Disclosure Statement

Number 41
For the three months ended 30 September 2011

Contents

General matters	1
Credit ratings	2
Guarantees	3
Conditions of registration	6
Directors' statement	10
Interim financial statements	11
Notes to the interim financial statements	19
Capital adequacy	34

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 Disclosure Statement has been issued by Kiwibank for the three months ended 30 September 2011, in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No. 3) 2011 (the "Order"). Words and phrases defined by the Order have the same meanings when used in this Disclosure Statement.

Address for service

The address for service is: Kiwibank Limited, New Zealand Post House, Level 12, 7-27 Waterloo Quay, Wellington 6011, New Zealand.

Ultimate holding company

The ultimate holding company of Kiwibank is NZP whose address for service is: New Zealand Post House, Level 12, 7-27 Waterloo Quay, Wellington 6011, New Zealand.

Voting securities and power to appoint directors

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

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

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

Other material matters

Kiwibank's directors are of the opinion that there are no matters relating to the business or affairs of Kiwibank, which would, if disclosed in this 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.

Directorate

There has been the following change to the composition of the board of directors since the publication date of the previous Disclosure Statement. On 31 October 2011, Richard Gordon Alexander Westlake resigned as a director of Kiwibank Limited.

As at the date of signing of the Disclosure Statement, the directors of Kiwibank were:

Robert William Bentley Morrison	Hon. Dr. Michael John Cullen
Alison Rosemary Gerry	Murray Ian David Gribben
Brian Joseph Roche	David Stephen Willis

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.

On 12 November 2010, Moody's Investors Service granted Kiwibank a credit rating of Aa3 for long-term senior unsecured obligations payable in New Zealand in New Zealand dollars.

There have been no changes made to the ratings in the two years preceding 30 September 2011.

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

Guarantees

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

NZP Guarantee

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

All payment obligations (excluding any payment obligations, the terms of which expressly provide that they do not have the benefit of the NZP Guarantee) of Kiwibank are guaranteed pursuant to the NZP Guarantee. The following is a summary of the features of the NZP Guarantee as at 30 September 2011:

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

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

iii. The NZP Guarantee is an unsecured guarantee of the payment obligations (excluding any payment obligations, the terms of which expressly provide that they do not have the benefit of the NZP Guarantee) of Kiwibank. The NZP Guarantee can be terminated on not less than three month's notice by NZP to creditors (as that term is defined in the NZP Guarantee). Any such termination does not affect any existing payment obligations owed under the NZP Guarantee at the termination date. The NZP Guarantee has no expiry date.

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

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

vi. There are no material legislative or regulatory restrictions, which would have the effect of subordinating the claims under the NZP Guarantee of any of the creditors of Kiwibank on the assets of NZP, to other claims on NZP, in a winding up of NZP.

The net tangible assets of NZP were $958m as recorded in NZP's most recent Annual Report for the financial year ended 30 June 2011. 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 September 2011. For an explanation of Standard & Poor's (Australia) Pty Limited's credit rating scale see the Crown Wholesale Guarantee section below.

Crown Retail Guarantee

The Crown Retail Guarantee expired at 12:01am on 12 October 2010. No claims have been made by Kiwibank under the terms of the Crown Retail Guarantee scheme.

Guarantees continued

Crown Wholesale Guarantee

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

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

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

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

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

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

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

c) The Crown:

- guarantees the payment by Kiwibank of any liability of Kiwibank to pay principal and interest in respect of the debt securities for which the Crown has issued a Guarantee Eligibility Certificate, and;
- 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.

d) The Crown Wholesale Guarantee does not extend to debt securities held by related parties. Related parties of Kiwibank include Kiwibank's subsidiaries, its Board, its senior leadership team and its ultimate parent, NZP.

e) 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.

f) The Crown has the following credit ratings applicable to its long term obligations payable in New Zealand dollars:

- Standard & Poor's (Australia) Pty Limited: AA+
- Fitch Ratings Limited AA
- Moody's Investors Services: Aaa

g) There are no material conditions applicable to the guarantee other than non-performance by the principal obliger.

h) The minimum Tier One capital ratio under the Crown Wholesale Guarantee is 6% of risk weighted exposures.

Guarantees continued

There have been no changes made to Kiwibank's rating in the two years preceding 30 September 2011. 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 modifiers 1, 2 and 3 to each generic rating classification with a 1 indicating a higher rating and a 3 indicating a lower rating within that generic rating category.

Conditions of registration

These conditions apply on and after 30 September 2011, except as provided otherwise.

The registration of Kiwibank Limited ("the bank") as a registered bank is subject to the following conditions:

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 October 2010.

1A. That:

a) 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;

b) under its ICAAP, the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of tier one and total capital ratios under the requirements set out in the document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated October 2010; and

c) the bank determines an internal capital allocation for each identified and measured "other material risk".

2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities. In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.

