
Cash and cash equivalents	8	**303,866**	293,805	**303,804**	293,803
Balances with NZP related parties	25	**-**	-	**600,916**	600,271
Due from other financial institutions	9	**156,871**	-	**156,871**	-
Financial assets held for trading	10	**671,152**	726,492	**671,152**	726,492
Available-for-sale assets	11	**544,453**	697,407	**544,453**	697,407
Loans and advances	12	**10,418,502**	8,492,013	**10,418,502**	8,492,013
Derivative financial instruments	13	**46,320**	49,342	**46,320**	49,342
Property, plant and equipment	15	**20,182**	19,853	**20,182**	19,853
Intangible assets	16	**47,505**	43,181	**47,505**	43,181
Deferred taxation	7	**20,813**	30,474	**20,813**	30,474
Other assets	17	**8,711**	18,468	**8,868**	18,468
Total assets		**12,238,375**	10,371,035	**12,839,386**	10,971,304
Interest bearing assets		***12,160,670***	*10,271,267*	***12,761,524***	*10,871,536*
Liabilities					
Due to other financial institutions	18	**164,051**	316,648	**164,051**	316,648
Balances with NZP related parties	25	**12,114**	37,572	**613,241**	637,934
Deposits and other borrowings	20	**10,295,325**	8,265,576	**10,295,325**	8,265,576
Derivative financial instruments	13	**202,588**	304,287	**202,588**	304,287
Debt securities issued	21	**795,237**	912,540	**795,237**	912,540
Current taxation	7	**4,636**	4,027	**4,636**	4,027
Other liabilities	22	**32,362**	31,653	**32,248**	31,562
Term subordinated debt	19	**143,299**	143,566	**143,299**	143,566
Total liabilities		**11,649,612**	10,015,869	**12,250,625**	10,616,140
Interest bearing liabilities		***11,610,500***	***9,977,617***	***12,211,582***	*10,577,942*
Equity attributable to owners of the parent					
Share capital		**310,000**	295,000	**460,000**	295,000
Reserves		**128,763**	60,166	**128,761**	60,164
Total equity attributable to owners of the parent	23	**438,763**	355,166	**588,761**	355,164
Non controlling interest	23	**150,000**	-		
Total equity		**588,763**	355,166	**588,761**	355,164
Total liabilities and shareholder's equity		**12,238,375**	10,371,035	**12,839,386**	10,971,304

The notes on pages 21 to 102 form part of these financial statements.

The board of directors of Kiwibank Limited authorised these financial statements for issue on 17 August 2010.

Rt. Hon. James Bolger

Richard Westlake

Financial statements continued

Cash flow statements

For the year ended 30 June 2010

Dollars in thousands	Note	The Banking Group 12 months ended 30/06/10	The Banking Group 12 months ended 30/06/09	Kiwibank Limited 12 months ended 30/06/10	Kiwibank Limited 12 months ended 30/06/09
Cash flows from operating activities					
Interest received		**553,565**	643,776	**573,218**	642,869
Fees and other income		**131,729**	155,208	**135,303**	137,790
Operating expenses paid		**(199,524)**	(217,920)	**(203,189)**	(203,249)
Interest paid		**(403,395)**	(495,953)	**(423,129)**	(496,278)
Taxes paid		**(18,311)**	(21,654)	**(18,311)**	(20,902)
Net cash flows from operating activities before changes in operating assets and liabilities		**64,064**	63,457	**63,892**	60,230
Net changes in operating assets and liabilities:					
Decrease/(increase) in financial assets held for trading		**51,026**	(307,289)	**51,026**	(307,289)
Decrease in available-for-sale assets		**138,751**	19,157	**138,751**	18,637
Increase in loans and advances		**(1,933,045)**	(2,787,485)	**(1,933,045)**	(2,787,485)
Increase in amounts due from related parties - term		**-**	-	**(645)**	(600,271)
(Increase)/decrease in balances due from other financial institutions		**(156,871)**	150,910	**(156,871)**	150,910
Increase in deposits and other borrowings		**2,002,648**	2,523,461	**2,002,648**	2,523,461
(Decrease)/increase in amounts due to related parties - term		**(25,000)**	35,000	**(24,243)**	635,325
Decrease in balances due to other financial institutions		**(152,597)**	(157,629)	**(152,597)**	(157,629)
Net cash flows provided by operating activities		**(11,024)**	(460,418)	**(11,084)**	(464,111)
Cash flows from investing activities					
Sale of subsidiaries (net)		**-**	39,004	**-**	41,470
Sale of share option obligation		**-**	(22,100)	**-**	(22,100)
Purchase of property, plant and equipment		**(8,701)**	(6,159)	**(8,701)**	(6,067)
Purchase of intangible software assets		**(17,911)**	(18,530)	**(17,911)**	(18,530)
Dividends received		**-**	-	**-**	2,310
Net cash flows from investing activities		**(26,612)**	(7,785)	**(26,612)**	(2,917)
Cash flows from financing activities					
Issue of ordinary shares		**18,361**	20,000	**15,000**	20,000
Issue of perpetual preference shares		**150,000**	-	**150,000**	-
Issuance costs of perpetual preference shares		**(3,361)**	-	**-**	-
Proceeds from term subordinated debt		**-**	60,000	**-**	60,000
(Decrease)/increase in debt securities issued		**(117,303)**	426,102	**(117,303)**	426,102
Dividends paid		**-**	(1,329)	**-**	-
Net cash flows from financing activities		**47,697**	504,773	**47,697**	506,102
Increase in cash and cash equivalents		**10,061**	36,570	**10,001**	39,074
Cash and cash equivalents at beginning of the year		**293,805**	257,235	**293,803**	254,729
Cash and cash equivalents at end of the year	8	**303,866**	293,805	**303,804**	293,803

Financial statements continued

Cash flow statements continued

For the year ended 30 June 2009

	The Banking Group		Kiwibank Limited	
Dollars in thousands	**12 months ended 30/06/10**	12 months ended 30/06/09	**12 months ended 30/06/10**	12 months ended 30/06/09
Reconciliation of net profit after taxation to net cash flows from operating activities				
Net profit after taxation	**45,848**	63,615	**45,848**	65,745
Non cash movements/non operating activities				
Unrealised fair value adjustments	**(35,305)**	5,982	**(35,305)**	5,982
Depreciation	**6,621**	5,332	**6,621**	5,297
Amortisation of intangibles	**12,617**	11,991	**12,617**	11,424
Intangible asset write off	**2,720**	-	**2,720**	-
Increase in deferred expenditure	**(5,082)**	(10,274)	**(5,082)**	(9,502)
Increase in provision for credit impairment	**7,298**	9,297	**7,298**	9,297
Lending losses written off	**10,562**	5,048	**10,562**	5,048
Increase in deferred taxation	**(1,105)**	(35,354)	**(1,105)**	(32,903)
(Decrease)/Increase in operating assets and liabilities				
Increase in financial assets held for trading	**51,026**	(307,289)	**51,026**	(307,289)
Decrease in available-for-sale assets	**138,751**	19,157	**138,751**	18,637
Increase in loans and advances	**(1,933,045)**	(2,787,485)	**(1,933,045)**	(2,787,485)
Increase in amounts due from related parties	**-**	-	**(645)**	(600,271)
Decrease/(increase) in balances due from other financial institutions	**(156,871)**	150,910	**(156,871)**	150,910
Increase in deposits	**2,002,648**	2,523,461	**2,002,648**	2,523,461
(Decrease)/increase in amounts due to related parties - term	**(25,000)**	35,000	**(24,243)**	635,325
Decrease in balances due to other financial institutions	**(152,597)**	(157,629)	**(152,597)**	(157,629)
Increase in accrued operating expenses	**709**	3,170	**686**	4,677
Increase/(decrease) in interest payable	**27,101**	(10,475)	**27,101**	(10,475)
Increase in interest receivable	**(5,239)**	(5,115)	**(5,239)**	(5,132)
Decrease in balances with related parties	**(458)**	(1,229)	**(450)**	(1,175)
Increase in current taxation	**609**	10,079	**609**	10,169
Decrease in other assets	**(2,832)**	11,390	**(2,989)**	1,778
Net cash flows from operating activities	**(11,024)**	(460,418)	**(11,084)**	(464,111)

The notes on pages 21 to 102 form part of these financial statements.

Notes to the financial statements

1. Statement of accounting policies

Reporting entity and statutory base

In these 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 financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. They comply with the 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 financial statements comply with International Financial Reporting Standards.

These financial statements have been approved for issue by the Board of Directors on 17 August 2010.

The preparation of these 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 and amendments to standards are mandatory for financial years commencing after 1 January 2009 and were adopted in the interim financial statements for the periods ending 30 September 2009 and 31 December 2009 and in these annual financial statements.

NZ IAS 1 (revised), *Presentation of financial statements*

This revised standard prohibits the presentation of items of income and expense (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, Kiwibank presents, in the consolidated statement of changes in equity, all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. The change in accounting policy only impacts presentation aspects.

NZ IFRS 7, *Financial instruments – Disclosures (amendment)*

The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy.

NZ IFRS 8, *Operating Segments*

NZ IFRS 8 replaces NZ IAS 14, 'Segment reporting", and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision-maker.

1. Statement of accounting policies continued

NZ IFRS 3 – *Business Combinations and* NZ IAS 27 - *Consolidated and Separate Financial Statements*

A revised NZ IFRS 3 Business Combinations and amended NZ IAS 27 Consolidated and Separate Financial Statements were issued in February 2008. The revisions to the standards apply prospectively to business combinations and are effective from 1 July 2009.
The main changes under the standards are that:

- acquisition related costs are recognised as an expense in the statement of comprehensive income in the period they are incurred;
- earn-outs and contingent considerations will be measured at fair value at the acquisition date, however remeasurement in the future will be recognised in the statement of comprehensive income;
- step acquisitions, impacting equity interests held prior to control being obtained, are remeasured to fair value, with gains and losses being recognised in the statement of comprehensive income. Similarly where control is lost, any difference between the fair value of the residual holding and its carrying value is recognised in the statement of comprehensive income; and
- while control is retained, transactions with minority interests would be treated as equity transactions.

The following new standards, amendments or interpretations to existing standards 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 December 2009) 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. Further amendments to policies applied under NZ IAS 39 are expected but not yet finalised.

Measurement base

These 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.

Currency of presentation

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

Specific accounting policies

Basis of consolidation

The Banking Group's financial statements consolidate the 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.

Notes to the financial statements continued

1. Statement of accounting policies

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 balance 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.

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 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.

Financial liabilities designated at fair value through profit or loss consist of a portion of the term subordinated debt. 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 profit or loss 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 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.

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.

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".

Notes to the financial statements continued

1. Statement of accounting policies continued

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.

1. Statement of accounting policies continued

Impairment of non-financial assets

Intangible assets with indefinite useful lives are impairment tested at least annually at balance 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 balance 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 balance 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.

Notes to the 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

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. 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 audited financial statements are for the year ended 30 June 2010.

Comparative amounts

Comparative amounts are from the audited financial statements for the year ended 30 June 2009.

1. Statement of accounting policies 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 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 financial statements are set out below.

Change in estimates

During the year ended 30 June 2010, management revised the period of amortisation for capitlaised loan origination and brokerage costs on loans originated after 1 July 2009. This was based on historical data, both internal and external, which showed the average life of a loan to be six rather than three years. The impact of this change is to reduce the amortisation charge in the statement of comprehensive income for the year ended 30 June 2010 by $1.1m. The change will also reduce the amortisation charge in future years.

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 end of 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. The Banking Group uses a variety of methods and makes assumptions that are based on market conditions existing at each end of 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 3.1% is applied (30 June 2009: 3.4%). 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 on at least 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.

Dollars in thousands	The Banking Group 12 months ended 30/06/10	The Banking Group 12 months ended 30/06/09	Kiwibank Limited 12 months ended 30/06/10	Kiwibank Limited 12 months ended 30/06/09
2. Interest				
Interest income				
Loans and advances at fair value through profit or loss	**116,076**	217,041	**116,076**	217,041
Loans and advances at amortised cost	**448,491**	263,398	**448,491**	263,398
Government and local authority securities	**23,336**	12,246	**23,336**	12,213
Other securities*	**(27,742)**	147,194	**(8,008)**	146,662
Cash and liquid assets	**3,691**	8,759	**3,670**	8,434
Balances with NZP related parties	**32**	253	**32**	253
Income from restructured assets	**2**	-	**2**	-
Total interest income	**563,886**	648,891	**583,599**	648,001
Interest expense				
Deposits by customers	**276,928**	329,207	**276,928**	329,207
Debt securities issued	**152,790**	154,574	**152,790**	154,574
Balances with NZP related parties	**778**	1,697	**20,512**	2,022
Total interest expense	**430,496**	485,478	**450,230**	485,803

*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 $176.6m for the year ended 30 June 2010 (June 2009; $57.6m debit).