3. That the Banking Group's insurance business is not greater than 1% of its total consolidated assets.

   For the purposes of this condition of registration, the Banking Group's insurance business is the sum of the following amounts for entities in the Banking Group:

   a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and

   b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

   In determining the total amount of the Banking Group's insurance business:

   (i) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and

   (ii) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration,

- "insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance:
- "insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

Conditions of registration continued

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

Credit Rating of the registered bank	Connected exposure limit (% of the Banking Group's Tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
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 June 2011.

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.

5A. Before and on 31 March 2012, that the bank complies with the following corporate governance requirements:

a) the board of the bank must contain at least two independent directors. In this context an independent director is a director who is not an employee of the bank, and who is not a director, trustee or employee of any holding company of the bank or any entity capable of controlling or significantly influencing the bank;

b) the chairperson of the bank's board must not be an employee of the bank; and

c) the bank's constitution must 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 interest of the company (i.e. the bank).

6. On and after 1 April 2012, that the bank complies with the following corporate governance requirements:

a) the board of the bank must have at least five directors;

b) the majority of the board members must be non-executive directors;

c) at least half of the board members must be independent directors;

d) an alternate director

(i) for a non-executive director must be non-executive; and

(ii) for an independent director must be independent;

e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;

f) the chairperson of the board of the bank must be independent; and

g) the bank's constitution must 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).

For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the RBNZ document entitled "Corporate Governance" (BS14) dated March 2011.

Conditions of registration continued

7. That no appointment of any director, chief executive officer, or executive, who reports or is accountable directly to the chief executive officer, is made in respect of the bank unless:
    a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
    b) the Reserve Bank has advised that it has no objection to that appointment.
8. On and after 1 April 2012, that a person must not be appointed as chairperson of the board of the bank unless:
    a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
    b) the Reserve Bank has advised that it has no objection to that appointment.
9. On and after 1 April 2012, that the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
    a) the mandate of the committee must include; ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
    b) the committee must have at least three members;
    c) every member of the committee must be a non-executive director of the bank;
    d) the majority of the members of the committee must be independent; and
    e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

    For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the RBNZ document entitled "Corporate Governance" (BS14) dated March 2011.
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:
    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 70 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 RBNZ documents entitled "Liquidity Policy" (BS13) dated March 2011 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated March 2010.
12. That the bank has an internal framework for liquidity risk management that is adequate in the 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.

Conditions of registration continued

13. That no more than 10% of total assets may be beneficially owned by a SPV.

    For the purposes of this condition,

    "total assets" means all assets of the banking group plus any assets held by any SPV that are not included in the banking group's assets:

    "SPV" means a person –

    a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;

    b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bonds; and

    c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond;

    "covered bond" means a debt security issued by any member of the Banking Group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

In these conditions of registration,

- "Banking Group" means Kiwibank Limited's financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993);
- "generally accepted accounting practice" has the same meaning as in section 3 of the Financial Reporting Act 1993).

Amendments to Conditions of Registration

With effect from 1 July 2011, the Bank's conditions of registration were amended to the effect that the Banking Group must now ensure that the one year core funding ratio of the banking group is not less than 70 per cent (increased from 65%) at the end of each business day. This change was made in response to RBNZ policy changes to "Liquidity Policy" (BS13) and "Liquidity Policy Annex: Liquid Assets" (BS13A). In addition to this change, the "Connected exposure policy" (BS8), in accordance with which compliance with the rating-contingent connected exposure limit is determined, was updated.

Directors' statement

The directors of Kiwibank state that each director believes, after due enquiry, that:

1. As at the date on which this Disclosure Statement is signed:
   i. this Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No.3) 2011; and
   ii. this Disclosure Statement is not false or misleading.
2. During the three months ended 30 September 2011:
   i. Kiwibank has complied with the conditions of registration applicable during the period.
   ii. credit exposures to connected persons were not contrary to the interests of the Banking Group.
   iii. Kiwibank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

Signed by Dr. Michael Cullen and Alison Gerry as directors and responsible persons on behalf of all the directors listed in the Directorate section of this Disclosure Statement:

16 November 2011

Interim financial statements

Consolidated statements of comprehensive income	12
Consolidated statement of changes in equity	13
Consolidated statement of financial position	15
Consolidated statement cash flows	17
Notes to the interim financial statements	19

Interim financial statements continued

Consolidated statement of comprehensive income

For the three months ended 30 September 2011

Dollars in thousands	Note	**Unaudited 3 months ended 30/09/11**	Unaudited 3 months ended 30/09/10	Audited 12 months ended 30/06/11
Interest income		**187,881**	167,425	720,372
Interest expense		**(127,961)**	(124,025)	(529,040)
Net interest income		**59,920**	43,400	191,332
Gains on financial instruments at fair value		**863**	3,078	16,414
Other income		**39,085**	34,777	145,254
Total operating income		**99,868**	81,255	353,000
Operating expenses		**(66,793)**	(59,334)	(241,674)
Impairment losses on loans and advances	6	**(7,921)**	(9,529)	(78,982)
Profit before taxation		**25,154**	12,392	32,344
Income tax expense		**(7,552)**	(3,729)	(11,116)
Profit after taxation		**17,602**	8,663	21,228
Other comprehensive income				
Available-for-sale reserve				
Gross gain from changes in reserve		**3,410**	3,857	3,533
Cash flow hedge reserve				
Gross gain/(loss) from changes in reserve		**4,503**	(7,004)	5,476
Income tax (expense)/credit relating to components of other comprehensive income		**(2,216)**	944	(2,593)
Other comprehensive income for the period		**5,697**	(2,203)	6,416
Total comprehensive income for the period		**23,299**	6,460	27,644
Attributable to:				
Owners of the parent		**23,299**	6,460	27,644
Non controlling interest		**–**	–	–

The notes on pages 19 to 33 form part of these interim financial statements.

Interim financial statements continued

Consolidated statement of changes in equity

For the three months ended 30 September 2011

Dollars in thousands	Note	Fully Paid Ordinary Shares	Retained Earnings	Available For Sale Reserve	Cash Flow Hedge Reserve	Non Controlling Interest	Total
Balance at 1 July 2010		310,000	174,214	422	(45,873)	150,000	588,763
Three months ended 30 September 2010							
Profit for the period		-	8,663	-	-	-	8,663
Other comprehensive income							
Available for sale financial assets (net)		-	-	2,700	-	-	2,700
Cash flow hedges (net)		-	-	-	(4,903)	-	(4,903)
Total other comprehensive income		-	-	2,700	(4,903)	-	(2,203)
Total comprehensive income		-	8,663	2,700	(4,903)	-	6,460
Transactions with owners							
Dividends paid to non-controlling interest		-	(2,139)	-	-	-	(2,139)
Balance at 30 September 2010 (unaudited)		310,000	180,738	3,122	(50,776)	150,000	593,084
Year ended 30 June 2011							
Profit for the year		-	21,228	-	-	-	21,228
Other comprehensive income							
Available for sale financial assets (net)		-	-	2,473	-	-	2,473
Cash flow hedges (net)		-	-	-	3,943	-	3,943
Total other comprehensive income		-	-	2,473	3,943	-	6,416
Total comprehensive income		-	21,228	2,473	3,943	-	27,644
Transactions with owners							
Dividends paid to non-controlling interest		-	(8,558)	-	-	-	(8,558)
Balance at 30 June 2011 (audited)		310,000	186,884	2,895	(41,930)	150,000	607,849

The notes on pages 19 to 33 form part of these interim financial statements.

Interim financial statements continued

Consolidated statement of changes in equity continued

For the three months ended 30 September 2011

Dollars in thousands	Note	Fully Paid Ordinary Shares	Retained Earnings	Available For Sale Reserve	Cash Flow Hedge Reserve	Non Controlling Interest	Total
Three months ended 30 September 2011							
Profit for the period		-	17,602	-	-	-	17,602
Other comprehensive income							
Available for sale financial assets (net)		-	-	2,455	-	-	2,455
Cash flow hedges (net)		-	-	-	3,242	-	3,242
Total other comprehensive income		-	-	2,455	3,242	-	5,697
Total comprehensive income		-	17,602	2,455	3,242	-	23,299
Transactions with owners							
Dividends paid to non-controlling interest		-	(2,162)	-	-	-	(2,162)
Balance at 30 September 2011 (unaudited)		310,000	202,324	5,350	(38,688)	150,000	628,986

The notes on pages 19 to 33 form part of these interim financial statements.

Interim financial statements continued

Consolidated statement of financial position

As at 30 September 2011

Dollars in thousands	Note	**Unaudited 30/09/11**	Unaudited 30/09/10	Audited 30/06/11
Assets				
Cash and cash equivalents		**202,946**	241,600	296,302
Due from NZP related parties	7	**-**	-	3,571
Due from other financial institutions	3	**831,512**	51,130	440,483
Financial assets held for trading		**431,155**	803,660	324,609
Available-for-sale assets		**1,152,345**	657,206	1,123,452
Loans and advances	2	**11,853,716**	10,708,024	11,494,796
Derivative financial instruments		**142,844**	76,608	73,545
Property, plant and equipment		**25,176**	19,694	25,036
Intangible assets		**47,795**	48,070	47,686
Deferred taxation		**33,129**	25,301	35,701
Other assets		**11,215**	10,293	10,156
Total assets		**14,731,833**	12,641,586	13,875,337
Interest bearing assets		***14,693,447***	*12,477,504*	*13,840,328*
Liabilities				
Due to other financial institutions		**810,297**	540,700	795,964
Due to NZP related parties	7	**1,093**	2,552	19
Deposits and other borrowings	4	**11,227,016**	10,197,232	10,586,271
Derivative financial instruments		**165,276**	196,948	182,819
Debt securities issued		**1,705,265**	926,601	1,509,847
Current taxation payable		**13,776**	6,650	7,922
Other liabilities		**40,534**	36,710	41,923
Term subordinated debt		**139,590**	141,109	142,723
Total liabilities		**14,102,847**	12,048,502	13,267,488
Interest bearing liabilities		***14,047,444***	*12,000,135*	*13,217,624*

The notes on pages 19 to 33 form part of these interim financial statements.