3. Gains/ (losses) on financial instruments at fair value

Financial assets designated at fair value through profit or loss upon initial recognition	**(41,550)**	109,782	**(41,550)**	109,782
Derivative financial instruments held for trading	**60,150**	(107,331)	**60,150**	(107,331)
Financial liabilities designated at fair value through profit or loss upon initial recognition	**464**	(6,559)	**464**	(6,559)
Financial assets held for trading	**4,314**	1,017	**4,314**	1,017
Net ineffectiveness on qualifying cash flow hedges	**57**	(783)	**57**	(783)
Net ineffectiveness on qualifying fair value hedges	**(267)**	44	**(267)**	44
Cumulative gain transferred from the available-for-sale reserve	**17,735**	3,615	**17,735**	3,615
Cumulative loss transferred from the cash flow hedge reserve	**(5,610)**	(4,568)	**(5,610)**	(4,568)
Net foreign exchange gains	**1,030**	158	**1,030**	158
Total gains/(losses) on financial instruments	**36,323**	(4,625)	**36,323**	(4,625)

4. Other income

Banking and lending fee income	**77,054**	79,566	**80,628**	76,182
Net commission revenue	**-**	11,328	**-**	-
Dividends from subsidiaries	**-**	-	**-**	2,310
Payment services fee income (related party)	**54,675**	52,059	**54,675**	52,059
Gain on sale of subsidiaries	**-**	11,140	**-**	11,900
Total other income	**131,729**	154,093	**135,303**	142,451

Notes to the financial statements continued

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

5. Operating expenses

Included in operating expenses are the following items:				
Operating lease and rental costs	**10,128**	7,979	**10,101**	7,722
Transaction costs	**56,957**	49,980	**56,957**	49,980
Depreciation	**6,621**	5,332	**6,621**	5,297
Amortisation of intangibles	**12,617**	11,992	**12,617**	11,425
Auditor's remuneration:				
Audit fees	**359**	379	**299**	299
Assurance services*	**126**	303	**126**	303
Other advisory **	**29**	-	**29**	-
Tax advisory services	**127**	115	**127**	115
Directors' fees	**293**	301	**293**	279
Salaries and wages	**57,760**	52,165	**57,760**	50,980
Intangible asset write off	**2,628**	1,226	**2,628**	1,226
Termination payments	**288**	288	**288**	288

* In the current year these services relate to off-quarter GDS agreed upon procedures, information systems security review and Kiwi Capital Securities Limited prospectus assurance. At 30 June 2009, off-quarter GDS agreed upon procedures, debt issuance and assurance over prepayment penalty fees. ** Verification assistance in respect of a business case.

6. Taxation

Profit before taxation	**64,680**	83,590	**64,680**	86,357
Tax calculated at a tax rate of 30%	**(19,404)**	(25,077)	**(19,404)**	(25,907)
Tax effect of change in tax rate❶	**341**	-	**341**	-
Income not subject to tax	**-**	4,454	**-**	4,263
Expenses not subject to tax	**(42)**	(589)	**(42)**	(205)
Prior year adjustment	**273**	1,237	**273**	1,237
Taxation charge as per the statement of comprehensive income	**(18,832)**	(19,975)	**(18,832)**	(20,612)
Represented by:				
Prior year adjustment	**273**	1,237	**273**	1,237
Current income tax	**(20,529)**	(24,284)	**(20,529)**	(22,948)
Deferred income tax	**1,424**	3,072	**1,424**	1,099
Taxation charge as per the statement of comprehensive income	**(18,832)**	(19,975)	**(18,832)**	(20,612)
The deferred tax charge in the statement of comprehensive income comprises the following temporary differences:				
Accelerated tax depreciation	**(958)**	(1,488)	**(958)**	(1,488)
Allowances for credit impairment losses	**1,700**	2,307	**1,700**	2,307
Other provisions	**341**	1,077	**341**	280
Tax effect of change in tax rate❶	**341**	-	**341**	-
Amortisation of intangibles	**-**	1,176	**-**	-
Total temporary differences	**1,424**	3,072	**1,424**	1,099

❶ 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.

	The Banking Group		Kiwibank Limited	
Dollars in thousands	**30/06/10**	30/06/09	**30/06/10**	30/06/09

7. Current and deferred taxation

Dollars in thousands	**30/06/10**	30/06/09	**30/06/10**	30/06/09
Current income tax payable				
Balance at beginning of year	**(4,027)**	6,052	**(4,027)**	6,142
Prior year adjustment	**155**	320	**155**	320
Current year profit	**(20,529)**	(24,284)	**(20,529)**	(22,948)
Tax on losses/(profits) taken to reserves	**1,454**	(3,330)	**1,454**	(3,330)
Transfer to deferred tax	**-**	(5,113)	**-**	(5,113)
Sale of subsidiary tax balance	**-**	674	**-**	-
Tax paid	**18,311**	21,654	**18,311**	20,902
Balance at end of year	**(4,636)**	(4,027)	**(4,636)**	(4,027)
Deferred tax				
Balance at beginning of year	**30,474**	(4,879)	**30,474**	(2,429)
Prior year adjustment	**118**	78	**118**	78
Temporary differences for the year	**1,083**	3,072	**1,083**	1,099
Tax effect of change in tax rate❶	**341**	(466)	**341**	(466)
Sale of subsidiary tax balance	**-**	477	**-**	-
Tax on (profits)/losses taken to reserves	**(11,203)**	27,079	**(11,203)**	27,079
Transfer from current tax	**-**	5,113	**-**	5,113
Balance at end of year	**20,813**	30,474	**20,813**	30,474
Deferred income tax assets				
Cash flow hedges	**19,660**	30,863	**19,660**	30,863
Other provisions and accruals	**1,455**	1,006	**1,455**	1,006
Allowance for loan impairment	**5,744**	4,044	**5,744**	4,044
Total assets	**26,859**	35,913	**26,859**	35,913
Deferred income tax liabilities				
Accelerated tax depreciation	**(6,387)**	(5,439)	**(6,387)**	(5,439)
Tax effect of change in tax rate❶	**341**	-	**341**	-
Total liabilities	**(6,046)**	(5,439)	**(6,046)**	(5,439)
Net deferred taxation	**20,813**	30,474	**20,813**	30,474
Recoverable within twelve months	**25,923**	34,825	**25,923**	34,825
Recoverable after twelve months	**(5,110)**	(4,351)	**(5,110)**	(4,351)

❶The 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.

Dollars in thousands	The Banking Group 30/06/10	The Banking Group 30/06/09	Kiwibank Limited 30/06/10	Kiwibank Limited 30/06/09

8. Cash and cash equivalents

Cash in hand	**44,372**	41,269	**44,372**	41,267
Cash with central banks	**220,625**	221,485	**220,625**	221,485
Call and overnight advances to financial institutions	**38,869**	31,051	**38,807**	31,051
Total cash and cash equivalents	**303,866**	293,805	**303,804**	293,803
Current	**303,866**	293,805	**303,804**	293,803
Non-current	-	-	-	-

9. Due from other financial institutions

Unsettled receivables	**17,046**	-	**17,046**	-
Bank Bills	**86,007**	-	**86,007**	-
Collateralised loans	**53,818**	-	**53,818**	-
Total amount due from other financial institutions	**156,871**	-	**156,871**	-
Current	**156,871**	-	**156,871**	-

As at 30 June 2010, included within the balance above, is $53.8m of collateral pledged by Kiwibank in respect of its credit support annex obligations to derivative counterparties. (June 09; $nil).

10. Financial assets held for trading

Bank bills	**189,288**	378,282	**189,288**	378,282
Other securities	**481,864**	348,210	**481,864**	348,210
Total financial assets held for trading	**671,152**	726,492	**671,152**	726,492
Current	**249,512**	681,729	**249,512**	681,729
Non-current	**421,640**	44,763	**421,640**	44,763

11. Available-for-sale assets

Government stock and multilateral development banks	**350,068**	279,338	**350,068**	279,338
Local authority securities	**18,927**	36,545	**18,927**	36,545
Other debt securities	**175,458**	381,524	**175,458**	381,524
Total available-for-sale assets	**544,453**	697,407	**544,453**	697,407
Current	**147,084**	170,831	**147,084**	170,831
Non-current	**397,369**	526,576	**397,369**	526,576

12. Loans and advances

Loans and advances designated upon initial recognition at fair value through profit or loss	**1,235,764**	2,121,584	**1,235,764**	2,121,584
Loans and advances at amortised cost	**9,202,244**	6,382,637	**9,202,244**	6,382,637
Allowance for impairment losses (note 24)	**(19,506)**	(12,208)	**(19,506)**	(12,208)
Total net loans and advances	**10,418,502**	8,492,013	**10,418,502**	8,492,013
Current	**908,415**	762,808	**908,415**	762,808
Non-current	**9,510,087**	7,729,205	**9,510,087**	7,729,205
The cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value through profit or loss	**(741)**	(1,273)	**(741)**	(1,273)

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.

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. 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. 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 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	Fair values Liabilities
30/06/10				
Derivatives held for trading				
Foreign exchange derivatives				
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)
Interest rate derivatives				
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				
Interest rate derivatives				
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				
Interest rate derivatives				
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 - current	10,450,303	89,242	46,320	(202,588)

Notes to the financial statements continued

13. Derivative financial instruments continued

Dollars in thousands	The Banking Group and Kiwibank Limited			
	Notional Principal Amount	Credit Equivalent Amount	Fair values Assets	Fair values Liabilities
30/06/09				
Derivatives held for trading				
Foreign exchange derivatives				
Forward contracts	70,725	1,775	1,006	(289)
Swap agreements	199,556	13,056	7,885	(8,950)
Total	270,281	14,831	8,891	(9,239)
Interest rate derivatives				
Forward contracts	1,100,000	430	430	(24)
Swap agreements	3,057,030	30,106	20,729	(161,388)
Futures contracts	315,000	-	22	(27)
Total	4,472,030	30,536	21,181	(161,439)
Total derivatives held for trading	4,742,311	45,367	30,072	(170,678)
Derivatives held for hedging				
Designated as cash flow hedges				
Interest rate derivatives				
Swap agreements	3,234,500	22,520	11,554	(132,418)
Total derivatives designated as cash flow hedges	3,234,500	22,520	11,554	(132,418)
Designated as fair value hedges				
Interest rate derivatives				
Swap agreements	97,000	8,201	7,716	(1,191)
Total derivatives designated as fair value hedges	97,000	8,201	7,716	(1,191)
Total derivatives held for hedging	3,331,500	30,721	19,270	(133,609)
Total derivative financial instruments - current	8,073,811	76,088	49,342	(304,287)

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 balance sheet 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 balance sheet 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:

		Interest held by Parent	
Name of entity	**Principal activity**	**30/06/10**	30/06/09
Kiwibank Nominees Limited	Provision of custodial services to customers in respect of assets that are beneficially owned by those customers	**100%**	100%
New Zealand Home Lending Limited	Agency services for mortgage lending through The New Zealand Home Loan Company Limited	**100%**	100%
AMP Home Loans Limited	Agency services for mortgage lending through the AMP Advisor network	**100%**	100%
Kiwibank Investment Management Limited	Provision of investment management services	**100%**	100%
KB Custodial Services Limited	Funds management	**100%**	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 balance 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 financial statements continued

14. Investment in subsidiaries

Disposal of subsidiaries

On 26 June 2009 the Banking Group disposed of its shareholding in Kiwi Insurance Limited and The New Zealand Home Loan Company Limited to Kiwi Group Holdings Limited with the approval of the RBNZ. The ultimate holding company of Kiwi Group Holdings Limited is NZP. No subsidiaries were disposed of in the current year.

Dollars in thousands	**12 months ended 30/06/10**	12 months ended 30/06/09
Net assets disposed		
Cash and cash equivalents	-	2,466
Net current liabilities (excluding cash)	-	(1,809)
Net trail commissions	-	2,521
Property, plant and equipment	-	158
Intangible assets (excluding goodwill)	-	2,647
Taxation balances	-	(1,151)
Goodwill disposed	-	25,498
Gain on divestment	-	11,140
Consideration	-	41,470
Comprising :	-	
Cash	-	19,370
Share option	-	22,100
Total consideration	-	41,470
Less cash disposed	-	(2,466)
Net cash consideration	-	39,004

15. Property, plant and equipment

Dollars in thousands	The Banking Group 30/06/10	The Banking Group 30/06/09	Kiwibank Limited 30/06/10	Kiwibank Limited 30/06/09
Furniture and fittings	**4,042**	3,148	**4,042**	3,148
Motor vehicles	**7**	10	**7**	10
Computer hardware work in progress	**1,423**	2,952	**1,423**	2,952
Computer hardware	**14,710**	13,743	**14,710**	13,743
Total property, plant and equipment	**20,182**	19,853	**20,182**	19,853
Furniture and fittings				
Cost brought forward	**4,601**	4,146	**4,601**	4,045
Accumulated depreciation brought forward	**(1,453)**	(1,007)	**(1,453)**	(979)
Opening net book value	**3,148**	3,139	**3,148**	3,066
Additions	**1,481**	599	**1,481**	556
Net disposals	**-**	(116)	**-**	-
Depreciation	**(587)**	(474)	**(587)**	(474)
Closing net book value	**4,042**	3,148	**4,042**	3,148
Cost	**6,082**	4,601	**6,082**	4,601
Accumulated depreciation	**(2,040)**	(1,453)	**(2,040)**	(1,453)
Closing net book value	**4,042**	3,148	**4,042**	3,148
Motor vehicles				
Cost brought forward	**19**	19	**19**	19
Accumulated depreciation brought forward	**(9)**	(6)	**(9)**	(6)
Opening net book value	**10**	13	**10**	13
Depreciation	**(3)**	(3)	**(3)**	(3)
Closing net book value	**7**	10	**7**	10
Cost	**19**	19	**19**	19
Accumulated depreciation	**(12)**	(9)	**(12)**	(9)
Closing net book value	**7**	10	**7**	10
Computer hardware work in progress				
Balance brought forward	**2,952**	1,527	**2,952**	1,527
Additions	**916**	4,585	**916**	4,585
Transfers to computer software work in progress	**(1,658)**	-	**(1,658)**	-
Transfers to computer hardware	**(741)**	(1,535)	**(741)**	(1,535)
Write offs	**(46)**	(1,625)	**(46)**	(1,625)
Closing net book value	**1,423**	2,952	**1,423**	2,952
Computer hardware				
Cost brought forward	**32,045**	28,028	**32,045**	27,959
Accumulated depreciation brought forward	**(18,302)**	(13,523)	**(18,302)**	(13,482)
Opening net book value	**13,743**	14,505	**13,743**	14,477
Additions	**6,304**	2,558	**6,304**	2,558
Transfers from computer hardware work in progress	**741**	1,535	**741**	1,535
Net disposals	**(47)**	-	**(47)**	-
Depreciation	**(6,031)**	(4,855)	**(6,031)**	(4,820)
Closing net book value	**14,710**	13,743	**14,710**	13,743
Cost	**38,969**	32,045	**38,969**	32,045
Accumulated depreciation	**(24,259)**	(18,302)	**(24,259)**	(18,302)
Closing net book value	**14,710**	13,743	**14,710**	13,743

	The Banking Group		Kiwibank Limited	
Dollars in thousands	**30/06/10**	30/06/09	**30/06/10**	30/06/09
16. Intangible assets				
Computer software	**33,092**	25,730	**33,092**	25,730
Acquired customer relationships	**3,452**	5,286	**3,452**	5,286
Computer software work in progress (internally developed)	**10,961**	12,165	**10,961**	12,165
Total intangible assets	**47,505**	43,181	**47,505**	43,181
Computer software (internally developed)				
Cost brought forward	**60,289**	46,316	**60,289**	46,316
Accumulated amortisation brought forward	**(34,559)**	(26,502)	**(34,559)**	(26,502)
Opening net book value	**25,730**	19,814	**25,730**	19,814
Transfers from computer software work in progress	**14,956**	13,725	**14,956**	13,725
Additions	**3,189**	248	**3,189**	248
Amortisation	**(10,783)**	(8,057)	**(10,783)**	(8,057)
Closing net book value	**33,092**	25,730	**33,092**	25,730
Cost	**78,434**	60,289	**78,434**	60,289
Accumulated amortisation	**(45,342)**	(34,559)	**(45,342)**	(34,559)
Closing net book value	**33,092**	25,730	**33,092**	25,730
Acquired customer relationships				
Cost brought forward	**12,749**	17,388	**12,749**	12,749
Accumulated amortisation brought forward	**(7,463)**	(5,520)	**(7,463)**	(4,095)
Opening net book value	**5,286**	11,868	**5,286**	8,654
Disposals	**-**	(2,647)	**-**	-
Amortisation	**(1,834)**	(3,935)	**(1,834)**	(3,368)
Closing net book value	**3,452**	5,286	**3,452**	5,286
Cost	**12,749**	12,749	**12,749**	12,749
Accumulated amortisation	**(9,297)**	(7,463)	**(9,297)**	(7,463)
Closing net book value	**3,452**	5,286	**3,452**	5,286
Computer software work in progress				
Balance brought forward	**12,165**	7,607	**12,165**	**7,607**
Additions	**14,722**	19,509	**14,722**	**19,509**
Transfers to computer software	**(14,956)**	(13,725)	**(14,956)**	**(13,725)**
Transfers from computer hardware work in progress	**1,658**	-	**1,658**	**-**
Write offs	**(2,628)**	(1,226)	**(2,628)**	**(1,226)**
Balance carried forward	**10,961**	12,165	**10,961**	**12,165**

Dollars in thousands	The Banking Group 30/06/10	The Banking Group 30/06/09	Kiwibank Limited 30/06/10	Kiwibank Limited 30/06/09
17. Other assets				
Deferred acquisition costs	-	12,589	-	12,589
Prepayments	**3,127**	1,528	**3,127**	1,528
Trade and other receivables	**5,584**	4,351	**5,741**	4,351
Total other assets	**8,711**	18,468	**8,868**	18,468
Current	**8,711**	10,075	**8,868**	10,075
Non-current	-	8,393	-	8,393
18. Due to other financial institutions				
Repurchase agreements	**100,247**	315,161	**100,247**	315,161
Unsettled payables	**61,566**	-	**61,566**	-
ATM cash at other banks	**2,238**	1,487	**2,238**	1,487
Total due to other financial institutions – (current)	**164,051**	316,648	**164,051**	316,648

19. Term subordinated debt

	The Banking Group 30/06/10	The Banking Group 30/06/09	Kiwibank Limited 30/06/10	Kiwibank Limited 30/06/09
Face value	**135,000**	135,000	**135,000**	135,000
Interest accrued	**2,947**	2,946	**2,947**	2,946
Premium	**(337)**	(457)	**(337)**	(457)
Fair value hedge adjustment	**5,689**	6,077	**5,689**	6,077
Total term subordinated debt (non-current)	**143,299**	143,566	**143,299**	143,566

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 balance 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 a deed poll guarantee ("the NZP Guarantee") provided by the Banking Group's ultimate holding 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 year, (30 June 2009; same).

Dollars in thousands	The Banking Group 30/06/10	The Banking Group 30/06/09	Kiwibank Limited 30/06/10	Kiwibank Limited 30/06/09
20. Deposits and other borrowings				
Retail deposits	**6,911,909**	6,717,042	**5,743,029**	5,749,970
Wholesale deposits	**3,383,416**	1,548,534	**3,383,416**	1,548,534
Deposits by PIE Unit Trust	**-**	-	**1,168,880**	967,072
Total	**10,295,325**	8,265,576	**10,295,325**	8,265,576
New Zealand	**10,075,666**	8,054,029	**10,075,666**	8,054,029
Overseas	**219,659**	211,547	**219,659**	211,547
Total deposits and other borrowings at amortised cost	**10,295,325**	8,265,576	**10,295,325**	8,265,576
Current	**9,994,985**	7,985,152	**9,994,985**	7,985,152
Non-current	**300,340**	280,424	**300,340**	280,424

In the event of 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 "NZP Guarantee") provided by Kiwibank's ultimate parent company, NZP. In addition to the NZP Guarantee, Kiwibank has also subscribed to the New Zealand retail deposit guarantee scheme (the "Crown Retail Guarantee") and had also subscribed to the Crown wholesale funding guarantee scheme. The details of these schemes are set out in the Guarantors' section of this General Disclosure Statement. As at the date on which this General Disclosure Statement is signed, the Banking Group does not intend to apply to be covered under the extended Crown Retail Guarantee scheme.

The Kiwibank PIE Unit Trust, established under the Unit Trusts Act 1960 in May 2008, operates two funds; the PIE Term Deposit Fund 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 Unit Trust. Units in the Unit 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 Unit Trust and the balance of their Unit Accounts. The deposits held by the Unit Holders are also guaranteed under the Government Guarantee.

21. Debt securities issued

Certificates of deposit	**378,465**	824,476	**378,465**	824,476
Fixed rate bond	**308,212**	-	**308,212**	-
Other debt securities	**108,560**	88,064	**108,560**	88,064
Total debt securities issued	**795,237**	912,540	**795,237**	912,540
Current	**403,619**	824,476	**403,619**	824,476
Non-current	**391,618**	88,064	**391,618**	88,064

The terms and conditions of the fixed rate bond is as follows:

Issue date	Amount $000's	Coupon rate	Maturity date
20 October 2009	AUD 250,000	6.25%	20 October 2014

The fixed rate bond is denominated in Australian dollars. The debt carried the following credit rating as at balance date;

- Standard and Poor's Pty Limited: AA+
- Moodys Investors Service Incorporated: Aaa

The contractual terms of the fixed rate bond expressly provide that it has the benefit of the NZP Guarantee. The debt continues to also be covered by the Crown Wholesale Guarantee, despite the fact the Crown Wholesale funding guarantee scheme was withdrawn by the New Zealand Government on 30 April 2010.

Kiwibank has not had any defaults of principal, interest or other breaches with respect to their liabilities during the year.

22. Other liabilities

Dollars in thousands	The Banking Group 30/06/10	The Banking Group 30/06/09	Kiwibank Limited 30/06/10	Kiwibank Limited 30/06/09
Trade and other payables	**12,933**	13,917	**12,822**	13,826
Employee entitlements	**9,738**	8,698	**9,738**	8,698
Related parties	**298**	-	**298**	-
Other liabilities	**9,393**	9,038	**9,390**	9,038
Total other liabilities	**32,362**	31,653	**32,248**	31,562
Current	**32,362**	31,653	**32,248**	31,562
Non-current	**-**	-	**-**	-

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 year end was 310 million for the Banking Group and 310 million for Kiwibank (30 June 2009: 295 million for 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 26 June 2009, Kiwibank Limited, with the approval of the RBNZ, was sold by NZP to its wholly owned subsidiary, Kiwi Group Holdings Limited.

On 30 April 2009 20,000,000 ordinary shares were issued for cash at $1 per share to NZP. 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 balance 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.

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 balance 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.

Dollars in thousands	The Banking Group 30/06/10	The Banking Group 30/06/09	Kiwibank Limited 30/06/10	Kiwibank Limited 30/06/09
Issued and paid up capital				
310,000,000 ordinary shares fully paid	**310,000**	295,000	**310,000**	295,000
150,000,000 perpetual preference shares	**-**	-	**150,000**	-
Non controlling interest	**150,000**	-	**-**	-
Retained earnings	**174,214**	128,366	**174,212**	128,364
Cash flow hedge reserve	**(45,873)**	(72,014)	**(45,873)**	(72,014)
Available-for-sale reserve	**422**	3,814	**422**	3,814
Total equity	**588,763**	355,166	**588,761**	355,164

	The Banking Group		Kiwibank Limited	
Dollars in thousands	**30/06/10**	30/06/09	**30/06/10**	30/06/09
23. Equity continued				
Share capital				
Balance at beginning of the year	**295,000**	275,000	**295,000**	275,000
Issues in the year	**15,000**	20,000	**15,000**	20,000
Balance at end of the year	**310,000**	295,000	**310,000**	295,000
Perpetual preference shares				
Balance at beginning of the year	-	-	-	-
Issues in year	-	-	**150,000**	-
Balance at end of the year	-	-	**150,000**	-
Non controlling interest				
Balance at beginning of the year	-	-	-	-
Ordinary share capital issued in the year	**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 year	**150,000**	-	-	-
Retained earnings				
Balance at beginning of the year	**128,366**	64,751	**128,364**	62,619
Net profit for the year	**45,848**	63,615	**45,848**	65,745
Balance at end of the year	**174,214**	128,366	**174,212**	128,364
Cash flow hedge reserve				
Balance at beginning of the year	**(72,014)**	(9,991)	**(72,014)**	(9,991)
Gross gain/(loss) from changes in fair value	**31,734**	(93,173)	**31,734**	(93,173)
Tax on gain/(loss) from changes in fair value	**(9,520)**	27,952	**(9,520)**	27,952
Cumulative loss transferred to the statement of comprehensive income on disposal of financial assets	**5,610**	4,568	**5,610**	4,568
Tax effect of items transferred to statement of comprehensive income	**(1,683)**	(1,370)	**(1,683)**	(1,370)
Balance at end of the year	**(45,873)**	(72,014)	**(45,873)**	(72,014)
Available-for-sale reserve				
Balance at beginning of the year	**3,814**	(3,783)	**3,814**	(3,783)
Gross gain from changes in fair value	**12,889**	14,467	**12,889**	14,467
Tax on gain from changes in fair value	**(3,867)**	(4,340)	**(3,867)**	(4,340)
Cumulative gain transferred to the statement of comprehensive income on disposal of financial assets	**(17,735)**	(3,615)	**(17,735)**	(3,615)
Tax effect of items transferred to statement of comprehensive income	**5,321**	1,085	**5,321**	1,085
Balance at end of the year	**422**	3,814	**422**	3,814

24. Asset quality

Interest revenue foregone on impaired assets is calculated using actual interest written off and interest suspended during the period. This amounts to $1.2m (30 June 2009; $0.4m). There are no real estate or other assets acquired through the enforcement of security held at 30 June 2010 (30 June 2009: nil). There are no assets under administration as at 30 June 2010 (30 June 2009: nil). There are no unrecognised impaired assets as at 30 June 2010 (30 June 2009: nil).

	The Banking Group		Kiwibank Limited	
Dollars in thousands	**30/06/10**	30/06/09	**30/06/10**	30/06/09
Allowance for impairment losses in statement of financial position				
Collective allowance for impairment losses	**9,543**	7,283	**9,543**	7,283
Individually impaired assets	**9,963**	4,925	**9,963**	4,925
Allowance for impairment losses (note 12)	**19,506**	12,208	**19,506**	12,208
The cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value through profit or loss	**741**	1,273	**741**	1,273
Total allowance for impairment losses	**20,247**	13,481	**20,247**	13,481

	12 months ended 30/06/10	12 months ended 30/06/09	**12 months ended 30/06/10**	12 months ended 30/06/09
Impairment losses per statement of comprehensive income				
Collective impairment losses on loans not at fair value through profit or loss	**5,846**	8,418	**5,846**	8,418
Charge to statement of comprehensive income for individually impaired assets	**12,014**	5,927	**12,014**	5,927
Total impairment losses per statement of comprehensive income	**17,860**	14,345	**17,860**	14,345

Notes to the financial statements continued

24. Asset quality continued

Summary of lending

	The Banking Group and Kiwibank		
	30 June 2010		
Dollars in thousands	Loans and advances to retail customers	Loans and advances to corporate and institutional customers	Total
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**

	30 June 2009		
Dollars in thousands	Loans and advances to retail customers	Loans and advances to corporate and institutional customers	Total
Neither past due nor impaired (a)	6,935,174	1,235,053	8,170,227
Past due but not impaired (b)	277,006	37,656	314,662
Impaired (d)	5,815	13,517	19,332
Gross	7,217,995	1,286,226	8,504,221
Collective allowance for impairment	(4,924)	(2,359)	(7,283)
Individual allowance for impairment	(1,283)	(3,642)	(4,925)
Net loans and advances	7,211,788	1,280,225	8,492,013

Notes to the 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			
Dollars in thousands	Retail unsecured lending	Retail mortgage lending	Corporate and institutional	Total loans and advances
30 June 2010				
Grades				
Excellent credit quality	**235,790**	**8,530,346**	**1,219,584**	**9,985,720**
Good credit quality	-	**27,578**	**148,763**	**176,341**
Moderate credit quality	-	**1,605**	**18,630**	**20,235**
Total	**235,790**	**8,559,529**	**1,386,977**	**10,182,296**
30 June 2009				
Grades				
Excellent credit quality	202,642	6,714,550	1,129,893	8,047,085
Good credit quality	-	17,924	103,084	121,008
Moderate credit quality	-	58	2,076	2,134
Total	202,642	6,732,532	1,235,053	8,170,227