Interim financial statements continued

Consolidated statement of financial position continued

As at 30 September 2011

Dollars in thousands	Note	**Unaudited 30/09/11**	Unaudited 30/09/10	Audited 30/06/11
Equity				
Share capital		**310,000**	310,000	310,000
Reserves		**168,986**	133,084	147,849
Total equity attributable to owners of the parent		**478,986**	443,084	457,849
Non controlling interest		**150,000**	150,000	150,000
Total equity		**628,986**	593,084	607,849
Total liabilities and shareholder's equity		**14,731,833**	12,641,586	13,875,337

The notes on pages 19 to 33 form part of these interim financial statements.

Interim financial statements continued

Consolidated statement of cash flows

For the three months ended 30 September 2011

Dollars in thousands	Note	**Unaudited 3 months ended 30/09/11**	Unaudited 3 months ended 30/09/10	Audited 12 months ended 30/06/11
Cash flows from operating activities				
Interest received		**179,479**	160,707	717,584
Fees and other income		**37,602**	34,777	156,005
Operating expenses paid		**(58,189)**	(50,548)	(215,555)
Interest paid		**(139,221)**	(127,910)	(536,456)
Net taxes paid		**(1,223)**	(5,258)	(27,131)
Net cash flows from operating activities before changes in operating assets and liabilities		**18,448**	11,768	94,447
Net changes in operating assets and liabilities:				
(Increase)/decrease in financial assets held for trading		**(101,156)**	(136,666)	352,833
Increase in available-for-sale assets		**(20,398)**	(133,684)	(574,607)
Increase in loans and advances		**(450,638)**	(303,488)	(1,193,709)
Increase/(decrease) in balances due from other financial institutions		**(391,029)**	105,741	(283,612)
Increase/(decrease) in deposits and other borrowings		**649,005**	(96,151)	297,746
Decrease in amounts due to related parties – term		**-**	(10,000)	(10,000)
Increase in balances due to other financial institutions		**14,333**	376,649	631,913
Net cash flows from operating activities	11	**(281,435)**	(185,831)	(684,989)
Cash flows from investing activities				
Purchase of property, plant and equipment		**(2,349)**	(1,404)	(12,841)
Purchase of intangible software assets		**(4,311)**	(4,256)	(15,786)
Net cash flows from investing activities		**(6,660)**	(5,660)	(28,627)

The notes on pages 19 to 33 form part of these interim financial statements.

Interim financial statements continued

Consolidated statement of cash flows continued

For the three months ended 30 September 2011

Dollars in thousands	**Unaudited 3 months ended 30/09/11**	Unaudited 3 months ended 30/09/10	Audited 12 months ended 30/06/11
Cash flows from financing activities			
Increase in debt securities issued	**196,901**	131,364	714,610
Dividends paid	**(2,162)**	(2,139)	(8,558)
Net cash flows from financing activities	**194,739**	129,225	706,052
Decrease in cash and cash equivalents	**(93,356)**	(62,266)	(7,564)
Cash and cash equivalents at beginning of the period	**296,302**	303,866	303,866
Cash and cash equivalents at the end of the period	**202,946**	241,600	296,302

The notes on pages 19 to 33 form part of these interim financial statements.

Notes to the interim financial statements

1. Statement of accounting policies

Reporting entity and statutory base

In these interim financial statements, the reporting entity is the "Banking Group", consisting of Kiwibank Limited ("Kiwibank") and its subsidiaries. Kiwibank is registered under the Companies Act 1993 and is registered as a bank under the Reserve Bank of New Zealand Act 1989. The principal activity of the Banking Group is the provision of retail and banking products and services to individuals and small to medium-sized businesses.

These interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand as appropriate for profit oriented entities, and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No. 3) 2011. The interim financial statements comply with International Accounting Standard 34: Interim Financial Reporting (NZ IAS 34). The interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 June 2011.

These interim financial statements have been approved for issue by the Board of Directors on 16 November 2011.

The preparation of these interim financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Although the Banking Group has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates.

Measurement base

These interim financial statements are based on the general principles of historic cost accounting, modified by the application of fair value measurements for available-for-sale financial assets, financial instruments held at fair value through profit or loss and all derivative contracts.

Changes in accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2011.

For the financial year commencing 1 July 2011, legislation came into effect to reduce the New Zealand corporate tax rate from 30% to 28%.

Principles of consolidation

The financial statements consolidate the financial statements of Kiwibank and its controlled entities.

Currency of presentation

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

Comparative amounts

Comparative amounts are from the audited financial statements for the year ended 30 June 2011 and from the unaudited interim financial statements for the period ended 30 September 2010.

Notes to the interim financial statements continued

1. Statement of accounting policies continued

Critical estimates and judgements used in applying accounting policies

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

Fair value estimation

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

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, trading and available-for-sale securities) is based on quoted market prices at the end of reporting period date or determined using market accepted valuation models as appropriate (including discounted cash flow models) based on observable market quotes. 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 the end of each reporting 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 3.4% is applied (30 September 2010: 3.1%; 30 June 2011: 3.3%). 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 using observable external third party inputs.

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.

Credit provisioning includes $25m (30 September 2010: $nil; 30 June 2011: $25m) in relation to the Canterbury earthquake of 22 February 2011. This amount reflects management's best estimate of losses that may arise due to this natural disaster.

Notes to the interim financial statements continued

1. Statement of accounting policies continued

Critical estimates and judgements used in applying accounting policies continued

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

The total provision comprises a specific impairment and collective impairment provision. Specific provisions have been raised where objective evidence of impairment exists. If no objective evidence of impairment exists exposures are included in a group of financial assets (retail lending and business banking lending) and collectively assessed for impairment. Collective impairment calculations have been determined by a systematic provisioning model simulating management's micro and macro economic assumptions. Key assumptions include geographical concentration risk, personal savings levels, unemployment levels, property price discounts and insurance recoveries.

Capital requirements for the 'other material risks' covers risks associated with earnings, funding and credit lending. Total capital requirement (Pillar II) includes a capital allocation of $30m for unexpected losses arising from the 22 February 2011 Canterbury earthquake. Given the uncertainty of outcomes, the actual losses incurred may differ from the provision currently recognised within the statement of financial position based upon changes in assumptions resulting from future events.

Notes to the interim financial statements continued

Dollars in thousands	**Unaudited 30/09/11**	Unaudited 30/09/10	Audited 30/06/11
2. Loans and advances			
Loans and advances designated upon initial recognition at fair value through profit or loss	**409,652**	912,938	447,853
Loans and advances at amortised cost	**11,529,405**	9,821,859	11,134,084
Allowance for impairment losses (note 6)	**(85,341)**	(26,773)	(87,141)
Total net loans and advances	**11,853,716**	10,708,024	11,494,796
Current	**1,082,213**	935,415	1,028,362
Non-current	**10,771,503**	9,772,609	10,466,434
The cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value	**(246)**	(548)	(269)

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.

Dollars in thousands	**Unaudited 30/09/11**	Unaudited 30/09/10	Audited 30/06/11
3. Due from other financial institutions			
Unsettled receivables	**151,635**	-	209,727
Short term advances due from other financial institutions	**180,414**	-	175,640
Securities purchased under agreement to resell	**455,745**	-	-
Collateralised loans	**43,718**	51,130	55,116
Total – current	**831,512**	51,130	440,483

As at 30 September 2011, included within the balance above, is $43.7m of collateral pledged by Kiwibank in respect of its credit support annex obligations to derivative counterparties. (September 10: $51.1m: June 11; $55.1m).

Notes to the interim financial statements continued

Dollars in thousands	**Unaudited 30/09/11**	Unaudited 30/09/10	Audited 30/06/11
4. Deposits and other borrowings			
Retail deposits	**8,149,366**	7,019,184	7,902,445
Wholesale deposits	**3,077,650**	3,178,048	2,683,826
Total	**11,227,016**	10,197,232	10,586,271
New Zealand	**10,993,258**	9,964,420	10,352,270
Overseas	**233,758**	232,812	234,001
Total deposits and other borrowings at amortised cost	**11,227,016**	10,197,232	10,586,271
Current	**10,999,080**	10,016,776	10,267,107
Non-current	**227,936**	180,456	319,164

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

The Kiwibank PIE Unit Trust, established under the Unit Trusts Act 1960 in May 2008, operates three funds; the PIE Term Deposit Fund, the PIE Notice Call account and PIE Online Call Fund. Kiwibank Investment Management Limited is the issuer and manager of the Unit Trust. Trustees Executors Limited is the trustee of the Unit Trust. Kiwibank is the promoter of the Trust. Units in the Trust do not directly represent deposits or liabilities of Kiwibank, however the Unit Trust is invested exclusively in term and call deposits with Kiwibank. At 30 September 2011, $2,871m of PIE funds were invested in Kiwibank's own products or securities (30 September 2010: $1,201m; 30 June 2011: $2,598m).