Notes to the financial statements continued

24. Asset quality continued

b: Loans and advances past due but not impaired

Loans and advances to customers Dollars in thousands	The Banking Group and Kiwibank Limited Retail unsecured lending	Retail mortgage lending	Corporate exposures	Total
30 June 2010				
Past due up to 30 days	**20,346**	**94,956**	**12,137**	**127,439**
Past due 31 – 60 days	**6,290**	**22,924**	**10,067**	**39,281**
Past due 61 – 90 days	**2,881**	**5,271**	**13,395**	**21,547**
Past due > 90 days (c)	**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**
30 June 2009				
Past due up to 30 days	16,164	215,484	27,220	258,868
Past due 31 – 60 days	5,715	11,906	1,002	18,623
Past due 61 – 90 days	2,859	11,066	-	13,925
Past due > 90 days (c)	2,015	11,797	9,434	23,246
Total	26,753	250,253	37,656	314,662
Fair value of collateral	-	278,059	41,840	319,899

Notes to the financial statements continued

24. Asset quality continued

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

Dollars in thousands	The Banking Group		Kiwibank Limited	
	12 months ended 30/06/10	12 months ended 30/06/09	**12 months ended 30/06/10**	12 months ended 30/06/09
c: Past due assets > 90 days – unsecured retail lending				
Gross impaired				
Balance at beginning of the year	**2,015**	1,309	**2,015**	1,309
Transfers to past due assets	**6,168**	9,441	**6,168**	9,441
Transfers from past due assets	**(5,647)**	(8,735)	**(5,647)**	(8,735)
Amounts written off	**-**	-	**-**	-
Balance at end of year	**2,536**	2,015	**2,536**	2,015
Past due assets > 90 days – residential mortgage loans				
Balance at beginning of the year	**11,797**	5,872	**11,797**	5,872
Transfers to past due assets	**56,228**	37,425	**56,228**	37,425
Transfers from past due assets	**(48,873)**	(31,500)	**(48,873)**	(31,500)
Amounts written off	**-**	-	**-**	-
Balance at end of year	**19,152**	11,797	**19,152**	11,797
Past due assets > 90 days –corporate exposures				
Balance at beginning of the year	**9,434**	1,579	**9,434**	1,579
Transfers to past due assets	**79,924**	50,863	**79,924**	50,863
Transfers from past due assets	**(81,377)**	(43,008)	**(81,377)**	(43,008)
Amounts written off	**-**	-	**-**	-
Balance at end of year	**7,981**	9,434	**7,981**	9,434
Total past due assets > 90 days	**29,669**	23,246	**29,669**	23,246

Comparative transfers have been restated, to align with the current year, between "residential mortgage loans" and "corporate exposures" categories, in line with RBNZ Orders in Council

24. Asset quality continued

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

	The Banking Group		Kiwibank Limited	
Dollars in thousands	**12 months ended 30/06/10**	12 months ended 30/06/09	**12 months ended 30/06/10**	12 months ended 30/06/09
d: Impaired assets – unsecured retail lending				
Gross impaired				
Balance at beginning of the year	**227**	202	**227**	202
Transfers from productive	**3,766**	227	**3,766**	227
Transfers to productive	**(227)**	(111)	**(227)**	(111)
Amounts written off	**(3,587)**	(91)	**(3,587)**	(91)
Balance at end of year	**179**	227	**179**	227
Impaired assets – residential mortgage loans				
Balance at beginning of the year	**5,588**	3,612	**5,588**	3,612
Transfers from productive	**28,700**	22,670	**28,700**	22,670
Transfers to productive	**-**	(5,586)	**-**	(5,586)
Amounts written off	**(7,967)**	(1,591)	**(7,967)**	(1,591)
Balance at end of year	**26,321**	19,105	**26,321**	19,105
Impaired assets – corporate exposures				
Balance at beginning of the year	**13,517**	253	**13,517**	253
Transfers from productive	**7,776**	-	**7,776**	-
Transfers to productive	**(10,017)**	-	**(10,017)**	-
Amounts written off	**-**	(253)	**-**	(253)
Balance at end of year	**11,276**	-	**11,276**	-
Total gross impaired assets	**37,776**	19,332	**37,776**	19,332
Individual allowance for impairment	**(9,963)**	(4,925)	**(9,963)**	(4,925)
Total net impaired assets	**27,813**	14,407	**27,813**	14,407

Comparative transfers have been restated, to align with the current year, between "residential mortgage loans" and "corporate exposures" categories, in line with RBNZ Orders in Council

24. Asset quality continued

Dollars in thousands

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

Banking Group	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Collective allowance for impairment losses				
Audited 12 months ended 30/06/10				
Balance at beginning of the year	**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**
Audited 12 months ended 30/06/09				
Balance at beginning of the year	1,349	403	319	2,071
Impairment losses on loans not at fair value through profit or loss	5,047	1,331	2,040	8,418
Advances written off	(3,206)	-	-	(3,206)
Total collective allowance for impairment losses	3,190	1,734	2,359	7,283
Individual allowance for impairment losses				
Audited 12 months ended 30/06/10				
Balance at beginning of the year	**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**
Audited 12 months ended 30/06/09				
Balance at beginning of the year	202	583	55	840
Impairment losses on loans not at fair value through profit or loss	227	1,056	4,644	5,927
Transfer between segments	-	(50)	50	-
Advances written off	(202)	(533)	(1,107)	(1,842)
Total individual allowance for impairment losses	227	1,056	3,642	4,925

24. Asset quality continued

e: 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 30 June 2010 are set out below. Restructured assets at 30 June 2009 were nil. The aggregate amount of undrawn balances on lending commitments to counterparties for whom drawn balances are 90 days past due is nil at 30 June 2010 (30 June 2009: nil).

	The Banking Group and Kiwibank Limited			
Dollars in thousands	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Restructured assets				
Balance at beginning of the year	-	-	-	-
Transfers to restructured assets	32	-	86	118
Transfers from restructured assets	-	-	(86)	(86)
Balance at end of year	32	-	-	32

Notes to the financial statements continued

25. Related parties

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 in the normal course of business. Kiwibank is part of the NZP consolidated tax group. As at 30 June 2010, 55,000 of the non-cumulative perpetual preference share capital of Kiwi Capital Securities Limited are held by related parties of the Banking Group (30 June 2009; nil).

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 (see note 4) 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 $312k for the year (30 June 2009: $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. Kiwibank received management fees from the RMBS Trust of $3,574k in the year (30 June 2009: $54k). Kiwibank received insurance commission from Kiwi Insurance Limited of $908k in the year (30 June 2009: $786k). Also, Kiwibank paid brokerage commission to The New Zealand Home Loan Company Limited of $7,050k in the year (30 June 2009: $5,633k)

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 (Wgtn) Limited and Express Couriers Limited, NZP associate companies.

Kiwibank held deposits from New Zealand Post, the New Zealand Post Superannuation Plan and the New Zealand Post Electoral Enrolment Centre (a division of NZP) during the year (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 balance date 24.3% of Kiwibank's total operating expenditure was paid to NZP group companies (30 June 2009, 24.6%) and 2.7% was paid to associated companies (30 June 2009, 2.0%). Part of this amount relates to the reimbursement of Payment Services expenditure, which includes personnel, property, IT support, marketing and other administrative costs.

NZP has a credit facility with Kiwibank 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 30 June 2010 the amount owed by NZP to Kiwibank was $nil (30 June 2009; $nil).

The table below shows revenue and expenditure with individual companies within the NZP group and other related parties.

	The Banking Group		Kiwibank Limited	
Dollars in thousands	**30/06/10**	30/06/09	**30/06/10**	30/06/09
Revenue				
NZP	**55,019**	52,624	**55,019**	52,624
Other subsidiaries of Kiwibank	**-**	-	**61,634**	2,635
Other subsidiaries within the NZP Group	**908**	785	**908**	785
Expenditure				
NZP	**49,477**	49,588	**49,477**	49,588
Other subsidiaries within the NZP Group	**11,784**	8,935	**11,784**	8,935
Other subsidiaries of Kiwibank	**-**	-	**110,683**	44,901
Associates of the NZP Group	**6,042**	4,237	**6,042**	4,237

Notes to the financial statements continued

25. Related party transactions continued

The table below shows amounts due to individual companies within the NZP group and other related parties as at balance date:

Outstanding balances	The Banking Group		Kiwibank Limited	
Dollars in thousands	**30/06/10**	30/06/09	**30/06/10**	30/06/09
NZP	**12,264**	37,124	**12,264**	37,124
Other subsidiaries within the NZP Group	**298**	448	**298**	448
PIE Unit Trust (note 20)	**-**	-	**1,168,880**	967,072
RMBS Trust (note 40)	**-**	-	**601,082**	600,325
NZP Electoral Enrolment Centre (deposits)	**2,109**	2,802	**2,109**	2,802
NZP Superannuation Plan (deposits)	**16,155**	17,548	**16,155**	17,548
Kiwibank subsidiaries	**-**	-	**(45)**	36
Total	**30,826**	57,922	**1,800,743**	1,625,355
Receivables				
Kiwibank subsidiaries	**-**	-	**602,141**	600,271
Other subsidiaries within the NZP Group	**1,716**	-	**1,716**	-
Total	**1,716**	-	**603,857**	600,271

The table below shows the amount of benefits paid to key management personnel within the Banking Group. It also shows loans to and deposits from key management personnel

Key management personnel				
Salaries and short-term employee benefits	**5,657**	5,838	**5,657**	5,366
Total compensation of key management personnel	**5,657**	5,838	**5,657**	5,366
Loans to key management personnel	**1,693**	1,752	**1,693**	1,752
Deposits from key management personnel	**2,144**	1,877	**2,144**	1,877

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 Kiwibank's lending policies. No provision for credit impairment has been recognised for loans made to key management personnel (30 June 2009; $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.

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 balance date is as follows:

	The Banking Group		Kiwibank Limited	
Dollars in thousands	**30/06/10**	30/06/09	**30/06/10**	30/06/09
New Zealand				
Government, local authorities and services	**780,754**	456,241	**780,754**	456,241
Finance, investment and insurance	**713,377**	947,880	**1,314,231**	1,548,149
Households	**8,996,176**	7,217,995	**8,996,176**	7,217,995
Transport and storage	**17,637**	213,732	**17,637**	213,732
Communications	**24,058**	2,048	**24,058**	2,048
Electricity, gas and water	**27,820**	35,743	**27,820**	35,743
Construction	**59,734**	46,760	**59,734**	46,760
Property services	**1,021,922**	885,287	**1,021,922**	885,287
Agriculture	**23,245**	11,381	**23,245**	11,381
Health and community services	**30,923**	20,998	**30,923**	20,998
Personal and other services	**86,798**	152,233	**86,798**	152,233
Retail and wholesale trade	**60,096**	39,730	**60,096**	39,730
Food & other manufacturing	**115,232**	106,628	**115,232**	106,628
Overseas				
Finance, investment and insurance	**202,898**	134,611	**202,898**	134,611
Total financial assets (interest earning)	**12,160,670**	10,271,267	**12,761,524**	10,871,536
Less allowance for impairment losses	**(19,506)**	(12,208)	**(19,506)**	(12,208)
Other financial assets	**5,584**	5,879	**5,741**	5,879
Total financial assets	**12,146,748**	10,264,938	**12,747,759**	10,865,207

An analysis of financial assets by geographical sector at balance date is as follows:

New Zealand				
Upper North Island	**4,505,936**	3,645,138	**4,505,936**	3,645,138
Lower North Island	**3,219,352**	2,584,693	**3,219,352**	2,584,693
South Island	**2,226,102**	1,778,266	**2,226,102**	1,778,266
Overseas	**202,898**	134,611	**202,898**	134,611
Exposures not classified by geographical sector**	**1,992,460**	2,122,230	**2,593,471**	2,722,499
Total financial assets	**12,146,748**	10,264,938	**12,747,759**	10,865,207

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

26. Concentration of credit risk continued

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

	The Banking Group		Kiwibank Limited	
Dollars in thousands	**30/06/10**	30/06/09	**30/06/10**	30/06/09
Credit risk relating to on statement of financial position assets				
Fixed rate mortgages at fair value through profit or loss	**1,235,764**	2,121,584	**1,235,764**	2,121,584
Fixed rate mortgages at amortised cost	**4,998,841**	3,714,052	**4,998,841**	3,714,052
Variable rate mortgages	**3,967,613**	2,439,599	**3,967,613**	2,439,599
Unsecured lending	**235,790**	228,986	**235,790**	228,986
Due from other financial institutions	**156,871**	-	**156,871**	-
Balances with related parties	**-**	-	**600,916**	600,271
Derivative financial instruments	**46,320**	49,342	**46,320**	49,342
Financial assets held for trading	**671,152**	726,492	**671,152**	726,492
Available-for-sale assets	**544,453**	697,407	**544,453**	697,407
Cash and cash equivalents	**303,866**	293,805	**303,804**	293,803
Other assets	**5,584**	5,879	**5,741**	5,879
Total gross financial assets	**12,166,254**	10,277,146	**12,767,265**	10,877,415
Allowance for impairment losses	**(19,506)**	(12,208)	**(19,506)**	(12,208)
Total net financial assets	**12,146,748**	10,264,938	**12,747,759**	10,865,207

The above table represents a worst case scenario of credit risk exposure to Kiwibank Limited and the Banking Group at 30 June 2010 and 30 June 2009, without taking account of any collateral held or other credit enhancements attached. For on 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, 86% of the total maximum exposure of the Banking Group is derived from loans and advances to retail and corporate customers (30 June 2009: 83%). 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 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 balance date is as follows:

	The Banking Group		Kiwibank Limited	
Dollars in thousands	**30/06/10**	30/06/09	**30/06/10**	30/06/09
Analysis by industry sector				
New Zealand				
Transport and storage	**204,714**	251,006	**204,714**	251,006
Financing, investment and insurance	**2,978,704**	2,157,988	**3,579,786**	2,758,313
Electricity, gas and water	**3,938**	8,508	**3,938**	8,508
Food & other manufacturing	**91,220**	17,601	**91,220**	17,601
Construction	**19,773**	15,566	**19,773**	15,566
Communications	**5,034**	-	**5,034**	-
Government, local authorities and services	**685,236**	349,161	**685,236**	349,161
Agriculture	**45,488**	33,227	**45,488**	33,227
Health and community services	**198,474**	177,323	**198,474**	177,323
Personal and other services	**107,141**	127,022	**107,141**	127,022
Property and business services	**363,782**	362,428	**363,782**	362,428
Education	**234,400**	222,805	**234,400**	222,805
Retail and wholesale trade	**69,795**	71,420	**69,795**	71,420
Households	**6,074,930**	5,972,014	**6,074,930**	5,972,014
Overseas				
Financing, investment and insurance - Australia	**308,212**	-	**308,212**	-
Households - Australia	**37,647**	27,808	**37,647**	27,808
Households – rest of the world	**182,012**	183,740	**182,012**	183,740
Total financial liabilities (interest bearing)	**11,610,500**	9,977,617	**12,211,582**	10,577,942
Other financial liabilities	**34,476**	34,225	**34,407**	34,171
Total financial liabilities	**11,644,976**	10,011,842	**12,245,989**	10,612,113

Notes to the interim financial statements continued

28. Segment analysis

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.

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 financial statements continued

28. Segment analysis continued

Dollars in thousands	The Banking Group 12 months ended 30/06/10	The Banking Group 12 months ended 30/06/09	Kiwibank Limited 12 months ended 30/06/10	Kiwibank Limited 12 months ended 30/06/09
Primary reporting - business segments				
Personal banking				
External net interest income	**276,190**	126,533	**276,190**	125,318
Net intersegment interest*	**(180,032)**	(13,504)	**(180,032)**	(13,504)
Net interest income	**96,158**	113,029	**96,158**	111,814
Other external operating income	**95,432**	94,932	**95,432**	83,290
Segmental revenue	**191,590**	207,961	**191,590**	195,104
Profit before taxation	**34,569**	47,388	**34,569**	50,155
Total assets	**9,038,366**	7,275,212	**9,639,436**	7,875,481
Total liabilities	**6,941,659**	6,786,267	**7,542,672**	7,386,538
Acquisition of intangible assets	**9,186**	9,044	**9,186**	9,044
Amortisation expense	**(8,657)**	(9,967)	**(8,657)**	(9,400)
Acquisition of property, plant and equipment	**4,768**	3,287	**4,768**	3,287
Depreciation expense	**(5,249)**	(3,991)	**(5,249)**	(3,956)
Impairment losses on loans and advances	**(5,971)**	(7,661)	**(5,971)**	(7,661)

Profit before taxation for the audited 12 months ended 30 June 2009 includes a one-off gain of $11.1m from the divestment of subsidiaries to the NZP Group.

* Change in intersegment interest reflects the change in the mix of deposits and lending in the year

Dollars in thousands	The Banking Group 12 months ended 30/06/10	The Banking Group 12 months ended 30/06/09	Kiwibank Limited 12 months ended 30/06/10	Kiwibank Limited 12 months ended 30/06/09
Corporate and institutional banking				
External net interest income	**(142,800)**	36,840	**(142,821)**	36,840
Net intersegment interest	**179,828**	13,213	**179,828**	13,213
Net interest income	**37,028**	50,053	**37,007**	50,053
Other external operating income	**17,945**	12,385	**21,519**	12,385
Segmental revenue	**54,973**	62,438	**58,526**	62,438
Profit before taxation	**15,937**	19,113	**15,937**	19,113
Total assets	**3,193,376**	3,095,823	**3,193,317**	3,095,823
Total liabilities	**4,703,239**	3,225,438	**4,703,239**	3,225,438
Acquisition of intangible assets	**7,315**	4,929	**7,315**	4,929
Amortisation expense	**(3,280)**	(1,881)	**(3,280)**	(1,881)
Acquisition of property, plant and equipment	**2,382**	1,447	**2,382**	1,447
Depreciation expense	**(1,360)**	(1,335)	**(1,360)**	(1,335)
Impairment losses on loans and advances	**(11,889)**	(6,684)	**(11,889)**	(6,684)

28. Segment analysis continued

	The Banking Group		Kiwibank Limited	
Dollars in thousands	**12 months ended 30/06/10**	12 months ended 30/06/09	**12 months ended 30/06/10**	12 months ended 30/06/09
Payment Services				
External net interest income	**-**	40	**-**	40
Net intersegment interest	**204**	291	**204**	291
Net interest income	**204**	331	**204**	331
Other external operating income	**54,675**	42,151	**54,675**	42,151
Segmental revenue	**54,879**	42,482	**54,879**	42,482
Profit before taxation	**14,174**	17,089	**14,174**	17,089
Total assets	**6,633**	2,142	**6,633**	2,142
Total liabilities	**4,714**	4,164	**4,714**	4,164
Acquisition of intangible assets	**1,410**	1,100	**1,410**	1,100
Amortisation expense	**(680)**	(144)	**(680)**	(144)
Acquisition of property, plant and equipment	**1,551**	42	**1,551**	42
Depreciation expense	**(12)**	(6)	**(12)**	(6)
Impairment losses on loans and advances	**-**	-	**-**	-
Total				
External net interest income	**133,390**	163,413	**133,369**	162,198
Net intersegment interest	**-**	-	**-**	-
Net interest income	**133,390**	163,413	**133,369**	162,198
Other external operating income	**168,052**	149,468	**171,626**	137,826
Total revenue	**301,442**	312,881	**304,995**	300,024
Profit before taxation	**64,680**	83,590	**64,680**	86,357
Income tax expense	**(18,832)**	(19,975)	**(18,832)**	(20,612)
Profit for the year	**45,848**	63,615	**45,848**	65,745
Total assets	**12,238,375**	10,371,035	**12,839,386**	10,971,304
Total liabilities	**11,649,612**	10,015,869	**12,250,625**	10,616,140
Acquisition of intangible assets	**17,911**	13,973	**17,911**	13,973
Amortisation expense	**(12,617)**	(11,992)	**(12,617)**	(11,425)
Acquisition of property, plant and equipment	**8,701**	4,734	**8,701**	4,734
Depreciation expense	**(6,621)**	(5,332)	**(6,621)**	(5,297)
Impairment losses on loans and advances	**(17,860)**	(14,345)	**(17,860)**	(14,345)

Notes to the financial statements continued

29. Lease commitments

Leases for property occupied by Kiwibank are managed by NZP.

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

	The Banking Group		Kiwibank Limited	
Dollars in thousands	**12 months ended 30/06/10**	12 months ended 30/06/09	**12 months ended 30/06/10**	12 months ended 30/06/09
Less than one year	**420**	402	**420**	402
Between one and two years	**310**	340	**310**	340
Between two and five years	**44**	222	**44**	222
Greater than five years	**-**	-	**-**	-
Total lease commitments	**774**	964	**774**	964

30. Capital expenditure commitments

Capital expenditure commitments contracted for as at 30 June 2010, but not provided for in these financial statements, total $2.8m; (30 June 2009: $1.3m). All such commitments are due no later than one year from balance date.

31. Contingent liabilities

There are no material contingent liabilities as at 30 June 2010. (30 June 2009: nil).

32. Events subsequent to reporting period date

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 the 1st of 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.

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

Notes to the financial statements continued

33. Interest repricing

The tables below summarise the Banking Group's and Kiwibank's exposure to interest rate risk. They include the financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. For further details on how interest rate risk is managed refer to note 41.

The fair value adjustment on the revaluation of financial assets and liabilities is categorised in the interest insensitive category below.

	The Banking Group						
	30/06/10						
Dollars in thousands	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 financial statements continued

33. Interest repricing

Kiwibank Limited

30/06/10

Dollars in thousands	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	303,804	303,804	-	-	-	-	-
Due to other financial institutions	156,871	156,871	-	-	-	-	-
Financial assets held for trading	671,152	-	241,718	44,043	211,927	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	-	-	-	-	-
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	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	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	503,161	-
On-balance sheet gap	501,770	(287,752)	(2,095,437)	(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	501,770	(287,752)	1,447,657	(420,168)	(472,537)	234,570	-

Notes to the financial statements continued

33. Interest repricing

	The Banking Group						
	30/06/09						
Dollars in thousands	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	293,805	293,805	-	-	-	-	-
Financial assets held for trading	726,492	-	700,889	-	-	25,603	-
Available-for-sale assets	697,407	-	229,346	10,355	129,472	328,234	-
Loans and advances	8,492,013	2,973	3,736,424	1,197,473	1,900,832	1,654,311	-
Derivative financial instruments	49,342	49,342	-	-	-	-	-
Other financial assets	5,879	5,879	-	-	-	-	-
Total financial assets	10,264,938	351,999	4,666,659	1,207,828	2,030,304	2,008,148	-
Financial liabilities							
Due to other financial institutions	316,648	1,487	264,483	50,678	-	-	-
Deposits and other borrowings	8,265,576	444,514	6,373,120	1,168,936	201,954	77,052	-
Derivative financial instruments	304,287	304,287	-	-	-	-	-
Debt securities issued	912,540	-	867,004	14,724	-	30,812	-
Term subordinated debt	143,566	-	-	-	-	143,566	-
Balances with related parties	37,572	-	37,572	-	-	-	-
Other financial liabilities	31,653	31,653	-	-	-	-	-
Total financial liabilities	10,011,842	781,941	7,542,179	1,234,338	201,954	251,430	-
On-balance sheet gap	253,096	(429,942)	(2,875,520)	(26,510)	1,828,350	1,756,718	-
Net derivative notional principals	-	-	3,162,470	122,530	(1,768,000)	(1,517,000)	-
Net effective interest rate gap	253,096	(429,942)	286,950	96,020	60,350	239,718	-

Notes to the financial statements continued

33. Interest repricing

	Kiwibank Limited						
	30/06/09						
Dollars in thousands	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	293,803	293,803	-	-	-	-	-
Financial assets held for trading	726,492	-	700,889	-	-	25,603	-
Available-for-sale assets	697,407	-	229,346	10,355	129,472	328,234	-
Loans and advances	8,492,013	2,973	3,736,424	1,197,473	1,900,832	1,654,311	-
Derivative financial instruments	49,342	49,342	-	-	-	-	-
Balances with related parties	600,271	-	600,271	-	-	-	-
Other financial assets	5,879	5,879	-	-	-	-	-
Total financial assets	10,865,207	351,997	5,266,930	1,207,828	2,030,304	2,008,148	-
Financial liabilities							
Due to other financial institutions	316,648	1,487	264,483	50,678	-	-	-
Deposits and other borrowings	8,265,576	444,514	6,373,120	1,168,936	201,954	77,052	-
Derivative financial instruments	304,287	304,287	-	-	-	-	-
Debt securities issued	912,540	-	867,004	14,724	-	30,812	-
Term subordinated debt	143,566	-	-	-	-	143,566	-
Balances with related parties	637,934	-	637,934	-	-	-	-
Other financial liabilities	31,562	31,562	-	-	-	-	-
Total financial liabilities	10,612,113	781,850	8,142,541	1,234,338	201,954	251,430	-
On-balance sheet gap	253,094	(429,853)	(2,875,611)	(26,510)	1,828,350	1,756,718	-
Net derivative notional principals	-	-	3,162,470	122,530	(1,768,000)	(1,517,000)	-
Net effective interest rate gap	253,094	(429,853)	286,859	96,020	60,350	239,718	-

Notes to the financial statements continued

34. Financial instruments by category

30/06/10	The Banking Group					
Dollars in thousands	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	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	46,320
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
	Held for trading	Designated at FVTPL			
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 financial statements continued

34. Financial instruments by category

30/06/10	Kiwibank Limited					
Dollars in thousands	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	**303,804**	-	-	-	-	**303,804**
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**	**46,320**
Balances with related parties	**600,916**	-	-	-	-	**600,916**
Other financial assets	**5,741**	-	-	-	-	**5,741**
Total financial assets	**10,250,070**	**544,453**	**695,223**	**1,235,764**	**22,249**	**12,747,759**

	Liabilities at fair value through profit or loss		Derivatives used for hedging	Other financial liabilities at amortised cost	Total
	Held for trading	Designated at FVTPL			
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	-	-	-	**613,241**	**613,241**
Other financial liabilities	-	-	-	**32,248**	**32,248**
Total financial liabilities	**300,631**	-	**101,073**	**11,844,285**	**12,245,989**

34. Financial instruments by category continued

30/06/09	The Banking Group					
Dollars in thousands	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	293,805	-	-	-	-	293,805
Financial assets held for trading	-	-	726,492	-	-	726,492
Available-for-sale assets	-	697,407	-	-	-	697,407
Loans and advances	6,370,429	-	-	2,121,584	-	8,492,013
Derivative financial instruments		-	30,072	-	19,270	49,342
Other financial assets	5,879	-	-	-	-	5,879
Total financial assets	6,670,113	697,407	756,564	2,121,584	19,270	10,264,938

	Liabilities at fair value through profit or loss		Derivatives used for hedging	Other financial liabilities at amortised cost	Total
	Held for trading	Designated at FVTPL			
Due to other financial institutions	-	316,648	-	-	316,648
Deposits and other borrowings	-	-	-	8,265,576	8,265,576
Derivative financial instruments	170,678	-	133,609	-	304,287
Debt securities issued	824,476	-	-	88,064	912,540
Term subordinated debt	-	-	-	143,566	143,566
Balances with related parties	-	-	-	37,572	37,572
Other financial liabilities	-	-	-	31,653	31,653
Total financial liabilities	995,154	316,648	133,609	8,566,431	10,011,842

Notes to the financial statements continued

34. Financial instruments by category continued

30/06/09	Kiwibank Limited					
Dollars in thousands	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	293,803	-	-	-	-	293,803
Financial assets held for trading	-	-	726,492	-	-	726,492
Available-for-sale assets	-	697,407	-	-	-	697,407
Loans and advances	6,370,429	-	-	2,121,584	-	8,492,013
Balances with related parties	600,271	-	-	-	-	600,271
Derivative financial instruments	-	-	30,072	-	19,270	49,342
Other financial assets	5,879	-	-	-	-	5,879
Total financial assets	7,270,382	697,407	756,564	2,121,584	19,270	10,865,207

	Liabilities at fair value through profit or loss		Derivatives used for hedging	Other financial liabilities at amortised cost	Total
	Held for trading	Designated at FVTPL			
Due to other financial institutions	-	316,648	-	-	316,648
Deposits and other borrowings	-	-	-	8,265,576	8,265,576
Derivative financial instruments	170,678	-	133,609	-	304,287
Debt securities issued	824,476	-	-	88,064	912,540
Term subordinated debt	-	-	-	143,566	143,566
Balances with related parties	-	-	-	637,934	637,934
Other financial liabilities	-	-	-	31,562	31,562
Total financial liabilities	995,154	316,648	133,609	9,166,702	10,612,113

Notes to the 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 year end. Included in the table are the Group's financial instruments at NZD carrying amounts, categorised by currency.