Kiwibank guarantees the payment obligations of the manager and any amounts owing to Unit Holders under the Trust Deed in respect of their Units and agrees to pay to Unit Holders any shortfall between the amount they may receive on redeeming their Units or in the winding up of the Trust and the balance of their Unit Accounts.

Notes to the interim financial statements continued

Dollars in thousands	**Unaudited 30/09/11**	Unaudited 30/09/10	Audited 30/06/11
5. Liquidity			
The Banking Group's liquidity portfolio is based on the amount required to meet its liquidity policy.			
Balances with central banks	**147,659**	211,561	248,356
Certificates of deposit	**325,000**	280,000	180,000
Government, local body stock and bonds	**589,000**	192,250	179,211
Government treasury bills	**47,130**	16,580	27,300
Other bonds	**883,733**	823,783	873,808
Total	**1,992,522**	1,524,174	1,508,675

6. Asset quality

Past due assets > 90 days but not impaired			
Residential mortgage loans	**21,804**	15,789	28,930
Corporate lending	**1,877**	5,028	911
Other on balance sheet exposures	**3,728**	2,215	2,934
Gross balance at end of period	**27,409**	23,032	32,775
Impaired assets			
Residential mortgage loans	**43,975**	27,836	40,722
Corporate lending	**58,534**	24,012	64,919
Other on balance sheet exposures	**139**	210	366
Gross balance at end of period	**102,648**	52,058	106,007

Notes to the interim financial statements continued

6. Asset quality continued

Allowance for impairment losses

Dollars in thousands	**Unaudited 30/09/11**	Unaudited 30/09/10	Audited 30/06/11
Allowance for impairment losses in statement of financial position			
Collective allowance for impairment losses	**36,767**	9,899	36,944
Individually impaired assets	**48,574**	16,874	50,197
Allowance for impairment losses	**85,341**	26,773	87,141
The cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value	**246**	548	269
Total allowance for impairment losses	**85,587**	27,321	87,410
Impairment losses per statement of comprehensive income			
Collective impairment losses on loans not at fair value through profit or loss	**(177)**	1,080	30,515
Charge to statement of comprehensive income for individually impaired assets	**8,098**	8,449	48,467
Total impairment losses per statement of comprehensive income	**7,921**	9,529	78,982

Notes to the interim financial statements continued

6. Asset quality continued

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

Dollars in thousands	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Individual allowance for impairment losses				
Unaudited 3 months ended 30/09/11				
Balance at beginning of the period	**366**	**16,589**	**33,242**	**50,197**
Net impairment losses on loans not at fair value through profit or loss	**(227)**	**465**	**(1,861)**	**(1,623)**
Total individual allowance for impairment losses	**139**	**17,054**	**31,381**	**48,574**
Unaudited 3 months ended 30/09/10				
Balance at beginning of the period	179	824	8,960	9,963
Net impairment losses on loans not at fair value through profit or loss	31	(53)	6,933	6,911
Total individual allowance for impairment losses	210	771	15,893	16,874
Audited 12 months ended 30/06/11				
Balance at beginning of the period	179	824	8,960	9,963
Net impairment losses on loans not at fair value through profit or loss	187	15,765	24,282	40,234
Total individual allowance for impairment losses	366	16,589	33,242	50,197

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

Dollars in thousands	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Collective allowance for impairment losses				
Unaudited 3 months ended 30/09/11				
Balance at beginning of the period	**3,661**	**17,812**	**15,471**	**36,944**
Net impairment losses on loans not at fair value through profit or loss	**120**	**1,631**	**(1,928)**	**(177)**
Total collective allowance for impairment losses	**3,781**	**19,443**	**13,543**	**36,767**
Unaudited 3 months ended 30/09/10				
Balance at beginning of the period	3,824	2,584	3,135	9,543
Net impairment losses on loans not at fair value through profit or loss	(333)	358	331	356
Total collective allowance for impairment losses	3,491	2,942	3,466	9,899
Audited 12 months ended 30/06/11				
Balance at beginning of the period	3,824	2,584	3,135	9,543
Net impairment losses on loans not at fair value through profit or loss	(163)	15,228	12,336	27,401
Total collective allowance for impairment losses	3,661	17,812	15,471	36,944

Notes to the interim financial statements continued

7. 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 on an arm's length basis and in the normal course of business.

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

NZP has a credit facility with the Banking Group, allowing it to drawdown up to $35m at any one time. When loans are drawn down the transaction is undertaken on an arm's length basis at market interest rates. As at 30 September 2011 the amount owed by NZP to Kiwibank was $nil (30 September 2010; 30 June 2011; $nil).

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

Dollars in thousands	**Unaudited 30/09/11**	Unaudited 30/09/10	Audited 30/06/11
Payables			
NZP	**1,226**	2,105	-
Other subsidiaries in the NZP Group	**(133)**	447	19
Total per statement of financial position	**1,093**	2,552	19
NZP Electoral Enrolment Centre (deposits)	**6,071**	2,747	2,747
NZP Superannuation Plan (deposits)	**11,104**	14,599	12,351
Balances owed to NZP related parties	**-**	-	351
Total balances due to related parties	**18,268**	19,898	15,468
Receivables			
NZP	**-**	-	3,062
Other subsidiaries in the NZP Group	**-**	-	509
Total per statement of financial position	**-**	-	3,571
Loans to NZP related parties	**3,710**	2,731	2,046
Total related party receivables	**3,710**	2,731	5,617

Notes to the interim financial statements continued

8. Credit exposure concentrations

Credit exposure to individual counterparties

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

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

In accordance with the revised Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No.3) 2011 (the "Order"), the credit exposure concentrations above now exclude bank counterparties with a long-term credit rating of A- or A3 above. The comparative information for the period ended 30 September 2010 has been revised accordingly but has not been audited.

In the 3 months ended 30 September 2011 there have been no credit exposure concentrations with bank or non bank counterparties where actual credit exposures equalled or exceeded 10% of the Banking Group's shareholder's equity as at reporting date.

9. 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 a payable and receivable of RMBS securities of equal amount totalling $600m to Kiwibank RMBS Trust Series 2009-1 (The Trust), a newly established consolidated entity. These assets and liabilities do not qualify for derecognition as the Banking Group retains a continuing involvement in the transferred assets, therefore the consolidated accounts of the Banking Group do not change as a result of establishing these facilities.

Funds Management

The Kiwibank KiwiSaver Scheme, the issuer of which is Trustees Executors Superannuation Limited and the promoter of which is Kiwibank Investment Management Limited, Kiwibank Limited and their directors, commenced accepting members and subscriptions on 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. The total amount of KiwiSaver funds managed at 30 September 2011 is $56.3m (30 September 2010: $8.3m; 30 June 2011: $40.0m).

As at 30 September 2010 and 30 June 2011, Kiwibank did not administer superannuation bonds or superannuation plans.

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

Some funds under management are invested in products of Kiwibank and are recorded as liabilities in the statement of financial position. At 30 September 2011, $2,871m of funds under management (including the Kiwibank PIE Unit Trust) were invested in Kiwibank's own products or securities (30 September 2010: $1,201m; 30 June 2011: $2,598m).

9. Fiduciary activities continued

Provision of financial services

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

The Banking Group has not provided any funding to entities which conduct any of the following activities: trust, custodial, funds management or other fiduciary activities established, marketed and/or sponsored by a member of the Banking Group; marketing and distribution of insurance products during the periods ended 30 September 2011, 30 September 2010 and 30 June 2011.

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.

Insurance business

The Banking Group does not market or distribute its own insurance products.

Notes to the interim financial statements continued

10. 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 Banking Group reporting level. Transfer pricing is allocated on a basis which reflects intersegment funding arrangements. Transactions between the business segments are on normal commercial terms and conditions.

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

A summarised description of each business unit is shown below:

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

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

The Banking Group operates predominantly within New Zealand.

Notes to the interim financial statements continued

10. Segment analysis continued

Dollars in thousands	Personal banking	Corporate and institutional banking	Payment Services	Total
Unaudited 3 months ended 30/09/11				
External revenues	**57,845**	**24,907**	**16,116**	**98,868**
Intersegment revenues	**(39,642)**	**39,568**	**74**	**-**
Total revenues	**18,203**	**64,475**	**16,190**	**98,868**
Profit before taxation	**14,083**	**6,839**	**4,232**	**25,154**
Unaudited 3 months ended 30/09/10				
External revenues	94,939	(28,073)	14,389	81,255
Intersegment revenues	(46,703)	46,638	65	-
Total revenues	48,236	18,565	14,454	81,255
Profit/(loss) before taxation	10,021	(1,457)	3,828	12,392
Audited 12 months ended 30/06/11				
External revenues	376,188	(82,089)	58,901	353,000
Intersegment revenues	(162,912)	162,618	294	-
Total revenues	213,276	80,529	59,195	353,000
Profit/(loss) before taxation	33,849	(17,373)	15,868	32,344

There have been no changes to the methodology applied in the annual financial statements for the year ended 30 June 2011.