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

Notes to the financial statements continued

35. Foreign exchange risk continued

As at 30 June 2010 — Kiwibank Limited

Dollars in thousands	NZD	JPY	AUD	USD	GBP	EUR	Total
Assets							
Cash and cash equivalents	266,667	698	4,517	21,461	8,528	1,933	303,804
Due from other financial institutions	156,871	-	-	-	-	-	156,871
Financial assets held for trading	544,125	-	58,820	46,776	-	21,431	671,152
Available-for-sale assets	473,845	-	70,608	-	-	-	544,453
Loans and advances	10,418,502	-	-	-	-	-	10,418,502
Derivative financial instruments	78,194	-	3,403	(14,575)	-	(20,702)	46,320
Balances with related parties	600,916	-	-	-	-	-	600,916
Other financial assets	5,741	-	-	-	-	-	5,741
Total financial assets	12,544,861	698	137,348	53,662	8,528	2,662	12,747,759
Liabilities							
Due to other financial institutions	164,051	-	-	-	-	-	164,051
Deposits and other borrowings	10,268,018	698	2,427	13,969	8,528	1,685	10,295,325
Derivative financial instruments	355,155	-	(186,625)	33,066	-	992	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	12,059,911	698	127,140	47,035	8,528	2,677	12,245,989
Net	484,950	-	10,208	6,627	-	(15)	501,770

35. Foreign exchange risk continued

As at 30 June 2009	The Banking Group					
Dollars in thousands	NZD	AUD	USD	GBP	EUR	Total
Assets						
Cash and cash equivalents	265,131	6,839	13,600	7,077	1,158	293,805
Financial assets held for trading	575,664	50,120	14,856	-	85,852	726,492
Available-for-sale assets	591,640	105,767	-	-	-	697,407
Loans and advances	8,492,013	-	-	-	-	8,492,013
Derivative financial instruments	200,000	(62,607)	(17,749)	-	(70,302)	49,342
Other financial assets	5,879	-	-	-	-	5,879
Total financial assets	10,130,327	100,119	10,707	7,077	16,708	10,264,938
Liabilities						
Due to other financial institutions	316,648	-	-	-	-	316,648
Deposits and other borrowings	8,242,995	2,135	12,217	7,077	1,152	8,265,576
Derivative financial instruments	193,405	97,635	(3,450)	-	16,697	304,287
Debt securities issued	912,540	-	-	-	-	912,540
Term subordinated debt	143,566	-	-	-	-	143,566
Balances with related parties	37,572	-	-	-	-	37,572
Other financial liabilities	31,653	-	-	-	-	31,653
Total financial liabilities	9,878,379	99,770	8,767	7,077	17,849	10,011,842
Net	251,948	349	1,940	-	(1,141)	253,096

35. Foreign exchange risk continued

As at 30 June 2009	Kiwibank Limited					
Dollars in thousands	NZD	AUD	USD	GBP	EUR	Total
Assets						
Cash and cash equivalents	265,129	6,839	13,600	7,077	1,158	293,803
Financial assets held for trading	575,664	50,120	14,856	-	85,852	726,492
Available-for-sale assets	591,640	105,767	-	-	-	697,407
Loans and advances	8,492,013	-	-	-	-	8,492,013
Derivative financial instruments	200,000	(62,607)	(17,749)	-	(70,302)	49,342
Balances with related parties	600,271	-	-	-	-	600,271
Other financial assets	5,879	-	-	-	-	5,879
Total financial assets	10,730,596	100,119	10,707	7,077	16,708	10,865,207
Liabilities						
Due to other financial institutions	316,648	-	-	-	-	316,648
Deposits and other borrowings	8,242,995	2,135	12,217	7,077	1,152	8,265,576
Derivative financial instruments	193,405	97,635	(3,450)	-	16,697	304,287
Debt securities issued	912,540	-	-	-	-	912,540
Term subordinated debt	143,566	-	-	-	-	143,566
Balances with related parties	637,934	-	-	-	-	637,934
Other financial liabilities	31,562	-	-	-	-	31,562
Total financial liabilities	10,478,650	99,770	8,767	7,077	17,849	10,612,113
Net	251,946	349	1,940	-	(1,141)	253,094

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 banks funding plan which includes the development of sustainable wholesale funding capacity.
- Stress testing the banks 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 30 June 2009 using the PLR ratio and also discloses the ranges calculated for the RBNZ ratios for the period from 1 April 2010 to 30 June 2010.

Notes to the financial statements continued

36. Liquidity risk continued

Dollars in thousands	30/06/09
PLR ratios – 10 working days basis	169%
NZD stock – primary liquidity	591,854
Wholesale NZD outflows	130,386
NZD retail deposit outflow	160,198
Committed lines granted by the bank	59,279
	349,863
PLR Basis 1	169%
PLR Basis 2	237%
PLR ratio (minimum of Basis 1 and 2)	169%

RBNZ mismatch ratio

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

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.

Kiwibank's core funding ratio has remained stable within a 1% range of 79-80% since adoption of BS13. 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 end of 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 balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows using forward rates.

Notes to the financial statements continued

36. Liquidity risk continued

	The Banking Group				
	30/06/10				
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 balance sheet 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

36. Liquidity risk continued

	Kiwibank Limited				
	30/06/10				
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
Balances with related parties	6,367	22,279	148,124	2,293,392	2,470,162
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	32,248	-	-	-	32,248
Total financial liabilities	7,245,608	3,619,037	1,020,559	2,293,392	14,178,596
Assets					
Cash and cash equivalents	303,804	-	-	-	303,804
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
Balances with related parties	5,371	19,324	132,311	2,154,713	2,311,719
Other financial assets	5,741	-	-	-	5,741
Total financial assets	1,079,396	983,883	3,795,938	22,015,701	27,874,918
Net non derivative cash flows	(6,166,212)	(2,635,154)	2,775,379	19,722,309	13,696,322
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 balance sheet 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	(7,080,920)	(2,689,631)	2,724,254	19,722,309	12,676,012
Cumulative net cash flows	(7,080,920)	(9,770,551)	(7,046,297)	12,676,012	12,676,012

Notes to the financial statements continued

36. Liquidity risk continued

	The Banking Group				
	30/06/09				
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	185,836	132,379	-	-	318,215
Deposits and other borrowings	6,527,114	1,642,813	314,235	30	8,484,192
Debt securities issued	729,923	102,934	101,112	-	933,969
Term subordinated debt	5,520	5,520	164,955	-	175,995
Other financial liabilities	31,653	-	-	-	31,653
Total financial liabilities	7,480,046	1,883,646	580,302	30	9,944,024
Assets					
Cash and cash equivalents	293,805	-	-	-	293,805
Financial assets held for trading	568,574	120,260	48,138	-	736,972
Available-for-sale assets	96,381	110,843	560,822	-	768,046
Loans and advances	585,515	529,686	2,539,947	16,952,699	20,607,847
Other financial assets	4,456	-	-	-	4,456
Total financial assets	1,548,731	760,789	3,148,907	16,952,699	22,411,126
Net non derivative cash flows	(5,931,315)	(1,122,857)	2,568,605	16,952,669	12,467,102
Derivative cash flows - net					
Interest rate derivatives	(56,140)	(118,502)	(86,204)	-	(260,846)
Total	(56,140)	(118,502)	(86,204)	-	(260,846)
Derivative cash flows - gross					
Foreign exchange derivatives					
Inflow	107,654	99,355	78,040	-	285,049
Outflow	(105,778)	(98,664)	(80,325)	-	(284,767)
Total	1,876	691	(2,285)	-	282
Off balance sheet cash flows					
Capital commitments	(1,256)	-	-	-	(1,256)
Loan commitments	(863,993)	-	-	-	(863,993)
Lease commitments	(101)	(301)	(562)	-	(964)
Total	(865,350)	(301)	(562)	-	(866,213)
Net cash flows	(6,850,929)	(1,240,969)	2,479,554	16,952,669	11,340,325
Cumulative net cash flows	(6,850,929)	(8,091,898)	(5,612,344)	11,340,325	11,340,325

36. Liquidity risk continued

	Kiwibank Limited				
	30/06/09				
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	185,836	132,379	-	-	318,215
Balances with related parties	5,283	18,391	169,970	2,332,443	2,526,087
Deposits and other borrowings	6,527,114	1,642,813	314,235	30	8,484,192
Debt securities issued	729,923	102,934	101,112	-	933,969
Term subordinated debt	5,520	5,520	164,955	-	175,995
Other financial liabilities	31,562	-	-	-	31,562
Total financial liabilities	7,485,238	1,902,037	750,272	2,332,473	12,470,020
Assets					
Cash and cash equivalents	293,803	-	-	-	293,803
Financial assets held for trading	568,574	120,260	48,138	-	736,972
Available-for-sale assets	96,381	110,843	560,822	-	768,046
Loans and advances	585,515	529,686	2,539,947	16,952,699	20,607,847
Balances with related parties	4,407	15,437	154,159	2,189,999	2,364,002
Other financial assets	4,456	-	-	-	4,456
Total financial assets	1,553,136	776,226	3,303,066	19,142,698	24,775,126
Net non derivative cash flows	(5,932,102)	(1,125,811)	2,552,794	16,810,225	12,305,106
Derivative cash flows - net					
Interest rate derivatives	(56,140)	(118,502)	(86,204)	-	(260,846)
Total	(56,140)	(118,502)	(86,204)	-	(260,846)
Derivative cash flows - gross					
Foreign exchange derivatives					
Inflow	107,654	99,355	78,040	-	285,049
Outflow	(105,778)	(98,664)	(80,325)	-	(284,767)
Total	1,876	691	(2,285)	-	282
Off balance sheet cash flows					
Capital commitments	(1,256)	-	-	-	(1,256)
Loan commitments	(863,993)	-	-	-	(863,993)
Lease commitments	(101)	(301)	(562)	-	(964)
Total	(865,350)	(301)	(562)	-	(866,213)
Net cash flows	(6,851,716)	(1,243,923)	2,463,743	16,810,225	11,178,329
Cumulative net cash flows	(6,851,716)	(8,095,639)	(5,631,896)	11,178,329	11,178,329

37. Sensitivity analysis

The tables below summarise the pre-tax sensitivity of financial assets and liabilities to changes in the two key 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.

30 June 2010		Interest rate risk			
Banking Group		-1%	+1%	-1%	+1%
Dollars in thousands	Carrying amounts	Net profit	Net profit	Equity	Equity
Financial assets					
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

37. Sensitivity analysis continued

30 June 2010			Currency risk		
Banking Group		-10%	+10%	-10%	+10%
Dollars in thousands	Carrying amounts	Net profit	Net profit	Equity	Equity
Financial assets					
Cash and cash equivalents	303,866	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
Other financial assets	5,584	-	-	-	-
Total financial assets	12,146,748	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	12,114	-	-	-	-
Other financial liabilities	32,362	-	-	-	-
Total financial liabilities	11,644,976	(22,162)	18,133	(22,162)	18,133

37. Sensitivity analysis continued

30 June 2010		Interest rate risk			
Kiwibank Limited		-1%	+1%	-1%	+1%
Dollars in thousands	Carrying amounts	Net profit	Net profit	Equity	Equity
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

37. Sensitivity analysis continued

30 June 2010		Currency risk			
Kiwibank Limited		-10%	+10%	-10%	+10%
Dollars in thousands	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

37. Sensitivity analysis continued

30 June 2009		Interest rate risk			
Banking Group		-1%	+1%	-1%	+1%
Dollars in thousands	Carrying amounts	Net profit	Net profit	Equity	Equity
Financial assets					
Cash and cash equivalents	293,805	-	-	-	-
Financial assets held for trading	726,492	1,539	(1,535)	1,539	(1,535)
Available-for-sale assets	697,407	-	-	11,465	(11,160)
Loans and advances	8,492,013	34,628	(34,579)	34,628	(34,579)
Derivative financial instruments	49,342	9,333	(9,076)	2,981	(3,141)
Other financial assets	5,879	-	-	-	-
Total financial assets	10,264,938	45,500	(45,190)	50,613	(50,415)
Financial liabilities					
Due to other financial institutions	316,648	(554)	550	(554)	550
Deposits and other borrowings	8,265,576	(3,267)	3,258	(3,267)	3,258
Derivative financial instruments	304,287	(28,052)	27,387	(69,294)	67,390
Debt securities issued	912,540	(2,095)	2,068	(2,095)	2,068
Term subordinated debt	143,566	(2,758)	2,656	(2,758)	2,656
Balances with related parties	37,572	(108)	107	(108)	107
Other financial liabilities	31,653	-	-	-	-
Total financial liabilities	10,011,842	(36,834)	36,026	(78,076)	76,029