Notes to the interim financial statements continued

11. Reconciliation of profit after taxation to net cash flows from operating activities

	Unaudited 3 months ended 30/09/11	Unaudited 3 months ended 30/09/10	Audited 12 months ended 30/06/11
Profit after taxation	**17,602**	8,663	21,228
Non cash movements/non operating activities			
Unrealised fair value gains	**(2,346)**	(3,669)	(5,664)
Depreciation	**2,209**	1,892	7,985
Amortisation of intangibles	**4,202**	3,691	15,605
Increase in deferred expenditure	**(2,085)**	(200)	(2,685)
(Decrease)/increase in provision for credit impairment	**(1,800)**	7,267	67,635
Lending losses written off	**9,721**	2,262	11,347
Decrease/(increase) in deferred taxation	**1,311**	(2,386)	(18,241)
(Decrease)/increase in operating assets and liabilities			
(Increase)/decrease in financial assets held for trading	**(101,156)**	(136,666)	352,833
Increase in available-for-sale assets	**(20,398)**	(133,684)	(574,607)
Increase in loans and advances	**(450,638)**	(303,488)	(1,193,709)
(Increase)/decrease in balances due from other financial institutions	**(391,029)**	105,741	(283,612)
Increase/(decrease) in deposits and other borrowings	**649,005**	(96,151)	297,746
Decrease in amounts due to related parties – term	**-**	(10,000)	(10,000)
Increase in balances due to other financial institutions	**14,333**	376,649	631,913
(Decrease)/increase in accrued operating expenses	**(1,390)**	4,348	9,641
Decrease in interest payable	**(11,260)**	(1,942)	(7,416)
Increase in interest receivable	**(6,317)**	(9,028)	(103)
Increase/(decrease) in balances with related parties – transactional	**4,645**	438	(5,666)
Increase in current taxation	**5,014**	2,014	2,226
Increase in other assets	**(1,058)**	(1,582)	(1,445)
Net cash flows from operating activities	**(281,435)**	(185,831)	(684,989)

Notes to the interim financial statements continued

12. Contingent liabilities

There are no material contingent liabilities as at 30 September 2011.

13. Events subsequent to reporting period date

No material events have occurred subsequent to reporting date, that require recognition of, or additional disclosure in these financial statements.

14. Capital expenditure commitments

Capital expenditure commitments contracted for as at 30 September 2011, but not provided for in these interim financial statements, total $0.7m; (30 September 2010: $1.7m; 30 June 2011: $0.4m). All such commitments are due no later than one year from reporting date.

Capital adequacy

The Banking Group 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 II) 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 II 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 and unaudited retained earnings for the quarter.

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

a) each share contains a single right to vote;

b) there are no redemption, conversion or capital repayment options/facilities;

c) there is no predetermined dividend rate;

d) there is no maturity date; and

e) there are no options to be granted pursuant to any agreement.

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

a) there are no redemption, conversion or capital repayment options/facilities;

b) dividends are paid quarterly in arrears at the discretion of the directors;

c) there is a predetermined dividend rate of 8.15%;

d) there is no maturity date;

e) all issued shares are fully paid as at reporting date; and

f) no provision has been made for a variation or suspension of dividend payments.

Capital adequacy continued

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 I" risk classes under Basel II):

- **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).

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

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

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

The capital adequacy tables set out below summarise the composition of regulatory capital and capital adequacy ratios for the period ended 30 September 2011. Throughout the period the Banking Group complied with both regulatory and internal capital adequacy requirements.

Capital adequacy continued

Dollars in thousands	The Banking Group **Unaudited 30/09/11**	 Unaudited 30/09/10	 Audited 30/06/11
Capital			
Tier one capital (before deductions)	**613,547**	584,421	607,849
Total tier one capital (net of all deductions and adjustments)	**602,279**	587,127	602,093
Total tier two capital	**152,602**	143,663	135,000
Total tier one capital and tier two capital	**754,881**	730,790	737,093
Capital	**754,881**	730,790	737,093
Capital adequacy ratios			
Tier one capital ratio	**8.8%**	9.8%	9.0%
Total capital (Pillar I) ratio	**11.0%**	12.2%	11.0%
Capital ratio (Pillar I and II) ratio	**10.5%**	11.9%	10.5%
	Pillar 1 capital requirement		
On-balance sheet credit risk			
Residential mortgages (including past due)	**342,789**	314,957	334,430
Corporate	**6,577**	1,645	5,099
Claims on banks	**19,947**	13,629	17,538
Other	**78,309**	65,500	82,251
Total on-balance sheet credit risk	**447,622**	395,731	439,318
Other capital requirements			
Off-balance sheet credit exposures	**20,860**	13,453	17,503
Operational risk	**64,135**	52,854	61,468
Market risk	**15,470**	17,150	19,340
Total other capital requirements	**100,465**	83,457	98,311
Total Pillar 1 capital requirement	**548,087**	479,188	537,629
Capital requirements for other material risk (Pillar II)			
Total capital requirement (Pillar II)	**25,846**	12,972	25,846

Capital requirements for the other material risks covers risks associated with earnings, funding and credit lending. Total capital requirement (Pillar II) includes a capital allocation of $30m for unexpected losses arising from the 22 February 2011 Canterbury earthquake.

Capital adequacy continued

The Banking Group

Residential mortgages by loan-to-value ratio

LVR Range	0%–80%	80%–90%	Over 90%
Value of exposures	8,917,589	1,565,878	465,358

At 30 September 2011, of the LVR 90%+ balance above, $403m 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.