Notes to the financial statements continued

37. Sensitivity analysis continued

30 June 2009		Currency risk			
Banking Group		-10%	+10%	-10%	+10%
Dollars in thousands	Carrying amounts	Net profit	Net profit	Equity	Equity
Financial assets					
Cash and cash equivalents	293,805	3,186	(2,607)	3,186	(2,607)
Financial assets held for trading	726,492	16,759	(13,712)	16,759	(13,712)
Available-for-sale assets	697,407	-	-	11,752	(9,615)
Loans and advances	8,492,013	-	-	-	-
Derivative financial instruments	49,342	(16,740)	13,696	(16,740)	13,696
Other financial assets	5,879	-	-	-	-
Total financial assets	10,264,938	3,205	(2,623)	14,957	(12,238)
Financial liabilities					
Due to other financial institutions	316,648	-	-	-	-
Deposits and other borrowings	8,265,576	(2,509)	2,053	(2,509)	2,053
Derivative financial instruments	304,287	(12,320)	10,080	(12,320)	10,080
Debt securities issued	912,540	-	-	-	-
Term subordinated debt	143,566	-	-	-	-
Balances with related parties	37,572	-	-	-	-
Other financial liabilities	31,653	-	-	-	-
Total financial liabilities	10,011,842	(14,829)	12,133	(14,829)	12,133

37. Sensitivity analysis continued

30 June 2009		Interest rate risk			
Kiwibank Limited		-1%	+1%	-1%	+1%
Dollars in thousands	Carrying amounts	Net profit	Net profit	Equity	Equity
Financial assets					
Cash and cash equivalents	293,803	-	-	-	-
Financial assets held for trading	726,492	1,539	(1,535)	1,539	(1,535)
Available-for-sale assets	697,407	-	-	11,465	(11,160)
Loans and advances	8,492,013	34,628	(34,579)	34,628	(34,579)
Derivative financial instruments	49,342	9,333	(9,076)	2,981	(3,141)
Balances with related parties	600,271	1,095	(1,033)	1,095	(1,033)
Other financial assets	5,879	-	-	-	-
Total financial assets	10,865,207	46,595	(46,223)	51,708	(51,448)
Financial liabilities					
Due to other financial institutions	316,648	(554)	550	(554)	550
Deposits and other borrowings	8,265,576	(3,267)	3,258	(3,267)	3,258
Derivative financial instruments	304,287	(28,052)	27,387	(69,294)	67,390
Debt securities issued	912,540	(2,095)	2,068	(2,095)	2,068
Term subordinated debt	143,566	(2,758)	2,656	(2,758)	2,656
Balances with related parties	637,934	(876)	873	(876)	873
Other financial liabilities	31,562	-	-	-	-
Total financial liabilities	10,612,113	(37,602)	36,792	(78,844)	76,795

Notes to the financial statements continued

37. Sensitivity analysis continued

30 June 2009			Currency risk		
Kiwibank Limited		-10%	+10%	-10%	+10%
Dollars in thousands	Carrying amounts	Net profit	Net profit	Equity	Equity
Financial assets					
Cash and cash equivalents	293,803	3,186	(2,607)	3,186	(2,606)
Financial assets held for trading	726,492	16,759	(13,712)	16,759	(13,712)
Available-for-sale assets	697,407	-	-	11,752	(9,615)
Loans and advances	8,492,013	-	-	-	-
Derivative financial instruments	49,342	(16,740)	13,696	(16,740)	13,696
Balances with related parties	600,271	-	-	-	-
Other financial assets	5,879	-	-	-	-
Total financial assets	10,865,207	3,205	(2,623)	14,957	(12,237)
Financial liabilities					
Due to other financial institutions	316,648	-	-	-	-
Deposits and other borrowings	8,265,576	(2,509)	2,053	(2,509)	2,053
Derivative financial instruments	304,287	(12,320)	10,080	(12,320)	10,080
Debt securities issued	912,540	-	-	-	-
Term subordinated debt	143,566	-	-	-	-
Balances with related parties	637,934	-	-	-	-
Other financial liabilities	31,562	-	-	-	-
Total financial liabilities	10,612,113	(14,829)	12,133	(14,829)	12,133

38. Fair Value of Financial Instruments

	The Banking Group			
	30/06/10		30/06/09	
Dollars in thousands	**Carrying Amount**	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	**303,866**	**303,866**	293,805	293,805
Due from other financial institutions	**156,871**	**156,871**	-	-
Financial assets held for trading	**671,152**	**671,152**	726,492	726,492
Available-for-sale assets	**544,453**	**544,453**	697,407	697,407
Loans and advances	**10,418,502**	**10,453,603**	8,492,013	8,550,701
Derivative financial instruments	**46,320**	**46,320**	49,342	49,342
Other financial assets	**5,584**	**5,584**	5,879	5,879
Total financial assets	**12,146,748**	**12,181,849**	10,264,938	10,323,626
Liabilities				
Due to other financial institutions	**164,051**	**164,051**	316,648	316,648
Deposits and other borrowings	**10,295,325**	**10,305,234**	8,265,576	8,284,091
Derivative financial instruments	**202,588**	**202,588**	304,287	304,287
Debt securities issued	**795,237**	**797,433**	912,540	913,978
Term subordinated debt	**143,299**	**144,190**	143,566	137,575
Balances with related parties	**12,114**	**12,114**	37,572	37,572
Other financial liabilities	**32,362**	**32,362**	31,653	31,653
Total financial liabilities	**11,644,976**	**11,657,972**	10,011,842	10,025,804

	Kiwibank Limited			
	30/06/10		30/06/09	
Dollars in thousands	**Carrying Amount**	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	**303,804**	**303,804**	293,803	293,803
Due from other financial institutions	**156,871**	**156,871**	-	-
Financial assets held for trading	**671,152**	**671,152**	726,492	726,492
Available-for-sale assets	**544,453**	**544,453**	697,407	697,407
Loans and advances	**10,418,502**	**10,453,603**	8,492,013	8,550,701
Derivative financial instruments	**46,320**	**46,320**	49,342	49,342
Balances with related parties	**600,916**	**603,309**	600,271	602,649
Other financial assets	**5,741**	**5,741**	5,879	5,879
Total financial assets	**12,747,759**	**12,785,253**	10,865,207	10,926,273
Liabilities				
Due to other financial institutions	**164,051**	**164,051**	316,648	316,648
Deposits and other borrowings	**10,295,325**	**10,305,234**	8,265,576	8,284,091
Derivative financial instruments	**202,588**	**202,588**	304,287	304,287
Debt securities issued	**795,237**	**797,433**	912,540	913,978
Term subordinated debt	**143,299**	**144,190**	143,566	137,575
Balances with related parties	**613,241**	**619,760**	637,934	643,712
Other financial liabilities	**32,248**	**32,248**	31,562	31,562
Total financial liabilities	**12,245,989**	**12,265,504**	10,612,113	10,631,853

38. Fair value of financial instruments continued

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.

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.

38. Fair Value of Financial Instruments continued

Audited 30/06/10

Dollars in thousands	Banking Group and Kiwibank Limited			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial assets				
Interest rate swaps	-	37,916	-	37,916
Currency swaps	-	8,007	-	8,007
Forward foreign exchange contracts	-	244	-	244
Futures contracts	7	-	-	7
Forward rate agreements	-	146	-	146
Total	7	46,313	-	46,320
Other financial assets held for trading				
Bank bills	-	189,288	-	189,288
Other securities	220,850	261,014	-	481,864
Total	220,850	450,302	-	671,152
Available-for-sale assets				
Government stock and multilateral development banks	261,538	88,530	-	350,068
Local authority securities	-	18,927	-	18,927
Other debt securities	-	175,458	-	175,458
Total	261,538	282,915	-	544,453
Financial assets designated at FVTPL				
Loans and advances	-	-	1,235,764	1,235,764
Total financial assets	482,395	779,530	1,235,764	2,497,689
Financial liabilities				
Derivative financial liabilities				
Interest rate swaps	-	190,895	-	190,895
Currency swaps	-	7,195	-	7,195
Forward foreign exchange contracts	-	3,867	-	3,867
Futures contracts	581	-	-	581
Forward rate agreements	-	50	-	50
Total	581	202,007	-	202,588
Debt securities issued	-	199,116	-	199,116
Total financial liabilities	581	401,123	-	401,704

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 balance date, a one basis point movement in credit spread or underlying interest rate would impact the statement of comprehensive income by $99k (June 09; $270k).

The following table presents the changes in level 3 instruments for the year ended 30 June 2010.

Dollars in thousands	At 1 July 2009	Total losses recorded in statement of comprehensive income	Loan repayments	At 30 June 2010
Financial assets at FVTPL				
Loans and advances	**2,121,584**	**(41,550)**	**(844,270)**	**1,235,764**

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

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 balance date are:

	The Banking Group			
	3 months ended 30/06/10		3 months ended 30/06/09	
	Non-Bank	Bank	Non-Bank	Bank
As at balance date				
10% - 19%	-	**4**	2	6
20% - 29%	-	**1**	-	-
30% - 39%	-	-	-	1
40% - 49%	-	-	-	1
60% - 69%	-	-	-	1
80% - 89%	-	-	-	1
Peak exposure				
10% - 19%	**1**	**3**	2	7
20% - 29%	-	**2**	1	-
30% - 39%	-	-	-	-
40% - 49%	-	**1**	-	-
50% - 59%	-	-	-	1
70% - 79%	-	-	-	2
80% - 89%	-	-	-	1

Notes to the 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 balance date are:

	30/06/10		30/06/09	
Dollars in thousands	**Amount**	**% of total credit exposure**	Amount	% of total credit exposure
Bank counterparties				
Investment grade credit rating	**490,534**	**100%**	769,805	100%
Below investment grade credit rating	-	-	-	-
Not rated	-	-	-	-
Total credit exposure	**490,534**	**100%**	769,805	100%
Non-bank counterparties				
Investment grade credit rating	-	-	93,769	100%
Below investment grade credit rating	-	-	-	-
Not rated	-	-	-	-
Total credit exposure	-	-	93,769	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 quarter. The rating-contingent limit, which is applicable to the Banking Group as at balance 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 exposures to all connected persons and non-bank connected persons in the Banking Group's Conditions of Registration have been complied 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 30 June 2010 (30 June 2009: nil).

	The Banking Group	
Dollars in thousands	**3 months ended 30/06/10**	3 months ended 30/06/09
Credit exposures to non-bank connected persons at year end	**39**	16
Credit exposures to non-bank connected persons at year end expressed as a percentage of total tier one capital	**0.0%**	0.0%
Peak credit exposures to non-bank connected persons during the year	**2,541**	10,018
Peak credit exposures to non-bank connected persons during the year expressed as a percentage of total tier one capital	**0.4%**	2.6%

Notes to the 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.

Insurance business

On 26 June 2009 the Banking Group sold its interest in Kiwi Insurance Limited. Therefore the Banking Group no longer markets and distributes its own insurance products.

Funds management

As at 30 June 2010 and 30 June 2009, 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 (note 20). At 30 June 2010, $1,169m of funds under management were invested in Kiwibank's own products or securities (30 June 2009: $967m)

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 years ended 30 June 2010 and 30 June 2009.

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.

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.

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 devolved. 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.

  The bank 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.

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 exits 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.

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.

- **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.

41. Risk management policies continued

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.

- **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.

41. Risk management policies continued

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

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.

41. Risk management policies continued

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

Dollars in thousands	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 FRS 12 months ended 30/06/06	Audited NZ FRS 12 months ended 30/06/05
Financial performance						
Interest income	**563,886**	648,891	559,105	318,963	188,157	119,337
Interest expense	**(430,496)**	(485,478)	(444,004)	(239,965)	(136,222)	(83,046)
(Losses)/gains on financial instruments at fair value	**36,323**	(4,625)	(6,116)	4,163	-	-
Other operating income	**131,729**	142,953	129,113	120,395	98,373	75,038
Gain on sale of subsidiary	**-**	11,140	-	-	-	-
Operating expenses	**(218,902)**	(214,946)	(179,432)	(158,414)	(125,155)	(99,504)
Impairment losses on loans and advances	**(17,860)**	(14,345)	(4,097)	(460)	(1,892)	(946)
Net profit before taxation	**64,680**	83,590	54,569	44,682	23,261	10,879
Income tax expense	**(18,832)**	(19,975)	(17,748)	(13,830)	(7,490)	(3,640)
Net profit after taxation	**45,848**	63,615	36,821	30,852	15,771	7,239

Financial position	30/06/10	30/06/09	30/06/08	30/06/07	30/06/06	30/06/05
Total assets	**12,238,375**	10,371,035	7,219,228	4,760,290	3,072,982	1,860,175
Impaired assets	**37,776**	19,332	4,067	64	60	-
Total liabilities	**11,649,612**	10,015,869	6,893,251	4,510,934	2,900,559	1,738,523
Equity	**588,763**	355,166	325,977	249,356	172,423	121,652

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 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 the ordinary 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 balance 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 year ended 30 June 2010. Throughout the year Kiwibank and the Banking Group complied with both regulatory and internal capital adequacy requirements.

	The Banking Group		Kiwibank Limited	
Dollars in thousands	**30/06/10**	30/06/09	**30/06/10**	30/06/09
Tier one capital				
Issued and fully paid up share capital	**310,000**	295,000	**310,000**	295,000
Perpetual fully paid up non-cumulative preference shares	**146,639**	-	**145,708**	-
Revenue and similar reserves	**82,915**	(3,449)	**82,913**	(5,581)
Current year's audited retained earnings	**45,848**	63,615	**45,848**	65,745
Tier one minority interest	**3,361**	-	-	-
Less: Deductions from tier one capital				
Intangible assets	**(47,505)**	(43,181)	**(47,505)**	(43,181)
Cash-flow hedge reserve	**45,873**	72,014	**45,873**	72,014
Total tier one capital	**587,131**	383,999	**582,837**	383,997
Tier two capital - upper level tier two capital				
Perpetual fully paid up non-cumulative preference shares	-	-	**4,292**	-
Tier two capital - lower level tier two capital				
Term subordinated debt	**135,000**	135,000	**135,000**	135,000
Total tier two capital	**135,000**	135,000	**139,292**	135,000
Total tier one and tier two capital	**722,131**	518,999	**722,129**	518,997
Less deductions from capital	-	-	-	-
Capital	**722,131**	518,999	**722,129**	518,997
Capital adequacy ratios				
Total tier one capital expressed as a percentage of total risk weighted exposures	**9.8%**	7.7%	**9.5%**	7.5%
Total capital (Pillar I) capital expressed as a percentage of total risk weighted exposures	**12.0%**	10.5%	**11.8%**	10.2%
Capital ratio (Pillar I & II) expressed as a percentage of total risk weighted exposures (including other material risk)	**11.7%**	10.1%	**11.5%**	9.8%

Capital adequacy continued

	The Banking Group			
Dollars in thousands	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-balance sheet exposures				
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 balance sheet exposures	12,238,375	-	4,966,549	397,324

Capital adequacy continued

	The Banking Group					
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-balance sheet exposures and market related contracts						
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-balance sheet exposures	11,647,421		402,175		154,691	12,376
Total value of on- and off- balance sheet exposures covered by eligible collateral (after haircutting)	(8,516)	-	-	-	(8,516)	(681)
Total value of on- and off- balance sheet 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			
Dollars in thousands	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-balance sheet exposures				
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 balance sheet exposures	**12,839,386**	**-**	**5,097,034**	**407,762**

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-balance sheet 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: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-balance sheet exposures	11,647,421		402,175		154,691	12,376
Total value of on- and off- balance sheet exposures covered by eligible collateral (after haircutting)	(8,516)	-	-	-	(8,516)	(681)
Total value of on- and off- balance sheet 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

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

Capital adequacy continued

	The Banking Group			
Dollars in thousands	Principal amount 30/06/09	Risk weighting 30/06/09	Risk weighted exposure 30/06/09	Minimum Pillar One Capital Requirement 30/06/09
On-balance sheet exposures				
Cash and gold bullion	41,267	0%	-	-
Sovereigns and central banks	512,507	0%	-	-
Multilateral development banks	229,737	0%	-	-
Claims on public sector entities	136,276	20%	27,255	2,180
Claims on other banks	546,805	20%	109,360	8,749
	99,783	50%	49,892	3,991
Corporate	173,494	20%	34,699	2,776
	75,691	50%	37,846	3,028
Residential mortgages	6,279,125	35%	2,197,694	175,816
	814,620	50%	407,310	32,585
	574,440	75%	430,830	34,466
	95,144	100%	95,144	7,612
Impaired assets	19,332	100%	19,332	1,547
Past due residential mortgages > 90 days	11,797	100%	11,797	944
Other past due assets > 90 days	11,450	100%	11,450	916
Other assets	669,252	100%	669,252	53,540
Non risk weighted assets	80,315	-	-	-
Total balance sheet exposures	10,371,035	-	4,101,861	328,150

Capital adequacy continued

	The Banking Group					
Dollars in thousands	Total exposure 30/06/09	Credit conversion factor 30/06/09	Credit equivalent amount 30/06/09	Average risk weighting 30/06/09	Risk weighted exposure 30/06/09	Minimum Pillar One Capital Requirement 30/06/09
Off-balance sheet exposures and market related contracts						
Direct credit substitutes	-	100%	-	0%	-	-
Asset sale with recourse	-	100%	-	0%	-	-
Commitments with certain drawdown	11,133	100%	11,133	100%	11,133	891
Note issuance facility		50%		0%		
Revolving credit facilities	49,371	0%	-	40%	-	-
Revolving credit facilities	232,165	20%	46,433	40%	18,573	1,486
Revolving credit facilities	318,381	50%	159,191	40%	63,676	5,094
Performance related contingency		50%		0%		
Trade related contingency		20%		0%		
Placements of forward deposits		100%		0%		
Other commitments greater than one year	179,230	50%	89,615	40%	35,846	2,868
Other commitments less than or equal to one year	73,713	20%	14,743	100%	14,743	1,179
Other commitments that cancel automatically	246,805	0%	-	0%	-	-
Market related contracts:o	-		-	0%	-	-
Interest rate contracts	7,803,530		61,257	20%	12,251	980
Foreign exchange contracts	270,281		14,831	20%	2,966	237
Total off-balance sheet exposures	9,184,609		397,203		159,188	12,735
Total value of on- and off- balance sheet exposures covered by eligible collateral (after haircutting)	**(7,917)**	-	-	-	**(7,917)**	**(633)**
Total value of on- and off- balance sheet exposures covered by guarantees or credit derivatives	-	-	-	-	-	-
Operational Risk	**n/a**	-	-	-	**466,678**	**37,334**
Market Risk						
Interest rate risk	**n/a**	-	-	-	**243,676**	**19,494**
Foreign currency risk	**n/a**	-	-	-	**2,516**	**201**
Equity risk	**n/a**	-	-	-	-	-
Total risk weighted exposures	**19,547,727**	-	-	-	**4,966,002**	**397,281**
Other material risk (Pillar II)	n/a				**175,218**	**14,017**

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

Capital adequacy continued

	Kiwibank Limited			
Dollars in thousands	Principal amount 30/06/09	Risk weighting 30/06/09	Risk weighted exposure 30/06/09	Minimum Pillar One Capital Requirement 30/06/09
On-balance sheet exposures				
Cash and gold bullion	41,267	0%	-	-
Sovereigns and central banks	512,507	0%	-	-
Multilateral development banks	229,737	0%	-	-
Claims on public sector entities	136,276	20%	27,255	2,180
Claims on other banks	546,751	20%	109,350	8,748
	99,783	50%	49,892	3,991
Corporate	760,822	20%	152,164	12,173
	75,691	50%	37,846	3,028
	15,000	100%	15,000	1,200
Residential mortgages	6,279,125	35%	2,197,694	175,816
	814,620	50%	407,310	32,585
	574,440	75%	430,830	34,466
	95,144	100%	95,144	7,612
Impaired assets	19,332	100%	19,332	1,547
Past due residential mortgages > 90 days	11,797	100%	11,797	944
Other past due assets > 90 days	11,450	100%	11,450	916
Other assets	667,247	100%	667,247	53,380
Non risk weighted assets	80,315	-	-	-
Total balance sheet exposures	10,971,304	-	4,232,311	338,586

Capital adequacy continued

	Kiwibank Limited					
Dollars in thousands	Total exposure 30/06/09	Credit conversion factor 30/06/09	Credit equivalent amount 30/06/09	Average risk weighting 30/06/09	Risk weighted exposure 30/06/09	Minimum Pillar One Capital Requirement 30/06/09
Off-balance sheet exposures and market related contracts						
Direct credit substitutes	-	100%	-	0%	-	-
Asset sale with recourse	-	100%	-	0%	-	-
Commitments with certain drawdown	11,133	100%	11,133	100%	11,133	891
Note issuance facility		50%		0%		
Revolving credit facilities	49,371	0%	-	40%	-	-
Revolving credit facilities	232,165	20%	46,433	40%	18,573	1,486
Revolving credit facilities	318,381	50%	159,191	40%	63,676	5,094
Performance related contingency		50%		0%		
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Other commitments greater than one year	179,230	50%	89,615	40%	35,846	2,868
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Other commitments that cancel automatically	246,805	0%	-	0%	-	-
Market related contracts:o	-		-	0%	-	-
Interest rate contracts	7,803,530		61,257	20%	12,251	980
Foreign exchange contracts	270,281		14,831	20%	2,966	237
Total off-balance sheet exposures	9,184,609		397,203		159,188	12,735
Credit Risk Mitigation						
Total value of on- and off- balance sheet exposures covered by eligible collateral (after haircutting)	(7,917)	-	-	-	(7,917)	(633)
Total value of on- and off- balance sheet exposures covered by guarantees or credit derivatives	-	-	-	-	-	-
Operational Risk	n/a	-	-	-	466,678	37,334
Market Risk						
Interest rate risk	n/a	-	-	-	243,676	19,494
Foreign currency risk	n/a	-	-	-	2,516	201
Equity risk	n/a	-	-	-	-	-
Total risk weighted exposures	20,147,996		-	-	5,096,452	407,717
Other material risk (Pillar II)	n/a				175,218	14,017

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

Residential mortgages by loan-to-value ratio

The Banking Group Dollars in thousands	30/06/10	30/06/09
LVR 0%-80%	**7,650,017**	6,279,125
LVR 80%-90%	**1,297,099**	814,620
LVR 90% +	**656,587**	669,584

At 30 June 2010, of the balance above, $270.0m 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			
Dollars in thousands	As at 30/06/10	As at 30/06/09	Peak for 3 months ended 30/06/10	Peak for 3 months ended 30/06/09
Interest rate exposures				
Aggregate interest rate exposures	**20,379**	19,494	**22,202**	20,330
Aggregate interest rate exposures expressed as a percentage of the Banking Group's shareholder's equity	**3.5%**	5.5%	**3.8%**	5.7%
Implied interest rate risk weighted exposure	**254,738**	243,675	**277,525**	254,125
Foreign currency exposures				
Aggregate foreign currency exposures	**524**	86	**654**	704
Aggregate foreign currency exposures expressed as a percentage of the Banking Group's shareholder's equity	**0.1%**	0.0%	**0.1%**	0.2%
Implied foreign currency risk weighted exposure	**6,550**	1,075	**8,175**	8,800

The Banking Group holds no equity instruments.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
113-119 The Terrace
P O Box 243
Wellington 6140
New Zealand
Telephone +64 4 462 7000
Facsimile +64 4 462 7001
www.pwc.com/nz

Report

To the readers of Kiwibank Limited and Group's General Disclosure Statement for the year ended 30 June 2010

The Auditor-General is the auditor of Kiwibank Limited (the "Bank") and the Banking Group comprising the Bank and its subsidiaries. The Auditor-General has appointed me, Karen Shires, using the staff and resources of PricewaterhouseCoopers, to:

- audit the financial statements on pages 15 to 102 of the General Disclosure Statement of the Bank and Banking Group for the year ended 30 June 2010; and
- review the supplementary information on pages 104 to 114 required by Schedule 5A of the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008 (the "Order") for the year ended 30 June 2010.

A review is not an audit.

Opinions

Unqualified audit opinion

In our opinion:

(a) proper accounting records have been kept by the Bank as far as appears from our examination of those records;

(b) the financial statements on pages 15 to 102 (excluding the supplementary information included in notes 13, 24, 39, 40 and 41):

  (i) comply with generally accepted accounting practice in New Zealand;

  (ii) comply with International Financial Reporting Standards; and

  (iii) give a true and fair view of the financial position of the Bank and the Banking Group as at 30 June 2010 and their financial performance and cash flows for the year ended on that date; and

(c) the supplementary information included in notes 13, 24, 39, 40 and 41 prescribed by Schedules 4 and 6 to 9 and clause 17 of Schedule 3 of the Order is fairly stated in accordance with those Schedules.

Unqualified review opinion

In our opinion, nothing has come to our attention that causes us to believe that the supplementary information relating to Capital Adequacy disclosed on pages 104 to 114 has not been prepared in accordance with Schedule 5A of the Order.

The audit and review work was completed on 17 August 2010 and is the date at which our opinions are expressed.

The basis of our opinions is explained below. In addition, we outline the responsibilities of the Directors and the Auditor, and explain our independence.

Basis of opinions

Audit opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and supplementary information (excluding the supplementary information relating to Capital Adequacy disclosed on pages 104 to 114) did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and supplementary information (excluding the supplementary information relating to Capital Adequacy disclosed on pages 104 to 114). If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit work involved performing procedures to test the information presented in the financial statements and supplementary information (excluding the supplementary information relating to Capital Adequacy disclosed on pages 104 to 114). We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement and supplementary information disclosures (excluding the supplementary information relating to Capital Adequacy disclosed on pages 104 to 114) are adequate.

Review opinion

We carried out the review work on the supplementary information relating to Capital Adequacy disclosed on pages 104 to 114 in accordance with review engagement standard RS-1 Statement of Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants. Review work is limited primarily to enquiries of the Bank and Banking Group personnel and analytical procedures applied to financial data, and thus provides less assurance than an audit. We have not performed an audit on the supplementary information relating to Capital Adequacy disclosed on pages 104 to 114 and, accordingly, we do not express an audit opinion on that supplementary information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and supplementary information.

We evaluated the overall adequacy of the presentation of information in the financial statements and supplementary information. We obtained all the information and explanations we required to support our opinions above.

Responsibilities of the Board of Directors and the Auditor

The Board of Directors are responsible for preparation and presentation of a General Disclosure Statement which includes financial statements, in accordance with generally accepted accounting practice in New Zealand and which is not false or misleading. Those financial statements must give a true and fair view of the financial position of the Bank and the Banking Group as at 30 June 2010. They must also give a true and fair view of the results of operations and cash flows for the year ended on that date. The Board of Directors' responsibilities arise from the Public Finance Act 1989 and the Financial Reporting Act 1993. The Board of Directors is also responsible for including supplementary information in the General Disclosure Statement which complies with Schedules 3 to 9 of the Order.

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We are responsible for expressing and reporting to you:

- an independent audit opinion on the financial statements and the supplementary information required by Schedules 4 and 6 to 9 and clause 17 of Schedule 3 of the Order; and
- an independent review opinion on the supplementary information relating to Capital Adequacy required by Schedule 5A of the Order.

These responsibilities arise from section 15 of the Public Audit Act 2001 and the Order.

In respect of the financial statements (excluding the supplementary information included in notes 13, 24, 39, 40 and 41), we are responsible for their audit in order to state whether they give a true and fair view of the matters to which they relate, and for reporting our findings to you.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

In addition to the audit and review we have carried out assignments in the areas of taxation and accounting advice and other assurance services, which are compatible with those independence requirements. In addition, certain partners and employees of our firm may deal with the Bank and Banking Group on normal terms within the ordinary course of trading activities of the Bank and Banking Group. Other than the audit, review and these assignments, we have no relationship with or interests in the Bank or Banking Group.

Karen Shires

Karen Shires
On behalf of the Auditor-General
Wellington, New Zealand

PricewaterhouseCoopers

PricewaterhouseCoopers